

**THE FIRST WORKERS**  
**GOVERNMENT**

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GOVERNMENT

*or*

NEW TIMES FOR HENRY DUBB

by

G. R. MITCHISON

With an introduction by

SIR STAFFORD CRIPPS, K.C., M.P.

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## INTRODUCTION

A TRAVELLER who is contemplating a journey "some time" in the future, discusses with his friends the general character of countries he may visit. He likes to think vaguely of the kind of people he will meet, the alternative routes by which he may travel, and the climate and conditions that he will find. But when the time approaches for the actual journey he becomes more practical. He must decide on the actual means of transport that he will employ, on the route that he will follow, and the places he will visit. Maps must be studied and detailed plans arrived at.

The long-anticipated journey of the workers out of capitalism into a new and better economic system, has led to a great deal of speculation in the past. Utopias of all kinds have been pictured, mostly sketched in broad outline with little emphasis upon practical detail. We have delighted to discuss the journey and to speculate upon the sort of country that we may reach, in a lazy pleasant way turning our minds to the many benefits of that enlightened country, but not troubling over-much either with the difficulties of the journey or the detailed plans for the construction of our new State.

In the last two years we have awakened to the fact that this is not something that we may have to do in the far future, but something for which the opportunity may occur very soon.

So maps and plans have been got out, and we have started to study the detail so that we may be prepared when the time comes.

There are none who have carried that study as far as the author of this book. It is the most complete picture of the actual process of the transition to Socialism through democracy that has yet been drawn.

He has not attempted to provide us with blue prints on a purely theoretical basis, but he has prepared a far more valuable service in writing for us the history of the future, and sketching the actual progress of the building.

To those who witnessed the very large measure of Nationalisation that took place in this country during the Great War, it must be obvious that the Englishman will always improvise and compromise in carrying out any plan.

However much we may particularise our plans in advance we shall inevitably find that the circumstances of the moment control the manner in which they are carried into execution. The essential thing is that we should have a perfectly clear objective in our minds. We must never waver in our determination to reach that objective, and to reach it without undue delay. Two things are important—objective and *tempo*. "If we insist upon these determinedly we can afford to improvise and compromise upon details.

It is precisely this spirit that marks the McCosh Government whose activities are described in the pages of this book. A convinced and insistent determination to carry into execution the mandate that they have been given by the people with sufficient rapidity to prevent any effective resistance put up by those interested in maintaining the existing system intact.

I was pleasantly surprised to read of the small amount of trouble caused to McCosh by his opponents within and without Parliament. I only hope that in this, as in the admirable and courageous conduct of the Labour Ministers, history will confirm the author.

The whole story of the activities of the first Workers' Government emphasises the necessity for a clear and indisputable mandate from the electorate. This mandate is the sole weapon with which to meet and overcome the vested interests that stand in the way of change. Its strength will depend largely upon its clarity. If the programme put forward is ambiguous, and capable of many interpretations, it may lead to endless arguments as to whether the

Government have a mandate for this or that action, and in a difficult constitutional controversy the position of the Government will be greatly weakened.

There are still those within the Labour Party who believe that such ambiguities will serve to quiet the fears of some of the electors, and will thus assist in obtaining a majority.

A majority so gained would prove, I believe, a most dangerous thing. As soon as the Government attempted to take the drastic action necessary there would be an outcry from its lukewarm supporters, and it would find itself with a divided and not a united public opinion behind it. The McCosh Government could not have carried through their programme without a clear mandate and a powerful united Party backing them with understanding up and down the country.

A free democracy depends for effectiveness upon the ability of one of the political parties to convince the majority of the electorate of the wisdom and practicability of its programme. It is essential that the party should put forward its programme with complete frankness, stressing alike the benefits and the difficulties, if it desires to maintain the confidence of the people at a second election.

Extravagant claims and promises, or, get-rich-quick short cuts to prosperity, are soon found to be nothing but dreams and delusions when a party assumes the reins of office, and at the next opportunity the electorate rightly turn in disgust against those who have deceived them.

When a great change such as is pictured in these pages is to be carried through democratically, it is more than ever necessary that the electors should appreciate what it means and the measures that it entails.

This book will give many people the opportunity of envisaging the course that such a change will take. It makes clear the difficulties as well as the benefits.

One most interesting point in this history lies in the working out of the administrative problems of socialisation. The rival claims for a central and local administration are

solved by the setting up of regional councils, with large enough areas of administration, and a wide enough selection of subjects, to make them important and effective units of control. Through them are linked up the local branches of all the more important central administrative and planning bodies. This system avoids the evils of over-centralisation and at the same time enables a unified policy to be pursued throughout the country. It will, I believe, be essential to adopt such a system if we are to accomplish the change.

The whole book presents a picture of what I very much hope may happen in the near future in this country. It necessarily omits many of the day-to-day difficulties and mistakes that will occur when the change comes, but it will impress upon its readers the absolute necessity for a courageous and united will to success by the workers. We see the great opportunities that will be opened up for the brain-workers and technicians who will truly come into their own. It will no longer be a question of clamping down their energy and putting out of action their inventiveness, as is so often the case to-day, but rather the problem of urging them to come in and to give full play to their technical attainments.

The bogey that Socialism means the destruction of freedom should be laid to rest by this detailed explanation of the part each worker will play in the industrial life of the country. For the first time the managerial staff workers and the manual workers will be really free to engage in the control of their own activities—a measure of freedom undreamt of within our present system, and, indeed, one that is only possible where the workers are conscious of the community ownership of the means of production.

By dealing in detail with some of the main industries and services the author has taken "socialisation" out of the realm of fantasy and placed it in the forefront of practical politics.

Some people may no doubt suggest that it will be impossible to find the personnel to carry through such large



schemes of Socialist reorganisation. I do not believe it will be impossible. In the great co-operative movement, workers and technicians together have built up the largest distributive, and one of the largest productive, units in the country. The administration of the great trade unions has been carried through by administrators chosen by the workers from their own ranks. There may be some few outstanding figures amongst the directorates of capitalist industry, but, so far as the technical efficiency of production is concerned, I do not believe that this would suffer to any extent if the directorates were to be given permanent leave of absence and the job were to be carried on by the workers of all grades.

It will of course be necessary to have available a very considerable body of intelligent Socialist administrators, both centrally and in the regions, and such persons must have an understanding of the problems with which they are likely to be met. To them this book should prove an invaluable guide. It will open up administrative problems of all kinds that they have not perhaps considered in detail, and it should enable them to work out, on the basis of their particular knowledge, an even more detailed application of Socialism to their own particular industry or area.

To place the McCosh Government in the year 1936 is optimistic, but the reason is no doubt to avoid as far as possible any gap between the present day and the starting of the first Workers' Government. By this device the author has managed to bring his statistics of capitalism very near to the date of the introduction of Socialism; at any rate there is no long interregnum. It is important to notice that, in order to make the Labour Party achieve power at the next election, the author has been compelled to deal with the propaganda and organisation of the Party through the years 1935 and 1936. There are valuable lessons to be learnt from this early portion of his history, since it is certain that, if success is to be achieved upon the basis of a sincerely Socialist programme at the next General

Election, a great deal more will have to be done by way of clarifying the issues and instructing the electorate.

It will be a great mistake if the Labour Party concentrate upon the obtaining of power rather than Socialism. Important though it may be to bring relief to the country from the mismanagement of a capitalist Government, and urgent though it is to prevent a fresh onrush into war, yet it is, in my view, even more essential to make clear to the electorate that there can be no cure for our present evils within our existing economic system. To compromise upon the mandate that we demand, merely because we believe that such a compromise may lead to our gaining power more rapidly, is, in my belief, to throw away the chance of bringing about any great economic change in this country by democratic means.

The difficulties will be sufficiently great in any event, but, if we attempt to embark for a third time upon a reformist policy, they will be overwhelming, and will result in the workers losing all faith in the possibility of democratic change. The experience of 1931 as a sequel to the events of the preceding two years proves how near the workers then were to such a loss of faith. They have not yet wholly regained their trust in the Labour Party, and I am certain that McCosh and his colleagues must have been fully conscious of the necessity for a bold and constructive programme. Indeed it was only by putting forward such a programme with the honest determination to carry it through that they won their way to power.

To those who object that such a rapid transition as is here pictured would dislocate the whole industrial and social structure of the country, it must be answered that unless we can dislocate our existing system there is no hope for the workers. The degree of dislocation, and the difficulties that are created, will depend not upon those who desire the change, but upon those who resist it. If all those at present in control of industry and finance were prepared to co-operate, as they were in 1914, the whole thing could be carried through smoothly and rapidly. It is because

they will insist upon resisting the expressed will of the majority that difficulties will come, and the more violent that resistance the greater will be the difficulties. But this surely is no argument against attempting what the majority believe to be the right solution of the economic problem. The days when all who believe in the necessity for a complete change of system could be classed as stupid and ill-informed have passed. No one now assumes that all wisdom resides in the so-called ruling class, in fact most people examining the result of long decades of that rule would be inclined to draw an exactly opposite conclusion. It is often those who cry loudest the benefits of democracy who are the most determined to devise means whereby the majority of the people shall not have the opportunity of governing in accordance with their will.

If we are frank with ourselves, we must face up to the simple and obvious fact, that those who now, through the ownership or control of the means of production, hold the economic power in the community will desire to retain that power. They are alarmed that the people may use their political power to take away the economic power which the present holders are prepared to use every device to retain.

It may be the insistence upon the retention of that bulwark of vested interests the House of Lords, or the creation of an unreasoning fear as to the socialisation of the banks or the land; every device will be tried, either to persuade the people not to use their political power to their own advantage, or to prevent that power from being effectively used once it has been gained.

In this clash of interests everyone must be on one side or the other. There is no middle path. Either the retention of the private ownership of the means of production is economically sound, or it is unsound. It is not mere sentiment or even considerations of moral justice that demand community ownership and control, it is necessary because under the present economic system we are forced

to maintain a condition of scarcity when we are capable of producing abundance.

This the McCosh Government fully realised, and their actions were designed not merely to reorganise capitalist industry, but to change the whole basis of that industry. Their degree of success, and the satisfaction of the people, was measured by the speed and ease with which they succeeded in bringing about that change. It was only because they had accomplished so much in their first term of office that the Socialist Party were able to go with confidence to the electors to seek and obtain re-election.

By writing this history of the struggles and successes of the first Workers' Government, the author of this book has performed a real service to the country. He has described in detail the actual working out of a Socialist policy by democratic methods. It is the scheme for a transition from Capitalism to Socialism which I and many others in the Socialist movement desire to see brought into operation at the earliest possible moment: an orderly conscious development along well-planned lines, utilising to the maximum that available talent for administration and direction which is now forced to rust, unused.

The peculiar value of this history lies in the detailed story that it tells. Those details are not unnecessary trimmings which may be varied at will to suit the taste of this or that individual, they are an integral and necessary part of the machinery for a successful and democratic transition. It may be that in one or other particular variation could be made without affecting the general structure, but, broadly speaking, if Socialism is to come by democracy in this country, as I earnestly hope that it may, it must come along these lines—lines which I believe to be sound and practicable.

Those who want Socialism and criticise this method of its introduction must, if they know a better way, expound it in as full detail and in as convincing a manner.

Those who do not want Socialism will find set out in these pages ample material for criticism, but they will,

at any rate, have to give up saying that its introduction is not possible. To those who do not yet know their own minds—and their name is legion—this book will be a most valuable help. Its study will provide them with a definite picture, and will enable them to judge whether it is a picture that they like. It is no mere broad splash of red paint across a canvas, or even a picture of Whitehall and Westminster with red flags flying; it depicts a busy scene—the building of the foundations of a new Socialist State in Great Britain, instinct with life and reality. As I look at that picture I hope that I may be spared to share in some capacity, however humble, in that splendid work of construction.

*July 1934.*

STAFFORD CRIPPS.

## PREFACE

THIS BOOK IS, in form, the story of the next Socialist Government. It begins with the General Election of 1936 and it describes in some detail the beginnings of a Socialist economy during the succeeding couple of years. Even within that period, the story is not complete; a socialised shipping service for instance is mentioned once or twice, but there is no description of it. I have imagined that the writer of the book set himself to answer the question—“How was Socialism introduced?” Beyond the first year or two there are some references to later developments, but no details are given of them. The McCosh Government that took office after the General Election of 1936 is supposed to have gone to the country again at the end of its term of office in 1942 and to have been succeeded by a second Socialist Government with Joseph Codd as Prime Minister: the writer has not touched on the programme of that second Government, except incidentally. The latest date mentioned in the book is 1972: from such internal evidence as the reference to photographs in local museums of industrial areas under the capitalist system, the book may be assumed to have been written about 1980 by an author with a lively imagination but not old enough to have any personal recollection of the period he is describing.

There are two or three references, by name, to living persons; but all the Socialist leaders in the 1936 Government are imaginary characters. If any present members of the Labour Party choose to identify themselves with those leaders, I give them leave and encouragement to do so, but with the warning that any such identification will be nothing but the product of their own aspirations; they, and not I, will have made it.

If I seem to have said too little of the Opposition or to have exaggerated its silence, my answer is that this book is not a novel; the main purpose of it is to describe a Socialist

policy. As for Sir Oswald Mosley and his followers, I have not even mentioned them.

The story serves as the frame for the picture of a Socialist programme as I imagine it might be conceived and carried out. I have confined myself to the limits of a book of readable length and in so doing I have necessarily had to make some selection. To those who think that I have put within a year or two more than the wit and industry of man could compass (see the time-table following the table of contents), I would suggest that in a change of such magnitude a Socialist *tempo* is required. When young, I learnt to ride a bicycle and I soon found that if I did not ride it fast enough I fell off: a hesitant Socialist Government might well meet with a similar fate.

The programme so described follows the general lines of the official programme of the Labour Party as embodied in recent Policy Reports and other conference decisions; but that programme is far from covering every point and is not always expressed in unambiguous language. On points to which the party is not finally committed and on many other matters, including much detail, I have gone beyond the official programme and I have adopted freely the ideas and proposals current in modern Socialist literature, pamphlets, journals and speeches. In consequence, while the programme presented has no sanction from the Labour Party or from any group of persons in that Party and is one for which I alone am responsible, it is none the less intended to be such a programme as might now be accepted by the "left wing" of the Party and as might actually be carried out by the next Socialist Government.

I hope not only that the Labour Party will obtain a working majority in the next General Election but also that it will proceed to carry through a Socialist programme with the thoroughness and at the speed described in this book. At the same time I would like to point out that the choice of 1936 as the date of a Socialist triumph at the polls is not so much a prophecy as a necessity, due to my having to use such statistics as are now available. From the point

of view of the imaginary author there was an unaccountable gap in statistical information from 1933 (or sometimes earlier) to 1936.

I have given a number of references to books and the like in footnotes, but they are far from complete. Towards the *Statistical Abstract* I feel an almost personal obligation, towards G. D. H. Cole one of a warmer character—for his kindness in reading the typescript of this book, in making various suggestions, in lending me a large mass of books and periodicals at a time when it must have been particularly inconvenient to him to do so, and above all for much tactful teaching and encouragement in the past. I have also made considerable use of the publications of the body known as "Political and Economic Planning" (P.E.P.) and of a paper (to be published shortly) by G. H. on questions about the supply of electricity. In connection with retail trading I have found the published work of Braithwaite and Dobbs most useful: there is however a real need for more research on the subject. Among Socialist pamphlets, in addition to the Policy Reports of the Party, I owe a particular acknowledgment to the New Fabian Research Bureau for its invaluable publications and for some use of the unpublished material available at its offices at 17 John Street, W.C.1.

Lastly, I would ask for some indulgence from experts in the particular subjects with which I have attempted to deal. They must not expect too much from a mere lawyer.

G. R. MITCHISON.

4th July, 1934.



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## TIME-TABLE

- 1935 Party Conferences.
- 1936 June Dissolution of Parliament.  
 Sept. The Party takes office.  
 Sept. Emergency Powers (Financial) Act. House of  
 to Lords (Abolition) Act. Unemployment  
 Nov. (Temporary Relief) Act. Emergency Powers  
 (Control of Industry) Act.  
 Dec. Anglo-Russian Conference.
- 1936 Nov. to 1937 Jan. Reforms of the machinery of  
 government.
- 1937 Jan. Codd meets trade union officials.  
 Feb. Banking Act.  
 " National Planning Commission meets to con-  
 sider draft Planning and Finance Bill.  
 March National Investment Act.  
 " Land Act.  
 April First Planning and Finance Act.  
 Sept. Transfer of powers from Commissioner for  
 Mines to National Mining Council.  
 Oct. Second Planning and Finance Bill considered.  
 Nov. Pact for International Defence.
- 1938 Jan. Second Planning and Finance Bill in draft.  
 " Industrial assurance scheme.  
 Feb. Transfer of powers from Commissioner for  
 Textiles to Cotton Trade Council.  
 " Abolition of military aircraft.  
 April Second Planning and Finance Act, including  
 socialisation of motor-car and bicycle trades  
 and of artificial silk. National gas grid.  
 July Conference of Ministers of Defence, to deal  
 with War Offices.
- 1940 Offer of full self-government to India.  
 Disestablishment of the Church.

1941	General Election: Codd Government takes office.
1942	Family endowment.
1943	Acceptance by India of full self-government.
1945	U.S.A. join League of Nations.
1946	Merger of C.W.S. Bank in socialised banking system.

## THE CABINET

McCosh	Prime Minister
Fox	Finance
Codd	Industry,
Robinson	Land and Communications
Colet	Social Services
Gresham	Overseas Affairs
Roffe	Justice
Bashford	National Defence

## PART I

### CLEARING THE GROUND

- Ch.* 1. The General Election of 1936
2. The Party takes office: the House of Lords and some other urgent matters
  3. The Machinery of Government
  4. The Banks and Compensation
  5. The National Investment Board: the immediate control of the Land
  6. The Task before them

## CHAPTER I: THE GENERAL ELECTION OF 1936

**The First Workers' Government.** This is a history of the first Socialist Government, which came into power at the General Election of 1936. The Labour Party had filled the principal offices of State in the 1924 and 1929 Governments. In neither case had it been in a majority in Parliament, and it had only been able to pass such measures as would meet with the support of its temporary allies, the Liberal Party. The 1929 Government had been Socialist in intention, and, towards the end of its period of office, had attempted measures of a Socialist character, as regards, for instance, agriculture, education and London transport. Both in their conception and in the form in which they finally emerged from the destructive hands of the Opposition in the House of Commons and in the House of Lords, those measures showed the mark of the political exigencies of the time. It is not unfair to describe the 1936 Government, the first Government supported by a majority of Socialist opinion in the country and in Parliament, as the First Workers' Government.

**The National Government.** I shall have occasion from time to time, in the course of this book, to refer to the policy, or the lack of policy, of the National Government in various matters. At this stage I need do no more than mention the two main points which led to its downfall. As its term of office continued, it became more and more clear that it was what in fact it had always been, a Tory Government—Tory in conception, Tory in policy, and Tory in control.

**In Foreign Affairs.** In foreign affairs, the effect of its action and inaction was to shake the insecure foundations of peace, to promote economic wars and to increase the

chances of an actual war in Europe, to frustrate any scheme for economic co-operation between nations or for disarmament by mutual agreement, and, in effect, to encourage the nationalist and militarist tendencies of such countries as Japan, Germany and Italy, while at the same time increasing the burden of armaments in Great Britain in order to defend the country against those very dangers for which it itself had been so largely responsible. The workers, the ordinary men and women of Great Britain, came to realise the dangers confronting them; and the plain issue of war or peace was one of the two, upon which the General Election of 1936 was fought and won by those who placed the cause of peace before the interests of armament makers and chose to regard themselves as citizens of the world rather than as nationals of some country in it.

And as regards Unemployment. Another issue, as important and by no means unconnected, was the question of employment. At the beginning and during the middle of the period of office of the National Government resentment had been concentrated on the means test, which had been passed by that Government at the time of the 1931 Election and put into operation directly afterwards. There were some three million unemployed in the country. Neither agricultural workers, nor domestic servants, nor persons engaged in the professions, were insured, and no statistics except of insured persons were available: three million may well be too low a figure. In one form or another a large proportion of the persons so unemployed were driven on to poor law relief or on to the unemployment allowance, which bore such a suspicious resemblance to it. A means test was a well-known feature of the poor law. Insured persons, after half a year of insurance benefit—or up to a whole year if they had been insured for long enough—were subject to the same inquiries and to the same assessment of their needs as those who had never been insured at all, and were dependent on a system dating back to the time of Queen Elizabeth.

**Insurance Benefit and the Means Test.** This attempt at meeting the claims of the unemployed upon the community was bitterly resented, for two reasons. In the first place the insurance benefit itself, apart from any question of the means test, was wholly inadequate. A man, his wife and three children received only 29s. 3d. a week until July 1934, and, after that date, 32s. Of seven separate estimates, made by non-political observers in various parts of the country, not one allowed so low a figure as the minimum cost of maintaining such a family. In London, the new Survey put the minimum cost at 38s. 4d., while the British Medical Association, on the average of a number of towns in the country, gave figures which, with the lowest possible additions for clothing, fuel and light, amounted to 37s. 3d.<sup>1</sup> Those were minimum rates, scientifically calculated just to keep the family from starvation. A more reasonable estimate for such a family, made after comparison of the above-mentioned estimates, was 40s.<sup>2</sup> It is clear enough that, on the rates of benefit allowed under the National Government, the family starved. In the second place, the means test meant a searching and humiliating inquisition into the private circumstances both of the applicant and of his family and relations. Until 1934 the Government left all the odium of administering such a test, to the Public Assistance Committees and the local authorities behind them. The result was not even a uniformity in oppression. The Manchester Public Assistance Committee, for instance, in 1933 would have given the family I have just mentioned an allowance of 27s. per week. In other areas under Tory councils the amount would have been even less. It was characteristic of the Government that when, in 1934, they centralised the administration of unemployment allowances, they did so by means of an Unemployment Assistance Board, to which they refused to give instructions. The

<sup>1</sup> Estimates on prices of December 1933 from the above-mentioned sources and from Professor V. H. Mottram, Dr. Crowden, Dr. McGonigle, *Week-End Review* Committee and Merseyside Survey, as quoted in *Manchester Guardian*.

<sup>2</sup> *Planning*, P.E.P., No. 29.



administration must be left to wise men, who were not to take their orders from an elected Parliament. Two shillings a child was the full benefit rate. It was obviously and notoriously insufficient, when the rate allowed to a private person for maintaining a child at the public expense was 10s., and the average cost of maintaining a mass of children, with all the advantages of mass purchase and mass cooking, was 5s. a head in poor law institutions. Even as to this, the National Government refused to give any directions. The unemployed, when their needs came to be assessed, might reasonably expect as little mercy from the board and its local advisory committees as they had had in the past from the P.A.C.

**The Question of Employment.** But neither the mere number of the unemployed nor the inadequate recognition of their claims to maintenance is enough to explain the disappointment and anger with the National Government which began to show itself for two or three years before the General Election. The country demanded that some steps should be taken to deal with the whole problem of unemployment. There was a widespread recognition, both among Socialists and among many who were not Socialists, that this matter of public concern should not be left as it then was. The Government, in effect, declined to carry out at public expense any work which could be carried out by private industry. The result was not only a reduction in the extent of the schemes of public authorities, but an uncertainty as to what those schemes would be from year to year. Under the unrestricted competition of the existing system the municipality might restrict its housing schemes because it suited private builders to extend their operations : it might increase them, for the converse reason. An individual employer might succeed or fail ; the trade in which he was engaged might be prosperous or the reverse : success or failure meant a job, or the loss of a job, to the people whom he employed. The public began slowly to recognise that it was incumbent on the Government to

provide employment, or at least not to penalise those whose unemployment was brought about by circumstances beyond their control. The provision of work and the use of the skilled labour available in Great Britain were national matters, and could not be left to the chance of individual competition.

**The Socialist Alternative.** There was a Socialist alternative, the alternative that was put into operation in the manner I propose to describe. It was preached far and wide through the country by Socialist speakers. From about the spring of 1933 the tide of understanding and support began to rise. The times were ripe for the growth of a Socialist State. The Labour Party, as a whole, had come to recognise the inadequacy of reforms and the need of a change in the order of society. As early as 1932 it decided at its Leicester Conference, that one of the first steps in the Labour Government would be to assume the ownership not only of the Bank of England, but also of the joint-stock banks. The decision was the result of a demand both among local Labour Parties and in the trade unions for an active Socialist policy; for Socialist opinion among active members of the Party, both in London and in the provinces, was at this time more courageous and more advanced than were the views of the official Party headquarters. At the same Conference, Socialist feeling in the trade unions made itself felt by the reference back to the Party executive of certain proposals for the nationalisation of transport and electricity, upon the ground that these proposals did not provide for workers' control. The organised workers were not prepared to accept ownership by public corporations of essential services, unless in those corporations the interests of the workers in the services concerned were either paramount or at least fully represented.

**Democracy and Dictatorship.** In the following year the Party began to formulate and publish in some detail the plans which it proposed to put into execution, if returned

to power. The first proposals were rather crude, and showed the need for an improvement in the Party machinery. At the same time they represented an acceptance by the older generation of the increasing tendency towards an effective and vigorous programme. A number of factors resulted in that tendency being given a chance to show itself during the next few years. At one time it seemed possible that the difference between the outlook of the older members of the Party, as predominantly represented at headquarters, and of younger members in the country, and in trade unions, was so marked that a split would be inevitable. The Press, largely Tory, was anxious to conceal the deficiencies of the National Government by criticism of the Labour Party, the progress of which in the constituencies was already visible. *The Times* and other newspapers, anxious to provoke some cleavage in the Party, sought to draw a distinction between the democratic principles of the leaders of the Labour Movement and dictatorial tendencies which were discovered in various writers and speakers. The distinction was in that form quite illusory. There was no wish for a dictatorship; but there was a recognition—not confined to particular members of the Party, or indeed to Socialists at all—that the old-fashioned parliamentary methods of the nineteenth century were inadequate to carry into effect any substantial change in economic matters. If the delegation of power to Government Departments meant dictatorship, it would have been a fair answer to the alarmist Press to point out that the National Government itself had imposed tariffs by an unprecedented extension of Parliament's right to delegate, and that the effect of its schemes under the Agricultural Marketing Act, 1931, was to entrust the reorganisation of industry to bodies outside Parliament, under the control of a Minister. This question will be considered later. Its importance at the moment lies in the effect that it had within the Party. There was, in fact, no conflict, in any of the suggestions as to Party policy, between democracy and dictatorship. What the Party came to realise, as the result of the attacks made upon it, was

that the nineteenth-century system of government had passed, not so much because of any inherent wrong in what it sought to effect, but because it was insufficient for the functions of government in a Socialist State. If ever there had been any real democracy in England, it had only been in political matters and within narrow limits. What was wanted was some democracy in industry, such as in fact existed in Russia. A more efficient Government might be described by its enemies as dictatorial: its business in fact would be to use new methods to remove dictatorship from industry and to put in its place some measure of industrial freedom. As we have already seen, there had been many attempts in other countries to find alternatives for the parliamentary government of the nineteenth century in Great Britain alone there was a Labour Movement sufficiently strong politically, and sufficiently organised industrially, to make it possible to work out a Socialist Government as such an alternative.

This and other similar attacks on Socialist policy were in the long run an advantage. They resulted in a thorough re-organisation of the Party machinery. At first various unofficial organisations sprang up to represent the Socialist opinion, which was calling for a vigorous and detailed programme. The interest and attention that they aroused were themselves signs that some change was required. It was not merely the need for working out a programme, and building up that body of informed opinion in the country by which alone the programme could be put into effect; the control of the Party itself must be put on a broader basis if it was to practise the true democracy which it had in mind.

**Colet and His Young Men.** At that time there were practically no arrangements for mobilising the available knowledge and energy of persons who were members of the Party, or sympathised with it, but held no official position in its organisation. In 1934 a section of the Party headquarters was formed, under the charge of Frank Colet,

with the object of ascertaining what special knowledge and ability were available among Party members, and how they could best be employed. Colet, a young man with a university education, some experience of teaching and a fervent belief in the possibilities of Socialism, set himself to his new task with vigour. In a year he and his colleagues visited nearly every Divisional Labour Party in the country in order to organise such matters as local research and the political education of Party members, and possible supporters. The first result was the discovery of many people who had been only too anxious to do special work within the Party but had found no opportunity of doing so. The next was the introduction to the Party of a large number of persons with Socialist views, who had never joined the Party because they did not see what they could do in it. Quite certainly, too, the activities of Colet were as powerful a propagandist influence as any newspaper or pamphlet. If, as has often been said, the third Labour Government brought the managers and the professional classes to its side, it was largely because of the interest and enthusiasm which this new attempt at organisation inspired. "Colet's young men," as they were called, carried on his work in the large industrial areas and succeeded in convincing a mass of persons, dissatisfied under the existing system but uncertain of Socialism as an alternative, that Socialism might mean a new way of life as well as a change in economic conditions. Lastly, Colet's activities gave a great impetus to the movement for broadening the basis of the Party organisation. Colet was loyal enough to his colleagues, but some comparison was inevitable between his activities and the deficiencies of the past.

**The 1935 Conferences.** In the spring of 1935 an informal conference was held at a house outside London. There were present some of the principal trade union leaders, the leading members of the parliamentary Party, one or two officials from the Party headquarters, including Colet, and a number of persons hitherto unconnected with Party

administration but well known in the Labour Movement. The result of this conference was a decision to effect a considerable change in the constitution of the Party and a thorough reorganisation of its headquarters. Colet declared that there was more money available for the purpose than the Party officials supposed. He was supported by a young Scot from Clackmannan, a miner named Andrew McCosh, the future Prime Minister of the third Labour Government, called "the first Workers' Government." McCosh, had made a deep impression on the Scottish movement by the simple and vigorous sincerity he had shown both in speech and in action. He was little known in England. His tact and firmness at the conference brought the older members of the Party to agree to the need for reorganisation, and expansion, and to agree that a comprehensive scheme must be begun in the hope that the necessary funds for it would be collected somehow. A committee was set up for the purpose, and, on the suggestion of McCosh, immediate arrangements were made to test the feeling of local parties and trade union branches. The results appeared at the historic conference in October 1935. The Party met to mourn the loss by illness<sup>1</sup> of several of its older leaders, and to find others in their place. It met with a new element among the delegates—people who had come to realise the sweeping character of the change which the Party was committed to make in the country, the difficulty of its task, and the fact that success or failure depended on whether the Party would in fact tackle the task as being a complete reorganisation and revival of the life of the community. A committee was set up, with autocratic powers, to amend the Party constitution, subject to certain directions given at the Conference, the effect of which was to give the local parties a more responsible position on the political side of the movement. The Executive was strengthened by the addition of a number of new names. The Conference expressed the opinion that independent or affiliated Socialist organisations for propaganda and

<sup>1</sup> Or in the post.

educational purposes were the result of deficiencies in the Party machinery, and that steps should be taken to improve the machinery so as to make such organisations unnecessary. In compliance with this view, Party headquarters were considerably enlarged. The affiliated propaganda and research organisations were, in effect, absorbed, and their activities and some of their personnel transplanted to Transport House. Experienced observers declared that though at previous conferences there had often been demonstrations of enthusiasm, they had never before seen such a feeling of common effort and common responsibility.

**The Publications Committee.** The Conference of 1935 was none too early. It was fortunate that the new leaders of the Party realised the urgency of their task. Within a month or two the results began to show. For years previously there had been a shower of Socialist pamphlets from all sorts of sources. In many of them there was room for improvement; but the output had been large, and among the numerous productions of the Socialist pamphleteer many had reached a high standard of excellence. The official pamphlets had been incredibly cautious. The official Party, unlike other pamphleteering organisations, had never allowed the expression of any individual views. There had never been any real opportunity for full preliminary discussion of the Party proposals. A new department for literature and propaganda took a very different line. It was given a free hand by the National Executive to produce pamphlets, orthodox and unorthodox, the Socialist character of such pamphlets being ensured by a small Publications Committee. That committee also included an enterprising publisher—one was found—and one or two members of the Party with Press experience. The Publications Committee rapidly extended its activities. It absorbed the Socialist Film Council, a small body which had done excellent work in the preparation and circulation of propaganda films. Through the agency of the *Daily Herald* it distributed, not only books and pamphlets, but

gramophones with records of speeches and discussions. It made arrangements for the collective use of loud-speakers and travelling propoganda vans. In fact, it gradually assumed control of the propoganda activities of the Party, as well as of its literature. The work of the Publications Committee had an extraordinary effect in the country. The emotional appeal of Socialism was already known. Under the new arrangements that appeal was continued, but it was supplemented and reinforced by a mass of detailed criticism and detailed proposals which had not hitherto been available. Perhaps the effect was most considerable in what had hitherto been doubtful parliamentary seats. Socialism of this constructive character appealed immediately to the urban middle classes, who had suffered acutely from the progressive difficulties of the capitalist system, but had never realised how Socialism could or would affect them. In such areas an immediate increase in Party membership showed the success of the activities of the Publications Committee. There is, of course, no doubt that neither the activities nor their success would have been possible but for the previous work of Colet's department.

**Signs of Alarm.** The National Government was bound to go to the country in the autumn of 1936. No doubt its leaders had already recognised that the results of an election were likely to be unfavourable to them ; but until about a year before the election they would have been justified in expecting some such state of affairs as had resulted in 1929, when the second Labour Government depended for its majority on the assistance of Liberal votes in Parliament. In the spring of 1936 it began to seem probable that Labour would get a working majority. There was a definite change in middle-class opinion, as well as feeling in country districts about the failure of the National Government to carry out its promises to agriculture. The penny Press showed signs of alarm. There were more reports of Labour meetings, and, for the first time, some statement and some



detailed criticism of Socialist policy. The *Daily Mail* ran a number of articles pointing out the achievements of the Fascist Government in Italy and the Nazi rule in Germany. The *Morning Post* raised the question of reforming the House of Lords; its leader-writers discovered that it might be extremely difficult to restore the existing state of things if once it had been thoroughly disturbed by such measures as a Socialist Government might be expected to introduce. The *Daily Express* clamoured for an active policy: it was quite prepared to show the National Government what to do, provided that it would do it with vigour. In a sense, all these journalistic stunts contemplated the possibility of keeping the National Government in power for a longer period than five years, or at any rate of restricting the results of a Socialist victory at the General Election. It was not unnatural that *The Times* should choose the moment to repeat its weighty apprehensions for the safety of democracy. What was perhaps more significant was that, as rumour had it, there were a number of meetings of political leaders and industrial magnates with a view to considering the steps to be taken to meet the Socialist menace. The position, from the point of view of the large capitalists, was not an easy one. Were they to try and get their resources out of the country, beyond the reach of a Socialist Government? To do so might start a depreciation of the pound and a financial panic, which would add force to the Labour contention, that the present system had no help to offer and that the only hope for the country was to go Socialist. The National Government had come in on one crisis: on the next one, if they provoked it, a Socialist Government might come into power. On the other hand, the panic might come, whether they wished it or not. Other countries were watching Great Britain; more space than usual was given to her affairs in the foreign Press; there were tales of the withdrawal of French money from England and a slight fall in the pound in consequence. Would it be better to try to get one's own money out of the country before the inevitable panic began?

**The Bankers' Decision.** The frequent travellings of Mr. Norman at this time had a wider purpose than usual. He went, as did also the leaders of British industry, to explain the position to various bankers and industrialists in New York and in the European capitals. More was in question, they said, than the usual vagaries of British politics. There was a real risk of a Communist or Socialist State in Great Britain, established in such a way that no return to the former system would be practicable. Unless concerted steps were taken, a financial crisis of the first order was likely, some time before the impending election. Mr. Norman and his friends pointed out that such a crisis was likely to destroy their last hope of preventing a Socialist victory, and might result in such confusion that the victory, instead of being a parliamentary one, would take a revolutionary form. They said that for similar reasons they did not dare risk an attempt either to prolong the life of the present Government on the plea of emergency or to tie the hands of a Socialist Government by a reform of the House of Lords. They pointed out that the most dangerous thing might be to force the Labour Party to take unconstitutional action: once that began, there was no knowing where it would end. They said, too, that a panic might have very serious consequences in the world at large. Other European Governments were none too steady, politically or financially. It was doubtful whether the capitalist world could stand so large a shock. This last point made a great impression. The final decision, as we now know, was reached in May at Cologne.<sup>1</sup> It was to the effect that the financial authorities and financial and industrial leaders in the United States, France, Holland and Switzerland would combine to prevent or control any financial panic in England, and that Germany and Italy would give their general support. The United States made no promises, and it was felt that there was a considerable difference between the attitude of the business men in America and that of the Federal authorities: the latter seemed almost to contemplate a Socialist Government with

<sup>1</sup> *Memoirs of Herr Finanzrat Dunkelshferd* (State Publishing Office, 1961).

equanimity. The Russians lay low : little was said in their Press about English affairs, and of course they took no part in the conferences of the bankers and industrialists.

The Election Campaign. There was, however, as we shall see, some panic in London. The National Government did not wait until the last possible moment. In June 1936 Parliament was dissolved, and the election campaign began. The Tory Party called for another National Government, and in this they were supported by the right wing of the Liberal Party. The left wing of the Liberal Party, influenced, no doubt, by the considerable progress which Socialism had recently made among their former supporters, stood well away from the Tories, and its candidates in various divisions almost identified themselves with the Labour Party. In some places they stood as " Liberal-Labour " candidates. Beyond a general demand for free trade and disarmament, their programme seems to have been of a vague character, and to have varied according to the personal views of the candidate. The Tory programme was almost entirely one of opposition to Socialism. The Tory Party displayed a sudden enthusiasm for public works, slum clearance, and sound education ; but its main line was to attack the proposals of the Labour Party. It sought to appeal to the middle-class voter on the ground that his interests were threatened by a predatory working class, and to the country voter on the ground that he was being sacrificed to the town worker. The cry of " Dictatorship " was raised with vigour.

On the Socialist side, the election campaign was the signal for a terrific and at times violent outbreak of enthusiasm. There were demonstrations in Wales, on the North-East Coast, and in other places where unemployment was rife—demonstrations which might easily have turned into riots, if the Party itself had not kept them in control. The work of the past few years bore fruit. It was clear that working people in all classes of the community believed for the first time that there was a workable alternative to the present

system, and that it ought to be tried. There was, of course, criticism, in the Labour Press and at meetings, of the failure of the last Government : but, as the election proceeded, that criticism became less and less important in relation to the actual proposals which were put forward. The Election Manifesto set out concisely, but without any ambiguity, what proved to be the working policy of the Party. It was drafted by McCosh himself, and his usual terse language provided a number of election cries. The one most often heard at demonstrations and street corner meetings was "The New Times."

One of the more remarkable matters in the election was the attitude of the Communist Party. No doubt the leaders in Moscow regarded McCosh and his friends in a different light from that in which they had viewed former Labour leaders. The violent character of the demonstrations in unemployed areas, and the insistence on a new order of things, had great effect. In most areas the Communists supported Labour candidates, and it was only in one or two places in South Wales that independent Communist candidates stood against Labour. In some reactionary urban divisions Communist candidates seem to have been put up, with a view to keeping the Tory candidates busy, there being no Labour candidates in the field. But there were few divisions in which no Labour candidate ran.

Another feature of the election was the change in attitude in some of the more advanced rural areas, and above all in a number of urban areas, which contained both working-class and middle-class elements. For the first time the managers, the bank clerks, the small professional men and small owners were prepared to vote Labour : such was the effect of Colet's work. It was among this class of voters that the proposals for the reorganisation of government created most interest. Men who, in one capacity or another, had been engaged in the organisation of business or in a position to view its operations, were naturally critical of the old form of politics and of the existing political organisation. They knew well enough how unsuitable the Victorian

form of business would have been in modern conditions : they were prepared to be critical on the same lines of the Victorian system of government. Their training had left them unimpressed by catchwords, and they had no real fear of dictatorship or apprehensions as to democracy. They knew where the system really hit, and that no merely political change would alter the position of the worker. They had seen their own position become gradually worse and more difficult : they were prepared to risk a change. It was to them as much as to the manual worker, that the cry of " industrial freedom " appealed. In the hope of industrial freedom they were anxious to simplify the machinery of government and to adapt it to its new purposes. The demand for the abolition of the House of Lords, by itself, would not have aroused the same enthusiasm. As part of the reorganisation of government, it appealed to many who were not yet Socialists.

**The Financiers.** As a Socialist victory became more and more probable, the smaller houses in the City of London became thoroughly alarmed. They had not always seen the position as clearly as the more important financiers, with international connections. There was a general attempt to get money out of the country, and, from across the Channel, a withdrawal of foreign balances. The result was a sharp depreciation in the pound. The Stock Exchange became thoroughly alarmed, and the fall in the pound was accompanied by an even sharper fall in the prices of industrial securities, which previously had stood too high. There was a smaller, but quite definite, depreciation in Government and other gilt-edged stock. But the effects of the decision made at Cologne were soon felt. In London the joint-stock banks and other financial houses, acting on the instructions of the Bank of England, made every effort to dissuade their customers from unnecessary remittances abroad. There was similar pressure by bankers on the other side of the Channel. To some extent, too, the pound was deliberately supported by purchases, partly from the

Exchange Equalisation Account, which was still controlled by the Bank of England, and partly in the form of private purchases of a substantial character. For some days there were considerable fluctuations in the foreign exchange market, but the pound soon settled down at a slightly lower level than before. One result was to steady the Stock Exchange slump. The fall in gilt-edged securities stopped, and, though industrial shares continued to fall, it became practicable to sell them, if the seller was ready to take a lower price.

**The Election Results.** The results of the election are well known. The Labour Party came back with a substantial working majority. The industrial areas of Wales, Scotland, Lancashire, Yorkshire and the North-East Coast voted Labour almost solidly. Seaham Harbour and other divisions with National Labour members in the last Parliament, returned to Socialism. In the Midlands and some areas in East Anglia and the Home Counties there was a surprising swing over. The Labour seats included not only working-class divisions but also a large number of places, in which middle-class elements voted Labour *en bloc* for the first time or the establishment of new factories was sufficient to outweigh the Tory suburban vote. For instance, eleven of the twelve Birmingham divisions returned Labour members, and such areas round London as the Uxbridge Division voted Labour. It was partly these divisions, and partly agricultural votes in East Anglia, that accounted for the resulting majority. The Tory Party (including the so-called Simonite Liberals) kept its usual safe seats and a number of scattered divisions throughout the country. The Liberal Party itself met with disastrous failure. Three of its candidates were returned. Of these three, one voted throughout the next Parliament with the Labour Government, another with the Opposition, and the third was unfortunately ill.

## CHAPTER 2: THE PARTY TAKES OFFICE: THE HOUSE OF LORDS AND SOME OTHER URGENT MATTERS

**Urgent Questions.** As soon as the results of the election were known, the National Executive of the Labour Party met in London. There were three urgent matters before them. The first was, whether to ask for any guarantees from the Crown before taking office; the second, how to constitute a Cabinet; and the third, what steps were to be taken to deal with the signs, which were already apparent, of the revival of the financial panic of the spring.

**The House of Lords and the Crown.** The intention of the Party to abolish the House of Lords had been often stated at Party conferences. It had been repeated in the Election Manifesto and in almost all Labour election addresses. It had been the subject of considerable discussion by the Press on both sides. Quite clearly, it had been an issue in the election. The Party leaders did not know what the attitude of the Crown would be. As we have already seen, suggestions that the Tory Party should effect a reform of the House of Lords had led to nothing. The constitutional position was unchanged. Would the King, if advised to do so, create sufficient peers to pass any Act of the Labour Government, including an Act for the abolition of the House of Lords? Or should a promise to that effect be asked for before a Labour Government took office? Both points of view found support in the Party, and it had been generally recognised that the question would fall to be decided in the light of the circumstances of the moment, by the Party leaders immediately upon the result of a successful General Election.

Those in favour of asking for a guarantee pointed out that the real question was the possibility of a dispute with the Crown, and that, although it might reasonably be expected that the King would in any event do as he was advised by his Ministers, a dispute, if it were necessary, was more likely to result in a Labour victory if it took place at the earliest possible moment. The Party, still confident with the enthusiasm of success at the polls, would stand no obstruction at this stage, would, in fact, be less likely to encounter it, or, if it did, would appeal to the country with a greater prospect of success. With every day's delay there would inevitably be a reaction in political enthusiasm; and a General Election in a month's time on the question of a conflict with the Crown might result in a substantial reduction of the Labour poll—a reduction due to sheer weariness. As against this view, other members of the Party pointed out that an attempt would be made to hold the Party responsible for a second election, if it refused to take office without a guarantee. The Crown, if it disregarded the advice of those who were actually its Ministers, would be in a weaker position than if it merely refused a guarantee to those whom it invited to take office. Moreover, it would be said that the King was under no obligation to give a guarantee, and that he was entitled to decline to give one before the Party took office, without committing himself either to refuse or to accept the advice of his Ministers, when they had duly become Ministers and that advice was tendered. The matter was decided on two grounds. In the first place, the legal members of the Party were quite clear in their opinion that, the abolition of the House of Lords having been an issue at the election, the King could not constitutionally refuse to create further peers, if they were needed for that abolition or on any other election issue. Feeling had run high in the country, and the National Executive was sufficiently confident that the King would not risk the Crown on an issue in which he would appear in an unconstitutional position. Indeed, it was doubtful how far the disheartened Tory Party would support him on this



point, vital though they might feel it to be. In the second place, the more prominent leaders of the Party pointed out with emphasis that there would be no question of a month's delay before this point was settled. They had no intention of allowing the House of Lords to choose some point upon which they could oppose or delay the Government. There was to be no choice of ground by the peers. The House of Lords was to be abolished, not as the result of its opposition to any particular Labour Bill, but as a preliminary step in the Labour programme. That abolition would be a matter of days or weeks at the most—not of a month or more. The issue with the Crown, if it arose, would come quickly. The question was accordingly decided in the sense that no guarantees would be asked. There is no doubt that, although the Party did not wish at this stage to provoke a conflict with the personal popularity of the King and his family, some resentment was felt at even the possibility of obstruction by the Crown to the will of the people, so decisively expressed as it had been in the election.

**The Choice of Ministers.** The second problem, that of the Cabinet, really involved the question of relations between the party as a whole, the parliamentary Party, the National Executive and the prospective Cabinet. It was complicated by the knowledge that the first Cabinet would be a temporary one. As I have already indicated, one of the proposals of the Party was to reconstitute the machinery of government, including the Cabinet. But a decision was reached on the important question of responsibility. It was what might fairly be called a working decision rather than a constitutional one; but it involved some points of general importance. After consultation with the Joint Council, representing the Party, the trade unions and the co-operative movement; it was decided that the National Executive should nominate a prospective Prime Minister, who would presumably be the leader of the Party, although other names might be considered and balloted upon by the Executive. The prospective Prime Minister was to prepare

a list of names for the more important posts in the temporary Cabinet. That list was to be shown to the National Executive, and both the nomination for Prime Minister and the Cabinet nominations were to be considered at a full meeting of the parliamentary Party, summoned immediately. It was, however, understood that, if the parliamentary Party accepted the nominated Prime Minister, any criticisms of his Cabinet appointments, either by the National Executive or by the parliamentary Party, were to be matters for his consideration, but no more: the decision was to rest in his hands. On the other hand, it was agreed in principle that the Prime Minister and his Cabinet—whether the present temporary Cabinet or its successor—should report confidentially and fully from time to time to the parliamentary Party, and that a vote of confidence should be taken. In effect, it was intended to give the parliamentary Party a power to recall the Prime Minister and his Cabinet. It was further understood that members of Parliament were responsible for keeping touch with their local Parties, not only as regards the measures of the Government, but also on the more general question of confidence in the Prime Minister and his Cabinet. The responsibility of keeping touch with the Party through the country was to fall on members of Parliament rather than on the National Executive. It was clear that, once the Prime Minister and his Cabinet came into being, the National Executive, as such, would have little to do. The general intention was to leave Ministers a free hand in their task, subject to a general power of recall.

The third urgent question, that of emergency measures to meet the financial crisis which was developing, had perforce to be left until the Party took office. The general lines of action were, however, settled, and will be explained below. At the time of this meeting of the National Executive the full results of the election were not yet known, and the outgoing National Government was still formally in office.

The Party lost no time. The necessary meetings were hurriedly convoked, and, before the National Government actually resigned, the Party agreed to McCosh as the next

Prime Minister, and to a number of other Cabinet appointments. I need only mention for the moment Fox as Chancellor of the Exchequer, and Codd, who combined the Board of Trade and the Ministry of Labour—a combination significant of impending changes, for the Cabinet in this form was to have a short life.

**The Party Takes Office.** The National Government resigned as soon as the election results were complete. There was a considerable demand from some sections of the Tory Press and Tory opinion that the Government should remain in office until Parliament could be convoked and a vote of confidence attempted. The reason given was the responsibility of the Government in view of the financial crisis, which was attributed—and rightly—to the prospect of a Socialist Government. No doubt many of the interests associated with the Tory Party would have been glad of a week or two longer, during which they could complete their financial and business arrangements without fear of interference. But the results of the election had been too decisive, and the demand, though made, carried little conviction, even among those who made it. Its only effect was to induce the National Government not to resign (as the Labour Press called upon them to do) as soon as it was clear that there would be a Labour majority, but to wait until the last results were announced. The King invited McCosh to form a Cabinet—with what apprehensions in the Royal mind, and with what expectations of demands for guarantees or other awkward questions, we shall never know. It is reliably reported that McCosh, when invited, gave his answer in one word—"Aye"—bowed somewhat summarily and walked away. The Cabinet, as arranged, was announced within half an hour, and the minor offices—or such of them as were filled, for the Cabinet was known to be temporary—on the following day. Parliament met at once. A Labour Speaker was elected. The King's Speech was a repetition in appropriate language of the Election Manifesto of the Party. It contained, however, a Royal

request that upon this occasion, in view of the urgency of the matters to be dealt with, there should be no address in reply. There had been no difficulty about this innovation. One result of the refusal to ask for guarantees and the strictly formal attitude of the newly appointed Ministers of the Crown was that the King's advisers were in some uncertainty as to what was coming, and in no mood to make difficulties upon what was obviously a minor point. The Tory Party was somewhat at a loss. It might have been unconstitutional to advise the King to make this request ; but it was obviously impossible, on the best conventional principles, either to blame him for having made it or not to accede to it when made. In consequence there was no address in reply. A formal vote of thanks for the King's Speech was moved by one Labour member, in two sentences, seconded by another and duly passed. The House then proceeded to business.

**Financial Panic.** The most urgent matter requiring attention was the financial position, to which I have already referred. As the election campaign had progressed, there had been a revival of the financial panic of some months ago, but on rather different lines. Once again there was pressure on the sterling exchange—met, and known to be met, to some extent by the co-operation of the Treasury, the Bank of England and the leading banks and financial houses. The pressure really represented two movements. One was the transfer of money from England by industrial concerns with international relations, and by private capitalists : as a result of the agreement reached at Cologne, the principal financial houses were not directly involved. It was possible to discourage this movement and to keep the course of the pound comparatively steady, but not possible to prevent it altogether or to prevent the steady depreciation which it involved. It is a matter of history that the National Government had actually considered imposing temporary restrictions during the election campaign, but had refrained, partly because its leaders were occupied with other

matters and were unwilling to take any other responsibility, and partly because the other factor in the exchange movements was a removal of foreign balances, with which they were unwilling to interfere. The removal might have been a much more serious matter if it had not been for the previous crisis in the spring. The effect of the earlier crisis had been to reduce to negligible proportions the amount of foreign money in London, and though there had been a slight return of short-term funds, due mainly to particular circumstances in France, the amount of foreign balances was still much lower than usual. The Stock Exchange, however, was less controllable. During the election campaign there had at first been some optimism, followed by an outbreak of panic at the impending success of the Labour Party. On this occasion Government funds were little affected, but there was a heavy slump in all industrial and similar securities. As the election campaign proceeded, there had been unofficial communications between the Bank of England and such leading members of the Labour Party as could be reached for the purpose. The answer of the latter, after consultation with the Executive, had been that, so far as they were concerned, no steps need be taken to deal with the Stock Exchange panic. McCosh and others pointed out that the Government would have to take over a number of these shares soon, and might as well do so as cheaply as possible. There was a third feature in the financial position, which attracted considerable attention at home and abroad. There was never any run on the principal banks in London : but, as the heat of the elections led to more and more alarmist speeches by Tory politicians and alarmist articles in the penny Press, there began to be signs of a run on a number of branches in the country. On the whole, the industrial areas were little more affected than London. But, in what were known in Labour circles as "backward areas"—Brighton, for instance, Bournemouth, and the remoter countryside—anxious colonels and agitated farmers began to seek to convert their bank balances into the more obvious security of paper pounds.

Those runs were on a small scale, and did not become at all serious until about the time when the election results began to come out. But, when Parliament met, the matter required immediate attention. The bankers took an early opportunity of asking the Government for help. Hostile though they were, to its Socialist ideas, they did not want the ruin of the country to begin with the closing of their own branches. Their influence was felt even in the Opposition Press. There was considerable feeling in Tory circles—however militant they might otherwise be—that something ought to be done about the banks at once, and that this was not a matter upon which they could afford to put up vigorous opposition if the Government showed signs of dealing with the position. No doubt this attitude on the part of the bankers and the more responsible sections of the Tory Party had its effect on the attitude of the House of Lords. McCosh acted without delay. He and Fox introduced, immediately after the King's Speech had been disposed of, an Emergency Powers (Financial) Act, 1936, which passed all three readings in the House of Commons on the same day—a quick despatch, for which there was precedent in the case of other emergency measures under previous Governments—and passed the House of Lords on the following day. It received the Royal Assent immediately. This Act is printed in the Appendix : its provisions deserve some consideration.

**The Emergency Powers (Financial) Act, 1936.** The general object of the Act was to give the Government temporary powers to meet the emergency conditions which had arisen, and for that purpose to exercise control over the credit system and over foreign exchange transactions. The socialisation of the banks was to be an early measure in the programme of the Government. It was not affected by this Emergency Act, because immediate steps were necessary, and to take them in the form of immediate socialisation would have meant an intervening struggle with the House of Lords and consequent delay. Moreover, the Government

felt that Parliament was entitled to some discussion of so important a measure as the socialisation Bill which would shortly follow. On the other hand, the emergency measures must be such as would fit in with the subsequent socialisation of the credit system, and would, if possible, prepare the way. One alternative would have been to issue emergency regulations under the Emergency Powers Act, 1920. There were two objections to such a course. One was that, though the 1920 Act was wide enough to be used for this purpose without risk of interference from the Courts, it was obviously not intended to meet an emergency of the character which had arisen. Its use would provide an additional ground for criticising the regulation. Secondly, the regulations under the 1920 Act would only have been valid for seven days, unless both the House of Commons and the House of Lords had passed resolutions for their continuance. A number of regulations might well be necessary. The Government was not prepared to take the risk of any one of these being held up because the House of Lords objected to it, or because it was supposed to exceed the authority given by the 1920 Act. There was no good reason for descending to the somewhat undignified course of reissuing similar regulations at the end of seven days, if the original regulations were not approved during that period. In effect, it was simpler and sounder strategy to pass one special Emergency Act through both Houses at once.

The control required by the Government could have been vested in the Treasury, or left to be exercised by the Bank of England in the traditional co-operation between the Bank and the Treasury, which had already served to operate the Exchange Equalisation Account. Neither of those courses appealed to the Government. They had no wish to let the Treasury put its hand on the banking system, because ultimately it was proposed to keep the control of that system separate from the Treasury and its control of public funds. As regards the Bank of England, this Government did not trust it. They had no intention of allowing discretionary powers of such importance to be exercised

except under the control of Ministers. Moreover, the authorisation of Socialist control for this temporary purpose would pave the way for socialisation.

**Emergency Control of the Banks and of Foreign Exchange.** The Emergency Act accordingly authorised the appointment of an emergency commissioner at the Bank of England, who might be, and was intended to be, a member of Parliament. The commissioner was given very wide powers. He might issue orders for the control of foreign exchange; he might authorise and require an increase in the fiduciary note issue—that is to say, he might deliberately increase the amount of paper money in circulation without any corresponding increase in its gold backing. In order that he might have complete control over the volume of money credit available, he was authorised, in effect, to give directions to the bank as regards all the usual methods of controlling the volume of credit—the bank rate and open market operations in the form of sales or purchases of securities by the bank. The bank rate was the rate of interest at which the Bank of England discounted bills of exchange, and in practice it determined the rate allowed by the joint-stock banks on deposits, and, within limits, affected the rate charged by them for advances. Dealings in securities by the Bank of England had the effect of increasing or decreasing the amount of the balances held by the joint-stock banks at the Bank of England, and any such increase or decrease led to an increase or decrease in the total amount of credit which the banks were able to create. The application of this credit so made available rested, however, with the joint-stock banks. It was doubtful how far an increase or decrease in the volume of credit could be made effective without their co-operation. The power was therefore taken under the Emergency Act to appoint, if necessary, deputy commissioners at the banks. The emergency commissioner at the Bank of England was authorised to direct the bank to make advances to other banks, and the deputy commissioners, if appointed, could



give directions as to advances by the other banks to their customers. It might also be necessary to mobilise securities—especially securities salable abroad or upon which interest was payable in foreign currency: such a mobilisation had taken place during the War in order to help the control of the pound. The Act therefore empowered the Bank of England, on the directions of the commissioner, to take over securities from other banks: enough securities for the present purpose were held by the banks themselves without recourse to those of their customers. Lastly, the Act gave power, if necessary, to suspend Stock Exchange dealings wholly or in part.

Under the Emergency Act the Government could stop all purchases of foreign exchange—that is to say, they could prevent English people selling pounds in order to get their money out of the country, or foreigners selling pounds in order to get foreign money back abroad. The Government could also inflate to any extent, print new paper money, force the Bank of England to lend it to the joint-stock banks, and force the joint-stock banks to accept the loans and, if necessary, pass them on by way of loans to their customers. The Stock Exchange, too, could be closed. The City realised at once how sweeping these powers were. Upon the same day that the Act was passed, a regulation was issued under it prohibiting all dealings in foreign exchange, except such as were necessary to complete past transactions, to carry on normal trading, or for various minor purposes: a similar regulation had been issued in 1931, when Great Britain went off the gold standard.<sup>1</sup> Cobleigh, the member of Parliament for Widdecombe, was appointed as emergency commissioner at the Bank of England, but it proved unnecessary to appoint any deputy commissioners at the other banks. The limitation of foreign exchange transactions made it easy to peg the pound at the figure to which it had fallen. The run on the country banks was met by the simple expedient of printing additional notes and sending them from the Bank of England to the

<sup>1</sup> S.R. and O., 1931, No. 951, dated 22nd September, 1931.

branches concerned, as a loan to their head office bank. This additional issue of paper money led to alarmist articles in the penny Press about the dangers of inflation. There was, of course, no inflation in fact, but merely the substitution of currency in a cupboard for credit at a bank. The alarmed colonel who took his money out of the bank, used it no more and no less when he had it as paper money than he would have used it if it had remained in the form of a bank balance. In fact, the money withdrawn from the country banks was mostly hoarded for a short time and then gradually returned. The Government, however, as a precautionary step, arranged for the publication of a reassuring manifesto signed by a number of leading economists. No doubt this publication, together with the steadying of the pound in the foreign exchange market, had some effect; and the subsequent issue of an alarmist manifesto by a rival group of economists seems to have caused more amusement than apprehension.

The House of Lords (Abolition) Act, 1936. There remained two urgent matters to be dealt with. One was the House of Lords, the other the immediate removal of the means test and other immediate changes in unemployment insurance. For the reasons I have already given, the McCosh Government proceeded first to the abolition of the House of Lords. McCosh introduced in the House of Commons a short Bill, which provided that all Acts of Parliament should be passed by the House of Commons alone (as Money Bills had previously been passed) and that the House of Lords should no longer meet for deliberation. The rights and privileges of the House of Lords were transferred to the House of Commons; and a small committee was set up, consisting of the Prime Minister, the Speaker and the First Commissioner of Works, to give directions about the transfer of employees, the disposal and use of the rooms occupied by the House of Lords in the Houses of Parliament, the library, etc. The Bill, however, expressly provided for the continuance of the House of Lords in its judicial capacity

as a final Court of Appeal until further provision should be made by Act of Parliament, to be passed by the House of Commons. The Government, in fact, intended in time to abolish the House of Lords in that capacity too ; but they did not wish to deal with questions of legal reform in this Bill. The peers became entitled to vote.

This Bill was not unexpected. Its general purport had been the subject of numberless election speeches and addresses. Its minor provisions were not important, and the Government had no intention of allowing it to be discussed at great length. They had urgent tasks in hand, and they were prepared to use to the full the existing machinery for speeding up Bills in Parliament. A rigid time-table was imposed, the Opposition was given the opportunity of one or two fine speeches about the Constitution and the inevitable cavils about government by one chamber, and the Bill passed the House of Commons in four days ; speeches on the Labour side were short and often rather strongly worded.

When the Bill went to the Lords, it soon became clear that the Opposition intended to take every opportunity of delay. There was an extensive Press campaign, directed not so much to the iniquities of the Bill itself as to the importance of the discussions which were now to be held. The general line of criticism was that the Bill had been rushed through the House of Commons, and now at last there would be a proper opportunity for its discussion in the calmer atmosphere of the House of Lords. No doubt the abolition of the House of Lords had been an issue in the election ; but there were various alternatives to the continuance of the House of Lords in its present form, and those alternatives had not been sufficiently considered. Beyond simple opposition to the Bill, the main lines of criticism were that some other second chamber should be provided—if necessary an elected second chamber—or that the House of Lords, even if it ceased to be a legislative body, should at least preserve some consultative functions. Even if it could not pass Bills, it ought to be allowed to give the

King advice about them. Of these two lines of criticism, the latter was the more dangerous. An alternative second chamber was too like reform of the House of Lords—a step which the National Government had not had the courage to take, and which had been discussed and rejected during the General Election. An advisory House of Lords sounded attractive. Were the Lords to become an illegal assembly if they chose to meet and tender advice? No doubt the supporters of this idea saw that, if the House of Lords were left as an advisory body, it would be easier for a succeeding Government to give them back their legislative power. The Labour Government were well aware of this danger, and they had no intention of allowing the House of Lords to remain in any capacity whatever, except in a judicial capacity until another scheme of legal reform could be put through. The Lord Chancellor was Jeremy Roffe, who had exercised his right of holding the office and of presiding over the House of Lords without becoming a peer. He unhesitatingly accepted the suggestion that the House of Lords, if it met to advise the King, would be either a collection of gentlemen assembled for that purpose, as informal as any meeting on Tower Hill, or, if it were the House of Lords, an illegal assembly. The Lords could now vote, and that was good enough for any man.

The debate in the House of Lords continued for three or four days, and showed little sign of coming to an end. There began to be some impatience in the country. No one knew anything about the procedure of the House of Lords, and it was startling to discover how few opportunities there were of checking eloquent peers. The business of the Commons continued meanwhile, and the unemployment measures, to which I refer below, provided their Lordships with a further reason for their own survival, in order that they might reject such improvident schemes. After five days' debate in the Lords, McCosh, in answer to a question in the House of Commons, intimated that, if "the other place" did not get through its business within the next two days, he proposed to tender "certain advice"

to His Majesty. This observation was regarded as constitutionally improper—for reasons which the Labour Party had no intention of appreciating : they were not at the moment going to take lessons in political etiquette from the Tory Press. But the Lords continued to talk, and, as soon as the two days expired, the Prime Minister asked for an audience with the King. No one but the two persons immediately concerned know what passed at that interview. It lasted three hours—and the King, on medical advice, cancelled his public engagements for the next few days. A short official statement was issued to the effect that His Majesty, upon the advice of the Prime Minister, proposed to create a number of new peers, a list of whom would be published on the following day. Comments—"We have reason to believe . . ." ; "Well-informed circles . . ." ; and so on—were made on the express reference to the Prime Minister's advice : such a reference was unusual.

The list, which duly appeared the next day, had been a troublesome matter to prepare. Unofficial inquiries as to whether it would be practicable to nominate a sufficient number of peers from one of the London Labour Parties or a convenient trade union branch had led to violent objections by the intended barons. The Oxford University Labour Party had been approached, as it was felt that they could be relied upon to vote and be done with it. There was some uncertainty both about the number and the reliability of prominent supporters of the Party. It had then been suggested that the requisite number of peers might be created for a week, on the analogy of life peers ; but there was some question as to whether this could be done, and the Government had no intention of raising any unnecessary points of constitutional nicety or of giving ground for any doubts as to whether the abolition had been duly carried. Finally, a mixed list was prepared—prominent Party supporters ; a number of volunteers from London and University Labour Parties ; a stiffening of reliable men from some trade union branches ; and a liberal selection from the staff of Transport House, who would be able to apply the

methods of Party discipline in their new environment : for this purpose, two or three were given higher rank in the peerage. Fortunately the new peers had no occasion to buy the robes of their new dignity, although it was rumoured that one or two did so. They were duly marshalled at Transport House, and duly took their seats in the House of Lords. Unhappily the ceremonies of introduction took some time, and meanwhile the debate on the Bill continued. Nine days, however, after the introduction of the Bill into the House of Lords, the voting power of the new peers was used to bring the matter to a definite decision, and the House of Lords (Abolition) Act, 1936, was duly passed : it received the Royal Assent the same day. The new peers were always known to their friends as the "suicide peers."

Unemployment (Temporary Relief) Act: the Means Test and "Work or Maintenance." While the Lords were discussing their own abolition, there was introduced into the House of Commons a measure known as the Unemployment (Temporary Relief) Bill. There were certain matters which required immediate attention, and the Bill had three main purposes. The first, clearly an urgent need, was to remove the injustices of the means test, and to give practical effect to the Labour cry of "Work or Maintenance." The unemployed had the same right as others to a decent standard of life, and the Party regarded the necessary provision for the purpose as a first charge on the national income. Whatever else could or could not be afforded, this at least must be found somehow. The idea was to give a weekly allowance, which, at present prices, was sufficient for a decent standard of life—to do so, if necessary, by inflation—and then to see how much the shillings so given proved to be worth. It was likely that the amount allowed would have to be adjusted ; and the factors governing the adjustment would be the level of prices at which things settled down, and the reduction which could be effected in the number of unemployed. The Bill did not attempt to secure such a reduction by altering the school age at one

end or the pensions age at the other ; it was, in this respect, merely a temporary measure to put certain things right. It therefore provided for the removal of the means test and the raising of benefit to a decent maintenance rate.

The T.U.C. General Council,<sup>1</sup> in<sup>2</sup> their evidence before the Blanesburgh Committee, had asked for benefit at the rate of 20s. for a man, 10s. for his wife, and 5s. for each child, with the qualification that what they asked for was " still, from the Labour point of view, inadequate for complete maintenance."<sup>1</sup> In 1931, before the Royal Commission on the same subject, they repeated the request, asking again for 20s. a week for each adult worker and for the above rates for his wife and children.<sup>2</sup> It was to be expected that the Labour Party, now in power, would take no less, and would, indeed, give effect to " the Labour point of view "—that what it had previously asked for was inadequate. In particular, the rate for a wife or other dependants seemed insufficient. The Bill accordingly provided for unemployment benefit at a minimum rate of 20s. for a working man or woman, 15s. for an adult dependant, with corresponding rates for juvenile workers, and 5s. for each child. Such a scale might suffice for country workers, but those in the towns would have additional charges to meet for rent and the extra cost of living in an urban area. The unemployment authorities were accordingly instructed to treat the above scale as a minimum, and to give such additional benefit as might be required to ensure a decent standard of living. They were to have regard to the cost of living in urban areas, to any particular questions, such as rent, necessary transport, ill health, etc., and to prevalent rates of wages in the unemployed man's trade in the area. The general intention was to provide " work or maintenance " in the fullest sense; and, while ensuring that those for whom work was available should accept it, not to penalise those who were unemployed

<sup>1</sup> *Blanesburgh Committee, evidence, p. 172 (H.M.S.O., 1927).*

<sup>2</sup> *Royal Commission on Unemployment Insurance, evidence, p. 972 (H.M.S.O., 1933) :* " We see no reason to alter our view "—between 1926 and 1931 the cost of living fell from 172 per cent of the 1914 figure to 147½ per cent.

because of deficiencies in the industrial system. The whole arrangement was necessarily a temporary one—of a patchwork character. Its cost and its effect would be materially altered as soon as the Government could make the necessary changes in the school age, in old age pensions and generally in the redistribution of labour.

There were other provisions as regards unemployment benefit, one of which deserves mention. In giving evidence before the last-mentioned Royal Commission, the Standing Joint Committee of Industrial Women's Organisations had referred to the Washington Maternity Convention, and had asked that provision should be made for the maintenance of women at home for six weeks before and six weeks after childbirth.<sup>1</sup> This reasonable and humane request was given effect to in the Bill.

**Minimum Wage.** In the second place, even a temporary measure, such as the Bill was, had to provide for the raising of the lowest level of wages. It would have been unfair and impracticable to give benefit at a rate exceeding that of the agricultural labourer's pay, or even the average pay in sweated industries. Agricultural labourers with families were still supposed to live on 30s. a week or less; and there were correspondingly low rates of pay for grown men and women in industries where there were no trade boards, and in various forms of casual employment. Some sort of national minimum wage was an essential accompaniment of any substantial increase in unemployment benefit.

The second part of the Bill was therefore directed to securing a national minimum wage at the rate for the time being of 40s. a week for a man. This was a low rate, although for agricultural workers it represented a considerable increase.<sup>2</sup> It was less, however, than the average weekly earnings of an unskilled man in most trades<sup>3</sup> and allowed

<sup>1</sup> *Royal Commission on Unemployment Insurance, evidence*, p. 925.

<sup>2</sup> From 20s., for instance, in some eastern counties.

<sup>3</sup> e.g. engineering labourers, 42s. 1d.; builders' labourers, 50s. 2d.; railway goods porters, 42s. 10d.: 1932 figures in *Statistical Abstract*, pp. 122, 123 (H.M.S.O., 1934)



no more than the bare standard of subsistence of an average family dependent on a single worker. There were many industries in which short time was being worked, and others in which full-time employment was seasonal : in agriculture, for instance, hours were obviously shorter in winter than in the summer. In other trades, again, pay was reckoned by the hour or by the shift rather than by the week, and longer hours in one shift or in one week were counter-balanced by shorter hours in the succeeding period : in trades involving a continuous process some such arrangement was clearly required. The Bill was not intended to provide a guaranteed minimum wage every week, irrespective of the hours worked. The provisions of this part of it had accordingly to be considered in relation both to unemployment benefit and to the 40-hour week, to which I shall refer below. The principle of a minimum wage had been applied in general terms<sup>1</sup> as a temporary measure directly after the War, and at various times to particular industries, such as coal-mining,<sup>2</sup> agriculture<sup>3</sup> and trades subject to trade boards.<sup>4</sup> In all these cases Parliament had not itself fixed the minimum wage, but had set up boards or committees to do so. There was already some machinery under the Trade Boards Acts for enforcing minimum wages in the limited number of trades to which those Acts applied. In the present instance, therefore, the Bill was confined to a declaration of minimum wage rates, and authority was given to Codd, as the Minister of Labour, to make the necessary orders for the purpose and to set up such administrative bodies as might be required. This authority was subsequently transferred to the Secretary for Industry<sup>5</sup> and was delegated at a later stage to the regional authorities<sup>6</sup> : trade board practice had already recognised

<sup>1</sup> Wages (Temporary Regulation) Act, 1918.

<sup>2</sup> Coal Mines (Minimum Wage) Act, 1912.

<sup>3</sup> Corn Production Act, 1917 ; Agricultural Wages (Regulation) Act, 1924.

<sup>4</sup> Trade Boards Acts, 1909 and 1918.

<sup>5</sup> See p. 76 below.

<sup>6</sup> See pp. 168 ff. below.

the need for some variations in rates between different areas. In the many trades in which wages were reckoned on an hourly basis, the principle of a minimum wage was applied by raising rates for male workers to 1s. an hour for a 40-hour week. The lowest rate allowed by a trade board at the end of 1933, for longer hours, had been just under 9½d. for men. Corresponding provisions were applied to wages reckoned by the shift, and, in making the orders and administering this part of the Bill, allowance was made for changes in the hours of employment from one period to another, or from season to season. The general intention was that a man in full employment should not receive less than 40s. a week throughout the year. As regards unemployment benefit, there were considerable administrative changes, intended to make certain that, in cases of short time or part-time employment, a man received altogether a sum approaching the national minimum wage, but, if he had no dependants or few dependants, falling short of it in proportion to the amount of time for which he had been out of work : in effect, the working time was taken at the minimum wage rate and the unemployed time as the benefit rate, if that were lower.

The question of the minimum rate for women presented some difficulty. They were, no doubt, entitled in theory to equal wages for equal work ; not only, however, was the work often unequal in result, but also their claim had not been fully recognised in practice. The effect of allowing them a minimum wage at the same rate as men, or even at a rate very near it, would have been to throw a disproportionate number of them out of work : in general, too, they had fewer dependants.<sup>1</sup> In practice, the lowest rates for women had been between one-half and two-thirds of those for men.<sup>2</sup> In trade board industries, for instance, the

<sup>1</sup> *The Minimum Wage*, Richardson (George Allen & Unwin, 1927), pp. 128, 129.

<sup>2</sup> Richardson, *op. cit.*, p. 136. The proportion in 1925-26 (Trade Board Minima) was 56 per cent in Great Britain and varied abroad from 52 per cent in France to about 75 per cent to 80 per cent in Germany.

corresponding rate to the  $9\frac{1}{2}d.$  an hour mentioned above was about  $5\frac{1}{2}d.$  for women. On these figures the corresponding rate to the men's  $40s.$  a week would have been between  $20s.$  and  $25s.$  The Bill was intended to be a temporary measure, and, although the Government had every intention of applying the principle of equal wages for equal work to the fullest possible extent, it did not seem practicable at this stage to do more than give the women a first instalment. The minimum rate for women was accordingly fixed at  $30s.$  a week—a rate which involved a larger increase in their case than in the case of men. The rates for juvenile labour were left to be worked out by orders and in the process of administration. But, in the debate on the Bill, Codd intimated that he proposed to give them large increases—far higher than in the case of grown men and women. He knew something of juvenile labour and dead-end jobs; and he was not at all reluctant to throw a disproportionate number of juvenile workers out of employment.

There was one objection that might be made to the principle of a minimum wage at the above rates in connection with unemployment benefit. It was quite true that while the minimum remained at  $40s.$  a man might in theory receive more on account of himself, his wife and his children by way of unemployment benefit than he would earn at the minimum rate. Such an anomaly, however, already existed in the case of large families and ill-paid employment. The objection was duly raised. In practice there were several answers to it. The principal one was that, under Socialist administration, a man with a family of any size wholly dependent on him would receive assistance as regards his children. There were enough provisions in the insurance scheme already to make it certain that a man who really refused work would get no benefit. Secondly, the minimum wage was only intended as a temporary measure, to give immediate relief in such cases as I have already mentioned. It was not expected, nor did it prove to be the case, that it would affect the wages of the ordinary man working in industry. As a temporary measure it served its purpose, and

the anomaly of which the critics complained was removed at a later stage by the scheme of family endowments to which I shall refer later.

**The 40-Hour Week.** The third main point in the Bill was the question of working hours. The trade union movement, for some years past, had been asking for a 40-hour week in industry, without reduction of wages. There was every reason for the demand. It was clear enough, from experience in this country and abroad, that such a reduction of the hours of work would not have a corresponding effect on the workers' output. Students of industrial fatigue knew well enough that a reduction in hours meant an increase of volume and quality in hourly work. The increasing use of machinery pointed to the need for the change. Work on a managed system in operating and minding machinery is more than a man can do for the hours then prevalent in industry. In some trades, especially where there was no trade board, the need was particularly urgent. Men might work for some 60 hours a week or more in a brickyard, at heavy work, and the capitalist system had no means of protecting them. On broader grounds, too, a Socialist Government meant to ensure the worker's right to some leisure, and not merely to such time as might be sufficient for him to feed and sleep in. The 40-hour week was only a first step ; but it was one which brooked no delay.

The Bill accordingly provided for a maximum working week of 40 hours in industry, without any reduction of the rates of pay previously given. In most cases the principle was applied by agreements in the usual way with the trade unions concerned. Seasonal work, continuous process industries, countless other instances—to one or two of which I have referred in connection with the minimum wage—all required special arrangements about hours. I need not describe them in detail. The general intention of this part of the Bill was to secure for everyone an average week of 40 hours, just as, in the part about wages, it was to secure an average minimum wage during employment.

The difficulties in each case were similar, and the same, or corresponding, administrative machinery served for the one purpose as for the other. Of the wholly exceptional trades, the most important were agriculture, domestic service and some forms of employment in hotels, restaurants and similar establishments. These were considered by special committees, on which the trade unions concerned were well represented, and arrangements as to working hours and conditions were embodied in the orders subsequently issued.

**Public Works.** As I have already said, one of the main objects of this Bill was to give effect to the Party policy of "Work or Maintenance." In this connection there arose the question of how far the Government could itself employ those for whom it was now proposing to find maintenance at rates equivalent to wage rates. A National Labour Corps had been often proposed and discussed in the movement. No doubt such a body might be economically sound, if it were to be used on works which would be of value, but, as paying propositions, would not give a sufficient immediate yield to make it worth while for public or private enterprise to undertake them on their merits. On the other hand the trade unions were naturally suspicious of the idea. It was all very well to say that at one time the current return on industrial enterprise was, say, 5 per cent, and that it would be worth while for the National Labour Corps to be employed on work yielding a return of 3 per cent rather than to do nothing. There had been so many changes in the current rate of interest : it was so difficult to say what was and what was not worth while for independent enterprise. There was the constant fear that the National Labour Corps would be used, not perhaps to undercut rates directly, but to do work which would otherwise be done by trade unionists under trade union conditions. The Government was not prepared to set up a National Labour Corps by statute, or to raise trouble within the movement at this early stage on questions with regard to which they would

stand continually in need of the help and co-operation of the industrial side. On the other hand, a considerable body of trade union opinion recognised that something could be done on the lines of a National Labour Corps. A Committee was set up, under the chairmanship, in the first instance, of Codd, as Minister of Labour, to approve schemes of public work to be carried out by unemployed men and women under the directions of the Minister. The constitution of this committee is interesting. It foreshadowed subsequent developments in relations between the Government and local authorities. The committee itself consisted of five members—the Minister as chairman, Coggins (a Labour member for one of the Lancashire seats), and three members of the T.U.C. General Council. It was bound, however, in examining any scheme, to co-opt two additional members to represent regional interests affected by the scheme. It held no formal inquiries, but it consulted both with the trade unions concerned and with the local authorities and their officials. A Civil Servant acted as secretary, but Coggins was told that this committee was to be his special business. He was to look out for suitable schemes, to get other people to suggest them, to work with the local authorities and with trade union officials, and, so far as possible, to present schemes in a workable form—with full reports on them—to meetings of the committee and of its co-opted members. In short, it was up to him to see that that committee functioned, and functioned quickly. Coggins rose to the occasion. He was one of the young men whom Colet had discovered, and he had taken a particular interest in the possibilities of some such plan as this. He did not make the mistake of trying too large schemes at first. He began with what were virtually public works, all over the country—small things that really wanted doing; matters in which no local authority had been so directly interested as to attend to them, some small experiments in building institutions, and the like. The committee had been intended as a temporary relief measure, to provide work for the unemployed under trade union conditions and trade

union control until the Government's programme had time to have effect. Its work was found to serve a useful purpose on a limited scale, and it was finally placed under the reconstituted Office of Works, to which I shall refer later. The Office was principally concerned with building, and Coggins' committee served as a convenient instrument for a number of accessory public works—in connection, for instance, with canal clearance and reconstruction, which would otherwise have remained matters for private enterprise.

**Some Effects.** The Unemployment (Temporary Relief) Bill met with a stormy reception. In particular, the national minimum wage was immediately denounced by the Opposition Press as wholly impracticable. It was really no more than the application of what *The Times* had described as "a general agreement that a wage of somewhere about the lowest figure enforced by trade boards should be a first charge on any industry"<sup>1</sup>; true, the trade board figure had been raised, but the principle was the same. However, the newspapers gave instance after instance of the difficulties which the proposal would involve, and predicted that it would result in an immediate and sensational increase in unemployment. Undoubtedly the difficulties of a minimum wage and a 40-hour week together appeared considerable. The one or the other would disturb the whole scheme of costs and prices in many industries. Agriculture and trades with a high proportion of female and juvenile labour would be particularly affected. No doubt many of the employers concerned richly deserved some disturbance. But this was a temporary measure, passed at the beginning of a transition period; and, if no relief were given to the trades particularly affected, the immediate results in unemployment might be most serious. In all the circumstances the Government was prepared, in proper cases, to bear a proportion of the additional wage bill. They regarded the subsidy so given

<sup>1</sup> *The Times*, leading article, 16th June, 1925: quoted in Richardson, *op. cit.*, p. 100.

as a temporary expedient, to tide over the trades concerned and to be dispensed with as soon as possible. In fact it served its purpose for no more than a few months, and the last cases of assistance under it were in the summer of 1937. No doubt the minimum wage and the 40-hour week would have caused much more unemployment than they actually did if they had not come into operation at the same time as the National Labour Committee's work was beginning. A number of persons who lost their jobs as a result of the increase of the rate of wages found other employment as the result of suggestions made by Coggins. There was, however, a small increase in the unemployment figures which did not begin to disappear until the full programme of the Government made itself felt.

**Emergency Powers to control Industry.** The last measure introduced under the temporary Cabinet which first took office was a very necessary one. There were already signs of concerted opposition by the employers in various industries. The national minimum wage had roused both indignation and alarm. The curious suggestion was made that the multiple shops should go on strike—and that all the branches of the sixpenny bazaars, cheap groceries for the home, and so on, should forbear for a time to make the handsome profits which had characterised their earlier efforts. The idea of picketing outraged company directors was not without its humorous side, and the Government began to consider whether the existing law with regard to trade combinations—intended, as it had been, by Tory Governments for quite other purposes—could not be used with effect. However, other methods were available.

The Emergency Powers (Control of Industry) Act, 1936, was intended to be a measure for use in emergency, and to prevent wrecking opposition to the Government's present and future plans. It was in itself a menace and an answer to employers and others who refused to accept the results of the General Election; but it was not a step in the process of socialisation. It was, in short, a defensive measure. The



Government took power, in general terms, to control or requisition industries, trades, undertakings or services. The necessary orders were to be in the form of Orders in Council, which need not include provisions for compensation. The preamble of the Act and its terms provided that the emergency powers were only to be used when, in the opinion of the Government, there was an actual emergency. In introducing the Act in the House of Commons, McCosh made it quite clear that his intention was only to avail himself of it so far as might be necessary to meet the opposition of vested interests or of combinations not amenable to parliamentary control. He declared that the Government proposed some reconstitution of the Cabinet before proceeding to its main plan of socialisation, and that when the time came the outlines of that plan would be presented to Parliament annually in Planning and Finance Acts. He had, however, no intention of allowing those persons, who would be warned by a Planning and Finance Act of proposals affecting their interests, to take advantage of the warning. The emergency powers for which he now asked would be used, if necessary, to prevent "forestalling" in that sense.

The Emergency Powers Act was vigorously criticised. But, curiously enough, the opposition to this measure seemed to lack some of the violence which had characterised former protests. McCosh said that the Opposition were getting out of breath. There was some truth in the observation. It was being brought home to the capitalist classes in the country that what they were in for was a change of a different character to any to which they had previously been accustomed. Many of them had paid little attention to politics. Many others had never believed that Labour would do what it said. They had heard talk of a change of system. They were beginning to realise that these men had meant what they said, that there was at least a chance of their carrying it out, and, if they did, every person in Great Britain would lead a different life. In face of a change of that kind, political opposition began to seem somewhat

futile. There was little doubt that as many converts to Socialism were made in the first few weeks of vigorous government as had been made in many months before the General Election. The old order had been unsatisfactory to many. Might it not be worth while to see, what this new change would amount to, and whether a new economy might not bring with it that sense of order and happiness for which so many had been looking for years past?

## CHAPTER 3 : THE MACHINERY OF GOVERNMENT

**The Machinery of Government.** The McCosh Government had come into office in September 1936. In little more than a month it had passed four urgent measures—the Emergency Powers (Financial) Act, the House of Lords (Abolition) Act, the Unemployment (Temporary Relief) Act, and the Emergency Powers (Control of Industry) Act. These had dealt with matters which admitted of no delay. The next task before the Party was to adapt the machinery of government to the new task for which it was to be employed.

The Cabinet, as it then existed, was an informal creation dating from the eighteenth century. To the traditional offices—Prime Minister, Chancellor of the Exchequer, President of the Board of Trade and so on—one or two others had been added during the Great War : but, on the whole, the Ministries still represented the eighteenth- and nineteenth-century traditions of government. The Ministers were to govern the country by political supervision, subject to the control of Parliament. Their dealings with economic life were incidental to the business of political government, and they were dealings of a supervisory character. The Socialist Government would have to concern itself as much with the economic life of the people as with questions of political government. From the Socialist point of view the two matters were different aspects of the same problem. Moreover, it would have to conduct trade as well as, to supervise it. For that purpose Parliament would have to play a different part. And, in fact, for many years Parliament had played a different part in such matters. Even under a capitalist regime, the Parliament of the eighteenth-century type, with traditions and practice dating back to then or earlier, was obviously unsuitable for the regulation

of economic activities. A Tory Government had to some extent socialised the supply of electricity : on the instigation of a Labour Government, a Tory Government had completed a measure by which London transport was socialised to some limited extent ; in both cases recourse was had to bodies outside Parliament for the performance and control of the new duties imposed on the State. In both cases, as indeed also in such earlier enterprises as the Port of London Authority or the B.B.C., the instrument used was a commission or governing body, which was appointed by persons responsible to Parliament, but which was intended to hold office for a term of years and to carry out its duties without any attempt at parliamentary control of the details of its work. Lastly, it had been becoming more and more clear that the House of Commons itself had a procedure ill suited to the requirements of modern government. In particular, it had been felt by persons of all parties that little use was made of the back-bencher member. The need of entrusting detail to Ministries or to commissions outside Parliament left the back-bencher more and more of a voting machine. It was clear, too, that if measures of any length were to be passed through Parliament with the rapidity necessary for a Socialist Government, the existing powers of speeding up procedure would have to be used to the full, or perhaps amplified.

So far, then, as the central Government was concerned, the necessary alteration of machinery seemed to lie on the lines of Cabinet reconstruction and of a better use of the House of Commons. There remained the further question of how far the existing machinery of local government provided sufficient channels for the local administration of Socialist measures. Upon this matter the principal difficulties of the local government machinery were, in the first place, that its units were different for different purposes—so that, for instance, a given area might be the administrative area for most purposes, but not for all—and, in the second place, that the local areas were in many cases too small for the functions which would be required of them. It was

significant that, in times of crisis or for special purposes, there was already a tendency to divide the country into some six or eight areas, larger units than the existing county councils or urban authorities. Many war-time activities had been directed in areas of that size; and there were such areas, for instance, for the regulation of transport and for some agricultural purposes, such as milk supply. The need which led to the formation of such areas for special purposes led also from time to time to a demand for the devolution of some parliamentary powers to local parliaments. Many people considered that such local parliaments would be useful machines of government: others, in Scotland and in Wales, associated them with so-called nationalist or home rule movements. Scotland, of course, had been to some extent administered separately ever since the Union. Northern Ireland had its own Parliament and Ministry.

The McCosh proposals were put forward in one comprehensive scheme, but it is convenient to describe them separately under the three heads of Cabinet reconstruction, use of the House of Commons, and regional authorities. I shall have occasion later to refer in greater detail to the planning machinery which developed out of the reconstructed Government.

**Cabinet Reconstruction.** The new Cabinet was to be a smaller body than the former Cabinet had been. Its members were to be relieved of the administrative work of Government offices. Formerly a Cabinet Minister had been engaged in administrative work with the assistance of political Under-Secretaries and of the civil servants in the Ministry. In future, his business would be to conceive and approve, in conjunction with his Cabinet colleagues, the National Plan, and to give such general directions as might be necessary for its application and performance. He would have under him Secretaries, who would each be in charge of a department or of some particular function of government and who would form part of the Government, but not of the Cabinet. There were to be only eight Cabinet

Ministers, six of whom would form the Economic Committee of the Cabinet. They would each have under them a number of Secretaries, varying from two to eight. In addition, there would be political Commissioners, of the standing of Secretaries, but appointed for special or temporary purposes: these also would be members of the Government, but not of the Cabinet. Let me now proceed to describe the Government as McCosh first constituted it. It was an essential part of his proposals that the machinery set up should be flexible, and that the number and the duties of the Secretaries and Commissioners—and indeed, if necessary, of the Cabinet Ministers—could be varied from time to time, as the process of transition to a Socialist State continued and developed.

**The Prime Minister and his Secretaries.** McCosh, as Prime Minister, was to be the chairman, not only of the Cabinet, but of its Economic Committee. He was to have under him two Secretaries, one called the Political Secretary and the other the Secretary for Planning. The Political Secretary was to perform, amongst other duties, those of the former Chief Whip. The appointments of such other Party Whips as might be necessary were to be made by him, and he was to be generally responsible for keeping touch between the Prime Minister and the Cabinet on the one hand, and the parliamentary Party on the other. Moreover, his duties were to go beyond that and to maintain contact, not only with the parliamentary Party, but with the industrial side of the movement. He was to be personal assistant to the Prime Minister, with a sufficient staff to help him, and with the right and duty of keeping in touch with other Cabinet Ministers. He had no place in the Cabinet, but, like the Secretary for Planning, he was to attend its meetings.

The Secretary for Planning was the chairman of the Planning Commission, to which I shall refer later. It is enough now to say that the Commission was a co-ordinating and advisory body, without executive power, and that the

Secretary for Planning had, in effect, to supervise the preparation of the National Plan and such alterations in it as circumstances might from time to time require. Like the Political Secretary, he had to keep in touch with Cabinet Ministers—or, rather, with the Secretaries and departments working under them, for his contact was to be administrative rather than personal.

**Economic Committee of the Cabinet.** The remaining five members of the Economic Committee of the Cabinet, besides the Prime Minister, were the Finance Minister, the Minister of Industry, the Minister of Land and Communications, the Minister of Social Services, and the Minister of Overseas Affairs. The two Cabinet Ministers who were not members of the Economic Committee of the Cabinet were the Minister of Justice and the Minister of National Defence. Let me take these Ministries one by one and describe shortly what their activities were and what Secretaries there were in each Ministry.

**Finance Minister.** Fox, who had been the Chancellor of the Exchequer in the temporary Cabinet, now became Finance Minister. For the moment he had under him only one Secretary, called the Secretary for Central Finance: but the memorandum which was published when the Cabinet was constituted explained that it was proposed at an early stage to appoint three other Secretaries under the Finance Minister, namely a Secretary for Local Finance and Secretaries for Banking and Investment. As is well known, Thomas Cobleigh was the first Secretary for Banking, and I shall have to describe his position and duties, as well as those of the Secretary for Investment, when I come to the financial measures which the Government was soon to bring forward. The Secretary for Local Finance took over for the moment the powers of supervision over the finances of local authorities, formerly exercised by the Ministry of Health. The intention of the Government was that Gudgeon, the Secretary for Local Finance, should

act as a sort of financial watchdog, and, as the devolution of power to regional authorities came to involve considerable expenditure of money through regional channels and some raising of money in regional areas, Gudgeon should keep the balance on both sides; he was to see that the different regions got their fair share of Government help, used it on the financial lines intended by the Government, and maintained some sort of conformity between the various amounts of money raised locally. Gudgeon was also to keep an eye on pricing and the cost of living in different parts of the country. In a sense, he was the odd job man of the Ministry of Finance.

**Minister of Industry.** The Minister of Industry was, of course, Joseph Codd. His early life had been spent at sea and in the well-known Midland works that now bears his name. Prominent for many years past both as a trade union leader and as a man of far-sighted ideas, with the ability to put them into practice, Codd was esteemed and respected throughout the movement and among many persons of opposite views with whom he had been brought in contact. There had been some question as to whether he would consent to take office in the McCosh Government and to commit himself to a political life, of which he had so often expressed his distrust. But Codd, like many others, realised that the moment had come. The great union which he represented had been for years past his principal care. If the work so begun was to be continued, Codd must himself play a part in the change which was now to begin. Those who believed that Codd would not or could not help to bring that change into effect did him, as events proved, scant justice. He had been generally recognised as a fine administrator in trade union matters. In his new position he was to show his administrative gifts on a larger scale, and with them that statesmanlike breadth of view which contributed so materially to the socialisation of industry in Great Britain.

As Minister of Industry, Codd took over most of the



existing duties of the Board of Trade and of the Ministry of Agriculture, with some of those of the Ministry of Labour. There were appointed under him, for the moment, a Secretary for Industry, a Secretary for Agriculture and Fisheries, and a Financial Secretary. There was also appointed a Secretary for Co-operative and Retail Trade, whose duties as yet remained somewhat indefinite; they were said in the explanatory memorandum to consist in the supervision of the development of the co-operative movement. In addition to the Secretaries, four Commissioners were appointed, with the explanation that their duties were of a temporary and transitional character. One was for Mines, one for Iron and Steel and dependent trades, one for Building Materials and one for Textiles. They were to prepare and supervise the socialisation of these industries.

**Minister of Land and Communications.** When the new Cabinet was constituted, Robinson, the Minister of Land and Communications, had under him a Financial Secretary, Secretaries for the Post Office and for Housing, and a Commissioner for Power and Transport. The Secretary for Housing took over the housing department of the Ministry of Health, and was, as we shall see, to extend its activities considerably. She also took over the Office of Works, a department which was to be of considerable importance under the new Government. The Commissioner for Power and Transport was a temporary post—to prepare the way, as the explanatory memorandum stated, for the two Secretariats, one for Power and one for Transport, as they now exist. Upon the passing of the first Land Act, to which I refer below, the first Secretary for Land was appointed. Finally, therefore, there were a Financial Secretary and five other Secretaries under Robinson.

**Minister of Social Services.** Colet became the Minister of Social Services. The duties of the Secretaries under him were perhaps more extensive than the phrase "Social Services," in its usual sense, would imply. He took over, in

effect, the former Board of Education, the Ministry of Pensions and some of the activities of the Ministry of Health, the Scottish Office and the Ministry of Labour. The organisation of the Secretariats under Colet was largely due to his own personal suggestions, and was the first sign of the new attitude to education which to some observers was the most remarkable feature of the McCosh Government. Besides the Financial Secretary, there were Secretaries for Education, for Arts and Propaganda, for Pensions, for Employment and Training, for Health, and for Scotland and Local Government. The transference of the Scottish Office to a Secretariat, which included not only Scotland but also local government in England, evoked some violent protests from Scotland; but, as the first step towards the devolution contemplated by the Government, this Secretariat was necessary and logical. Scottish opinion, on further consideration, accepted it in that sense, and was reassured by the explanation in the memorandum that this Secretariat was intended to prepare for the devolution of powers to regional authorities and that the first measure of devolution would be extended to Scotland. The Secretary for Health was to take over the health functions of the Ministry of Health, and also, from the former Home Office, the administration of the Factory Acts and similar legislation. The Secretaries for Arts and Propaganda and for Employment and Training were new developments.

**Minister of Overseas Affairs.** Critics of the new scheme were at first inclined to wonder why the Minister of Overseas Affairs was to have a place in the Economic Committee of the Cabinet. The reason, of course, lay in the intentions of the Government with regard to the control and organisation of overseas trade. There had been some difference of opinion as to whether control of overseas trade should not be vested in a Secretariat under the Ministry of Industry, but there were objections to such a course. The Secretariats under the Minister of Industry would necessarily become numerous as socialisation proceeded. If

foreign trade was to be included among them, it would tend to be regarded merely as an outlet for the products of industry. It seemed better, by placing it under the Minister of Overseas Affairs, to recognise on the one hand the growing importance of economic factors in international negotiations, and, on the other, the need for a large-scale view of what the country needed to import and what it could best export to barter in exchange for its imports. The Government had also in mind that in somewhat similar circumstances the Russians had come to place all their overseas trade under the equivalent of the Ministry of Overseas Affairs. Under Gresham, therefore, the Minister of Overseas Affairs, there were four Secretaries—for Foreign Affairs, for the Dominions, for the Colonies and for Overseas Trade. The appointment of a Commissioner, instead of a Secretary, for India, was a recognition of the temporary character of Whitehall rule in that country, and a promise of the Government's intentions.

**The Ministers of Justice and of National Defence.** Jeremy Roffe—the October Chancellor, as some wit christened him—became the first Minister of Justice. Under him there was a Secretary for Judicial Affairs and a Secretary for Police and Prisons: the latter took over the Home Office jurisdiction in such matters. Bashford, the Minister of National Defence, was a well-known character in trade union circles. There was a general feeling that if generals and admirals had to be sacked, Bashford was the right man to do it. Perhaps the most widely criticised feature of the new scheme was that the persons appointed to take over the War Office, the Admiralty and the Air Ministry were significantly styled Commissioners. The Government intended to proceed immediately with measures of disarmament, and the short explanatory statement in the memorandum gave that as the reason for the appointment of temporary Commissioners. The fourth Commissioner under Bashford was a Commissioner for Arsenals. It was to be his duty to turn the swords into ploughshares and to find

more peaceful employment for those engaged in making munitions.

**Civil Service:** Such was the scheme of Cabinet reconstruction put forward by the Government. It was embodied in a single Act of Parliament, the next measure to pass the House of Commons. It was clear that the proposed machinery would entail a considerable increase in the Civil Service, although in fact the increase did not prove so large as critics of the scheme expected. For the time being, the Government found the additional personnel required, not by making many extra appointments on the establishment, but by employing on a temporary basis a considerable number of persons from the professional and managerial classes and from among clerks out of employment. It had not always been realised how much the unemployment of the last few years under the National Government had affected such persons. A small Commission was set up to make the necessary appointments, and a choice was made largely on personal interviews, the Commissioners having regard as much to the youth and adaptability of the applicants as to their academic or other qualifications. There was really no shortage of intelligent young men and women who had almost given up hope of finding an outlet for their abilities. The final arrangements for the staffing of public services—a matter of the greatest importance to the first Workers' Government—fall, however, to be discussed at a later stage, in the review I hope to make of Colet's activities.

**The Use of Parliament.** The second main heading in the reform of the machinery of government was the adaptation—or rather the new use—of Parliament. The Government intended to adapt parliamentary procedure so as to make Parliament—that is to say, the House of Commons—a suitable instrument for making decisions and raising criticisms on points of principle, without allowing it to be obstructive in matters of detail. It was impossible to put through a change of the character proposed without entrusting to Ministers and Secretaries considerable power of

negotiation and an effective control of administrative detail. It was not intended to give them the last word as to what should properly be regarded as detail. Their orders might and should be laid on the table of the House, and, if necessary, brought up before it. But it had been recognised for many years past that the House was obviously an unsuitable instrument for elaborating such detail, or even for its discussion. Under the previous Government the most sweeping changes in the fiscal system had been carried through with only the most general reference to Parliament. In certain spheres, such as foreign affairs and imperial affairs, it had always been the practice to give extensive powers to Ministers, subject only to a general review.

**Planning and Finance Acts.** Perhaps the most important change which it was proposed to make was the introduction of Planning and Finance Acts. Under the former practice, the Budget had provided an opportunity for a general review of national revenue and expenditure, and from time to time the estimates of various departments had been brought up for criticism. The whole procedure in this matter had been of a patchwork character, and it had been very difficult for members or for the public to get a general view of the intentions of the Government and of their effect. It had rested entirely with the Cabinet—subject to the almost negligible rights of private members—to decide what legislation should be brought forward, and in what order. Though there had been opportunities for criticising each piece of legislation, there had been little opportunity for criticising or varying the order or the substance of what was proposed. Moreover, the review had been largely on the financial side. It derived, no doubt, from the traditional control of the Commons over public money. It was now proposed to bring forward in a direct form the intentions of the Government for each year, to submit them to general criticism, not merely as matters of finance, but also as matters of policy. The Planning and Finance Act should not only provide, as formerly, for revenue and expenditure,

but would also state the main lines upon which the expenditure would be made. Previously there had been no plan, and no methods for the preparation or discussion of any plan. In future, machinery would be set up for preparing an annual plan, and the result would be set before Parliament. That plan, once approved by Parliament, would be carried out under parliamentary authority, but by the orders of Ministers and Secretaries. No other major measures beyond the annual Planning and Finance Act would come before Parliament: but Parliament would have a general power of review, and the right to ask questions would be preserved and enlarged. It would always be open to the Opposition to express their criticism.

**Standing Committees.** Moreover, an extended use of standing committees would provide an opportunity for detailed information and detailed criticism. There was to be attached to each Cabinet Minister a standing committee, upon which all Parties would be represented. To this committee the Minister and the Secretaries and Commissioners under him were to report from time to time what they had done, and the main lines of what they proposed to do. It was not intended that the proceedings of these committees should necessarily be public, although, if the Opposition desired it, points of principle might be raised from time to time by a motion in Parliament for a vote of censure on the responsible Minister.

Obviously, such a use of committees was to some extent experimental. They were intended to provide opportunities for discussion and detailed criticism, but they might well be used as instruments of obstruction. It had indeed been suggested by Labour Party members that, instead of these committees, there should be advisory or consultative bodies of Labour members attached to each Ministry, and that no attempt should be made to keep similar contact between the Minister and Opposition members. The Government took the view, however, that the Opposition was entitled to more detailed information from time to time

than could be given in the annual Planning and Finance Act, and that the Government's control over the time of the House would in practice prevent the Opposition from bringing before the House all such minor points as they might object to in committees. The system in fact worked quite well—better in some cases than others—and it took little time for the members concerned to adapt themselves to this sort of procedure. The general effect was to make it even more necessary that back-bench members should acquaint themselves with administrative detail, and the committees proved to be of considerable service in the selection and training of future holders of administrative posts. The alternative of advisory Labour members was to some extent applied in practice. Apart from formal meetings of committees, the Minister and his Secretaries came more and more to take into informal consultation the Labour members on their committees, and this practice provided a convenient channel for the explanation to the movement of what the Minister had done, and proposed to do. In some of the measures of the Government, as we shall see, use was made of the services of private members on various statutory bodies. The additional calls on their time required for that purpose could hardly have been met if Parliament had kept its former procedure and if they had been constantly occupied in the details of parliamentary discussion.

**Party Conferences.** A further effort of contact with the movement consisted in the summoning from time to time of Party conferences—not only the regular annual conferences, but also regional conferences and conferences for special purposes: to all of these Ministers or their representatives reported. I am referring, for convenience, to Ministers throughout, though it will be realised that in practice the Secretaries concerned presided over the meetings of committees of Parliament and of the other bodies I have mentioned at least as often as Ministers.

With the above adaptations of the functions of Parliament the reform of actual procedure in the House of

Commons became less important. A careful use of existing methods for closing debate and for confining it to matters really in dispute proved sufficient.

**Sovereignty of Parliament.** Although the House of Commons was adapted to its new task by the considerable changes mentioned above, McCosh was determined that it should still preserve—or perhaps acquire—the last word on all points of importance. He resisted firmly the numerous suggestions that were made for the setting up of bodies which would be more or less immune from parliamentary control. A conspicuous instance was his resistance to the suggestion of a National Economic Council in connection with proposals for workers' control. He had no intention that a Minister should be able to escape from questions of from votes of censure by saying that he had only obeyed the orders of the National Economic Council, itself not responsible to Parliament and consisting largely of persons nominated from outside. He was too anxious for the sovereignty of Parliament to set up such a body, at least until industry itself became effectively democratic. He was equally opposed to public corporations or statutory committees which for a period of years were to be free of parliamentary control. While he was not prepared to let Parliament attempt to construct detailed plans, he was ready and anxious that its right of criticism should not be confined any further than was necessary to enable the intended change to be carried out.

**Regional Authorities.** The third main head of the proposals as regards the machinery of government was the matter of relations between the central Government and local authorities. For the reasons that I have already mentioned, it was proposed to set up eight regional authorities. The regional areas were : (1) London and the Home Counties, including the agricultural area north and north-west of London ; (2) the Eastern Counties ; (3) The West of England ; (4) the Industrial Midlands ; (5) Yorkshire and



the North-East Coast ; (6) Cheshire, Lancashire and the North-West ; (7) Wales ; (8) Scotland. For the moment, regional commissioners were appointed in each of these areas, and their duties were to keep contact between the Government and the local authorities, and to make such inquiries and reports as the Government might call for. It was intended, however, that the regional commissioners should be given other powers by Acts of Parliament or Orders, and that they should play an important part in the socialisation of industry and agriculture. They were to be superseded in due course by elected regional councils, to whom those powers would be transferred.

One of the difficulties that the Government anticipated was the hostile attitude of Tory local authorities to the various steps of transition to Socialism. The regional commissioners were to keep touch with local authorities and to see that any hostile or dilatory tactics were not allowed to impede the performance of the National Plan. Local authorities were, if necessary, to be superseded on the recommendation of the regional commissioner, and in time it was proposed to give the power of superseding to the commissioners, and ultimately to the councils which would take their place.

Scotland had been promised the first measure of devolution—regional government or home rule, however the Scots preferred to call it. In the first instance, a commissioner was appointed for Scotland, but his instructions were to lose no time in commencing the necessary preparations for a regional council, which would in this instance be called the Scottish Parliament. The Scottish Parliament assumed control in Scotland of the social services, including education, and of the administration of justice—as well as the extensive powers over socialised industry which were given it by later Acts of Parliament. I shall have occasion to refer at a later stage to its powers of taxation and to its relations with the Finance Minister through the Secretary for Local Finance. It was of course in Scotland that local income-tax was first levied.

It was in the appointment of the regional commissioners that the Government first showed their intention of using the services of private members of Parliament for work outside Parliament. The Socialist majority was substantial : some eager Socialists could well be spared for this important work : and of the first eight commissioners appointed six were Socialist members and two were well-known local leaders, in the movement, who had served for many years on local authorities but had not stood for Parliament. McCosh intended that the commissioners so appointed should be important instruments in the socialisation of the country, and he chose his men with great care. In several cases the commissioners subsequently became the leaders of the Socialist Party on the regional councils, and for that purpose resigned their seats in Parliament.

**Some Effects of the Changes.** I have only been able to give a general outline of the changes in the machinery of government—Cabinet reconstruction, functions of Parliament, regional authorities—which were introduced at this early stage by the first Workers' Government. Their importance can hardly be exaggerated. It is difficult now, looking back to the pre-McCosh period, to realise how entirely unsuitable the existing machinery was for the task that the new Government had in hand. Strangely enough, the importance of these reforms was not fully realised at the time. It seems probable that, if they had been postponed, the postponement would have been disastrous. Little could have been done without them, and an intervening period of inactivity would have made eager supporters of the movement impatient of this further delay. As it was, there had already been some considerable amount of propaganda before the election as to the need for some such change. Since the election, various urgent measures had been put through as a sign and token that something was really being done, and even the humblest members of the movement, sceptical enough of the machinery of government that had done so little for them, trusted their leaders to the

extent of allowing them time for these reforms. Moreover, the average trade unionist was not ignorant of the importance of administrative machinery. Many members of Parliament had fretted impatiently in the corridors of the House of Commons under earlier Labour Governments. Their support up and down the country made the ordinary man realise that something important was being done, even if he was not particularly interested in it. In the administration of government there was, of course, a period of some confusion, but the changes left many of the existing departments of Ministries to do their former work—or something like it—though perhaps under another name and in connection with departments with which they had not previously worked. Moreover, there was a strong Socialist feeling in the Civil Service. The lack of any constructive policy in the previous Governments irritated the younger and more ambitious men. This Government at least promised something considerable, and they were willing to make efforts to assist in the fulfilment of such a promise. Accordingly, both in Parliament and in the country and in Whitehall the reforms in the system of government, generally known as the "McCosh reforms," went through with less opposition and with more speed than had been expected.

## CHAPTER 4: THE BANKS AND COMPENSATION

BEFORE THE FIRST WORKERS' GOVERNMENT could proceed to a Planning and Finance Bill there remained two important steps to be taken. The first was the socialisation of the credit system, the second some control of the land. These were the last two steps in what McCosh called "clearing the ground."

**The Credit System.** The capitalist credit system, as McCosh and his colleagues then knew it, had grown up in haphazard fashion, and contained complications, inevitable in the circumstances, unknown to a Socialist State. Some short description of it is necessary if we are to understand the measures by which it was taken over, and gradually changed into its present form. It could roughly be divided into two parts. In the first place there was a banking system, which collected and controlled short-term money—money which might be required on demand or at short notice—and arrangements of a complicated and ingenious character for using the credit represented by the floating supply of such short-term money. Secondly, there were arrangements for long-term investment—that is to say, for the acquisition of shares in capitalist concerns, and for the lending of money over long periods to public authorities or capitalist companies. There was, to some extent, a gap between the first part of the system and the second, so that capitalism provided short-term credit or long-term credit more readily than credit for an intermediate period. On the whole, however, the system, given its limitations, did what it was intended to do with reasonable steadiness, especially in the matter of short-term credits. But the real trouble consisted in the limitations to which I shall have occasion to refer.

The Bank of England and the Joint-Stock Banks. The short-term credit system was roughly divided into three parts or groups. The division was a rough one, because the units in one group were apt also to do some of the business of the units in other groups. The Bank of England performed, as it still performs, the functions of a central bank, and had tended to limit its business in other spheres. It worked in two more or less water-tight compartments. In the first place it was concerned in issuing notes—a function for which it was paid a fixed amount by the Government, but out of which it was not allowed to make any other profit. There were no other banks issuing notes in England, but a number of the Scottish banks issued notes circulating in Scotland. In the second place, the Bank of England was itself the banker of the Government, of the joint-stock banks, and of various other financial institutions. It was in exercising this function that the Bank of England exercised control over the volume of credit available in the country. In order to understand the method of control, it is necessary to give some description of the other groups in the short-term credit system. Of these, the first consisted of what were often called the joint-stock banks. The most important were the Big Five,<sup>1</sup> which had branches all over the country, and between them held about 85 per cent of the total amount of money banked in England. I refer only to what they held in their own names: they each controlled other banks, including some, but not all, of the Scottish banks. Outside the Big Five, and banks in which one or other of the Big Five held a controlling number of shares, there remained certain independent banks of considerable importance. There were some ten such banks in England and Scotland, important in various degrees and for various purposes. For instance, Martins Bank, with between five and six hundred branches, and important connections in Lancashire, had between £80 and £90 millions of deposits, while Glyn, Mills & Co., at their one branch in the City of London, held deposits amounting to

<sup>1</sup> Midland, National Provincial, Westminster, Lloyds, Barclays.

between £30 and £40 millions. The total amount on deposit (including current accounts) at the leading English joint-stock banks was rather over £2,000 millions, with a further total of between £250 and £300 millions at the Scottish banks. There were a number of other institutions that received money on deposit or current account—including, for instance, London offices of foreign and colonial banks—but the total was comparatively unimportant. In substance the leading joint-stock banks held and controlled the money of the country.

Money so deposited with the joint-stock banks could of course be withdrawn by customers on demand or at short notice, but it would not all be so withdrawn at once. In practice the joint-stock banks kept a proportion of rather more than 10 per cent of their deposits in such a form that it was immediately available. Some of it consisted of actual cash at the various bank branches, and the remainder of balances in the names of the respective joint-stock banks at the Bank of England. The next line of defence, as it were, of the banks to demands by customers consisted of money available at comparatively short notice: this I shall have occasion to refer to in connection with the third group in the short-term credit system. The remainder of the bank deposits was used in making advances to customers and in investments by the banks.

**Control of volume of available credit.** One way in which the Bank of England could increase or diminish the volume of credit available was by what were commonly called "open-market operations." These consisted in the sale or purchase of securities by the Bank of England. If the bank sold securities, it had to be paid for them, and the effect was to diminish the balances of the joint-stock banks at the Bank of England. As the joint-stock banks kept a fixed proportion of cash and Bank of England balances against their deposits, the reduction in the Bank of England balances caused a reduction in the amount of money available for advances to customers by the joint-stock banks.

In the same way, a purchase of securities by the Bank of England resulted in an increase of the joint-stock bank balances at the bank, and against that increase the joint-stock banks were prepared to make advances to an amount greater than the increase itself. But the effect of open-market operations was simply to make credit available for advances, and the banks were under no obligation to use credit so made available, or to use it in the form of advances to their customers. In fact, for some years before the McCosh Government took office, the banks had professed themselves unable to find satisfactory borrowers for the advances they were ready and willing to make. The result was to divert a large proportion of the available credit, either to the second line of defence which I have mentioned above, or to investments, often in the form of Government or municipal stock. As we look back on it now, it was a somewhat ridiculous position. There were constant complaints that business did not revive; that money did not circulate; that there was nothing to be done with it. On the other side of the picture there was the credit available, and there was work that urgently needed to be done. Housing was a disgrace to the community; the electrification of the railways would have been an obvious and profitable improvement; the iron and steel trade—one of the basic industries of the country—was cramped by obsolete plant, and clearly in need of further capital. What was the reason why these and other needs, that were met in the first few years of the McCosh Government, were never met under the existing system? No doubt the real answer to that question lay in the inevitable defects of the capitalist system, but those defects presented themselves, in financial matters, in the form of the unsuitability of the banking machinery to the needs of industry. The banks had grown up gradually out of the amalgamation of small banking concerns. In making their advances they still preserved to a large extent the methods and the mentality of the small banker. The fault was not wholly a personal one. Under the system as it was then constituted, bankers

were bound to look at each advance separately, and to consider separately the security for each advance and the profits to be made out of it. At the most they could show some slight preference for one trade as against another. In the main, their advances had to be considered, not as advances to the trade, but as advances to individual customers. One effect was that, although the trade as a whole might advantageously have claimed and safely have received substantial advances of which it stood in need, there might not be persons in the trade who, as individuals, would get those advances. The iron and steel trade, as a whole, for instance, could usefully and safely have received from bankers the money which was afterwards spent on its development by the McCosh Government. The companies in it were so constituted financially, and so burdened with former debts, that they were not, in the eyes of the banking community, suitable borrowers of the sums required. The attitude of the bankers to large ideas seems to have been a curious one. No doubt they generally regarded them with scepticism, but, when they did accept them, they did so with a singular lack of discrimination. Perhaps the nearest approach to financing the iron and steel industry under private enterprise was made by an optimistic gentleman called Hatry. The fact that he obtained large advances from banks and other financial institutions for the purpose seems to show an uneasy feeling in the banking world of unrealised possibilities in this direction. The fact that he obtained them after such casual inquiries, and duly misappropriated them, seems to indicate both a lack of understanding among bankers of industrial problems and an absence of machinery for the necessary connection between industry and finance. In truth, capitalist banking was a relic of the Victorian period, and the bankers were by tradition and organisation unable to play the part which fell to the credit system under a Socialist Government. Their object was to combine safety and profit, instead of using the available credit as a whole and for the benefit of the community.



**The Money Market.** The third group in the short-term credit system was mainly concerned in dealings with bills of exchange. Such credit as the joint-stock banks required to have available—not immediately, but as the second line of defence—was used by the banks partly in buying bills of exchange themselves, and partly in lending it to bill brokers and discount houses for the same purpose. Bills of exchange were, in effect, written promises to pay at a future date a certain sum of money to the holder of the bill of exchange. They were used as instruments for financing foreign trade—means by which a proportion of the bank credit, consisting of accounts of customers at different banks, could be made available for financing the movement of goods—that is to say, as credit over the period between the manufacture of goods and their use by the consumer. Mr. Australia, exporting from New South Wales to Mr. Merchant in London, would take a bill of exchange from Mr. Merchant or from Mr. Merchant's bank. That piece of paper, representing the promise of Mr. Merchant, or his bank, to pay the holder of the piece of paper, say, £1,000 in three months' time, could be sold in the "money market." It might be bought by one of the Big Five, and the buying bank might keep it till the end of the three months. Equally it might be bought by a bill broker or discount house, which have borrowed from one of the Big Five the money with which to buy the bill. The discount house might keep the bill or, if the Big Five called their money in, might sell it in order to repay the borrowed money. The discount house would make its profit out of the difference between the rate of interest which it had to pay to the bank from which it borrowed the money, and the rate of interest which it charged when "discounting" the bill. The "money market" was quite an apt name: the discount houses hired their money from the banks and let it out again by buying bills.

Successive holders of a bill would put their names on it, and become responsible for the payment of the amount. The promise of a bank or of a well-known financial house

would be more valuable than that of a merchant, and the bill would be bought at a higher price—or discounted at a lower rate—as a bank bill instead of being merely a trade bill.

**Merchant Bankers and Acceptance Houses.** Accordingly, in close connection with the bill market, there were merchant bankers, who made advances on goods, and dealt in bills in connection with such advances. There were firms, commonly known as "acceptance houses," which, for a small commission, accepted bills on behalf of foreign merchants whom they knew. Mr. Australia obtained from an acceptance house their written promise to pay on a bill and was able to sell the bill. Before the bill fell to be paid, he would get the price of his produce and be able to put the acceptance house in a position to meet the engagement which they had made at his request. The signature of the acceptance house on the bill made it readily negotiable in the money market. In connection with their acceptance business, the acceptance houses also carried on business in foreign exchange by, say, selling Swiss francs to a Swiss in return for pounds, and finding a corresponding purchaser of pounds who was willing to pay for them in Swiss francs. They also played a considerable part in the long-term investment, to which I shall have to refer later.

**Bank of England and the Bank Rate.** The Bank of England maintained a close connection with the money market. The discount houses used, in the main, money lent to them by the joint-stock banks, usually from day to day. If, as sometimes happened, the joint-stock banks called for the repayment of any substantial part of the money, all the discount houses would be affected, and, being unable to raise the money by selling the bills which they had bought—for they and the joint-stock banks, the possible buyers, would both be needing money—they had recourse to the Bank of England. The Bank of England made advances to them directly or by buying bills. The rate at

which if did so from time to time was called the bank rate, and this rate, in effect, governed the other rates of interest for short-term money. There might be—and usually was—some difference between the bank rate and the current market rate for discounting bills or lending money, as between the discount houses and the joint-stock banks; but an increase or reduction in the bank rate tended to produce a corresponding increase or reduction in the other rates. Also, by long practice, the rates allowed by the joint-stock banks on ordinary deposit accounts were 2 per cent under the bank rate for the time being, and accordingly varied with it. Alterations in the bank rate were therefore another method by which the Bank of England could control the volume of credit available for bank advances. By raising the bank rate the Bank of England could attract money to the joint-stock banks and to the money market from abroad or from long-term investments. If you had a choice between investing at 4 per cent or buying bills at 3 per cent, a rise in the bank rate of 1 per cent would cause a corresponding rise in the rate of interest obtainable by holding bills, and would induce you to use your money in that way. Similarly a reduction in the bank rate would have the opposite effect. But here again, as in the case of open-market operations, the Bank of England could only make money available to the joint-stock banks, and it could not force them to employ it in making advances.

The Bank of England had also a more personal control over the money market. The test of what were bank bills was the willingness of the Bank of England to discount them at bank rate, and the Bank of England would only accept as bank signatures those houses which it recognised—usually those for which it was prepared to act as banker. It made advances to customers and bought bills from them, but not from others. The power of recognition therefore gave the Bank of England personal control over bill brokers and other financial institutions. In practice, the bank's wishes were always respected, and were made known from time to time to those concerned. This personal control became

of importance in the changes which the McCosh Government now instituted.

**The Floating Debt.** In one important respect the banks and the money market played a direct part in connection with public finance. Not only was the Bank of England the banker of the Government, and as such made temporary advances to it, but also large sums of money were raised from time to time by the issue of treasury bills to the banks and discount houses. Ways and means advances by the Bank of England varied considerably in amount from time to time. On 31st March, 1932, for instance, they amounted to £7½ millions, while on the same date in the following year their total was £34½ millions. On the whole they had been reduced considerably by the issue of long-term loans in their place since the War. The total of treasury bills outstanding was considerably larger. In the three or four years after the War it had ranged round about £1,000 millions, and after that had been reduced in the same way as ways and means advances to a figure which, in the ten years up to 1933, varied between £500 millions and £800 millions, rising nearly to the latter figure at the end of the period. These bills were government promises to pay money some months ahead. They were issued, mostly to banks and financial houses, by tender, and as they fell due for redemption a further issue would be made. In this way they constituted a form of floating debt. In times of slump, trade languished and the supply of commercial bills fell short, with the result that financial houses were obliged to use a larger part of the money at their disposal in buying and holding treasury bills. The demand for them consequently became greater, and the Government was able to run its floating debt at a lower rate of interest, often considerably lower than the corresponding rate for long-term borrowing.<sup>1</sup> One effect of this machinery<sup>2</sup> was to make

<sup>1</sup> The Exchange Equalisation Account, set up under the National Government to steady and support the exchange value of the pound in terms of foreign currency, was financed out of the sale of treasury bills, and accounted for the rise in their amount after 1932.

a link between the requirements of public finance and the state of affairs,<sup>1</sup> from time to time, in the ordinary banking system. In the view of McCosh, and his colleagues, such a position was a further reason for the public control of the credit system as a whole.

**Banking Act.** The Banking Act 1937<sup>1</sup> was introduced in February of that year. The general scheme of the Act was to transfer to public ownership the shares of the Bank of England and of the joint-stock banks, and to control by licence all banking business carried on otherwise than by the socialised banks, including the business of the money market. It was intended to give the Government an effective control, not only of the volume of credit, but also of its use; for the former purpose there was to be a continuation of the powers over the fiduciary note issue, which had been given as emergency powers to the Emergency Commissioner at the Bank of England. A number of questions arose as regards this Act, of which the most important were: Which banks were to be taken over? What machinery was to be set up for the administration or supervision of the socialised banks, and for control of such parts of the credit system as were still left to private enterprise? What, if any, compensation was to be given to former shareholders of socialised banks?

**The Socialised Banks.** Let me consider these three questions in order. There was no doubt that the Bank of England had to pass under public ownership; that, indeed, had been the policy of the Labour Party for many years. At the Leicester Conference, in 1932, the proposal to socialise the joint-stock banks as well as the Bank of England had been confirmed, and although no definite list of "the joint-stock banks" had ever been given, it was the intention of the Party to socialise, not only the Big Five, but their principal competitors. The list scheduled in the Banking Act<sup>2</sup> included the Big Five and ten other banks.

<sup>1</sup> See Appendix.

<sup>2</sup> Appendix, p. 500.

Of these ten others, four were Scottish banks, and, with four other Scottish banks controlled by the members of the Big Five, constituted the eight principal banks operating in Scotland. One of the independent Scottish banks, the Royal Bank of Scotland, was not only the largest one in Scotland, but also controlled Williams Deacon's Bank, a Lancashire bank with connections in the cotton trade and a seat in the clearing house, through which the cheques of the leading banks on one another were cleared daily in London. The schedule also included three independent banks with connections in Lancashire and Yorkshire—Martins Bank (mentioned above) with a seat in the clearing house, the District Bank, and the Manchester and County Bank. The other leading Lancashire bank, the Union Bank of Manchester, was controlled by Barclays Bank, one of the Big Five. Of the remaining banks in the schedule, two were London banks: C. Hoare & Co., which was strictly not a joint-stock bank at all, but the only remaining independent private bank, with a comparatively small business in a single office—and Glyn, Mills & Co., mentioned above, a much larger concern, with a single large office in the City and control of two small private banks. The third and last remaining was the National Bank, an English banking company, doing most of its business in Ireland, but with a seat in the clearing house and sufficient branches in London and other English and Welsh towns to make it necessary to acquire its shares in order to complete the control of English and Scottish banking. The schedule included, either directly or by control by banks included in the schedule, all the banks with seats in the London clearing house.

**Dominion and Foreign Banks.** There were, however, other banks in London, and to some small extent in leading provincial centres. The principal American and Continental banks had branches in London, at which they kept accounts for customers, and took charge of the movement of goods

and money into and out of Great Britain. Though these transactions were, in many cases, of considerable importance, the foreign banks did not hold current accounts and deposits on so large a scale as the Big Five and other leading British banks. In the same way there were in London in some cases the head offices and in others the London branches of banks operating in the Dominions and Colonies. Sometimes these Dominion banks were direct competitors of banks which were subsidiaries of the Big Five: in South Africa, for instance, the Standard Bank of South Africa competed with a subsidiary of Barclays Bank. Although the banks operating in the Dominions and Colonies tended to do a larger proportion of ordinary current business than was done by the Continental and American banks in London, the volume of such business was very much less than that done by the Big Five. Moreover the Continental, Dominion, and American banks conducted the greater part of their operations in London, and they had no such system of branches through the country as was possessed by the home banks. From the point of view of the Government there were two dangers as regards the foreign banks. One was that the agitation as to the security of deposits in nationalised banks would lead to the transfer of large sums of money to foreign banks, if the latter were left free. It was not to be expected that such deposits would be the deposits of small proprietors all over the country; the more likely danger was the transfer of large trading or financial accounts in London, including perhaps a volume of Stock Exchange money. The second danger was the use of the foreign banks for the transfer of large sums of money out of the country. This was a question to be solved by control of foreign exchange.

There were various objections to the socialisation of the foreign banks. The foreign banks were more numerous than the British banks which did branch banking business. Many of the foreign banks were quite small. Their management would have added considerably to the difficulties of

the new administration. The question of compensation would also have been extremely difficult, and might have led to international friction such as the Government was particularly anxious to avoid. Moreover, the broad view of the Government was that the control of foreign trade, with which the foreign banks were mainly concerned, could be better effected by the control of commodities than by the control of finance. So far as the foreign banks were not concerned with foreign trade, the Government had little use for them, and hoped for their disappearance in due course. It was therefore decided to control the operations of foreign banks—their acceptance, for instance, of new accounts and their dealings in foreign exchange—by a licensing system.

**The Licensing System.** The provisions for such a licensing system were in themselves simple enough. Subject to an exception in favour of the socialised banks, no banking business was to be carried on except under licence; and banking business was defined in such wide terms as to cover, not only the operations of deposit banking, but also those of the money market. Indeed, in practice no distinction would have been possible; for the joint-stock banks and other deposit banks were themselves dealers in bills, foreign exchange, etc., in the same way as the more specialised houses in the money market. The licensing system accordingly provided a means of control over the third group in the short-term credit system, to which I have already referred. It was felt that the control hitherto exercised by the Bank of England should be given this more definite form. It had always in practice depended largely on personal contact and personal influence, and it might become ineffective in the face of City opposition to the changes which were now being made.

**Administration.** The second question, as regards the administration of the socialised banks, was one upon which there had been considerable differences of opinion in the movement. Admittedly the banks were to some extent a



special case, and the questions of workers' control, which arose over socialised industries, were not in point over banking. Clearly, too, the general control of the credit system should be vested in one person, responsible to Parliament—the Secretary for Banking, as the Cabinet and Ministries were reconstituted. But how was he to be provided with the necessary assistance in the long task before him? Could the banks be left substantially in their existing form, under his general supervision? Or should there be an immediate amalgamation, if only to reduce the number of branches? The simplest course seemed to be to effect such an amalgamation, to give the Banking Corporation—or whatever it might be called—a strong central board, with some definitely Socialist members, and to trust to that board for the assistance which the Secretary for Banking would require. Some such scheme had in fact been approved by the Hastings Conference of the Party in 1933, and, as we know, the banking system is by now organised as a single corporation, with some subsidiary bodies. But Fox and Cobleigh, who were responsible for the Banking Act, did not provide for an immediate amalgamation, and purposely refrained from doing so. They held that the process would take a little time, and that to attempt it immediately would paralyse the banking system for a time, just when its services were particularly required in the socialisation of industry. They did, however, provide assistance for the Secretary in two forms. In the first place, the shares of the socialised banks were to be vested, not in the Secretary, but in a Board of Commissioners of Banking, to be appointed by the Secretary at his discretion, but not to exceed four in number. The Act made it quite clear that the purpose of the board was to assist the Secretary. The Secretary could perform any of its functions, and he could, in fact, allot such duties as he thought fit to the Commissioners appointed: equally their appointment and dismissal rested with him. In the second place, the Secretary was expressly given power to appoint and dismiss such standing or temporary advisory committees as he might require. These

provisions were intentionally elastic. The work required of the Secretary was of a novel character, and no one was really in a position to say exactly what he would need or how his duties would shape in practice. Various suggestions had been made in the movement—an advisory council with members representing industrial labour, the co-operative movement, agriculture, various industries, the bank clerks, etc., or an administrative committee of financial experts, including economists, some bankers and others: but the principal advocates of such a committee were reluctant to suggest themselves as suitable experts, and had some difficulty in naming others whose views they could accept as sound. The provisions in the Act were intended to give some effect to such suggestions as these, and at the same time to give scope for the use of some of the Government's own supporters. It was intended to make certain that the board and any advisory committees should contain Socialists and have a definitely Socialist colour. What was definitely rejected was the idea of a standing council or committee of representatives. What interests exactly would such a council represent? Would not the representatives of those interests tend to regard themselves as there to protect those whom they represented rather than to forward the policy of the Government? Was not such a committee likely to be either obstructive or inefficient?

**The Commissioners.** In fact, both devices in the Act proved to be of considerable importance. Cobleigh, as soon as he became Secretary for Banking, appointed four commissioners, one of whom, Peter Gurney, in effect acted as his Under-Secretary, and was particularly concerned with the affairs of the Bank of England. Gurney was a member of Parliament, and so was Whiddon, who was engaged principally in dealing with the money market, of which he had some previous experience. Two economists were appointed, W. Brewer and the well-known South African, J. Stewer. Brewer dealt with the joint-stock banks in the

transition period, and Stewer was vice-chairman of the National Investment Board, to which I shall have occasion to refer below. Ultimately, the number of Commissioners was reduced and there were only two under the Secretary : one of them dealt with the domestic side of the credit system, and the other with foreign trade, foreign loans and foreign exchange.

**Compensation.** The third question was whether compensation should be given to the dispossessed shareholders of the banks, and, if so, in what form. The matter was of considerable importance, because the provisions of the Banking Act were bound to be taken as some indication of the future attitude of the Government towards shareholders in other concerns. Moreover, on this point there had been considerable division of opinion in the Party and actually some uncertainty as to what the policy of the Party was. On the one hand, Herbert Morrison, when Minister of Transport in the previous Labour Government, had brought forward a Bill for the nationalisation of London passenger transport which allowed full compensation to dispossessed shareholders, the amount to be settled by agreement or by arbitration. There had of course been similar provisions in a number of Acts of Parliament authorising the acquisition of private undertakings by public authorities—Acts of Parliament passed for that purpose by capitalist Governments ; and, indeed, Morrison's London Passenger Transport Bill was actually passed, with alterations in other matters, but none in this, by the National Government. On the other hand, there had been a growing volume of opinion in the Party—originating perhaps in criticisms of the London Passenger Transport Bill—which demanded socialisation without compensation, or only with such compensation as would be necessary to meet hard cases. Fox took the view that the question really depended on what could be done by taxation. Theoretically, it was unfair to penalise holders of one form of security while leaving holders of others untouched,

You could not socialise all undertakings at once, and in the interval it was rather confusing to penalise shareholders in industries which were socialised, while shareholders in industries not yet socialised were not affected. Even when all industry was socialised, there would remain the holders of Government and municipal stocks and similar securities. The discrimination that would be involved in refusing compensation would cause a profound and unnecessary disturbance which would in itself have a bad effect on employment. Theoretically, therefore, the right course was to compensate fully in a convenient form, and to deal with questions of readjustment of wealth by taxation and not by confiscatory provisions applied only to particular cases. If, however, there were limits to the possibilities of taxation, it might be necessary to effect some readjustment of wealth by giving only a limited compensation—or no compensation at all—to the shareholders or mortgagees of socialised concerns. "No compensation at all," might have some appeal to the stout-hearted, but was hardly practical politics. Some compensation had in fact been promised during the election campaign; the grounds then given satisfied most members of the Party. Socialisation would necessarily take some time, however short, and piecemeal confiscation, industry by industry, during the process of socialisation, would cause an intolerable disturbance of the whole system. It would involve sudden and unnecessary increase in unemployment.

Logically, those who suffered by having their property socialised with only partial compensation would be entitled, as against other capitalists, to some remission of taxation. An adjustment of taxation in that way was likely, however, to be difficult in practice, and there were other methods by which compensation provisions could in effect be so framed as to make taxation more practicable. Fox had no illusions on the matter. On the one hand he had to face some violent feeling in the Party. There were, in effect, many Socialists throughout the country who expected industry to be socialised by one stroke of the pen and then

carried on for the benefit of the community by those folk in London. They resented the idea of compensation at all, and were only willing to allow it as a concession in hard cases. Whatever, theoretically or logically, might be the right plan, Fox had in practice to satisfy these more violent friends by some sort of compromise. Moreover, as regards taxation, Fox was facing a different and a larger task than any which had confronted capitalist Chancellors of the Exchequer. The Party had at one time been in favour of a capital levy. It was now prepared to go a step further—a vital step—and socialise industry; but in doing so it must none the less effect a capital levy—such a levy as would in time amount to 100 per cent. Previous Chancellors had been mainly concerned with income: Fox had to get at capital—a task for which the taxation machinery had not originally been intended.

**Various suggestions for Compensation.** Let me examine for a minute some of the suggestions which had been put forward for compensation. First of all, full compensation had been suggested, and, indeed, had for some time been the apparent policy of the Party. Some persons would have wished compensation to be entirely in the form of stock, the interest upon which was unconditionally paid or guaranteed by the Government. The advantage of compensation in the form of such stock was thought to be that it eliminated any interest of stockholders in any particular industry; but, on the other hand, it obliged the Government to assume and to assess the risks attendant on any industry which was taken over. An alternative suggestion was that compensation should take the form of stock carrying a maximum rate of interest, payable only out of the profits of the socialised industry. This was the sounder scheme, provided that the right to such interest, if in the opinion of the Socialist controllers of the industry there was money available to pay it, was entirely separated from any right to interfere in the industry or in its management. In the London Passenger Transport Bill, for instance, a provision had been

advocated in committee, by which dispossessed stockholders, if they did not receive sufficient interest on their stock for a number of years, were entitled to apply for a receiver : and such a provision ultimately became part of the Act. Such a right of interference was obviously contrary to all Socialist principle, and ought never to have been allowed ; it was, in fact, repealed when a number of changes were made in the administration of London transport by the McCosh Government. As regards the amount of compensation, one suggestion was that the dividends or interest which were being paid on securities before socialisation should be continued for a short period, at the end of which compensation should be assessed to an amount proportionate to the shareholder's needs. This suggestion hardly bore examination in detail. It would involve a large class of people, not in one, but in a number of inquiries to be held at various times as to what they needed, and why. It had all the disadvantages of a means test on a large scale. There was no standard by which the various assessing tribunals could proceed, and the results were bound to be different in different cases ; it was quite certain that as between one individual and another the result would be unfair. What was perhaps intended by those who suggested this scheme was that during a transition period incomes should be continued on their present basis, or thereabouts, subject to taxation, and that at the end of the period unearned incomes should be limited to hard cases, or to cases in which public money was involved. But, by the means suggested, the process could only have been applied to holders of securities in socialised industries ; and it would leave unaffected a considerable number of people who were receiving unearned income from other sources and little or no income from those industries which were socialised during the transition period. The effect intended would have been better attained by confiscatory taxation, based on the extensive information already available as to individuals and on such further inquiries as might be required.

Another suggestion was that compensation should be

limited to "terminable annuities." There is no doubt that some of those who supported this suggestion meant one thing by it and others another. Some people had in mind the continuation of the usual income from the nationalised securities—or the usual income, subject to some small reduction—for a comparatively short fixed period: the income was then to stop, and the transaction would be at an end. If you had asked what the fixed period was to be, you would have had different answers from different people. Others had in mind non-transferable life annuities to the amount of the previous income or thereabouts; they did not usually explain why this method was preferable to the imposition of high death duties, but there were reasons which might well have been given for such a preference. Others again would have given full compensation in the form of a terminable annuity, the annuity being of such an amount as to continue the existing income and also to include an amount sufficient to serve as sinking fund for the redemption of the capital.

**Terminable Annuities.** The suggestion of terminable annuities, in some form or another, appealed to Fox, if only because his ultimate object was to socialise capital, and he would find it easier to do so if the capital were replaced by an annual payment. The existing system of taxation was more effective for the taxation of annual payments than for the taxation of capital sums. Moreover, Fox had to satisfy Party opinion, which was unsettled on the matter of compensation. Annuities were terminable, and the Party would welcome the absence of any provision for a capital payment at the end of the period. But the important point was whether the annuities should be treated merely as a continuation of interest or dividends for a fixed period, or whether they should also include a sum by way of sinking fund; in the latter event they would amount to full compensation, both as regards income and as regards capital. Logically, no doubt, this was the right course, if taxation could be relied on as an efficient means of effecting a redistribution of wealth. So far as bank shares were

concerned, there would be little difficulty in providing compensation on a full basis; but the question would arise in a much more difficult form when the Government proceeded to nationalise the land and to socialise the major industries. To "redeem" so large a part of the capital resources of the country would almost certainly mean a very considerable inflation of the currency, and that inflation would be in an obvious form and would begin almost at once, in addition to the inflation which would be required for the immediate remedial measures of the Government. Moreover, compensation was largely a matter of psychology, and Fox considered it unwise to offer full compensation, even in the form of annuities. He wanted to keep the whole-hearted support of the many members of the Party who expected him to make some immediate attack upon capital, and at the same time make it clear to the possessing classes that he meant, in the long run, to deprive them of their property and not merely to change its form. In the circumstances, therefore, Fox decided to give compensation in the form of terminable annuities, based on the continuation of existing dividends, for a period of twenty-five years, but without any additional provision by way of sinking fund money or redemption at the end of the period. He stated, in the debate on the Banking Bill in the House of Commons, that he thought twenty-five years was the maximum period over which capital could be expected to exist in anything like its present form. At the end of twenty-five years there would be no private ownership of capital. Fox also reserved in the Act a right of the Government to commute annuities at any time on payment of a lump sum. The sale of superfluous bank premises and other economies in administration were likely to make such a right an important one.

In the case of banking shares, there was not much difficulty in assessing the amount of an annuity. The dividends upon which it was to be based had been sufficiently constant in amount, and were likely to continue. Some allowance had, of course, to be made for the relief given to the former owners by the elimination of their liability to pay up



uncalled capital on partly paid shares : there were many banking and insurance shares of that type. On that ground alone some form of compensation tribunal appeared necessary. Such a tribunal would be required to perform a more difficult task in assessing compensation in other socialised industries where the factor of risk was more important, both as regards variations in dividends from time to time and as regards the chances of their continuance. In other industries, for instance, the tribunal would have to consider such particular cases as wasting assets in a mine, or the risk of the business being superseded by a change of fashion or by new inventions, as in some forms of textile industry. In many cases a Socialist Government would find it more convenient to take over the actual assets of a concern, or some of them, instead of the shares in it : the concern itself would then be left to distribute the resulting compensation among its shareholders or creditors.

**Special Cases.** A compensation tribunal would serve another purpose. I have already referred to the difficulty of assessing all compensation in terms of the needs of the recipient. At the same time there were a number of cases which required special treatment. Fox had no intention of attacking the funds of working-class organisations. A trade union or co-operative society might hold considerable investments : they were not the funds of a capitalist concern, but the savings, direct or indirect, of many members, intended for the provision of benefit in adversity or for the development of the very type of trade that Fox and his colleagues were anxious to develop. In socialising any industry Fox was prepared to give full compensation, both as regards capital and interest, to investments of this character. Moreover there were various institutions of general utility to the community which were entitled to special treatment in the same way. They were already exempt from income-tax as charities, in the legal sense : they included, for instance, hospitals, societies for the promotion of learning or research, and educational bodies. Lastly, there were bound to

be many cases of individual hardship. The small owners and the widows and orphans were no doubt not so numerous among shareholders as railway directors were inclined to say when any question of wages arose ; but none the less they were many. Such cases must necessarily be dealt with by a compensation tribunal and allowed some special advantages. Of course, in considering whether a case of hardship was established, the tribunal would have regard to the means of the applicant, including any rights to unemployment benefit or pensions.

**Compensation Tribunals.** As regards the last point in particular, there was every advantage in having a single tribunal, or network of tribunals, to deal with all cases of compensation arising out of the socialisation of any industry. Where a special claim was made on the grounds of individual hardship, the tribunal must be in a position to consider all the resources of the applicant. A small holding of banking shares might require special treatment : the need would become less urgent where the same person held a large number of small holdings in other socialised industries. The Courts were unsuitable for the purpose, and would not have time to deal with the matter if the Government proceeded with its programme as rapidly as it proposed to do. In the circumstances, therefore, Fox set up a network of compensation tribunals all over the country to deal, in the first instance, with compensation as regards banking shares. As other industries were socialised, questions of compensation were referred to the same tribunals, and were dealt with on the lines I have indicated above. There were, for instance, provisions for the purpose in the Planning and Finance Acts of subsequent years. I shall not refer to the matter again in any detail. The decisions reached as regards banking were followed in principle in later cases.

**The end of the Annuities.** There is, however, one point which I ought to mention. The sudden end of all compensation annuities after twenty-five years would cause a sudden

deflation in the amount of credit available at the time. In order to avoid such a shock to the financial system, the annuities were to continue at the full rate for twenty years only, and to be scaled down gradually during the last five years of their currency. In the same way, socialisation was bound to take some time, and there was no reason why, when the change was completed, the Finance Minister of the time should be left with a number of recently granted annuities still having a full twenty-five years to run. Accordingly, as socialisation proceeded, compensation annuities were given for periods which gradually became shorter. The intention of the Government was to ease out as far as possible the transition from the period of annuities to the time when no annuities at all would be payable, and, none the less, not to prolong the annuity period beyond what appeared to be necessary. After all, compensation was not given in recognition of any right—for Socialists did not recognise such a right in the owners of property—but as a matter of expediency to tide over a period of transition.

**Financial Clauses.** I now turn to the arrangements actually made by the financial clauses of the Banking Act. The Board of Commissioners of Banking, as the sole shareholder in the Bank of England and the joint-stock banks, would receive all dividends which might be declared by those companies. Out of those dividends they would have to pay the annuities, but the Act provided that no larger amount should be applied for that purpose than the average total of banking dividends for each of the three years before socialisation. The Banking Dividends Fund could then be applied, if the board thought fit, to certain capital purposes. The next charge on it was the expenses of the board itself, and any surplus could be used at the board's discretion, subject to the control of Parliament, for other public purposes. There was also established under the Act a second fund, called the Banking (Capital) Fund, into which were to be paid such existing capital reserves and such future capital receipts of the banks as the board might

direct. One of the incidental objects of the Banking Act was to reduce the number of those decorative premises which had adorned in such competitive profusion the streets of London and the market-squares of the provinces. The sale of superfluous branches might be expected to yield considerable amounts towards the Banking (Capital) Fund. Further, the board might direct that contributions should be made by banks to this fund in respect of savings of expenses effected by the elimination of unnecessary competition. The fund was to be applied, again at the discretion of the board, towards the redemption of bank annuities and for various other capital purposes of the board, any surplus being available for public purposes, as in the case of the Banking Dividends Fund.

**Bank Pensions Fund and compensation for dismissals.** There was also a third fund under the Act, the Bank Pensions Fund, composed, in the first instance, of the existing pensions funds of the banks, with provisions for their increase out of the economies expected to result from the elimination of superfluous branches. The number of bank employees was likely to be reduced, but the Workers' Government had no intention of allowing the bank clerks to suffer by this first measure of socialisation. They proposed, accordingly, to provide pensions if no alternative employment could be found. The scheme which had been set up for a similar purpose upon the amalgamation of the railways under the Railways Act, 1921, might have served as a precedent for this purpose. But, as the railway unions told the Government, this scheme had not been wholly satisfactory to the railway workers concerned; and Fox was anxious to give the bank employees better treatment. The Banking Act did not attempt to lay down the principles upon which pensions should be awarded, but referred to the board the whole question of pensions and alternative employment, subject to consultation with representatives of the bank employees. There was at least this advantage in having a Socialist board to deal with the matter instead of a capitalist railway company.

In fact, the board stated and upheld as the governing principle in the matter, that no bank employee should suffer from the rationalisation of banking introduced by the Banking Act. But it was not unreasonably expected—and, indeed, proved to be the case—that the amount payable by way of pensions would be very much less than the amount saved by the elimination of unnecessary branches and unnecessary competition; alternative employment could be, and was, found for redundant bank employees in the service of other Government departments and of the regional authorities, as well as on the administrative side of socialised industry. From this source, accordingly, funds became available for capital purposes.

**Other Financial Institutions.** The general effect of the Act was to place the whole credit system of the country under the control of the Secretary for Banking, partly by the public ownership of the Bank of England and the joint-stock banks, and partly by the need for a licence for any banking by other persons. It was, however, intended that the principal institutions in the money market and other financial concerns should in due course, so far as they were necessary parts of the system, be taken over by the State. The Act therefore contained certain additional provisions, by virtue of which the Government by Order in Council might designate other undertakings than those in the schedule—even if such undertakings were only part of the business of a company—for public acquisition upon similar terms to those applied by the Act to the banks in the schedule. It was not, however, intended to make the board partners in any private concern, and they were therefore authorised to promote companies in order to acquire business carried on by individuals or partnerships.

**The Passing of the Act.** Such was the Banking Act, introduced by Fox and Cobleigh in 1937. As might have been expected, the Act met with the most bitter opposition. There is no doubt that, if the House of Lords had been left

as an effective body, it would have delayed the passing of the Act for so long as to involve the Government in serious difficulties. Even as a consultative body, it would have served as a focus for the criticism which was actually left to spread itself over the pages of the Tory Press, and to repeat itself with more violence than effect on the Tory platforms up and down the country. The Act, as we know, was passed in a week by the ruthless use of all possible measures for confining parliamentary criticism to points of principle. Even so, there were loud complaints that there had been no sufficient opportunity for its examination. But the Government had little time to spare. By socialising the credit system they had done no more than equip themselves with a necessary implement to carry out their plans. It still remained to use it. I shall have occasion at a later stage to refer to a number of uses to which the implement was put ; for the moment it is sufficient to mention one or two of the immediate results of the Act.

**Advisory Committees on financial matters.** The first advisory committee set up under the Act was in effect a joint board of the socialised banks, with a representative of the Bank of England, and another representative of the department concerned with the money market. This committee in turn formed several sub-committees, of which one dealt with the elimination of unnecessary competition between branches, and others with the allotment among various banks of the financing of particular industries. The banks used and developed their local connections and special knowledge. They became to some extent, as regards particular industries, the co-ordinating financial authority, the need for which had been seen by the Macmillan Committee some years before. In course of time it became clear that the number of banks was inconveniently large, and they were ultimately merged into the single Banking Corporation which we know to-day. It is hardly necessary to say that that Banking Corporation does not include the Bank of England, and does not function as a central bank.

Another committee was the Advisory Committee on Outstanding Advances, which was set up to classify and consider what were known as "frozen credits." These were simply sums of money lent by the banks to persons who had used the money and could not pay it back. They represented, however, claims which the banks held over the heads of the borrowers, and losses which, under the existing system, had prevented the banks from making further advances. In many cases the inability to pay was not a hopeless matter: the credit, "frozen" as a short-term banking credit, had become, by force of circumstances, a long-term loan, but was represented by real and useful assets. In other cases the loss was irrecoverable. The report of the committee, made after detailed examination of the circumstances, and, in most cases, of the debtors, took some months to complete. Acting on it, Cobleigh wrote down or forgave a large number of the frozen credits in return for extensive powers of supervision and Government control over the debtors' affairs. As regards the credits which had of necessity become investments, but, as investments, were of real value, Cobleigh freed the banks from these encumbrances. Under his direction the socialised banks formed the Industrial Mortgage Bank, and transferred the frozen credits which had value as investments to that institution in exchange for shares—not, of course, for shares to the face value of the frozen credit, but to the amount of its actual value as an investment.

Out of the Advisory Committee on Outstanding Advances and its report there arose the Iron and Steel Trade Financial Advisory Committee, the first of a number of financial advisory committees which played an important part in the reorganisation and socialisation of the major industries.

**Intermediate Credits.** As regards trade, one of the most important developments of the banking system was the foundation of the Commercial Credit Bank. It was formed by the socialised joint-stock banks; with the assistance of the National Investment Board in raising loan capital. Its

object was to grant "intermediate" credits for periods of about one to five years. In fact it met the need for credits too long for ordinary banking practice and too short for a public issue—a need which had been recognised many years before by the Macmillan Commission, but had never been met. The provision of credits of this kind was of material assistance to the export trade—as regards, for instance, exports of machinery to Russia and other countries.

Post Office, C.W.S., and Municipal Banking. It only remains to mention at this stage that Cobleigh interfered little with the activities of the Post Office Savings Bank and with those of the Co-operative Wholesale Society. He regarded the banking business of the latter as an integral part of the co-operative system, for which, as we shall see, the Government had wider duties.<sup>1</sup> It was not until some years later, when the co-operative system reached its full development and had changed its character considerably, that the C.W.S. Bank was taken under the control of the board. Municipal banking was, however, extended considerably while Cobleigh was Minister. Using to some extent the activities of the Birmingham Municipal Bank as an example, he set up municipal savings banks throughout the country, and employed the deposits so obtained for municipal purposes, and especially in connection with housing.

<sup>1</sup> For developments of the C.W.S. Bank, see pp. 279–81



## CHAPTER 5: THE NATIONAL INVESTMENT BOARD: THE IMMEDIATE CONTROL OF THE LAND

**The Investment System.** The banking system, and the institutions connected with it, were concerned with the provision of short-term credit. The National Investment Act, 1937, which was introduced directly after the Banking Act, was intended to set up the machinery for using the national savings in accordance with the plans of the Government. It was therefore principally concerned with the use of long-term credit.

Investment under the capitalist system was much less organised and much worse organised than banking.<sup>1</sup> There was not much difficulty about the comparatively simple matter of British Government loans, which were issued upon the directions of the Treasury through the Bank of England. From the point of view of the investor, municipal loans were safe enough, although from the standpoint of the municipality the methods of issue were unsatisfactory: in fact, the ingenious Hatry, whom I have mentioned above, had succeeded in raising a large amount of money by frauds in connection with such issues. The loans of foreign Governments and foreign public authorities were a different matter. Many of them were sponsored by the merchant bankers to whom I have already referred, who took care to take such precautions as were possible to protect the interests of investors. But general control over the amount, direction, and ultimate use of foreign loans was confined to occasional informal bans by the Treasury or the Bank of England on their issue, bans frequently intended to

<sup>1</sup> For a fuller discussion, see chapter on "Capital and Investment" in *What Everybody Wants to know about Money* (Victor Gollancz Ltd., 1933).

protect the interests of the British Government as a prospective borrower at the moment. The worst faults of the investment system, however, appeared in connection with the raising of money for British industry and trade. There was even less attempt than in the case of banking to direct money towards those industries which really required it. Generally, the banks took no responsibility in the matter of new issues, but confined themselves to acting as bankers for the purpose of collecting subscriptions. In times of boom, when the capitalist machine appeared to be running well and people had money to spare and hopes in investing it, issues were made and fully subscribed which would never have borne detailed examination—even as individual investments, let alone from the point of view of the public—as suitable uses for the savings of the community. The most extravagant hopes were entertained and embodied in prospectuses which, although they were subjected to certain legal safeguards as to their form, nevertheless contained only one side of the picture—that best calculated to make the investor part with his money. The issuing houses through whom such issues were made were often small and irresponsible companies floated for the purpose. The money so invested was usually soon lost in the ensuing slump.<sup>1</sup> Even in the matter of more reputable issues, although the issuing houses were larger and more responsible concerns, there was singularly little protection for the money invested, and little or no consideration of the public utility of the issue.

There were other disadvantages. In such boom periods the issuing houses and the stock-brokers, concerned with making new issues on prospectuses or “placing” shares on the Stock Exchange and in subsequent dealing with the shares, made profits on an excessive scale. Some of the speculators’ money was transferred into their hands: some of it disappeared in the deflation of the ensuing slump. The profits had to be provided for, and the expenses of an industrial issue were correspondingly large—so large as to make

<sup>1</sup> See the figures in the note in *What Everybody Wants to Know about Money*, p. 271.

it impracticable for a small concern to raise a small amount of money in that way. Nor was speculation in a boom period confined to new issues. Gambling on the Stock Exchange supported the stockjobber and stockbroker in comparative affluence; but it served no useful purpose to the community, and in the long run the boom profits of stockbrokers and financiers were paid by the workers in the form of increased unemployment and reduced wages. The cotton trade, for instance, was still suffering from the effects of speculation in mill shares just after the War.

A Socialist Government had little use for the private issuing house or for the Stock Exchange. It had even less use for the succession of capitalist booms and slumps, from which they made their profits at the ultimate expense of the workers. In the interests of the community, what was wanted was a steady level of prices and the disappearance of speculative dealings in the means of production. The whole system of investment was an integral part of capitalism. With the increasing complication of finance and industry, the direct investment of private savings had tended to decrease in comparison with investments by public authorities, insurance companies, banks, investment trusts and other professional investors. The private investor, dealing directly with his own savings, was of comparatively small importance. The socialisation of the banks served as the first step towards the public control of long-term credit, as well as of short-term: for the investments of the banks were considerable. What was ultimately required was the socialisation of other financial institutions engaged in the business of investment, and, equally, of industry itself. Industrial and trading companies accumulated large reserves, and invested them either on the Stock Exchange or by putting them back into their own business. This form of investment was as important as any, and, like the investments of the private investor or of the insurance company, it was completely uncontrolled: there was no means of directing these savings towards the purposes for which they were most urgently required.

Lastly, it was not generally recognised that the Government and local authorities were themselves the largest investors in the country by reason of their savings and payments into sinking funds. Under the capitalist system these investments were in general unco-ordinated, and depended on the authorities concerned. To a limited extent a special body, known as the Public Works Loan Commissioners, did administer a system of loans out of public money for useful purposes. But what was required was more than this—the general co-ordination of public borrowings and lendings under a single authority.

**Control insufficient.** To attempt to control the existing system of investment was really hopeless, even if it had been intended to preserve the main features of the capitalist regime: and the Government had no such intention. Already it functioned with difficulty in any time of political or economic crisis. The programme of the Government, including the socialisation of the banking system, the control of foreign exchange and, above all, the socialisation of the major industries—not to speak of an extension of taxation and of the social services—would put an unprecedented strain on the machinery of capitalist finance. Mere control at such a moment would do little more than add to its difficulties. In all probability it would cease to function, as to some extent it had ceased to function in America under the far smaller strain of the Roosevelt administration. As the means of the change-over into a Socialist economy, control of the existing long-term credit system would have been worse than useless. It would have been an attempt to use the wrong tool for the job and to make it work better by working it with restrictions. What was required was not control of the existing system, but its replacement by a new one. Control might have served to prevent obstruction or sabotage, but it was not sufficient: Fox had a new purpose in mind.

**Functions of a National Investment Board.** For some years past a National Investment Board had been a feature

in the Party policy, and its establishment had been one of the issues in the General Election. There was no need to suppress at once all forms of private investment ; but the board must at least take power to license them, and at the same time such powers to raise money on its own account or to act as an issuing house as would enable it in time to control the whole flow of savings. It must, in fact, do for long-term money what the socialised banks were to do for short-term money. Ultimately, the savings it would have to invest would be the savings of the community as a whole—sums raised partly by taxation and partly out of the profits of socialised industry. As a channel for the use of private savings it was bound to be an instrument of the transition period ; under a socialised system it would become the vehicle for the long-term investments of socialised industry and of the nation, not for those of any individual citizens.

Secondly, the board was to have power to control the Stock Exchange. That institution was essentially capitalist, and most of its members, by tradition and inclination, were unlikely to co-operate in the Socialist programme, if they were invited to do so in their capacity as members. As in the case of new issues, dealings in stocks and shares were not a matter for control or for some reform of the existing arrangements. The Board itself must in due course take the place of the Stock Exchange. If, in the process, stockbrokers and stockjobbers were thrown out of their usual employment, no doubt their services could be made available to the board. Meanwhile the board must have the power, not only to make a market in its own issues—issues which might be expected to be of increasing importance and the effective control of which would be the first step towards the replacement of the Stock Exchange by the board itself—but also to prohibit Stock Exchange dealings in any security or class of securities.

That power was to be used in aid of a third function of the board. For the purpose of an effective control over foreign exchange, Fox expected to have to requisition dollar bonds and other foreign securities at an early stage

of the Government's term of office? Such a course had been adopted for similar purposes during the War: there was no reason why it should not be adopted again to further the cause of Socialism in times of peace. It was intended that the National Investment Board should be the body, by which that power of requisition should be exercised and the requisitioned securities held.

Next, Fox intended that the board should serve as a financial instrument in the socialisation of private property. Upon the socialisation of an industry, the property so acquired for the community was to be held by the board—not, of course, managed by them, but held in their name, very much as private property had been held by trustees. For purposes of subsequent development, the board might issue stock or annuities payable out of the profits of the industry. Moreover, I have already referred to the difficulty, under the capitalist system, of raising money for small undertakings—a difficulty which applied equally to experimental work and new industries. To meet such cases the board might raise money by issuing stock or annuities of its own, with what would virtually be a Government guarantee, and applying the proceeds either by financing directly the work that was required, or, if the business had not been socialised, by making advances to it on terms. One of the features of long-term advances under the capitalist system had been the comparative lack of control over the borrower. The control of the bank providing short-term credit had in practice been continuous and effective: the debenture holder or other creditor on long-term account only stepped in to try and collect his money when the borrower was already in serious trouble. The board would make its advances on terms which would ensure it a control over the borrower, as the first step towards the socialisation of the business. As regards new undertakings, the board might find it convenient, during the transition period, to use the existing machinery by promoting small companies, in which it would hold the shares: it must have power to do so. Again, in connection with taxation upon the scale

that Fox had in mind—especially as regards death-duties—there would be difficulties of collection, due, not to the poverty of the taxpayer, but to his wealth being in a form which made it difficult to realise. Even under the capitalist system taxes had, to some small extent and for this reason, been collected in kind.<sup>1</sup> Fox was glad to extend the practice. He proposed to give the board power to hold shares, land or other property so collected, if the collecting authority chose to take them, and to settle the account for their value with the department or other authority concerned.

By the methods described above, the board would serve as a means of introducing public control into industry and property as a first step towards its socialisation. In so doing the board would acquire national investments, and would become the trustee of the community, to hold public property for it.

**The Board's Position in the Socialist Economy.** Clearly, in all its functions the board would have to work in close co-operation with the socialised banks. Both the board and the banking system were to be under the general direction of Fox, as the responsible Minister. Equally, the board would have to work closely with the planning machinery, to which I shall presently refer. In the preparation and execution of the national plan it would be its duty to tender financial advice, and it would be in an unrivalled position to do so. At the same time it was not to be directly concerned with the Budget or with taxation. Those matters were under the immediate control of the Secretary for Central Finance, and the board would have no authority to impose or remit taxation. As regards industry, there was to be some distinction between the relations of the board to unsocialised industry and to socialised industry. Broadly, in the former case the board would interfere as much as possible with a view to getting control gradually or rapidly,

<sup>1</sup> Speech of the President of the Institute of Chartered Accountants, reported under the heading "Shares in Settlement of Tax Liability: State Participation in Industry," *The Times*, 22nd January, 1934.

as a step to socialisation, while in the latter case it would confine itself to supervision of a financial character over financial requirements and the due application of money which it had been instrumental in providing. No doubt Fox had in mind the position of the "Prombank" in Russia, a bank for administering grants and long-term credit to socialised industry, with its relations to "Gosplan" and "Gosbank," corresponding to those of the board to the planning machinery and to the socialised banking system. So far as planning was concerned, the board would be no more than a co-ordinating financial authority, of the character recommended for particular industries in section 385 of the Macmillan Report.

**The National Investment Act, 1937.** Let me now summarise the provisions of the National Investment Act, 1937, which is set out in the Appendix. It was essentially a measure of transition, with such larger purposes in view as I have already indicated. The National Investment Board was to be appointed by the Secretary for Investment, and, as in the case of the Secretary for Banking and the Board of Commissioners of Banking, the Secretary for Investment alone could exercise all the powers of the Investment Board. There was indeed no positive obligation upon the Secretary to appoint any members of the board at all, and no stipulation as to the number he might appoint. There was, however, a provision that, with the exception of the Secretary himself and any member of the Board of Commissioners of Banking whom he might appoint to the Investment Board, the members of the Investment Board should, as to half of them, be "political members," and, as to the remaining half, "financial members." The political members were intended to be Socialists, and to hold office for so long as the Secretary required their services; they were not necessarily to be paid, and it was actually intended that—at first, at any rate—any payment made to them should be only enough to cover part-time services. There had been, in effect, somewhat similar



appointments to the London Passenger Transport Board, constituted some years previously under the Act which I have already mentioned. The financial members were intended to be whole-time experts, and were to hold office for fixed periods, not exceeding five years, to be determined by the Secretary at the time of the appointment.

The further provisions of the Act may be divided into three main parts.

By Part II of the Act, the board was given licensing powers over all public issues of capital and offers for sale of shares, stock or debentures, with the exception of issues by the British Government. Fox, however, did not mean to confine this control only to public issues. He wanted to be in a position to direct all the capital resources of the community into appropriate channels, and accordingly to be able to control the provision of long-term capital by insurance companies, investment trusts and other financial institutions, as well as the raising of capital by public issues. Large sums of money were also raised on mortgages of land and goods to building societies and to private investors. Over such mortgages, too, Fox desired to have control, although for the time he would be prepared to give general licences enabling building societies to continue their business. The power to license public issues was therefore extended to cover private loans of more than £10,000, other than loans made by banks or falling under the control of the Commissioners of Banking. With those exceptions, all loans of more than £10,000 required the licence of the Investment Board.

Part III of the Act, in effect, empowered the Investment Board to act as an issuing house, and provided for that purpose a "Capital Issue Fund," which was not, of course, to be lent to institutions requiring capital, but merely to serve as working capital to finance the activities of the board as an issuing house.

Part IV of the Act contained those provisions which were intended in time to become the most important part of the Act. A "National Investment Fund" was constituted by

an appropriation of a million pounds from the Consolidated Fund, and the Investment Board was empowered to issue stock from time to time in order to augment this fund. The fund was to be used by the board in purchasing and taking up securities and in making loans—in effect, in financing trade and industry which was already under public control, or could be brought under public control as a condition of financing it. Moreover, the Investment Board was given power to take and hold securities in settlement of debts due to the Crown. This provision was intended to facilitate the collection of taxes in kind, as indicated above. Lastly, with a view to providing means for the control of foreign trade and foreign exchange, the Investment Board was given powers to requisition securities, similar to the powers exercised by the Treasury during the War in the matter of American bonds.

The other provisions of the Act included penal provisions of a stringent character, a power for the Investment Board to prohibit Stock Exchange dealings or transfers in any security or class of securities—with the objects already stated—and a transfer to the Investment Board of the powers and duties of the Public Works Loan Commissioners, whom I have mentioned above.<sup>1</sup>

**The Reception of the Act.** The National Investment Act passed through Parliament with less opposition and with less protest from the Press than had attended the passing of the Banking Act. The financial interests directly affected by it were not so important nor so well organised. The main volume of protest came from the Stock Exchange, which scented very serious trouble ahead. Accountants, solicitors and many small business men were duly indignant. But there was much general support of the Act, often from rather unexpected quarters. It seemed as though the typical widow and orphan, so often mentioned as railway shareholders, were turning at last. They, and the country clergymen, the retired colonel and the small speculator

<sup>1</sup> p. 119.

—good supporters of many Tory Governments—had lost so much money in new issues and on the Stock Exchange that they were not at all averse to seeing this investment business put under public control. Some of them perhaps did not realise the full extent of the change involved, but others were beginning to see the possibilities of this Socialist legislation, and to realise that the new system which was beginning to appear might not be so dangerous or so hopeless as they had been led to believe. Many competent observers thought that the National Investment Act represented the first real step in the conversion of middle-class opinion to Socialism. At a later stage I shall have to refer from time to time to the activities of the National Investment Board. For the present it seems sufficient to point out that the Act, by transferring the effective control of long-term credit and investment to the Government, completed the Government's control of the financial system. What they had in their hands was a very powerful and very flexible instrument; but the Acts, which gave them this instrument, did not of course provide for the uses to which it was to be put. As McCosh said, they were still engaged in clearing the ground upon which they were to build.

**The Land Act, 1937.** The next measure of the Government was indeed a clearing of the ground in all senses of the word. The Land Act, 1937, was, however, an emergency measure, and I shall have to deal with the socialisation of the land and its results when I come to the appropriate chapter. Meanwhile, before the Government could proceed to plan and to apply their agricultural and industrial policy, they had to take powers to acquire such land as might be necessary. The nationalisation of the land had long been an important item in Socialist policy, and it was proposed to combine a formal statement of the national ownership of the land with provisions for its acquisition, when required for public purposes, and also for the elimination of rent, just as interest and profit were in course of

disappearance. A Secretary for Land was therefore appointed under the Minister of Land and Communications. The Act declared that henceforward all land was to be, subject to the provisions of the Act, the sole property of the Crown and to be administered by the Secretary for Land. Existing interests in land were, however, not to continue for more than twenty-five years, and during that period they were to be subject to such orders as the Secretary for Land might make from time to time in general terms or for particular cases. Such orders might include orders for the restriction or reduction of rents and of mortgage interest, and orders for the acquisition of any land or any interest in land on behalf of any public authority. The Secretary for Land was given power to delegate his right of making orders, in whole or in part, to any regional or other local authority. There were also provisions in the Act for the compulsory registration of all interests in land, and for the valuation, not of the land alone, but of the land with any buildings on it. The valuation was to be effected in such areas and by such methods and authorities as the Secretary might from time to time direct. Compensation for land acquired for public uses was to be based on the rental value of the land for twenty-five years or for such part of the twenty-five years as might remain unexpired at the time of acquisition. The provisions as to the determination of interests in land at the end of twenty-five years, and as to the amount of compensation, in effect applied to interests in land—rents, mortgage rights and the like—the same principle of compensation that Fox had already adopted in the case of banking shares.

This Act was again a necessary instrument in the hands of the Government. It contained no statement of urban or agricultural policy, and no provisions for town or country planning ; but it provided the first essential of any such schemes—the means of complete control over the land. The Secretary for Land did not proceed immediately to any extensive requisitions : these were not made until after the passing of the first Planning and Finance Act. Registration

was proceeded with at once, and, probably as a consequence of the provisions by which unregistered rights became void, was completed with rapidity: subject to various minor points of dispute in different places, the registers were made up within three months. Some local valuations were begun quite soon. They were preliminary steps towards the requisitions made at a later stage; and in some instances valuations were made of alternative areas, to see which of them proved the most suitable for schemes under consideration. The actual valuations were generally delegated to the regional commissioners, and it was intended in time that both valuations and requisitions should be effected by regional authorities, subject to the general direction of the Secretary.

With the passing of the Land Act the Government were in a position to face the main task of socialisation and to use the instruments now in their hands. It will be convenient in the following chapter to attempt a short summary of the task before the Government, as it appeared to them at the time. I shall then consider in some detail that historic measure, the first Planning and Finance Act.

## CHAPTER 6: THE TASK BEFORE THEM

Henry Dubb and Mary Dubb. Mr. and Mrs. Henry Dubb, the plain British working man and his wife, had elected the McCosh Government. I think of Henry as living in some town in the Midlands. He had been in and out of work for many years, and, at first, had taken but little interest in politics. He belonged to his union, and generally voted Labour when he voted at all. In 1931 he voted National, and so had his wife. In the two following years times had been very hard, and Henry had had more time on his hands than usual. Mary Dubb was a decent woman, with some pride in her house and a bit of a temper of her own. At first she didn't take the hard times too seriously. Henry had been out for short spells often enough and they managed to get along somehow and to keep the children fed and clothed. But work seemed hard to come by, and she took to being rather angry with Henry for not finding it. There was little enough room in the house, and Henry spent more and more of his time out, some of the day looking for work and some of it in walking about the streets. Then he began to read the papers in the public library, at first in the hope of finding an advertisement for a job. Mary managed to get a little washing to take in, and they got along on that and on the unemployment benefit, with some help from Henry's brother, who was in work and unmarried. Henry had some money in the post office, which helped for the children's clothes. After six months Henry came on to transitional benefit and had to go before the Public Assistance Committee on the means test. On the strength of Mary's earnings, the help from the brother, the money in the post office and a general notion that the Dubbs were not so badly off, the P.A.C. cut down his benefit, and Henry began to think. He had heard a good

deal about the means test, but he had always regarded it as one of those things which just happen, like illness or being out of a job. He had let his union contributions lapse and now was sorry for it. He took to discussing politics with anyone he met and to reading books in the public library. I need not go in detail through what happened to Henry Dubb during the hard years after 1931; but he voted Labour in 1935, and it was he and his like—and the Mrs. Dubbs too—who put the McCosh Government in.

Now, what Henry Dubb wanted, in the first place, was security. He had eaten his own heart out looking for work, and seen his children losing their spirit on short commons and in an unhappy home. He had seen his wife breaking up under the strain. Henry was no great believer in books or theories, but he was no fool. He knew well enough, when he cared to think about it, that something was wrong somewhere: and those hard times at least gave him the chance to think. He was quite ready to agree that a system which left him out of work because goods could not be sold, though there were plenty of people anxious to have them, was wrong—and indeed, as he came to see, radically wrong, so wrong that you had to find another system in its place. He wasn't very clear what the other system ought to be, and he listened to what he heard about it, only half understanding but agreeing that there ought to be some great change. He was told sometimes that this or that benefit would be the result, that wages would be higher, houses better, the cost of living lower or the conditions of work more pleasant. He liked hearing that, but he did not quite believe it. What he really wanted was security—a safe job—and he came to want a great change, because he did not see how he could get security without it.

Henry Dubb and his friends were keen enough at the General Election. They worked and voted Labour. When the McCosh Government came in, they wanted it, above all, to do something. They were quite content to wait while McCosh put the machinery in order. They welcomed the socialisation of the banks and the other financial measures.

These seemed to be a way of getting the money into the right hands. They welcomed the changes in unemployment benefit and the national minimum wage. These and the 40-hour week were, at any rate something done. The nationalisation of the land sounded well, though they had the vaguest ideas as to how it would work. But what they still wanted, and what they really wanted, was a safe job.

**Unemployment.** It is interesting to see how Henry Dubb and his friends were employed before the first Workers' Government came in. There were nearly 13 million workers registered for unemployment insurance, of whom about 9½ million were men and about 3½ million women. Those numbers did not include anyone under sixteen or over sixty-five years old, nor did they include agricultural workers, domestic servants or persons receiving more than £250 a year for any work other than manual work.

Of these 13 million, somewhere between 10 and 10½ million were actually employed in, say, 1933. About one person in five was unemployed, wholly or temporarily. Nearly half a million had been out of work for a year or more, and rather more than a million for less than three months; the remainder had been out for three months or more, but for less than a year.

**Various Industries.** The industry carrying the largest number of unemployed persons was mining, with more than 300,000 unemployed—nearly one man out of every three on the register. Among the half million people, mostly women, registered in the cotton trade, unemployment was rather worse than the average in all trades. On the other hand, in wool, silk and hosiery it was rather better. The textile trades carried altogether about 200,000 unemployed, and the proportion of total unemployment on the average was about the same as that of the rest of the country; but short time in various forms was widespread and not fully



reflected in the above figures. Among the half to three-quarter million people engaged on boots and shoes, tailoring and other clothing trades, there was less unemployment than the average, those trades between them carrying about 80,000 people out of work. In the various occupations dealing with food, drink and tobacco there was comparatively little unemployment. Out of half a million registered workers, about 60,000 were unemployed. The heavy sections of the iron and steel industry were badly hit—just as badly as mining, or even worse. More than one man out of every two in the shipbuilding industry was out of work, though the trade showed signs of improvement. Such trades, however, as motor vehicles, electrical engineering and some other light metal and engineering sections were better off than the average. In general, the heavy industries—mining, iron and steel, heavy engineering, etc., and the cotton trade—were worse off than the industries which either represented new development, as in electrical work and motor vehicles, or supplied such consumers' goods as clothing, food, drink and tobacco.

This had been the general trend for some years past. In the ten years before the middle of 1933 the electrical industries had taken on rather more than one extra man for every two employed at the beginning of the period, and the motor vehicle, cycle and aircraft industries about one extra person for every four originally employed. During those ten years almost all the industries showing a substantial increase in employment were manufacturing some form or another of consumers' goods, while the industries which showed the largest proportional decreases were mining, iron and steel, and heavy engineering. Of every two men employed in coal-mining in 1923 one was out of work in 1933, and the same might have been said of shipbuilding and the blast furnace section of the iron and steel trade. In general engineering, one out of every four lost his job in those ten years.

**Local Distribution of Unemployment.** The local distribution of unemployment followed the distribution in trade. The 13 million registered workers were divided approximately as follows: Two and a half million in the London area, two million in each of the three areas roughly classified as north-eastern, north-western, and midland, one million in each of the south-eastern and south-western areas, rather under one and a half million in Scotland, rather over half a million in Wales, and the rest in Northern Ireland. In those areas, omitting Northern Ireland, the highest proportions of unemployment were in Wales, Scotland and the north-eastern and north-western areas. In Wales, with its coal, iron, steel and shipping, one person in three was unemployed. The proportion in the other three areas, with some of the same industries and the important addition of textiles, was between one in four and one in five. The Midlands and the southern areas were considerably better off. The best of all was the London area, with a proportion of only one in ten out of work. The relatively good figures in and around London were due partly to the type of occupation there—manufacture of consumers' goods, distribution, transport and building—and partly to the establishment of new factories round London and in the Home Counties, a movement encouraged by the employers' attempt to get out of the areas in which trade unions were well organised and able to secure good wages and good conditions, and also by the increasing facilities for road transport. No doubt, too, employers preferred to have their factory near London, in order that they might live in The Wen, as Cobbett called it.

During the above-mentioned period of ten years, 1923 to 1933, the building industry and all the service industries—transport, distribution, gas, water, electricity, financial, commercial and Government services—showed an increase in employment. But the policy of the National Government which had preceded McCosh had shown itself in various ways. The discouragement of all public works and expenditure, and the slowing down of the housing programme

which had been set under way by the 1929 Government, had resulted in unemployment well above the average in the building trades. Rather more than one million persons were registered workers in building, public works, contracting, etc., and among them over 300,000 were unemployed at the end of 1933.

**Transport and Distributive Services, etc.** In the transport services over a million persons were registered, and their luck was various. Transport and dock labour connected with shipping suffered from the same unemployment that affected seamen and shipbuilders. The railwaymen were a little better than the average, and those engaged in road transport, especially passenger, were also better. About two million persons were engaged in the distributive trades, and only about one in nine of them was unemployed—a low proportion of unemployment, corresponding to that in the trades which supplied consumers' goods. The transport and distributive trades between them accounted for less than half a million of the unemployed. Unemployment in national and local government services was about the average in other occupations, while such occupations as were connected with public houses, entertainments, etc., reflected the general depression by their comparatively high average of unemployment.

**Male and Female Labour.** It remains to add that the men were on the whole worse off than the women. During the ten years mentioned above there was hardly any variation in the total number of men employed, while one extra woman was taken on for every six employed at the beginning of the period. The change is the more remarkable, because during the same period the cotton industry, with its large proportion of women workers, did badly, and showed a substantial decrease in the number employed. The reason for the change was obviously the introduction of new machinery and processes and the growing tendency to

replace the skilled worker by machines, which could be minded or supplemented by women's work.

**The problem of employment.** The first thing that the McCosh Government had to do, now that they had rearranged the machinery of government and taken sufficient power over the credit system and the land, was to use their power to make certain that Henry Dubb<sup>s</sup> and his friends had jobs. It was clearly better that the unemployed should be set to some work, in or out of the industries to which they were accustomed, and successive Governments had set up training schemes with a view to training the younger unemployed in some trade and training older men in a decaying industry to learn new trades. This was recognised as makeshift work, however useful it might be in particular cases. Unfortunately, the development of training schemes had taken place at a time when the National Government showed only too clearly its opinion of the status of the unemployed. The main reason for the deep resentment about the means test which led to the election results in 1936 was the view of unemployment which the means test indicated. No doubt a supporter of the National Government would have recognised that the men concerned were out of a job through no fault of their own; but he still regarded unemployment benefit as help given by the community to its more unfortunate members. It should, therefore, only be given, like other charity, to those who really needed it. The National Government fell because the majority of people in the country did not share this view. They recognised that unemployment benefit was not a charitable gift, but a substitute for work, given in discharge of an obligation. As matters then stood, the ordinary worker had little or no choice as to whether he was to have a job or not. That depended on matters quite outside his control and on a system in which he took no responsible part. He was entitled—as most people in the country felt, or came to feel—to live as well as his neighbour, whether he was in work or out of it. The real meaning of "work or maintenance"

was that each individual had a right to a decent standard of living, as good as he could have earned by work, whether or not the system, for which he was in no way responsible, happened to be able to provide him with a job. On this view of the relations between the community and its members the means test was wrong and unfair, for two reasons. In the first place, it denied the right to the same means of support, whether you were in a job or out of it; and, in the second place, it took the family or the household as a unit instead of treating the individual as the unit, just as he was a unit for voting purposes.

The McCosh Government were bound, both by conviction and by their own election programme, to recognise "work or maintenance" in the above sense: they had already done so in their measures as regards unemployment benefit and the national minimum wage. But "maintenance" was only an indifferent substitute for work, and there remained the whole question of reorganisation, partly by the better distribution of the wealth of the community and partly by the development of its resources, which was possible under the unified control of a Socialist Government.

There were then three problems involved. The first was rather in the nature of emergency relief—corresponding in terms of work to what had already been done in terms of money. That problem was to find employment as soon as possible for the larger masses of the unemployed. They might be considered regionally, as the unemployed in South Wales or in Lancashire, or by trades, as the unemployed in coal-mining or in cotton. The second problem—or perhaps, more accurately, the second aspect of the same problem—was the reorganisation of industry itself, again either in the form of regional reorganisation or of the reorganisation of particular trades. The third problem—or, if you will, the third aspect of the problem—was the redistribution of wealth, which might be regarded from two points of view. The Socialist community was to level the standard of life of its members to such an average as the community could afford. Fortunately, the standard of life is not entirely

expressed in terms of money, and the levelling down of what is the highest standard in a capitalist society may mean less expenditure but not less happiness. After all, what was to be provided was a changing, and not a constant, standard of life, and, if the Government laid its plans well and truly, it should aim above all at a rising standard, even if by so doing its immediate attainments appeared smaller. Secondly, the savings of the community had to be used for the reorganisation to which I have referred. To some extent, no doubt, a better use could be made of existing capital facilities—mines, factories, means of transport and the like—but there was no doubt that further capital expenditure would be required out of the country's savings. Those savings could be collected either by taxation or by running socialised industries at a profit.

**Two Alternative Methods.** It will be noticed that the first two aspects of the matter—and the third also to some extent—pointed to two alternative ways of approach. The question of immediate employment could be approached regionally, or it could be approached industry by industry: so too could the question of the reorganisation of industry. No doubt, if those matters were to be tackled regionally, some regional devolution of financial questions would also be necessary. Now the Cabinet had decided, so far as possible, to make the main framework of the new community a regional one rather than an occupational one. Their decision was reflected in the early establishment of the regional authorities, to which I have already referred—regional commissioners, to be superseded by regional councils. There was a good deal to be said for either alternative, and the reasons for the decision are worth examining.

Let us first recognise that there were points in favour of the alternative which was not adopted. Such existing industrial organisations as there were, were on the basis of national industry rather than of regional units. Employers and employed were both organised in trades. The miners of South Wales met the Durham miners in council rather than

other workers in their own region of South Wales. Employers in the mining industry, in iron and steel, in railways and in other industries and services, were grouped in the same way. These groupings could have been developed and some form of industrial parliament set up for the country, through which workers' control might be exercised. The adoption of a regional basis would, to some extent, cut across this existing organisation. Moreover, so far as exports and imports were concerned, there was much to be said for a national organisation in all cases, and in some it was obviously necessary. But, on the other hand, the two forms of organisation were not really exclusive. However much regional devolution might be thought advisable, it would require to be supplemented and controlled by a national organisation in economic matters, just as local authorities were already supplemented and controlled in matters of government. Moreover, there were other reasons which seemed to make it almost necessary to work by regions.

**Regional Organisation of Industry.** Government from Whitehall in the eighteenth or nineteenth century had been a very different matter from what McCosh and his friends intended. The wider the view of what a Government ought to do, the more necessary it had become to hand over some powers of doing it to provincial centres. For some sixty years or more before the 1936 election the duties of local authorities had been growing. The *laissez faire* idea of government had broken down, and, with the increase of the duties and responsibilities of Governments in economic matters, there had been a corresponding increase in the activities of local authorities, especially in the towns. Public control on a large scale had been attempted during the War, and, then and afterwards, it had been found necessary to set up regional authorities for purposes of industrial control and organisation. Under the National Government an attempt had been made to exercise control of the import, production and marketing of agricultural produce : for this purpose regional authorities had been necessary. The very moderate form of

control then exercised over transport and mining had required regional administration. There were regional authorities for the supply of electricity. Even the trade unions and employers' organisations, though they tended to exist trade by trade, had internal organisation on regional lines. The large unions, which had often grown out of the amalgamation of numerous smaller unions (the latter being often on an occupational basis), were organised rather by areas than on the basis of occupational sections. The area secretary for the large unions would control the occupational sections in his area, although the latter would negotiate, in conjunction with similar occupational sections all over the country, through an official at the head office of the union in London. Now that it was intended to own and control the economic production and trade of the country, it would be as impossible to arrange the necessary detail from London as it had already proved to be in the experimental stages of industrial control, and also, to some extent, in trade union organisation. The growth of large trusts in capitalist society had pointed to a similar conclusion. It had gradually been found that the actual management of production, and much of the resulting trade, was better done locally, often through subsidiary companies, while the head office of the trust itself attended to the major items of business and to matters of finance. And some at least of the industries which it was proposed to socialise at an early stage were more or less localised in different areas of the country. Cotton was in Lancashire, wool in Yorkshire, and there were areas of coal-mining, iron and steel works, and heavy engineering, which for practical purposes were sufficiently separate and often adapted to particular demands. Coal from the North-East Coast was used partly to make the iron and steel of shipbuilding, partly for bunkers and the Baltic trade, while coal from South Yorkshire would come more naturally, for industrial and domestic purposes, to the Midlands and London; coal and iron from the north-western area were used to make the steel for Sheffield. In these circumstances, and on the view of the community as



primarily an economic rather than a political body, it seemed right that the boundaries of administration should conform to the existing economic areas. It would surely have been wrong to set up a highly centralised economic administration when the tendency of political administration had been to decentralise. Lastly, although some industries can be defined fairly accurately, it is usually easier to mark out a region than it is to draw lines between one industry and another. It seemed easier to adapt the existing relations between the central and local authorities than to try to govern through bodies representing large industries, when the relations between one industry and another varied so much in different parts of the country.

There were two other matters which pointed to regional organisation. They both arose out of the experience of the years preceding the 1936 election. One point was that it was easier to transfer labour from one industry to another than from one area to another. In some cases, of course, a transfer in the same industry from one area to another was hardly possible—e.g. in the case of the cotton worker. But, even where either kind of transfer was possible, the coal worker in Durham, for instance, was much more ready to try another form of employment than to move to another part of the country. After all, that is what one might expect. There are enough differences in the face of the country, and, even more, between the ways of life and speech of one area and another, to make it natural for a worker to be particularly reluctant to move out of that part of the country in which he was born and bred. There were some exceptions: a Cornish tin-miner travelled readily enough, and the coal-miners of South Wales were more ready to move than their fellow workers on the North-East Coast; but in general a new job did not present the same difficulties as a new area to live in. Secondly, the Government attached great importance to the establishment of new industries, often in an experimental stage at first. It was much more practicable to set them going under regional authorities, with full information as to the sites, supplies, transport and

labour available, than to do so through a central authority, which would be competing with a number of centralised organisations still surviving in unsocialised industry. New industries, new processes, and the establishment of fairly small works for special purposes had already proved to be of value in dealing with local unemployment. If there were no regional authorities for industry, it seemed likely that a central Government would not be sufficiently alive to local opportunities. In the same way, opportunities for conversion of obsolete plant in one trade to other uses would be nobody's business. If the Socialist State were too highly centralised, it would miss such chances as were taken by the enterprising capitalists who, many years ago, used idle mills and machinery to start the slipper trade in the Rossendale Valley.

**Trade Unionism in Socialised Industry.** I have already mentioned Joseph Codd. I shall have more to say of him later. It is difficult to imagine what the history of these eventful years would have been without the founder of modern trade unionism. Joseph—"the Bull" as his friends called him—recognised that the regional administration of industry might involve some changes in the structure of the great union with which his name is associated, as well as in the government of the country. He knew, too, that there was another respect in which trade unionism had to be modified. The unions had grown up as organisations to protect and improve the worker's standard of life and status in his struggle with the employer, as well as to supplement the social services of a capitalist State. In a socialised industry there would be a change not so much in the functions of the union as in the attitude which it would adopt in performing them: and there might, and should, be one corresponding development of its functions. In a socialised industry, the last word as to wages would rest with the employing community as it had never rested with the capitalist employer. Indeed, if the State had control of prices, the figure at which wages were fixed would represent

the standard of life fixed by the pricing authority of the State : to that extent wage disputes would be illusory. No doubt, in the fixing of real wages, trade unions in a socialised State would play an important part in seeing that the workers in the particular industry got their fair share : but it would be a fair share as between workers in one industry and workers in another, not as between worker and employer—or, to put it another way, it would be a fair share as between the worker in that industry and other workers as consumers. On the other hand, the functions of the trade union in the working out of the agreed plan of employment, with its various rates of agreed wages, would become even more important than in a capitalist State. No doubt the regional administration of industry, as well as some experience of Russia, suggested to Joseph Codd the further developments which made modern trade unionism what it is. He really gave effect to "workers' control" by applying it in the factory, and building up from there a scheme of workers' control in the industry. Until Codd's time, trade union organisation usually cut across the factory unit, so that the workers in a factory might belong to a number of unions, and the union branches might contain persons working in a number of factories. Sometimes one union would arrange to represent the members of another union in negotiations at the factory ; but such arrangements only existed in a limited number of cases, where there were two unions catering for much the same type of worker, one of which had many members and the other only a few at the works in question. Some of the large unions, however, already covered the whole of their trade, and included the different types of workers in an organisation by sections. It was in unions of this type that schemes of workers' control originated, and, naturally enough, the first suggestions were for the representation of workers by their trade union officials on boards set up to control the industries or services which the union covered. It might have been easy to apply these suggestions to, say, the centralised railways, although the results would have been far less effective than what Codd

did : but they could never have been applied to the motor trade, with its comparatively small proportion of trade unionists in a number of different unions.

Codd wanted every unit in a socialised industry to be also a unit in trade union organisation, so far as was reasonably practicable. In a great many cases there was very little difficulty. The Miners' Federation, the Iron and Steel Trades Confederation, and a number of other large unions were well adapted for the purpose, and it made no great difference that the railwaymen were organised in three unions instead of one. But difficulties were to be expected as regards unions of skilled workers with a membership scattered in small numbers in many factories and other centres, and difficulties of another character in trades where there were comparatively few trade unionists and a number of general unions competing for membership. Codd could rely on the goodwill of the unions and their leaders, but he needed some machinery to effect what he had in mind and to adjust the differences which were likely to arise. In January 1937 he held an informal meeting of twenty-eight of the leading trade union officials, and the results arrived at were afterwards approved by a special meeting of the Trades Union Congress. Shortly, they were as follows.

**Agreement with the Trade Unions.** In the socialisation of any industry, Parliament was to be asked to authorise the Minister to make or adopt agreements with trade unions, which were to have the force of law. The Minister was to have power to declare which were the unions concerned in the socialised industry, and the agreements with those unions were to contain provisions for membership of one or other of them to be a necessary condition of employment in the industry. The agreements were to provide for the division of the industry into units, to be settled by the management side of the industry in consultation with the unions. Within each of those units one union (or, in some cases, more than one union) would become the representative union for the unit. Such arrangements as were already

in existence for the representation of members of one union by another would be adopted and applied, and similar arrangements would be made in other cases, so that, so far as possible, one union would represent all the workers in any one unit. The agreements would provide for representation of more than one union in such cases as those of the railway unions and of works, where there was likely to be a conflict of interest between skilled and unskilled workers in their respective unions. A number of matters were likely to require adjustment. The question of the size of the industrial unit might give rise to differences between the management and the unions. There might be differences between unions as regards the choice of a representative union, the question of whether some other union or unions should not also be represented, and the financial and other arrangements under which one union would adopt the members of another. These matters were to be referred to conciliation boards, set up as the circumstances of each industry might require, upon which there would be represented the management side of the industry and the unions concerned, while the chairman and two or three other members of the board would be nominated by the Minister in consultation with a small committee appointed annually by the T.U.C. In the last resort, the Minister was to have power to enforce, override or vary the recommendations of the conciliation boards. The unions undertook to use the units of the industry as the basis of their whole branch organisation. Although it was provided that "the Minister" should exercise the above functions, it was intended that the Secretary concerned should do what was required in his own name, and it was accordingly provided that "the Minister" should be taken to include any Secretary or Commissioner of the Government. The arrangement was intended to apply not only to the Ministry of Industry and its Secretariat, but also to other Ministries and Secretariats concerned with socialised industries. It was intended to be a provisional working arrangement, and the T.U.C. authorised the committee, which it appointed as mentioned

above, to adapt and extend the scheme as circumstances might require and to report at the next meeting of the T.U.C.

**Workers' Control in the Factory.** Inside the factory or other industrial unit, workers' control was to be applied in the following way—subject, of course, to such variations as the circumstances of each particular case might require. The management of the factory was to rest in the hands of a works manager, and there was to be, so far as practicable, a single manager in each industrial unit other than a factory. The manager, his deputies and the higher grades of the technical supervisory staff would be members of the technicians' union, where such a union existed or could conveniently be formed, or of a technicians' section of the union covering other workers in the factory. In either case, their union or their section of the union would be separately administered. The workers, including the lower technical and supervisory grades, would meet in a workers' council, which would be the union branch where there was only one union concerned, or in other cases a joint meeting of the various union memberships. The workers' council would appoint representatives to sit with representatives of the management's side on the works council. In appropriate cases, the latter might co-opt one or two outside members to represent, for instance, suppliers of the raw material used, or the consumers of the factory product or persons engaged in the management of the industry outside the factory. In any event, the manager would be the chairman and his decisions would be operative, unless and until the works council not only differed from him, but carried their dispute to a successful appeal. It was intended that the works council should deal mainly with conditions of employment and with conditions in the works, but that its activities should not be restricted and that it might also raise points on such matters as the sale, distribution or transport of the factory products, or general questions of extension and policy. For running purposes, between

meetings of the works council? the workers' side was to have a secretary—employed full time or half time for that purpose, according to the size of the factory or other unit—who would have full access to the manager's department and would be consulted on all substantial questions affecting the conditions of work.

There is no doubt that, in this scheme, Joe Codd had in mind the "triangle" of manager, secretary of the workers' council and secretary of the Communist Party branch, which managed Russian factories. In Codd's scheme, as first suggested, the "triangle" had only two points, there being no one to correspond to the Communist Party secretary. But, as we know from Codd's letters (State Publishing Office, 1972), Codd intended the co-opted members of the works council to be the thin end of the wedge, and to develop, as they have developed, into representatives of the local Socialist authority, working side by side with the factory manager and the secretary of the workers' council. It must be remembered that in 1937 there were few persons who could have filled that post. The managers were hard enough to find. But I must not anticipate the educational programme of the McCosh Government.

**Workers' Control: Local and Regional Authorities.** Codd intended that the industrial units, which formed the basis of this organisation, should in time become the centres for housing, educational and other social purposes, such as we know them to be to-day. But in the first instance he had to work the industrial units in with the existing system of local government, and to extend workers' control upwards through each industry. The regional councils, with political and industrial functions to which I have already referred, were to be the last link in the chain before the central Government. Between those councils and the factory units the connection differed in different parts of the country, and was, for the time being, a double chain, on the one side administrative and on the other technical. It was discussed at the meeting between Codd and the other trade

union leaders, and again at the T.U.C., but it was left to be arranged locally by the various regional commissioners, who were then preparing the way for the regional councils. The usual arrangement on the administrative side was that, within each important local authority area (county, borough, etc.), the managers of the various socialised works or their representatives, together with one or more representatives of each works council, met as a trade and employment committee for the area, and that that committee nominated a sub-committee, the members of which were co-opted on to a trade and employment committee of the local authority. The latter would also include a few councillors. In some cases, where there were many units of one industry in a borough or other area, there were area committees of that industry, comprising the managers or their representatives, technical and supervisory members and representatives from the workers' side.

I shall have to refer again to the regional councils. For the moment I need only say that they grew out of advisory committees appointed to assist the regional commissioners as regards finance, industry, housing, education and other subjects. The members of these committees, or most of them, ultimately formed the committees of the regional councils, constituted partly by members of the council itself—a body elected on an area basis, as in the case of the older authorities—and partly by representatives of the management and of the workers' side of industrial units in the region. The regional committees of various industries (whose purpose was merely to manage the industry in question) worked under these regional councils, subject to the technical direction of the national management in each industry.

**The Standard of Life.** That is a rough statement of the question of industrial freedom—Henry Dubb's control of his own job—as it presented itself to Joe Codd and his colleagues, and of the lines upon which they approached it. There remained the other aspect of Henry Dubb—his condition as a consumer, with money to spend and a standard



of life to be improved. If that were bettered, there was room enough too—and indeed a necessity—for a different scheme of education, and, with it, a new way of life.

The main items in Henry Dubb's standard of life were his house, food, drink and tobacco for himself and his family, and such consumers' goods as clothing and the like. In addition, he was directly interested in his furniture, pots and pans, daily paper and so on, as well as in certain services—heating, lighting and some forms of transport. The first duty of the McCosh Government was to provide him with the ordinary necessities of life as cheaply as possible, through institutions organised under public control. His house meant a national housing programme. The co-operative system could be used to distribute his food and clothes and other necessities: but for that purpose it would require some alteration, and if in fact the first duty of the Government was to provide Henry Dubb with the necessities of life as cheaply as possible, some special arrangement would be required for the cheapening of those necessities at the expense of the additional goods which he or others might require. Moreover, a balance had to be struck between the supply of goods to Henry Dubb and his friends and the expenditure necessary for the development of industry and trade. Lastly, there was considerable scope for the co-ordination and extension of the services which Henry Dubb required: those services might well be given the same sort of preference in price as was to be given to the necessities of life.

Housing and services I shall refer to in detail later on. For the moment let me consider the dependence of Henry Dubb on foreign trade, since that will lead me to another of his requirements.

**Foreign Trade.** There were two outstanding points in this connection. In the first place, Henry Dubb could not maintain his standard of life on home produce, nor indeed could he live at all without some foreign imports. England still is, and then was, primarily a manufacturing country.

With the development of its industry and commerce there had grown up a population too numerous to be supported behind national barriers by the agriculture of the country, and with a standard of life and a way of life dependent on goods from abroad. It would almost certainly have been a hopeless proposition, and quite certainly a wasteful one, to attempt to provide Henry Dubb with his loaf of bread and his plate of meat out of home-grown wheat and home-raised cattle. And Henry liked a cup of tea, or perhaps rode a bicycle with tyres : tea and rubber do not grow in England. Secondly, the exports and services of this country were not nearly sufficient to pay for its imports. Henry Dubb was dependent on a substantial income from foreign investments, representing in substance the proceeds of goods exported or services rendered in the past.

The question had to be considered both as an immediate matter and also as regards some ultimate solution, with other considerations in view. As an immediate matter, what imports were necessary? In what cases could home production be increased to meet home needs in a more economical fashion than they could be met out of exports? With what exports could the necessary imports most conveniently be paid for, after allowing for such assistance as could be got by the profits of a socialised shipping industry or other services? The Government could develop and use industry for the production of goods for the home market : or they could support the larger exporting industries as against those which only exported a small amount of their output. These were questions of planning rather than of principle. Whatever the plan might be in any particular case, a Socialist Government would at least have the overwhelming advantage, for the first time, of a complete control of foreign trade. Without the possibilities of mass control and mass bargaining open to Socialism, previous Governments, though they had been actively concerned with the problem, had been able to make little progress towards any orderly or reasonable solution. McCosh and his colleagues could, for immediate purposes, treat the whole

question of imports and exports as a national trade balance sheet—one immense transaction by way of barter, to be effected annually or over a series of years by large-scale agreements with their principal customers and supplies. In this connection they would have to consider the trend of competition in foreign markets and, although such an industry as cotton might have been one of the largest exporting industries in the past, it might be more practicable to develop the export trade of some smaller industry with advantages over foreign competitors. I must, however, leave the question of what was done in various industries—the choice, in fact, that the Government made—for consideration later.

**An Economic Peace.** But to treat that sort of solution as anything but a temporary one would be to take too short a view of the matter—a view so short-sighted, in fact, as to be fundamentally wrong. There was no sharp line between protection, whether in the form of tariffs or of control of imports, and economic war. The one led easily into the other : and for many years before the McCosh Government came into power the nations of the world had carried on a guerilla war of an economic character, with all its weapons of protective tariffs, quotas and the like—and all its machinery of economic alliances. Such an economic war had in it all the seeds of actual fighting : the struggle for markets had been the cause of wars in the past and would be bound to lead to war again.

And here I come to Henry Dubb's other requirements. What was the use to him of a decent standard of life in peace-time—what indeed of a Socialist State and all it meant—if, after a few years of it, he, his family and his friends were to be plunged into war again ? It would be a war conducted so as to break the spirit of the opposing nations—conducted without scruple, and with all the resources of science, against the civilian population, men, women and children alike, as well as against the combatant army. What chance had Henry Dubb or his folk of survival ?

What chance was there of the survival of a Socialist State, or even of the forms of capitalist civilisation? Henry Dubb, if he died, would die uncomfortably, by gas or explosive or some devilish contrivance of the future: if he survived, it would be to live in a community on the level of the higher apes, or thereabouts.

Given the capitalist system and the national barriers behind which it had grown, such a war seemed sooner or later inevitable. Its sure source lay in economic rivalry and economic competition, carried on in terms of international finance and foreign trade. If McCosh and his colleagues were to provide peace—Henry Dubb's most essential requirement—they must do so by looking at international trade and the dead fruit of foreign investments as something more than mere matters of planning for the moment. In this respect the task before them was to lay the foundations of a Socialist community, not merely in England, but throughout the world, and to see that those foundations were laid, not merely on political compacts and in the terms of agreements between States, but as the sure foundations of an economic peace, upon which alone there could be set up a real system of protection for Henry Dubb and his friends against war and all war would mean.

**A Fair Chance for Henry and Mary Dubb.** I have referred to four matters that Henry Dubb required—a secure job, industrial freedom, a decent standard of life and peace. With them, or in consequence of them, there would necessarily be others—a readjustment of wealth, the elimination of inherited fortunes, justice available to all in fact as well as in theory, and many other incidental things with which I shall have no space to deal. These, if they came, would give Henry Dubb the fair chance so long denied him. He and his children would need, in an educational system fit for citizens of a Socialist State and open to all, such help in using that chance as a measure of learning and experience could give. In the long run the full use of it would depend on Henry and Mary Dubb themselves, on the plain

men and women of this country and on their children after them. What that full use was lies beyond the scope of this book. We of a later generation look from the other end—back on the society that McCosh found and on the changes he made in it. All I am here concerned to do is to set out the task before him and his colleagues as at that time they may have seen it.

## PART II.

# THE FIRST PLANNING AND FINANCE ACTS

- Ch.* 7. The Planning Machinery (with some introductory remarks)
- 8. Coal
- 9. Iron and Steel
- 10. The Cotton Trade and Lancashire
- 11. Co-operative and Retail Trade
- 12. Overseas Trade
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- 19. The New Times

## CHAPTER 7: THE PLANNING MACHINERY (WITH SOME INTRODUCTORY REMARKS)

- I. The Opposition
- II. The Planning Machinery
- III. Some remarks on the following Chapters

### § I. THE OPPOSITION

**The Opposition.** The remainder of this book is concerned with the working of the first Planning and Finance Acts and, to a lesser extent, with some later developments. The ground had been cleared for the introduction of a national plan, along the lines of which the Government could proceed in its task of socialisation: In describing the clearing of the ground, I have referred occasionally to the comments and protests of the opposition. In future I shall have little need to make such references, for two reasons, one of which arises out of the object of this book, while the other is a matter of history.

I am concerned to answer a question that must have been asked by many students of the past, who have come to imagine the capitalist system as it was before McCosh's time and to contrast it with this country and the world as we now know them. They must often have asked themselves—How was Socialism introduced? That is the question which I am attempting to answer by describing the problems that confronted McCosh and his colleagues, and the steps that they took to meet them and to transform society into the form in which we now know it. I am concerned far more with what they meant to do and what they did than with the attitude of those who were opposed

to their schemes and to the whole idea and object of their schemes.

In the second place, if I make few references to the opposition, I find justification for doing so when I come to consider the part that in fact they played. As I have already indicated, the opposition in the fields of political affairs and of industry—then more separate than they are now—was vigorous, vocal and well organised at the time of the General Election of 1936. Whether or not that election would give the Labour Party a working majority was a matter of some doubt until towards the end of the election campaign. It did give them a working majority; and it had been fought openly and frankly on the question of whether or not this country should become a Socialist community. The results of an election so fought, and on such an issue, were enough in themselves to knock much of the stuffing out of the opposition. It could hardly be expected that a Party which had pledged itself so fully and so repeatedly to the socialisation of the credit system, to the socialisation of industry—first the major industries, and then the remainder as fast as might be—and to a programme of taxation and of social services directed to the elimination of property rights, would, when it came into office, fail to carry out at least enough of that programme to make an irremediable change in capitalist society and its structure. The opposition to such measures as the Unemployment (Temporary Relief) Act and the Banking Act was loud and vehement; but it was the opposition of men who knew that, on all the principles of that democracy which they had so long supported, those measures were bound to be put into effect. They knew too that the process of clearing the ground, even to the extent of those and similar measures, was not only inevitable, but such as to make the restoration of the capitalist system in its previous form a practical impossibility. Within a short time the opposition, as McCosh put it, "got out of breath." The change was reflected in the character of the protests against the National Investment Act. There is no doubt, that if that



measure had been introduced a little earlier, it would have provoked far more outcry. Something of the same sort had happened to the Republican Party in America, when Roosevelt started his "New Deal." In both cases the political opposition saw the disappearance of the foundations of all their previous policy, such as it had been. This was a new world and the beginning of new times. How far the change would go was, at this early stage, completely uncertain. Its general direction was clear enough; but the lines, as well as the extent, of its development in any given matter must necessarily depend on changing circumstances. No political party has ever succeeded as a mere opposition without any alternative programme. That was as true in those times of the Tory Party and its supporters as it would have been of the Labour Party itself if it had failed to put forward a constructive programme. As yet the Tory Party—and with it the remains of the Liberal organisations—had no idea of the point from which it would have to start. If it was to succeed at some later election, what would be the organisation of society then? From what state of things would it have to start? How was it to apply the best principles of the Primrose League in a community, in which the credit system would certainly have been socialised, the working man would certainly be largely in control of his own job, and, at the very lowest reckoning, enormous inroads would have been made on the previous rights of the owner of money or of industrial property? It was impossible to put forward an alternative policy unless you could have some idea of the state of affairs in which it was to be applied.

Mere protests soon lose their force. To insist again and again on those very rights which the electorate had refused to recognise, would have carried very little conviction in the country and would have lost all meaning as the rights themselves disappeared. Organised political opposition lapsed into the temporary silence of bewilderment. From time to time attempts were made, on one point and another, in the discussion of Planning and Finance Bills or in connection

with the orders made under them, to stay the hand of the Government or to eliminate some particularly objectionable feature. The sum of those protests hardly amounted to any effective opposition to the whole trend of things. The criticism gradually became of a more constructive character, directed not so much to preserving the rights of property as to keeping some vestiges of a foundation, upon which they could be rebuilt. As socialisation proceeded the vestiges disappeared; and the main trouble of the Tory Party throughout this period was that no one among them knew, with any approach to the practical, what alternative policy they proposed. In all the circumstances the historian may fairly say that the period of transition was one in which the opposition was more interesting as a survival of the past than as an effective factor in current politics.

**Sabotage.** But what of the industrialists themselves? And of other individual owners of property? It was from them that the Party had expected what it used to call "sabotage"—active resistance in all matters of trade and finance by those who still had the control of the instruments in their hands to a Parliament and an electorate which sought to remove those instruments from them. Of that type of resistance there were some instances, but both their number and their importance were far less than the Party had expected. The Emergency Powers (Control of Industry) Act, 1936, constituted a most effective threat. However angry you might be with the Government, there was more to be said for continuing your business or for losing it against compensation than for having it taken away from you summarily without any compensation at all. Moreover, the control of the instruments of production, distribution and exchange had been a control within the complicated structure of the capitalist system. It had been intended and used for purposes within that system. It was not adapted to the purpose of resisting parliamentary authority. There was a tradition in these islands of political government, political responsibility, and some measure of

political sense, which proved as serviceable in the change to a new system as it had been in the adaptation of the former system to minor changes. The English were ill-accustomed to revolutions, because they had found less need for them than any other country, and had proved more capable than any other country of making changes without them. It was no doubt a close thing whether this revolution—for it was in effect no less—could be carried through upon the strength of the political tradition and without actual fighting. The class struggle was perilously near a class war, in the literal sense of the words. For that threat of war at home, as well as for the threat of war abroad, the policy of the National Government had been largely responsible. But the danger lay in the beginning of the change—in setting the wheels in motion—rather than in its further progress. Once the machine was started, its own impetus served to carry it on its way, over such obstacles as individual obstruction might have presented. The transition to Socialism began in the common feeling of the people that some such change must happen. As with all great changes, the feeling rose and deepened with some measure of accomplishment. To the will of the people, as expressed at a General Election, individual obstruction might have been an obstacle. The first measures were taken with vigour and thoroughness. The enthusiasm so confirmed and heightened was not to be gainsaid : and the history of attempts at "sabotage" is a history of personal incidents, without any general importance and of no general effect.

Before I leave these matters—and I shall have little more to say about them—there is another factor to be mentioned. The captains of finance and industry, with disciplined armies behind them, might have been much more formidable than in fact they were. Those armies had served well enough within the framework of the capitalist system. In a period of transition to Socialism, their loyalty could not be relied on. Many of them had already deserted to the enemy ; others, upon consideration, were not unwilling

to join his ranks. It was all very well to propose a policy of active obstruction at your works; but it became extremely difficult to carry it out if your managers and your staff were not with you. It was to the manager and the technician that Colet's efforts had been largely directed. They were in a position to know the deficiencies of the present system and to realise their own insecurity in it. They appreciated the possibilities of Socialism, not only for the manual worker, but also for themselves. Some inherent love of justice—the previous system had not been just—combined with a respect for the traditions of political government to enlist the large class of managers and technicians on the side of the Government, at any rate against the sabotage of the existing owners.

**The Hymn of Hate.** Lastly, there was what McCosh called "the hymn of hate." Naturally enough, in the election campaign feeling ran high and more than the usual amount of invective was directed against a Party the consequences of whose success would be so serious. As the political opposition was reduced to some measure of discretion, the attacks in the capitalist Press assumed a different character. Abuse of the Party, and of all it stood for, had been tried and had failed. There remained the alternative of criticism and comments upon every step it took—the selection of news with an object in view—the description of measures in such a way as to heighten any unattractive feature in them—innumerable minor comments and references with a purpose—a line of attack less violent than the former invective, but at least as dangerous. It was this type of criticism that led the Government to socialise the Press at an early stage. Outside the columns of the newspapers, comments were at first more unrestrained. The owners of property and, with them, all those who for reasons of interest or long-standing habit were attached to the system of private ownership, regarded those who were abolishing it with such a hatred as for many years had been unknown in British politics. Even before the election there

had been many who were convinced that Socialism was a wrong and a wicked thing and that those who sought to bring it about were traitors to their country and to all its traditions, liberty and civilisation. Some of them said so ; others concealed an equally sure conviction in the form of more moderate criticism. But, whether criticism was violent or restrained, those who believed that private property was a natural right were slow to be convinced of any other view. They brought into the affairs of government the type of feeling which had inspired the religious wars of earlier centuries. They were prepared to justify any methods or any form of attack by the justice of the cause which they believed themselves to be defending. To opposition in that spirit and founded on that belief, the persuasion of words was no answer.

There was in fact only one answer to the hymn of hate. It arose, not out of mere denials nor even out of reason or argument, but out of the deep and rising enthusiasm of those who were determined to bring about "the new times." To the resistance of a belief founded on the ideals of the past the only answer was a belief in other ideals—those of the future. As that belief was translated into practice and the ideals shaped themselves slowly in the form of a new community and a new order of life, many of those who believed Socialism to be wicked began to find in it the concrete substance of those very things of which they had believed it to be the denial. This new order proved to have in it freedom in a new form, justice in a new form, and the possibilities of a new happiness. There were many who thought they had been defending these things—defending them in the only form in which they had believed them to be capable of existing—and many among them who discovered, as the work of McCosh and his colleagues began to take shape, that they had been defending the shadow and resisting the substance. In a changing world, they found, an ideal is not to be conserved, like tinned food or pickles, in a rigid form. It is a thing of change and movement, depending on changing institutions for its life and expression. To

such as these, not too hardened by habit to take things as they happened and to have some regard to their actual consequences, the change that was taking place before their eyes brought at first hesitation and then conviction. It was the translation of Socialism into practice that stilled the hymn of hate. The hate remains now in the pages of history as a sign of the times and no more. To those who lived through the period of transition, it must have seemed of greater weight and importance than it can seem now to those who are living in a different order of things.

## § II. THE PLANNING MACHINERY

**Planning and Finance Acts.** Let me now proceed to some description of the machinery for preparing and working the national plan. The Government intended every year to lay before the House of Commons a Planning and Finance Act setting out the main lines of their programme for the year. The programme included an economic plan for the year, together with such financial, administrative and other matters as were required to give effect to it. Before 1936 there was no such annual plan. The only things that resembled it were, on the one hand, the outline of work of a session of Parliament, which was contained in the King's Speech and debated in very general form on the motion in reply and in amendments to that motion put forward by the Opposition—and, on the other, the annual Budgets, which were financial measures without any further statement of policy than was necessarily contained in the financial provisions. In consequence, there was little planning machinery. During the War a small committee of the Cabinet had been specially charged with the prosecution of the War, and, to that extent, had acted as a planning committee. After the War this committee disappeared, and with it a rudimentary form of planning Civil Service, which had grown up in the shape of a Secretariat to the Prime Minister.

As regards economic planning, the Labour Government of 1929 had set up an Economic Advisory Council, of which at first much was expected. One difficulty about this body had been the difficulty, characteristic of older methods of government, that, like the Committee of National Defence, it functioned entirely in private. Its proceedings were entirely unknown to the public, most of whom had no idea who were its members or, indeed, that it existed at all. Another difficulty, equally characteristic of the system then in existence, was that the successful industrialist or manufacturer was considered to be well qualified to take a place on the Council and was in consequence well represented there. But the Economic Advisory Council had a small staff, and it did at least represent the beginnings of a planning machinery, even if its functions in the past had been rather to advise generally than to prepare a plan.

**Economic Committee of the Cabinet.** In the planning system now set up by McCosh, the final authority was the Economic Committee of the Cabinet, to which I have already referred, consisting of six members under the chairmanship of the Prime Minister. It was intended that this body should lay down the general lines of economic development for the year, or for more years than one, and that it should approve, with such alterations as it thought fit, a plan to be prepared on those general lines. In the execution of the plan, the Economic Committee would serve as the final co-ordinating authority, with power to review and override any departmental decisions made under the plan, and to supplement the plan, where necessary, within the powers authorised by Parliament. To the plan itself, as authorised by Parliament, the Cabinet and its Economic Committee would be bound : but it would be their duty to suggest from time to time any alterations in the plan which might require parliamentary sanction, although it was intended that the original authority should be wide enough to make any such alterations as few as possible, and to

foresee the lines upon which future development could proceed and the plans of succeeding years be framed. Both the Political Secretary and the Secretary for Planning were to attend meetings of the Economic Committee of the Cabinet, although it was not intended that the Political Secretary should necessarily be there on every occasion. Neither he nor the Secretary for Planning were to be members of the Economic Committee or take any formal part in its decisions. The Economic Committee was to be kept as free as possible from detailed work, partly by a development of the duties of the Economic Advisory Council and partly by the use of the Secretaries, to whom I referred in an earlier chapter of this book. It was not expected that the Economic Committee would require a large staff, although their Civil Service secretary would be an extremely important official. In fact, the opportunity was taken of making him the head of the Civil Service, a position previously occupied by the Permanent Secretary to the Treasury. Upon the general view of the Party that government was essentially an economic matter, the Cabinet as a whole was treated as though it were its own Economic Committee, with the two non-economic members, the Minister of Justice and the Minister of National Defence, added for the occasion. Accordingly the Civil Service secretary of the Economic Committee of the Cabinet was also the Permanent Secretary of the Cabinet, and was so styled.

**National Planning Commission.** The Economic Advisory Council was renamed the National Planning Commission, and its composition and functions were altered considerably. The N.P.C. had no executive duties or authority. It was an advisory body with the duty of preparing the national plan in accordance with the general directions of the Economic Committee of the Cabinet, and of giving advice upon questions arising during the performance of the plan; as well as generally on economic matters. Inevitably in the process, without having any formal authority, it took a certain responsibility in settling minor



points. Individual Ministers or Secretaries referred to it for some further explanation of what had been intended, by the plan, or for some definition of their functions, where there was a question of overlapping. In minor matters its suggestions or opinions were usually accepted.

No doubt that small extension of the activities of the N.P.C. arose because its Chairman was the Secretary for Planning. This post in time became the traditional approach to Cabinet rank, just as that of Financial Under-Secretary to the Treasury had so often been in the past the approach to office as a Minister. The Secretary for Planning had duties which fell roughly into three divisions. In the first place, he was personally the channel for communication between the N.P.C. and the Economic Committee of the Cabinet. In the second place, he was the head of a large Government office, which in effect served as the staff of the N.P.C. In the third place, although he had no specific authority to settle any questions of difference or overlapping between the various authorities concerned in the execution of the plan, he was the person to whom such questions were in the first instance referred. If they were not such simple matters as he could settle by conciliation—and a department existed in his office for the purpose—he would either bring them before the N.P.C. for their advice on such points involved as were within their province, or refer them direct to the Prime Minister or the Economic Committee of the Cabinet. The humorists suggested that he might have been called the Secretary for Planning and Tact. The post was filled with great distinction by Prudence Filkins, who afterwards became the Minister of Justice in the Codd Government. Mrs. Filkins, whose husband enjoyed the distinction of being the last admiral sacked by Bashford—he stuck it out for three years—combined, as McCosh put it, the art of conciliation and an uncommonly good head for mathematics. The latter was perhaps necessary, because all the statistical bureaux of the various departments were combined under the Secretary for Planning. There remained the research and statistical

departments attached to various industries, and offices of a statistical character under the Secretary for Banking and the Secretary for Investment : these were, however, in close touch with the statistical department of the Secretariat for Planning. One result of this arrangement was that Government statistics became more uniform and their figures more comparable. Another was the extension of statistical research to a large number of matters which had been neglected previously or left to private enterprise. The British statistical service rose to the level of that in America, and finally surpassed it. I need only mention the Filkins Institute and the admirable training provided there.

The N.P.C. at first consisted of thirty-two members, the number actually appointed by Order in Council issued under the authority of the Planning (Constitution) Act. Parliament authorised the appointment of not less than twenty nor more than forty, and the number gradually increased with the progress of socialisation. The members consisted of representatives of socialised industries, some trade union members, two or three representatives of employers in un-socialised industry, and a number of Socialist experts in economic and financial matters. Most of them were part-time members, and only received their expenses and, in proper cases, a small sum by way of compensation for lost time ; the trade union representatives were paid and indemnified by their unions. Six of the members constituted a full-time paid executive committee, which met regularly, while the full council only met three or four times a year in connection with the Annual Plan. There were, however, a number of committees on special subjects, which met frequently. I need only mention the Statistical Committee, the Foreign Trade Committee, and the very important Wages and Prices Committee and Central Regional Committee, to which I shall refer presently.

There were some bodies with which the N.P.C. was in constant touch—including the Board of Commissioners of Banking (and I should add the Advisory Committees under the Banking Act) and the National Investment Board.

Members or representatives of those boards were members of the N.P.C. and of the committees of the N.P.C. mentioned above. It will be remembered that the National Investment Board was not itself a planning body, but played a leading part on the financial side of the plan's performance. There was also an important body, with regional branches, known as the National Employment Board. Perhaps it is most convenient to refer to its functions in connection with the regional committees of the N.P.C.

**Regional Committees of N.P.C.** These regional committees were appointed in each administrative region, where they bore roughly the same relation to the regional council as the N.P.C. itself bore to the Economic Committee of the Cabinet. The chairman of each regional committee was a member of the N.P.C. ; and the various chairmen together constituted the Central Regional Committee, which also included the Secretary for Scotland and Local Government or his representative. In each region the other members of the regional committee were co-opted and were not members of the N.P.C. itself : they represented socialised industry, trade unions, unsocialised industry, and expert opinion in the same way as those elements were represented in the N.P.C. itself. In other ways the organisation of the regional committees was similar, but with more frequent meetings of the regional committee as a whole. There were executive committees of full-time members, and a larger number of part-time members and sub-committees on special subjects. Side by side with these regional committees of the N.P.C., there were regional committees of the National Employment Board. These were smaller bodies, rather like sub-committees on special subjects, but they were given a separate existence in recognition of their special character. They were composed mainly of trade union representatives, with one or two co-opted members, and their duty was to keep in close touch with the state of employment in the region, to suggest possibilities for further employment, and to consider planning proposals from that

point of view. Their chairmen, with some central trade union representatives and the Secretary for Employment and Training, constituted the National Employment Board, of which the Secretary was chairman and which was concerned with similar duties on a national scale.

**Regional Councils.** Let me now describe the regional councils themselves, before I proceed to explain the machinery for the preparation and adoption of the National Plan. There were, as now, eight regions; and in the first instance regional commissioners were appointed with limited powers, the intention being that those powers should be enlarged and taken over by regional councils. The constitution of the latter raised several questions of principle. In the first place, should they be of the type associated with the existing local authorities, working mainly through committees? Or should they resemble local Parliaments, with functions and a procedure resembling those of the central Parliament? Secondly, what was to be their relation to the regional boards of socialised industry, and to any other regional body that existed or might be set up for administrative purposes? Were the regional councils to be elected directly, as local authorities were elected? Or were they to consist, in whole or in part, of the representatives of socialised industries within the area, and of existing local authorities, nominated in either case by the industries or authorities concerned? To some extent the question of direct or indirect election would affect the internal constitution and procedure of the council.

As regards direct or indirect election, there were arguments on both sides. On the one hand, direct election would involve a third election, additional to the parliamentary and local elections already in existence. Moreover, it seemed difficult to reconcile the principle of direct election with the adequate representation on each council of the various industrial boards, and other Socialist bodies in the area. The connection between a directly elected council and such bodies would have to be rather different from that

which would exist if the council consisted of, or contained, nominated representatives of the bodies in question. On the other hand, the Government felt strongly that indirect election was apt to result in a reactionary body, and that a council not directly elected would not be sufficiently and immediately responsive to feeling in the region they represented. The regional councils were to play a part of vital importance in the socialisation of the country, and the Government were alive to the dangers of too much bureaucracy in their work. They did not want them to become mere instruments of the Ministries, but rather bodies through which local feeling could make itself felt in planning and working out socialisation. In the circumstances, they decided in principle that the regional councils must be directly elected. As regards their procedure, it seemed unwise to recognise the need for a reform of the procedure and functions of Parliament at Westminster and at the same time to set up parliamentary procedure on a small scale in the regional councils. Besides, procedure by committees had two other advantages. In the first place, the Government particularly wanted to attract on to the regional councils the most intelligent and active Labour members of the existing local authorities. This was more likely to happen if the procedure of regional councils resembled that of the local authorities; to which those members were already accustomed. Secondly, procedure by committees had the advantage that it would make it easier to take in nominated representatives of socialised industries and the like in the area. Without having a place on the council, they might usefully be co-opted as members or advisory members of its committees. Lastly, the difficulty about the third election could be met to some extent by electing the regional council members at the same time, and through the same polling machinery, as the members of local authorities. The question of whether Mr. Smith, that trusted member of the movement in Long Puddlewick, should stand for Puddlewick Rural District Council, the Loamshire County Council or the Midland Regional Council, would perhaps

be solved by Mr. Smith himself, as to some extent it was already solved when he made his choice between the rural district council and the county council. There were, however, other ways of assisting Mr. Smith in his choice. Even if he could not be allowed to sit on all three bodies, he might at least be permitted to stand for one of the others as well as for the regional council, and, if elected for the latter, all that would be necessary would be a by-election for the smaller body. Similar by-elections occurred already in connection with the election of aldermen. Moreover, in course of time, Mr. Smith might take so kindly to the regional council that he would fall into the habit of standing for that every time. I ought to add that, while the regional councils would have little effect on boroughs and urban and rural district councils, their institution would involve the transfer of a good deal of work from the county councils. The latter would become correspondingly less attractive to the vigorous personality of Mr. Smith. No doubt the McCosh Government foresaw this possibility and contemplated the eventual rearrangement of local authorities upon the lines that now exist. It is perhaps convenient to remind my readers that, when the McCosh Government came in, there was considerable confusion between electoral areas for parliamentary purposes and those in existence for local government. At present, of course, the boroughs exist as they then existed, but the rural district councils, urban district councils and county councils of that period have all been merged in local government areas corresponding to those of the parliamentary divisions. This has further simplified the administration of such areas for electoral purposes; but the reforms which had this effect were instituted under the Codd Government in later years.

The regional councils were accordingly to be directly elected and to have a procedure resembling that of the larger existing local authorities. What happened was that the regional commissioners, who were appointed in the first instance, were instructed to nominate advisory committees

on the subjects, which would be those of the various committees of the regional council when constituted. They were told to nominate a few obvious experts, and, as regards other nominations, to ask the advice of local political organisations, both Socialist and Opposition. These advisory committees were small bodies, intended to serve more or less as nuclei of the future committees of the regional councils, and to provide the latter with a certain number of members acquainted with the type of work which would be required. The regional commissioners handed over more and more responsibility to the advisory committees. They were able to hand over their duties to the regional councils within periods which varied from about three months in the case of Scotland to eight months in the West of England. As I have already mentioned, the Scottish Regional Council was called the Scottish Parliament in order to meet substantial, but rather confused, demands for Home Rule in Scotland. The question of whether it had sufficient powers immediately became an issue in Scottish politics, but one of so involved a character that few Englishmen were able to understand it: the Scottish Parliament soon evolved a curious procedure and terminology, which were never imitated and rarely understood elsewhere. To this day the "Sgalach mhor," which is the signal for a division in the Scottish Parliament, has a somewhat barbarous sound to southern ears. There was also a demand that the Welsh Council should be styled the Welsh Parliament, and that its proceedings should be conducted in the Welsh language; but neither proposal met with much support. The rough basis of membership of the councils was three members to each parliamentary division. This resulted in regional councils with an average membership of about 225—that is to say, about half as large again as the London County Council. In the first instance all the members were elected at special elections held, where possible, at the same time as local authority elections, but in some cases specially. These elections were to choose three members in each group of local government areas corresponding

roughly to a parliamentary division. Of the members so chosen, the first at the head of the poll was to hold office for three years, the next for two, and the third for one. Subsequent elections at the end of each period of office would be for three years in every case, and would result in a regional council one-third of the members of which would be elected annually, as in the case of borough councils. I need not trouble the reader with the rather complicated details of these arrangements, which were varied to some extent from region to region by orders of the regional commissioners, confirmed by the Secretary for Scotland and Local Government. The Government took considerable care to explain its intentions fully all over the country, and, as the idea of regional councils had been part of the Party programme for some time, local Labour organisations proved most effective for this purpose. The result of the elections was distinctly encouraging. It confirmed McCosh's opinion that the country welcomed the vigour in action which his Government had shown. Not only did the results show a Socialist majority on the scale of the General Election, but also the members of the new regional councils represented many of the best elements in local government affairs. Many of them were prominent trade unionists, who appreciated the very important part that regional councils were to play in industrial organisation.

The regional commissioners first appointed had wide powers to require returns and information from local authorities and private persons within the region. They had also such powers as might be delegated to them by Government departments, which were already in a position to supervise or control most local government matters. But their powers were either powers to get information or powers to exercise control: the actual executive powers of local authorities remained where they were. When the regional councils were instituted, the powers of regional commissioners were, of course, transferred to them. It was intended, further, to transfer many of the executive powers of local authorities. One of the main objects of the system of



regional councils was to place such matters as transport and education on a wider basis. But no attempt was made in the Planning (Constitution) Act to define what powers were to be transferred, or to fix any date for the transfer. The Government apprehended that in some regions more powers ought to remain with the local authorities than in others, that some of the local authorities, such as the L.C.C. and the larger city councils, would require special treatment, and that, in any case, the process of transfer ought to be a gradual one, effected as rapidly as possible, but at a speed varying in different regions. The Act accordingly provided that any powers of a local authority might at any time be transferred to the regional council by order of the Secretary for Scotland and Local Government. The regional councils, when first appointed, were given a little time to settle down and were then asked, in effect, to say what powers they wanted transferred to them. Although they did not always get quite all that they asked for, this system worked very well. The regional councils were provided with excellent staffs, including some of the best local government officials in the country and some intelligent Civil Servants, transferred from the central Government. Most of them set up committees, called by some such name as the Acquisition of Powers Committee; and the natural acquisitiveness of the British local authority and its officials soon did the rest. The control of the Secretary for Scotland and Local Government was mainly directed to seeing that the various regions had powers of about the same character and of about the same extent. They were encouraged to take a very large measure of control as regards transport, housing and land, as regards education, and as regards public undertakings for the supply of gas, water and electricity. On the whole, public health, the police, and a large number of minor matters were left for the present with the existing local authorities. It is perhaps most convenient to discuss the matters taken over in subsequent chapters, when we come to deal with them generally. After all, any transfer of housing powers was merely a step in a

national housing programme, and the acquisition, for instance, of a public water supply merely one step towards the socialisation of that public service as a whole. But some of the most important powers of the regional council were of an entirely new character. It was intended that it should serve not merely as an extended local government authority for the region, but also as an industrial parliament, which would be in a position to survey industrial development in the region, and the sanction of which would be required for the development schemes of any particular industry: I might add, for the abandonment schemes—for it was not intended that large mines or works should be abandoned without the sanction of the regional council or except upon such terms as the regional council might approve. I shall have to refer to those large questions in later chapters. For the moment I am concerned with the constitution of the regional council as a kind of industrial parliament.

**Committee System in Regional Councils.** The existing local authorities naturally contained among their members a certain number of agricultural and industrial employers and, in the towns, of trade union officials. It was clear that the regional councils were to have greater powers in the organisation of socialised industry and the control of un-socialised industry than had ever been given to local authorities. In consequence among the candidates for regional councils there was a majority of industrialists and trade unionists, and, at the first elections, the members returned included a large proportion of such persons. The full regional councils were accordingly more representative of industry than most of the local authorities had been. The control of industry was to be exercised, however, through the committee system, to which I have already referred. The regional councils were directed by the Secretary for Scotland and Local Government to set up in every case certain committees, called the Constitutional Committees, as well as such other committees as they might think fit to set up, having regard to local requirements. Among the

latter, for instance, were the Acquisition of Powers Committees mentioned above. The Constitutional Committees were a finance committee, a committee of industry, a committee for land and housing, an education committee and a social services committee. Of these, the finance committee was to keep in close touch with the Ministry of Finance, the committee of industry with Codd and his Secretaries at the Ministry of Industry, the committee for land and housing with the Minister of Land and Communications and the appropriate Secretaries and Commissioners under him, and the remaining two committees, on education and on social services, with the appropriate Secretariats under the Minister of Social Services. The idea was to set up a regional organisation, corresponding on a smaller scale to the central organisation, and the regional councils resembled local authorities in having the majority of their permanent staff allocated to the various committees rather than to the council itself. In many ways the most important of the Constitutional Committees was the committee of industry, a large committee upon which three classes were represented. There were, as a minority of the committee, a number of members of the regional council; secondly, there were a number of nominated members; and, thirdly, there were representatives of the area trade and employment committees, which I have already mentioned as consisting of the managers and works' council representatives of socialised industry in each area. The representatives of area committees were elected by the committees. The nominated members were nominated by the Secretary for Scotland and Local Government to represent, in effect, various special interests. The co-operative movement in each region was asked to suggest several names, it being intended that, as the co-operative movement came to play a larger part in socialisation, it should elect its own members of the committee of industry: as a transitional step, it merely suggested names for nomination. Members were also nominated to represent agricultural interests, including farmers, agricultural labour, and marketing organisations. Other

members were nominated to represent unsocialised industry, both on the employers' side and from among trade union officials. With the institution of regional councils, most of the Government departments set up regional offices, and representatives of such of these offices as were directly concerned in industry were also nominated to the committee. Lastly, the chairman of the regional committee of the N.P.C. and of the regional branch of the National Employment Board were *ex officio* members of the committee, as well as of the regional council itself. When the regional councils were first constituted, the nominated members constituted about half of the committee of industry, the regional council members about one-third, and the representatives of socialised industry the remainder. With the progress of socialisation, the last-mentioned class increased in number and the nominated members became fewer. The committees of industry in the various regions are now divided about equally among the three classes of regional council members, nominated members, and representatives of socialised industry. Of course, then as now, the composition of each committee varied in different regions. Then, as now, the arrangement was that the Secretary for Scotland and Local Government made general suggestions to the regional councils as regards the composition of their committees; the regional council considered those suggestions and sent their proposals to the Secretary, and the Secretary's approval was required before the committees were finally constituted. With the progress of socialisation the tendency has been to leave more and more independence to the regional councils in the constitution of their committees, and at present there are few cases of interference by the Secretary. My readers will perhaps remember that a few years ago there was some trouble in this connection in the West of England region. Under the McCosh Government there were many more cases of differences between the regional council and the Secretary, and the latter often had to alter the proposals of the council considerably. Scotland, however, was allowed a free hand

at an early stage, and in consequence the constitution of the Scottish Parliament and its committees differs in a number of ways from that of the regional councils in England. I ought to mention that the chairmen of the regional councils have always held office for one year only and have not been eligible for re-election. In several regions there have been similar provisions, made by the regional councils themselves, as regards the chairmen of their more important committees.

I shall have to refer, in the course of this book, to a number of the committees of the regional councils. For the moment I need only mention the general lines of their constitution. All of them were smaller than the committee of industry, and in all of them members of the regional council formed a larger part of the committee. Besides such members, there were on the finance committees representatives nominated by the socialised banks in the region, by local authorities and by the Secretary for Scotland and Local Government, the latter to represent certain large industries and expert opinion. On the committees for land, housing and transport there were representatives of the local government offices concerned, of the building and transport unions and of local authorities—a larger number of the latter than on other committees. The education committees were conspicuous for their liberal representation of expert opinion, including, of course, teachers and others engaged in the public service. The social services committee contained a particularly high proportion of regional council members, as well as local authority representatives and one or two nominated members with knowledge of special services. That committee, like the others, had a general purposes sub-committee as well as various sub-committees for particular purposes. The whole committee system of regional councils resembled the existing system of local authorities on a rather larger scale.

**The National Plan.** Let me now turn to the arrangements for the preparation and adoption of the National

Plan The first Planning and Finance Act was to give effect to part of the programme which had already been put before the country. Its main lines were well known; and the Party, before it came into power, had already passed a number of general reports and memoranda, which went into some detail. On many particular questions there was further matter available in the shape of contributions by various Socialist bodies and individuals, which had been before committees of the Party or had been considered by persons who were now members of the Government. This first plan required to be put into operation without delay. McCosh realised that it was essential for the success of his programme to start the actual socialisation of industry as soon as possible and to embrace as much as possible in the first Planning and Finance Act. He had no wish to continue the emergency measures as regards unemployment benefit and the minimum wage on any wider scale than was necessary. In this instance the Cabinet and the Secretaries and Commissioners concerned attended a full meeting of the N.P.C., and laid before them the general lines of the proposed Bill, asking for their advice on a number of specific points and for any other comments they might think fit to make. This meeting took place in February 1937, and, as the matter was urgent, the N.P.C. was given a definite time in which to submit its report. McCosh suggested that the matters in question should be referred to the various committees, with power to take evidence or co-opt advisers on any particular point. In the same way, the Civil Service were asked to work out a number of matters and, in some instances, special reports were asked for from the regional commissioners and their advisory committees, which had recently been established and not yet superseded by regional councils. This is not the place to discuss the plan so submitted, but the nature of the comments on it is interesting. On the whole, the N.P.C., as a body, had not very much to say, although there were minority reports from most of the committees containing objections, varying from violent criticism of a political

character to questions of comparative detail upon which the particular writers happened to have views. Some, but not all, of these minority reports were submitted to the Cabinet. The Civil Service was perhaps rather at a loss. Measures of this character were a little outside their experience; but, except in the case of one or two departments, which were highly critical of the proposals and only anxious to express their general criticism in a courteous form, the criticism was detailed and intelligent. The officials concerned may or may not have approved of the schemes in the Bill, but they were certainly not going to confess any inability to carry out the curious requirements of this or any other Government. The comments which came from the regions were mostly on the points which particularly affected them; and upon these they proved to be extremely useful. Undoubtedly the reports from Lancashire on the cotton trade, from the North-Eastern region on iron and steel, and from the Eastern Counties and the West of England on agricultural matters, served to bring up to date the information already available to the Government on those questions and proved of great assistance, not so much in the drafting of the Bill itself as in the consideration of the various Orders which were made under it. As a result of the special circumstances and of the rudimentary state of the planning organisation at the time, the first Planning and Finance Bill was very widely drafted. The powers taken under it were considerable, and in effect a wider choice of alternative methods was left to Ministers than was allowed in subsequent Acts. As regards the second and subsequent Acts, there was more time for preparation. For some months after the passing of the first Act, in April 1937, the N.P.C. was busily occupied in considering matters arising in connection with the Orders drafted under the Bill, the regional councils were in process of establishment, and all national and local government servants were more than fully occupied in getting their own offices into working order and in the administrative work connected with the Act and Orders under it. In about six

months' time the pressure began to relax, at any rate as far as the central Government was concerned : the regional councils and their committees were still overworked. In October 1937 McCosh raised, at a Cabinet meeting, the question of the next Planning and Finance Bill. The Cabinet—and more particularly its Economic Committee—proceeded to consider in outline what was required, the Ministers having consulted the Secretaries under them, and the advisory committees of Labour members which existed largely for the purpose of keeping Ministers in touch with opinion in the country. The members of these committees took time and trouble—for there was not the same call on their time in Parliament—to attend meetings in the country and, by consulting informally with local opinion, to sound the ground as regards further development. By January 1938 the Cabinet felt themselves in a position to lay down the general lines of the next Bill and to submit its outline for consideration and deliberation in two quarters. In the first place they consulted the N.P.C., and in the second place that body, through its regional committees, proceeded to make a number of local inquiries. By this time the National Employment Board and its regional branches had collected information on a scale not previously available as regards employment and the effect of the socialisation under the first Planning and Finance Act. Largely by the use of this information, available both to the committees of the N.P.C. in London and to its regional committees, the N.P.C. was able to present the Government with a very much fuller report as regards the planning proposals than had been available before the first Act. A series of meetings of the Economic Committee of the Cabinet was held, at some of which the chairman of the N.P.C. and the chairmen of its committees attended. In the result the original proposals of the Cabinet were modified in a number of respects, although perhaps none of the modifications was of first-class importance, and the final scheme was drafted in the form of the second Planning and Finance Act. The procedure as regards subsequent Acts was generally similar,



but it became possible to give at an earlier stage a rough outline of what the Cabinet had in mind. Moreover, the development of the regional councils necessarily led to some knitting together of industry and government as a socialised whole. The result was that regions, partly through their councils and partly through the regional branches of the N.P.C., began to make suggestions at an earlier stage and to be more ready to make them as soon as the Cabinet plan took shape. There was, in fact, a gradual decentralisation of planning, which corresponded to the decentralisation of administrative machinery. Later developments took place after the period of office of the McCosh Government, and under the Codd Government decentralisation proceeded further. Although consideration of the next immediate plan never went far beyond the regional councils, the area trade and employment committees and the works' councils in the more important industrial units began to make suggestions. These were sometimes made directly to the regional branch of the N.P.C., or sometimes through members to the regional council, which usually referred them to the N.P.C. branch. They sometimes took effect in the next plan, either in the actual form in which they were made, or because their general tenor suggested ideas to the regional council or branch of the N.P.C. More often suggestions of this kind took effect in subsequent plans, or in the administration of what had already been authorised by Parliament or by the Secretariat themselves. I need not enter into the modern controversy of whether some more formal arrangement should not be made for suggestions of this character. There is no doubt, at any rate, that the practice of suggestion about the organisation of socialised industry has given Dubb and his friends a new and direct interest in the working of the Socialist State.

No doubt, too, the tendency to decentralise planning arose because of a principle for which Joe Codd was largely responsible. He believed—and succeeded in impressing his belief on his Cabinet—that a National Plan

should be conceived on a national scale and performed under local conditions. The phrase is his own. What he meant was that the National Plan, and any general Orders issued under it, should give no more directions to regional authorities, industrial units and the like than were necessary to make the plan work as a whole. So far as possible every liberty ought to be allowed to local opinion and every allowance made for local conditions. Far more harm was done by attempting to standardise too much in the performance of the plan than by taking some extra trouble at the centre in order to allow for local peculiarities. To take a convenient instance, what was generally known as the iron and steel trade had such different functions, and operated under such different conditions in different areas, that it was imperative to allow the fullest discretion to regional boards in it and to regional authorities in dealing with it. Codd was anxious that regional authorities should allow a similar discretion on the widest possible lines to other authorities and to industrial units under them, and it was one of the best testimonials to the soundness and to the success of his administration that the principle in which he believed came to be so generally understood and applied. As a result, no doubt, discretion and experience in administration led to good sense and originality in planning.

**Wages and Prices.** I now turn to the Wages and Prices Committee of the N.P.C. McCosh regarded the control of wages and prices as an essential feature of the National Plan and an important instrument in the credit policy of the Government. The final authority in the matter must be the Economic Committee of the Cabinet. The function of the Wages and Prices Committee was to advise the Cabinet on general policy as regards wages and prices and to collect and examine the necessary information for that purpose. The information to be collected and the advice to be given were matters with which almost every department of the Government was more or less concerned. The

Secretaries for Banking and Investment, the Financial Secretaries under the Minister of Social Services, the Minister of Industry and the Minister of Land and Communications, as well as the Secretary for Overseas Trade, were accordingly represented on the Wages and Prices Committee. The committee was concerned with the general level of wages and prices and with questions of adjustment as between one trade and another, or one group of commodities and another, so far as those questions involved matters of general policy. They did not attempt to lay down scales of wages within an industry, to go into particular questions of hours or conditions, or to plan commodity prices in detail. Within a socialised industry particular questions of wages were regulated by the body controlling the industry or, in an unsocialised industry, by the department responsible for its control. In the same way, any questions of detail in the prices of goods and services were matters for the departments particularly concerned, including for instance the Secretary for Co-operative and Retail Trade. In effect, the Economic Committee of the Cabinet gave its general directions upon the advice of the Wages and Prices Committee, and it was for the departments and industries concerned to give practical effect to those decisions and to put them into administrative practice. In consequence, the Wages and Prices Committee was not directly concerned with wage disputes, although its decisions might have considerable effect in causing or removing the grievances out of which those disputes arose.

I do not propose to deal at any length with the history of the Wages and Prices Committee or with the credit policy of the Government. In the long run the main responsibility in these matters lay with Fox, the Minister of Finance. No doubt, when he first took office, it must have been almost impossible to see how the Government's programme would work out in terms of pounds, shillings and pence, and what effect it would have on wages and prices. Fox was determined that it should be carried through, and that, as part

of it, real wages—the commodity value of what the worker received—should be raised and wealth transferred from the few to the many. He was confident, too, that there were such obvious advantages in the Socialist system of production and distribution that more goods and services could be made available, or that, if their volume was not to be increased, they could be made available with shorter hours and longer leisure. At the same time he recognised that there must be a period of transition, during which those advantages would not have had time to make themselves felt. He cannot have been able to estimate how long that period would be, or by what stages of development the community would settle down to Socialist production and distribution.

With that determination to put the Government's programme into effect and with that confidence that in the long run Socialist production and distribution were sound, Fox was quite prepared for some measure of inflation to start with. He meant to keep up real wages, if he could do so by financing the period of transition in other ways—by taxation and by restricted terms of compensation. There were savings upon which he might rely, and not least among them such resources of socialised financial institutions as were available for the purposes of short-term credit and investment. But, if any temporary fall in real wages was inevitable, he was determined that it should take the form of a rise in prices rather than of the reduction of the nominal amount of wages. It is probable that he viewed the prospect with an apprehension which proved to be unnecessary. The immediate increase in the expenditure on social services and on the rapid development of socialised industry and distribution was to some extent offset by a reduction in the costs of national defence and to some extent met out of taxation and by loans. But the use of the resources of the socialised financial system, especially at first, led to a measure of inflation and to a consequent rise in prices. What Fox does not seem to have allowed for sufficiently, and what actually made his apprehensions

somewhat unnecessary, was the immediate effect of socialisation itself. As regards prices, the Government's policy in matters both of foreign trade and of home production had the effect of directing the rise of prices into the channel of the goods and services not usually available to working-class consumers. The worker's ordinary budget was little affected. All that happened was that its extension was postponed for the time being. Luxury articles rose considerably in price, and, with them, many articles not usually described as luxuries. In the second place, wages began to rise too. The workers were effectively in control, and the pressure, which would probably have been felt in similar circumstances, even under a capitalist regime, was now more insistent and more able to produce results in every direction and at every opportunity. In the result the tendency to a fall in real wages, which showed itself until about the end of 1936, was soon checked, and in the following year a rise in real wages began slowly and soon gained momentum. One factor was the increasing confidence, not only in the Government's plans, but in the Government's ability to carry them out. The process of socialisation seemed to gather an impetus from its mere progress. In financial matters, as in matters of administration, what might at first have seemed difficult proved easy enough with the tide flowing.

**National Employment Board.** Let me now, before leaving the planning machinery, say a little about the National Employment Board. I have already referred to its position in the scheme of Government. It was a purely consultative body, just as much as, or more than, the N.P.C., upon which it really depended. On the other hand, from the nature of its duties, it was to some extent the watchdog of Henry Dubb and his friends. The board had to collect all available information as to employment and the possibilities of employment, and to make suggestions and criticism from the one point of view of how the matters suggested or criticised would affect employment. From

that point of view it was to look at every Government scheme and every local scheme, and to look equally at every step taken by industry, socialised or unsocialised, whether the step was to build a new works or to abandon an old one. In the process of socialisation it was too much to expect that the National Employment Board should have a power of veto in every case ; but it soon came to regard itself, and to be regarded as, the special representative of the worker on this all-important question.

To obtain information, it had power to avail itself of the services of the Statistical Committee of the N.P.C., which had taken over the duties of the Ministry of Labour as regards employment statistics, and to direct that body to make further inquiries or to arrange for them to be made. The local industrial surveys, which had been prepared under university supervision for various parts of the country, were extended to cover the whole country and were remade at intervals : special committees for this purpose included university members as well as other experts in the principal industries concerned. In addition, the National Employment Board was able to use and develop the information available through trade union channels, and its almost inquisitorial powers over private employers soon added to the material available. There were those who said that it resembled the inspectorate department of the Russian Government. The comparison was inaccurate, for the National Employment Board had no disciplinary or executive powers ; but the very fact that the comparison was made is perhaps the best testimonial to the services which the board rendered by keeping constantly before the minds of Government and local authorities the most immediate need of Henry Dubb and his friends—to have and keep a good job.

**The Industrial Basis.** Such was the frame of the planning machinery set up by the McCosh Government. It seems difficult now to remember how small and how ineffective any previous arrangements for planning had been.

To plan on the scale now contemplated was in the circumstances a colossal task. It meant setting up consultative and administrative authorities upon a scale which must have seemed unwieldy to contemporary opinion. Looking back on it, I am disposed to think that much more difficulty might have been experienced if McCosh and Codd had not kept so clearly in mind the necessity of using existing institutions so far as adaptable, but in the long run of arranging their political and administrative machinery on a basis corresponding to economic reality. As Codd often said, the corner-stone of the Socialist State was the industrial unit. It was only as Socialism proceeded that the industrial unit began to appear more and more clearly as such a corner-stone, both in the management of industry and in more traditional forms of government. I repeat, the machinery must at first have appeared unwieldy. We can see from contemporary newspapers that it was immediately criticised on that account. No doubt many people whose outlook on public life had never been very broad viewed these changes with astonishment and perplexity, and wondered whether the machinery would ever move, and, if it did, whether it would hold together. In the next chapters I propose to describe how the machinery started.

### § III. SOME REMARKS ON THE FOLLOWING CHAPTERS

IT SEEMS CONVENIENT at this point to indicate the limits of subsequent chapters in this history. My object is to describe the process of socialisation as it began under the first Planning and Finance Act. That was a comprehensive measure, and for the purposes of this book I cannot deal with its full effects. I will choose the principal industries, and, in the course of short descriptions of what happened in them, I will refer to some dependent trades. There are others, however, which were affected by this and subsequent Acts, to which I can make no more than the

most general reference. In the same way the process of socialisation was accompanied by measures of control as regards unsocialised industry. These varied considerably from trade to trade, and any detailed description of them would be tedious and confusing. My object, after all, is to give the reader some idea of the main problems that must have presented themselves to McCosh and his colleagues, and an outline of the main steps taken to start the transition to Socialism, with such particular instances as will serve to illustrate the process.

**Industry.** For the reasons I have already given, the Government proposed to deal with the employment question region by region rather than industry by industry ; but the actual process of socialisation had to be begun by taking over a number of leading industries and by arranging for their administration on a regional basis. These industries are sometimes called "the major industries," but Codd usually referred to them as "the key industries." He used to say that the only test of what was a major industry was the number of persons employed in it, and that that depended on the limits which you chose to give to the industry. "Key industries," as his phrase went, were those industries upon which a number of others depended. His intention was to take over the key industries, to administer them on a regional basis, and, through the regional authorities, to acquire the control and ownership of the dependent industries.

No doubt there was plenty of scope for development in the principal key industries. Coal-mining was hampered by the mining royalty system, by the lack of combination among mine-owners, and by the separation of mining from the transport and distribution of the mined coal and from the treatment of the coal itself for use in various forms. The iron and steel trade was so organised that, in some areas at any rate, the mining of coal and its use in blast furnaces or steel works were regarded as one process ; but coal-mining and the production of electricity, coal-mining and



gas-works, and even coal-mining and the extraction of oils and other products from the coal, were separate matters, organised and financed under separate ownership. The iron and steel trade was hampered by an excessive war-time development, which it had been unable to adapt to peacetime purposes, and which showed itself in consequence in a high proportion of obsolete and comparatively inefficient plant and in the financial difficulties of the large companies which controlled so much of the industry. Cotton suffered from the small separate owner, as did coal, from obsolete plant and financial difficulties, as did iron and steel, and, in addition, as an export trade, had been more heavily hit by foreign competition than either coal or iron and steel.

Codd used to say that he was not there to rationalise any industry. He meant that the first stage, as regards the key industries, was to place them under public ownership, to be administered, so far as possible, subject to the general interests of the consumer and the community and by those who were working in the industry concerned. It was for them, rather than for the Government, to effect such rationalisation as was required. All that could be done in the first instance was to give them a form of organisation, which the rationalised industry could work eventually. Moreover, if, as was intended, that organisation was to be on regional lines, it was probable that the administration and improvement of the industry would often proceed differently in different parts of the country. The main question—that of finding safe jobs for Henry Dobb and his friends—was to be tackled region by region, and the rationalisation of any one industry, however important, had to be looked at with that question constantly in mind.

There was reason for thinking that the existing key industries were not the best field for providing further employment. For instance, Codd had before him the changes in numbers in employment in the various industries, certainly for the ten years 1923-33, and no doubt for the subsequent period. During the ten years mentioned,

there were decreases in coal-mining, iron and steel and cotton, varying from decreases of some 50 or 60 per cent in shipbuilding and mining and blasting iron ore and about 45 per cent in coal-mining to some 20 per cent in the tin-plate section of the iron and steel industry and about 15 per cent in the cotton trade. Quite roughly, out of every ten men employed in coal-mines, blast furnaces and ship-yards in 1923, only about five remained in similar employment in 1933, while in the same period one out of every five tin-plate workers lost his job, and one out of every seven cotton workers. On the other hand, during the same period there were increases of over 50 per cent in the distributive trades, various industries connected with the distribution and use of electricity, and in some other trades catering directly for the public, while in the same way road transport in various forms showed increases, and so did the motor-car and other vehicle industries connected with it. The general drift was out of the "major industries" or "heavy industries" into trades catering directly for the public, and often of comparatively recent origin. Silk stockings, electrical apparatus, and motor-cars led to more and more employment, while coal, iron and steel, and cotton suffered from depression. To some extent there was a corresponding regional drift out of the coal and iron areas in Wales and the North-East Coast to the motor vehicle works of the Midlands and the miscellaneous trades around London. It was therefore at least as hopeful to look for new employment in new trades, either lately established or to be established under this Government, as it was to look for any increase by the rationalisation of the older industries. In too many cases rationalisation had come to mean a decrease of employment by the installation of more modern machinery.

Some of the new industries were direct off-shoots of the older ones. Smokeless coal, for instance, was merely a new treatment of the coal obtained by mining. Research work in the uses of steel had led from time to time to new alloys of steel serving special purposes in tool-making, in the

motor trade, in steel furniture and other developments. Other industries—if I may so call them—were connected with the old staple trades, but had developed more or less separately. The tin-plate makers promoted and supported the extension of the canning business, but that business was separately organised. The connection between artificial silk and the cotton trade was even slighter.<sup>1</sup> The extraction of petrol substitutes from coal had actually been financed, developed and organised by the chemical industry, because the chemical industry was centralised in a trust, with money for research and development, while the mining industry was still organised in loose groups of independent colliery owners. For the purposes of regional development, it was clearly advisable that these off-shoot industries should be attached to the staple industries upon which they naturally depended. It seemed possible in that way to organise industry under a limited number of industrial councils, each of which would represent rather a group of industries than any single one. In many cases such an organisation would correspond with existing trade union divisions.

<sup>1</sup> *Ministry of Labour Gazette*, December 1933, p. 437.

## CHAPTER 8 : COAL

**Coal-mining under Private Enterprise.** Coal-mining was an outstanding instance of the necessary limitations of public control under a system of private enterprise. The early history of the coal-miner had been a long story, centuries old, of constant hardship and danger without recognition and without protection. Endless hours in the pit, women and children working in the mine, pay at sweated rates and deductions from it, the exploitation of men's lives without precautions and without control—these were things of the past : but the coal-owners of later days seemed to retain in some measure the hard hearts of their predecessors, and to bring into their dealings with the miners, only too often, the same blindness of spirit which had been responsible for the cruelties and hardships of previous generations.

No other industry had been subject to such frequent and such grave labour disputes. Time and time again Parliament had interfered—with provisions for the safety of miners, for the regulation of wages; for the control of production and, more recently, for some measure of re-organisation in the industry. That its interference had not been more effective was partly due to the lack of co-operation among the coal-owners themselves, but to an even greater extent to the inherent difficulties in the problem of control. Under a capitalist system private rights in coal had been jealously guarded : the belated recognition of some limit to those rights, in the public interest, had been of little practical effect. A coal-field, to any sensible person, was for mining purposes a single economic unit. The working of it was hindered by the private rights of land-owners to minerals, the existence and nature of which had been unknown to them and which had only been discovered in the process of mining. Amalgamation of the various private interests concerned might seem a remedy to Parliament.

It would no doubt have resulted in cheaper working and in getting out all the coal at points where one mine was adjacent to another. But even schemes of this limited character, under a system of private ownership, were in effect left to the initiative of the coal-owners concerned : and the initiative proved to be sadly deficient, for the feelings of private ownership were too strong.

An even more serious difficulty was the limit which was set to the whole conception of the coal industry. Regarded as a matter of mining, with only such appurtenances as were necessary for treating and marketing its production, it was considered to be a decaying industry. In many of the coal-fields, unemployment had become so chronic a matter that the only remedy suggested was to find other employment for miners. In others, at best employment was intermittent. Meanwhile, the industries immediately dependent on coal and its products were in no such difficulties. Even the coal-factor, at home and abroad, did none so badly. The costs of distribution, including his profits, were high : to transport coal from the pit-head and place it on board a ship added rather more than a shilling to every five shillings of its pit-head price. But the root of the matter lay beyond questions of transport or distribution, important though they were. Coal, even as fuel, can be used for many purposes and in many ways. It was obviously impossible to reach any conclusion about the coal industry without consideration of the iron and steel trade and of the production of gas, electricity and oil. A capitalist Government would treat the industries as separate. The more realist structure of capitalist finance and industry led to some measure of unity in various cases : the large holding companies in the iron and steel industry owned collieries, and the ownership of coal and gas plant was combined. But the unity was one of ownership and management : it found no reflection in the miner's wages, however prosperous the allied concerns might be.

**By-products.** The peculiar position of coal-mining was even more apparent in connection with its numerous by-products. In such processes as the manufacture of gas, or even the making of iron or steel, these by-products were innumerable. Coal could be turned to serve other purposes than mere consumption in the open grate of our ancestors. Some, but by no means all, of the enterprising colliery companies had pit-head plants for the production of such by-products: but in general the control and manufacture of by-products did not rest with the coal industry. Of all instances, the most conspicuous was the treatment of coal by hydrogenation, to produce light oils for use in internal combustion engines. Under the National Government that process reached the stage of commercial efficiency. Its exploitation was in every sense a national concern, and one which would directly affect the coal-fields and the employment and wages of miners. Its possibilities were enormous. But the Government of those days represented private enterprise. The research on the process had been largely left to private enterprise: when the stage of commercial production was reached, the installation of the necessary plant was left to private enterprise and subsidised by protective taxation. With the assistance of so helpful a Government, the private enterprise in question might be expected to secure more than ample repayment for all its trouble and expense out of the pockets of the consuming public. That was the most conspicuous case; but there were numberless other by-products of coal. The profits from most of them accrued to the chemical industry, instead of to the coal-fields in the "destitute areas"—those areas for which there was said to be no remedy. Other products were never exploited at all. Their exploitation would only have served to provide the public with a better and cheaper article than that which was already produced by some leading concern. That would never have paid the producer of the former product: and what was the patent law for but to protect him in such cases, and to prevent the consumer getting the benefit of the improvement?

**The Life-blood of Industry.** Coal, if the Press wanted a picturesque phrase about it, was "the life-blood of industry." Before the War there had been fears of exhausting the supply and bleeding the country to industrial death. But in coal-mining, as in other industries, the difficulties of the capitalist system proved to be, not in production, but in distribution. The rationing of the production of coal was not dictated by any fear of exhausting the supply, but by the difficulties of unrestricted competition among producers and of finding someone to buy the mined product. Under the Coal Mines Act of 1930, a central council was set up to distribute allocations to district cartels, out of which the latter allowed a quota of production to the various mines in their area. In this rationing of production along lines not unfamiliar to capitalist enterprise in other industries and in other countries, reorganisation at the instance of Parliament was comparatively effective. It was in matters of amalgamation and reorganisation of the industry as a whole that the attempts of Parliament to reconstitute private enterprise proved a failure. A Coal Mines Reorganisation Committee had been provided for : but the results in the industry were not conspicuous.

Immediately before the War, the proportion of coal shipped abroad was about one-third of the total production in the industry.<sup>1</sup> Since the War the proportion so shipped had tended to fall<sup>1</sup>—a fall reflecting the growth of economic nationalism and tariff or quota barriers, together with the corresponding difficulties of the shipping industry and of foreign trade generally : but the proportion shipped abroad was still over a quarter of the total. With the slump that began in 1930 there was some reduction in the total production of coal : but the steady underlying demand for it, as something necessary for many uses, made the reduction a smaller one than in the case of many other products. The demand for coal was relatively steady ; that it did not actually increase was largely due to the failure of capitalist

<sup>1</sup> *Economic Organisation of the British Coal Industry*, Neuman (Routledge, 1934), p. 35.

enterprise to organise adequate research into further uses for the mineral and its products, or to apply those uses in practice if they were discovered in theory. The fall in production, however, was more than fully reflected by a fall in employment. The actual output of coal per man employed rose substantially—mainly, no doubt, as the result of longer hours after 1926, but also because of the increasing use of machinery in mining.<sup>1</sup> In the years 1922–25 the average output was round about 220 tons per man; in the years 1928–32 it exceeded 250 tons.<sup>2</sup> Between 1921 and 1928 the proportion of the total output of coal cut by mechanical coal-cutters rose from 14 to 26 per cent, and from 1928 to 1932 from 26 to 38 per cent. During the latter period the proportion of coal carried by mechanical conveyances in the mine rose from 12 to 25 per cent.<sup>3</sup> About two-thirds of the cost of production of coal consisted of labour costs,<sup>4</sup> and no doubt the increase of mechanisation would have led to a greater reduction in price if the output had not been artificially restricted by the quota system. It was for fear of the consequences of such a reduction under the capitalist system that the restriction was introduced. If in fact coal was the “life-blood of industry,” the industry of the country should have been able to take a further supply.

**The Miners' Demands.** Broadly, coal-mining and the distribution and use of coal were national matters. They were matters in which the interests of the community had been neglected and cramped by the fetters of private enterprise. There was no industry that called more urgently for socialisation, and none in which the demand for it had been made for a longer period or more whole-heartedly.

<sup>1</sup> Rhodes, “Labour and Output in Coal-mining Industry in Great Britain” (*Journal of Royal Statistical Society*, 1931, p. 486, at pp. 521, 523 and discussion at p. 531).

<sup>2</sup> *Statistical Abstract*, 1934, pp. 274–5.

<sup>3</sup> Neuman, *op. cit.*, p. 43.

<sup>4</sup> Neuman, *op. cit.*, p. 34.



The miners needed courage, enterprise and intelligence in their daily calling : they carried those qualities into their political outlook and their industrial organisation. The industry was very ready for workers' control. The Miners' Federation of Great Britain was the largest of the trade unions, and included about half of the insured workers in the industry, and a larger proportion of those actually employed<sup>1</sup> : there were some smaller unions for the supervisory grades and enginemmen. Until 1926 practically all the miners, except those in the small unions, had belonged to the M.F.G.B. Industrially, it was well and thoroughly organised and played a leading and progressive part in trade union affairs ; politically, in good times or in bad, the miners could be counted on to vote Socialist.

**Property in the Industry.** In connection with the industry, there were roughly three types of property to be dealt with. There were the landowner's rights to minerals, with the corresponding royalties received by him from mines in operation, and his prospective right to levy a similar toll on minerals at present unworked and perhaps unknown to him. Secondly, there was the colliery property in the mine, consisting of its interest under the mining lease and its tangible assets in the shape of plant for working coal below ground and above ground. Thirdly, there were the rights of the colliery company in by-product plant, colliery wagons and other property for the purpose of utilising and distributing the finished coal.

**The Landlord's Royalties and Rights.** As regards the first type of property, the mining sections of the first Planning and Finance Act, 1937, provided for the transfer to the Secretary for Land of all rights in unworked minerals, whether in existing mines or elsewhere. No compensation was given in this instance, because the Government held

<sup>1</sup> M.F.G.B., 500,000 members, (*T.U.C. Annual Report*, 1933) ; insured workers (coal-mining), 1,023,910 (*Stat. Abstract*, 1934, p. 105) ; actually employed, 819,324 in 1932 (*ibid.*, p. 275).

the view that mining royalties in the past had been fundamentally unjust—a property right accruing quite accidentally to the landowner and representing no work, intelligence, or enterprise on his part. In practice, the royalties had been a heavy charge on the industry, which could ill afford it, and had been a hindrance to exploration and development, especially when the form of colliery lease provided for the minimum payment by way of royalties, even if sufficient was not won to provide for that payment out of the selling price of the coal. Also it was advisable to deal at the same time with all prospective mineral rights, and it would in practice have been impossible to give compensation all over the country by guessing what, if any, minerals lay unworked beneath the land. The mineral rights so transferred included, of course, rights to tin and other metals as well as coal. It was further intended that the landlord's interest in such of the surface of the land as was occupied by pit-heads and surface workings, or necessary for the operation of mines, should be transferred to the Secretary for Land: but for two reasons this was left to be done by departmental orders to be issued by him. In the first place it seemed reasonable to give some compensation for the surface rights at pit-heads, just as compensation within limits was to be given for other land acquired. The intention was not to give such compensation to landlords on a royalty basis or on the footing of any earnings at the mine, but to let them have the annuity they would have received if the land had been put to the same use as other land in the district. Obviously the assessment of such compensation would be none too easy a matter and might proceed on different lines in different areas. It was thought better to leave it to be worked out regionally as far as possible, subject to the general control of the Secretary for Land. Meanwhile, of course, the leaseholders, the collieries which were to be socialised, would continue to occupy the pit-head land and to work their plant on it. In the second place, as regards extensions and new collieries, there would be some conflict of claims to the land, at any rate in some

areas, between the mines administration and other authorities. Such questions concerning the use of land were to be settled through the Secretary for Land.

**Collieries.** As regards the collieries, it was essential to socialise the whole business of coal-mining. Some of the older collieries were indifferently equipped, because they could not afford any capital expenditure but were just worth running without it. In exceptional times they could be worked at a profit : at other times they were continued in the hope of further development underground or in order to preserve the property and to keep miners in employment until things were better. Some of these collieries might be unworkable propositions : but the number that would require to be abandoned was very small. Under private ownership they might, as separate units, be only putting off the evil day. If the business of the production and distribution could be treated as a whole, capital expenditure with proper maintenance, proper equipment and new processes could be applied where it was required ; and adequate research, combined with a co-ordinated system for the use of by-products and the distribution of coal, would leave few of the existing collieries without some use or another. On the other hand, to leave any units of production under private ownership would make it impossible to do what was really needed and to deal with the whole industry together—indeed, with an industry including more than what had commonly been regarded as the coal industry.

**Compensation for Assets.** There seemed to be two alternatives. In the socialisation of banking, the shares of the companies had been transferred to public ownership. Would this be practicable with collieries ? There were various objections to such a course, and the Government preferred the alternative of taking over the assets of the industry. Many of the colliery companies were heavily indebted to the banks or to debenture holders : it was better to take

their property from them and to leave to the companies themselves the task of distributing the proceeds of compensation among their shareholders and their various classes of creditors. Again, many mines belonged to a vertical trust, primarily concerned with the iron and steel trade and engaged in taking the coal from underground and using it in the making of iron and steel, at any rate up to the making of steel plates and the like. Generally, a large number of coal-mines were closely connected with other industries by links of a financial character : if their shares had been taken over, there would have been some difficulty either in the continued working of those associations on their former lines or in reconstituting them on lines appropriate to socialised industry. This was another case in which the process of socialisation required new machinery rather than the furbishing up of the former system. The Planning and Finance Act accordingly provided for the acquisition of colliery properties and for compensation on the basis of annuities with a maximum life of twenty-four years. The general principles and methods of assessment corresponded to those in the Banking Act ; but the amount of the annuity was to be reckoned, not on dividends, but on the actual profits attributable in the past to the socialised undertaking. In arriving at those profits, due regard was to be had to depreciation, so that the declared profits would, for purposes of reckoning compensation annuities, be reduced by any amount which should have been put aside for the maintenance and continued efficiency of the machinery and plant above ground and below, even if in fact no sufficient allowance had been put aside in the accounts of the concern. In addition, due regard was to be had to the possibility of a diminution or disappearance of profits. There was a corresponding provision in the Banking Act ; but, in the case of mines, it was obviously of even greater importance. Wasting assets were not to be treated as though their profits would continue for ever. There was already machinery under the Banking Act for setting up

compensation tribunals, and all that was required, as regards the coal industry, was that some of the tribunals should be specially chosen for the purpose of dealing with coal-mining cases and that such cases should be specially allocated to them.

**Accessory Plant and Wagons.** The third type of property, to which I have already referred, consisted of by-product plant, colliery wagons, and other property for the purpose of utilising and distributing the finished coal. Machinery for washing and cleaning the coal, coal wagons (which I shall mention again) and other such assets, intended for the preparation, distribution and marketing of the coal itself, were taken over with the other plant of the undertaking concerned: so, too, were by-product plants—coke ovens and the like—at pit-heads. The Government meant, so far as possible, to attach subsidiary processes to the coal industry, and was therefore prepared to socialise, in connection with the latter, such by-product plants and cokeries as the industry could conveniently manage to deal with. On the other hand, iron and steel was in process of socialisation, and there would be questions of demarcation between the socialised mining industry and socialised iron and steel. It was impossible to lay down any hard and fast rule: the question would have to be decided in accordance with the general intention of the Government, but with regard to the particular circumstances of each case and to the balance of convenience in management. I shall have to refer in a later chapter to the temporary sub-committee on cokeries, which was set up to draw the line between coal on the one hand and iron and steel on the other. Similar questions arose in connection with the socialisation of other industries and were decided on the same principle. Compensation for this third type of property was assessed in conjunction with, and on the same lines as, compensation for the ordinary colliery plant.

Let me now turn to the organisation of the socialised mining industry.

**The Commissioner for Mines: Districts and Sub-commissioners.** The Commissioner for Mines was intended to see the industry through the process of socialisation, but not to run it thereafter. For the moment he would require extensive powers additional to those which he would take over from the Secretary for Mines of the capitalist regime. Just as the regional commissioners were to prepare the way for regional councils, so he was to prepare the way for a National Mining Council: and it was intended that he should appoint local sub-commissioners, who in their turn would be replaced by local mining councils. As regards the areas of the latter, the local government regions were hardly suitable. The coal-mines lay in natural coal-fields, and their grouping in those fields was already recognised in existing legislation and in existing organisations among mine-owners and among miners. Sub-commissioners were therefore appointed for the various coal-fields.

Under the Coal Mines Act, 1930, there were twenty-one districts, of which seven had always been treated as separate areas before and since the War. These were Scotland, Northumberland, Durham, South Wales and Monmouthshire, Cumberland, the Forest of Dean, and Somerset. Bristol, a separate district under the 1930 Act, was now included with Somerset, as it had been before the War: so was the Forest of Dean. The comparatively new Kent coal-field obviously required a separate sub-commissioner. There remained a large area ranging from Lancashire and Yorkshire through a number of Midland counties to North Wales. This was the old "federated area" of pre-War days. It now fell within four administrative regions. The Yorkshire district and the North Wales district fell within the corresponding regions. Lancashire and Cheshire (with the above-mentioned Cumberland district) fell within the region of Cheshire, Lancashire and the North-West. The remaining districts were Derbyshire (exclusive of South Derbyshire), South Derbyshire, Nottinghamshire, Leicestershire, Shropshire, North Staffordshire,

South Staffordshire (exclusive of Cannock Chase) and Worcestershire, Cannock Chase, Warwickshire. These all fell within the Midland region, but for administrative purposes they were placed under two sub-commissioners. The East Midland sub-commissioner covered Nottinghamshire, Derbyshire and Leicestershire, while the West Midland sub-commissioner was to administer Stafford, Worcestershire, Shropshire and Warwickshire. In the result there were nine sub-commissioners for coal-mining districts in Scotland, in Northumberland and Durham, in Yorkshire, in the East Midlands, in Kent, in Somerset, Bristol and the Forest of Dean, in Wales, in the West Midlands, and in the North-West, including Cumberland, Lancashire and Cheshire. In addition, there was a tenth sub-commissioner for the Cornish tin-mining district. There were, therefore, two sub-commissioners in the Yorkshire and North-East Coast region, two in the Midlands, and two in the West of England, while there was one sub-commissioner for Kent, in London and the Home Counties, another in the region of Cheshire, Lancashire and the North-West, and one each in Wales and Scotland.

**District Mining Councils and Pit Councils: National Mining Council.** The districts of the new sub-commissioners were of varying importance. The largest were Northumberland and Durham, Yorkshire, and the Welsh district, each with about 150,000 men employed.<sup>1</sup> In the East Midland district rather over 100,000 men were employed, while Scotland, the North-West and the West Midlands each accounted for between 65,000 and 85,000 men.<sup>1</sup> None of the other three districts employed more than 10,000 men.<sup>1</sup> The differences were recognised partly in the size of the district mining councils and partly in the representation given to those bodies on regional councils and on the National Mining Council. The district mining councils were to be partly elected and partly, in the first instance, nominated. The proportion indicated in the Act

<sup>1</sup> *Ministry of Labour Gazette*, January 1934.

was 60 per cent miners, 20 per cent managers and supervisory grades, 10 per cent consumers and 10 per cent experts, including medical representatives : but the Commissioner was at liberty to vary the representation of the different groups. The total number of each council depended on the number of pits and men employed in the district. Pit councils were to be elected at each mine, though the Commissioner for Mines had power to group two or more small mines together under one pit council. Each pit council was to send one—or, in the case of large mines, more than one—delegate as a miner's representative on the district mining council. The managers and supervisory grades in the district were to meet in such manner as the Commissioner might order, and nominate their representatives on the district mining council in the approximate proportion of one to each three miners' representatives. It was intended that in the larger districts there should be a number of local meetings of managers and supervisory grades, while in the Kent coal-field, for instance, a single meeting would be sufficient. The consumers' representatives were to be nominated in the first instance by the regional commissioners and subsequently by the regional councils. The experts on the district mining councils were to be nominated by the Commissioner for Mines. The district mining councils so constituted were to act for the time being as advisory bodies to the sub-commissioners. As soon as possible, however, they were to become the controlling bodies for the mining industry in their districts. The National Mining Council was constituted on the same lines, except that the miners' delegates amounted only to 50 per cent of the council, while consumers' representatives made up 20 per cent of the council instead of 10 per cent, as in the districts. The representatives of the miners and managers on the National Mining Council were to be chosen by the corresponding groups of delegates on the district councils, the number of each being proportional to the number of men employed on mining in the district concerned. The result of these arrangements was that



both the National Mining Council and the district mining councils, at any rate in the larger coal-fields, were large bodies, and worked through executive committees, which met frequently, while the councils themselves met three or four times a year. The pit councils, actually controlled the management of the mines, and though, in most cases, they also had executive committees, the full council met frequently. Gradually the pit councils built up a system of special committees, not unlike that on local authorities.

As regards payment, David, the Commissioner for Mines, agreed with the Miners' Federation of Great Britain that the federation would pay all the expenses and remuneration of the miners' representatives. It was left to the federation to decide what payments should be made. In effect, the only payments on pit councils were a part-time payment to the elected chairman, and payment for part time or full time to the secretary, according to whether he did or did not combine his secretaryship with union duties. On the district councils arrangements varied, the usual one being that all delegates received their expenses, members of the executive committee an additional part-time payment, and the chairman and secretary—and sometimes one or two other persons doing special work—full-time payment. Neither the chairman nor the secretary, however, were miners' representatives. The chairman was nominated for three years by the regional council within the areas in which the district lay. The secretary of the district council was a regional Civil Servant, and his staff were provided from the same source. The managers' delegates were financed out of the Mines Funds (to which I shall refer again), and so were the experts, many of whom received attendance fees. The consumers' representatives were paid by the bodies which they represented, and, in the case of domestic users, or persons representing varied industrial users, by the region. There were similar arrangements on the National Mining Council, with the exception that more of its members received full-time payment for

special services. The principle of making everybody pay its own representatives was strictly kept to. The secretary and staff of the National Mining Council were Civil Servants and, for the time being, David nominated a well-known Socialist to act as chairman. In September 1937, David's executive powers were transferred by departmental Order to the National Mining Council, of which he became chairman, while the previous chairman became vice-chairman. Thereafter the chairman of the National Mining Council was always a member of the Government and ranked as a Secretary in the Ministry of Industry.

The various mining councils dealt with coal and metal-liferous mining, but not with quarrying for slates, china clay or other materials. I shall have occasion later to refer to the scheme for socialising the supply of building materials which included the quarries.

**Functions of the Pit Councils.** The National Mining Council and the district mining councils were not merely means for co-ordinating pit councils all over the country. Their duties were different. The pit council was concerned entirely with the production side of mining. They corresponded to the workers' councils in factory management. They were also trade union units, and the Miners' Federation of Great Britain made such small re-arrangements as were necessary for that purpose. It was partly a matter of history, and partly of the actual conditions of mining, that there was nothing at the pit-head corresponding to the works council in the factory. As a matter of history, the pit councils corresponded to the pit lodges, with a long tradition of political and industrial history behind them. The pit councils might indeed have included representatives on the managers' side, but David and the M.F.G.B. intended that the vast majority of men working in any mine should be eligible for the council, and that that body, by its power to appoint, with other pit councils, a majority of delegates to the district council, should be in

a strong position as against the mine manager and his immediate staff. They believed that a more direct responsibility for the operation of the mine could be given to working miners, with advantage to themselves and to the industry. The managers and supervisory grades were appointed by the district mining councils and organised in a supervisory section of the M.F.G.B., with district units, instead of pit units, as in the case of the working miners. Membership of the M.F.G.B. was made compulsory for everyone in the mining industry, the necessary transfers being effected under arrangements made by order of the Commissioner for Mines before he became the chairman of the National Mining Council. In the result, the district mining councils resembled works councils in factories in having representation on the managers' side as well as on the workers', while pit-head councils did not include the managers but worked in co-operation with them. In practice, the chairman and secretary of a pit council were in constant touch with the management of the mine or mines concerned. Workers in by-product and other pit-head plants were represented on the pit councils. The pit councils were, however, concerned with running the mine and its accessory plant, as it stood, and with any necessary extensions for that purpose. They were not concerned with neighbouring mines, with the distribution of coal or other mine products, or with the general question of employment and transfer of labour.

**And of the District Mining Councils.** The district mining councils were the most important units in the scheme. In taking over the colliery properties, David asked for, and almost always followed, the recommendations of the district sub-commissioners for mines, both as regards questions of what should be included in the socialised assets and as to the appropriate division of the mines and other assets under pit councils. The recommendations were made on the advice of the district mining councils, then advisory bodies : they were considered by the regional councils and

by the local officers of the Secretary for Land, and then forwarded, with the comments of those authorities, to David. The sub-commissioners, with the district mining councils, were therefore mainly responsible for the original structure of the socialised industry. When in due course the sub-commissioners became the chairmen of the respective district mining councils, the latter took charge of such recommendations for further requisitions as became necessary and of the development of the industry in various ways. They were concerned with the distribution and sale of the coal and other products of the mines, including by-products. They directed, in fact, the commercial side of the mining industry, and were the executive authority for its development in accordance with the National Plan.

**District Coal Agencies.** As regards distribution and sale, the district mining councils used three channels. They set up agencies for the sale of coal, and they used the local authorities and the co-operative organisations for a similar purpose. There were also agencies for the sale of other minerals and of by-products. In districts where there was a trade in coal for exports or for bunkers, special agencies for those purposes were set up. As regards the internal market, the districts had agencies, with sub-agencies in the most important towns. In areas drawing supplies from more than one district, the sub-agencies were run jointly by the districts concerned. These "district coal agencies" dealt with coal for industrial purposes and with other wholesale supplies: they did not undertake the retail distribution and sale of by-products; in some districts these were handled by sub-agencies of the district coal agencies, while in others there were separate agencies, often using the same sub-agencies in towns as those of the district coal agencies. In setting up these bodies the district mining councils usually offered to employ one or more leading coal factors in the district and to take over their offices against compensation for the

premises : the employment of the coal factor and his staff was considered sufficient equivalent for the loss of his profits in the business. Such offers were almost invariably accepted. Other coal-factors soon came to seek public employment on the distribution side of the socialised industry. Of the district selling agencies for other mineral products, the most important was the Cornish tin agency, with sub-agencies in the areas principally concerned in the use of tin.

**Municipalities and the Co-operative Societies.** It is perhaps inaccurate to describe the municipalities as another channel for distribution. What happened was that the municipalities were supplied through the district agencies with coal for their own use on public services. As regards retail distribution, there were conflicting claims by the municipalities and by co-operative organisations. In some cases the municipality was, at any rate for the time being, in a better position to undertake the retail distribution of coal than the local co-operative society. There was power under the mining sections of the Planning and Finance Act to authorise local authorities to undertake the distribution of coal by order of the Commissioner for Mines (a power which subsequently devolved on the National Mining Council) and upon such terms as he thought fit to impose. In practice, the authority was only given for a limited period, and upon terms that ensured the separate handling of the coal distribution business, so that at the end of the period it might either be continued or transferred to the local co-operative societies. The latter were intended to be the principal agents for retailing domestic supplies and they received a preference in supplies from the district coal agencies or sub-agencies. Private retailers were allowed to continue in business, but, in view of the encouragement given to the co-operative societies in the supply of coal and the use of wagons (to which I refer below), they began to seek employment in the coal distribution business of municipalities or co-operatives.

**Coal Trucks.** One of the great troubles of the industry in the past had been the private ownership of coal trucks on the railways. At the time of the Samuel Commission in 1925 nearly three-quarters of the trucks in use belonged to 10,000 different private owners. The position was not much better when the McCosh Government came into power. Most of the trucks were also of smaller capacity than those used on the Continent and in the United States. These small private trucks, once unloaded, had to be sorted, shunted and returned to some particular place—usually the colliery from which they had come. The result was extra sidings, extra shuntings, and extra haulage of empty trucks on their way back. In 1925 the average number of journeys made by a British coal truck in a month was said to be  $2\frac{3}{4}$ , as against 5 or 6 in coal-producing countries on the Continent.<sup>1</sup> This state of affairs placed an unnecessary burden on the coal industry and on all industry consuming coal. It affected particularly internal trade, which was still the main source of custom for coal-mining: but even the export and bunker trade was affected by haulage from the mines to the ports. Clearly the coal wagons had to be placed under public control. Was that control to be administered by a socialised railway system or by the socialised mining industry?

It seemed more in accordance with practice in the past and with the facilities already available at pit-heads, that the industry should own the trucks. The mining sections of the Planning and Finance Act therefore provided that the railway coal trucks should be transferred to the Commissioner for Mines, and that he should have power to requisition, against compensation, any privately owned coal trucks. This power was exercised and all the larger and better trucks were taken over in one way or another. Most of them were handed over to the various sub-commissioners, and ultimately to the district mining councils. The three small districts were more sparingly supplied, and a number of the trucks were kept to provide a national

<sup>1</sup> *British Coal Dilemma*, Lubin and Everett, 1927, p. 280.

pool and used in the smaller districts or to meet exceptional demands from the larger ones, especially as regards export and bunker coal. The Commissioner and, after him, the National Mining Council were thus in a position to provide special transport facilities for any exceptional export of coal necessitated by national barter transactions. In practice the district mining councils did not allocate trucks to collieries, but kept the whole transport system in their own hands.

Some, but not all, of the small proportion of trucks remaining in private hands were taken over subsequently by the district mining councils, acting under powers delegated by the National Mining Council. Their general policy, however, was to spend money required for additional transport facilities rather in replacing their own small trucks by larger ones than in adding to the number of small trucks under their control. The transition to the larger trucks now in use took some four or five years and involved some slight alterations in railway construction.

**Ports and Canals.** I shall have occasion to refer later to the development of port facilities and of the use of canals. Both these matters were of considerable assistance to the coal trade. Barges had already been employed to some extent for the transport of coal, and their extended use helped to cheapen the supplies in many districts.

**Hours of Work.** Let me now describe the changes as regards employment in the mining industry. The 40-hour week was inappropriate: hours of work had never been arranged on a weekly basis, and there was every reason to make them shorter than in general industry. The mining sections of the Planning and Finance Act provided for an immediate change over to a 7½-hour day. The National Mining Council, as soon as it ceased to be an advisory body and assumed the powers and duties of the Commissioner for Mines, was authorised to issue orders for the

further reduction of hours. Such orders might be made either nationally, or for a district or part of a district upon the recommendation of the district mining council. In the latter case, the regional council were to make their comments on the recommendation. In either case the order of the National Mining Council required the endorsement of the Minister for Industry, who was to have regard to the recommendations of the National Planning Commission, to any recommendation of the regional council, and to such other matters as he thought fit. In effect, it was intended that he should bring any widespread change before the Economic Committee of the Cabinet. Within six months of the assumption of executive power by the National Mining Council, hours were reduced to seven by a series of orders, issued under these provisions and made on district recommendations, which in all cases, except that of the Kent coalfield, had the support of the regional councils concerned.

**Wages and the Price of Coal.** Wages I have referred to generally. In the mining industry, as in other cases, the level of wages was a national matter, to form part of the National Plan. If coal was the lifeblood of industry, an attempt to make coal-mining pay as a separate business was bound to be artificial. Apart from the question of what were the limits of the coal-mining industry—how far it included by-products and distribution—the question of whether or not it paid on paper must depend on the price charged for coal to other industries : among which the most important were already in process of socialisation and others would soon be taken over. In fact, the costs of coal-mining, at any rate so far as the coal was used for industrial purposes, were added on as part of the costs in the consuming industry. The price charged was a matter of account. It was the business of a socialist economy to strike the balance, not as between coal and the industries using it, but as between the supply of manufactured articles several stages later on and the consumers' demand for them. Given the high



proportion of labour costs in the industry,<sup>1</sup> wages could not be made to depend on the accounting price of coal, as charged to socialised industries. They must be treated as what they were, a matter for national planning, to be fixed with a view to the ultimate balance struck at the stage I have just indicated. I need only add that, for this reason, there was no attempt to leave the price of coal to be fixed by the mining industry itself, so as to provide for its own wages. The accounting price, just as much as the wages, fell to be fixed in the national plan. In the home market it was arranged on a basis of zoned areas, the price varying with the distance from the coal-field and including the additional cost of transport over longer distances.

**The Mines Funds.** I have referred incidentally to the mines funds. These might in theory have been provided out of the national exchequer ; but in practice it was convenient to raise them by a levy on the proceeds of the sale of coal and of other products of the industry. The proceeds of sale were paid by the district coal-selling agencies into district mining accounts under the control of the district mining councils. Out of those accounts the councils, with such contributions to or from the national exchequer as the national plan might require, found the costs of mining operations, transport and distribution in their area. Further, they applied sums out of the account partly to constitute a district mines fund and partly to provide contributions to a National Mines Fund, administered by the National Mining Council. The sums so applied were fixed by the N.P.C. and its regional committees, in consultation with the mining councils concerned, and they were supplemented when necessary by contributions made through the National Investment Board from national funds or the other sources at its disposal.

<sup>1</sup> About two-thirds ; see note on p. 196.

**Compensation Annuities.** The mines funds were intended to provide for capital expenditure. Compensation annuities were paid out of the district funds, being treated for accounting purposes as a sinking fund for the redemption of the capital value of the socialised properties. So long as wages and prices were not correlated in an attempt to make the industry pay as a separate unit, it made no difference if the compensation annuities amounted to more than would have been required for sinking fund payments at the current rate of interest.

**The National Mines Fund: Research and Experiment.** The further purposes of the mines funds were important, and required considerable contributions from the National Investment Board in the earlier stages of the socialised industry. The National Mines Fund provided for research and experimental work in the industry and in matters connected with it. Work of this kind was urgently required. There was considerable scope for it in the actual operations of mining and handling the coal and in processes connected with them. There was even more scope as regards the utilisation of the coal itself, both as a fuel and as a material from which other products could be derived. What was needed was work both in the laboratory and on a commercial scale. It is interesting to notice that, not long before socialisation, the bankers, as well as the chemical industry, had begun to appreciate the opportunities which the industry was unwilling or unable to use for itself.<sup>1</sup> It was by means of the National Mines Fund that those opportunities were gradually and fully utilised. The full development of the use of coal products belongs partly to the history of the chemical industry and of the new industries which sprang up under the Codd Government as the result of the research work of the earlier period I am now writing about; partly it belongs to the history of science, at this time more separate from the national economy than it has since become. I need only refer to the considerable

<sup>1</sup> Neuman, *op. cit.*, pp. 62-3.

advances in medicine, in dyeing, and in the use of coal products for making the different light materials employed in the electrical and wireless industries and in various articles of household use.

**District Mines Funds and development.** The capital expenditure of the district mines funds was of a different character. The re-equipment of existing mines and the sinking of new pits were matters for regional administration. The national plan, itself based on a survey of local possibilities, gave no more than an indication of the scale upon which development could proceed and the amount of money available for the purpose. It was left to the district councils, under the appropriate regional authorities, to work out a detailed development and to supply the money for it out of the district mines funds. Such a development included not only mining operations, but also the extension and erection of by-product plants and such other works as were required to apply the results of the research conducted under the National Mining Council. In some cases plant on a large scale, naturally separate from any pit-head, was installed or taken over on terms similar to those granted to the colliery owners, and worked directly by the mining council on the technical side, subject to the general control of the regional authorities concerned. The most conspicuous instance, at this early stage, was the plant for the hydrogenation of coal, mentioned above.<sup>1</sup>

**Immediate Problems of Employment.** Let me, in conclusion, refer generally to the way in which the immediate problems of employment in the mining industry were treated. At an early stage of socialisation, directions were given by the Commissioner for Mines to the district sub-commissioners, which proved to be a sound basis for more detailed arrangements later. In the first place, there was a certain combing out, both among the young and the old.

<sup>1</sup> p. 194.

It was effected through the miners' unions in the various districts. A number of the older men were taken out of the industry and placed either in other occupations or under the Government pensions scheme. A number of the young men who had recently come into the industry—there were not very many—were transferred to other work. Restrictions were put on the entry of new persons and these were operated, not at the pits, but through the district organisation of the unions, working in conjunction with the district mining councils. In the second place, the sub-commissioners were directed to refer general questions of transfer to the regional planning committees. These bodies set up small sub-committees, to which members of the district mining council were co-opted. Their object was to make recommendations both as to the transfer of redundant miners to existing industries and as to the establishment of new industries in mining areas, which in some cases would fall within the objects of the district mining fund and in others would be matters of general regional development. The recommendations so made went from the regional planning committees to the regional councils or, in matters of more general importance, to the N.P.C. and the Cabinet.

**A Socialist Industry.** Those, however, were temporary difficulties, due to the history of the industry itself and to the inevitable troubles of a transition period. The coal industry had suffered severely from the limitations of private enterprise. Under a Socialist Government, with a wider view both of the place of the industry in the national economy and of the possibilities inherent in it and connected with it, it proceeded to a fuller development, and to a period of peace and decent mining conditions. The coal-owners of the previous period had used the fine qualities of the miner and the dangers and hardships of his life to advance their own profit. It was not unnatural that, when the miner came to play his part in the Socialist State and when the mines became his mines and those of the

community, the same fine qualities found their chance at last. The miners, of whom McCosh himself had been one, did as much as, or more than, any other section of the workers to set up and operate the new order of things, towards which the socialisation of the mines was one of the earlier steps.

## CHAPTER 9: IRON AND STEEL

The Iron and Steel Trade after the War. Even before the time of the National Government many Commissions and Inquiries had recognised the need of reorganisation in the iron and steel trade. Extensive developments for the purpose of making munitions during the War had involved the industry in difficulties, both financial and technical. On the financial side, many of the large concerns, in which a substantial part of it was organised, were heavily indebted to banks and debenture holders. They were in consequence unable to raise money for capital development. On the technical side, the extensions for war-time purposes were often unsuitable for use in time of peace, and the plant then installed gradually became obsolete, while the financial embarrassment of the industry prevented its renewal or replacement. The effect abroad, both of currency changes and of a greater degree of unity in the industry, had enabled continental competitors to modernise their plant and, with or without the aid of subsidies on export, to undersell British iron and steel in foreign markets. In Great Britain the production of pig-iron (and ferro-alloys) had fallen from about 10½ million tons in 1913 to about 7½ million tons in 1929 and about 3½ million tons in 1932, while steel production, which amounted to rather over 7½ million tons in 1913, rose to over 9½ million in 1929 and fell to about 5½ million in 1932.<sup>1</sup> Before the War the country was capable of producing some 8 million tons of steel, so that the 1913 figure represented nearly the full use of its capacity. At the time of the later figures the capacity was said to be some 12 million tons, and the 1932 output was accordingly less than half of what could have been produced.<sup>2</sup> A comparison of home consumption and exports makes the position even clearer. The rise of 2 million tons

<sup>1</sup> *Statistical Abstract for U.K.*, 1934, pp. 280-1.

<sup>2</sup> *Iron and Steel Trades Confederation*, Statement by E.C., 1931, p. 4.

in steel production between 1913<sup>1</sup> and 1929 only partially met a rise of about 3 million tons in the home consumption of iron and steel in the same period; the remainder was met, partly by increased imports, partly by a reduction of exports. Exports of iron and steel in 1929 were actually less than those in 1913 by more than half a million tons, while imports had increased.<sup>1</sup> But the departure from the gold standard in 1931 and the introduction of a tariff under the National Government reduced imports of steel considerably. Nearly 3 million tons of iron and steel, including manufactured goods, were imported in 1921, and only about one-third of that quantity in 1933.<sup>2</sup> Between those two years exports showed a small reduction,<sup>2</sup> but the home consumption showed signs of revival. The tariff, however, amounted to a charge on all users of the products of the industry and had been imposed with a view to giving the iron and steel trade an opportunity for much-needed reorganisation.

**Employment and Wages.** The effect of the difficulties in the trade was reflected in the unemployment figures. During the period between 1924 and 1933, when employment was generally bad, the proportion of unemployment in the iron and steel industry was consistently higher than the average in other trades. About one man in three workers in pig-iron was unemployed at the end of 1933, and only a slightly lower proportion of those engaged in steel production. The workers were well organised in the Iron and Steel Trades Confederation, and a system of regulating wages by a sliding scale, based on the prices of the commodity, succeeded at any rate in eliminating the bitter feeling that existed in the coal trade, although it also resulted in a steady fall in the real wages of the workers. Between 1913 and 1930, for instance, hours were considerably shortened; but wages rose only by some 8 per cent, while the cost of living rose by some 58 per cent. In such a position, and given the

<sup>1</sup> *Iron and Steel Trades Confederation, Statement by E.C., 1931, p. 5.*

<sup>2</sup> *Trade and Navigation Accounts, December 1933, pp. 51 and 98.*

well-known need for reorganisation of the industry, it was not unnatural that the Iron and Steel Trades Confederation urgently demanded that iron and steel production should be organised collectively under public ownership, or at least under public control. Even the National Government seems to have recognised that individual enterprise was insufficient; and, by the threat of the removal of tariff protection, it forced the employers in the industry to put forward the reorganisation schemes, to which I shall refer below.

**The Making of Steel.** Let me begin, however, with a short description of how steel was made and prepared for use—and still is, in old-fashioned works. The principal raw materials are iron ore and scrap. Some of the ore is hematite, with little or no phosphorus in it, while other ore is of poorer quality and contains varying quantities of phosphorus. The ore is reduced to pig-iron in blast furnaces, fired by coke. The resulting pig-iron is of various types. Forge and foundry pig-iron (about a quarter of the total output in 1929 and nearly half in 1932) is used for making iron products. Other pig-iron, either hematite or basic (phosphoric), with the addition of a considerable quantity of scrap, is converted into steel, either by the Bessemer process or by the open hearth, while some special steels are made in electric furnaces. Either in the Bessemer converter or in the open-hearth furnace, in which the pig-iron is treated, an acid or a basic lining may be used. The basic lining does, but the acid lining does not, eliminate any phosphorus. The hematite (non-phosphoric) iron is therefore suitable for the acid open-hearth process, while basic (phosphoric) iron may be converted in the basic open-hearth furnaces into non-phosphoric steel. For the Bessemer process there has to be some phosphorus in the iron, and that phosphorus is either eliminated in basic Bessemer converters or left in the steel made by the acid Bessemer process. Acid Bessemer steel is not produced on a large scale, and is only suitable for certain purposes, e.g. railway tracks or welded tubes.



The open-hearth process is slower and more expensive than the Bessemer, but it produces a harder steel. Bessemer steel costs less in fuel, less in labour, and yields a valuable by-product in the shape of slag with a high content of phosphoric acid. Before and during the time of the National Government, there were considerable imports of cheap basic Bessemer steel from the Continent, and these led to the reintroduction of the Bessemer process in this country, from which it had been largely ousted by the open hearth. Another modern practice is to treat the pig-iron first in Bessemer converters, and then to complete the steel-making by the open-hearth process.

The molten steel is moulded into ingots, and these are rolled down into "semi-products," usually blooms, billets or slabs. Either the ingots or the semi-products are rolled at the steel works or by separate "re-rollers" into finished products, which may be roughly classified as bars and sections, rails and fastenings, plates, sheets, galvanised sheets, tin-plates and black-plates, tubes and pipes, hoops and strips, and wire: in some cases there are intermediate products. I should also mention the comparatively small but valuable output of steel castings and of forgings, the latter being particularly important in the manufacture of armaments.

**The Problems of Reorganisation.** It is perhaps convenient to consider the main problems which faced the industry at the time of its reorganisation scheme under three main heads—questions of fuel, raw material and transport; some questions of existing plant; and questions of markets and exports.

**Fuel, Raw Material and Transport.** 'As regards fuel, raw material and transport, important questions arise at the first stage of manufacture. In 1932 about 1½ million tons of iron ore were imported and about 7¼ million tons were produced in the United Kingdom. The greater part

of the imports consisted of high-grade ore from Spain, Algeria and Scandinavia. High-grade hematite ore, without phosphorus, was also mined in Cumberland and Lancashire, but in decreasing quantities. The deposits of lower grade ore in North Yorkshire were also decreasing, and the greater part of the home product came in the form of low grade ore from Lincolnshire, Northampton and Oxfordshire.

The ideal arrangement, from an economic point of view, would be a coal-field, iron ore deposits and shipping facilities near one another, so that the series of processes—mining the coal and the iron ore, coking the coal, blasting the iron ore and any imported scrap, converting the pig-iron into steel and rolling the steel—could all take place close together. The supplies of high grade ore in North Yorkshire were reasonably close to the Durham coal-field and the seaboard : but the deposits there were decreasing, and in other cases—especially as regards the large deposits of low-grade ore in the southern Midlands—there was some considerable distance between the iron ore and the coal-fields which supplied the coke for blasting it. The first question, therefore, was whether the blast furnaces should be near the coal or near the ore. The older iron and steel works were near the coal ; but there were signs of a growing tendency to follow the ore, and a number of steel works had been erected or reconstructed near the Midland deposits.

In such cases, if the blast furnaces are away from the coal, is the coal to be coked at the pithead and the coke railed to the blast furnace ? Or is the coal to be railed to the blast furnace and a cokery set up there ? Both practices were in use. Many collieries had erected cokeries at pithead, while there were also cokeries, usually of larger capacity, at certain iron and steel works. The former were taken over under the McCosh Government as part of the mining industry, while the latter were dealt with as iron and steel plant. It is to be remembered that many of the cokeries at pithead supplied more coke than was required for pig-iron

production in the neighbourhood. Generally, on the North-East Coast, in Yorkshire and south of Yorkshire, and also in South Wales, more coke was produced than was required to make pig-iron. As between the one practice and the other, the raiiling of coke instead of coal meant a saving of about 30 per cent in the cost of transport. On the other hand, coking next door to a blast furnace and steel works had the great advantage that the valuable coke-oven gas could be used in the steel plant, while the gas from the blast furnace could itself be made to heat the coke oven. This applied, of course, only in the more modern types of plant. In 1933 there were still many out-of-date coke ovens, especially in Scotland. Most of them were far too small, and only about half of them (or rather more) were of the type which yielded the full surplus of coke-oven gas.

**Some Questions of Existing Plant.** As regards the actual manufacture of steel, the position differed in different parts of the country. Scotland was particularly encumbered with obsolete plant. The Scottish output of pig-iron for steel making consisted of hematite, and the Scottish steel works imported basic pig-iron from the North-East Coast, North Yorkshire, Lincolnshire and abroad. The costs of carriage were necessarily considerable, although in 1933 the Scotch were given special prices for their supplies of pig-iron and an attempt was made to set up a system of stores, at which the iron could be deposited against warrants and the ironmaster would get his money by negotiating the warrant. No doubt the principal difficulty in Scotland was the decline in shipbuilding and other industries using steel products. A difficulty on the production side was the degree of separation between the various processes: there was little opportunity for transferring the pig-iron, hot, to steel works, and in consequence a high proportion of scrap had to be used for mixing with it.

The North-East Coast, like Scotland, suffered heavily from the decline in shipbuilding. On the other hand, the industry was under a more unified control, though it still contained

many small works. Dorman Long & Co. was itself a combination of five or six firms and had been amalgamated with a large group comprising the Cargo Fleet and South Durham companies, to include the greater part of the steel-making industry in the area. The Consett Iron Company still remained outside this combine as a large concern carrying on the whole business from the stage of coal-mining to that of rolled-steel products. In South Yorkshire one of the most immediate questions was the possibility of supplying surplus coke-oven gas, from cokerics owned both by iron and steel companies and by collieries, to Sheffield and other municipalities.

Further south, in the Midlands, there had been some remarkable developments. In 1932, Messrs. John Lysaght, a company producing steel sheets, erected at Scunthorpe in Lincolnshire the first plant in which coke ovens were heated by blast furnace gas. As a result, the only coal required for the whole series of processes—coking, blast furnace, steel making and rolling the steel—was the coal charged into the coke ovens: the rest of the work was done by the blast-furnace gas, which heated the coke ovens, and by the coke-oven gas, which was used in making and rolling the steel. One significant fact was that only 30 cwt. of coal were required to produce a ton of finished steel: the pre-War figure had been some 3 tons of coal or more, and in less modern plants than that at Scunthorpe had been reduced since the War to 2 or 2½ tons. It was clear that, if the iron and steel industry alone was to be considered, improvements of this character more than offset the extra cost of raiing the coal instead of raiing the coke. On the other hand, the question became a different one, where there were already pit-head coking plants in existence or where such plants had been, or could be, erected to supply coke and coke oven gas for other purposes than making iron and steel.

Another interesting development was at Corby in Northamptonshire. The United Steel Companies were one of the leading combines in South Yorkshire and the Midlands: Stewarts & Lloyds controlled about 80 per cent of

the production of steel tubes in the country. In 1932 these two concerns entered into a trading agreement, and Stewarts & Lloyds proceeded to erect a works at Corby to produce some 300,000 tons of steel a year by the basic Bessemer process. They controlled large reserves of iron ore in the district, and they proposed at Corby to coke the necessary coal, make the necessary pig-iron, and produce steel semi-products for the United Steel Companies and other Midland plants. With the assistance at first of the United Steel Companies as regards the intermediate stages, they would thus be able to control the production of tubes from the beginning. At a later stage they proposed to replace or supplement the resources of the United Steel Companies by erecting their own intermediate plant at Corby. The interest of this scheme lay partly in the reintroduction of the Bessemer process on a large scale, partly in the location of the works at some distance from the nearest coal-field but adjacent to the iron ore deposits. The Scunthorpe works were similarly located, and represented a move from the coal-fields of South Wales to the iron ore of the Midlands. Clearly such transfers involved changes in employment, which might have a disastrous effect in the coal-mining areas and were certainly a matter for national planning rather than for uncontrolled private enterprise.

In South Wales another large amalgamation—of Guest, Keen & Nettlefolds with Baldwins—controlled steel works which were principally used for the production of sheet and tin-plate bars, intermediate products in the manufacture of sheets and tin-plates: other steel works were controlled by tin-plate concerns.

Lancashire and the adjacent counties contained a number of different concerns engaged in different activities, many of them on a small scale, although there were some large companies and works. There were special questions here in connection with the supply of hematite from the North-West Coast and in connection, too, with the particular demands of the Sheffield steel trade. The production of wire was mainly centred in Lancashire and the Sheffield

district, while the latter was the principal centre of production both for castings and forgings.

**Markets and Exports.** It was clear that different questions affected the industry in different areas. Not only were there differences in the supply of coal, coke, iron ore and scrap, but also in the organisation of the industry and in the markets which it supplied. In fact, the industry itself was a much more diverse matter than coal or cotton. It has been compared to a tree with its roots in the iron ore and branching above the ground into the various types of production, shooting off at different points from the main trunk of the metal. In 1933 there were many employers' organisations for these different branches, but they functioned mainly as price-maintenance bodies—some fifty or more of them in the industry. These organisations had taken various forms and had met with varying measures of success. Often enough, a dissentient minority had made association impracticable. But in some cases, notably in the steel-rail trade, there were effective agreements both as regards home markets and as regards a share of international trade. More generally, as regards exports, the British Steel Export Association represented an attempt at co-operation in the marketing of British steel abroad, while since May 1932 a small company existed to market in China the exports of Dorman Long and one or two other important companies. For the purposes of statistical information and research, the National Federation of Iron and Steel Manufacturers covered the whole industry, while the British Steelworks Association directed its attention with some success to research and propaganda as regards additional uses of steel. There was the usual employers' association for labour matters, called, in this instance, the Iron and Steel Employers' Association.

**Vertical Combines.** It would be misleading to refer to the structure of the industry without mentioning the large vertical combines which were a feature of it, and which showed signs of increase, partly by actual amalgamation

and partly by trading agreements ; to one or two of such combines I have already referred. Even in 1927 twelve large groups controlled nearly half the pig-iron capacity of the country and nearly half of the steel capacity ; and, in spite of some tendency to break up the combines, the general effect of subsequent amalgamations was to reduce their number and increase their size. On the whole, the groups centred round the heavy steel section of the industry, producing the semi-products ; but they owned their own mines and iron ore and, at the other end, went beyond the semi-products to produce finished articles. Moreover the groups were more or less localised in different areas, and in some cases—for instance, Stewarts & Lloyds as regards tubes, or Richard Thomas as regards tin-plates—specialised in particular branches of the iron and steel tree. Others of the groups were heavily encumbered by the legacies of war-time finance in the shape of debentures and bank loans.

**The 1933 Reorganisation Scheme in its original form.** The 1933 reorganisation scheme was directed towards grouping the price-maintenance associations into a smaller number of production associations with considerable powers of control. These associations were to aim at the progressive concentration of production in the more efficient plant and to buy out redundant and inefficient plants by agreement with the proprietors. A central organisation was to support and co-ordinate the sectional bodies and to deal with matters of general policy. It was to have four regional committees—for Scotland, the North-East Coast, the Midlands and the North-West Coast, and for South Wales. Of these, the Midlands and North-West Coast region covered rather more than one-third of the steel production, while the remainder was divided between South Wales, the North-East Coast, and Scotland (in that order of quantities). This organisation was to be called the Iron and Steel Corporation of Great Britain ; and on its council there were to be represented the regional committees and the various sectional associations as well as the

British Steel Export Association mentioned above. In addition, the scheme provided for some representation of the principal industries using iron and steel products: but the corporation and its constituent bodies were essentially associations of producers, and, under the National Government, it was perhaps natural that the scheme did not provide for any representation of labour. Moreover, even among the producers the scheme met with strong opposition on the ground that it would make the steel makers "absolute dictators to all other sections of the industry."<sup>1</sup> The re-rollers (including tin-plate and sheet makers) would have both their purchases in the shape of semi-finished steel and the sales of their finished products controlled, while the steel makers would have complete freedom in the purchase of their raw material and be able to dictate prices to the rest of the industry.<sup>1</sup>

With a view to meeting such criticisms, the scheme was altered. The regional committees disappeared, and so did the name of the "Iron and Steel Corporation of Great Britain": no doubt it had too independent a sound for the various producing companies concerned. The National Federation of Iron and Steel Manufacturers was rechristened the "British Iron and Steel Federation" and given powers of co-ordination and control in general terms. Its council reflected an organisation of the industry by sections rather than by areas. The sectional associations affiliated to the federation were to appoint the majority of the members of the council, and there was a provision for co-opted members in case any section was insufficiently represented. Other members were to be elected annually from the ten districts, which covered smaller areas than the four regions of the previous scheme. The council was to appoint an executive committee and other committees, the names of which indicated their proposed functions: they were a parliamentary committee, a transport committee, and tariff and research committees. It was significant of the conflict of private interests in the industry that the

<sup>1</sup> Letter from L. D. Whitehead, *The Times*, 14th February, 1934.



chairman of the executive committee was to be an independent person.

The altered scheme was adopted in April 1934.<sup>1</sup> The comments on it, made five days before its adoption by the chairman of the largest tin-plate concern in the country, were significant: "My fear is, that the results of this commitment will be negligible—that the new committee will fail to produce an economic scheme, for the same reason that the National Steel Committee failed. Private and individual interests block all possibility of progress being made on a basis of national efficiency. Statutory power is essential. . . . So long as private interests only are considered, so long will genuine economic organisation be delayed."<sup>1</sup> I have referred at some length to the 1933 schemes because they illustrate the inherent difficulties of organisation in the industry: they were perhaps its best attempts to work out its own salvation as a conglomeration of capitalist enterprises. Here, as in other industries, it must have been interesting to McCosh and Codd and their colleagues to look back on the efforts of the competitive capitalist system to secure the co-ordination which was so obviously required, to watch those efforts break down time after time under the exigencies of competition, and to reflect that the process had at any rate served the purpose of preparing the industry for that public ownership under which alone it could reach the results for which it was groping.

**The Iron and Steel Board.** In the iron and steel industry the Government had to combine a technical organisation, which must obviously follow the lines of the branches of the tree, with some form of regional organisation which would fit into the regional plan. A similar problem had faced the framers of the 1933 schemes, and of other capitalist schemes of reorganisation. The structure of the industry made it difficult to build up any central body entirely out of regional units. Accordingly, Furness, the Commissioner for Iron

<sup>1</sup> *The Times*, 16th April, 1934.

and Steel and dependent trades, instead of appointing any advisory committee, at once became the chairman of the Iron and Steel Board. This was a large body constituted in four sections, of which the first two comprised a majority of the board. The first two were the labour section and the technical section. The former consisted of representatives of labour in various branches of the industry, while the latter included managers, research workers, one or two financial experts and some representatives of the National Planning Commission: most of the technical section were Socialists. The other two sections represented respectively the capitalists concerned in the industry and the principal dependent trades using iron and steel products. The Iron and Steel Board appointed a small executive committee, of which Furness was the chairman, and a number of committees to deal with the various sections of the industry. These committees included an export committee, and also a research committee to deal both with technical research and with market development. The former took over the British Steel Export Association, and the latter the British Steelworks Association.

**The Process of Socialisation.** The board was given wide powers of requisition, which it exercised in practice through its executive committee. The National Mining Council was represented both in the technical section of the board and in the dependent trades section; and its representatives constituted, with one or two other members of the board, a temporary sub-committee on cokeries. One main object of this sub-committee was to draw the line between pithead plant attached to the coal-mining industry and cokeries attached to the iron and steel trade. The board did not, as a rule, acquire the shares of the larger concerns in the trade, but proceeded to take over plant against compensation on the usual system of annuities. Here again it did not attempt, with one exception, to take over all the plant in any section of the industry, but confined itself at first to the larger and more modern works, especially in the steel-making section.

The board arranged for its coal requirements by large purchases in bulk—negotiated with the National Mining Council and carried out through the district coal agencies. The iron ore mines were treated as part of the iron and steel trade and were taken over by the board at an early stage. Imports of iron ore, pig-iron and scrap were regulated under a licence system, which was soon extended to steel semi-products and subsequently to finished steel in its various forms. Meanwhile the various sections of the industry were directed to submit existing agreements as regards production and prices to the board, or, where no such agreements existed, to prepare and submit them. These agreements, with such modifications as seemed necessary, were approved by the board and enforced by order. As regards land, the board proceeded in much the same way as the National Mining Council: the sites of existing plant and the land required for further development were transferred to the Secretary for Land by departmental orders, made on the recommendation of the board.

**Steel Forgings; Regional Boards.** The steel forgings section of the industry was particularly important in connection with armaments, and in this connection the board varied its usual policy by an immediate and comprehensive requisition of all the plant engaged in making armaments. This particularly affected the Sheffield district; and the first step made by the board towards devolution in the regions was to set up a regional board for that district, which lay in the regional area of Yorkshire and the North-East Coast but was connected for trade purposes with the Midlands and the North-West. As a result, the largest of the four regions proposed under the 1933 scheme was subdivided. That region would have included Sheffield, the Midlands, South Lancashire and the North-West Coast. It was actually covered by three regional boards, two of which were large, one for the Sheffield district and one for the Midlands, while the third covered the less important area in the administrative region of Cheshire, Lancashire and the

North-West. Of these, the Midland regional board started only with Lincolnshire and Northamptonshire, but was soon extended to include the western and north-western part of the Midland area. The other regional boards were constituted as in the 1933 scheme, namely one each for Scotland, the North-East Coast and Wales. Of the total number of six regional boards, there was one each in the administrative regions of the industrial Midlands, Cheshire, Lancashire and the North-West, Wales and Scotland, with two in the Yorkshire and North-East Coast region. These boards were related, like the district mining councils, to the respective regional councils, but they maintained closer contact with one another than was the case in the coal trade. For many trade purposes the area under one regional board was dependent for supplies or markets on that under some other board. I need only instance the supplies of hematite iron from the North-West Coast to Sheffield, and of Cleveland pig-iron from North Yorkshire to Scotland. Moreover, the different character of the various sections of the industry gave the national Iron and Steel Board a more important part to play, as compared with the regional boards, than was the case in the coal trade. For the same reason, the regional boards differed considerably in their structure in different regions. The predominance, for instance, of the tin-plate section in South Wales, and of plates, rails and other engineering constructional material on the North-East Coast, were reflected in the constitution of the regional committees. In the regions, the labour and technical sections constituted the majority of each committee ; but the former section of each board was rather larger and the latter at first rather smaller than on the National Board. As the socialisation of the industry proceeded, the technical section on each board became larger and the owners' section smaller.

**Administration.** The actual administration of socialised works was carried on much as in the coal trade, with works councils corresponding to the pit councils, and the managers and supervisory grades organised in the supervisory section

of the Iron and Steel Trades Confederation, membership of which was made compulsory for everyone in the industry, whether in socialised or unsocialised works, except the remaining private owners or directors. Prices and wages were more complicated than in the coal trade: as there, they were a matter for national planning.

**Finance.** On the financial side of the industry, the Iron and Steel Trade Financial Advisory Committee was formed under the Banking Act and reported soon after the constitution of the Iron and Steel Board. Through Cobleigh's dealings with the frozen credits in the trade, the socialised banks and their successor in this respect, the Industrial Mortgage Bank, acquired control over a number of undertakings, which were transferred to the Iron and Steel Board and in many cases shut down. On the other hand, the industry as a whole was badly in need of funds, partly for the modernisation of existing plant, and partly for new developments. How was such money to be raised and administered? And could not the administration of it be combined with the work which had been begun by the socialised banks and the Industrial Mortgage Bank?

What seemed to be required was a co-ordinating financial authority of the kind recommended in 1931 by the Macmillan Committee.<sup>1</sup> Some effort in this direction had already been made by the Bankers' Industrial Development Company, an institution operating under the Bank of England even before the time of the National Government. That company had already been socialised in the course of the socialisation of the banking system, and its connection with the industry was now available. Although the first approach to questions of frozen credits had been through the socialised banks, it was clear that both these and questions of further development were now matters for the National Investment Board. The National Investment Board accordingly formed an Iron and Steel Mortgage Bank, which was in effect a specialised branch of the

<sup>1</sup> *Committee on Finance and Industry, 1931 Report*, § 385.

Industrial Mortgage Bank.<sup>1</sup> The interests of the latter in the industry, as well as the ownership of the works now requisitioned, were transferred to the Iron and Steel Mortgage Bank. As in the case of other industries, this was a mere transfer of title; and the financial authority held the property as trustees, dealing with it only for financial purposes, while the administration of the industry remained in the hands of the Iron and Steel Board. The Iron and Steel Mortgage Bank was, however, now in a position to raise money on behalf of the industry as a whole, or, at any rate, of the greater part of it: as socialisation continued, further transfers of property would give it complete ownership. The Iron and Steel Mortgage Bank proceeded to issue through the National Investment Board £15 millions of stock, which was in effect a non-cumulative preference stock, entitled to receive, out of the profits of the bank's holdings and after providing for depreciation and necessary reserves, interest up to a maximum of 4 per cent in any one year. There were also provisions for the variation of the maximum rate of interest according to current rates and for the repayment of the stock at the bank's option. A large part of this issue was taken up by the socialised banks and the remainder by the public, including the socialised insurance companies and investment trusts, to which I shall have occasion to refer later. Further issues of similar stock were made from time to time, and in some cases the expropriated owners of requisitioned plant were allowed to take up a smaller amount of the stock in place of the annuities which they would otherwise have received. The total amount finally issued was £50 millions.

**Purposes of New Capital.** There were three main purposes for which this money was required. The most important was the concentration of production, especially production up to the semi-product stage, in a comparatively small number of modernised works operating on a larger scale than most of those already in existence. The

<sup>1</sup> See p. 114.

general intention of the board was to ensure that these works should provide steady employment to the full extent of their capacity, that for the time being a number of other works should be kept in operation on a smaller scale, so as to provide for some expansion in the industry, and that the remaining works (being the smaller and more obsolete ones, which at present only worked on a part-time basis—and only on that when the industry was doing well) should be shut down as soon as alternative employment could be found for the workers, either by transfer to other works or in some other way. The second purpose was the development of the home market by extending the industry a step further and either arranging for the provision of supplies in bulk to existing consumers or actually setting up new factories in depressed areas, which would take the products of the iron and steel industry and convert them into goods for sale to the public. Just as, for instance, the cotton industry was to push into the production of standardised piece goods, cotton shirts and the like, so the iron and steel industry was to extend to the making and marketing of building materials, tools, and even ships and motor-cars. The third main purpose was a similar development of the export trade—a matter which would require little or no expenditure on plant and a much smaller amount of expenditure in money, although it would need to be combined with developments in technical research and in market research.

**Concentration of Production: Regional Changes: Scotland.** The concentration of production was bound to be a gradual process. The board intended, so far as possible, to locate the large steel works near the iron ore deposits. On the other hand there were cases, in which this was impossible. In Scotland, for instance, coal was readily available, and the blast furnaces and the steel works were near the sea; but they drew their supplies of iron ore largely from Cleveland in North Yorkshire, from Lincolnshire and from abroad. What was required there was, in the

first place, a central cokery to replace the small and old-fashioned coke ovens in use ; in the second place, a large modernised works near the sea, at which the imported ore could be blasted and the pig-iron run hot into steel works ; in the third place, if possible, the location of that works near the cokery, so that full use could be made of the blast-furnace gas for coking and of the coke-oven gas in the steel-works, on the lines already tried at Scunthorpe ; in the fourth place, adequate arrangements for the marketing of iron and steel products to supply the local engineering and shipbuilding industries and to utilise fully the shipping facilities on the Clyde for the export trade. The Scottish iron and steel industry contained more than the average share of out-of-date plant ; but its reconstruction was a practical necessity, if only because of the consuming industries located near and dependent to some extent on it. The problem was particularly a regional one and it was met, rather more gradually than in other parts of the country, under regional arrangements. Finally a large cokery, blast furnaces and steel works were erected in Lanarkshire and production was centralised there. Another useful development in the industry in Scotland was some degree of standardisation of the products supplied to the consuming industries—in particular, of steel plates for shipbuilding and of constructional steel for housing in Glasgow and on Clydeside.

**North-East Coast.** On the North-East Coast it was clearly advisable to use Cleveland ore as much as possible, directing the imports of foreign ore to Scotland rather than to Middlesbrough. Some 100,000 tons of pig-iron had been shipped annually from the North-East Coast to Scotland ; and, with the reorganisation of the Scottish industry, the iron could be made into steel products for shipbuilding and engineering on the North-East Coast. Besides, though the production of coke in the area exceeded the requirements of the blast-furnaces, there was considerable scope for its use in other ways. Most of the cokeries were connected with collieries and many of the iron and steel



cokerics were too small : too large a proportion of the installations were of the waste-heat type, in which the possibilities of producing coke-oven gas were not fully utilised. There were, however modern cokerics belonging to the Consett Iron and Cargo Fleet companies. Here again a large cokery was required and there was room for concentration as regards blast furnaces and steel works. The Consett Iron Company was a complete unit, using iron ore from Spain and its own coal, with an efficient cokery, blast furnaces which could easily be reorganised, and steel works. Round this unit production was gradually centralised to supply the local engineers and shipbuilders. As in Scotland the question was largely a regional one, and was tackled in that way.

Sheffield. In the Sheffield area there were three outstanding questions. The first was the use of coke-oven gas. The most important cokerics were attached to collieries and came under the administration of the mining industry. More coke was available in the area than was required for iron and steel making, and one of the collieries already supplied gas to Sheffield, where it was extensively used for industrial purposes, including the finishing of steel products. The second question was the Sheffield steel trade itself, in so far as it dealt with specialised products. There were still many small firms working in competition and on a small scale with insufficient or obsolete machinery. The third question consisted of the steps to be taken in connection with the armaments section of the industry.

As regards the coke-oven gas, the outstanding development was the national gas grid, which began in the South Yorkshire area between Sheffield, Rotherham and the coal mines round Doncaster. I shall have to refer to it later,<sup>1</sup> when I come to the subject of power and transport. For the moment I need only point out that the construction of the grid served as a temporary measure of employment on a large scale, and that the ample supply of gas provided power

<sup>1</sup> See p. 365 below.

for the reorganised finishing industries in Sheffield. Cutlery, for instance, was standardised and the leading cutlery firms were taken over. Their works were specialised with a view to supplying standard cutlery for the home trade through the co-operative movement and to producing cheap articles in bulk for export. By centralising the production of each standard article in a single works it became possible to introduce machinery on a large scale and to make offers in bulk for home use and abroad. Under the National Government imports of cutlery had been reduced from over £750,000 in 1931 to about £140,000 in 1933, while an export trade of nearly £140,000 in 1931 had fallen to rather over £18,000 in 1933; and there had been similar movements as regards tools. The Iron and Steel Board continued for a time the restriction on imports, but the effect of reorganisation was such that exports by barter soon became possible. The Sheffield regional board was able, for instance, to offer £500,000 worth of cutlery in the Australian market, and a barter contract was negotiated through the Secretariat for Overseas Trade against imports of wool for Bradford.

It will be noticed that, in dealing with Sheffield cutlery, the iron and steel organisation was extending itself into the field of light engineering. In the same way, as regards castings and forgings, it embarked on heavy engineering. In the Sheffield area the policy of taking over armament firms resulted in the acquisition of a number of works connected with Vickers, Cammell Laird, John Brown and other trusts. In many cases obsolete or redundant plant was taken over, with little or no compensation, and shut down. Neither the castings section nor the forgings section of the industry had been fully occupied, and there was room for development both as regards forgings for locomotives and in connection with the shipbuilding and motor-car trades. Both the latter were of such importance that they were separately organised—shipbuilding in connection with the socialised shipping service: I shall refer to the motor-car trade later on in this chapter. As regards locomotives,

the trade could roughly be divided into three parts—the production of locomotives and rolling-stock for British railways, in which the railway workshops competed; the production of similar goods for export; and the trade in smaller engines, for industrial purposes. In order to assist the process of finding alternative employment for munition workers, all three parts of the trade were placed under the Iron and Steel administration. While the construction of locomotives in railway shops was continued, at the same time, both in the Sheffield area and in Government arsenals over the country, armament plant was converted to the production of locomotives and rolling-stock as well as to other uses. One of the committees of the Iron and Steel Board corresponded to the old Locomotive Manufacturers' Association. Considerable improvements were effected by standardising locomotives for export and for industrial use, and the allocation of a substantial sum for research work in this connection was more than justified by the results.

**The Midlands.** The Midlands soon became the largest producing area for steel semi-products. I have already referred to the works at Scunthorpe and at Corby. Round these, production was centred and increased. The Corby works soon became the most important centre in the country, and from them came supplies, not only of semi-products, but, with additions to the works, of finished tubes and pipes. These served, not only to supply the building trade at home, but also to feed foreign markets with gas- and water-mains and pipe-lines. In addition, the Corby plant provided material for the national gas grid and Scunthorpe was extended to produce sheets as well as semi-products. The sheets were used in the reorganised motor trade, which was centred in the Midland area, around Birmingham and Coventry. Although that trade was not organised under the Iron and Steel Board, it is perhaps convenient to refer to it here, as it constituted one of the most important users of iron and steel products and also became an exporting industry on a large scale.

**The Motor-Car Industry.** The British motor-car industry started rather late, and met with difficulties during and after the War. Both in the home market and abroad, it was already showing signs of recovery when the McCosh Government came in. Although between 1931 and 1933 the total exports of vehicles (including locomotives, ships and aircraft) fell from nearly £30 millions to about £21½ millions, the exports of motor-cars, parts and accessories, rose from £6½ millions to £9½ millions, so that in 1933 they accounted for between one-third and one-half of the total exports of vehicles. Together with motor-cycles, bicycles and tyres, they accounted for £16½ millions, or nearly four-fifths of the total of vehicle exports. With a corresponding increase of production, they had gained an overwhelming share of the home trade. But the true position was by no means as satisfactory as these figures would appear to indicate. Two, at any rate, of the largest works in the country were outposts of the American and French industry; and the American manufacturers, working on a larger scale to supply a large home market, were still able to secure a preponderating share of the foreign trade. Manufacturers working in England on English models complained of the effect on the export trade of the particular form of taxation adopted for motor-cars in England, which, they said, encouraged the production of a type of car unsuitable for use abroad and unable to compete successfully with American models. None the less, the leading English manufacturers were successfully exporting some types of car, including luxury cars and the small economical vehicle which was suited to the good roads and short distances in this country. The position of the workers in the industry was lamentable. The demand for cars was seasonal, occurring partly in the spring and partly at the time of the annual motor shows organised by the manufacturers' associations in the early autumn. The result was that, in spite of the comparative prosperity of the industry, large numbers of men were thrown out of employment during the slack season and given employment

again when the demand became more active. There were scant arrangements for any storage of cars to even up the supply ; and frequent changes in models would have made it as difficult to organise any such arrangement as it would have been in the luxury dressmaking trade. Distribution costs were high. The retail trade was scattered all over the country in agencies and garages of varying sizes. The waste on advertisement between one competing type and another was enormous. The number of small firms, providing uncertain employment and uncertain cars, was excessive. Naturally enough in these circumstances the second-hand trade was substantial ; it was organised as irregularly as the retail trade in new vehicles. The introduction of mass-production methods had reduced the number of skilled workers employed and there was no single trade union covering this extensive trade. Generally, both in the motor trade itself and in the trades accessory to it, the workers were ill-organised and at the mercy of their employers. The industry had shown some tendency to amalgamation among employing firms, with a view to mass production and to improving the export trade. Although there were works in many parts of the country, the most important areas were in the Midlands, around Birmingham and Coventry, and in the neighbourhood of London, to which the Ford Motor Company had recently moved from near Manchester : one of the largest works in the country was that of the Morris Motor Company at Oxford. In 1933 some quarter of a million workers were insured in the industry and during the year unemployment fell from about 18 per cent to about 11 per cent among them. When the McCosh Government came in the trade in motor-bicycles was tending to diminish, while that in ordinary bicycles showed signs of improvement.

**Socialisation of Motor-car and Bicycle Industry.** There were a number of reasons which made Codd anxious to take over the motor and bicycle industry as soon as possible. In the first place, there was obviously great scope for

development, both in the home industry and in the matter of exports. Standardisation of motor-cars and accessories, coupled with an improvement in retail trading methods and the elimination of competitive advertising, should result in giving the workers the effective use of motor-cars, as to some extent they had had it in the United States. The first motor-car public had been the rich; since about 1924 motor-cars had been available for the middle-classes; it remained for a Socialist Government to make them available for the work and leisure of their own people. In the second place, as regards commercial vehicles, their use should be part of a national transport system. It was as well to control their manufacture; for without it a mere control of use would be more difficult. Thirdly, this certainly seemed to be one of the ways in which an increased use of semi-manufactures—metal, fabric, paint—could assist some at any rate of the major industries. And lastly, no doubt, Codd was glad to take over an industry which presented real possibilities in the way of exports. He meant to show that socialisation could assist the development of a growing industry as well as the restoration of an industry in difficulties. But perhaps the most immediate appeal to that experienced trade unionist lay in the need for organising the trade as regards employment and for organising the workers in it.

If the industry was to be self-governing—and here, as in other cases, Codd had no liking for bureaucratic control—the first step was to set up some body to represent the workers in the industry and ultimately to act as its governing authority. In August 1937, Codd and Wright, the Secretary for Industry, convoked a conference of representatives of trade unions already concerned in the industry—whether as regards cars and lorries or as regards bicycles, parts, tyres and accessories. It was decided to form a Motor, Cycle and Allied Trades Union, to which members should be transferred from other unions. A small committee of representatives of the unions concerned, with an independent chairman nominated by the General Council of

the T.U.C., was set up to start the new union and to make the necessary arrangements as regards transfers, finance, staff and so on. In effect, this small committee managed the new union for the first year or so of its life. The committee, after making some inquiries at the principal works in the industry, appointed a provisional workers' council to represent the workers for the time being in the initial stages of socialisation. Out of this small workers' council, with the addition of some nominees of the National Planning Commission and a considerable proportion of selected managers, engineers and trade representatives, Wright formed a provisional advisory council and found an intelligent Socialist in Birmingham whom he made its chairman.

**Standardised Motor-cars and Bicycles.** Acting under the wide powers of the vehicle sections of the second Planning and Finance Act and on the advice of the provisional advisory council, Wright made membership of the new union compulsory in all sections of the trade. His next step was to set up a temporary licensing system for all manufacturers, and to enforce, as terms of the licence, a number of conditions as to continuity of employment and storage and distribution of cars. He then started a series of requisitions, confining himself to the larger works and using each works, so far as possible, for the production of a single standard type of vehicle. The first batch consisted of two works for commercial vehicles, six for cars, one for motor-cycles and two for ordinary cycles. He used the licensing system to secure a steady supply of such parts and accessories as were not made at the requisitioned works, and he then proceeded to take over some specialised factories for parts and the like. In the course of the first two years, he succeeded in setting up a chain of factories for the production on a large scale of two types of lorry, three types of motor-car, and a standard motor-bicycle and bicycle. Both the light and the heavy lorry, two of the three types of motor-car, and the two bicycles were suitable for the export trade.

In the course of this development Wright took over all the works engaged in large-scale production of commercial vehicles and cheap cars. There remained a number of works engaged in producing more expensive cars, as well as some which produced cheap cars on a small scale. Practically all of the latter class had already suffered so severely from the competition of the larger works as to be in serious difficulties. Their assets were of little use to Wright ; but he let it be known that he was willing to offer small amounts of compensation on an annuity basis if such works closed down, and to find employment for the engineers and other workers in them at the large factories he was setting up. In practice this proved quite sufficient ; the expenditure by way of compensation as regards these works was very small. The production of more expensive cars was another matter. In principle, Wright had no intention of interfering with factories engaged on that type of work ; but he did propose to make the users of such cars pay a substantial price by way of taxation. The existing tax was accordingly doubled on all cars other than those produced in socialised works. As regards the latter, Wright considered the possibility of substituting sufficient profit in the price to cover the elimination or reduction of the existing tax. But such a course, by itself, merely tended to increase the amount payable as a lump sum by those who bought the cars, and to restrict the market to those who had such a lump sum available or who could borrow it. On principle, both as regards cars and many other things, this was just what the Government wanted to avoid. They wanted people to make purchases out of income rather than out of accumulated savings. Wright dealt with the matter by setting up a Government hire-purchase scheme for socialised cars ; there were already similar arrangements in the trade. The amount of the instalments was arranged to cover the cost of the car, duty at the current rate, and insurance under the Government scheme, to which I shall have to refer later. The general effect of the arrangement was to give a preference to the standard Government cars as against those still



produced by private manufacturers. One case, however, needed special treatment. The Rolls Royce works at Derby produced luxury motor-cars and also aeroplane engines. The government intended, in the process of controlling armaments, to take over the aeroplane-engine production ; and it was difficult in practice to separate the two parts of the works. Wright accordingly took over the whole works ; but no preferential treatment was given to the cars produced there and the Government hire-purchase scheme was not extended to them.

**Distribution.** The question of retail distribution, garage repairs and the market in second-hand cars, was a difficult one. Wright was anxious to use the co-operative movement as far as possible, just as it was used for other goods. On the other hand, it was hardly suitable for handling commercial vehicles (other than those which it required for its own purposes) or for the distribution of any large type of car. The movement already made bicycles and was in a position to handle that part of the trade. On the recommendation of the provisional advisory council and after consultation with leading co-operators, Wright arranged to market Government bicycles and motor-bicycles through the co-operative movement at home. The smallest type of motor-car was also marketed through co-operative agencies, but not exclusively. As regards the car market, he set up agencies in the principal towns and for that purpose took over some of the leading provincial garages. These agencies also handled commercial vehicles. Private dealers obtained no better terms in buying Government cars than the general public ; and the agencies became, in effect, the only method of distribution for commercial vehicles and the larger types of car, sharing the smallest type of car with the co-operative agencies. Both the Government motor-trade agencies and the co-operative agencies ran a repair service and a second-hand service. As regards the former, they were supplemented for the time being by a number of appointed agents in outlying areas.

As regards the latter, they dealt only in Government cars ; but they never refused to buy one, at some price or other, and they invariably resold with a full report as to the condition of the car and, if required, on hire-purchase terms. These facilities were a great help in marketing Government cars. The purchaser of a Government car, new or second-hand, knew exactly what he was getting, and knew that he could dispose of his car at a fair price at any time and that the hire-purchase arrangement would not prevent him doing so. No purchase or sale of a Government car was allowed except through an official agency. The socialisation of the motor-car and bicycle trade led to great changes in the Midlands, where the trade was mainly located. The Government works at Coventry and at Longbridge, outside Birmingham, took large supplies of castings from Corby and sheets from Scunthorpe. The smallest type of Government car, sold in the first few years for £100 and subsequently at £80, spread rapidly over the whole market. The middle-sized light car at £150, produced at Coventry and at Oxford, was equally successful, partly for private use and partly for commercial purposes. As regards the export trade, the small car was slightly more solid than previous types and constituted a staple product for export. The greater part of the export trade, however, fell to the larger cars produced at £200 near London. Barter contracts for cars, bicycles and tyres practically monopolised the Empire market. The growing trade provided steady employment on an increasing scale and the works were important centres in the national housing scheme. There is no doubt that the development of this industry played an important part in the revival, not only of the iron and steel trade, but of a number of minor industries in the Midlands and in the London area.

**Iron and Steel; North-Western area.** Let me now turn back to consider the remaining areas in the iron and steel trade.

The north-western area was largely affected by the developments in the Midlands to which I have already

referred—both as regards castings and forgings, and as regards the motor trade. Production of steel and steel products was gradually centralised at Irlam, where the existing works were taken over and a large cokery was set up. Some of the most important products consisted of wire and wire manufactures, the cheaper grades of which were produced on a large scale and met with an increasing demand abroad. The north-western area worked in close co-operation with the Sheffield industry.

South Wales. There remained South Wales, where the tin-plate and sheet sections of the industry were of particular importance. The production of sheet and tin-plate bars for these sections was centralised by the elimination of a number of small steel works and by the concentration of production of open-hearth steel at Cardiff. As regards tin-plates, exports had fallen from some 600,000 tons in 1929 to about 400,000 tons in 1931, with a small improvement in the two succeeding years. The trade had itself recognised the need of improved marketing, but efforts in that direction had been comparatively unsuccessful. Barter contracts, partly with the Dominions against food and raw materials and partly on a smaller scale with some European countries, resulted in Great Britain obtaining a substantially larger share of the world trade. But the most important development was in the home market. Even under the National Government the canning industry had shown signs of enterprise and extension. No one seemed to have thought of installing canning factories in South Wales.<sup>1</sup> The establishment of a Government canning factory near the tin-plate works in South Wales called for some expenditure in research and construction—an expenditure amply repaid by its contribution to employment in the area, both directly and in providing a steady and increasing market for tin-plates: it was of considerable help to the local agriculture and fisheries. Another development consisted of the installation, at a rather later date, of a Government works

<sup>1</sup> But see *Industrial Survey of South Wales*, 1932, p. 69.

for making commercial vehicles, which not only provided employment but served as an outlet for the iron and steel industry. I should add that a considerable proportion of the research fund of the Iron and Steel Board was allocated to South Wales and that the expenditure was more than justified in the tin-plate section alone.

**Progress of the Industry.** In many ways iron and steel and their dependent trades presented a particularly difficult problem to the McCosh Government. In few other cases was the position so complicated, not only by the differences between the various branches of the industry, but also by the technical problems involved as regards production, marketing and planning generally. The diversity of plant, its scattered location over the country, the tendency to production on a small scale and in obsolete works, all constituted difficulties which it required courage, foresight and considerable technical judgment to overcome. In no other industry was the change from competitive capitalist production to large-scale Socialist production so troublesome and so sweeping. On the other hand, in no other industry were its results more beneficial. The increase of steel production to the 25 million tons, foreseen by Jevons in 1931, appeared at first almost hopeless, and, in fact, took nearly the whole five years of the McCosh Government to complete. But the effect both on employment in the country and on the export trade was enormous. This country had always had the natural facilities for such an increase. Under a capitalist system it had never been able to reach that degree of co-operation which was required for the necessary reorganisation. It had been, on the whole, a rather decaying industry, suffering from heavy unemployment and a high proportion of comparatively old men engaged in it. Its new developments provided scope for fresh blood among workers and managers, and as a flourishing industry, able to supply material cheaply and on a large scale, it made perhaps the most important contribution to the revival of British engineering.

## CHAPTER X: THE COTTON TRADE AND LANCASHIRE

**Lancashire and Cotton.** The industrial area in Lancashire had been hard hit by unemployment in the time of the National Government. Codd and his colleagues regarded the problem before them as a Lancashire matter, and not merely as a question of how to develop the cotton trade. It was therefore a problem for settlement by the regional authority; and the Government only proposed to see that the regional authority had the necessary powers and to indicate the general lines upon which they should be exercised. The region included Northern Lancashire. To the north it took in Cumberland and Westmorland and to the south not only Cheshire but also some small outlying parts of Derbyshire, including Glossop, which were annexed to Cheshire for administrative purposes.

The cotton area extended southwards from a line drawn between the neighbourhood of Preston and the district of Nelson and Colne, with its western boundary in the neighbourhood of Bolton and the eastern boundary of the region as its eastern boundary. In the south-east corner it included the area round Stalybridge, Hyde and Glossop. There were outposts of the industry to the west and to the north of this line, while outside the region less than a fifth of the cotton workers in Great Britain and Northern Ireland were located principally in the adjacent Yorkshire area and in Scotland. The cotton trade employed more workers than any other industry in Lancashire, but it was far from employing a majority of workers in the region or in the Lancashire part of it. If, for instance, the industrial area of Lancashire, south of Lancaster, be divided into two parts, of which the smaller includes Liverpool and Merseyside and the country to the north and south of Liverpool, while the larger covers the triangle Lancaster, Widnes, Manchester

and the adjacent parts of Cheshire and Derbyshire, about one-third of the workers in the larger area would be in the cotton trade. In that area, cotton, coal-mining and engineering, would account between them for rather more than half the number of workers. In other parts of the region the number of cotton workers would be negligible.

**Raw Cotton and "Futures."** Before the War, most of the raw cotton arrived at Liverpool, about one bale in five coming up to Manchester. After the War, Manchester grew in importance as a port of arrival, so that by 1931 one bale arrived in Manchester to every two in Liverpool. The market for raw cotton remained at Liverpool, with an arrangement for the purchase and sale of "futures," i.e. standard grades of cotton for delivery in some future month.

There were comparatively few deliveries of cotton so sold. The "future" market was used mainly for speculation as to the course of cotton prices, the buyer balancing his purchase by a subsequent sale, or as a means of "hedging." Someone intending to supply future deliveries of cotton yarn or cotton goods would buy the necessary raw cotton and sell an equivalent amount of "futures." In this way, if cotton went up in price, he would gain on the actual raw cotton and lose on the deal in "futures," while, if cotton went down, the opposite would happen. In either case, even if, as was usual, he did not "hedge" to the full extent, he would avoid at any rate some of the risk of fluctuations in the market price of cotton during the process of manufacture.

**Spinning, Weaving, Finishing: Exports.** The making of raw cotton into cotton goods fell roughly into three divisions: spinning, weaving and finishing. The finer Egyptian cotton, amounting to about one-fifth of the total imports,<sup>1</sup> was spun into yarn, mainly in the Bolton area. The coarser cotton, principally from America, was spun in the Oldham district and elsewhere. There were considerable exports of

<sup>1</sup> *Board of Trade Journal*, 18th January, 1934, p. 88.

cotton yarn, with a market at Manchester. Most of the yarn, however, went on to the weavers, either directly or through the Manchester market. The value of the yarn exported averaged about one-fifth of the value of cotton piece goods exported.<sup>1</sup> Weaving looms were mostly in the northern part of the cotton area, between Rochdale, Preston and Nelson. The woven grey cloth was finished by being bleached or printed or dyed: The main market for cotton piece goods, whether grey or finished, was through the Manchester "shippers." A large proportion—probably about four-fifths—of the piece goods made were exported, the largest market being British India: the other principal markets were in South America, Africa and Australia. Yarn, on the contrary, went mainly to European markets for weaving there.

**The Troubles of The Industry.** On the whole, the Lancashire cotton industry prospered continuously until the War. After the War its fortunes declined steadily, in spite of the varying ups and downs, the booms and slumps, of the period. Its troubles took many forms. Industries connected with munitions had their boom during the War, but the cotton boom came in the year or two years after the Armistice. Prices and profits were high, and spinning-mills could only have been erected at high cost. The result, particularly in the American spinning section, was that existing companies watered their capital freely by issues of bonus shares or sold their assets at high prices to new companies promoted during the boom. In the same way money was borrowed freely for the extension of mills or as working capital. The average price of a thousand spindles rose from £1,400 in 1919 to about £4,000 in March 1920.<sup>2</sup> When the boom broke, these refinanced companies were not only unable to pay dividends, but, where they had borrowed money, they found themselves unable to pay

<sup>1</sup> *Government Cotton Inquiry Report, 1930, Table A.*

<sup>2</sup> Daniels and Jewkes, *Post-War Depression in the Lancashire Cotton Industry, 1928, p. 21.*

interest to the banks or other lenders. They started calling up money from the numerous holders of partly paid shares. More than £25 million was called up in this way between 1922 and 1931, but in time calls began to prove ineffective: the financiers had bled Lancashire white. The result was that, from a financial point of view, a large number of the spinning companies were controlled by the banks, while from the producing point of view they were compelled to sell their yarn at all costs in order to meet bank charges. The price-cutting of these "weak" sellers disorganised the industry. There was a steady pressure on the wages of all workers in it. Even in the weaving section which was less affected by this financial difficulty, an operative earned £3 in 1920, but only 31s. 9d. for the same work in the time of the National Government.

There were of course many other factors. The artificial silk industry expanded enormously after the War. Its products competed with cotton goods. Under the unplanned and unrestrained competition of the capitalist period, artificial silk works were located in many other parts of the country, while unemployed cotton workers, who could have found employment in the new industry, hunted for jobs in the streets of Lancashire towns.

Another very serious factor was the loss of markets in the Far East. In 1913, British India took over 3,000 million yards<sup>1</sup> of cotton piece goods from the United Kingdom<sup>2</sup>; in 1933 the amount had fallen to just over 500 million yards.<sup>3</sup> There was a corresponding fall in exports to China, Japan, Hongkong, etc. These falls were far higher in proportion than the general fall in cotton exports; but the latter was sufficiently marked. In 1913 over 7,000 million yards of cotton piece goods were exported, in 1924 rather over 4,500 million yards<sup>2</sup> and in 1933 only a little over 2,000 million yards.<sup>3</sup> These figures were partly the result of increased production in Eastern countries. Between 1924

<sup>1</sup> The figures in this paragraph refer to linear yards.

<sup>2</sup> *Government Cotton Inquiry Report*, 1930, Table B.

<sup>3</sup> *Trade and Navigation Accounts*, December 1933, pp. 120-21.



and 1932 the available supply of cotton cloth in India rose from just over 3,500 million yards to 4,355 million yards; but during the same period there was actually a fall of some 550 million yards in imports, the difference being accounted for by an increase in production. No doubt the change was stimulated by political causes. Japanese competition was, however, formidable and increasing. During the above-mentioned period imports of cotton cloths from the United Kingdom fell from 43 per cent of the total Indian supply to 13 per cent, while imports from Japan rose from 4 per cent to 13 per cent.

**Previous Attempts at Reorganisation.** There had been many attempts at reorganisation within the cotton trade. The Lancashire Cotton Corporation was formed with the support of the Bank of England in 1929, with a view to taking over and amalgamating a large number of spinning-mills. At one time the corporation owned over 9 million spindles. In many cases the banks unloaded obsolete or inefficient mills, heavily indebted to them, on to the corporation, with the result that the corporation soon found itself in considerable difficulty and in 1933 had only about 4 million spindles actually running. It did at any rate serve the drastic purpose of putting a large number of redundant mills out of their agony. The employers set up a joint committee of cotton trade organisations, consisting of leading representatives from various branches of the trade, to consider what could be done; and in 1930 a Government Cotton Inquiry issued a report suggesting various methods of technical improvement, the desirability of amalgamation both in the spinning and weaving sections, and the development of technical research and systematic marketing upon lines that were already under consideration by the joint committee. There were various other proposals, such as an abortive scheme for buying and scrapping redundant spindles, and suggestions for a Producers' Association in the spinning section. As regards marketing, the Eastern Textiles Association was tried and failed. Attacks on wages and

conditions of work were frequent and agreements made with the help of the Ministry of Labour were broken by individual employers. Finally in November 1933, while the National Government was still in power, the Trades Union Congress suggested the establishment of a Cotton Control Board and licensing system with a view to the effective enforcement of collective agreements. The main difficulty as regards all these suggestions and their enforcement was the lack of co-operation between the various firms in each section of the trade and between the various sections.

**Question to be considered.** So far as the whole Lancashire problem was a question of the cotton trade, it presented itself to Codd and his colleagues from three points of view. In the first place, what could be done to reorganise the industry as regards spinning, weaving and other processes? In the second place, there was already heavy unemployment and it seemed unlikely that any reorganisation would be sufficient to provide employment for everyone. What could be done with this apparently inevitable surplus of workers in the trade? Thirdly, the cotton industry was both a large importer of raw material and a large exporter of yarn and finished goods. How were these imports and exports to fit into the National Plan as regards foreign trade? And could any improvements in methods of purchase and sale assist the industry? Obviously the three questions were not completely separate, and in order to understand what was done we must look a little further into the internal organisation of the industry and the fortunes of its various sections.

There was obviously much to be said for taking over the market for purchases of raw cotton, already centralised in Liverpool. At the next stage in the handling of the cotton, the spinning section of the industry contained a number of large concerns. The American section of the spinners had been more hardly hit than the Egyptian section. In the former, besides the outstanding Lancashire

Cotton Corporation, to which I have already referred, there were the remains of several amalgamations effected during the boom period in the form of holding companies. The spinning-mills were mostly in the hands of public companies and not so small in size as to hinder economic production. But with the loss of export markets for coarse cloths there had been a tendency to use mills formerly occupied on American cotton in spinning the finer Egyptian product. In the Egyptian section a large and comparatively successful amalgamation, known as the Fine Cotton Spinners and Doublers Association, controlled in 1927 some 3 million spindles. There were however both in the American and Egyptian sections a number of smaller firms—say some 1,000 engaged in spinning, 900 in weaving, and about 250 both in spinning and in weaving. Undoubtedly a much larger proportion of the spinners than of the weavers were connected in financial amalgamations under unified control. Most of the weaving concerns were not public companies but in private hands, and the average weaving-mill was too small. In the weaving centre of Burnley for instance the mills averaged 860 looms, while the economic size would have been 2,000 looms or more. There was far more scope for individual variety in weaving than in spinning, and many of the mills were devoted to particular products. The trade had been fertile in disputes as to the number of looms which could be supervised by one operative. The workers objected to such innovations as automatic looms or the eight-loom system, on the ground that those changes would displace more labour. It was estimated in 1931 that the conversion of 30,000 looms to the eight-loom system would have made 2,500 of the 7,700 workers employed redundant.<sup>1</sup> Both the spinning and the weaving sections of the industry were, as I have already indicated, heavily indebted to the banks. As regards the spinning section, on the American side the Midland Bank was principally concerned, and on the Egyptian side Williams Deacon's Bank, a subsidiary of the Royal Bank of Scotland.

<sup>1</sup> *Industrial Survey of Lancashire Area*, 1932, p. 18.

The other local banks (District, Union, Manchester and County) were also substantially concerned in both sections of the industry.

The Manchester market was an extremely important factor in the trade. As regards yarn, about half went direct from the spinners to the weavers and the yarn market was accordingly less important and smaller than that in the woven or finished cloths. As from the weaving stage, the Manchester "shippers" or merchants financed the material. The weaver was generally paid within seven days, and the merchants carried the finishing, packing and shipping charges and gave credit, say for six months, to foreign buyers. There were some 1,000 merchants, many of whom had only a small business. They were organised in seven sections, including one which covered the home market and that of the overseas Dominions, and the seven sections were represented on the central Shipping Merchants' Committee. Many of the large weavers, however, acted as their own merchants. If the cloth was not exported as grey cloth, it was finished by being bleached, printed or dyed on commission: that is to say, the finishers were paid for their work but did not own the cloth. The finishers were highly organised, there being large companies in each section of the finishing business, as well as voluntary associations which covered almost all the trade. In general, however, it was the Manchester merchants, with their knowledge of foreign markets and market connections, who directed the progress of the cotton from the yarn through weaving and finishing to its ultimate market.

**Means of Socialisation.** With regard to the socialisation and reorganisation of the trade, the first important tool in the hands of the Government consisted of the socialised banks. Through these they had a strong hold, at any rate on the spinning and weaving sections of the industry. Moreover, if further capital were required—and there were a number of technical improvements in view—the National Investment Board could be used for the purpose of raising

it. A further step would be to control the industry at both ends by substituting bulk purchases of cotton, perhaps on a barter system, for the operations of the Liverpool exchange, and by taking over the Manchester merchant business. Here again the control of the industry, which was already so largely in the hands of the Manchester merchants, could be combined with concerted efforts to restore foreign markets and to sell or barter bulk exports on a large scale. Thirdly, with such financial control and with the control both of the raw material and of the finished product, it should be easy to socialise and co-ordinate the industry, beginning with the spinning and finishing sections and proceeding to the weaving section.

There remained the special trade in cotton thread, which was carried on, largely out of Lancashire, by J. & P. Coats and their associated company, the English Sewing Cotton Co. This business was located mainly round Paisley, in Scotland and in part of Derbyshire. For the moment it was left alone, subject to the general reorganisation of the trade, and the problem was treated as a Lancashire one.

The Commissioner for Textiles and the Cotton Trade Planning Committee. Milman, the Commissioner for Textiles, was himself a Lancashire man. The cotton sections of the first Planning and Finance Act provided that he should set up a Cotton Trade Planning Committee, of which he was to be the chairman. He was directed to form as soon as possible on the basis of this committee a Cotton Trade Council, which would become the managing body of the industry. The committee was to meet in Manchester and to work closely with the planning authorities, the local regional council and a third body which was set up at the same time. This latter was a small Financial Advisory Committee, upon which were represented the National Investment Board, the socialised banks concerned and the discount houses and merchant bankers having associations with the import trade in raw cotton and the export trade in the finished product. Within the cotton trade,

Milman in the first instance and the Cotton Trade Council when it succeeded him were given extensive powers of requisition, control and licensing, which were to be exercised on the general lines explained in Parliament at the time.

**The Liverpool Cotton Exchange.** Milman's first step was to institute a licensing system in the Liverpool cotton exchange. He took over two or three of the largest firms of brokers, offering those engaged in them employment in the public service and in some cases compensation on the usual limited scale either as an addition or as an alternative to employment: the best brokers elected to serve under him. Through their agency he started to make increasing purchases of raw cotton, which were financed in the first instance by the socialised banks. He used the licensing system to control both the amounts and the prices of all other purchases.

**The Manchester Shippers.** The second step was a similar one as regards the Manchester market. In this instance he took over a rather larger number of merchant firms and gradually extended his operations so as to include the leading "shippers" to the various export markets. The licensing system was not applied to the home trade, but an export licensing system was used on the same lines as the import licensing system in Liverpool. The merchant businesses taken over were operated in a number of cotton-selling agencies for the various markets, including the home market. The seven agencies corresponded to the seven divisions of the former Shipping Merchants' Committee. Here again Milman incurred large financial liabilities and for the time being, relied on the resources of the socialised banks. I shall have occasion to refer below to the financial arrangements which soon superseded this dependence on the banks. For the moment, as some wit said, Milman borrowed more than any man in the kingdom. On the other hand both here and at Liverpool the banks were only carrying on their previous business of financing imports

and exports : the difference was that the advances were now made to one person.

**Financial Control.** The Financial Advisory Committee was soon active. There were extensive "frozen credits" in the trade, and the transfer of these to the Industrial Mortgage Bank placed a large number of firms under the control of that body. In February 1938, after the completion of the arrangement as regards the Liverpool and Manchester markets and when the majority of the frozen credits had been transferred, Milman handed over his functions to the Cotton Trade Planning Committee, of which he became the chairman : it was renamed the Cotton Trade Council. The Council took over the Lancashire Cotton Corporation and the large firms in the finishing section of the trade. At the same time, the Industrial Mortgage Bank began to exercise its rights and to take over mills in the spinning and weaving sections, which it transferred to the Lancashire Cotton Corporation. It was at first thought that some quota system would be necessary, at any rate in the American spinning section ; but the control of imports through Liverpool, coupled with the financial control exercised through the banks, proved sufficient.

**Partial Employment and Redundant Mills.** There was much partial unemployment in the trade. In the spinning section, only some few days were worked in the week, while, in weaving, either the number of looms was reduced or the mill was closed for a week at a time. The Cotton Trade Council was anxious to eliminate both these practices. Whether in spinning or in weaving, the result was to keep a number of redundant workers hanging on at the mill and to increase the burden on the trade as regards unemployment insurance. Their policy therefore was to keep as many mills as possible on full time. On the other hand, some improvement might be expected from centralised marketing abroad and from the changes which they

proposed to effect at home. Moreover, any workers displaced had to be provided for under regional arrangements. In the circumstances they proceeded slowly with their policy of shutting down superfluous mills: where they did so, the mills shut down were either those which had been taken over by the Lancashire Cotton Corporation or obsolete establishments, which were requisitioned with little or no compensation to the owners. In practice such requisitions of obsolete mills were not common; financial pressure was usually sufficient.

**Standardised Production: Clothing.** I now turn to the more hopeful side of the changes. There were three main lines upon which the Council proceeded. In the first place, they directed orders in such a way as to keep each establishment on one type of production. In the spinning section they discouraged the efforts of American mills to take a share of Egyptian work, which had lately been more prosperous: there was other short staple cotton available, from India and even Australia, and the American mills could readily be adapted to use it. In the weaving section they exercised financial pressure to force amalgamations and they gave additional facilities to those mills which could produce more or less standardised articles. In the second place, they began to carry the production of standardised articles beyond the stages of weaving and finishing. Some efforts in this direction had already been made under private ownership, and the firm principally concerned was the first to be taken over in the weaving section. Factories for the production of standardised shirts and other finished clothing and the like were set up in the weaving area. A small committee was appointed to keep in close touch with the existing clothing works of the Co-operative Wholesale Society and to ensure, in effect, that the new clothing works ran in conjunction with the co-operative ones already in existence. As regards the home trade, it was the general policy of the Government to provide the workers' ordinary requirements as cheaply as possible, and for that purpose



to do so in a more or less standardised form. The co-operative movement was used to supply cotton clothing and other domestic requisites in this way. At one time the Cotton Trade Council thought of establishing wholesale selling depots in the principal towns, but the changes in the co-operative movement came fast enough to make this step unnecessary.

**Artificial Silk.** It soon became clear that the artificial silk trade could not be left long under private ownership. Competition, by a mere extension of the activities of the Council, would have been impracticable, if only because of the importance of particular processes and special plant in the production of artificial silk: also, unlike cotton, artificial silk was mainly produced by large firms; production was generally centralised and the works were well equipped. The socialisation of the artificial silk industry was not likely to present serious difficulties on the side of home production, although it would involve more difficult questions as regards international agreements, works controlled by English companies but situated abroad, and foreign markets in general. The second Planning and Finance Act provided for the socialisation of the artificial silk industry, and it was actually operated in close conjunction with the cotton trade, both as regards home production and exports: the managing body was a committee of the Cotton Trade Council. During the first year (1937-38), however, the cotton trade was fully occupied in setting its own house in order.

**Foreign Markets.** Lastly, there remained the all-important question of foreign markets for cotton and cotton goods. The standardisation in the home trade corresponded to similar standardisation of exports. Every effort was made through the marketing agencies to push the sale of large quantities of standardised goods, and prices were adjusted accordingly. Moreover, the cotton trade played an extremely important part in the barter system which was operated

on agreements made through the Minister of Overseas Affairs—or, rather, through the Secretariat for Overseas Trade. Through the Liverpool and Manchester markets the Government controlled between £30 millions and £40 millions of imports of raw cotton (on the figures in the time of the National Government) and about £60 millions of exports of cotton yarn and manufactures. Cotton represented about one-fifth of the imports of raw material and about the same proportion of the exports of manufactured articles. As regards the imports, barter agreements were entered into at an early stage with the principal cotton-producing countries. The export barter agreements followed soon afterwards, the first being with British India for standardised piece goods against raw cotton and tea, the second with the Argentine against meat, and the third with Australia against wheat.

**Capital Development.** Since the War, one of the difficulties of the cotton industry on the production side had been its inability to raise money for capital development. Both in the spinning and weaving sections there had been few firms in a position to do so. The Cotton Trade Council soon found the need for capital. In the spinning section, for instance, there was room for an extension of ring spinning to take the place of the mule spinning and produce at a cheaper rate the standardised articles, which were now being added to the finer products of the industry. In the weaving section there were too many small and comparatively inefficient mills. The unified industry was in a much better position to borrow, and most of the money required was raised in the late autumn of 1937 by an issue of £5 millions cotton trade bonds, effected through the National Investment Board. In addition, the council at an early stage inaugurated a fund for capital development, out of which a number of improvements and amalgamations, mostly of a minor character, were financed. During the early period of socialisation the council was, however, compelled to remain largely dependent on the advances of

the socialised banks. There is no doubt that in the long run, if only because of the socialisation of the merchants' profits, the banks recovered more from the industry than they would ever have been able to do under private ownership.

**Further Changes.** This is not the place to trace in any detail the subsequent history of the cotton trade. Probably, so far as cotton was concerned, the most important points proved to be the improvement in exports effected by the concentration of production on standard articles and the large-scale contracts under the barter system, and, in the second year of the McCosh Government, the socialisation of the artificial silk industry. In 1929, for instance, there was a surplus of some 80,000 or 90,000 workers in the cotton trade. Some of these were absorbed by the improvement in the industry and some were transferred into the artificial silk trade when it was taken over. But under the Cotton Trade Council there was an extension of looms per worker in weaving, and this and other changes in all sections of the trade offset to some extent the increase in employment due to improved markets. It is clear that, if the changes in the industry had stood alone, there would still have been a very large number of unemployed cotton workers. There were very great difficulties in attempting to remove them to other parts of the country. In Lancashire the whole family was likely to work and, even if only one of them was at work, to be reluctant to move. The income was a family income and the budget a family budget. Apart from transfers to the new artificial silk factories, the clothing trades absorbed a certain number of cotton workers ; but the most important factor in dealing with the surplus was undoubtedly the changes in entering and leaving the industry. The raising of the school age, to which I shall have occasion to refer later, had an enormous effect in Lancashire—as also the Government's pension schemes. None the less, some restriction upon entering the industry appeared necessary. The Cotton Trade Council was predominantly under the control of the cotton trade unions and began, within a few

months after it had been constituted, to consider plans for organising entry into the trade. These were treated as regional matters and, on the recommendation of the Cotton Trade Council and the regional branch of the National Employment Board, the regional council for the area including Lancashire imposed restrictions which had the effect of making employment in cotton mills no longer the matter of course that it had previously been in many parts of the county. Even before the McCosh Government came into office, Lancashire had had some share in the establishment of new industries. With the changes now made in the cotton trade, it became one of the areas to which the attention of the Government and the N.P.C. was particularly directed for that purpose. There were abundant facilities available in the way of coal, iron, good communications, an adjacent seaboard and an enterprising population. The development of Lancashire during the later years of the McCosh Government constituted one of the most creditable chapters in its history. It formed part of the national plan to which I shall refer in connection with land and housing.

## CHAPTER II: CO-OPERATIVE AND RETAIL TRADE

Retail Trade and Shop-keeping. When the McCosh Government came into power, the greater part of the retail trade of the country was still in the hands of the small independent shopkeeper. In the larger towns there were also single independent shops carrying on a substantial trade. As against these unit shops, whether small or large, there were three growing classes of competitors. The chain store, dealing either in a single trade or in a variety of goods, had branches all over the country. The department store was a large establishment dealing in every type of goods, sometimes with a branch or two in leading centres. The co-operative shop catered particularly for the needs of the lower middle class and the tolerably prosperous worker ; partly in order to meet their demands and partly, perhaps, as a mere accident in its development, it tended to do a larger business in some trades than in others, although its scope was increasing. An estimate<sup>1</sup> of the position in 1930 gave the following figures (counting as chain stores all multiple retail shops with five or more branches) :

	No. (thousands)	Turnover (£ million)	Average Annual turnover per shop or branch (£ thousands)
Unit shops	500-600	* 1,000	less than 2
Chain stores	30	300	10
Co-operative branches	10	200	20
Department stores	1	150	150

Of the unit shops, some 90 per cent were small, independent shops responsible for half, or rather more, of the total retail trade.<sup>2</sup> A large proportion of these were family

<sup>1</sup> *Distribution of Consumable Goods*, Braithwaite and Dobbs, 1932, p. 238.

<sup>2</sup> Braithwaite and Dobbs, *op. cit.* Neal, *Retailing and the Public*, 1932.

concerns: in the large towns, some three-quarters of all the retail shops were of that type.<sup>1</sup>

The distribution of business as between one type and another varied considerably in different trades. In the grocery trade the co-operatives played a leading part and there were no less than 400 chain-store concerns, of which one (Home and Colonial) had nearly 4,000 branches. Chain stores were equally important in the boot and shoe trade, in which they handled nearly half of the business. Again, in the drug trade a single chain store handled about one-sixth of the total business. On the other hand, in tobacco, confectionery and greengrocery, the small shop predominated. Roughly, there was one tobacconist (including combined tobacco and sweets shops) for every 100 persons in the country and one sweets shop (not selling tobacco) for every 200 persons. Greengrocers and butchers seem to have supplied an average of about 1,000 persons each; in the latter trade, however, multiple shops were of some importance. Of course, any one person would deal at several shops and the proportion of shops to population in the large towns was high. Moreover, it varied considerably in different centres, between about 40 persons per shop in Liverpool and Manchester to 60 in Sheffield and 114 in Bradford.<sup>2</sup> Those figures relate to some period about 1930, and no doubt the proportion varied according to differences between the prosperity of one town and another at any given time, and also according to changes in the prosperity of any given town at different times. Nothing was easier than to set up a small shop. It might easily be a part-time occupation for a housewife or combined with some casual work in another occupation. There were no restrictions and little capital was required. There was, in fact, no easier way of losing money, as indeed many

<sup>1</sup> *Report of Select Committee on Shop Assistants*, Vol. II, 1930. Figures as to Birmingham, Leeds, Sheffield.

<sup>2</sup> Edgson, *Some Aspects of House Property*, quoted in Braithwaite and Dobbs, *op. cit.*, p. 263.

ex-soldiers found at the end of the War. Every year about one retail shopkeeper in ten failed in his business and retired from it.

**Workers in Distributive Trades.** As regards workers in the distributive trades, it must be remembered that the unemployment insurance figures did not include the numerous small owners and helpers in family businesses. The number of persons insured was steadily rising. To some extent its increase may have corresponded with the growth of businesses which competed with the small individual shop and employed labour; and to that extent it must be offset against some decrease in small owners and their families. For that decrease there were no figures available, but it seems likely that the fall in owners was not as large as the increase in employees and that the numbers engaged in distributive trades, whether as small owners or as workmen, were rising steadily. As regards insured workers, about  $1\frac{1}{4}$  million were insured in 1923,  $1\frac{1}{2}$  million in 1926,  $1\frac{3}{4}$  million in 1930 and 2 million in 1933. Unemployment was below the average, ranging about 1 in 20 in the period 1927-29 and rising to about 1 in 9 in 1933.<sup>1</sup> On the whole the workers were ill organised, as indeed might have been expected with so many family and other small businesses. The most important union was the National Union of Distributive and Allied Workers, with a membership of between 120,000 and 130,000<sup>2</sup>; the Shop Assistants' Union included another 43,000 or so.<sup>3</sup> These figures would represent about one in every twelve of the workers in the industry. Allowing for membership in other unions, it is probably right to say that not more than one in ten of the workers in retail business were organised. As the co-operative retail societies employed nearly a tenth of the workers in the trade, and these were far better organised

<sup>1</sup> *Statistical Abstract*, 1934, pp. 106-7, 110-11.

<sup>2</sup> *T.U.C. Annual Report*, 1933.

<sup>3</sup> National Amalgamated Union of Shop Assistants, Warehousemen and Clerks: 42,503 (*T.U.C. Annual Report*, 1933).

than the workers under private enterprise,<sup>1</sup> the proportion in capitalist shops must have been even lower. In the result, the unions were in a position to make effective improvements in the conditions of employment under co-operative societies; but such improvements as had been effected generally had been due to parliamentary reform rather than to industrial action.

**A Wasteful System.** Retail trade, as organised at the time of the National Government, presented many of the worst features of the capitalist system. It was a wasteful business, both for the trader and for his customer. The trader's rate of net profit on turnover was not high, ranging from 4 per cent to 6 per cent or thereabouts; nor did that rate differ much as between department stores, chain stores and retail shops. But expenses were high and the rate of gross profit, before allowing for expenses, was usually between 20 per cent and 30 per cent.<sup>2</sup> The low rate of net profit, coupled with the inevitable uncertainty of such a business on a small scale, was no doubt sufficient to account for the large number of failures among small traders. The large firms might have been expected to do better. They too were not free from commercial failures, but the main element of waste in their case was the incidental expenses of their business. Advertisement in one form or another, credit to customers, and excessive competition in the mere matter of delivery, accounted for a large part of their expenses and represented sheer waste to the community. In the result the consumer, whether he bought at the small shop or the large one, was compelled to foot the bill for the risks of the one type of business and the advertisement and trappings of the other. Chain stores of a special type, dealing in a large variety of the cheapest articles, had been set up throughout the country and owed their success in part to

<sup>1</sup> *Report on Wages in Grocery Trade*, 1926, showed 2 per cent organised workers in private retail trade, 84½ per cent in co-operatives.

<sup>2</sup> Braithwaite and Dobbs, *op. cit.*



the elimination both of advertisement expenditure and of the risk attendant on the small shop. Their profits had been correspondingly large and the number of their branches had increased considerably since the time of the figures quoted at the beginning of this chapter. They were essentially capitalist concerns, with a function limited by their character and the limited range of the goods they supplied ; but within those limits they were of considerable and growing importance. Their profits went to their shareholders.

**The Co-operative Movement.** The co-operative movement represented a real attempt to meet the needs of one large class of customers, mainly in urban and industrial areas. Its success had been remarkable ; but it had been a success limited by the class of customers for whom it catered and by the type of trade which it mainly sought. It had shown signs of attempting to increase the scope of its business. These were enough to alarm the National Government, which was far more concerned with the interests of its own supporters among large and small shopkeepers than with those of the working-class consumer. One result had been an increase of taxation of the co-operative movement in the 1933 Budget. But there were nearly 7,000,000 members of retail co-operative societies, and the National Government did not dare to go far. On the other hand, the capitalist newspaper proprietors owed a large share of their profits to their advertisers, among the most important of whom were the department stores and other large shops. What would happen if the co-operative societies, without the assistance of advertisements in the millionaire Press, set out to compete seriously with the leading advertisers ? This alarming prospect may no doubt have influenced the Press campaign against the co-operative movement, which began in the winter of 1933-34. It was perhaps not without significance that a similar campaign had been one of the earliest features of the middle-class movements in Italy and Germany which

had led to the rise of the Fascists and the Nazis in those countries. It is hard to say how far the campaign against the co-operative movement would have gone, if the movement itself had not, with a true grocer's instinct, recognised on which side its bread was buttered and lent its powerful help to the successful propaganda that resulted in the return of the McCosh Government.

There was clearly a very strong case for using the co-operative movement as the means for controlling and reorganising retail trade in the country. At the same time there were considerable difficulties in the way. One difficulty was that, even within the limited scope of its present activities, the movement was already tending to come into conflict with such trading as was carried on by municipal and other public authorities. Another was that under the capitalist system the co-operative movement had had to show increasing activity in supplying itself through wholesale channels. In 1932 there were 1,171 retail co-operative societies, of which 1,065 were members of, and shareholders in, the Co-operative Wholesale Society. With a capital of nearly £77 million, the C.W.S. owned numerous factories, mills and works of all sorts. Especially as regards provisions and clothing, it had taken steps to produce its own supplies on a large scale. It was also an importer on a large scale. In tea, cocoa and chocolate alone a special wholesale society, controlled by the C.W.S. and by the corresponding Scottish wholesale society, handled over £6 million worth of goods in a year. Even in 1927, about one-tenth of Canadian wheat imported into Great Britain was imported by the co-operative movement. These activities were quite sufficient to call attention to the possibility of conflict between public industries, set up by the Government, and the wholesale industry of the C.W.S. and the corresponding Scottish society. A similar conflict might be expected if the Government proposed to control foreign trade, including that of the co-operative movement, by export and import boards. A third—and the principal—difficulty lay behind both the two which I have already

mentioned. That difficulty was the organisation and general attitude of the co-operative movement itself. As a social and commercial enterprise, it had started on a small scale in Rochdale some hundred years ago. It had not embarked on political activities until the War; and what it did then was to found the Co-operative Party, largely upon the ground that war-time legislation affected co-operative trading interests. No doubt co-operators looked forward to a changed society, but many of them intended it to be a "co-operative" rather than a Socialist one. "Co-operation," said T. W. Allen at their conference in 1917, "is a theory of society, and therefore a legitimate basis for a political party." This was a view which McCosh and his colleagues were unable to accept. They could not agree that co-operators were to act merely as successful competitors in a capitalist system, until such time as it was replaced by a nebulous co-operative commonwealth. There were indeed few signs that, even if such a commonwealth were theoretically possible, co-operators were capable either of bringing it into being or of administering it, if it happened. The Government—and with it the most active and intelligent of the co-operators themselves—had wider plans. Their aim was a classless society in which, and in the establishment of which, a reorganised co-operative movement could play a leading part. Here again they had an example before them in the services and activities of the co-operative movement in Russia.

**Co-operators and Socialism.** In the circumstances the first thing to do was to adapt the co-operative movement to play its full part in the process of socialisation and at the same time to provide, as far as possible, for the persons already engaged in some form of distribution. Codd and Cookson, the Secretary for Co-operative and Retail Trade, met the directors of the C.W.S. and a number of representatives of the retail societies. Their negotiations took some little time. The general plan of using the co-operative movement as the main channel for retail trade had been

one of the points in the Party programme at the General Election. But there was some difference of opinion as to how this should be done. The co-operators wanted some preference in supplies from socialised industries and from imports, and in return they were willing to spend money on a programme of expansion and to accept Government representatives on their managing boards. But they said that they were being called on to spend 'their members' money and that they must decide where and how far they should expand their activities; they must also have the last word in questions of management. Codd pointed out to them that they were being asked not merely to expand their trading activities, but also to use their movement for what was really a new purpose. It could not be left to them to decide either the extent or the direction of their expansion. That would have to be part of the national plan and to be subject, in its main lines, to the direction of the Cabinet and its advisers. He said that, unless they were prepared to submit to Government control and to co-operate whole-heartedly with the Government, the alternative would be to set up a system of Government shops to fill in the gaps existing in the co-operative organisation. Such a system, once installed, would have Government support and would be bound to some extent to compete with the co-operatives and at any rate to limit their growth. Upon the question of control there was a long discussion. Finally the co-operators, appreciating the general intention of the Government, agreed to accept Government control in principle and appointed a small committee to work out with Codd and Cookson a plan for its application.

**The Expansion of the Co-operatives: Finance.** It was clear that, if retail trade was to be centred in the co-operatives, a large sum of money would be required at once for capital expenditure. At the end of 1932 the retail societies had had a net surplus of about £25 millions, but the effect of the income tax imposed by the National

Government in 1933 on their undistributed surplus had been to reduce this amount. When the McCosh Government came in, there was about<sup>9</sup> £20 millions available in the retail and wholesale societies, while their share and loan capital amounted to about £240 millions. Much more than an 8 per cent expansion was required, even if all the net surplus could have been applied for that purpose. On the other hand, the capital expenditure might be expected to pay its way quite soon. In the circumstances the wholesale and retail societies collectively raised a loan of £100 millions through the National Investment Board under a Government guarantee. To this loan (as in the case of the Iron and Steel Mortgage Bank stock) the socialised banks and other financial institutions subscribed, as well as co-operative societies and individual co-operators all over the country. The lists were left open for a fortnight at co-operative branches, with a view to raising as much money as possible from that source, and arrangements were made through those societies for small subscriptions spread over a long period. To administer the loan, two trustees were appointed from the retail societies, one from the C.W.S., one from the Scottish C.W.S. and three were nominated by the Government, in addition to Cookson, who acted as chairman. The trustees were authorised to make advances to existing co-operative societies for capital expenditure and to set up new societies in districts where there was no existing organisation.

**Retail Trade Committees.** The Government did not wish to interfere unnecessarily either with the local management of retail co-operative societies by elected directors or with the general system of securing supplies from the wholesale societies or elsewhere. On the other hand, they required some uniformity of management and policy, and they also required, in return for the preference which they proposed to give co-operative societies, to be able to control their retail prices. Moreover, the growth of the

retail societies would continually raise questions of employment and expenditure—in any given area, as to what trades should be developed, whether individual competitors should be bought up, and so on. Upon the principal question of policy, the Government or its regional authorities would wish to express their views and, in some cases, to enforce them. Upon minor local questions less control would be necessary. Cookson's committee reported in favour of a system of retail trade committees under a national Retail Trade Committee, composed partly of co-operators, partly of Government representatives and partly of some persons nominated by the Government to represent existing trading interests. The Government representatives consisted of some members of the National Planning Commission, of the representatives of socialised industries and of some persons nominated by the Minister of Overseas Affairs to deal with questions of imports. There were corresponding regional committees; and representatives of the national and regional committees were appointed to serve as additional directors of the various co-operative societies, both wholesale and retail. The regional retail trade committees were committees of the regional council and accordingly contained a number of elected council members. Cookson's committee proposed that the Government should take direct powers of control in three forms. In the first place the regional councils, upon Cookson's recommendation or with his sanction, were to control retail prices charged by the co-operatives. In the second place, the representative society might require any question of policy to be submitted to the R.T.C. before it was put into operation. In the third place, Cookson took the right to veto any decision of the wholesale or retail co-operative society and the further right to nominate a representative to attend the meetings of any such body and, where necessary, to exercise the right of veto on the secretary's behalf. It was clear that a right of control in this form could only be exercised, if co-operative bodies were in general sympathy with the Government

and appreciated the need for its powers. The proposals of Cookson's committee were accordingly referred to a special co-operative conference, where they were fully discussed and finally adopted with some minor modifications. One important result of Government control in the co-operatives was a distinct improvement, fostered by the educational policy of the Government, in the training and selection of persons for the higher posts in co-operative management and administration.

**Co-operative Membership, Employees and Buildings.** As regards the membership of co-operative societies, no direct attempt was made to increase the number of members or to make membership compulsory, but the effect of the preference given to co-operatives in retail trade was sufficient to make it practically necessary for almost everyone to become a member. The result was an enormous increase not only in the number of co-operators, but also in the trade of the retail co-operative societies.

As regards labour and conditions of employment, N.U.D.A.W. became the one trade union for workers in co-operative establishments, and the necessary arrangements were made for transfers from other unions. Membership of N.U.D.A.W. was a condition of employment; and it was also arranged that in taking on the additional workers required for the extension of co-operative activities preference should be given to those already occupied in the business of distribution, whether as employees or as small shopkeepers.

As regards buildings, the retail societies had to set up a number of new branches in areas in which they had to cater for a rather different type of trade and a larger class of customers. In other cases, the trustees of the Co-operative Loan on the recommendation of the regional retail trade committees formed new societies and found premises for them.

The Government had no wish to encourage the development of retail trading by the C.W.S. itself, and the few

establishments which had been set up under the 1933 decision (by which the C.W.S. took power to embark directly on retail trade) were transferred to new retail societies. No attempt was made to set up small co-operative branches on the soft of scale of the small private shops. To a limited extent the retail societies developed the system of trading by travelling shops. Some attempt had already been made to send round trading wagons, especially in rural areas. The number of these wagons was largely increased and they carried out their rounds regularly, advertised by time-table. A similar system, conducted abroad under private enterprise, had already met with some success.

**Small Shops.** Codd however had no particular quarrel with the small shopkeeper as such. He was as much a worker in his own business as was the employed manager of a larger concern. His risks and difficulties had been considerable and had shown no tendency to diminish. On the contrary, the activities of multiple shops and the large department store with a mail order business had hit him hard. The co-operative movement had in many cases a similar effect, where its business was in direct competition with his. In such cases Codd meant the co-operative movement in the long run to absorb his business and to employ him ; but the transition must necessarily take time. There were many other cases too, in which the co-operative movement was unlikely to replace him and not at all fitted to do so. In some rural areas the travelling wagon might meet many needs : in others there was still room for the small shop. Again, his trade might be so miscellaneous or of such a type that it hardly fell within the province of a co-operative society. The small second-hand book-seller, the odd dealer in used furniture, some small specialist shops—the kind of place which you find in most middle-class or working-class areas in a large town—all served a limited purpose. What the small shopkeeper wanted was some limit to his own numbers and some protection against



the excessive risks of his calling. Accordingly, while the co-operative system developed, a licensing system for small shops was set up and administered by the regional retail trade committees. It served to control the haphazard establishment of new shops and it functioned side by side with the small co-operatives for repairs and other services, to which I refer below.

**Price Policy.** 'It is impossible to appreciate the development of the co-operative system under the McCosh Government without some consideration of their general policy as regards prices. They intended to provide the ordinary needs of a worker's household at the lowest possible price, and for that purpose to produce in bulk and in a standardised form the usual clothing, boots, pots and pans and the like. There was to be some considerable difference between the prices of necessities and the prices of additional things. In the same way, as regards food, the whole system of barter, import boards, wholesale handling and agriculture was to be directed to providing a decent day's food at the lowest possible price. Those who wanted extras would have to pay for them. Without any direct system of rationing, a standard supply of food and household requisites was to be available at what, in effect, would be preferential prices. The co-operative movement was to be used to distribute this supply: for the purpose, it was given a virtual monopoly by preferential treatment as regards supplies and prices.

There is no doubt that Codd and his colleagues did consider a scheme of rationing on a liberal scale, as the best method of ensuring that every worker was decently fed, clothed and provided for. They deliberately gave it up and chose instead to supply what were known as G.S. (Government standard) articles. It was mainly for this purpose that they required to exercise control over the retail prices charged by co-operative stores. I shall have to refer to this question again in connection with foreign trade. So far as the co-operatives were concerned, the effect of

the Government's policy was to provide them with large lines of various goods, both by way of food and of other household requisites, to be sold at prices definitely lower than those of other articles. The day's marketing list exhibited at a co-operative store or on travelling co-operative wagons began with a list of G.S. food, G.S. boots and clothing and G.S. household requisites, which were considerably cheaper than the other articles offered by the co-operative or by private traders. I need not set out the list in full ; it is sufficiently familiar. G.S. coal was offered ; G.S. beef, mutton, sausages and rabbits ; G.S. bread, sugar, bacon, jam and tea ; G.S. shirts, stockings and socks ; G.S. boots and shoes ; and G.S. pots and pans. G.S. suits of clothes and G.S. cigarettes soon followed. There was at any rate some variety in the patterns of these articles !

Naturally enough, such a system was much criticised at first. The Opposition represented it as an interference with personal liberty ; the Opposition cartoonists found it an admirable subject. It would no doubt have been difficult to work without the active support of the co-operators themselves. But in reality it was no more than an extension on a national scale of what had already been attempted in various smaller ways by private enterprise. It was a sensible scheme, and with some increase in the number and type of G.S. articles available it soon met with general acceptance among workers. The effect of it, too, was to extend the class of customer for whom the co-operatives catered. In any large town, as well as in the country, there had always been very many people unable to afford co-operative trading. They had been compelled to buy the very cheapest goods, usually of indifferent quality and, for their quality, at comparatively high prices, which were not originally available at co-operative branches. These people now began to buy G.S. articles from the co-operatives. With the gradual spread of the use of G.S. articles there began to be some class feeling in their favour. Those who used them felt that it was ostentatious and

extravagant for others to continue to buy specially selected articles. This feeling soon spread among the middle classes and contributed substantially to the success of the scheme.

**Co-operative Banking and Insurance.** The activities of the co-operative movement included a banking business, carried on by the C.W.S., and an insurance company. The latter was on a smaller scale than the leading capitalist concerns, with which I shall have to deal later. The Government was not anxious to extend the business carried on by either of these bodies : both banking and insurance were matters for the State rather than for the co-operative movement. On the other hand, within a limited sphere they both had uses. The insurance business was on a smaller scale than that of the C.W.S. bank, and Cookson arranged with the co-operators that it should, in effect, confine itself to the insurance of co-operative property and to such insurance as was connected with co-operative trading. It covered, for instance, the insurance of co-operative premises, the accident insurance in respect of cars sold by the co-operatives, and the workmen's compensation and industrial insurance in connection with co-operative employees. Within those limits it had considerable scope for expansion and with the growth of the co-operative movement its income rose substantially. The C.W.S. bank had run its business on rather different lines from those of the ordinary capitalist bank. In addition to banking for the movement, it accepted private accounts, upon which it allowed interest and made banking charges. It was not directly affected by the socialisation of the banking system and there were good reasons for allowing it to continue, at any rate for the present. It was, however, brought into closer relation with the banks, now that they were socialised. In effect, it now served three purposes. It remained the banker of the co-operative societies. It also kept a large number of small private accounts, in the same fashion as formerly. In the third place, it served to provide credit for retail sales

through co-operatives. In all these respects it became increasingly a channel of collection and distribution for the socialised banking system, rather than an independent concern. As regards credit for retail purchases, there had been various systems previously in existence which the Government desired to supplant. One of the simplest was credit from private shops to their customers. Hire purchase arrangements for cars, wireless apparatus, musical instruments and many other goods had been increasing considerably. The banks had been none too successful in providing credit for farmers, and there were various arrangements for that purpose in connection with the purchase of supplies from merchants or stock from drovers. There were various clubs and companies which provided credit for the supply of household goods and clothing. None of these arrangements was altogether satisfactory. The incidental costs of the credits were high and the rate of interest tended to be correspondingly large. The Government was anxious to extend the facilities given by the C.W.S. bank so as to include and simplify this type of credit. Accordingly, such matters as Government hire purchase facilities for the sale of cars (and other articles, as the supplying industries became socialised) were administered through the C.W.S. bank, when the purchases were made through a co-operative society. Perhaps the most convenient comparison is the services in the matter of investments, which the post office then provided on a small scale in competition with capitalist bankers and brokers. In the same way the C.W.S. bank was used to provide small credit facilities, side by side with those offered on a larger scale by or through the socialised banks. Some of the retail societies already did something of the sort. Their transactions in this connection were linked up with the C.W.S. bank, and the bank's facilities were made available at an increased number of branches and, where there was no branch, through the retail societies. The bank was able, by conducting this business systematically and in large amounts, to give a variety of facilities on such much better

terms than those available in other ways that it succeeded in eliminating, for all practical purposes, most of the private hire purchase, deferred payment and other similar arrangements. Acting as a channel for the socialised banks, it did in fact rely on them for the necessary funds, as well as on the increasing deposits of the co-operative societies. In this connection the banking commissioners were given general powers of supervision and control over the C.W.S. bank, and they appointed inspectors for the purpose. No doubt the facilities now available through the C.W.S. bank were one of the reasons that attracted an increasing number of members to the co-operative movement. It was not until 1946 that the bank was finally merged in the socialised banking system.

**Co-operative and Municipal Trading.** The possibilities of competition between the co-operatives and municipal trading lay rather in the direction of services than in that of supplying goods. So far as goods were concerned, the policy of the Government was to encourage co-operative supplies, even to the extent of transferring existing municipal services. They were anxious, for instance, that municipal bakeries or arrangements for milk supply under a local authority should pass into the hands of the co-operative movement, now that it was under Government control and included among its directors not merely consumers' representatives, but also representatives of the Government and local authorities. On the recommendation of the regional councils, arrangements were made in most cases for existing municipal supplies to be administered by the local co-operatives and for the local authority to be represented on the management of the co-operative. As regards services, however, the position was rather different. A co-operative laundry or abattoir served no special purpose and there was no special reason for preferring it to similar municipal enterprises, where the latter were already in existence or could conveniently be started. As between those two alternatives, the choice might well vary according to

local conditions. In many places the local authority was in a better position to supply what was required, especially if the co-operative movement was not sufficiently developed there for the purpose and was likely to have its resources fully employed in carrying out the necessary part of what the Government required. In other places the local authority might be either too large or too small to organise the required services and a flourishing co-operative movement might be more suitable for the purpose. In practice therefore, the Government took no general line on this question and it was left to be dealt with by the regional councils as local circumstances might require. Generally, where there were municipal services in existence, the management of them was represented on the regional retail trade committee. I need only add that, as the co-operative movement grew, there was an increasing tendency for new services to come under its direction rather than under that of local authorities ; but that development happened, on the whole, at a later stage.

**Co-operative Production and Services.** As regards production and services directly connected with production, there were some interesting developments. The general intention of the Government was not to encourage co-operative production in industries which it proposed to socialise at an early stage. Full use however was made of existing co-operative works, largely because most of these were directly connected with the retail trade of the co-operative movement. Co-operative shirt factories, co-operative boot and shoe works or co-operative arrangements for the supply of such things as biscuits, canned goods, etc., were already an integral part of the co-operative system. As such they were fitted in to the general plan of production, with such special arrangements as I have already mentioned in the cases of coal and cotton, and they were encouraged and enlarged. On the other hand, the Government deterred the C.W.S. from embarking on new lines of production, unless the production could be regarded

as an essential part of the existing co-operative trade. There was however a definite function for the co-operatives to perform in a number of repair and maintenance services, which were necessarily of so local and individual a character as to be unsuitable for any other form of public ownership or control. I have already mentioned the co-operative trade in bicycles and motor-cars, which entailed a corresponding repair and maintenance service. In the same way boot shops led to the mending of boots and shoes, and, for instance, the supply of watches to the service of mending them. These services had been largely rendered by small shops and were closely connected with the retail trade. So far as the co-operatives had embarked on them, they had done so through more or less centralised repairing establishments. The National Retail Trade Committee was now anxious to bring into the co-operative movement the numerous small shopkeepers or workers who were doing this class of business. There seemed to be a real need for producers', or rather repairers', co-operatives. The Retail Trade Committee accordingly arranged with the co-operative movement that retail societies should organise in their areas small co-operatives of such trades as cobblers, watchmakers, plumbers and the like, which would work a chain of perhaps half a dozen small shops in the area. These usually began in one particular trade, but in many cases the small co-operatives joined together so as to provide a number of services at any one establishment. The usual arrangement was for the co-operative society to own the shops and to finance the workers as regards tools and materials. In many cases, however, the shops remained the property of the co-operative workers and the retail society assisted them by giving them work and lending them money when required. No doubt the system was to some extent a compromise; but it did serve the purpose of bringing into the co-operative movement a class of small owners and workers who would otherwise have been difficult to employ and who supplied local needs. The arrangement was particularly suitable in small places and in rural areas. The

members of these small producers' co-operatives did not join the N.U.D.A.W. They were organised at first to some limited extent in various unions, but in 1940 had become of sufficient importance to form a union of their own, known as the Co-operative Producers' Union. It was a somewhat curious body, because there were no corresponding employers; but it served to represent the interests of those concerned in their dealings with the Government and with the co-operative movement. It was usually represented on local co-operative bodies. The important developments in co-operative farming will be more conveniently described when I come to agriculture.

**The Co-operative Societies and Foreign Trade.** The Co-operative Wholesale Societies had, as I have already mentioned, engaged on a large scale in foreign trade. Their exports were not large, but they were buyers of various imports from all over the world. As regards these activities, they asked for preferential treatment from the Government; but they did not get it. Codd and Cookson met them firmly on this matter and said that the Government, and the Government alone, must control imports for the co-operative movement as much as for anyone else. The effect of the barter system, and of the import boards which accompanied it, was to deprive the co-operative societies to a large and increasing extent of their existing facilities for buying abroad. All the Government could do for them was to promise that they should not suffer in the result and that the requirements of their home organisation should be provided for on the same footing as the requirements of socialised industries—that is to say, that they should have preference over private importers. But as regards management and buying, these must be under Government control. On the whole, co-operators accepted this refusal without much demur. While it had a considerable effect on the organisation of the movement, there was ample room for all those who had been previously concerned in foreign buying to find occupation in the development of



co-operative trade at home. The next chapter is concerned with foreign trade, and I need only add that in addition to the co-operators who were diverted to occupations in connection with home trade, a considerable number were taken into the Government service in connection with the Government's arrangements for barter contracts abroad. Their experience was invaluable. The plantations and other properties owned by the co-operative movement abroad, were affected by the Government's requisition of foreign investments, to which I shall have occasion to refer. In effect, however, the co-operative societies, as working-class organisations, not only received full compensation for their property, but were also allowed to retain a close connection with their former plantations and other sources of supply. The management of the properties was left in the same hands as before and the co-operative movement at home was given a preference in getting supplies of their products against payment.

**The New Co-operative Movement.** The Government policy as regards retail trade and the co-operative movement was amply justified by the results. Not only were they able to supply Henry Dubb and his friends with their requirements in a way which would have been impossible under the ill-organised capitalist system of retail trading, but also they secured, by the growth of the co-operative movement, a body of steady supporters, many of whom had not originally been Socialists. It is perhaps true to say that no other single part of the Government's programme was so effective in bringing home to people all over the country the possibilities of a Socialist State. Through the change in the co-operative movement and the extension of its activities, countless workers and persons who had previously been small shopkeepers learnt the advantages of co-operation, and learnt too the possibilities of living a communal life. On the whole, the women—or those of them who did not happen to be politically minded or engaged in some form of industry—were less directly affected by the socialisation

of industry than were the men : it was to them that the new co-operative movement brought home the advantages and the possibilities of a classless society. It was round the local co-operatives and guilds that their social life, as well as their daily trading, began to centre.

## CHAPTER 12: OVERSEAS TRADE

**The Short-Term and Long-Term View.** Let me begin this chapter with a warning. Overseas trade was a matter as regards which the McCosh Government had to make temporary arrangements. On a short view, they had to use the capitalist machinery of exchange between countries, with such alterations and improvements as were immediately open to a Socialist Government, in order to provide for the needs of the British worker. On a long view, they must needs beware of the inherent dangers of trade between countries, as conducted in a capitalist world. Within Great Britain they might be a Socialist Government, they might succeed in establishing a Socialist State : but, if to other nations they behaved simply as a capitalist trader on an immense scale with all the advantages of the large-scale organisation of trade under Socialism, by so doing they would run the inevitable risks of capitalist competition for markets. Economic competition on those lines, conducted under State capitalism or under private capitalism, would be bound to lead to war. McCosh and his colleagues therefore, while taking such short-term measures as might be necessary for their policy at home, must at the same time lay the foundations of international trade on Socialist lines, as a system for providing for the needs of one country out of what other countries could spare—a co-operative economy in the world and the avoidance of war by means of economic peace.

My warning is, that in this chapter I am primarily concerned with the short-term view, as indeed the McCosh Government was necessarily concerned during its period of office. In two particular matters we can see the origin of later developments : they are, the treatment of foreign investments, which I shall mention in this chapter, and the Economic Conference, referred to in the following chapter on foreign affairs. Those developments, however, followed

in later years, under other Governments, and they fall outside the scope of this history : it is only in describing their origins that I necessarily indicate their character.

**The Previous Course of Trade.** How did the immediate problem present itself? What had been the course of overseas trade under the National Government?

In 1931 Great Britain went off the gold standard, and soon afterwards a general tariff was introduced. That and the following year were the worst period in one of the worst of capitalist slumps. In 1933 there were signs of a revival of world trade. However those factors were related, the general effect was a reduction both of imports and of exports as between 1930 and 1933. A fall in wholesale prices made the reduction appear larger in terms of value than it was in quantity. The decrease in the volume of imports was 9 per cent between 1930 and 1933 and in the volume of exports 21 per cent.<sup>1</sup>

In 1933 retained imports of goods (that is to say, imports less re-exports) amounted in value to about £627 millions, of which £328½ millions were food, drink and tobacco ; £155 millions raw materials ; £140 millions manufactures, and the remaining £3½ millions miscellaneous. Of the three main groups, the first two showed small changes in volume since 1930, food, drink and tobacco being 2 per cent and raw materials 5 per cent up since that date. A fall of 33 per cent in the volume of imported manufactures accounted for the general decrease of imports.

As regards exports of British produce, these amounted in value in 1933 to about £367½ millions, of which £28½ millions were food, drink and tobacco ; £46 millions raw materials (including £31½ millions coal) ; £280½ millions manufactures, and the remaining £12½ millions miscellaneous. The first two groups were down in volume since 1930 respectively by 28 and 17 per cent, an even larger decrease in coal exports being offset by increase in other

<sup>1</sup> *Board of Trade Journal*, 25th January, 1934.

raw materials, principally raw wool. Exports of manufactures were down by 21 per cent in volume, but were beginning to show signs of increasing again.

**Dependence on Overseas Investments.** To put the matter quite roughly, in 1933 the world delivered to Great Britain a balance of £300 millions by way of food, drink and tobacco, and £140 millions by way of raw materials (other than coal). In return Great Britain exported about £30 millions of coal and £140 millions excess of exports over imports of manufactures. On balance she received, allowing for the miscellaneous items and for some movement of silver bullion, £264 millions excess of retained imports over exports. Some of that £264 millions was paid for by services, of which the most important was shipping. In 1933 it was estimated that shipping accounted for £65 millions, commissions and bankers' interest for £30 millions and other miscellaneous receipts for £10 millions. But the bulk of the adverse balance in terms of imports and exports was accounted for by income from overseas investments, which was estimated to amount to £155 millions in 1933.<sup>1</sup>

The result was that Great Britain depended on her overseas investments for an amount which was rather more than half her retained imports of food, drink and tobacco, or, to put it another way, more than the whole of her retained imports of raw materials. In effect she was to that extent living on the proceeds of what she had exported in the past.

The year 1932 had been more difficult, but the figures gave the same general result. There was a balance of about £325½ millions by way of food, drink and tobacco, and £129 millions by way of raw materials other than coal. In return, the exports amounted to £31 millions of coal, and £130 millions excess of exports over imports of manufactures. The services were estimated at £70 millions shipping, £25 millions commission and bankers' interest, and £15 millions miscellaneous receipts. Income from overseas investments for 1932 was estimated at £145 millions.

<sup>1</sup> *Board of Trade Journal*, 22nd February, 1934.

After allowing for some small items, the net result in that year was an adverse balance of some £56 millions.

**Imports of Staple Foods.** Let me now turn to the imports of some staple foods. It was the intention of the Government to provide for such imports so far as possible by barter contract; and there follows a table<sup>1</sup> showing some of the larger items which had to be dealt with in that way. The figures are the 1932 figures, and they cover about £231 millions out of a total of £261 millions retained imports under the headings given. Also, those headings do not cover all the kinds of imports of food, drink and tobacco; so that the total of £231 millions is rather more than two thirds of the total retained imports of every kind of food, drink and tobacco. But the figures serve to indicate the countries principally concerned in providing staple foods in 1932 and give a rough idea of the extent to which each country supplied the principal commodities.

**Imports of Raw Materials and other Necessities.** As regards raw materials for industry and other imported necessities, there follows a rough list<sup>2</sup> showing some of the larger items. It includes some articles such as petroleum, which are classified as manufactured, and it covers about three fifths of all the retained imports of raw materials for the year; like the list of imports of food, it is not complete and merely serves to show some of the principal items.

**Exports of Manufactures.** Against imports of food and necessary materials, the Government was able to barter exports of manufactures; and there follows a list<sup>3</sup> of some of the principal items of such exports in 1932. The list is even more incomplete than the lists of imports, because the manufactures of Great Britain are exported to many different countries and the bulk of any one item to any one country is smaller than the main items of such imports as meat, grain or raw cotton; but the list serves to indicate

<sup>1</sup> p. 291.<sup>2</sup> p. 292.<sup>3</sup> p. 294.

RETAINED IMPORTS OF FOOD, 1932

OVERSEAS TRADE

	Grain & Flour	Meat (incl. Cattle for Food)	Butter, Cheese, Eggs	Apples, Oranges	Sugar (un-refined)	Tes	Tobacco
Argentina	16.3	22.8	1.2	—	—	—	—
Australia	8.7	4.6	9.2	1.8	2.2	—	—
Brazil	—	1.4	—	.8	.2	—	—
Canaoa	16.1	1.3	2.3	1.5	—	8.0	—
Ceylon	—	—	—	—	—	.2	—
China	—	—	2.8	—	—	—	—
Cuba	—	—	—	—	4.8	—	—
Denmark	—	21.1	16.4	—	—	—	—
Finland	—	—	1.2	—	—	—	—
India	—	—	—	—	—	10.7	—
Irish Free State	—	12.5	3.2	—	—	—	—
Java, etc.	—	—	—	2	1.7	1.3	—
Mauritius	—	—	—	—	2.1	—	—
New Zealand	—	10.7	15.9	—	—	—	—
Peru	—	—	—	—	1.3	—	—
Russia	1.9	—	1.2	—	—	—	—
San Domingo	—	—	—	—	1.7	—	—
South Africa	1.0	—	—	—	.5	—	—
Spain	—	—	—	3.4	—	—	—
Sweden	—	1.1	5.0	—	—	—	—
Trinidad	—	—	—	—	.6	—	—
U.S.A.	2.1	2.8	—	3.4	.1	—	6.2
	46.1	78.3	54.4	10.9	15.2	20.2	6.2
Total imports under these heads	52.3	88.0	57.5	15.4	18.0	21.0	9.0
							(261.2)
							(Total: 231.3)

## RETAINED IMPORTS OF RAW MATERIALS, ETC., 1932

	£ millions						
	Cotton	Petroleum, etc. (incl. manu- factured)	Paper materials & paper	Timber	Iron ore & Scrap	Wool, etc.	Misc.
Argentina	.8	—	—	—	—	1.7	2.3 (Linseed)
Australia	—	—	—	—	—	8.0	—
Canada	—	—	—	1.7	—	—	—
Egypt	6.0	.2	—	—	—	—	—
Finland	—	—	5.0	4.2	—	—	—
India	1.0	—	—	—	—	—	2.3 (Jute) 3.1 (Leather)
Mexico	—	1.8	—	—	—	—	—
New Zealand	—	—	—	—	—	4.6	—
Peru	1.6	.9	—	—	—	—	—
Russia	.5	2.1	—	6.1	—	—	—
Soudan	1.9	—	—	—	—	—	—
South Africa	—	—	—	—	—	4.1	—
Spain	—	—	—	—	.7	—	—
Sweden	—	.6	3.3	3.6	—	—	—
Trinidad	—	—	—	—	—	—	—
U.S.A.	16.8	8.8	—	3.7	—	—	—
	28.6	14.4	8.3	19.3	.7	18.4	8.3

(Total : 98.0)



the main possibilities before the Government. At the same time it should be remembered that, as appears from the starred items in the list, exports of manufactures to any country are matters that vary considerably from year to year.

**Possibilities of Barter.** An examination of such figures as appear in the above lists indicate a number of possibilities. The Argentine, for instance, was a country which had suffered severely from the slump in the capitalist world during 1931 and 1932. In consequence, she had reduced her purchases of machinery from this country by some £5 millions and of vehicles by some £3 millions. The same reason had led to a reduction of some £3 millions in purchases of machinery and some £7 millions in purchases of vehicles for Australia, while Canada had bought £3 millions of ships in 1928 and was in no position to repeat that or any similar purchase while agriculture was so unprofitable. The fall of more than £23 millions in purchases of cotton goods for India was due to Japanese competition, but decreases of about £8 millions in her purchases of iron and steel and about £5 millions in her purchases of machinery were due partly to an increase of home production, but mainly to the impoverishment of her agricultural buyers. All those countries sold considerable quantities of food and other necessary produce to Great Britain, and there was no real doubt that they could in the long run afford to take more of her manufactures. There was an obvious case for the development of socialised industries by bartering their products against imports from agricultural countries, with such extension of credit to those countries as might help them to tide over their difficulties.

There were many other similar opportunities on a small scale. Some could be found in the above tables. I would add one or two others which do not appear there. In 1932 Great Britain imported cocoa from the Gold Coast, nuts and nut kernels from Nigeria and rubber from the Straits Settlements. In each case there was an export of cotton

## EXPORTS OF MANUFACTURES, ETC., 1932

	£ millions							
	Coal	Iron & Steel & Manufactures	Machinery	Vehicles (incl. Ships)	Chemicals, etc.	Cotton Yarn & Manufactures	Woollen Goods	Apparel
Argentina	1.7	1.2	5.4	.2*	.5	3.2	.9	—
Australia	—	1.9*	.9*	1.1*	1.3	5.0*	.6	—
Brazil	.7	.6	.4	.3	.5	.4	.1	—
Canada	2.0	1.6	8.8*	.3*	.8	1.0	2.2	.5
Ceylon	—	.2*	.2*	.2*	.2	.4*	—	—
China	—	1.4	1.2	.7	.9	3.7	1.8	—
Denmark	1.4	.7	.3	.6	.2	1.1	1.1	—
Egypt	1.0	.5	.5	.2	.2	1.5	.4	—
India	—	2.6*	5.4*	2.3	2.1	10.2*	.6	.3
Irish Free State:	1.8	1.2	1.0	1.4	1.1	1.3	1.0	3.0
Java, etc.	—	.3	—	—	—	.8	—	—
Mexico	—	.2	.1	.5	.1	.4	—	—
New Zealand	—	1.0*	.4*	1.0	.5	1.3	.7	1.1
Peru	—	.1	—	—	—	.2	—	—
Russia	—	1.4	6.2	—	—	—	—	—
South Africa	—	2.0	2.1	1.3	1.0	1.9	.8	1.3
Spain	.9	.3	.4	.3	.8	1.1	—	—
Sweden	.9	.3	.3	—	—	1.1	.8	—
Trinidad	—	.2	—	—	—	.1	.4	—
U.S.A.	.3	.4	.3	1.2	.5	1.0	.6	2.3 (Linen)
Total exports under these heads	10.7	18.1	21.0	11.1	10.7	35.7	11.6	8.9 (Total: 127.7)

Total exports under these heads

31.6

27.4

29.5

20.5

17.4

60.8

22.9

\* The items marked with an asterisk had shown a considerable reduction since previous years. Exports of machinery, for instance, to the Argentine had fallen from more than £5 millions in 1928, to Australia from £4 millions in 1928, and to India from more than £10 millions in 1928, while cotton exports to India had fallen from £37.8 millions in 1928 to £10.2 millions shown above.

goods roughly corresponding to the value of the imports in question. In the same way we imported coffee from Kenya and sold her iron and steel manufactures. While in 1932 she could not afford to take as much of the latter as we received from her by way of coffee, in 1928 she had taken four times as much in the way of iron and steel manufactures—an amount corresponding to the coffee shipped in 1932. There was an opportunity of providing an increased supply of iron and steel manufactures, in exchange for coffee.

**Disadvantages of Tariffs.** Under the National Government the tariff system had resulted in various commercial treaties, the basis of which was a form of barter by way of tariff concessions. The intention of such treaties was to give concessions to the staple imports from some foreign country in return for corresponding concessions as regards the goods which that country required from Great Britain. There were objections to such a system when it was confined to tariffs. In the first place, as appears from the tables given above, our main imports were food, and many of the countries supplying us with food and raw materials were agricultural countries within the Empire. There was inevitably some conflict between the advantages promised to those countries at the Ottawa Conference and the policy of encouraging agricultural production in Great Britain which was developed some two or three years after that conference. In the second place, so long as a tariff system in Great Britain directed the attention of British manufacturers more and more to the home market, tariff concessions abroad might serve the purpose of forcing some British manufactures upon foreign buyers, but they could hardly take the place of a concerted attempt to produce and supply the requirements of foreign markets more efficiently than in the past. There was bound to be an element of unreality in attempting to force British products on foreign markets merely by mutual tariff concessions. Lastly, there were the general objections to any tariff policy—that it

tended to make the home consumer pay a higher price for his requirements and in return to put an increased profit into the pockets of various groups of industrialists.

Under the National Government there had been little attempt to reduce the general level of tariffs. On the contrary, in spite of concessions, they had tended to rise ; but the tariff system, with the changes which it had brought about in production at home and with its attendant apparatus of commercial treaties, was in force, and the Socialist Government had no intention of returning to unrestricted free trade. They proposed, however, to reduce or eliminate the duties on imported necessities,<sup>6</sup> and in return to develop export trade by supplying the staple manufacturers of socialised industries in bulk. At the same time they intended to tax and to control imports in the nature of luxuries, and imports which could equally well be produced at home by industries which were already socialised or which would shortly be taken over. In the same way they were prepared to control and to direct the exports of unsocialised industry.

**A System of Licences: The Ottawa Agreements.** Their policy in effect was to substitute planned national trading for tariffs and, until private enterprise could be eliminated from overseas trading, to control it by a system of licences instead of by financial duties. This involved a change in the Ottawa Agreements, which had been made with a view to tariffs rather than to a licensing system and under which the Government was bound to impose certain duties on food and other essential imports from foreign countries in order to give preference to the Dominions. There were many unsatisfactory features in these agreements in addition to the general disadvantages of a tariff system. The National Government, which negotiated them, had been harassed by the Imperialist sentiments of its own supporters and its own Press. So the mother country, in order to show the world and her home critics that this really was a very happy family, had been obliged to make excessive concessions

to the more clamorous of her daughters ; some of them, indeed, had been causing anxiety in the family circle by walking out too often with the young man next door. The Labour Government, while wholly unwilling to accept imperial preference as a matter of principle or to limit the happy home within the bounds of the Empire, fully appreciated the need of the Dominions for such manufactures as could be exported from Great Britain and the corresponding suitability of Great Britain as a market for Dominion produce. They could have denounced the Ottawa Agreements in 1937, and they intimated to the Dominions that, if necessary, they were prepared to do so in order to negotiate a new arrangement in line with their policy. No such denunciation was necessary. The rising tide of Socialist opinion in Canada and Australia made it clear that even if the present Governments made difficulties their successors would be more accommodating. Ireland was in general sympathy with the Government, having regard to the policy towards her which had been foreshadowed at the General Election. In these circumstances the Dominions agreed to an immediate conference in London, at which the Ottawa Agreements were revised to conform with the policy of the Government and with its system of import and export boards. In return, the Government maintained for the time being some measure of imperial preference.

**Secretary for Overseas Trade : Commercial Commissions.** Let me now turn to the machinery which the Government set up, and to the main purposes to which its policy was directed. The Secretariat for Overseas Trade was a department of the Ministry of Overseas Affairs. Its functions were in matters of commerce and negotiation and it was not directly concerned with production. As regards iron and steel, for instance, or machinery, its business was to ascertain and indicate to the industry what was required in foreign markets and to negotiate the sale or exchange of the export produced ; but it did not interfere in the actual

production. On the other hand, the main advantage of State trading was the opportunity presented of co-ordinating the various exports and of balancing them directly or indirectly against the imports required. Accordingly Dotham, the Secretary for Overseas Trade, set up a number of commercial missions in various countries: these were sometimes semi-diplomatic bodies and sometimes trading companies registered in the country concerned. Such a mission included representatives of the principal exporting industries and of the importing interests. These missions were charged with the bulk purchase of imports and with pushing and co-ordinating the sale of exports. For those purposes they usually established agencies all over the country. In some cases the Government took over English companies which had fulfilled similar functions as a matter of private enterprise, and used the local branches and machinery of those companies under the commercial mission. Such a course was adopted, for instance, as regards several factoring companies in Australia, which had combined the sale of Australian produce in England with advances to Australian farmers on the spot. In the Argentine and other countries, British-owned railways were obliged to purchase their requirements through the British commercial mission.

**Relations with Russia.** Russia had been a large buyer of British machinery. The Soviets could have taken an even larger supply if they had been allowed credit facilities corresponding to those provided by Germany and other manufacturing countries. One of the first steps taken by Gresham as Minister of Overseas Affairs was to invite the representatives of the U.S.S.R. to a conference in London. As a preliminary step, a leading official of the Secretariat for Overseas Trade, accompanied by delegates from the Ministry of Finance, the socialised industries and some remaining private interests, made a prolonged visit to Russia, and Dotham himself went over there for a short time: he could not be spared from England for longer.

The U.S.S.R. was prepared to give special treatment to a Socialist Government in England. On the other side, Gresham and Dotham were anxious to give to Russia all the facilities that would have been accorded by one capitalist Government to another and to take a step further in giving practical effect to solidarity between two Socialist States. The main results of the conference were the establishment and recognition of commercial missions in both countries, an agreement in principle that each country should give preference to the products of the other, with a reservation in favour of the British Dominions and Colonies, and a number of definite contracts for bulk purchases and sales. In return for the reservation in favour of the Dominions, their representatives, who attended the conference, agreed to give facilities to certain imports from Russia, notably oil. The Russian purchases consisted mostly of machinery and vehicles, as regards which they were given credits up to five years through the socialised banking system. The corresponding sales were of timber, oil, raw cotton and dairy products. The representatives of India and Ceylon took the opportunity of concluding similar arrangements for the supply of tea to Russia. Exports of grain from Russia were likely to vary from year to year, but the Russians arranged to attend a standing Grain Conference, at which the distribution of British purchases could be arranged between Russia, the Dominions, the Argentine and other countries principally concerned.

**And with other Countries.** The Anglo-Russian Conference was followed by similar conferences with the Argentine and other South American States and with the Scandinavian countries. Out of these conferences there emerged the main lines of the Government's foreign trade policy. So far as imports were concerned, Dotham was successful in providing, by bulk purchases from year to year, the main requirements of Great Britain in the way of food and raw materials. Out of these bulk purchases, the co-operative system was provided with staple foods

and the socialised industries with such raw materials as cotton, and timber.

**The Secretariat for Foreign Trade: Relations with Industry.** As socialisation proceeded, an increasing quantity of imports and exports was dealt with directly through the Secretariat for Overseas Trade and its commercial missions. In each socialised industry there were one or more committees dealing within the industry with questions of production for export and, under the Secretariat for Overseas Trade, with questions of marketing abroad. As regards unsocialised industry, there was a corresponding system of licences administered through export boards under the Secretariat. The export boards served as a means of co-ordinating the exports of socialised and unsocialised manufactures. Imports were similarly treated. Import boards for the staple commodities served several purposes. In the first place they estimated the national requirements and submitted their estimates to the National Planning Commission. The requirements, when approved by the Economic Committee of the Cabinet, were met by bulk purchases or barter contracts arranged through the commercial missions. When the staple imports were shipped from foreign countries, they were consigned to the import boards and those bodies arranged for their distribution within the country, giving preference to the standard supplies for the co-operative movement and to the requirements of socialised industry in the way of raw materials. Side by side with these arrangements for bulk supplies, there was a licensing system both for staple imports and for the less important commodities. In order to provide for any demand beyond that met by the bulk purchases and to meet the case of comparatively small imports from small countries, licences were given sparingly, by such bodies as the import boards, for grain, for meat, for dairy produce, sugar, tea and other commodities. Imports of the less important articles of food and drink and of miscellaneous raw materials were for the time being regulated entirely by licences ; but Dotham



gradually extended the system of bulk purchase so as to cover practically all the essential commodities. As regards manufactured articles, much less was done by way of bulk purchase, and the licensing system was operated by a number of boards covering the principal industries and working in close conjunction with home producers. When the industry was socialised, the corresponding import board was represented on the body controlling the whole industry, and the licensing system was used to give such protection as the industry required, subject to the agreement of the Secretariat concerned or of the Cabinet. The customs administration was placed under the Secretariat for Foreign Trade, the existing arrangements for inquiries about protective duties were abolished, and Dotham was responsible to Parliament for all questions about import duties and licences. In unsocialised industries the import board was represented on the manufacturers' association, or an advisory committee was appointed by manufacturers and consumers, to which the import board might refer. In other cases the import board itself was sufficiently representative to enable Dotham to dispense with any advisory arrangements. Generally, the export and import boards included representatives of the producing interests, as well as an official of the Secretariat, and, in the case of the import boards, representatives from distributors and consumers. In addition to the specialised boards there was both a general import board and a general export board to cover miscellaneous goods. No imports or exports, except the bulk purchases and bulk sales of the State, were unlicensed.

**General Policy.** The general policy of the Government was to reduce tariffs on standard articles of consumption and on standard raw materials, but to maintain or increase them on unnecessary imports, including articles which were only required for the consumption of the well-to-do and articles which could be manufactured at home and in respect of which some measure of protection seemed necessary. In consequence, in almost every case no duty

was charged on the bulk purchases effected through the commercial missions, while the duties on a number of licensed imports were raised considerably. If you wanted caviare, even from Russia, a French dress, or foreign wines, you had to pay through the nose for them : even the excise duty on whisky, levied somewhat incongruously by the Secretariat for Foreign Affairs in conjunction with the customs service, was not lowered. Similar duties were imposed on the manufactures of various countries employing child labour or adult labour under sweated conditions. It was those duties which constituted the effective threat behind the Government's efforts at Geneva to enforce, in general, a 40-hour week. The Codd Government finally succeeded in securing the Codd Compromise with Japan ; Italy had always supported the project ; Germany alone remained obdurate until the Socialist Revolution of 1941.

As appears from the figures quoted at the beginning of this chapter, the balance of imports over exports had been met partly by services and partly by the income from foreign investments. The socialisation of shipping in 1938 was the first step towards the full use of British shipping and ship-building facilities and a corresponding increase in the value of that service. As the predominant partner in conference arrangements and as the owner of the largest fleet of tramp vessels in the world, ready to go anywhere and carry anything, Great Britain was able to reassume the position of acting as the world's carrier. The preference given to British ships in the carriage of bulk exports and bulk imports was a factor of great and increasing importance. With the control and the gradual socialisation of arrangements for mercantile credit in London, there was a corresponding increase in such services as commission and bankers' interest. A unified Socialist credit system was able to meet the needs of exporters and importers to an extent and with a variety of arrangements impossible under private enterprise.

**Foreign Investments.** There remained, however, the difficult question of foreign investments, linked up, as it

was, with the whole question of foreign exchange. The £150 millions, or thereabouts, of income from foreign investments arose partly from interest on loans and partly from the yield of property owned abroad. There was no absolute line between the two categories. A man might hold the bonds of a foreign Government, shares in a railway or factory situated and controlled abroad, or an interest in some mine or plantation under British ownership and control. Was a Socialist Government to continue to receive, or to allow its citizens to receive, interest on foreign loans, often oppressive enough to the countries concerned, or the yield of the exploitation of labour abroad? Clearly in principle there was everything to be said against a continuance of income from such sources. On the other hand, the Government had to face the inevitable dependence on such income of a population which had grown up upon it. They could not afford to lower the whole standard of life throughout Great Britain by one magnificent gesture of renunciation. No doubt in many cases such a gesture was unnecessary: the countries concerned had already defaulted. But the question of principle remained as a most troublesome matter to the consciences of McCosh and his colleagues.

There was another aspect of the matter. The steps which the Government proposed to take at home as regards compensation for industrial property and the interest on public loans made it impossible and unfair to leave the owner of foreign investments unaffected. Both from the point of view of controlling foreign exchange and from that aspect of it which was concerned with the financing of bulk purchases, there was everything to be said for a wholesale requisitioning of foreign investments. Was there any more to be said for holding them in the name of the community than there had been for their private ownership? McCosh and Gresham were inclined to think so. If the world were to become, as they foresaw it, a group of Socialist communities, it was right that each community should be provided for according to its needs. The population of these

islands had grown to its present size by supplying its manufactures to the world, and in part by living upon the yield of the exports which those manufactures had represented. There it was ; and it seemed not unreasonable that some contribution from those sources should continue to be made towards its reasonable needs. But there were conditions, impossible to private enterprise, which the community was in a position to impose. A Socialist Government would regard foreign investments as, in the first place, an instrument towards the civilisation and socialisation of other countries and, in the second place, as something upon which they ought not permanently to be dependent, but which should, in course of time, disappear in a world of Socialist communities.

**Requisition and Management of Foreign Investments.** With these objects in view, the Government proceeded to a series of requisitions, some of which were effected through the Ministry of Finance and others through the Secretariat for Foreign Trade, against compensation on the usual annuity basis. In the first place, Fox requisitioned, through the National Investment Board, all bonds of foreign Governments, municipalities or other public authorities, whether the interest was payable in foreign currency or in sterling. The requisition order applied both to bonds already held<sup>1</sup> and to any future holdings, so that in effect no British subject could hold foreign bonds. The bonds requisitioned included many upon which default had been made or was threatened, and compensation was given on an annuity basis, as in the case of industrial property, with due regard to the risk of default. As regards shares in foreign countries, the requisition was less general. Having regard to the control of foreign exchange through the banks, Fox only found it necessary to take over the shares scheduled at

<sup>1</sup> Including bearer bonds held in Great Britain. The holders were required to furnish returns, which were verified from information available for purposes of taxation and through the socialised banks. Stockbrokers were also called upon for particulars of recent dealings.

the end of his order. The shares affected were a number of international securities extensively dealt in by stock-brokers and exchange brokers all over the world, and some of the leading American railway stocks. By these requisitions he secured the right to considerable sums in foreign currency and to a number of substantial sterling payments, to provide for which foreign Governments and public authorities had had to purchase sterling. The foreign currency was applied directly in the purchase of bulk imports, while, as regards sterling obligations, the Secretariat for Foreign Trade arranged with the debtors concerned to substitute shipments of goods. In general, railways and other semi-public concerns under the control of British companies were not affected : the owners of their shares and bonds were dealt with by taxation. But as regards British companies controlling the production of food and raw materials, further requisitions were made. Most of the shares of plantation and mining companies were taken over, again on an annuity basis of compensation, with due regard to the risks of their business. Almost all the rubber and tea companies and the leading tin and base-metal mining companies were affected. The Spanish copper and iron ore mines were also taken over, but resold to the Socialist Government in Spain on terms providing for an adequate supply of their products to Great Britain. Land and pastoral companies were not affected : here again, their shares were left subject to taxation. By these means the Government secured the direct control of very large quantities of food and raw materials, especially the latter. At the same time, they assumed a grave responsibility. In most of the mines and plantations, labour conditions were such as no Socialist Government could contemplate with equanimity. On the other hand it was obviously impossible to introduce among Asiatic and African workers conditions of labour and a standard of life such as were enjoyed in England. The most the Government could do for the time being was to set about systematically improving the conditions of life among the workers in its mines and

on its plantations by limited hours of work, increased pay, and full provision for education and medical services. A leading Socialist, well known for his criticism of capitalist administration in the Colonies, was appointed as the Director of Mines and Plantations in the Secretariat for Foreign Trade, and was given full powers to direct the improvement of conditions locally and to institute representative councils among the workers, from which, in course of time, there developed the present trade union organisation. Under the Codd Government a separate Commissioner for Foreign Properties, directly responsible to Parliament, was appointed in place of the Director. The other notable development in the administration of plantations and mines corresponded to similar developments in the administration of socialised property in England. With public ownership it was found possible to operate such enterprises on a larger scale, to combine factories and mills connected with them, and to centralise institutions, schools and hospitals.

**Gold-Mines.** Another group of undertakings affected by the Government's requisition orders was gold-mines owned or controlled by English companies. It was clear that the control of the world's gold supplies, which was largely in private hands in England, was an important factor in the control of foreign exchange. On the other hand, these mines were situated in the self-governing Dominions, and a substantial proportion of their shares were held by Dominion citizens. The Government could do less towards the improvement of labour conditions in South Africa, for instance, than in the plantations or tin-mines of a colony. On the whole, too, there was less urgent need for such improvement—at any rate in some Dominions. Fox took over, through the National Investment Board, all British holdings of shares in the South African mines, and similar holdings in the leading gold-mines in other parts of the Empire. Many of the smaller mines were left untouched, and the requisitions did not extend to large mines

in which only a minority of the shares was held in England. This step was sufficient to give him control of the mines affected, and in their case, as in that of the plantations and base-metal mines, the Government proceeded at once to effect an improvement in the conditions of employment and to organise those of the miners who were unorganised. The South African mines were placed under the control of a resident commissioner and advisory board, responsible to the Secretariat for Foreign Trade and, under the Codd Government, to the Commissioner for Foreign Properties. Mines in other parts of the world were administered by officials responsible to the Director of Mines and Plantations under the McCosh Government and, under the Codd Government, to the Commissioner for Foreign Properties. The gold produced was dealt with by the Minister of Finance.

**The Responsibility.** The development of overseas trade and the administration of properties abroad were as serious a responsibility for the McCosh Government as any internal question. So far as trade alone was concerned, its control was obviously a necessary adjunct to socialisation at home. The handling on a large scale of the vital imports and exports of this country was a task of great difficulty, the more so as Socialist research had not been sufficiently directed to the problems involved: there had been too much tendency to concentrate on conditions at home as they appeared directly to affect the worker. The success of public control in these matters was greater than many friendly observers expected. It was undoubtedly due to Dotham's sound judgment and tireless industry, as well as Gresham's foresight. But the courage which led the Government to assume responsibility for investments abroad, and to expose itself to the inevitable criticism which that responsibility entailed, was the Scottish courage of McCosh himself. Scotland had a long history of bold adventure in foreign lands. It was left to this Scot to give practical effect to that adventure in the new spirit of a Socialist Prime Minister.

## CHAPTER 13: OVERSEAS AFFAIRS

- I. Foreign Affairs and Disarmament
- II. The Dominions and Colonies

### § I. FOREIGN AFFAIRS AND DISARMAMENT

**The National Government.** In foreign affairs the National Government had a long and lamentable history, partly of definite mistakes, and partly of continued inability to seize the opportunities presented to it, or to give such a lead to the world as the reputation and importance of this country would have justified. This is not the place to spell out that history in detail. It is sufficient to mention the complete failure to raise any effective protest against Japanese aggression in Asia, and the continued attempt to score points at the Disarmament Conference by giving up what was not required, or was not even in existence, while stubbornly retaining the particular armaments which were thought necessary upon the narrowest view of national interest. The Foreign Secretary distinguished himself by misreading his instructions to defend civilisation as a brief for Japan, while another lawyer, the Secretary of State for War, combined his legal acumen and his military knowledge to justify the retention of tanks as a means of "protection to human life."

**Growth and Variety of Pacifist Opinion.** It was not surprising that under such a Government straightforward and often unreasoning pacifism began to make itself widely felt and appreciated even in what might have been expected



to be unlikely quarters. The Oxford Union passed a resolution not to fight for their King and Country in any circumstances, and their example was followed by a number of other associations. Pacifist societies grew in strength and in number and loudly proclaimed their objections to any war, except in some cases the class war (and in all cases the competition between pacifist societies!). The strength of opinion behind these various and often discordant manifestations was unmistakable, and, towards the end of the period of the National Government, it began to play an important part in the by-elections which preceded the Government's fall. In the Labour Party there were at first three schools of opinion, and it was not until a year or two before the General Election that a definite policy began to emerge, combining to some extent the various points upon which those interested had insisted. There was no doubt of the deep and serious anxiety felt by all sections of the Party, as regards the imminence of war and the urgent need for disarmament and for a stable basis for peace. Some, especially among the older leaders of the Party and among those who had watched through the deliberations of the League of Nations, thought that the Constitution of the League, with some amendments, would be sufficient to ensure peace if a Socialist Government were to make its influence fully felt. Others, convinced both of the wickedness of war and of its dangers, insisted on disarmament at all costs. If it could be by agreement, so much the better : but, if not, it should be unilateral ; and the country which had the courage to embark on that great adventure would shame other nations into following it, or at least into leaving it in peace. Many of those who believed in unilateral disarmament were ready and anxious to support it by a general strike in the event of war, or of the threat of war. Others, again, did not regard either the Covenant of the League of Nations, or the system of pacts and treaties which had grown up round it, as sufficient. They said, in effect, that war abroad and Fascism at home were the inevitable developments of capitalist competition,

and that no paper promises would be enough to prevent their growth. Upon similar grounds, and having regard particularly to the militarist spirit in Germany, Japan and other countries, they did not believe that this country would accept unilateral disarmament, or that those responsible for the people's safety would be justified in disarming without other precautions. Accordingly, while sometimes despairing of the League of Nations, or sometimes anxious to try out its machinery to the full, they wished, side by side with pacts and covenants, to set up some international force, the existence of which would ensure that peace should be kept, in fact as well as in promise, and would make it practicable to abolish national armaments. They pointed out, with justice, that the basis of the League of Nations was the agreement of fully sovereign States, while events had shown that something more was required, and that, in the matter of armaments and police protection, nations must give up their sovereign rights in favour of an international body.

**The Hastings Conference.** There was much in common between these three points of view, and at the Hastings Conference in 1933 the Party committed itself to all three lines of approach. In an eloquent speech, which was afterwards published as a Party pamphlet, Arthur Henderson, the Secretary of the Party, pointed out that the League was the only international political instrument through which Governments could organise peace. He added that the League was a powerful instrument, which a Labour Government could use, and that Great Britain had such influence at Geneva that any lead which she gave would be followed by others. At the same time, the League was far from being a perfect instrument and he had ideas on how to improve and how to use it. Secondly, in a resolution accepted by the Executive and carried without dissent, the conference pledged itself to take no part in war<sup>1</sup> and

<sup>1</sup> It may be assumed that the War Office abandoned any idea of enrolling the conference members as a Labour Battalion.

instructed the Executive to consult with the trade union and co-operative movements with a view to deciding and announcing to the country what steps, including a general strike, were to be taken "to organise the opposition of the organised working-class movement in the event of war or threat of war." Thirdly, in another resolution, moved on behalf of the Executive and passed unanimously, the conference called for measures of disarmament and declared itself in favour of an international police force.

**The Policy of the Government.** Both Gresham and Taylor, his Secretary for Foreign Affairs, were convinced pacifists, and had been prominent in public protests against the increases of armaments under the National Government. They were anxious to give practical effect to what they had said, and enable the Government to reduce the estimates for the fighting services at the earliest possible moment. Although, like many other members of the Party, they were personally prepared to support immediate disarmament without regard to the attitude of other countries, they recognised that the intentions of the Government as regards foreign policy had not been put before the country in that form. Both unilateral disarmament and an international police force meant the disappearance of national armaments, but the international force would still mean contributions from national funds towards keeping up a fighting machine. There were many who thought that, for that reason, the demand for an international police force had not the simple appeal of a call to disarm, and that disarmament without reservations would have been the most logical course for a Socialist Government, and the course most likely to appeal to public opinion. But in 1936 it would not have been possible to unite the Party in favour of unconditional disarmament, and any attempt to do so would have involved a distinct change from the attitude adopted at the Hastings Conference. It seemed clear that the McCosh Government had to try out the possibilities of an international police force and of improvements in the

spirit and constitution of the League of Nations, before they could successfully appeal to the country to disarm at all costs and without reservations. Gresham was prepared to accept an international police force as a first effective step towards general disarmament, and as regards the League of Nations he was prepared to see what could be done, without too much confidence in the result, if the League was to remain a convention of independent and competing capitalist States.

**Pooled Security: the Aggressor.** I have already mentioned the immediate questions of foreign trade, which were discussed at the Anglo-Russian Conference in 1936. The conference had, however, another side, and, while Dotham was dealing with foreign trade, Taylor was engaged on the outline of a scheme for "pooled security," which could be agreed between Socialist Britain and the U.S.S.R., and to which they might invite other nations to adhere. The scheme, if it were not to be a mere alliance of the old type, would mean setting up an international commission, not unlike the Permanent Mandates Commission of the League, which would act under conditions previously agreed, but would do so on its own initiative and, within the scope of the agreed conditions, at its own discretion; it would not have to depend upon the concurrence on each occasion of the Governments concerned. The first essential, therefore, was to define the circumstances in which the international police force should be used. In effect, as it was to be a protection against aggression, it became necessary to define an aggressor, and for this purpose Taylor and the Russians agreed upon the definition which had been used in the non-aggression pacts between the U.S.S.R. and a number of the neighbouring countries. Roughly speaking, the test was to be—who crossed the frontier first?

**Board of International Defence.** The next point was to determine the constitution of the commission, which

would serve to control such international force as might be set up. This body, Taylor and the Russians agreed to call the "Board of International Defence." It was to consist of full-time members nominated by the countries concerned, on the basis of three members of each country, and paid out of the international defence fund to which each country was to contribute. The members were not to retain any other employment during their period of service, and, if at the time of nomination they were in the service of their Government, they were to be retired from that service with such pension rights as might be appropriate, and on the understanding that they would not be re-employed. Their duties were of a double character. In the first place, they were authorised to determine the conditions upon which other countries should be admitted to the pact, and, in that connection, to report from time to time to the countries already parties to the pact what had been done and what could be done towards the inclusion of other countries. In the second place, they were charged with the administration of the international defence fund, with the general control of the international police force which that administration involved, and with the duty of deciding when and how to employ the force. They were, in fact, to have the same relation to the international police force as a civilian Minister of War would have toward the forces under his control.

**The Allocation of Armed Forces.** The third point was to allocate to the Board of International Defence such armed forces as might be appropriate, and to arrange for the technical control of those forces, and for the armaments required. There were two stages in the matter. Other nations than Great Britain and the U.S.S.R. would be invited to be parties to this scheme, and the general outlines of it must be put before them. The actual arrangements, however, would have to be made as soon as it was known which countries were willing to come in on the first invitation. Clearly, the arrangements would depend on

how many countries acceded to the pact. In these circumstances Taylor and the Russians proposed, in the first place, 'either to abolish or to internationalise military aviation, and to place civil aviation under international control. They intended to deal after that with naval questions, and finally with the question of an international military force : as regards the latter, there were certain armaments, such as tanks and heavy artillery, which they would be able to internationalise at an earlier stage.

**Relations with the League.** Lastly, there were some questions as regards the relations of the "pooled security" nations to the League. The proposed pact would be registered with the League Secretariat. How would it affect the provisions of the League Covenant for economic and other sanctions? In this connection, Taylor and the Russians had it clearly in mind that no sanctions whatever had been applied by the League in various cases of aggression, of which the most remarkable was that of the attacks made by Japan on China. The fundamental difficulty had been the false assumption of a common intention among the members of the League to take action to prevent war : the League was based upon that assumption, but, in fact, no such intention existed among all its members. In point of form, the most obvious difficulty was the need for unanimous agreement as regards action by the League in this and other matters. The Council had to act with unanimity, although it might contain representatives of States, whose selfish interests were at stake, or even of the State itself, which was primarily concerned in the dispute. It was not certain how far those difficulties could be met by alterations in the constitution of the League. Pending such alterations it seemed necessary to provide in the "pooled security" pact, not only for the application of the ultimate political sanction of the international police force, but also for the imposition of economic sanctions by the Board of International Defence.

Clearly, if the board had to apply such sanctions, the

parties to the pact would apply to the League at the earliest possible opportunity for economic sanctions under the Covenant of the League. The economic sanctions applied by the board would serve as immediate measures of protection until the League machinery could be put into force.

**The Pact for International Defence.** Taylor and the Russians agreed the general lines of a pact for pooled security or, as they called it, a "Pact for International Defence." It was approved by the Governments in London and in Moscow, and then submitted to the United States, France, the Scandinavian countries, and the countries with which the U.S.S.R. had pacts of non-aggression. France and the smaller countries accepted the proposals as a basis for negotiation; and, for that purpose, a rather unusual procedure was adopted; at the suggestion of the U.S.S.R., England, France and the U.S.S.R. each nominated a single representative, while the Baltic States nominated the fourth and the Scandinavians the fifth. The United States, for the moment, were unwilling to do more than nominate the usual "observer." These six persons were set down together, with the minimum of technical advisers, to work out the main points of the scheme. They met like a commission about to draft a report, and heard the technical advisers as so much evidence. It is extremely doubtful whether the scheme could ever have been put into practical shape by the more formal methods that had been usual in international conferences in the past. The result was the first Pact for International Defence, which was agreed between Great Britain and the U.S.S.R., France and the Scandinavian and Baltic States in the autumn of 1937. The Pact was registered in accordance with the provisions of the Covenant of the League of Nations,<sup>1</sup> published in November, and thrown open for adherence by other countries. Before the end of the year, Spain, Portugal, Czechoslovakia, Holland, Belgium and Switzerland came into the scheme. The United States and the British

<sup>1</sup> Article 18.

Dominions became what were known as "associate Powers."

**The Air.** The immediate parties to the pact, known as the "member Powers," nominated the Board of International Defence on the lines already mentioned. The member Powers were to transfer to the Board part of their respective air forces, and agreed to convert the remainder into civil aircraft within three months, or such longer period as the Board should allow in any particular case. The air forces so transferred were to be sufficient to meet any combination of Powers hostile to the pact. It rested with the Board to determine, with changing circumstances, what increase might be required in the pooled air force, or what decrease could be allowed. There were arrangements for the organisation of the pooled air force in squadrons of the same nationality, with a mixture of nationalities in all higher commands and in the International Air Council, as the supreme technical authority. But, in the result, an international air force proved to be unnecessary. Soon after the pact was published, the countries which were parties to it published a joint appeal to the world to take this opportunity to abolish military aviation before an international force was constituted. There had already been several attempts in this direction, and it is tolerably certain that military aircraft would have been abolished some years earlier if the National Government had lent its whole-hearted support to the attempt then made instead of insisting on the retention of aeroplanes for the purpose of bombing the outlying parts of the Empire into a suitable state of submission. It now became clear that an international air force formed by the U.S.S.R., France and England, as well as a number of smaller Powers, with the co-operation of the United States, would be able to deal summarily with any opposing nation. Accordingly, when the matter was raised at Geneva in February 1938, those European powers which had not adhered to the pact agreed in principle to the complete abolition of military



aircraft, and to the international control of civil aircraft which was to accompany it. The Japanese at first dissented, and it seemed likely that some special arrangements would have to be made to deal with the situation so created; but their consent followed two months later, at the time of the Economic Conference, to which I shall have occasion to refer below. In the result, all the countries agreed in principle to the abolition of military aircraft, upon the terms that civil aircraft should be placed under international control. For the latter purpose an international company was formed, to which were transferred all existing air services<sup>1</sup> with their aeroplanes, aerodromes and ground equipment. This company managed the main air routes, and leased out secondary routes, with the necessary material to work them, to subsidiary national companies or, where transport was socialised, to the national transport system. The management and personnel of the international company were of various nationalities, and care was taken to see that no country secured a predominant position in the international air system or any part of it. Political questions arising in connection with the international organisation were adjusted at an annual international air conference of representatives of the countries concerned.<sup>1</sup>

**Naval Forces.** The member Powers adhering to the Pact for International Defence included Great Britain, with a large navy, France, with one that was rather smaller but in many respects complementary to the British one, and various countries with a few ships. Naval questions were to be discussed before military ones. Would the Government agree to the effective internationalisation of the navy? Or would they try to keep the pooled naval forces under British control? There is said to have been some difference of opinion between Bashford and Gresham: Bashford, no doubt, felt that he ought to say something for his admirals. But the Government had the courage to go the whole way, knowing that, when it came to military forces, the effective

<sup>1</sup> See the scheme in *World Airways—Why Not?* (Gollancz, 1934).

support of Russia would depend on the attitude that Great Britain had taken about the navy. All warships and naval material, except some small vessels for policing purposes (with corresponding equipment), as well as all naval bases, were transferred to the Board of International Defence, and placed under the technical command of an International Board of Admiralty, upon which the representatives of no single Power were in a majority. The I.B.A. sat under the chairmanship of a civilian member of the Board of International Defence. For the time being each ship necessarily had a national complexion, but arrangements were made, even at this early stage, for the exchange of a number of officers. For the future, the training, both of officers and men, was to be under the international administration, and the personnel of various nationalities were as far as possible to be trained together, or at least out of their own country. The member Powers gave the pooled naval forces all necessary facilities for the use of harbours which were not purely naval bases: the arrangements for the use of Irish ports for the British navy served as a useful precedent.

**The Attitude of the U.S.A.** The process of constituting an international naval force, and of giving an international character to the national navies which made it up, took some time. But it was made easier by the immediate reduction of naval strength which the pooling of naval forces made possible. Great Britain and the other countries concerned were able to choose the men and the material most suitable for the new purpose. The size of the force under the B.I.D. was largely determined by the attitude of America. The United States, for domestic reasons largely arising out of the attitude of the Senate in matters of foreign policy, were unwilling to adhere fully to the Pact. On the other hand, the idea behind the Pact seemed to the average American an excellent plan for Europeans, and one to which he was anxious to give practical support. Moreover, America had initiated the Kellogg Pact and had taken an active part in all attempts towards disarmament. She

could fairly claim that the naval and military forces of America were in effect so separated from those of European countries that her pacific intentions were unimpeachable, and that her anxiety over the intentions of Japan was so justifiable as to entitle her to preserve a larger measure of national status than the European Powers. In consequence, she became what was termed an "associate member" of the Pact, and the larger British Dominions followed the same course. America agreed not to take any military or naval action except with the concurrence of, or on the directions of, the B.I.D. : she reserved the right to refuse to take action upon the behest of that body, unless the American Senate concurred. The effect of this reservation was that the American forces could be relied on never to oppose, but not necessarily to support, the B.I.D. There was, however, a strong body of feeling in America in favour of withdrawing this reservation. It was said that qualified membership was a shabby response to the first fine gesture that Europe had made for generations. As long as the reservation was in force, the American navy could not be internationalised. So, even at this early stage, the American Government did show signs of going further. The President intimated that, so far as he could see, America was never likely to have need for the reservation, and that, as regards the internationalisation of the navy, she would welcome every possible exchange of personnel and pooling of facilities between her forces and those under the International Board of Admiralty. In fact, many interchanges took place, and it was not uncommon to find four or five British officers on an American ship, or the like number of Americans on one of the international vessels. The turning-point came when Australia and Canada went Socialist. These countries had originally become associate members of the Pact, on lines similar to those taken by the United States. When they went Socialist they abandoned the reservations and joined as full members. After the Presidential Election of 1945, the world, as the President said, became America's business, and she joined as a full member.

**Military Forces and Armaments.** By far the hardest task before the member Powers was the effective internationalisation of military forces. When military aircraft were abolished, Bashford and others were anxious for the retention of a small police force of aircraft under the B.I.D., largely in the belief that the retention of such a force would hasten the internationalisation of land armies. The difficulty was that, if this were allowed, the countries that were not members of the Pact would ask for a similar concession; and there was a real danger that, from such small beginnings, national air armaments might arise again. There was in practice no alternative to complete abolition of military aircraft. The appeal made in this connection by the members of the Pact referred also to tanks, heavy guns and other offensive armaments which had been the subject of frequent negotiations in the past. Under strong pressure from Gresham and the Russian Government, the members of the Pact agreed to an immediate arrangement for pooling all armaments of this character. The effect was the same as in the case of aircraft: the threat of such a large pooled force was enough to tip the balance, and the convention which provided for the abolition of military aircraft also provided for the abolition of chemical warfare and of the heavier forms of land armaments. In connection with the British disarmament proposals of September 1933, a Permanent Disarmament Commission of the League of Nations had been suggested. This body was now constituted, and given extensive powers of inspection and control in order to secure the effective abolition of the weapons now prohibited. There were well-known difficulties in connection with chemical warfare: they were only met by the active exercise of control by the representatives of the P.D.C. The Russian representatives on that body proved to be of the greatest assistance in this matter. Their own experience of a workers' and peasants' inspectorate had shown them how to do it.

As regards the internationalisation of other military weapons and forces, the first difficulty was the very various

character of existing national armies. It was clearly easier to internationalise small professional armies than to deal with conscripts, or what the French called para-military formations. The second difficulty was that the member Powers were more suspicious of one another in military matters than in connection with aircraft and navies. The attitude of the French was curious. They had been largely responsible for previous proposals to internationalise aircraft and land armaments. When it came to discussion about the international control of armies, there seemed to be a strong reaction, which was probably attributable to the French military experts. The Russians and the English pressed the matter strongly, the English pointing out that they had in effect handed over the British navy to international control, and had taken their political lives in their hands by doing so. The next stage was heralded by a number of demonstrations in France. All the fears of another war and all the pacifist sentiments, so strongly felt in the French provinces as well as in Paris, began to make themselves felt. The sentiments which had led to the original proposals for internationalisation swept back again, like a tidal wave, over the heads of the protesting French generals, and carried the French army into international control. The actual arrangements were based on the replacement in all member countries of conscript armies and other formations by highly mechanised and highly trained professional forces.

The next step was to mingle national units, roughly of the size of the British battalion or brigade of artillery, in international formations under international command. The International Supreme Command was quartered at the Hague, there being plenty of accommodation available in the Palace of Peace. The real difficulty in practice was the effective elimination of the existing national War Offices : these bodies stuck like limpets in the form of commands under the International Supreme Command. A special conference of the Ministers of Defence of the member Powers was called in the summer of 1938, and

succeeded in reducing these bodies to their proper status. The internationalisation of units proved most effective in the case of technical arms such as engineers and artillery, and supplies of material and ammunition were under the direct control of the I.S.C. That body was of course, like the International Board of Admiralty, under the orders of the B.I.D., and it sat under the chairmanship of a civilian member of that board.

**The Effect of Internationalisation.** The effect of the internationalisation of naval and military forces was to reduce considerably the contributions of the member Powers, both in men and in material. The Board of International Defence had to have at its disposal a defensive force sufficient to provide against attacks from those who were not members or associate members of the Pact. The constitution of the Pact, with its original membership and with those who adhered to it on publication, was sufficiently formidable. With England, France and the U.S.S.R. as members, and with the general support of the United States, the naval and military forces available were sufficient to make any attack on the member Powers improbable. What principally contributed to the success of the project was the actual course of negotiations between the member Powers and the associate members. It soon became clear that there was going to be an effective international force—not merely a pooling of national forces by an agreement which might come to an end at any moment. The remaining European Powers waited for a time. As soon as they realised that here at last was an effective international body and not merely an *ad hoc* agreement of countries retaining their own sovereignty, they saw that there was nothing to be lost and everything to be gained by adhering to the Pact. This international body clearly would function: it was far too strong to be attacked and, whatever the immediate results might be, it had more than enough resources behind it to support any struggle. Its strength was openly and avowedly based on the strength of any possible

opposition. As other countries came in, that strength could be reduced, and their own expenditure on armaments reduced with it. In most countries, probably in all countries, war had long been an unpopular proposition: a feeling of deep relief now spread over Europe with the gradual discovery that it was now not only unpopular but obviously impracticable.

**Reduced Expenditure on Armaments.** So far as Great Britain was concerned the immediate reduction of her armaments bill to some £60 millions, instead of over £100 millions, on the Pact becoming effective, was of the greatest assistance to the Socialist Government in its scheme at home. That reduction was followed by successive falls in subsequent years to the level of about £23 millions when the Codd Government came into office in 1941. The reduction would have been more rapid, in England as elsewhere, but for the need of subsidies in the transition stage for the training or alternative employment of men dismissed from the Forces.

**Control of their Manufacture and Sale.** One of the most important consequences of the Pact for International Defence was the effective public control by all member Powers and associate members of the manufacture and sale of armaments. I have already referred to the powers of the permanent Disarmament Commission. In addition, the parties to the Pact all prohibited the manufacture, sale or export of armaments, except, in the case of member Powers, for the use of the Board of International Defence, or, in the case of associate Powers, for their own national forces. As between members on the one hand and associate members on the other, the Board of International Defence was given powers to license supplies. Manufacture in many countries such as Russia and Great Britain was socialised. In other countries, both members and associate members, the Board of International Defence was given powers of inspection and control, supplementary to those of the permanent

Disarmament Commission and in practice exercised by visiting commissions representing both bodies. A permanent committee of officials of the Board was appointed to deal with these arrangements, which were administered in different ways in different countries.

**Consequences of the Pact for International Defence: Changes in the League.** The Pact for International Defence and its consequences were an outstanding feature of foreign affairs under the McCosh Government. The active collaboration of Great Britain and the U.S.S.R., with the cordial support of the smaller countries, provided a new mainspring in international relations. Probably no single Power, in spite of the optimism of those who put all their trust in Geneva and all their confidence in British influence there, could have set the wheels of the League of Nations in motion again. But the spirit of this collaboration and its tangible intentions and results were enough, not only to bring in France and the United States, but also to restart that somewhat worn piece of machinery, the Covenant of the League and its appurtenances. This is not the place to detail the structural changes that were required: I need only set out their general lines. They were secured by the adhesion of the U.S.S.R., on terms agreed between Gresham and the Russian representatives, and vigorously supported by Gresham at Geneva. The changes, if their effect can be summarised in one sentence, were directed towards stressing the importance of economic factors in the working of the League as distinct from the old-fashioned political liberalism on which its constitution was originally based; and accordingly towards converting it from an organisation primarily intended to maintain an existing array of sovereign Powers in peaceful agreement into the precursor of a Socialist World State, a body which would seek to maintain peace by such changes as the changing balance of economic stresses required, and at the same time to arrogate to itself, little by little, that supreme economic power on which alone its international character



and status could be securely based. As soon as the character and effect of these changes became clear, there was a wave of sympathy in the United States for a movement in international affairs, which seemed to resemble much of what far-sighted Americans desired "at home." The New Deal in the League roused interest and controversy, in America. This was a new matter, and when, in the phrase I have already quoted, the world became America's business, she formally joined the League in 1945, after several years of growing interest and participation in League affairs.

The main lines of the changes were, first, to give binding authority to the decisions of a two-thirds majority in the Council or in the Assembly; secondly, to extend Article 19 of the Covenant as regards inapplicable treaties and international conditions dangerous to peace; thirdly, to provide for a system of international law; fourthly, to enlarge the powers of the International Labour Office; and, fifthly, to set up a standing Economic Conference.

Article 19 already provided for the reconsideration of treaties which had become "inapplicable." It was extended to cover those which had become, or proved to be, unjust; and a procedure was annexed to the Article, under which a member State could lay before the Council a complaint with detailed arguments and evidence in support. The Council, by a two-thirds majority decision, could direct the appropriate inquiries to be made and reports submitted either to the Council or to arbitrators appointed by the Council and reporting, in their turn, to the Council. Upon such material the Council could give a binding decision, subject to appeal to the Assembly, or could refer the matter to the Assembly with or without its own recommendations. There were provisions for economic sanctions, if the decisions of the Council or Assembly were disregarded.

As regards international law, the changes were of a technical character, designed to facilitate procedure before the Hague Court, to give effect to its decisions in national Courts, to enlarge its jurisdiction over private matters of

international importance, and to provide an authoritative code of international law and a means for its flexible development. Perhaps the most important step in practice was the transfer to the Hague Court of the appellate jurisdiction of the Privy Council in England, which was followed in later years by the grant to that Court of similar appellate jurisdiction from other countries.

The International Labour Office had already power to adopt conventions by a two-thirds majority and to recommend them to the national legislature of member States. Under strong pressure from Gresham and from the representatives of a number of smaller countries, the Assembly recommended to the Economic Conference that such conventions should have binding force, subject to an appeal to the Conference itself. When this recommendation came before the Conference, it was adopted as an optional agreement to which nearly all European countries and the United States adhered. There were other accessions in subsequent years. Lastly, the I.L.O. was given an independent status, instead of being merely an organ of the League; it worked in close conjunction with the standing Economic Conference.

**The Standing Economic Conference.** The Conference itself was intended to be the economic counterpart of the Assembly. As in the case of the I.L.O., Governments, workers, and employers in capitalist countries were represented on the Conference; but, as its business was commerce rather than production, there was a different balance of representation with more Government members and with representatives of shipping and trading interests, including the co-operative movement. Both the I.L.O. and the Bank for International Settlements were also represented on the Conference and on the Economic Council, which was composed of its leading members and corresponded to the Council of the League. The main object of the Conference was to lay the foundations of an international planned economy corresponding to the national

plans which were coming into operation in Socialist countries. I have referred, in the chapter on overseas trade, to the bulk contracts which were so prominent a feature of the foreign trade policy of the McCosh Government. The general proposals of the British and other Governments in such matters were laid before the Economic Conference, and formed the basis of its discussions. The completed contracts were registered at its office. The Conference, in short, concerned itself with the distribution of world supplies by way of agricultural produce, raw materials and manufactures. Its success as a planning body was largely due to the knowledge, foresight and tact of Petersen, its Danish Secretary-General, and to the untiring efforts of the International Economic Secretariat, which bore the same relation to the Conference as, in England, the National Planning Commission bore to the Economic Committee of the Cabinet. The Economic Conference soon found that the question of international supplies was bound up with the question of international investment and international debts. The Financial Committee of its Council became an extremely important body, and, working in conjunction with the Bank for International Settlements, it was able to assume an increasing control over international payments of all sorts and to proceed towards the development of the international currency which had been so long required as a supplement to national currencies. These further developments became important under the Codd Government, and they fall outside the scope of this book. It was along these lines that the question of the dependence of Great Britain on foreign investments, which had so sorely tried the conscience of the McCosh Government, was finally settled. It could, in fact, only be settled, as it was, under a planned system of trade between Socialist communities throughout the world.

## § II. THE DOMINIONS AND COLONIES

IN CONNECTION WITH the far-reaching changes at Geneva, I would refer shortly to the policy of the McCosh Government as regards the Dominions and Colonies. Generally, the bond between the members of the British Commonwealth of Nations was in substance such as Gresham and his colleagues desired to see between nations all over the world. But there were many objections to its present form. If the substance of the bond between Great Britain, on the one hand, and Ireland, India, South Africa and other countries was to be preserved, there must be some considerable relaxation of its form.

**Ireland.** As regards Ireland, one of Gresham's first steps was to send Tarrant, the Secretary for the Dominions, to interview the Irish Government. He was charged with the difficult mission of finding out what the Irish really wanted—whether there was any truth in the suggestion that they were willing to go to any lengths short of forcing Great Britain to secede from the Empire. Tarrant took the somewhat unusual course of suggesting strongly to the Irish that it was about time they became an independent republic. He added that nothing would please him better than to see Ulster included in the republic, and that he had no particular affection for the Anglo-Irish treaty, many of the provisions of which seemed incompatible with the Pact for International Defence which the Government were engaged in promoting. He offered to submit to international arbitration the questions of the import duties and of payments to the British Exchequer which were in dispute between the two countries. Finally, he asked the Irish if they would co-operate as an independent country in the policy of the Government as regards disarmament and international trading. The Irish had not been treated like this before: the voice seemed to come from Geneva rather than from London. They examined Tarrant's proposals, at first with

suspicion, then with attention, and finally with a surprising measure of enthusiasm. The main difficulty was in connection with Ulster. Tarrant urged them strongly to try to come to some agreement with the Ulster Government. He offered his services as an intermediary. He went to Belfast for the purpose, but found the Ulstermen obdurate. On his return to Dublin he found himself in the curious position of urging the Free State to secede from the Empire, in the hope that, as an independent country, they might be able to make such offers to Ulster as would secure some union between the North and the South of Ireland. When matters reached this stage, the Irish began to show considerable reluctance to take the plunge. Finally, an agreement was come to, under which the existing treaty was abrogated and the obligations of Ireland to Great Britain were in part dissolved and in part submitted as questions for international arbitration. Upon this footing the Irish elected to remain nominally members of the British Commonwealth of Nations, and undertook to co-operate in the international policy of the Government. This obligation, self-imposed as it was, was carried out in the spirit as well as the letter. The conciliatory attitude of the Government in the arbitration over matters in dispute was enough to turn the scale. In her international policy England had no more loyal supporter than the Government of the Free State, although on most questions of domestic policy the views of the two Governments were entirely different. It was not until the effective establishment of a Socialist State in Great Britain that the rise of a strong Socialist Party in Ireland and its ultimate accession to power led to the union of the Free State and Ulster, and to close co-operation between Ireland and Great Britain in matters of industry and commerce as well as in international affairs.

**India.** India was a much more difficult problem. Under the White Paper scheme of 1933, the National Government, notwithstanding the protests of many of its own supporters, had offered India a measure of self-government

on a federal basis. To those proposals the McCosh Government had many objections, but the scheme proposed had already come into effect before the General Election of 1936. There were two Chambers in the federal legislature, and in both of them the Indian princes appointed their representatives. In the result, some two-fifths of the Council of State and about one-third of the Assembly were not elected, but were appointed by hereditary rulers. Moreover, the Home Government, through the Governor-General of the Federation, and the Governors of the Provinces, retained control over defence and external affairs as well as extensive emergency powers of an ill-defined character. Among other matters, the Governor-General was responsible to the Home Government for the prevention of "commercial discrimination," and for that purpose was entitled to act at his own discretion and in opposition to the advice of his Ministers. There were other objections to the limited character of the franchise, especially as regards the Council, or Upper Chamber. Generally, the effect of the scheme, so far as it gave self-government to India, was to entrust that Government to a limited class, to stabilise the autocratic powers of the Indian princes in their own States, and to put a check on the progress of organisation among the workers and on the possibilities of development towards a Socialist community. The difficulty was, not only that the scheme had been put into operation, but that it had been granted in response to an insistent demand for a measure of self-government. There would have been much to be said for giving the workers of India some chance of securing their own position before handing them over to an Indian Government, in which the employers and professional classes were bound at first to have a preponderating influence. In all the circumstances, there seemed to be two courses open to the McCosh Government. They might either take the earliest opportunity of giving India complete self-government instead of the measure of it which she had already received, or they might attempt to use their reserve powers to give all possible support to the Indian

workers in their struggle against Indian employers and Indian princes. The choice was a difficult one. It fell to be determined by the logic of events. In fact, during its first two years of office, the Government made no startling departure from previous policy in Indian affairs beyond releasing the political prisoners and restoring the rights of assembly and free speech. With the development of their home programme, and the changes in the international position to which I have already referred, they felt themselves in a position to approach the question of India. In 1938 they sent out a commission, for purposes of inquiry and negotiation, to meet the Indian Ministers and representatives of Indian labour. As the result of the inquiries and discussions held during a number of months by the members of that committee in various parts of India, a scheme was prepared for the election of a Constituent Assembly on a basis of adult suffrage, and for the offer of full self-government and full self-determination to India, subject to racial safeguards, to provisions for the absorption of the Indian principalities, and to certain important reservations in favour of Indian labour interests. The scheme was to be worked out in detail, within the general lines of the offer, by an Executive Committee of the Constituent Assembly. The offer of such an election, and of full self-determination in accordance with the scheme, was made in 1940, and became the subject of acute controversy in Indian politics; but the steps which led up to its submission to a referendum in India, to its acceptance under the Codd Government in 1943, and to the effective organisation of co-operative agriculture and industrial labour in India, fall outside the scope of this book.

**Other Dominions:** Towards the end of the period of office of the McCosh Government the changes in labour conditions on the Rand, due partly to the Government policy in the neighbouring protectorates and partly to the administration of the Commissioner for the South African Mines, began to have a marked effect on the internal

politics of South Africa. The claim of the African races for some measure of organisation, for educational facilities, and for an adequate political status, was an urgent matter and a source of considerable trouble to the South African Government. One of the first reactions to it was a demand by the Boers, supported by some British interests, for separation from the Commonwealth of Nations, which seemed to be the source of so many of their difficulties with the African races. In 1940 and 1941 separation became probable, but the result of elections in South Africa towards the end of the latter year was the return to power of the so-called "African Party," standing for the principle of native rights and for the development of South Africa on lines similar to those adopted by the Labour Government in the British colonies. The effect was to retain South Africa, not only in the Commonwealth, but in closer co-operation with the London Government.

In Australia, New Zealand and Canada the outstanding event of the times was the rise to power of Socialist parties. I have already referred to some of the consequences in connection with disarmament and with overseas trade. A similar development in Newfoundland was assisted by the gradual release of that country from the tutelage imposed on it by the National Government, and led to the complete restoration of independence as one of the first acts of the Codd Government in 1942.

**The Dependencies.** The British colonies, protectorates and mandated territories covered some three and a quarter million square miles, an area larger than the whole of Europe, and were inhabited by more than 60 million people, a population considerably larger than that of Great Britain and more than twice as large as the total of the self-governing Dominions. The legal status of these various territories, to which I shall refer collectively as dependencies, differed considerably. The great majority of them, whatever their legal status, were controlled through the Colonial Office in London, with powers of self-government



varying from practically nothing to something approaching, in the case of Southern Rhodesia, a Dominion status. The most important mandated territories under British mandate consisted of Palestine and Transjordan in Asia, and of certain former German colonies in Africa, of which the largest was Tanganyika : other mandates were held by Australia, New Zealand and South Africa in respect of neighbouring territories and islands. Dependencies so extensive and so widely scattered contained populations of every race and religion, mingled in various proportions, and living in societies showing different types of culture and different degrees of development. To a Socialist Government each dependency presented its own problems, and the Government could only be said to have a policy in Colonial affairs in so far as it sought to apply certain guiding principles to the solution of the different questions arising under the different conditions in different areas. Fortunately, the Labour Party had been happy in its advisers on Colonial affairs, and as early as the Hastings Conference the main lines of its policy had been clearly stated and generally accepted.<sup>1</sup>

**Forms of Government.** As regards the form of government, there were certain dependencies in a position either to determine their own future, or at any rate to move further along the road to self-determination. A number of the Mediterranean and West Indian colonies were in this position: Cyprus wanted her freedom. British Guiana and some of the West Indies had been deprived of their traditional measure of self-government, and were anxious for its restoration or extension. In others, such as Trinidad, there was an excessively high property qualification for the franchise and for election to the legislative council. So, to turn to another quarter, there were less than 12,000 voters among the population of nearly 400,000 in Mauritius, while

<sup>1</sup> *The Colonies*, Labour Party Policy Report, 1933. See also *The Protection of Colonial Peoples* (New Fabian Research Bureau) and *The Break with Imperialism*, J. F. Horrabin (Socialist League).

in Hong Kong and the Malay States there was little if any elected self-government. These were matters which called for the immediate attention of Townsend, the Secretary for the Colonies. He proceeded by way of commissions of inquiry containing a majority of local representatives. Their instructions were to report on the form of government most suitable for self-determination in the dependency, and to have regard to such matters as the extension of the franchise and the development of local government.

**Economic Problems.** The next group of problems was connected with economic conditions in a number of the African dependencies, in some Asiatic colonies and protectorates, and in the Pacific Islands. Generally, there were questions of land, labour and taxation. They assumed different forms in different places, while in some dependencies the native population had received much better treatment than in others. As regards land, for instance, in Tanganyika native rights had been preserved and native agriculture encouraged, while in Kenya white settlers had seized the land and the natives had been relegated to reserves, usually insufficient for their needs. They were not even allowed to live on those in peace. Taxation and official restrictions on their movements, both imposed by a Government of white settlers, forced them to supply labour to the white man in order to pay their taxes, and to do so for slave wages and under oppressive conditions.<sup>1</sup> Even so, promises had been broken, and their reserve land taken from them when the white man found gold on it. Lastly, in many dependencies a system of labour contracts for fixed periods, extending in some cases to two or three years and enforced by penal laws,<sup>2</sup> served as a means for securing native labour on the plantations of foreign settlers or companies.

**The Government's Policy.** There had been many inquiries into these matters, and, in most cases, sufficient

<sup>1</sup> See *The Protection of Colonial Peoples*, pp. 28-32.

<sup>2</sup> *The Protection of Colonial Peoples*, pp. 18-26.

information was available for Townsend to take immediate action. He proposed to deal with the dependencies on the general principle applicable to mandated territories, in which, in the words of Article XXII of the Covenant of the League of Nations, "the well-being and development of such peoples forms a sacred trust of civilisation." Moreover, the Mandates Commission of the League was an effective body charged with the supervision of similar territories in many parts of the world. In the circumstances, upon the recommendation of Townsend and Gresham, the Government invited and accepted the supervision of the Mandates Commission in all appropriate territories, upon the footing of the type of mandate suitable in each case, as defined in Article XXII of the Covenant. Secondly, in every dependency Townsend proceeded to ensure that the land should be treated as a trust for the native community. In many places this involved sweeping changes in administration. Native rights in land and its produce were restored and enforced, and those rights were conferred, so far as native customs and conditions made it practicable, upon the local community rather than upon the individual. Land wrongfully seized in the past, at however long an interval, was restored without compensation. In other cases some compensation on an annuity basis was provided out of the funds of the dependency. Agricultural co-operation was encouraged, and schemes for the marketing of produce were set up under public control. Mines, railways and large-scale industries were in many cases sufficiently dealt with by the requisition of foreign investments, to which I have already referred in connection with overseas trade: in others they were socialised locally, as in Great Britain. Whether the public interest was that of the British Government or of the local community, the undertakings were charged with the provision of funds for the development of native agriculture and industry and for the social services mentioned below. The terms of labour contracts were rigorously supervised and all penal sanctions on their performance were removed. No discrimination was allowed

in Government restrictions and regulations as between natives and white immigrants. Wherever possible, organisation among native workers was recognised and encouraged. All disabilities as regards occupation, office, or any other matter, which had previously affected natives as against white settlers or rulers, were removed. Whatever the form of Government in the dependency, it had to include full representation of native interests and full provision for the protection of their rights, both individually and as a group in the community.

**Social Matters:** The third group of questions may be generally described as social matters. In some dependencies there were practices and customs which could not be tolerated. Slavery, under various names, had not been completely abolished. In various parts of Africa and of the East rights of ownership in the person still subsisted.<sup>1</sup> These were ruthlessly suppressed, and no doubt the suppression met with less opposition than might have been expected, because it appeared as only one feature in a general policy for the improvement of social conditions in the dependencies. Partly out of taxation, assisted in some cases by subsidies from the Home Government, and partly out of the proceeds of socialised industry and services, the local Governments were able to fulfil the most urgent needs of the communities under their charge by setting up an educational system. Those needs necessarily differed in different areas. There were tropical islands, where the essential reform was the removal of trading-posts and their replacement by small scientific and anthropological missions principally concerned with stamping out the diseases and other evils brought in by the white man. But, in general, the new system was directed towards the provision of elementary education for all children, first on a voluntary, and as soon as possible on a compulsory, basis; to the establishment of institutions for agricultural training, and to instruction in agricultural practice by travelling

<sup>1</sup> *The Protection of Colonial Peoples*, pp. 11, 12.

teachers and inspectors ; and further, in appropriate areas, to technical training in industry, trade and administration. Local universities were established in many of the more advanced dependencies. At those universities, and at training colleges established in all dependencies, native folk and others were trained together as teachers.

Side by side with this development of an educational system, there was an active extension of medical training and services. Some measure of medical and sanitary education formed part of the teaching in all schools, and was spread by travelling teachers throughout the territories. Moreover, Townsend intended that each dependency should learn to provide its own doctors, nurses and chemists. Public hospitals were set up and, with the universities, served as centres for the purpose. In the smaller dependencies it was often necessary to provide facilities for residence at a larger centre in some neighbouring colony and for training there. At all hospitals scholarships were made available to enable some few of the local students to proceed to Europe and to qualify there.

**The Results of a Vigorous Approach.** Townsend was the first to recognise that, although the main lines of the task before him were tolerably clear, the variety of the questions with which he was concerned in different areas was infinite, the difficulties in many cases apparently intractable, and the whole problem one upon which many years of patient and unremitting detailed work would be required. As in the case of many other large-scale questions, a vigorous approach brought its own response. The world at large appreciated the courage he showed, and, to his more immediate advantage, some understanding of what he had in mind seems to have spread from one dependency to another through the vast population for which he and his Government were to act as trustees. Many steps which might have seemed at first sight impracticable were taken with resolution and accepted with surprising readiness as part of a general plan for economic freedom and a decent way

of life. A classless society and communal ownership were the pattern of life in many primitive communities : for them, the new times meant that they need never go through the economic struggles which had afflicted the rest of the world. Elsewhere, it was because the dependants of a Socialist Great Britain gave credit to the Government for courage and for a wish to include their countries in an effective Commonwealth of Nations, that the colonial administration of Townsend and Gresham was able to take the first effective step along the path towards the change which succeeding years have witnessed and to make Great Britain a civilising instead of a colonising power. They had at least the merit of recognising that the foundations of civilisation had to be laid in native culture and in the effective self-determination of what had previously been dependencies.

## CHAPTER 14: POWER AND TRANSPORT<sup>o</sup>

- I. Transport
- II. Electricity, Gas and Water

### § I. TRANSPORT

**Growth and Control of Railways.** There was no doubt as to the real and immediate need for the socialisation of land transport. Both the history of the railways under private ownership, subject to a considerable measure of public control, and the more recent history of the competition between road and rail had served to show the limitations of the capitalist system. More than a hundred years before the McCosh Government came into power the first railways had been built as small disconnected lines. In the middle of the nineteenth century railway enterprises were a favourite matter for speculation. Without any general plan, as opportunities seemed to offer, and with the extravagant and improvident expenditure attendant on speculation, the railway system had spread over the country. A gradual process of amalgamation had followed, but at the beginning of the twentieth century there were still more than eighty separate railway companies in the United Kingdom,<sup>1</sup> with eleven separate main line termini in London and no less than four, for instance, in the middle of the Isle of Wight.

The growth of the railways was accompanied by an increasing measure of statutory control. The first general measure was the Railways Regulation Act, as early as 1840. In 1854 and 1888 some provision was made for reasonable facilities for passengers and goods, and as regards uniformity of rates between one customer and another. In

<sup>1</sup> See Railways Act, 1921, First Schedule.

the latter year the Railway and Canal Commission Court was set up to enforce those provisions. But the most important Act of Parliament, as regards the railways, was the Act of 1921, under which practically all the railway companies in Great Britain were amalgamated, as from 1923, into four large concerns, and, as from 1928, a Railway Rates Tribunal was set up to fix fares for passenger traffic and rates for goods. In general, however, the tribunal was to direct its attention to the maintenance of a standard revenue, based on the actual revenue for the year 1913; as a result, in periods of depression a fall in traffic would lead to higher rates, while in periods of prosperity there would be a corresponding trend towards lower rates. Such a provision was calculated to aggravate both the boom and the slump, which were recurrent features of the capitalist system.

**Road and Rail.** The competition with the railways of road coaches for passengers and of lorries for goods arose after the War. It was preceded and accompanied by an increase in the number of private cars, which also served to remove passenger traffic from the railways. In 1913 there were rather over 100,000 private cars in use: the figure rose to over half a million in 1925 and to over a million in the years 1930 to 1932. Hackney motor vehicles (omnibuses, coaches and cabs) rose from under 40,000 in 1913 to about 100,000 in the years 1924 to 1930, while in 1933 the omnibuses and coaches alone amounted to between 45,000 and 50,000. Lorries rose from about 60,000 in 1913 to over a quarter of a million in 1926, and continued to rise steadily thereafter, passing the 350,000 mark in 1930<sup>1</sup> or 1931.<sup>2</sup> In fact, roughly, by 1930 there were nearly ten times as many private cars, more than twice as many hackney motor vehicles, and some five times as many lorries on the road as in 1913. It should be added that, among the hackney motor vehicles, coaches were almost

<sup>1</sup> *Motor Industry of Great Britain*, 1931 ed.

<sup>2</sup> *Statistical Abstract to 1932*, p. 292.



entirely a post-War development, so that their passenger revenue, amounting to some £5 millions in 1933<sup>1</sup> on fixed express routes, was a new factor in competition with railway passenger receipts.

This increase in road transport not unnaturally affected the passenger traffic of the railways more than their goods traffic. No doubt under both heads the complaints of the railway authorities were louder than was justified by the facts, since in fact their gross receipts, both from passenger traffic and from goods traffic, were higher, say, in 1930 than in 1913. But the difference in the rate of increase—about 33 per cent in the former case against 55 per cent in the latter<sup>2</sup>—was certainly due in large measure to the competition of road vehicles, especially over short distances. It is significant that, as between 1923 and 1927, an analysis of the receipts from passengers, other than season-ticket holders and workmen, between all the more important stations on the London, Midland and Scottish system showed a decrease of receipts for all journeys up to fifty miles and an increase on the longer journeys.<sup>3</sup>

**Road Transport.** In some ways the beginnings of commercial road transport resembled those of the railways a century earlier. At first there were the same small disconnected services, followed by sporadic extensions and longer routes, as opportunities offered. But there were essential differences. Neither coaches nor lorries required capital expenditure on the scale needed for railway lines. The coach services could be confined to busy seasons or tourist routes, and varied or concentrated accordingly. The lorry was even more adaptable. Usually it belonged to one trader, or worked solely for him.<sup>3</sup> Even if it was operated by a road

<sup>1</sup> *Planning*, No. 21, p. 9.

<sup>2</sup> *British Railways in Boom and Depression*, C. D. Campbell (P. S. King), 1932, pp. 65, 68.

<sup>3</sup> It was estimated, in evidence before the Royal Commission on Transport (*Report*, 1930), that 80 per cent of road-borne goods was so carried.

haulier, it could easily be sent on any route or on any particular job. The road vehicle accordingly had two advantages over the rail: it had no track expenditure, though it was liable to licence duty, and it could be diverted, bought or sold, as occasion required. It was, in consequence, particularly suitable for short routes or special work.

In road transport, as in the case of railways, a measure of statutory control followed rapidly on the early uncontrolled development. But again the control can hardly have been said to have led to any co-ordinated plan, especially as regards goods traffic. In 1928 the railways asked for, and obtained, powers from Parliament to run road passenger services or acquire an interest in them. They rapidly proceeded to use their powers by combining with some of the larger road passenger companies, and in many cases paid as unjustifiable a price for their interest in the new concern as they had originally paid, many years previously, in the development of railway track. In 1930 a more systematic attempt to deal with the road and rail question, so far as passenger traffic was concerned, was made by the institution of regional traffic commissioners with licensing powers over all omnibus and coach services. The commissioners, working under the Ministry of Transport, restricted the random or seasonal establishment of new services, and gave a measure of artificial protection to the railways by preventing the reduction of road fares beyond competitive limits or by actually increasing the fares in operation. In 1933, following on the report of a Rail and Road Conference presided over by Sir Arthur Salter, the taxation on goods lorries was increased, so that the licence tax on a 10-ton petrol pneumatic-tyred lorry was raised from £48 to £170.<sup>1</sup> But when the McGosh Government came into power the position was still unsatisfactory; road transport was still unplanned and wasteful, and no real attempt had been made to solve the road and rail question by a proper definition of the functions of the two types of traffic.

<sup>1</sup> As against £226 recommended by the Conference.

**The Workers.** In particular the workers in the transport industry, whether by rail or road, had grounds for complaint. The railwaymen were organised in three trade unions, of which the largest, the National Union of Railwaymen, had over a quarter of a million members in 1933.<sup>1</sup> The two smaller unions represented special grades of railway workers, the Railway Clerks having some 60,000<sup>2</sup> members in 1933 and the Locomotive Engineers and Firemen about 48,000.<sup>2</sup> These three unions covered a large proportion of the railway companies' employees.<sup>3</sup> Before the War, railway workers had been underpaid, with goods porters, for instance, earning about 22s. a week.<sup>4</sup> A substantial rise during, and immediately after, the War had not been fully maintained, and for many years the railway unions had had to fight steadily against proposals for the reduction of wages, as well as for the reduction of staff. In 1931 and 1932 a goods porter was earning 42s. 10d. a week.<sup>4</sup>

It was, however, among the road transport workers that there was most ground for complaint. The earlier passenger services had their depots outside London, in order to engage drivers and conductors at the lower rates of wages ruling in the provinces. As regards goods transport, the disorganised state of the industry was reflected in low wages and, above all, in excessive hours of work. In spite of the efforts of the Transport and General Workers' Union, and notwithstanding a measure of statutory protection under the Road Traffic Act, 1930, there were still, under the National Government, many men driving lorries for such long hours and with such short intervals of rest as to endanger both their own health and safety and that of the public on the roads. The statutory regulations were difficult to enforce, with so many lorries running for small owners,

<sup>1</sup> 284,842 members (*T.U.C. Annual Report, 1933*).

<sup>2</sup> 58,992 : 47,809 (*T.U.C. Annual Report, 1933*).

<sup>3</sup> Who numbered 566,300 in March 1933, including women and juveniles.

<sup>4</sup> *Statistical Abstract, 1934*, p. 123.

and there were far too many drivers whom their employers—or their own blindness to the advantages of industrial organisation—prevented from joining the union. In 1933 there were over half a million insured workers in such services as road transport and docks,<sup>1</sup> while the Transport and General Workers' Union, one of the most progressive and efficient in the country, numbered some 400,000 members,<sup>2</sup> many of whom, however, were engaged in other services.

**The Transport Problem.** Such were the broad outlines of the road and rail problem as it presented itself to the McCosh Government. There were, however, other factors to be considered. In the first place, land transport could not be separated from the organisation of docks, canals and coastwise shipping. Land-borne goods were loaded off ships or on to ships, and transport by land had to meet the competition of canal traffic and coastwise shipping. Secondly, the whole transport question depended to a large extent on local industrial developments, and on the housing plans which those developments entailed. New factories could not be set up and new housing estates planned without corresponding needs for transport by road, rail or water, both for the workers and for the raw material and products of the factories. Thirdly, as regards the means of transport, there were technical developments and possibilities which capitalism had shown itself slow to appreciate and apply. Of these, the most important was railway electrification, recommended for all the lines in Great Britain by the Weir Committee in 1931. The recommendation was not carried out under the National Government, in spite of the successful results, both by way of profits and by way of improved travelling facilities, of the electrification of a substantial part of the Southern Railway system to the south and south-west of London. Other possibilities were the use of Diesel-electric or dry-storage battery trains and the installation of

<sup>1</sup> *Statistical Abstract*, 1934, p. 107.

<sup>2</sup> *T.U.C. Annual Report*, 1933.

overhead lines for coaches, driven by air propellers and suspended on the line, to carry light passenger traffic. Lastly, such facilities as there were for passenger traffic by air were few and ill co-ordinated. The railways were just beginning to venture on this business; but aerodromes were comparatively few and the cost of air transport was so high that it was of little service to the ordinary travelling public.

**Socialisation and Compensation:** The transport sections of the first Planning and Finance Act provided for the socialisation of the railways and of the larger road transport undertakings, whether carrying goods or passengers, and also for considerable changes in the licensing system then in operation. As regards the railways, the basis of compensation was twenty-four-year guaranteed annuities to the amount of the profits, which each undertaking might have been expected to earn as a going concern under the previous system, after providing for depreciation and maintenance. The Transport Compensation Tribunal, which was set up under the general provisions of the Banking Act and specially constituted for the purpose of assessing this and other forms of compensation for socialised transport undertakings, was to assess the annuity payable to each railway company on the above basis, having regard to the uncertainty of the earning power of the railways in the face of competition under the previous system. As in other cases, the annuities were to be gradually reduced during the last five years of their currency, so as to shade off the process of their disappearance. In assessing the compensation the tribunal was not to consider either the original cost of the undertaking or its value in the books of the company, or the financial position of the company as regards its shareholders and creditors. The intention and the effect was to leave it to the railway companies to distribute the amount of the annuity among their shareholders, debenture holders and bank creditors. But either a socialised bank, as the creditor of a railway company, or any individual shareholder or

debenture holder, might put in a claim before the tribunal for exceptional compensation. The bank might claim on the ground that it had been unfairly treated by the company in comparison with the shareholders and debenture holders. No individual claimant was to raise the general question of distribution as between the various classes of shareholders and others, but he might put forward a special claim upon one or other of the grounds already referred to in connection with compensation.<sup>1</sup> It will be remembered that the investments of working-class organisations, charitable institutions and the like—as well as the holdings of the widows and orphans, so often relied upon by railway directors—were to be paid for in full. All such claims for special compensation were not to be dealt with until after the assessment of the annuities and their provisional distribution by the railway companies. The companies were to hold back 20 per cent of the annuities to provide for any special compensation, and applicants for the latter were to continue to receive ordinary compensation until the settlement of their claims for special treatment.

Compensation for the road undertakings was also in the form of annuities ; but the tribunal might either adopt the basis of probable earnings, as in the case of the railways, or they might award a reasonable return, at the rate of interest current for long-term credit, on the cost or value of the material assets taken over, after allowance for depreciation and maintenance. The latter alternative was put in to provide for road transport undertakings, which were making excessive profits by some accident of the competitive system or as the result of advantages under the existing arrangements for licensing. The tribunal was instructed always to adopt the cheaper alternative, unless special circumstances made it impracticable to do so : as regards smaller undertakings, it was likely to be far more convenient to value the assets than to try to assess earnings. The Act provided specifically for certain of the larger road transport undertakings, as for the railways ; but it also

<sup>1</sup> Pp. 108, 109 above : and see Appendix, Banking Act, 1936, § 19.

provided that the transport authorities, to which I shall refer below, might take over any other road transport undertaking or any road transport vehicle or other assets on similar terms.

**Licences:** As regards the licensing system, the Act gave to the public transport authorities a general monopoly of all commercial transport of goods, as well as of passengers; by rail, road, inland waters or air, subject to some exceptions (of a drafting character) and excluding services under licence of the authorities. Pending complete socialisation, it was intended that such licences might be either in respect of a particular service or generally to a particular concern, or, even more generally, in respect of a particular region, such as the area of a municipal transport undertaking, or in respect of some particular type of transport. The new transport authorities were to supersede the former traffic commissioners, with the very considerable extension of authority required by their general monopoly of commercial transport. The whole scheme was to come into operation on an appointed day, as soon as the transport authorities could be set up and have time to take stock of the position.

Canals, harbours and docks were to be included in the scheme of socialisation, and, except where they belonged to railway companies, they were to be taken over in the same way as road transport. Coastwise shipping was a matter for the national shipping service; but the transport sections of the Act gave the transport authorities power to control or license the shipment of cargoes and goods from one port to another in Great Britain.

**National Transport Board.** The governing body of the socialised transport system was the National Transport Board, divided into five sections: for railway management, for road transport, for harbours and canals, for air traffic and for research and statistics. The chairmen of the sections and three additional members constituted the General Purposes

Committee, with Carter (the Commissioner for Power and Transport, as chairman. One of the three additional members represented the London Passenger Transport Board, while, of the other two, one was nominated to represent socialised industry and the other on behalf of agricultural users. The sections were variously composed. As regards the railways, in the first instance about a third of the members were nominated by Carter from among the managers and other officials of the existing railway companies, another third were chosen by the three railway unions and the remainder were nominated by Carter to represent the users of the railways for passenger and goods traffic. The road transport section was similarly constituted, the workers' representatives being chosen by the Transport and General Workers' Union and by one or two general unions which also had members in the industry. That section was not sub-divided between goods and passenger traffic, though the representatives of the two branches were about equal in number. The canal and harbour section was a more complicated body. Of twelve members, four were nominated by the Harbour Masters' Conference, to which I shall have occasion to refer; four more chosen by the dock and harbour workers' unions; one represented the canal managements and another the canal workers; and two were nominated to represent the public. The air transport section was at first a small body, composed of representatives of the management of Imperial Airways, the socialised aircraft factories and the pilot service, with a high official of the former civil aviation department of the Air Ministry as chairman. The research and statistical section was purely technical, consisting of transport experts, engineers and one or two others nominated by the railway and harbour managements.

**Regional Transport Boards.** Under the National Transport Board there was a regional transport board in each administrative region, composed in the same way as the National Board. On questions of management the



various sections of the National Board dealt directly with the corresponding sections of the regional boards. For the time being the air-traffic sections in the regions consisted simply of regional air controllers; it was intended to set up representative sections as air traffic increased. The research and statistical sections in the regions contained a smaller proportion of railway representatives, but included a number of officials from the larger municipal transport undertakings. As regards the relations between these regional bodies and the National Board, Carter intended to follow the general lines of railway administration, "with a bias towards leaving as much as possible for regional decision and administration. Questions of national policy and most matters affecting the main line railways and the principal long-distance routes by road, air or water had necessarily to be decided by the National Board.

**Road and Rail: Policy and Practice.** The transport sections of the Planning and Finance Act did not lay down in terms any general policy as regards the division of transport between road and rail. Carter, however, in opening the second reading debate on these sections, made a formal statement of the Government's intentions in the matter. The principal towns in the country, including some smaller towns selected as centres of agricultural areas, were to form the main transport centres and to be connected by main transport routes. Along those routes the railways were to provide the principal means of transport, both for goods and passengers, and road services were only to be used exceptionally. From the main transport centres there were to be services to secondary transport centres, while in other cases secondary transport centres might be stopping-places on the main transport routes. The Government did not commit itself to any preference either for rail or road transport between a main and a secondary transport centre, or as between one secondary transport centre and another. On those secondary transport routes the transport authorities would have to decide how traffic should be divided

between road and rail. Any town of importance would be at least a secondary transport centre, and there might be several such centres round and about a large industrial city. From each secondary transport centre there would be local services, almost entirely by road. So far as goods were concerned, those services would replace the previous distribution by shops, and they would supplement, and ultimately absorb, the small local carrier.

No doubt the scheme described by Carter has been varied considerably in practice. The two types of transport centre, main and secondary, were a rough classification, intended to show the general idea which he had in mind. They did not appear in the text of the Act, and there might be, as there now are, many places which seemed to be rather small for the one and rather large for the other. But the policy so outlined had its effects in practice. As regards the main transport routes, there were often alternative lines of railway. These were linked together so far as possible at each end, and all the alternatives were operated as a single system. If one route was rather more circuitous than another, it was given a larger proportion of slow traffic. Similarly, cross services were operated to knit together the principal stopping-places on alternative main transport routes, and in this connection there was even a small amount of new railway building, mainly with materials taken from abandoned branch lines. On the main transport routes passenger road services practically disappeared: goods services had a longer life, and still exist for some types of goods. Their replacement was made possible by the public ownership of all railway trucks, by a more intelligent use of those which were there and more varied construction of new ones, and, above all, by the increased use of containers which could be transferred from road to rail, and again at the end of the journey from rail to road, with the least possible expenditure in handling. The distribution point at a main traffic centre, as we know it to-day, is a very different thing from the dim "railway station" of the capitalist era. It was indeed fortunate that the aged

and impecunious railway shareholder and the aged and pecunious railway director, the station "waiting-room" and the murky grime of Liverpool Street, disappeared in rapid succession under a Socialist Government.

**Electrification of the Railways.** But undoubtedly, as regards the use and development of the railways, the most important factor was the electrification which was put in hand by the National Transport Board at an early stage of its existence. The Weir Committee, which I have already mentioned, had suggested that the whole railway system could and should be electrified at a cost of some £261 millions. The Committee estimated an annual return of 6.7 per cent on that expenditure. What the National Transport Board did was to begin at once on the electrification of the main transport routes; and since Carter for the time being was acting as Commissioner both for Power and Transport, the electrification was carried out as part of the scheme for the national development of electricity and not as a separate undertaking by the railways. The immediate results were a great increase in the passenger services along the electrified lines and improved facilities for handling goods traffic, especially between intermediate points on the route. The railway service began to be a very different thing from what it had been in the past; for what the Southern Railway had applied so successfully to suburban traffic proved to be even more adaptable to main-line transport. The expenditure incurred in main-line electrification is difficult to separate from that incurred in connection with other lines, but the total expenditure on both types of development fell considerably short of the total figure suggested by the Weir Committee. The reason for the difference was that no attempt was made to electrify the small railway lines then in existence; many of them were abandoned in favour of road transport and others were served by steam or Diesel engines.

From the main lines, electrification was extended to some secondary transport routes. In general it is perhaps

fair to say that the National Transport Board showed preference for electrified railways as against road transport on those routes. But there were some classes of traffic and some journeys, such as those in hilly country, for which road transport remained more suitable.

**Distribution from Secondary Transport Centres.** Perhaps the most interesting questions that the National Transport Board had to consider were in connection with distribution from the secondary transport centres. In general the railway system was of little service for this purpose, and no attempt was made to electrify it beyond the secondary centres. But, as regards goods traffic, steam haulage on the railways was still useful locally, while, as regards passengers, there were other developments. The Diesel engine was obviously a promising possibility, but it took some time and some research work before the board decided on the type now in use. There were also trials of electric engines run on storage batteries, a system which would have combined better with the electrified main lines, but proved rather more expensive and troublesome than the Diesel engine. In connection with the housing settlements round new factories some thirty to fifty miles outside the large towns, overhead lines were run to carry light electric trains. It was this form of transport that really made possible the growth of the modern village community which has made such a difference to the appearance of the countryside. These, however, were all changes that happened in the years following the first Planning and Finance Act. Both the electrification of the main-line railways and the new forms of transport on by-lines took many years to complete.

**Local Distribution: Goods and the Co-operatives.** Let me now turn to purely local transport from the main and secondary centres. This, like transport on the routes from point to point, had been a much more orderly affair under the capitalist system as regards passengers than as regards

goods. In London the local transport of passengers had been co-ordinated under the London Passenger Transport Board. In many other centres there were municipal transport undertakings which covered the whole, or practically the whole, field in their areas. The policy of the board was to interfere as little as possible with such undertakings. They left the London system and the majority of the municipal systems untouched, so far as passenger traffic was concerned. But the local distribution of goods had been a haphazard and wasteful business. The streets of London and other large cities were crowded with goods vans and goods carts of all sorts. Goods intended for railway transport or distributed from railway stations were carried by railway vehicles or by carting firms working in close association with the railways. These firms also carried out a small amount of transport between one place and another in a local area. But most of the goods on the road were carried locally in delivery vans under private ownership, often belonging to stores or shops. The larger stores extended this service to their customers for considerable distances, and combined it with the collection of their own supplies at railway stations and other points of arrival. Under the stress of competition, co-operative stores were beginning to adopt the same principle, although originally they had not intended to do so. The small trader was often handicapped by his inability to deliver with the same regularity or for such long distances as the stores. The errand-boy with a bicycle and a load of goods as large as himself was still to be found on the town and country roads. He and his colleague on the tailboard of a van were engaged in one of the principal blind-alley occupations, without any definite future before them. A house of any size in a leading town would be visited by a series of vans, bicycles and errand-boys in the course of the day. As in the case of the coal trucks, each van would only carry one merchant's goods, and would follow the long route dictated by the calls of that merchant's customers. The more various the trade, the more devious the journey. It was only with such staple commodities as bread, milk,

and the like that the journey attained the status of a systematic round. As in other sections of the distributive trades, the workers engaged in the local delivery of goods were mostly unorganised. Clearly there was room for some measure of co-ordination in these haphazard arrangements.

The board's licensing powers gave them the control of all commercial transport of goods. How far were they to allow the existing system of private transport to continue? Were they to supplement or to replace it by a system of local collection and distribution under public ownership? In particular, were the co-operatives to continue their present arrangements for distribution, or were they to take charge of the whole system of local distribution for themselves and for others? These were some of the questions which the board had to consider at an early stage of its existence.

It has to be remembered that the co-operative organisation was less developed as regards the delivery of goods than as regards their supply at co-operative stores. This was natural enough in view of the class of customers for whom the co-operatives were principally catering. It seemed impracticable, at any rate for the present, to extend the distributing arrangements of the co-operatives so as to cover the requirements of other people. At the same time, there was everything to be said for their continuation and development, so as to make the co-operative system a complete service for the retail supply and distribution of goods. As regards other private deliveries, the intention of the board was to replace them by a public system, but they were bound to do so gradually. They accordingly delegated to the regional transport boards the whole question of local distribution, and directed those boards to set up a network of local distribution systems in rural and urban areas. Each such system was attached to a main or secondary transport centre, and worked from and round it, under a manager with a small part-time advisory committee representing the local authority and local users. In the first place, the public system was to replace the existing distribution by railway

vehicles and carriers and the deliveries of the smaller shops. It was to take over the corresponding vehicles. It was also to take over such jobs as furniture removal. For the time being the delivery services of the larger stores were licensed and allowed to continue: they were gradually taken over into the public system as it developed. The co-operatives were given general licences, and allowed and encouraged to continue their services. They, as well as the regional retail trade committees, had representatives on the local advisory committees, which assisted the local distribution managers. The latter were appointed after consultation with the regional retail trade committees. As regards charges for distribution, the managers usually followed the existing practice of larger stores. For purely local deliveries, and for deliveries of substantial orders over longer distances, they made a collective charge to the shopkeeper, while for private work and for special deliveries they charged the individual consumer. The regional boards in their turn delegated limited powers of licensing to the managers, and small shops were still allowed to make deliveries in the immediate neighbourhood. But the practice gradually decreased, as much at the instance of the small shopkeeper as of the local consumer: the facilities of the public system were better than any that he could afford himself. As the system developed, there was an increasing tendency to use larger vehicles, and the small cart soon disappeared, while the bicycle and the casual errand-boy served only for special deliveries or in emergencies.

The local distribution system, set up in this way served as well for the distribution of goods from the wholesaler to the retailer as from the latter to the customer. In some cases, however, socialised or municipal undertakings or services continued their own distribution under licence from the regional boards. In others—for instance, as regards coal (which I have already mentioned)—they worked through the co-operative system. The new central clearing depots for goods deliveries in the larger towns saved a great deal of cross traffic.

**Inland Waterways.** The inland waterways consisted partly of canals and partly of navigable rivers. The latter were for the most part already controlled by public bodies, while of about 2,500 miles of canals, rather less than a thousand were owned by the railways and rather more than 1,500 by other companies. A considerable proportion of the canals were narrow or in bad repair, but some of the larger ones carried a substantial quantity of traffic in such commodities as timber, coal and other heavy goods. On the Thames and other navigable rivers there was traffic both by small sea-going ships and barges and also on inland craft: in addition, there were small private boats, excursion steamers and the like, carrying passengers. The National Transport Board, in the exercise of its licensing power over water traffic, issued a general licence to cover all passenger traffic by water and all sea-going craft. The barges on inland waterways were taken over against compensation in the form of annuities, the board in some cases acquiring the carrier's undertaking on the basis of past earnings and in others taking the barges themselves on their value as craft. They were allotted to the regional transport boards, which set up a regular barge service, directed especially to the transport of various bulky commodities by canal. The service was of considerable use in reducing the costs of building materials supplied under the Government's housing plans. As regards the ownership of the canals, the board might have confined itself to taking over the principal canals or to exercising control over their owners by use of the licensing arrangements. But the large proportion of canals under railway ownership made such a course inconvenient, and in the result the National Transport Board took over the whole canal system and proceeded to shut down a number of the smaller and more decayed canals or to limit them to casual traffic. Compensation was given sparingly, by annuities based on the value of the canals as going undertakings, after allowance for the cost of maintenance. There had been a large decline in canal traffic since the War, and the railways in particular had



naturally made little use of the canals in their possession. Although some two-fifths of the canal system was owned by the railways, the traffic carried on their canals in 1930, for instance, was only about one-eighth of the total canal traffic. The possibilities of development were obviously limited, but the regional transport boards did spend money in reconditioning some of the main canals.

**Harbours.** Most of the principal commercial harbours were owned either by local statutory bodies, such as the Port of London Authority and the Mersey Docks and Harbour Board, or by the railway companies. There were about 110 harbours under statutory bodies, and about 50 belonging to railway companies. In addition to these there were many small harbours, often decaying, owned, to the number of 70, by municipalities, and, as to some hundred or more, by profit-making harbour companies or individuals. The railway harbours came under the ownership of the National Transport Board, as a part of the railway system, and the harbours belonging to profit-making companies or individuals were taken over on a basis of compensation similar to that for canals. The ownership of statutory harbour authorities not working for profit, and of municipalities, was, in general, not interfered with, although the board, in granting general licences, imposed rigorous conditions of control, so as to leave the harbour authorities subordinate to the board and virtually part of the national transport scheme. In some instances, however, older harbours were taken over and reconditioned by the board. Whether the harbour was taken over by the board or merely placed under their control, a harbour master was appointed by the board, with various arrangements, in the case of statutory and municipal harbour authorities, as to his relations with the existing administration. Obviously the administration and development of each harbour was a matter dependent on local conditions, and, in general, it was left under the control of the regional transport board. But an important feature in the national transport system

was an annual conference of harbour masters, under the chairmanship of Carter and with the harbour representatives on the National Transport Board in attendance, at which general questions of policy as regards harbour development and the allocation of traffic were discussed. In particular, the board enforced a uniformity in the matter of harbour dues, and they were able to effect very considerable improvements in the conditions of employment of dock labour, especially at the smaller ports.

**Air Transport.** Little need be said about air transport. The extension of air services was a gradual matter, and dates from a period later than that which I am now considering. In the early history of the board, its main activities in connection with air traffic were the continuation of the existing licensing control and arrangements for the installation of the local aerodromes, which were ultimately to serve as the terminals of an air transport system worked in with the railways and serving as a valuable accessory to them. Perhaps the most important step taken by the Transport Board at this stage was the acquisition of all shares of companies operating air traffic. These included not only the privately held shares in Imperial Airways, but also the shares of other companies in which the railways were already largely interested.

**Pricing:** It seems convenient to say a little about the policy of the socialised transport authorities in pricing transport. On the one hand, the transport boards had to meet very large annual expenses, which might roughly be grouped under the heads of labour, maintenance, development and compensation. On the other hand, they regarded transport as a matter of service, which ought to be provided for the community to the full extent of its reasonable requirements. As between one form of transport and another, the real test was one of public utility, and the prices obtainable under the competitive system were by no means an infallible indication of which of a number of

services was the most useful. If the transport system was to "pay" at all, in the capitalist sense, it was only necessary that it should pay as a whole system: at any rate, as between one service and another the test was that of public utility and not profits dependent on the fares or rates charged. Moreover, the whole question of whether it paid or not was clearly an artificial one in a Socialist community. The only real service of prices was to serve as a control both between one form of transport and another, and between the value of transport and the value of other goods and services. But, in the process of transition to Socialism, the Government and the National Planning Commission were bound to impose some limits on pricing. They were anxious, as regards goods, that the transport system should not make bigger paper profits, or charge the cost of development to the price of goods. Their general instructions to the board were, therefore, as regards goods, that the transport rates should be fixed so as to provide over the whole system for labour, maintenance and compensation, while development was to be paid for as a national investment out of loans through the National Investment Board or out of general taxation. As between one part of the system and another, the Board would have regard to the requirements of the National Plan, and in particular to differences in wealth as between one area and another and to the general national policy of giving preference to socialised industry as a producer and to the standard requirements of the working class as consumers. As regards passengers the question was more difficult. The Government took the view that passenger transport to a reasonable extent was a public service, to be provided like education or drains. But what was to be the test of the reasonable extent? The National Planning Commission made a careful investigation of the figures available as to passenger transport in the past, and on the results they indicated to the National Transport Board what was the standard amount of traffic for which transport ought to be provided, as a service, at prices rather below those previously charged. On the basis of the

figures so provided the regional boards were able to give preferential rates to various classes of passenger traffic, including workers proceeding to and from their work or entitled to a reasonable amount of holiday journey annually. Moreover, the board devised a system under which preferential rates were given for extensive travelling to those who could show that they required to make the journeys for purposes of public utility. With these exceptions, there were comparatively few alterations in passenger fares at first, although, as the system became more efficient, there was an increasing tendency towards their reduction.

In 1938, however, an interesting experiment was tried. The London authorities and the National Transport Board were much impressed by the proportion of time and expense involved in collecting small fares on omnibuses and local trams and railways in London. After some inquiries made by the board in other large towns, they decided to try the experiment of treating local transport as a public service in the area, to be financed like other local services. The experiment was carefully watched, and the resulting figures showed such a saving in administration that a similar system was adopted in a number of large provincial towns. Now, of course, free transport is provided in all the large towns and many smaller places.

## § II. ELECTRICITY, GAS AND WATER

CARTER was, for the time being, the Commissioner for Power and Transport. No doubt the reason for this double appointment lay partly in the need for electrifying the railways—a matter which would involve close co-operation with the electricity authorities—and partly in the possibility of new developments as regards the type of power to be used in connection with transport. The division into two Secretariats, one for Power and one for Transport, did not take place until after the next General Election, under the Codd Government.

**The Electricity Grid and Distribution.** When the McCosh Government came into power, the grid system for the generation and transmission of electricity was already in operation and in course of steady development. The Electricity Commissioners, appointed under a 1919 Act which had been badly mauled by the House of Lords, had powers which were mainly judicial as regards, for instance, the extension or formation of supply areas : these so-called supply areas were really areas within which the electricity supplied from the grid was distributed by private companies or by municipal enterprise. Some 380 local authorities and some 270 companies were engaged in the business of distribution over areas which varied considerably in size, from a few square miles to several thousand square miles. The standard form of supply locally was alternating current at a pressure of 230 volts, but only a small proportion of the supply was so standardised. There was a large proportion of alternating current at other voltages, most of which were not very different from the standard voltage, while some current supplied was still direct instead of alternating. There had been some effort by the Electricity Commissioners to extend the standard type of supply, but their powers had been insufficient to make the effort really effective. The result was unnecessary cost in distribution, and, in addition, the various distributing companies sold their electricity at very different rates. Some of the smaller companies, in particular, made their profits out of high charges rather than out of any attempt to improve their system of distribution or to enlarge its scope. Rural distribution presented considerable possibilities, but had only been developed in the most haphazard and unsatisfactory way. The 1919 Act had also provided for joint electricity authorities covering wide areas with a view to co-ordination ; but only three such authorities had been created—in London and in two Midland areas—and their powers were too limited to effect any substantial improvement. The grid, on the other hand, had been developed, and was operated under a Central Electricity Board set up in 1926. The board controlled the

operation of selected power stations which remained under private ownership, the board being responsible for all operating charges and having to sell back to the owners at cost such electricity as the owners required. There were provisions for the supply of electricity from the grid to other "non-selected" stations. The stations were the centres for the local distribution to which I have referred, and the board had power to assist them in the standardisation of their supply. The opposition of vested interests, when the 1926 Act was passed under a Tory Government, had resulted in limitations on the powers of the board—such, for instance, as the necessity for declaring a uniform tariff for the supply of electricity from the grid in any given area—which had considerably hindered the work of constructing and operating the grid. Moreover, although the Act protected the undertakers who obtained their electricity from the grid, its provisions for a corresponding protection in the matter of prices to the public were ill defined, and proved ineffective. None the less, the grid had been a remarkably successful venture, and the advantages resulting from its construction were sufficient to wipe out its cost in some ten years or so from the date of its completion—or, rather, from the date when it was sufficiently complete to embark on a stage of steady progress. It was perhaps an inevitable result of the capitalist system that those advantages largely accrued to the existing electricity companies and authorities rather than to the public. As regards figures, some £30 millions had been spent on the grid, some £200 millions at various times on capital expenditure for distribution, and somewhere between £10 millions and £20 millions on the standardisation of supply.

**National Electricity Board.** The whole system of electricity supply was clearly ripe for socialisation. The power sections of the first Planning and Finance Act provided for a National Electricity Board to which both the Electricity Commissioners and the Central Electricity Board would be responsible. The Electricity Commissioners

became a purely judicial body, charged both with the duty (in this exceptional case) of assessing compensation for socialised undertakings and with that of deciding differences between the socialised industry and consumers as regards facilities for the supply of electricity and the terms and conditions upon which it should be supplied. The Electricity Commissioners were not themselves members of the National Electricity Board. The Central Electricity Board was renamed the Grid Committee, and as such became a committee of the board, its members being also members of the board. In addition, the board comprised a Distribution Committee and a Research and Appliances Committee. The electrical supply industry was different from any other in containing a large proportion of technicians, members of the Institute of Electrical Engineers. The supervisory grades were organised in the Electrical Power Engineers' Association. Other workers in the industry were members of various unions, of which the most important were the Electrical Trades Union<sup>1</sup> and the Amalgamated Engineering Union.<sup>2</sup> For the time being the Government did not regard electrical supply as an industry in which the principle of compulsory membership of a single union need be applied, and, accordingly, on the National Electricity Board the workers by hand and brain were represented by members both of the institute and of the unions principally concerned. The Research and Appliances Committee also contained representatives of scientific workers and of those engaged in the production of electrical machinery and appliances.

**Control of Generation and Distribution.** The National Electricity Board took over the whole business of distribution from the grid supply, as well as the grid itself. The previous distributors were given compensation on an annuity basis, with appropriate deductions in respect of

<sup>1</sup> 28,000 members (*T.U.C. Annual Report, 1933*).

<sup>2</sup> 136,048 members (*op. cit.*), including many members in other branches of engineering.

their liability to be taken over in certain circumstances at the end of a given period. The board took a monopoly in the generation and distribution of electricity, with power to license railway and other industrial stations. The Grid Committee retained control of the generation and transmission system, while as regards distribution, the management of existing plant and questions of local development were referred to regional committees in the administrative regions. The chairmen of these committees constituted the Distribution Committee of the National Board.

The most important development in the electricity system at this time was of course the electrification of the railways, to which I have already referred. As regards other industrial plant, the regional boards took it over gradually, often before the socialisation of the private undertaking in connection with which it was worked. The main developments in the electrification of socialised industry did not take place until some years later, under the Codd Government, when the Research and Appliances Committee was beginning to show the results of his work. But rural development began at once, and it was in this direction that the distribution system made the greatest progress.

I shall refer more shortly to the gas and water systems.

**Gas and the National Gas Grid.** The Government was fully alive to the necessity of developing the electrical supply system on a large scale, if the development was to be effective and cheap electricity made available all over the country. On the other hand, there were some services for which gas was particularly suited; at any rate pending a fuller extension of electrical supplies. Gas cookers all over the country could not be scrapped by a stroke of the pen, and, under the existing conditions, cooking by electricity would have proved an expensive substitute. Near many of the coal-fields, especially in the Midlands and north of them, the use of gas for domestic and industrial purposes would assist the development both of coal-mining and of the iron and steel industry. The whole question as between gas



and electricity was clearly one for settlement and control on the lines of the National Plan.

In the circumstances, Carter was given power to control by licence extensions of the gas supply. The licensing system was operated partly to maintain and provide the supply of gas for domestic heating and other purposes for which gas was particularly suitable, and partly on an arrangement of zones, some of which were allocated as areas, in which gas development had the first preference, while in others a similar preference was given to electricity.

Such a system raised many questions, both nationally and regionally. The main questions of national policy were decided as part of the National Plan, and in their application Carter was advised by a co-ordinating committee, on which were represented the National Planning Commission, the electrical supply authorities, the gas companies, the socialised mining industry and the principal consumers. In practice the application of the plan concerned the regional authorities as much as anyone, and they were advised by similar co-ordinating committees in their area.

One important development contributed substantially to the proper use of gas. Under the second Planning and Finance Act a National Gas Board was instituted and the national gas grid was begun. It started in South Yorkshire, and continued in one direction to Manchester and Liverpool, with offshoots into Lancashire and southwards into the Midlands. In the other direction it was continued, more slowly, to Wakefield and Leeds, with an offshoot to the Humber. It was built and operated under the National Gas Board, and its construction involved the socialisation of the gas industry in the areas concerned. But as regards the industry in other parts of England, there was already a considerable measure of statutory control, and for the time being the board was content to increase that control and to alter its character. In London, for instance, the larger gas companies had steadily pursued a policy of absorbing smaller undertakings, and there would be little difficulty in socialising their undertakings at a later stage. For the time

being their activities, if controlled, were unlikely to interfere with the plans of the Government, and in those busy days Carter was glad to be able to postpone his attention to them.

**Water Supply.** The water supply was a far more serious problem. It was in a chaotic condition, with competing companies and local authorities and, none the less, with a real shortage of water in many areas. There were still numbers of small undertakings, especially in rural areas, and, even in the City of London, many houses still drew their supplies from private wells. The Government took the view that what was needed here was not so much to set up any new water authority as to hand over to the regional councils and local authorities the necessary powers for ensuring and co-ordinating the water supply, and, where necessary, to see that they used them. The former local authorities were in most cases too small for the purpose: indeed, that circumstance had been largely responsible for the disorganisation, especially in rural areas. The whole business of water supply was accordingly handed over to the regional councils, with directions and powers to take over all private undertakings, and with corresponding powers of control over local authorities. The regional councils were told to set up a regular water service, and to supply themselves with an adequate staff of engineers for the purpose. The system so constituted was run by water committees of the regional councils. In practice the interference with the larger urban areas was negligible. They had already arranged for their own supplies, and all that was needed was, in a few cases, to supplement them, and in others to make them use their supplies for the benefit of their poorer neighbours.

## CHAPTER 15: THE LAND, HOUSING AND AGRICULTURE

THE PRIVATE OWNERSHIP OF LAND, as the capitalists conceived it, was a curious and artificial idea. The bookland or folkland of pre-feudal times had become the land of the King. Then feudal tenures from the King by knight's service or by service on the land disappeared. Freehold land was still held nominally from the King, but with no other consequence than that, in common with other property, it reverted to him if there was no one entitled to claim it by right of acquisition or of inheritance. Such land was in practice regarded as the absolute property of the man who was said to own it. He could occupy it or let it, or leave it unoccupied. What had once belonged to the community, and had been recognised to carry with it obligations and services, had become in effect as much private property as the owner's shirt. The Socialist Government was to give back the land to the people, and to show that real feeling for the land was not best expressed by its private ownership, but by its use in trust for the community which needs must live, move and work on it.

How did they approach this task?

**Nationalisation of the Land.** I have already mentioned the main provisions of the Land Act, 1937, which was passed before the first Planning and Finance Act, and which combined the declaration of the national ownership of the land with a restriction of all existing interests in it to a term of twenty years, while giving the Secretary for Land powers both to deal with rent and mortgage interest during that period, and to requisition such land as might be required for public purposes. That Act had been passed at an early stage in order to enable the Government to make preparations for the complete socialisation of the land as soon as

possible, and to ensure that the development of socialised industry should not have to wait while a system for the administration of public land was set up. The first Planning and Finance Act did not repeal the Land Act, and the powers given by the latter remained in force. Under the Land Act, however, the only power of requisition was to take land on behalf of a public authority : under the land sections of the first Planning and Finance Act, this power was extended to cover any area of land which the Secretary for Land might think it in the public interest to acquire.

The intention of the Government was to use its powers of requisition by taking over tract after tract of land as rapidly as possible until the process of nationalisation could be completed. During that process the Secretary for Land would continue to exercise his powers under the Land Act as regards unsocialised areas. As regards socialised areas, there were difficulties in taking over all urban and rural land at one stroke. In the first place, local administration had to be provided for, and, as it was intended to control the land through the regional authorities, those authorities had to be set up and to get under way. In the second place, the Government intended to do more than merely acquire the landlords' interest. There were essential differences between an interest in land and an interest in industrial property.

Take the case, common enough in the English country, of the farm owned by a landlord, held by a tenant farmer, and worked by him and by the agricultural labourers whom he employed. Compare the landlord's interest with that of the owner of a factory. The latter owned and controlled an effective instrument of production. The landlord shared his ownership with the farmer, to an extent depending on the character of the farmer's tenure. His control, however, was of a limited character : provided he received his rent, the control of husbandry would rest with the farmer rather than with him. There was a corresponding difference in the attitude of the Socialist Government towards the two interests—that of the factory owner and that of the landlord.

The former it intended to assume, in order to work the factory in the public interest ; the latter was in substance a financial interest, which it desired to eliminate rather than to assume. In short, the policy of the Government was not for the State to become the universal landlord, but for it to change the whole character of land tenure. The land was to become the property of the community, for use and not for profit, and the Government had no intention of merely substituting a single public landlord for a number of private ones.

**The Minister and Secretaries Concerned.** The land and its various uses concerned almost all the departments of State. There would be many conflicting claims to the land, both nationally and locally, and it was clearly desirable that its administration and the settlement of those claims should rest with a single department constituted for the purpose. The responsible Minister in the Cabinet was Robinson, the Minister of Land and Communications. Under him were Treadwell, the Secretary for Land, and also the administration of power and transport, two matters closely connected with the use of the land. Two other departments were also closely concerned with the land. The Secretariat for Housing, with Mary Peek as the first Secretary, was under Robinson, while the control of agriculture by Freeman, the Secretary for Agriculture and Fisheries, responsible to the Minister of Industry, served to keep the connection between husbandry on the one hand and the preparation and distribution of its produce on the other.

**A National Plan.** What was really required, both as regards land and housing, was a national plan for the use of the land and for the accommodation of industrial and agricultural workers upon it. Some attempt had already been made towards suggesting such plans locally. A limited recognition of their necessity existed in statutory provisions for town planning, which could be adopted by local authorities and of which some small use had been made. In other

cases private enterprise had set up settlements or garden cities, varying from those built by an enlightened employer round a large works to middle-class settlements of a co-operative character. Working-class housing estates had been planned and built by some of the larger municipalities. In addition, a number of private surveys were prepared, containing suggestions for planned development of larger areas. Considerable progress, too, had been made in land survey, directed to showing the uses to which land was actually put. There was therefore some material already available, in the shape of those local efforts and local inquiries, which might serve as the basis for a national plan of the land and housing. In these circumstances one of the first steps of the Cabinet was to set up an advisory body, a land and housing committee of the National Planning Commission, with Robinson as chairman, and Treadwell and Mary Peek as vice-chairmen. This committee, however, was not in a position to do more than suggest the main lines of development. All questions of detail were to be settled by corresponding committees in the regions, and, as I have already indicated, a large part of the work of both the Government Secretaries concerned was done through regional offices.

**Classification of the Land.** Generally, for planning purposes, the land was divided into three classes. Urban areas corresponded roughly to the boroughs. In some cases they extended beyond the borough boundaries, while in a few instances the outlying parts of a borough were not treated as an urban area for planning purposes. Some of the urban districts, under urban district councils, were crowded enough to be counted as urban areas. Agricultural areas often included a small town, as well as villages, provided that the town or village depended in effect on the country round it and served only as a marketing and distributing centre without industry of its own. The rest of the country was classified as mixed areas, including some small towns, the fringes of the urban areas, and considerable

tracts of country in which mines or factories were dotted about in the middle of agricultural land: many mining districts were of this type.

In these different types of areas there were different problems. In the urban areas there were the obvious but often difficult problems of urban housing. Generally, the Government and the regional councils sought to discourage the establishment of more factories in the towns. They were often so crowded as to make it necessary to go further and to move socialised industry out of the town into an adjacent mixed area. In the mixed areas the preservation of open spaces or belts of country had to be combined with the provision of factories and settlements in relief of the neighbouring town, and with housing facilities round works or mines that were already established. In addition, it was especially in such areas that the need arose for mixed farming or dairy farming to provide for the needs of industrial workers in the area or in the town near by. Allotments and small holdings were required in mixed areas, especially if, as was often the case, they could not be provided at first in some neighbouring urban area. In the agricultural areas there was the first opportunity for the development of a Socialist agricultural policy, with its attendant questions of housing and transport. In the development of all three types of area, the Government proposed to use its powers of requisition by taking over tract after tract of land, urban, mixed or agricultural, as rapidly as possible, until the process of nationalisation could be completed. One of the main duties of the regional land and housing committees was to plan out the tracts of each type which could first be socialised. It was intended that the process should go on simultaneously, tract by tract, in all three types of land, subject, of course, to local conditions in each case. In general, the areas to be first requisitioned were those in which the land and its uses were roughly of the same character throughout, such, for instance, as an urban area of similar working-class houses, perhaps round a large factory, a mixed area along a main road out of London, or an agricultural area

containing a number of villages and large farms engaged in the same type of farming.

**Urban Areas.** Let me now describe what was done in each type of area, beginning with the towns. In the first place, some palliative measures were required by way of control, pending complete socialisation. The Land Act left the landlords' interests subsisting for the time being. Until the State took over that interest, the landlord was still entitled to exercise his rights, and, in such matters as rent and repairs, he might well take a different view of his duties when he knew that his interest was only to last for a short period. There were already provisions for the restriction of rent and mortgage interest, and for some security of tenure in the case of controlled houses. But those provisions did not meet Mary Peck's requirements. Their application had always been limited, and had resulted in the setting up of two categories of houses, the controlled and the uncontrolled, with corresponding differences in rent. Besides, the National Government was a landlords' Government, and their policy had been to treat the restrictions as temporary measures and to reduce the number of controlled houses. The restrictions did not affect the new houses, which, if they were to be provided at all, the National Government had been so anxious to see provided by private enterprise: it was the business of private enterprise to get the highest rent it could.

**Housing Tribunals.** The Planning and Finance Act provided for the extension of control to all houses. The control was intended to provide for a fair rent, adequate repairs and security of tenure. There were many reasons for not attempting to make it effective through the ordinary law courts. It was necessary that relief should be as speedy, as simple and as cheap as possible. The work required was of a special character, and would be better done by persons with some special knowledge, who would be called on to apply a standard of fairness appropriate to a Socialist



community, but different in character to the more rigid standards of the Courts. The Act accordingly provided for a network of housing tribunals, acting under the general supervision of the Secretary for Housing, just as tribunals in connection with unemployment and health insurance had formerly acted under the appropriate Ministries. The general principle of the scheme was that no rent was to be raised, and no tenant evicted against his will, except by leave of the housing tribunal. This applied not only to houses already controlled, but also to houses held under leases, as an incident of service or in any other way, so as to constitute the relation of landlord and tenant or of mortgagor and mortgagee. The tribunals had power to deal with all questions of repairs, on the application of any interested party, having regard to the rent payable and to the interests of the parties before the passing of the Act: they had, for instance, to consider the terms of any lease then existing. They were not, however, bound to follow or enforce any existing arrangements; they were to apply a standard of fairness, having regard to previous arrangements and to the conditions in the neighbourhood. The effect of these provisions was to abrogate all existing leases and to make them no more than a guide for the tribunals: you went on paying your former rent until you or the landlord chose to make an application about it. The judges, or, as they were called, the referees, of these courts were appointed by the Secretary for Housing, and there were appeals from their decisions to umpires, sitting with two lay assessors, each of whom was nominated by one of the parties from lists of names available for inspection at the referees' courts. Some people suggested that Jeremy Roffe, the Minister of Justice, had had to find something for his unemployed lawyers to do; others, that it was the land agents who were out of a job, and found one as referees.

These tribunals were constituted in the country, as well as in towns, and both in socialised and in unsocialised areas. In unsocialised areas in the country, one of their duties was to deal with the question of tied houses, to which

I shall presently refer. In that, as in other matters, they were bound to accept the directions of the Secretary for Housing on questions of policy. The directions were issued, either for the country at large by the Secretary herself, or more frequently from the regional offices. They were invariably published, and were the subject of questions both in Parliament and in the regional councils. Among other matters, the directions dealt with the question of the general level of rates in various areas. This was decided by the regional office of the Secretary for Land, acting in consultation with the regional council or with its regional land and housing committee. The regional officers were Assistant Secretaries of the department, and they made free use of their power to give general directions as regards the raising or lowering of rents locally, in accordance with the national plan of the Government.

In socialised areas, the tribunals had at first to deal with questions of rent, repairs and the like between the State and the tenant, just as they had to deal with them between a landlord and tenant in an unsocialised area. As the character of the tenure of land changed, there was a corresponding change in their functions. They became more and more concerned with agreements made between the State and groups of occupiers of land in the town or the country.

**New Houses.** As regards the provision of new houses in towns, there had been various attempts to deal with the question, partly by giving local authorities powers of improvement and clearance in respect of private property, partly by enabling them to build municipal houses. In some cases subsidies had been given in aid of new houses, while the National Government had preferred to rely on private enterprise and on the support of the building societies. In a few areas local authorities had applied schemes for grading rent according to the resources of the tenant; in many others the return to private enterprise and the building societies had led to the provision of houses to be obtained only against cash deposits and beyond the means of the

average worker. The evils, which the authorities responsible for these confused schemes had attempted to remedy, were really twofold. In the first place, many areas were built up with houses unsuitable by their structural condition for further occupation. In the second place, many houses, fit or unfit for occupation, were grossly overcrowded. A house fit for two or three families might contain ten or a dozen. In either case, it often happened that, though the accommodation on a municipal housing estate was much better, the move entailed such an increase of rent that the family could not afford it: they paid for their new house by starving in it. In the result, a wholesale move to a new housing estate might mean, not an improvement in health and conditions, but an actual increase in illness and in the death-rate.<sup>1</sup>

Accordingly, better accommodation was required as regards houses unfit for habitation, more accommodation was required as regards overcrowding, and, in both cases, the accommodation had to be provided, so long as rents continued, at rents within the means of the tenants. Upon this last point, however, the national minimum wage had an obvious effect: while the grading of rents was still required, it did not need to be so steep or so frequent. The whole question of graded rents was, in practice, sufficiently dealt with by empowering housing tribunals to settle all questions of rents and repairs in new houses as well as in old ones. Any existing schemes for the purpose served as some standard to guide the local tribunal.

In practice, questions of the improvement of existing houses and of overcrowding in them went together. The local tribunals, given general directions, could deal with matters of improvement. Overcrowding was a matter for control under local authorities. What was required was a suitable standard of accommodation and the enforcement of by-laws to see that the standard was kept to. But, both as to improvements and in questions of overcrowding, the limits of control that could be exercised were in fact settled

<sup>1</sup> As in Stockton-on-Tees.

by the possibilities of alternative accommodation. The real policy of the Government must be to provide new houses, so as to allow dilapidated houses to be pulled down and overcrowded houses cleared of their surplus inhabitants.

The provision of new houses depended partly on the land available, and partly on questions of building materials and labour. There was much to be said for the average new municipal estate as a convenient unit of size. Somewhere between five thousand and twenty thousand people housed together on an estate formed a body of about the right size for the development of some community feeling among them, and not too small for consideration as regards transport facilities, social needs and amenities. They could have community buildings, including halls and medical and educational institutions. They could be catered for by transport services. They might with advantage be centred round one or more units of socialised production, and they would attract socialised stores, libraries, and a branch of the socialised banking system. They formed a group, to which local authorities were already accustomed, and in which there were large possibilities for the development of that corporate life which a Socialist Government wished to encourage.

**National Estates.** It was no doubt for such reasons as these that the regional land and housing committees proceeded, in the towns and in adjacent mixed areas, to set up what were now called "national estates." There were two main differences between the type of estates now built and the former municipal estate. In the first place, the socialisation of transport gave a greater freedom in locating these new settlements. The planning of socialised industry had a similar effect. The Assistant Secretary for Housing in the region was able to place a national estate round a new or old socialised factory, and, while providing that many of the occupiers would find themselves next door to their work, to give them at the same time adequate transport facilities and to reckon the cost of that transport as part of

the cost of the estate. There would no longer be workers turned out from a house in the middle of the city, better housed perhaps, but compelled to spend a disproportionate amount of their wages in getting to and from their work.

The second main difference lay in the fuller development of the possibilities of living as a community. To some extent this was a question of additional medical centres, libraries, halls and other communal buildings, including provision for the care of young children in nursery schools and the like. To some extent it went further, and in so doing raised questions concerning the building and management of the estates.

**The Building Industry.** The land and housing committees were concerned with the planning of the land for housing, for industry, and for agriculture. Neither they nor the Secretary for Land were concerned with the actual building and management of the estate. Those were questions under the Secretary for Housing, and questions in which the building trades were directly concerned. Building, under the capitalist system, was a chaotic and ill-defined industry. The provision of building materials was largely in the hands of combines, between whom and the contracting builder lay the profits of many middlemen. There were, for instance, some large and many small brick-making concerns, and the conditions in some brickyards, especially the smaller ones, were among the worst in the country. In the cement trade there was one large combine, and a move towards price-fixing arrangements between that and smaller concerns in the same business. Structural steel was provided by the heavy iron and steel industry, while such accessories as pipes and castings were controlled by associations with fixed prices and all the features of a trade ring. For all these various articles there were builders' merchants, with their intermediate profits. In the larger towns there were builders on a large scale, mostly engaged on the erection of large offices or blocks of buildings. In

some cases the business of building verged on that of public contracting. But, as regards the workers' houses, or the average middle-class house, the builder was often a small company or a private individual, bred perhaps in bricks and mortar, and with the usual virtues and vices of his training. Over him hung one invariable difficulty: capital was required for building, and only interest was forthcoming by way of rent. The builder wanted to build his house and be paid for it, the tenant to get into it without a lump sum payment and to pay when he got there such rent as he could afford. Of the many devices to meet this difficulty, the most usual was advances by building societies; to a smaller extent they were made by local authorities, either directly or, in Birmingham, through a municipal bank. By means of such advances the builder could get his money back and start building again. Not unnaturally, these devices had their disadvantages. The speculative builder was encouraged to build his worst, and incidentally his ugliest, round the fringes of great towns, and to get away with it at once. The occupier of the house was called on for a deposit, and often for other charges in connection with his entry. Once in, he found his own house, as the building societies so alluringly described it, mortgaged to the societies as effectively as though he were merely paying rent to a landlord. No doubt building societies had their uses, but they formed no part of a Socialist State. Lastly, there remained the architect. As in every other profession, there were among architects both a high standard of professional attainment and conduct, and a corresponding amount of unemployment. Under private enterprise they could be employed on houses, offices or factories for the capitalist, or on the buildings of some public authority; but a capitalist State, which measured services in terms of money, could not expect the average worker to pay the architect's fee. The result was that the monstrosities of our suburbs were erected by the private builder, acting as his own architect, and subject only to the supervision of the local authority rightly concerned with such matters as

sanitation and ventilation, but, "in an unplanned community, without advice and without much opinion as regards the general effect of what it allowed to be put up. It was only in municipal estates that the more enlightened local authorities saw to it that a decent house was erected, and the houses were arranged on a decent plan. Private enterprise, so dear to the National Government, was little concerned with the durability or harmony of its efforts in building.

**The Office of Works.** I have already mentioned that Mary Peck, as the Secretary for Housing, took over the Office of Works. The Commissioners of Works had been a Government department, administered entirely by the First Commissioner, and concerned in the building and management of various public buildings, as well as in a number of other duties, such as the care of parks and ancient monuments. The other Commissioners had been the principal Cabinet Ministers, and, not unnaturally, as Commissioners they never met. The Government now proposed to have working Commissioners, instead of decorative ones, and to use the Office of Works to organise the actual building of houses and public offices. The Office of Works was in fact to be Mary Peck's instrument for building purposes, but not to concern itself with matters of general planning or with the control of rents and other housing conditions.

**Workers' Control.** It was in the Office of Works that the building workers were to be represented and the principle of workers' control applied to building. Between eleven and twelve hundred thousand insured workers were employed in building and public works contracting. The majority of them were organised in a number of craft unions, some of considerable size, comprising the National Federation of Building Trades Operatives. These included the workers engaged in the various trades accessory to the actual business of putting up the walls and structure of a

house : the woodworkers, for instance, had over a hundred thousand members and included in practice the majority of builders' foremen. The brick and stone workers were organised outside the Federation in the Amalgamated Union of Building Trade Workers, with rather more than fifty thousand members. The large general unions also included many workers in the various building trades. Among these various bodies the Federation was best adapted to represent the industry as a whole. At the same time, the number of workers in other unions was substantial, and, both within the Federation and outside it, there were troublesome questions of demarcation between one craft and another. Moreover, the housing programme of the Government would involve the training of additional workers in an industry which had reason to be suspicious of arrangements for the introduction of new workers into it. In the past they had consented to similar arrangements, only to find, at the end of the particular scheme in hand, that the industry and the unions had absorbed a large number of workers who then became redundant. In these circumstances, Mary Peck was anxious to establish a system of workers' control on a proper footing, to make sure that demarcation disputes would not complicate or delay the Government's building programme, and to be able to put that programme before the workers' representatives in such a form as would justify a scheme for the introduction of new workers into the industry. What she did was to call a conference of the unions concerned, in London, and to put the Government's programme before them in some detail. She was able to assure them that, with the plans immediately in view and the developments that might be anticipated, the industry could afford not only to take in additional workers now, but to find them work for very many years to come. She put before them the draft of a scheme for training, and her proposals as regards workers' control and questions of demarcation. In effect, she offered them the choice of two alternatives. She asked them to come in and work the national plan for building as their own



affair. If they would do so, she would put their representatives in a position of real control on an executive body: otherwise she would ask for an advisory committee, on which other interests would also be represented. The result was a long and heated conference out of which there emerged substantially two main points—the acceptance of a training scheme, on lines rather different from those of the original draft, and the recognition of the National Federation of Building Trades Operatives as the controlling body for the industry. With some difficulty arrangements were made for the inclusion of all workers in separate unions under the control of the Federation. Mary Peck more than justified her appointment by the tact and patience with which she handled what was perhaps the most difficult problem in her term of office. As a result of the conference, workers' representatives were nominated as Commissioners of Works. Although there was no special provision in the housing sections of the Planning and Finance Act, there were two representatives of unskilled workers, three of skilled workers in the building trades, and, for reasons to which I shall refer below, one from the furnishing trades. The remaining Commissioners of Works consisted of three representatives from the trades supplying building materials, one from the co-operative movement, and an architect. The First Commissioner of Works, acting as the chairman of the body, was a political appointment made from among the Socialist members of Parliament. The change in the number and character of the Commissioners involved the repeal of some earlier legislation.

The Commissioners of Works were a contracting body for applying direct labour to the extensive building programme that the Government had in mind. In socialised areas the Commissioners had a monopoly of all building contracts, and the previous master builders were organised on a regional basis in a supervisory section of the National Federation of Building Trades Operatives. Pending the complete socialisation of the land, the Commissioners

of Works also undertook contracts in unsocialised areas, and, in fact, owing to their control of building materials, rapidly ousted the private builder. By this process, completed by the increase of the socialised areas, the organisation in the socialised areas was soon extended to cover the whole country.

The Commissioners themselves were a planning and supervisory body rather than an executive one. They set up a system of regional offices, upon which depended a large and increasing number of local offices. In the regional offices there were bodies of regional Commissioners, appointed in the same way as the central Commissioners, while the local offices were usually under a single controller, sometimes with a small advisory committee. In practice the regional offices were most important centres, since so much of what was required was a matter of regional administration.

Two most important features of the Government's building scheme were foreshadowed in the constitution of the body of Commissioners. The first was the socialisation of the supply of building materials, the second, the extension of building to include the provision both of accessories and furniture. I have only space to give a short account of what was done in these matters.

**Building Materials.** I have already mentioned the appointment, under Codd, of a Commissioner for Building Materials. He took over, on the usual basis of compensation, existing undertakings for the supply of bricks and cement. The latter industry was ripe for socialisation, and a comparatively simple matter. As regards brickworks, the requisition of the principal concerns and a large number of middle-sized ones was enough to ensure a sufficient supply immediately, and to lay the foundations for some measure of large-scale production in the trade. Some of the smaller brickyards were taken over to meet local requirements, some continued to exist for a short time as private concerns; but many others closed down, their owners and workers

finding employment in the larger Government yards. The process was accelerated by the regulation of wages in the brickyards, a measure of control introduced in the Government's first year of office. The provision of structural iron and steel, as well as of tubes, pipes and many other accessories, was a matter for the socialised iron and steel trade, and one with which the Commissioner for Building Materials was not directly concerned. Similarly the regional commissioners were able to obtain their supplies of timber, either from bulk imports on Government account, or from the Department of Agriculture. As regards other accessories, including pottery, glass, and a great number of miscellaneous articles, the Commissioner had powers both of price control and of socialisation. In some cases it was not necessary, for the time being, to apply either: the threat implied in their existence was sufficient. In others, prices were controlled or the necessary supplies requisitioned. The process of socialisation proceeded as rapidly as administrative requirements allowed. In all cases, including those of bricks and cement, the same principles of administration were applied as have been set out in some detail in the chapters dealing with the major industries.

National building and the socialisation and control of building materials had a considerable effect on the types of house that were put up. Research in building materials led to the production and use of metal and new varieties of glass and cement in ways which had either been unknown before or had only been put into practice in large offices or public buildings. The new houses were not only more beautiful, but far better adapted to the requirements of those who had to live in them. In the Socialist community British architecture received a new impulse, and acquired a new significance, in its task of adapting the modern house to the workers' needs. In many parts of the country flats had been viewed with suspicion, due, in part, to the lack of amenities in them when they had first been built. The more enterprising building authorities, deliberately setting themselves to meet and overcome the existing suspicion,

contrived to make flats as easy and as pleasant to live in as small houses. There was really even more room for development in this direction than in the direction of the single house ; and, with improvements in design and the liberal provision of gardens and other amenities, the colony of flats became increasingly popular and proved to be a most useful factor in the national housing schemes.

**Furniture.** Mary Peek regarded it as her business, not merely to build houses, but also to see to their furnishing. The Commissioners of Works accordingly embarked on the furnishing trade, a matter that particularly required to be administered regionally and through their branch offices. The co-operative organisation had already made some efforts in this direction, as well as in building, and Mary Peek was prepared to use them to the full. At the same time, the co-operatives were hardly in a position to deal with the whole trade. It was in many ways a difficult trade to handle, dependent largely on supplies from small makers, sold with excessive profits through large shops. The line of approach necessarily varied in different localities. So far as production was concerned, Mary Peek's policy was twofold. In the first place, through the regional commissioners she arranged and encouraged the grouping of small producers in co-operative organisations on the lines mentioned in the chapter on co-operative and retail trade. Those groups were able to form themselves and to work satisfactorily on the basis of running contracts with the local offices of the commissioners. They served also as centres for trying out new designs in furniture, and for the production of hand-made stuff with some individuality. With the increasing leisure made available by shortening hours of work, many men and women with some taste for handicraft were able in their spare time to revive the tradition, if not the designs, of William Morris, and to take their part in the co-operative production of furniture and materials. The practice of handicraft in this way was particularly developed in Birmingham, with its tradition of

craftsmanship and small masters and the appreciation of William Morris's achievements and ideas, which had been fostered there by a well-known Socialist leader.

In the second place, a number of larger factories, owned by the co-operative societies or taken over for the purpose by the Commissioner for Building Materials, were given similar contracts. These larger factories were placed under workers' control, and distribution was managed by the local co-operative organisation. The London Co-operative Society, for instance, found itself in possession of most of Tottenham Court Road ; but new design and the use of new materials saved it from inheriting the worst traditions of that thoroughfare. The Government made no attempt at retail distribution by the State or local authorities, except so far as was necessary to maintain or replace furniture already supplied. But the local office of the Commissioners of Works was prepared to include furnishing in the price of the house : for reasons which appear below, I do not refer to the rent of the house. The varied nature of production in the trade made it possible to offer a corresponding variety in the furniture, and the facilities offered, without the intervention of middlemen's profits, were so good that an increasing proportion of occupiers availed themselves of them. The supply of furniture on hire-purchase terms was only allowed through the C.W.S. bank : I have already mentioned its extended facilities for the purpose.<sup>1</sup>

**Compensation and Tenure.** After this short survey of planning and building, let me turn for a moment to conditions of tenure.

On the socialisation of an area, former owners received an annuity based on the rental value of the land for such part of twenty years from the date of the Land Act, 1936, as remained unexpired at the time of acquisition. In fixing the amount of the annuity due allowance was made for the condition of the property, since in many cases the present rental value could not be expected to continue during the

<sup>1</sup> p. 280.

whole period of the annuity. The assessments for rating and taxation purposes served as a basis for the valuation. The assessment of compensation was effected by the local offices of the Secretary for Land, subject to an appeal, in the case of house property, to the local housing tribunal. As regards agricultural land, there was a similar appeal to single arbitrators, nominated by the Agricultural Commissioners, to whom I shall refer below. The assessing bodies were given considerable discretion in exceptional cases, and in general working-class interests in land, such as holdings by trade unions or co-operative societies, received full compensation. The payment of compensation became a charge on the Land Fund, which was constituted in the first instance out of an advance from public funds and fed by payments for the use of socialised land.

The owner of a house occupying it, ceased to be the owner as soon as the area in which he lived was socialised. If he was occupying more than he reasonably required, some part of his property was taken for other uses. In practice, during the period of office of the McCosh Government, there was no requisitioning of space in large houses except with the owner's consent. The schemes for national housing, however, roused considerable enthusiasm in the country, and there were many cases in which arrangements for the further use of large houses were made by agreement between the owners and local housing officials. During the compensation period an owner in possession neither received compensation nor paid rent: the two would have balanced out. At the end of the period he began to pay rent like other people. There were similar arrangements about owners in occupation of agricultural property. As regards park land and large gardens, the local land officers made free use of their rights of acquisition. In all parts of the country there were many farms, bought by the farmer at high prices and heavily mortgaged. In these cases, as in other mortgage cases, the occupant was assessed to rent, and the compensation annuity was divided between the valued interests of the occupant and the mortgagee. The

mortgagee's interest was not necessarily the nominal amount of the mortgage : the housing tribunals made a fair division between his real interest in the property and that of the occupant. The latter in practice only paid that part of the assessed rent that was attributable to the mortgagee's interest ; the remainder was set off against his own share of the compensation. The principles so applied to the interests of the occupant and the mortgagee were exactly the same as those applied to the other owners of landed property. In effect, of course, considerable relief was given in the case of oppressive mortgages—a relief much needed where farms had been bought at excessive prices in order to avoid eviction, and had then been mortgaged to the hilt.

Generally, the policy of the Government was that socialised land should be rented and not bought or sold. They were accordingly averse to granting leases for a term of years, and, even in the case of socialised factories, granted the use of the land on a year-to-year tenancy, with of course, in such a case, virtual security of tenure in practice. On the other hand they were anxious to have some form of collective holding. They wanted rent to be payable according to the means and requirements of the individual, and not on any assumption as to the value of the land. Although these principles could be applied to existing house property, it was clearly easier to do so in the case of new houses.

**Co-operative Building Societies.** So far, therefore, as national estates were concerned, co-operative building societies were constituted, to rent the land from the Government, to build on it, and to collect annual charges from their members. In the first instance they were financed partly out of the proceeds of a Housing Loan issued by the Government, and partly out of advances from the socialised banks. In some cases these societies were nothing but housing associations on a strictly co-operative basis, while in others, where the national estate was grouped round a socialised works, the finances of the administration were

run through, and in connection with, the administration of the works. The standard rules for both types of society provided for the grading of individual rents according to the means and requirements of the occupier. Extra accommodation beyond the needs of the family, having regard to its size, was charged at a proportionally higher rent. Thus the rent of a three- or four-roomed house differed according to the means of the occupier and according to the size of his family: the adjustment was left to the co-operative society. In the rent paid by the co-operative society to the Secretary for Land, as well as in the rents paid by individual occupiers to the society, everything was included. The latter rents totalled more than the former, since they included the cost of building. In either case all charges previously paid by way of rates and taxation were included in the rent. Moreover, where the national estate was not self-centred, in the sense of being grouped round the works and having its own shopping arrangements and the like, the rent paid by the co-operative society and the individual rents both included an allowance for transport, so that such transport facilities as everyone on the estate would need were provided without any further charge.

In the result, the sums received by the Secretary of Land fell to be apportioned among a number of services and departments. This apportionment was effected regionally between the local land office, the local housing offices, and, so far as services were concerned, the local regional authorities for health, education, transport and other matters. One effect of the system was to substitute a limited form of local income tax for the rates which had previously been levied.

**Co-operative Housing Associations.** The Government desired to extend this system, so far as possible, beyond the national estates, and they accordingly gave every encouragement, including preferential rents (allowed by the housing tribunals), to the formation of similar co-operative societies for existing houses. These bodies were called co-operative



housing associations, since they were not concerned with new building. They were usually smaller than the co-operative building societies, and might be formed for any group of twenty or more houses. So far as existing house property was not covered by co-operative organisation, the housing tribunals proceeded to apply similar principles to individual houses: that is to say, rents were sharply differentiated and made to include all taxation and services. In unsocialised areas, however, the most that the tribunals could do, pending socialisation, was to give to the tenant the full measure of relief which he so often required.

**Open Spaces and Allotments.** In mixed areas, and to a lesser extent in urban areas, the land and housing committees provided for a substantial increase both in open spaces and in land for allotments. Belts of open land, often including allotments, were made or left round urban areas, and in many cases land that was cleared of slum property was not rebuilt, but left as open ground or converted into playing fields or gardens. The co-operative building and housing societies administered their own allotments, when available, through an association of allotment-holders responsible to the society. Provisions were made for the marketing of allotment produce through the co-operative organisations of the district. The encouragement of allotments was a matter towards which the regional authorities contributed substantial sums in various districts.

Generally, one of the objects of the national plan for the land was to do away with the more unsightly industrial areas. The English country was naturally beautiful, but under the pressure of unplanned capitalist competition, only parts of it had remained so. For many years small groups of well-intentioned people had been attempting to preserve the countryside: it was the business of a Socialist Government to recreate it. They intended that such districts as the Black Country, part of South Lancashire, South Wales and the North-East Coast should bear again some resemblance to the natural country. To some extent, no

doubt, factories and houses had to be concentrated in such areas, but there was no need to leave those who had to work there without gardens, without open spaces, and without any knowledge of the country except on such holidays as they might manage to take in it. The measure of the success of the national plan under this and succeeding Governments lay in the change between the country as we know it now and the country as it was then. I need only refer to the photographs, still shown in local museums, of industrial areas as they existed under the capitalist system.

**Agricultural Areas.** I now turn to the agricultural areas. As regards agriculture and housing in the countryside, there were certain measures which required immediate attention and called for palliative remedies at an early stage. Let me refer to them first.

The National Government, relying as it did on Tory votes in the countryside, had shown more activity in its agricultural policy than in any other sphere. Its intention was to protect British agriculture, and the machinery which it set up of restriction on imports, and control of home prices and production, was mainly directed to that purpose. Unfortunately, the Tory mind regarded agriculture as the sum of the rights of ownership in the land and in its produce. To those rights the National Government was willing to give protection and support. To the urgent needs of the agricultural labourer, not himself an owner of land, as well as to the interests of the industrial worker, the principal consumer of agricultural produce, it was completely blind. It was, for instance, the policy of the National Government to protect the British ham and bacon industry against its Danish competitors, and for that purpose to limit imports and raise home prices. In that sense pigs began to fly<sup>1</sup>: but the British worker found his breakfast bacon gone to heaven, and the agricultural labourer saw no corresponding uplift in his weekly wages.

<sup>1</sup> With my acknowledgments to Mr. David Low.

**Agricultural Wages and Unemployment Insurance.** The agricultural labourer was a mute citizen, ill-organised and slow to appreciate his own power in political and industrial matters. His troubles were many. The outstanding question of agricultural wages had been settled for the time being by the national minimum wage, which raised the standard in South and West England to something approaching the higher rates paid in the North and in Scotland. Unemployment, often seasonal, existed in the countryside, as in the towns; but the agricultural worker was uninsured. The drift of population into urban areas might have been expected to improve the position of those who remained in the country; but too often it was the more enterprising spirits who went to the towns, and, on the other side of the balance, the area of land under cultivation had tended, for very many years, rather to diminish than to increase. The agricultural sections of the first Planning and Finance Act brought all agricultural labour (and, incidentally, the even larger number of domestic workers, in another part of the Act) into the Unemployment Insurance Scheme.

**Housing.** Another grievance was in connection with housing. The picturesque cottage of the English countryside was often crowded, ill-ventilated and insanitary: and, such as it was, there were none too many of it. In many cases the employer was also the landlord, and, if the worker lost his job, he was also obliged to lose his house. This was the question of tied houses which I have mentioned above. For the moment it was met by directions to the housing tribunals to abolish the system. No one was to be turned out of his home just because he lost his job, and the threat of such an eviction was not to hang over his head. If the landlord or the farmer made out a real case for change, his proposals must come before the tribunal and were closely scrutinised; he could only turn the man out if he could show to the tribunal both an imperative need on his part and satisfactory alternative accommodation for the tenant. In

practice such proposals were rarely successful, and applications for tied houses became less and less frequent: they were apt to result in a searching investigation of conditions on the farm, as disturbing to the applicant as to the tenant whom he proposed to evict.

**Marketing.** Both the policy of the National Government and the grievances of the agricultural labourer were symptoms of an agricultural system distasteful to a Socialist State, but presenting similar difficulties to those which other Socialist countries had met in agricultural matters. The Russians, in the process of installing industry and favouring urban development in a predominantly agricultural country, had found their principal difficulties in the countryside. In a country such as England, with a highly developed industrial system and a far higher proportion of the population in towns than in the country, the same difficulties existed in at least as acute a form, though their solution was not a matter of the same urgency. No doubt both the Labour Government of 1929 and the National Government of 1931 had been right in beginning with questions of marketing: at the same time those questions, if the Labour Government had remained in office, would have been but the first approach towards an agricultural plan, while the National Government, with its regard for capitalist production and distribution, appeared to regard them as constituting the whole problem, or at any rate a sufficient means of dealing with it. In substance, the policy of the National Government had been the restriction of production and supply in order to maintain prices. In face of such a policy their Consumers' Council had been, as it was no doubt intended by the National Government to be, completely ineffective. The limits of their plan had been to restrict the areas upon which some crops could be planted, and to subsidise the production of other crops, always with a view to maintaining prices against the consumer, and notwithstanding the grievances of the agricultural worker.

The Agricultural Marketing Act, 1931, provided for the preparation of schemes for marketing agricultural products, and for the constitution of boards of producers to administer the schemes. A number of such schemes were in force, and the appropriate boards had been constituted. Freeman, the Secretary for Agriculture, had no intention of abolishing this machinery. It could still take the place for which it had been originally intended, as the first and an important part of an agricultural plan. But, as I have already indicated, the Consumers' Council provided for by the Act proved ineffectual, and the development of the co-operative system would alter the consumers' position. Another change arose out of the control of imports by the Government, and their bulk purchases. Under the National Government there had been friction between the interests of the home producer, working under the protection of the Ministry of Agriculture, and those of the Colonial or Dominion farmer, who was more directly concerned with the Board of Trade in England: this was a matter which could now be dealt with. Lastly, if the Government intended to make its marketing schemes merely the first part of an agricultural plan, there would be need for close co-ordination between marketing boards, on the one hand, and those concerned in the replanning of agricultural production on the other. The existing boards represented the existing producers, and would have to be adapted to the changes in production that were contemplated.

With these objects in view, the agricultural sections of the Planning and Finance Act provided for the representation of consumers on marketing boards, instead of on the Consumers' Committee, by persons nominated by Freeman, at least one of whom was to be appointed after consultation with the co-operative societies concerned. In addition, the Agricultural Marketing Reorganisation Commissions (and there was to be a central one, with corresponding regional ones) provided for in the original Act were to have powers as regards the preparation, supervision and alteration of marketing schemes, which virtually gave them control over

the existing and future marketing boards for the various commodities. Power was taken to enlarge the number of members on these commissions, and in fact they included representatives both of the agricultural workers' organisations (enlarged and ultimately amalgamated at the instigation of the T.U.C. General Council) and of co-operative and other consumers. In order to carry out the national plan for agriculture, Freeman became the chairman of the central commission, which still remained, in form, the advisory type of body constituted by the original Act. The effect of these changes was to give Freeman, with the assistance of his nominated A.M.R. Commissions, power to modify and extend the existing marketing schemes.

This power was extensively used. The detailed changes varied considerably as between one case and another: it is sufficient to indicate their general lines. The principle of restricting the number of producers, or the quantity of produce, in order to maintain prices was completely abandoned. In its place, Freeman was prepared, where necessary, to ask the National Planning Commission for a recommendation as regards the prices of imported commodities. But, in the main, the changes in the marketing schemes were directed to fitting them into the new economy.

**Milk.** Take, for instance, milk. Under the marketing scheme, as originally constituted, milk continued to be sold to the individual consumer at prices substantially higher than those obtained by the farmer. The distributive agencies for milk continued to make substantial profits. But, in this state of affairs, there remained, even in the winter, milk which the individual consumer could not afford to buy, and which was supplied at far lower prices to industrial users, for conversion into commercial cheese, chocolate and tea-cups. Meanwhile, milk for children in schools remained at the discretion of local authorities, and was only occasionally provided. Milk was an excellent instance of the difference between demand and what, I believe, the economists of the period called "effective demand." Demand there

certainly was, from children all over the country, but their parents lacked the necessary means to make it effective. If ever there was a case for eliminating middlemen's profits, and turning the supply of a commodity into a public service, this was one. Moreover, there was an opportunity to hand in the co-operative societies, which were already one of the largest distributors.

Now, Freeman regarded milk for the child and milk for the adult as slightly different matters: those who knew him suggested that he did not drink it much himself. He proposed to centralise the distribution in the co-operative organisation, and for that purpose he acquired the assets of certain other large distributing concerns. He arranged with the co-operative societies that they should have the first call on all milk production, and that they should combine the retail sale of milk to their customers, at prices and on conditions fixed regionally, with the free distribution of milk as a service at schools. The difficulty of milk producers in the past had lain partly in the difference between wholesale prices and partly in the restricted, and often unprofitable, market for additional supplies. The effect of Freeman's scheme was not to place any large charge on public funds, but, on the contrary, to increase the production of milk from a total of some £55 millions at farm prices to about £100 millions a year,<sup>1</sup> and to lower the retail price of the commodity, while his conditions ensured a clean supply. The position of the Milk Marketing Board and its functions were considerably affected. At the same time, the Milk Marketing Board was able to extend its activities and to finance the installation of creameries and other means of utilising milk and its products.<sup>1</sup>

**Agricultural Production.** As regards agricultural production, the tariff protection accorded by the National Government had favoured some sections of the farming industry at the expense of others. Wheat growers had done

<sup>1</sup> *Socialist Policy and the Problem of the Food Supply* (Socialist League), Rt. Hon. C. Addison, p. 9.

well on the bread of the people and bacon producers on the flying pig, to which I have already referred. Livestock, dairy and vegetable farming were capable of further development. Moreover, there was much to be done in such matters as draining wet land, irrigating dry land, utilising land then waste, and increasing the yield of land already under cultivation. There were, for instance, thousands of acres of moorland, which only needed tractor ploughing, fertilising with the right mixtures, and sowing with the proper proportion of clover and grass seed. Under the capitalist system, farming depended on the capital available to the individual farmer, on his individual skill and character, and on the incidence, as between him and the landlord, of the burden of rent and tithe payable out of the land. All these points called for the attention of a Socialist Government. The proper development of the land ought not to depend on individual capital or individual energy. Management ought not to remain in the hands of those who had sufficient capital to run a farm; if in the time of Napoleon a private soldier carried a Field Marshal's baton in his knapsack, a corresponding opportunity ought to be open to every agricultural worker in a peaceful community, and the management of the public land ought to be in the hands of the most capable and the most public-spirited. Lastly, with public land, rent was an anomaly, and tithes a double anomaly. In matters of production, what Freeman sought to substitute for the previous system was a plan for agricultural production on public land, owned by the community and managed for its benefit.

His immediate objects were twofold—to convert the individual farmer into a manager of public land, and to open the road for the agricultural worker to such responsibility and position as his talent justified. If he were successful in the latter object, he would have gone far to stem the tide of migration from country to town, and, if he could combine with success better use of the land itself, to set that tide flowing in the opposite direction.



Agricultural Development Committee. So, first of all, as an administrative measure, an agricultural development committee was formed, as a committee of the National Planning Commission, corresponding to regional committees. Upon it were represented the agricultural workers, the existing producers, and, to a smaller extent, those concerned in marketing or as purchasers of agricultural produce. It was an advisory body ; but certain of its members, and of the members of corresponding regional committees, were appointed as full-time Agricultural Commissioners. Working in close co-operation with the land authorities mentioned above, they proceeded to plan agricultural production, and for that purpose to exercise a large measure of control over existing producers. This control extended to methods of husbandry. If a farmer was working a farm well and scientifically, he could be certain of his tenure and of every encouragement. Tithes were abolished ; those educational authorities who had held them were sufficiently compensated by the Government's educational programme. As regards rents, the Agricultural Commissioners exercised some considerable control through the arbitrators whom they nominated to decide appeals in such matters, and by this and other means were well able to make their views felt. In proper cases an incompetent farmer was evicted and set to work on the land in another capacity, or offered employment elsewhere. But in many cases the difficulty lay not so much with the farmer as with the character, or often with the size, of his farm. The Agricultural Commissioners had, and used, powers to divide up farms or, as was more often necessary, to run them together. It was partly by so doing, but more especially by the reclamation of waste land and the use of land not already under cultivation, that the Agricultural Commissioners were able to proceed towards the form of farming that Freeman had in mind. Just as, under the Socialist Government, mines and factories were worked by the co-operative effort of those employed in them, so he intended that the agricultural workers should put co-operative farming into practice.

**Co-operative Farms.** The co-operative farms that now extend over almost all the country usually began on a small scale, or, in some cases, on large areas of indifferent land. There was a real land hunger in the Western Highlands of Scotland and the new communities of crofters, returned from Glasgow and the industrial areas, were able at last to re-settle on the lands which had been taken from their forefathers for sheep or even deer; but now by utilising the new types of wheat and root crops, they could set up their "steadings" again. That was an instance of what could be done by the intensive progress and application of agricultural research. Then, as now, the farms were run on a co-operative basis, the workers operating the holding collectively, keeping their own houses, drawing from the sale of the produce a living wage, which in the earlier stages was often supplemented by a guarantee of the regional authority, and, as the settlements developed, finding the proceeds sufficient for some further distribution. As these co-operative farms grew in size, and in number, they became the centres of such communal life as I have already described in connection with the national estates. Their own schools, hospitals, halls and libraries, as well as factories and centres for the grading, preparation and working up of the farm produce, grew round them, and changed the character of the countryside from a collection of single farms to a cluster of farming communities. It was in this direction that the agricultural policy of the Government made its most marked progress and showed both that the previous system was a somewhat accidental and inefficient development, and that an agricultural community, working on a planned agricultural policy, could find its proper place in a Socialist State.

## CHAPTER 16: EDUCATION, TRAINING AND PENSIONS

- I. Education
- II. Pensions

### § 1 EDUCATION

**The Origin of Public Education.** Public education in Great Britain had grown out of charity. Before the industrial revolution the older schools and universities had been founded, at first for religious purposes, and later to spread, in some locality or among some class in which the founder was interested, the vague advantages of humane education or the more positive benefits of reading, writing and arithmetic. Education was a typical charity, and, with its religious antecedents, a most respectable one. The Victorian masters of the industrial revolution were well skilled in combining charity and religion with that adequate measure of self-help to which capitalist England owed its greatness. A sufficient supply of clerks had to be provided, and there were obvious advantages in having workers who could read and write. On these simple foundations education was extended to the lower classes, in the first instance as a voluntary act of not unprofitable good work. The Board of Education grew up surreptitiously out of a series of curious committees, even more curiously composed. The Church—or, more unfortunately, the various Churches—desired to maintain the religious character of education. In face of the conflicting claims of different sects, the State found it difficult to hold the balance and to keep the control and the uniformity which seemed to be required now that education was recognised to be a public responsibility.

There is no need to go into the disputes about religious teaching and denominational schools—disputes which had hindered the progress of education for many generations. There were still denominational schools throughout the country, in which religious teaching was given according to the doctrine of those who supported them. The wish to maintain such schools, with State aid, but under the control of religious communities in religious matters, had been responsible, under the 1929 Government, for the breakdown of an attempt to raise the school-leaving age.

**The Existing System.** Under various Acts of Parliament, culminating in a consolidating Act in 1921, there had been set up a system of compulsory education for all children between the ages of five and fourteen, subject to certain exceptions. In particular, local authorities had the power to raise the school-leaving age in their area to fifteen, and a few authorities had done so; others had held back for fear of an influx of fourteen-year-old children from neighbouring districts to take up jobs in the area in which the age had been raised. The Board of Education had general powers of superintendence as regards educational matters, which it exercised in conjunction with the local educational authorities. In the larger towns the local education authority both for elementary and for higher education was the borough council, in London the L.C.C., while in the country, including villages and the smallest towns, the county council was the authority. In urban areas of an intermediate size the county council was the authority for higher education, while the urban authority controlled elementary education. The local education authorities prepared schemes for the development and organisation of education in their areas and submitted them to the Board. The Board maintained a service of inspectors, and they were able to exercise control over the educational system in many matters which required their consent or approval, and in particular by their power of imposing conditions upon grants made by Parliament for educational purposes.

With the help of those grants and of some other miscellaneous receipts, the cost of education was found by the local authorities out of the rates. The grants formed a substantial part of the revenue of local education authorities and, in 1931, in the course of the economy campaign of the National Government, the Board was relieved of its obligations of making the grants up to one half of the expenditure of the local authority so far as elementary education was concerned. The effect was to take away the power of a progressive local authority to spend freely on the educational development which it was required to promote—it could no longer rely with certainty on recovering half the expenditure by way of grants. In future, while the Board retained all its previous powers of inspection and control, the local authority was obliged to look entirely to its own rates to meet any expenditure beyond the amount in respect of which the Board, under a National Government, saw fit to make a block grant. The natural result was that, although the population continued to increase, and with it the drift into urban areas and the urgent need for education, the expenditure on education began to fall.

**The Hadow Report and Central Schools.** Until ten or twelve years before the McCosh Government came into power, the teaching of children from the age of five to the school-leaving age had been regarded as one continuous process, and they had usually remained at the same school all the time. The Hadow Report of 1926 pointed out that a line should be drawn at the age of eleven or thereabouts, and recommended that the separation of the place and method of education before and after that age—a separation which had already begun to some extent in practice—should be further developed and defined. The Report in effect suggested that the traditional distinction between universal primary education and secondary education for selected pupils was unsound, and that all education after the age of eleven ought to be treated as post-primary education, partly in schools which would continue and

complete the education' of those who were unable to go to secondary schools and partly in the latter. The intention was that the principles and standards of secondary education should gradually be applied to all forms of post-primary education, subject of course to the differences made necessary by the earlier leaving age of those who could not go on to secondary schools. The conclusions of the Report in this matter were to be read with the further recommendation that the school-leaving age should be raised at once, and without that further recommendation being put into effect they were difficult to carry out. The Report, however, attracted great attention and had some considerable effect. In particular, the number of central schools for post-primary education after the age of eleven rose considerably in the ten years preceding the General Election of 1936. Some of those schools were open to all, others were on a selective basis.

**Higher Education and Private Education.** As regards higher education, there were provisions for secondary schools, technical schools, training colleges for teachers, evening schools and other educational institutions administered by the local education authorities, with the aid of grants from the Board. The training colleges provided the majority of teachers in schools throughout the country, and were of cardinal importance in the educational system. In the other schools, freely supplemented as regards adult education by classes run under the supervision of universities or of voluntary bodies for the purpose, selected pupils from elementary schools were able to continue their education up to the age of sixteen or eighteen or later. Under the National Government, the policy of the Board seems to have been to limit the scope of free secondary education, although even the National Government recognised that elementary education must be free. By the side of these public or semi-public services, there ran a whole system of private education, more or less controlled by public authorities. Its varieties were infinite. I need only mention

the "endowed schools," the "public schools" and the universities. The endowed schools included the old grammar schools, which had been founded as charitable endowments and had served to provide a higher education for the middle classes : these were subject to the supervision of the Board, under special powers, but not in general to that of the local education authorities. Some of the endowed schools were known as "public schools," while the latter phrase also included seven large schools—old foundations—which were administered by their own governing bodies, virtually exempt from public control.<sup>1</sup> During the Victorian era the public schools had come to provide a special type of education for the upper classes so dear to that period. With the growing successes of the Victorian industrialist and trader, and the corresponding uncertainty as to the exact definition of the upper classes, their number and size had increased considerably. It is singular that these most characteristic products of the system of private property and private enterprise were known by the remarkably inappropriate name of public schools. They were far from public : on the contrary, they maintained a class distinction by selecting their pupils and by charging fees entirely beyond the means of the ordinary worker.

**The Universities.** The universities were self-governing bodies, recognised or incorporated by charter or Act of Parliament, and established for the purpose of promoting learning and providing higher education for students beyond the ages catered for by the various kinds of secondary school. Both the older universities of Oxford and Cambridge, and those which had arisen subsequently in London and other large towns, had made continuous and increasing efforts to reduce their fees and open their doors to all students who could profit by the education which they offered. There was no doubt that, since the Victorian era,

<sup>1</sup> Eton, Winchester, Westminster, Charterhouse, Harrow, Rugby, Shrewsbury : see the Public Schools Acts 1868-1873 : these schools were exempt from the Endowed Schools Acts 1869-1889.

the universities had tried to do and succeeded in doing much more in this direction than the public schools. Both in educating students resident in the colleges of the older universities or lodged in the towns and attending the newer universities, and in encouraging learning and research among those who had taken university degrees and constituted the staff, the services of the universities were of the greatest value to the community. A Socialist Government was ready to adapt and use them.

**Professional Training.** Finally, many professional bodies provided or supervised the training of those who sought to enter their profession. Doctors, lawyers and engineers, for instance, held qualifying examinations, and in both the former professions organised their own technical education. Medical education was a particularly elaborate matter, involving the co-operation both of the universities and of the large hospitals. In all such cases the Labour Government was anxious to open the profession to all classes, while maintaining and improving the standard of qualification.

**A real Equality of Opportunity.** The above is only the roughest and most incomplete outline of the educational system, which, by the diversity of its origin and the lack of public control until a comparatively late stage, had become excessively complicated. In many cases the faults of the system were well recognised, but they were so deeply embedded in the educational structure that many who recognised their existence dared not face the disturbance which would be involved in putting them right. Colet, the Minister of Social Services, was deeply interested in the educational problem. He appreciated that here, as in the field of industry, the general ideas for which the party stood and in which its members believed, would, if they were to be given full effect, involve changes on a large scale. Education under a Socialist Government must lead to a real



equality of opportunity and therefore towards a classless society.

In the past, Presidents of the Board of Education had too often been themselves the products, not of the system which they had to superintend, but of education in private institutions. Upon Collet's advice the Government now looked for a Secretary for Education among those who had themselves experienced public education. The choice fell on Mrs. Elizabeth Porter, a member for one of the boroughs on the north-east coast, where she had served for many years as a councillor.

The same system for all, to train citizens of a Socialist State. The main objects of the Government in its educational policy fell under two heads. In the first place, as a matter of social equality, they wanted to make the educational system the same for all children, although within that system there would of course be varieties depending on the extent and nature of the child's aptitude. Secondly, the system must be such as to train citizens of a Socialist State and to provide as soon as possible those who could play their part towards the institution of such a State and in working its industry and services.

As regards the first point, it would clearly be both difficult and wasteful to take the existing system of public education as sufficient for all purposes, to drive all children into it, and to shut down all institutions which did not fall within its bounds. Historically it had grown up to some extent after private education and to some extent side by side with it. In the result, there were branches of higher education to which the public system had never been adapted. The question, therefore, was one of bringing the existing arrangements of private education within the public system and of adapting them to the changed purposes of a Socialist community. In this connection it was to be remembered that the endowments of many of the endowed schools, public schools and other private institutions represented considerable sums, often intended originally for the

education of the poor, or at any rate of all classes, and now devoted, as the system had developed, to the education of those who were comparatively well-to-do.

**Regional Control.** I have already said enough to show that the administration of the whole educational system was a confused matter, with the line between the central and the local authority drawn at different points for different types of school. The smaller local education authorities were concerned only with elementary education, the larger with both elementary and higher education, while the control of other types of higher education, so far as it was effective at all, rested entirely, or almost entirely, with the central authority. Moreover, the directions of the central authority, whether binding by statute or by the financial control of the Board, were expressed in a whole series of minutes, orders and the like, issued and changed from time to time. As a mere matter of administration, there were still too many traces of ancient history hanging about the works and ways of the Board of Education. It might also be objected that, under the existing system of recruiting the higher grade of Civil Servants, too many of its leading officials were themselves the products, not of the system which they had to superintend, but of the private system which existed side by side with it, and over which they had only a small measure of control.

In the circumstances, the Government decided that the standard system of education must be on a regional basis, and that many of the powers of inspection and control hitherto exercised by the Board of Education must be transferred to regional education authorities. No doubt the main lines of policy and the general direction of the change which was proposed must remain with the Secretary for Education, although it was intended that more and more freedom should be given to regional authorities as the system developed. The local authorities were also to make their contribution towards the powers of the regional authority, and they were to be, in effect, the managing

bodies of units within the regional system rather than, as they had been in the past, partners with the Board of Education in administering a decentralised national system. The Government intended that in this way there should be a fuller opportunity of meeting vocational needs, which necessarily differed from region to region, of transferring higher educational institutions to authorities which would be capable of dealing with them and fitting them in to the standard system, and, lastly, of adapting education generally to the type of pupil in the region and his particular needs.

As in the case of industry, the regional education authority was a committee of the regional council with co-opted members. Its main sources of income were the educational rates, which the local authorities collected for it (as in the past they had collected their own), and a grant from the central Government, made through the Secretary for Education and based on the total amount of the educational rates in the region. The amount of the local rates was determined by the regional education authority after consultation with the local authorities, and those rates were not necessarily uniform throughout the region. The regional authority took over the responsibility of the local authorities for existing loan expenditure, and was empowered to raise further loans for educational purposes, with the consent of the Secretary for Education and the Financial Secretary for Social Services. As regards other sources of educational revenue, the Secretary for Education had power either to transfer these to the regional authorities or to give them control over their use. The power was liberally exercised, so as in effect to give the regional authority control over all educational revenue and expenditure in its area, subject to some exceptions in favour of the universities and one or two other similar institutions. The effect of these financial provisions was to put the regional education authority in the position of being able to devise a standard system of education throughout the region.

It is, of course, impossible to set out in detail what

the regional authorities did in their respective areas, but a summary of the result will be sufficient to show the character of the change made under the directions of Colet and Elizabeth Porter. Let me begin with the youngest children and follow their educational career as they grow older.

**Crèches, Nursery Schools and Children's Clubs.** Under the 1921 Act local education authorities had had power to provide nursery schools for children between two and five years old. They had not always done so. The regional authorities now proceeded to set up a complete system of such schools in all urban areas, and to supplement it by crèches for babies. Both the crèches and the schools were small. The former were either in houses or attached, by order of the regional authority and at the expense of the factory or shop concerned, to places where any substantial number of women workers were employed. The intention was to set mothers free for domestic or industrial work, and to allow them leisure, while their children were looked after near their homes or near their places of employment. The nursery schools were entirely in residential areas. Crèches and nursery schools were arranged in the first instance, and afterwards supervised, by women commissioners, roughly on the basis of one for each ward in a borough, with chief commissioners in the larger urban areas and a regional commissioner responsible to the regional authority. They were staffed by nurses and teachers, and there were arrangements for the supply of milk, food and medical attendance at low prices.

At first there was some suspicion of the system, partly on the ground that it would encourage married women to compete for jobs with men, and partly by those who just felt that young children ought to stay at home. As regards the first objection, out of nearly 13 million insured workers under the National Government more than 3 million were women, and Colet felt that some provision was needed for the care of their children while they were at work. The

effect, so far as industry was concerned, was rather to remove some of the difficulties of married women in employment as against unmarried girls, and to discourage the employment of young girls. With the general shortening of hours and increase of employment under a Socialist Government, the additional facilities for married women at work made little or no difference to the men, raised the general economic status of women, and saved many of them from the drudgery and boredom to which they would have been condemned in a capitalist society. But it was mainly as regards household duties that the system helped women, by allowing them both time to look after their house and its requirements and some chance of leisure. Certainly the children were the better for it. The crèches and nursery schools were optional, but more and more use was made of them as the mothers discovered their advantages both for themselves and for the children.

On the national estates and near the larger socialised mines and factories the system of nursery schools was extended by the provision of children's clubs. These were centres, mostly run by the children themselves, in which they could do their home-work, read and play without bothering their parents all the time. The centres included small libraries, playgrounds and rooms for indoor games. It was easy enough to provide for some hundred children in the district the books, the material for games, and the indoor and outdoor space which could not have been found in their separate homes.

**The School-leaving Age.** The school-leaving age was raised at once to fifteen. The only reason for not raising it at once to sixteen was the shortage of teachers which would result from raising the age and at the same time reducing the size of classes—a matter to which I shall refer presently. In the circumstances, Parliament directed that the age should be raised to sixteen as soon as possible, and gave authority for the necessary orders to be issued by the regional authorities. The time taken to do so varied according

to local conditions in the different regions : even within the regions some areas were dealt with before others. The process was completed within a year. In the second Planning and Finance Act a further general power was given to regional authorities to raise the school-leaving age beyond sixteen either locally or in the whole region.

In the result, education was compulsory between the ages of five and sixteen. From five to eleven, children were in junior or primary schools. From eleven years onwards there had been different arrangements in different districts. In some cases the older children had been retained in a senior section of the same school, while in others some or all of them had been transferred to central schools. In all areas there had been secondary schools for the more advanced older children. Elizabeth Porter now directed the regional authorities to carry out the principles advocated in the Hadow Report of 1926 and to set up everywhere separate post-primary schools for children between eleven and sixteen years old. The change, both as regards the separation of primary and post-primary schools, and more particularly as regards the school-leaving age, meant extra teachers and more schools. Teachers were generally available : enough of them had been unemployed or dismissed by the National Government. In some areas, however, there was a real shortage of school accommodation. The Government intended to bring into the national system both the numerous private schools which catered for children between the ages of nine and thirteen, and the various endowed and " public " schools which took children at a later age. The regional authorities were therefore given power, not only to control such schools, but also to take them over and use their buildings and employ their staff for the purposes of the national system. The process was necessarily gradual, but in many places the regional authorities were able to take over at once private schools with surplus accommodation, and to use them to relieve the pressure on the national system, caused by raising the school age. In other places large houses and other buildings

were requisitioned for temporary use. It was only in one or two areas that the regional authorities were compelled to use their powers of delaying the change in the school-leaving age until sufficient accommodation could be provided.

**Primary and Post-Primary Education.** Primary education, up to the age of eleven, was intended to be uniform throughout the country. The main line of progress in this connection was to take over the existing private schools and to oblige all children, in all walks of life, to go to the nearest primary school as a matter of course. In many areas the standard of teaching was already high; but, with the gradual suppression of private schools and the re-employment of their staff, the educational authorities were able to take full advantage of all available teachers and to make marked improvements both in the variety of teaching and in the apparatus in use.

Both in primary and in post-primary education the size of classes was reduced. A maximum limit of thirty in a class was insisted on at once, with a reduction to twenty-five within six months at latest. Within a year the maximum number was further reduced to twenty. With classes of a manageable size some interesting experiments became possible. Co-education was gradually extended, and in all schools the children were allowed a measure of self-government. The response was encouraging. School became, as the socialised factory was to be in after life, your own job; and it was the self-governing schools of Elizabeth Porter's time that laid the foundations of Socialist citizenship upon which was built the progress of succeeding years.

As regards post-primary teaching, Elizabeth Porter's policy was to allow the children to specialise to some extent, and, with that object in view, to provide various types of post-primary school. At the same time she was anxious to improve the whole scheme of post-primary education so as to bring post-primary schools up to the level of the former secondary schools. Previously, the children of the well-to-do,

whatever their individual intelligence might be, had gone to schools together, and their parents had been able to choose particular schools with courses suitable to the children and to the career they had in mind. A Socialist Government now wished to give the same chance to all children, and to eliminate all differences between schools, except differences in age and in the type of studies. With this intention the majority of the post-primary schools were central schools, giving a five-years' course of general education with, in the words of the Hadow Report, "a realistic or practical trend in the last two years." The form of this bias varied from region to region, and also between different districts in the regions. Generally the effect of it was to allow children to specialise in their last two years' school in some group of subjects, such as industrial subjects, including science, mathematics and craftsmanship, commercial subjects, or such domestic subjects as health, household affairs and the questions of science and citizenship connected with them. There was no attempt, in the central schools, to give special training for any trade or technical occupation. As an alternative to the central schools there were special schools, partly for technical education, and partly for a type of education which corresponded to the former secondary school. In some cases the technical schools took pupils directly from the primary schools, while in others they only provided for the last two years of the school period. In the former case there were always facilities for transfer from the central schools at various ages between eleven and fourteen. Full use was made of the junior technical and trade schools already in existence, but in almost all areas some additional schools had to be provided.

**Social Schools.** The most interesting developments, however, were in connection with the former secondary schools. Elizabeth Porter intended that these should be used for training the leaders and managers of the Socialist State, and that the endowed schools, including the "public"



schools, should be made to serve the same purpose. In most cases the latter were taken over at once by the regional authorities. In other cases they were subjected at first to strict control as regards conditions and entrance, life at the school and subjects of teaching, and were taken over in the course of the next few years. The education sections of the first Planning and Finance Act removed endowed and "public" schools from their privileged position and placed them under the regional authorities. The economies effected by changes in the conditions of life at such schools released money from endowments, which became available for the general educational purposes for which in the past it had been originally intended. The effect of the change was to place under the regional authorities a large number of what were now called social schools, most of which had been accustomed to take pupils up to the age of eighteen or thereabouts. All these schools now provided up to that age a similar education under similar conditions of life, or as nearly as might be, and in all cases at similar cost. In these schools, as in the central and technical schools, the education itself was at the cost of the State : no fees were paid by pupils. The cost to the pupils or their parents was a uniform charge for board and lodging in those schools which had been constructed as boarding-schools and had still to be used accordingly for the time being. Even in such schools, however, for the first two years or so, local pupils remained at home and attended school during the day.

Entrance to the social schools was entirely a matter of examination, but the examination was conducted, not only in the form of written and oral intelligence tests, but also on the general record of the child and the impressions formed at an interview. In the schools the form of education varied considerably, but roughly there were two types. The economic schools taught literature, languages, history, economics and public administration, while the scientific schools specialised more particularly in mathematics, science and the technique of industry. Each type of school combined its particular subject with a general education,

including some measure of those subjects in which the other type specialised. In all the schools pupils were encouraged to take some special subject in the last years of their course, such, for instance, as law or foreign affairs in an economic school, or chemistry, elementary medicine, or engineering in a scientific one. The larger schools often provided both types of education, having both a scientific side and an economic one. When the school took boarders, their life was a simple one, without the accompaniments of military training and compulsory games which had been so prevalent in the endowed schools of the previous generation. On the other hand, there were arrangements for the pupils of social schools to spend time at factories or attached to public offices, or in educational centres abroad. Education at a social school was no light matter; its purpose was to train the administrators of a Socialist community.

Elizabeth Porter was not inclined to encourage the maintenance of schools by religious communities. Her view was that education was a public service, and that it should pass as soon as possible into the hands of the community. At the same time there were very many denominational or religious schools in existence, and many of them were not inefficient. She could not afford to throw away their contribution to the educational system in its period of transition. The actual treatment of such schools fell to the regional authorities, but the policy of the Government was clear enough, and was applied with occasional friction, but with much less serious difficulty than its opponents expected. Religious schools were allowed to continue to give religious instruction within limits prescribed by the authority. As regards every other matter, they had to conform to the national system and to serve as units in it. From their supporters, and from public funds, they were to receive no more help than was given from public funds alone to the national schools. No question of sentiment was to interfere with the control over them, or with the suppression of them if the interests of the community made them superfluous in any area. A small consultative committee of religious

leaders was attached to each regional education authority: they were not always unanimous as to the need for supporting the school of any particular religious sect.

**Backward Children.** The arrangements for dealing with backward and mentally defective or invalid children was largely at the discretion of regional authorities, with the aid of consultative committees for the purpose. They varied considerably from area to area, and in effect the only point of general policy in this matter was the readiness of the authorities, encouraged by the Government, to subsidise research, and even attempt experiments, in the type of education required. For the first time, Elizabeth Porter utilised to the full the advances of medical science in these matters, and secured the active co-operation of medical advisers who devoted their whole time to assisting the regional authorities in this difficult question. Considerable sums were spent, both in research work of that character and in the construction and equipment of the special schools that were required.

**The Universities.** Under the new educational system the universities were left with a measure of self-government, but subject, for the first time, to the supervision and control of the Secretary for Education. Their functions were considerably enlarged. A commission of inquiry was appointed directly after the first Planning and Finance Act, and, as a result of its report, some sweeping changes were made. Oxford and Cambridge, with their residential facilities, became centres for advanced work by students and for post-graduate study. They served as the educational laboratories of the Socialist State. Attempts at academic sabotage by the older professors were more vigorous than effective. The non-residential universities were required to provide what was in effect a university course for public administrators in a Socialist community. In any one university the course took different forms, so that a future Civil Servant would be trained under one faculty, the future

member of a board controlling a socialised industry under another, and the future professional man, in the old sense of the words, under a third. The universities, and the colleges in the older universities, possessed large endowments, which they had used for the payment of teachers and for scholarships. So far as those endowments were affected by socialisation, the universities received special treatment and were fully compensated. But they were required to provide education without fees, corresponding to the free education at schools. Scholarships were accordingly abolished, and in their place, at the residential universities, free board and lodging were provided on a simple scale.

**Professional Training.** The universities had already provided some teaching in professional and technical subjects. In the case of medicine, and to some extent in other subjects, a university course had served as the first stage in professional training: the final qualifying courses had remained under the control of professional bodies. The Government now proceeded to tighten up the connection between the universities and professional bodies in matters of professional training. By so doing they proposed to treat professional training as one branch of the general administrative education which the universities had always been supposed to provide, and at the same time to use the years at a university as a definite part of the period of professional training, with a view to turning out qualified professional men at an earlier age. The capitalist system had sent young workers to the factories at the age of fourteen, while continuing the education of doctors and lawyers to the age of twenty-four or twenty-five. The Socialist Government was anxious to even out this difference. Moreover, by centralising professional training so far as possible at the universities, the Government was able to exercise a more effective control over its length and character. Of course, university training could not be a substitute for the practical work needed in the later stages of study in, say, engineering and medicine, but in all professional subjects academic instruction

was centred in the universities. In law, for instance, a university course and a university degree were followed by some practical work and a final examination, instead of, as formerly, by a series of examinations, many of which could equally well have been taken at universities. Training in medicine was cheaper and simpler, now that the socialised hospitals were relieved of depending on begging from the public—an anxious and ignominious matter, savouring of mediæval charity.

**Adult Education.** Adult education, evening classes and the like, had been a matter of some confusion. Local education authorities, universities, and such voluntary bodies as the Workers' Educational Association, had all had some share in administration. The co-operative movement had had educational activities of its own. There was much to be said for placing all these matters under the control of the regional authority; but, on the other hand, voluntary bodies had been very effective, and there was a strong feeling among those concerned in adult education in favour of keeping it as their own co-operative affair, with the minimum of official interference: they felt that this was a case for workers' control. In the circumstances, adult education was administered by special local committees under the supervision of similar committees in the regions. These committees included one or two representatives of the regional council or local authority, but they were not committees of those bodies and were left, in effect, to run their own business. The majority of their members consisted partly of those engaged in that form of teaching, including university representatives in a large town, and partly of representatives of the trade unions and co-operative organisations in the area. This form of management served at the same time to co-ordinate adult education and to leave a certain elasticity in its development. With adult education in that form, there was combined a network of education, partly general and partly technical, attached to the larger socialised factories and to some works still

under private ownership, Elizabeth Porter intended that every worker should have the chance of qualifying himself for administrative positions in his trade. The possibilities of factory instruction were fully developed in some of the largest socialised works. They ran three courses, a large elementary course of evening classes in general and technical subjects, a more advanced technical course of the same type, and lastly a small full-time course lasting a year in technical, administrative and general subjects. Those chosen for the full-time course remained on pay while it lasted, and at the end of that course one or two of those who had been through it were eligible to proceed to universities on adult scholarships. In connection with these scholarships, and with the other changes made at the universities, the Government found money to supplement the existing endowments.

**Finance.** Let me now mention some of the financial results of the changes in the educational system. Roughly speaking, the annual expenditure upon education under the National Government was between £100 millions and £110 millions.<sup>1</sup> In raising the school age the Government gave maintenance allowances of 5s. a week for each child kept at school beyond the age of fourteen. Without such allowances the additional burden on working-class families would have been intolerable: they had little enough margin to spare. Moreover, the Party, which had objected so strongly to the means test in connection with unemployment relief, was unwilling to employ a means test in connection with the maintenance of children at school. On that basis the cost of raising the school age, and of maintenance allowances, was about £18 millions. In addition, considerable expenditure on building was involved by this and the other changes already mentioned. On the other side of the balance sheet there was undoubtedly a considerable reduction in unemployment, and a consequent saving in unemployment benefit and poor relief. In view of the

<sup>1</sup> *Public Social Services*, November 1933.

increased employment brought about by the Government programme on industrial and commercial matters, it is difficult to say what financial saving was effected by the educational changes. Apart from building activity, it was estimated to be about £5 millions by the employment of men and women in jobs which had previously been performed by the fourteen- and fifteen-year-old children. Another £1 million was attributable to savings in evening education consequent on children attending school during the day. To put the figures quite generally, there was no doubt that 6*d.* on the income-tax more than covered both the cost of raising the school age and the interest on the capital expenditure on additional buildings.<sup>1</sup>

The other changes in the educational system were even more difficult to measure in terms of money. So much of them was met by the better application of existing endowments. All that can be said with any certainty is that their total cost to the community was considerably less than the cost of raising the school age.

## § II. PENSIONS

**Old Age Pensions.** Under the National Government, insured workers became entitled to a pension of 10*s.* a week at the age of sixty-five, subject to certain conditions as to the number of payments made under the National Health Insurance Scheme and to various other qualifications; the pensioner, for instance, was not to be in receipt from other sources of an unearned income of more than £49 17*s.* 6*d.* a year. These pensions were on a contributory and compulsory basis. They were only given to insured workers, namely to those engaged in manual labour or earning not more than £250 a year, and not to those in an excepted employment. At the age of seventy these pensions merged into

<sup>1</sup> See estimates in *Socialism and the Condition of the People*, Labour Party, August 1933.

Old Age Pensions at the same rate, free from restrictions as to means and other matters.

**Aged Workers in Industry.** Among the twelve or thirteen million insured workers there were about half a million, mostly men, aged between sixty and sixty-five. There was an even larger number in the age group fifty-five to sixty. Men between fifty-five and sixty-five made up more than a tenth of the total of insured male workers in industry, while in some trades the proportion was much higher, rising to one man in four in blast furnaces, and nearly one man in five among those employed on docks, harbours and waterways. Generally, the iron and steel trade and the textile industries showed a high proportion of oldish workers, while such occupations as the distributive trades, commerce and motor-cars contained a greater proportion of the young. An earlier age of retirement would relieve some, at any rate, of the major industries principally affected by unemployment.

**A Non-Contributory Scheme.** The McCosh Government was anxious to lower the pension age in order to reduce unemployment and to shorten the period of active work in industry. On the other hand, to do so with contributory pensions of 10s. a week would condemn a large number of capable workers to early retirement under conditions of anxious poverty. Pensions, if they were to be given at an early age, must at least be adequate, and one of the first duties of the Socialist State would be to provide the means of comfortable retirement in security at the end of a working life. Moreover, the existing pensions were too narrow in scope. There was no provision for the increasing mass of salaried workers; and the significant increase in endowment policies, issued by private insurance companies, showed the growing anxiety of those who could afford it to provide for their own old age. In a Socialist community such provision should be a matter for the State.



**Its Provisions.** The first Planning and Finance Act therefore provided for non-contributory pensions at the age of sixty-five, and for optional pensions, contingent on retirement, for the preceding five years. It was the expressed intention of the Government to reduce the optional pensions age to fifty-five as soon as possible, and this was in fact done in 1940. The rate of pensions was increased to that of unemployment benefit, namely 20s. for a working man or woman and 15s. for a dependent wife. Pensions were also extended to cover those of any age who were physically unfit for employment, and children dependent on a widowed mother or on grandparents or other relations: in the latter case the rate was 5s. for each dependent child. The pensions so given were no longer confined to insured workers. They were given for the time being to all those whose income in the five years preceding their first application for a pension had not exceeded an average of £1,000 a year: it was easy to ascertain from income-tax returns those who were not entitled to pensions.

In Great Britain in 1932 rather over two million persons aged sixty-five or more were receiving pensions.<sup>1</sup> The effect of the extension of the pensions system was to increase this number to about five millions and to raise the total paid in pensions from about £55 millions to nearly £250 millions. In addition, invalidity pensions and allowances for children accounted for some £10 millions. Against these figures there was a direct saving of some £30 millions in unemployment benefit. The net increase in the cost to public funds amounted to nearly £200 millions, after allowing for the change from a contributory to a non-contributory basis—an increase partly due to the alteration in the pension age, but mainly to the increased rate of pension and to the larger class of persons affected.<sup>2</sup>

<sup>1</sup> *Statistical Abstract*, 1934, pp. 74-79.

<sup>2</sup> These rough calculations are based on the published Census figures for England and Scotland; Appendix I. to *My Plan for 2,000,000 Workless*, Ernest Bevin; and an article by Connor, *Royal Statistical Journal*, 1928, p. 58, as regards distribution of incomes in 1924, as well as on the *Statistical Abstract*, loc. cit.

Fox was inclined to protest at so large an expenditure out of public funds at such an early stage in the life of a Socialist Government. He asked at first for the scheme to be made a contributory one, and although McCosh and the Cabinet adhered in principle to the non-contributory basis, they made some concessions to meet his difficulty. As regard contributions from employers, there was clearly no point in levying contributions in the form of stamps from socialised industry ; but a proportion of the profits of socialised industries could be, and was, allocated to pensions, in the form of a special levy on the costs of production. As regards private employers, while there were objections in principle to raising the additional cost in the form of contributions under the National Health Insurance Scheme, that scheme was in operation and could serve for the time being as a convenient method of supplementing taxation. Moreover, the pensions system would be of direct benefit to those employers who had previously provided pensions schemes for their own employees. In the circumstances, private employers were made to contribute an extra 2s. per week in respect of each of their employees. Secondly, as a temporary measure, a pensions tax was levied, through the income-tax machinery, on all incomes between £250 and £1,000, and to that extent the scheme was in effect contributory. The Government recognised that this contribution fairly corresponded to the provision, which those who made it would otherwise have made on a voluntary basis for their own old age.

**Pensioners' Settlements.** Lastly, there was one provision that proved most useful. The regional authorities were directed to provide specially in their housing schemes for pensioners' settlements. Pensioners' requirements were rather different from those of persons in active employment. They had not the same need to be near their place of work. On the whole they required a smaller type of house, with room for themselves and for a visiting relative or child, and they were able to develop a community life

to an extent impossible for those who were away at work all day. In most areas pensioners' settlements consisted of estates of small houses, with liberal space for gardens, lying at some distance from the urban centres. The move towards those settlements was of considerable service in the Government's housing programme: it made it much easier to effect the necessary improvements in housing workers in the towns or near outlying factories.

**Supplementary Pensions.** Side by side with the Government's pensions scheme there were provisions for supplementary pensions on a voluntary basis, administered in the same way as socialised life insurance. But the Government scheme was compulsory, and there were no provisions for contracting out of it. It brought a large measure of relief to the superannuation funds of the trade unions. By now we have become so accustomed to the security of a peaceful old age that it is difficult to understand how an adequate pensions scheme came to be postponed for so long, or to appreciate the difficulties which must have seemed so considerable to those who first brought it into operation.

## CHAPTER 17: THE LAW

**Costs, Delay and Uncertainty:** “To no man will we sell justice, to no man deny it”: so swore King John in Magna Carta, no doubt, as the historians said, under the pressure of competition from the barons in the business of purveying justice. But the promise had been ill-fulfilled. The law paid its way, and the King's judges and others holding judicial posts received higher salaries than judges abroad or than the principal officers of Government departments. But the fees of the court were not the chief expense of a litigant. Justice was excellently administered—so well that a litigant was compelled to travel in a judicial Rolls Royce, and to pay for the privilege, with no option of a Ford. His case must be adequately prepared and adequately presented. The copying of documents for use in court, the attendance of witnesses, the remuneration both of a solicitor and of counsel—these and other similar items made up the formidable bill which a litigant had to pay, and which, even if he succeeded, he could only partially recover from his adversary, assuming that his adversary was able to pay. With the expense went delay in the trial of actions, and uncertainty as to when they would be heard—some uncertainty, too, as to their result. The law was said to repose in the breast of the judges, but the existence of two or three successive Courts of Appeal showed the uncertainty attendant on extracting it from that storehouse; different breasts were found to give different results. There was undoubtedly an advantage in being right; but the incidental advantages of being well represented in court, and having enough money to prosecute appeals, were by no means to be neglected. In effect, the expenses of justice resulted in that denial of it to the poor man, which the estimable King John had seemed so willing to avoid.

**The Legal Profession.** In all the circumstances, the public were not disposed to pity the legal profession, who

had themselves been so largely responsible for the structure of the law, and whose professional interests were still so important in its administration. But in fact, however, the lawyers, having made their own bed, often found it hard to lie on. There was no other profession with so much uncertainty in its prospects. The rewards of the successful solicitor were occasionally considerable, those of the successful barrister even larger and more conspicuous; but both of them had to work hard for their money. On the other side of the picture there were the innumerable failures and partial failures, so many that the average earnings, especially among barristers, were not high. There was no occupation more wasteful of good material. A large number of young men, and, in recent years, a small number of young women, came every year to the bar, or to work in solicitor's offices. They were above the average in intelligence and in character. Their training was a long and expensive process, in the course of which they acquired both a reasonable competence in their calling and an appreciation of the high standard of professional honour which it required. They were the stuff out of which could have been made good members of a Socialist community. Under a competitive system, and in a profession not conspicuous for its adaptability to new ideas, almost all of them spent some of the best years of their life in waiting for the success which so few of them were to attain. The waste of human material was enormous. It was a waste, which, if the legal profession could not avoid it for itself, must be avoided for it by a Socialist Government. It was clear at any rate, that one of the first duties of Jeremy Roffe, the Minister of Justice, was to put the legal profession on a proper footing and make the administration of the law a public service, available to all and not merely "open to all, like the Ritz Hotel," as an eminent Judge had said of the capitalist courts. Lack of means, in a Socialist State, should prevent no man from obtaining justice.

**Previous Reforms.** In 1933 and 1934 some progress had been made within the then existing system in simplifying procedure, in restricting the number of appeals, and in other matters which tended to reduce the costs and the delay of litigation. But inevitably those reforms had been patchwork. That the administration of the law should be a public service was an idea not unknown to lawyers, and not unwelcome to many of them, but an idea to which by themselves they were quite unable to give effect. It would have involved a change of too comprehensive a character to be effected by the profession itself within its traditional framework. The sanction of Parliament was required. Parliament, in its turn, must be moved to consider with a bold and open mind the true functions of the legal system in a Socialist State, and to apply the results of that consideration with no undue regard to the traditions of the past. In many ways the legal system was an admirable piece of machinery, and those who administered it were excellent material. What was required was that a Socialist Government should adapt that machinery and use that material for the task which it had in hand, and make them an integral part of the Socialist community.

**Previous attitude of the Labour Party.** It was regrettable that, at any rate until the change in attitude for which Colet was so largely responsible, the Labour Party had paid little or no attention to the functions of the law and to the method of its administration. With the constitution they had been directly and necessarily concerned; but they had shown a tendency to regard that particular side of it which was reflected in the administration of the law as a matter to be left to specialists. Jeremy Roffe's task was all the harder in consequence.

**The Administration of Justice to be a Public Service.** The administration of justice sections of the Planning and Finance Act declared that the administration of justice was a public service. As from a date to be fixed by Order

in Council, only such lawyers as might be appointed and employed by the State for the purpose were to conduct cases in the courts, to advise on legal matters, or to do any of the work formerly done for reward by solicitors and barristers. The Minister of Justice was given wide powers both to take such steps as might be necessary by way of preparation for the change, and also to decide in what way legal services should be made available to the public in future. For the latter purpose he was to prepare, with the assistance of such committees as he might appoint, a scheme, which was to be laid on the table of the House. The Act also recognised the increasing need for administrative tribunals by giving the Minister of Justice power to make regulations for their conduct and procedure in consultation with the Minister or Secretary of the Government department directly concerned. In addition there were provisions for setting up a standing committee to clarify and amend the law, and for its recommendations, subject to the approval of the Minister, to be put into force by Orders made by the Minister and laid on the Table of the House. The Minister had under him a Secretary for Judicial Affairs and a Secretary for Police and Prisons. For the time being the powers of reform, both in the matters I have already mentioned and also in connection with the police and prisons, were vested in the Minister, with power to delegate them to the Secretaries. The object of this arrangement was to enable Roffe to deal with the whole system in the first stages, and it was intended that he should delegate his departmental duties as rapidly as possible to the Secretaries concerned. I shall have occasion to refer below to the questions of the police and the prisons. For the moment let me proceed with what was done in the province of the Secretary for Judicial Affairs.

**Courts and Procedure.** As regards courts and procedure, Roffe set up an advisory committee under the chairmanship of Smallbones, the Secretary for Judicial Affairs. On this committee were represented not only the legal

profession, including the judiciary, but also those whose business, as trade union officials, insurance company managers, chartered accountants or the like, had made them almost professional litigants under the former system. Smallbones told the committee the general lines upon which the Minister proposed to proceed, and their job was to make the necessary recommendations for putting his proposals into effect. The House of Lords disappeared as a final court of appeal; the Judicial Committee of the Privy Council remained, for the time being, pending the transfer of its jurisdiction to the Hague Court. In accordance with the Government's general plan of regional administration, the circuit system, with its attendant expense and inconveniences, was abolished, and in its place district courts were set up both in London and in the provinces. They were given a much wider jurisdiction than the former county courts, a jurisdiction unlimited in amount as regards many common types of action, and a jurisdiction up to £1,000 or £5,000 in other cases. I need not go into all the details of the distinction between the two categories of district courts. In what had formerly been assize towns, with one or two omissions, the district court judge had a jurisdiction corresponding in practice, although not quite so extensive in theory, to that formerly exercised by judges on circuit. District courts of the second class were established, roughly on the basis of one such court in each circuit formerly covered by a county court judge: in practice, the number of the new courts proved to be rather smaller than that of the former circuit. In place of the county courts, summary courts were set up, with a jurisdiction up to £50 and a rapid and informal procedure. These courts were to be found side by side with the larger courts in important centres, and also in places too small to have a district court.

**The Judges.** One result of these changes was to curtail considerably the functions of the High Court in London. For the time being the principal district courts were



provided with judges, whose services in the High Court could now be dispensed with. In certain matters, such as Admiralty cases and various proceedings in the Chancery Courts, the High Court in London retained a larger share of business than remained to it in other fields. The ordinary running-down case, libel action and the like, went in practice to the district court. The second class of district courts were staffed from among the county court judges, others of whom were employed on administrative tribunals or, in some cases, in the summary court. One, essential feature of the change was that in future judges in any court were to be equally available with other lawyers for promotion to a higher court. Existing salaries were left unaltered, but appointments to a district court became the normal channel for promotion to the High Court, and district judges received lower salaries than the High Court judges.

**The Lawyer: Legal Centres and Costs.** Roffe and Smallbones proceeded to sort out the legal profession. With the assistance of a personnel committee and of sub-committees in the provinces, they made out lists of those who might be employed in the legal service of the State, and of those to whom other employment in the Socialist community might be offered. There were many intermediate cases, and the committees took a year to do their work, in the course of which they interviewed a large number of those concerned. The distinction between solicitors and barristers was to be abolished. What the committees sought in effect to provide was a fair choice of legal centres available to the public, at which any worker could obtain both advice and the presentation to the court of any action he required to bring. In practice, the centres were constituted in the existing offices of solicitors, but the number of firms was considerably reduced and the size of each increased. The lawyers engaged at those centres were employed and paid by the State at yearly rates proportionate to their skill. The client, if he might so be called, was entitled to advice

at a low fee or, if he could not afford to pay it, without charge. He was entitled to choose his centre, but, if business was too unequally distributed, he might be sent elsewhere. He was equally entitled to choose his lawyer at the centre, with a like provision for transfer to someone else. The centres dealt not only with advice in non-contentious matters, but also with proceedings in the courts and in administrative tribunals. If the matter was carried to a court or tribunal, the litigant was charged a percentage of any money recovered, the percentage being a larger one in the case of large amounts. Roffe did not intend to make justice pay: if King John was prepared to dispense it as a service, so was he. But some check had to be put on persons with a passion for disputes, and this was done, in effect, by giving the courts some discretionary powers. In normal cases an unsuccessful defendant paid the State the same charges as those paid by a successful plaintiff; but an unsuccessful plaintiff paid double what he would have had to pay if he had succeeded, and an unsuccessful defendant might be ordered by the court to pay double, and would be ordered to do so unless his legal centre certified that his case was a proper one to defend. On the whole the first result of the change was a considerable increase in small litigation, but the very facility with which legal remedies could be obtained soon made it less necessary to apply them, and the original increase soon turned into a decrease.

The legal unemployed, as someone called them, provided useful material for the Government in the industrial, commercial and educational projects which it had in view. For some time Smallbones ran a sort of employment agency with considerable success. Many of those for whom he had to find work were young and adaptable. Even the older ones seemed to have received such a shock from the change that they proved surprisingly capable of more active employment, than they had enjoyed in the past. The staffing of such bodies as regional councils, housing tribunals and the new Government departments, not to

speak of socialised industry itself, would have been appreciably more difficult if the legal profession had not been reorganised at the same time.

**Law Reform.** Until Jeremy Roffe's time the law itself had been conducting a kind of three-legged race popular in children's sports. Grandfather, the common law, dependent on judicial decisions, and usually a generation or so behind the ideas of the time, was tied by one leg to the social and economic policy of the day, as embodied in new legislation. The same courts that were called on to decide questions of workmen's compensation, national health insurance, housing schemes or trade boards, were administering grandfather's divorce laws, and giving effect to grandfather's views as regards the responsibility of a husband for a wife. On the whole, under a capitalist system, the law relating to property and money rights was more advanced than the law as regards personal relations. The capitalist could afford to pay for the determination of the questions which immediately concerned him. Rights of a complicated character between landowner and tenant, banker and customer, buyer and seller, insurer and insured, were of long standing and were recognised and enforced. As to hiring and firing—the simple matter of giving a man a job and taking it from him—a matter which concerned many more people and concerned them more directly, the law was comparatively rudimentary. A weekly wage earner might have worked a lifetime for a capitalist firm; his dismissal on a week's notice might be generally recognised as unfair and oppressive; but he had no right or remedy in law corresponding to the general recognition of what was fair or decent treatment. Jeremy Roffe, having to reform the law, had to cut a number of whiskers off grandfather, to give him some new blood and some new ideas, and to see that he did not hold his partner back too far in the three-legged race. Moreover, the business of paring and rejuvenating grandfather was hardly one for Parliament: the whiskers were numerous, and the new blood

must be of a kind that grandpapa could assimilate. It was for this purpose that he required a standing committee to rejuvenate the old gentleman and to keep him up to the mark.

**The Standing Committee.** There was technical material available among the former Lord Chancellors and Lords of Appeal, so much of whose time was now free upon the abolition of the House of Lords. To three of them Jeremy added a couple of younger lawyers with Socialist views and a number of laymen, drawn partly from those members of the teaching profession who had some knowledge of other legal systems, and partly from the class of professional litigants to whom I have already referred. The latter included a couple of trade union officials with considerable experience in such matters. Last, but not least, Jeremy found three sensible women and put them on the committee. To this committee he entrusted the task of making recommendations from time to time, as regards simplifying the law and ensuring its conformity with the real needs of the worker. This is no place to set out in detail what the committee did. He warned it that there was no sovereign virtue in codes, and that to set out the law in the form of a code was not always to simplify it. None the less, the committee did codify the law in many matters. In others, it confined itself to paring away anomalies. But its most important work proved to lie in three other directions. In the first place, it came to recognise, at an early stage, that there was often a need for ascertaining the law on some point without bringing it before the courts in the shape of a concrete case. It was upon a recommendation of this committee that machinery was set up for taking the opinion of the High Court on matters certified by the Secretary for Judicial Affairs to be of public interest. In the same way the Secretary was authorised to promote appeals, in cases of public importance, from decisions which, upon the advice given him, should be brought before an appellate court. In the second place, the committee found its attention

directed to questions of procedure which had been some of the main causes of legal expense and delay. In particular, the rules of evidence had been too rigid, and there had been an excessive insistence, unknown to most foreign courts, on the need for oral evidence. Those rules were relaxed, and the procedure made to resemble more naturally the course which would have been followed by two ordinary men having to put their contentions before a third. Lastly, the active participation of trade union representatives in the work of the committee soon led that body to realise that, in a Socialist State, some form of Labour Code was required. There had been the usual beginnings of law on this subject, some growing but confused recognition that there were rights in the matter of hiring and firing, and various statutory provisions about it. Matters were ripe for the fuller recognition of what was needed in the shape of some general declaration of rights, to which particular cases might be brought to conform. The first Labour Code appeared in 1938. As we now recognise, it was a rudimentary affair; but its subsequent developments to something approaching the modern form really began under the Codd Government and fall outside the scope of this history.

**Departmental Orders and Orders in Council.** One other general point requires to be mentioned. The Socialist Government had no intention of allowing the machinery of the courts to be used to delay or to block the programme they had in hand. So far as judicial assistance was needed in working out the steps of that programme, it was their general policy to provide it in the form of special tribunals for the purpose. Departmental Orders and Orders in Council were a necessary instrument of government. Their limits were to be laid down by Parliament, and their terms were to be subject to a reasonable measure of Parliamentary control. But it had long been found impracticable to let every order and every regulation be questioned at random in the courts: it would have been even more

impracticable to do so in the course of the great change which the Government was seeking to effect. Consequently, the various Orders made under the first and other Planning and Finance Acts were authorised in such terms—and precedents were not lacking—as not to be subject to question in the courts. It was through the sovereignty of Parliament that the rights of the subject were to be maintained, and the programme which the country had accepted was not to be delayed by the obstructive tactics of any minority able to afford recourse to the courts.

**Companies Acts.** The capitalist structure of society, as the McCosh Government found it, was particularly reflected in some forms of legislation. I need only mention the Companies Acts and the law as regards patents. The former had been so developed in practice as to enable the capitalist to exercise an autocratic control over the money of others, and to conceal the nature and interdependence of the interests behind any scheme or undertaking. It was a state of affairs which could have been remedied previously if there had been any real wish to do so ; but there had never been sufficient depth of purpose or boldness of intention behind the various attempts. It was in truth inconceivable that so characteristic a tool of capitalist enterprise should have been laid aside under a capitalist Government. The measures recommended by the standing committee—for publicity, completeness and truth in the accounts of companies, for the control of their independence, both as regards shareholding and directors, and for a general opening-out of their holdings and their dealings—had none of the disastrous results which were so freely prophesied. But they did turn the joint-stock company into a reasonable instrument of public activity, instead of being a cloak and a tool for capitalist enterprise.

**Patents.** Patents were obviously a scandalous affair. To whatever reward an inventor might be reasonably entitled, he rarely got it, unless he happened to combine

the talents of a financier with those more natural to an inventor : in that case he usually get too much. If he were of a hopeful disposition, he might waste time and money in taking out patent after patent, useless though his inventions might be, or perhaps—and this was one of the most serious faults of the system—he might light on a useful invention and sell it to a company, who desired, not to use it, but to prevent anyone else using it, because it was an improvement on some patent of their own. Or again, suppose a small man tried to develop a useful invention in competition with the patents of some large company. Patent litigation was proverbially expensive, and the company could harry him from one court to another, with skilled counsel, expert evidence, and large resources for prolonged litigation. There were few who could stand the racket. Inventions should have been applied to the service of the community. In nine cases out of ten they were either not used, or used to enrich some personal group of people whose interest in them was purely financial. Take, as an instance, the motor-car trade. A motor-car, produced by a capitalist concern, was a mass of patents. One manufacturer might have the best wheels, another the best door, another the best window, another the best carburettor, and yet another the best roof. They would cling rigorously to their own particular advantages, and the public, at home or abroad, would never get the best motor-car. There was perhaps no better instance of the clog which private rapacity set on private enterprise. In such trades as electric or wireless appliances, there were similar difficulties, well enough known to all concerned. In countless others there were the same difficulties, less obvious because the patents related to processes of manufacture and their use was not so apparent in the finished article. The history of artificial silk could have been written as a history of finance and patents. Almost any new industry acquired in its beginnings a heritage of patents, of blocking patents, of useless patents, of patents used successfully merely for the purpose of inordinate profits.

As soon as the standing committee came to consider patent law, it seemed clear that in this, as in other matters, it was not merely the machinery of the law that was at fault: it was the nature of the rights that underlay it. Inventions ought to be the property of the community. The inventor's gifts ought to be recognised, and he ought to be given the opportunity of using them and to be remunerated for doing so. In some cases this had already been recognised. Doctors, as a matter of professional decency, did not patent their remedies. The principle could be extended. There were already provisions for the use in the public service of patents required by the Government. These were easily enlarged, in the case of socialised industries, so as to make the socialisation of an industry include the use of all necessary patents. In the motor-car trade, for instance, the advantage so conferred on "Government cars was of immense value both at home and as regards the export trade. In 1938 patents, in their then form, were made public property. Inventors were either employed by the Government or remunerated for casual inventions. Here again it would be going beyond the scope of this history to detail the immense progress of research under the Codd Government and the schemes then set up for fostering and utilising inventive work.

**The Police.** As regards the police, a number of changes were made by Stewart, the Secretary for Police and Prisons. While recognising the difficulties of an ordinary trade union organisation in this particular case, Stewart was anxious that the police should be able to raise questions of hours, pay, pensions and conditions of service as effectively as any other body of workers. He provided, accordingly, for the election by ballot of local and national representatives, who were to be relieved from their ordinary duties and charged with representing their comrades in questions of this kind. Disputes as to grievances, whether individual or general, were brought before arbitration boards consisting of a representative of the Secretary, a representative



of the working police, and an urápiré selected by agreement or nominated by the Secretary for Judicial Affairs from a panel of names selected in consultation with the representatives of the police force. The police college, set up by the National Government, was not abolished: evening dress, however, was no longer worn by its members. The college remained the normal, though not the only, approach to the higher ranks of the service; but the system of direct entry from public schools or universities disappeared. Every aspirant to the higher ranks of the force had to begin as a constable and work his way up. There were no longer any class distinctions in the force. On the other hand, as in other Government services, promotion by selection rather than promotion by seniority became the rule. Stewart had little use for special constables. In a Socialist State every man was to have his job and his leisure, to do the one and enjoy the other. The special constabulary were viewed with some suspicion both by the ordinary workers in the country and by the regular police themselves. Their abolition, and the improvements which Stewart effected in conditions in the police services, especially as regards hours of work, resulted in an increase in the numbers of the regular force. This was one of the occupations in which alternative employment was found for those released from the fighting services by the foreign policy of the Government.

**Prisons and the Treatment of Criminals.** Quite a number of members of the Party had first hand experience of prisons as conscientious objectors during the War. Stewart was one of them. When Jeremy Roffe asked him to become the Secretary for Police and Prisons, he is said to have objected strongly to his title. Under the Codd Government the name of the office was changed to that of Secretary for the Prevention of Crime. For the time being, Stewart's first business was to get rid of prisons, as then understood. The U.S.S.R. was more advanced than capitalist countries in its treatment of prisoners, and

Stewart, with some knowledge of Russian practice in the matter, borrowed a number of points from it. He scandalised the Opposition by treating the ordinary prison as a Government factory, in which the workers were entitled to the same rights by way of leisure and a measure of self-government as workers in other factories. Leave of absence was given; the workers were paid. Collective activities in the prison were promoted and encouraged. Prisoners for long terms, or who had already served several sentences, were engaged in labour colonies on the land, with similar conditions as regards hours, pay, leave and self-government. In very many cases the matter was one for a doctor rather than for prison treatment. All places in which sentences were served were well equipped with a trained medical staff, including specialists in nervous and psychological disorders. A number of curative centres, with suitable light work in industry or on the land, were set up for such cases. They were hospitals rather than prisons, and those in them were discharged when sufficiently well to take their place in ordinary society, whatever the nominal length of their sentence. There is no doubt that one of the main reasons for the success of Stewart's experimental work in connection with the former prisons lay in the extent to which he invited and secured the whole-hearted cooperation of the medical profession.

**The Task Begun.** In the whole field of the administration of law and justice, the activities of Jeremy Roffe and his colleagues involved a mass of detailed work as large and as various as in any scheme for socialising an industry. With the disadvantage that their task had been little considered by the Party, they succeeded in it by reason of the same courage that characterised the first Socialist Government in other fields. Jeremy Roffe, the little, wizened, out-spoken man, knew what Socialism meant and the change it involved in the whole spirit of the law. To treat it, both in civil and in criminal matters, as a service rather than as a corrective, was his conception and the measure of his

achievement. If his conception was not fully carried out under the McCosh Government, and if his task remained to be completed under subsequent Socialist administrations, the difficulty lay in the intractable material with which he had to deal. It can be said of him with truth that he was large enough in spirit to conceive the task, and bold enough to take the first substantial step towards its accomplishment. It is none too easy now to step back into the past and realise how difficult the beginnings must have been. That so large an advance was made from them was mainly due to the little man whose portrait hangs in the central hall of the new Courts of Justice put up in Codd's time.

## CHAPTER 18: 'SOME FINANCIAL MATTERS

### I. Public Finance

### II. Investment and the Insurance Companies

#### § 1 PUBLIC FINANCE

**Socialist Budgets.** In connection with the Wages and Prices Committee of the N.P.C., I have already referred to some of the questions which confronted Fox and to the lines upon which he approached them. Any detailed examination of the Budgets of the first Socialist Government lies beyond the scope of this book and would serve little purpose. To a trained observer the variations in their form reflect the novelty of the financial problem involved, and the difficulty Fox felt in finding a suitable form in which to present the national accounts. It seems clear that, on any showing, the national Budget did not balance in the orthodox capitalist sense until the early months of 1939, and that during the first three years of the Government there was a good deal of what would have been called inflation or reflation. The principal difficulties in any more detailed examination lie in tracing through the accounts the process of transition from the capitalist system, in which public and private finance were more or less accurately separated, to a system of Socialist finance reflecting the activities of the State, both in the traditional form of public revenue and expenditure, and in its new status of the principal producer and distributor.

**The new purpose of Death Duties.** None the less, there are some further points which are worth referring to. In the first place, the transfer of capital to the community

on a large scale, and the schemes of development which accompanied it, emphasised the need for a more careful division in the national accounts between capital and current income and expenditure. Obviously, for instance, death duties might be said to be a form of levy on capital. On the other hand, under the capitalist system there was some artificiality in emphasising the distinction between those duties and other forms of direct taxation, such as income-tax. So long as the main purpose of the duties was to provide annually for current expenditure, the distinction between them and income-tax was more important in theory than in practice. There was not all that difference, under a capitalist system, between handing over a proportion of the annual revenue from property and submitting to a single levy on the property itself. Fox, however, used death duties not merely as one means of providing for annual expenditure, but also and principally, as an instrument in the transfer of capital—that is to say, of the means of production and distribution and exchange—to the State and through the State to the community. Death duties, in his hands, became a means for the redistribution of the national wealth.

During the years of 1928–33 property of an average value of rather over £500 millions became subject to death duties every year. The average death duties levied amounted to rather over £75 millions, that is to say, at an average rate of some 15 per cent on the property. At this rate it would take a period of six or seven lives to transfer the property, assuming that it remained unchanged, to the community. Fox was anxious to accelerate the process. It is interesting to notice that about half of the total of £500 millions represented estates worth £20,000 or more, which might be taken to yield an annual average income of more than £1,000. Clearly there was every reason for speeding up the transfer of those properties.

**Some Previous Suggestions.** From time to time various schemes had been put forward for using death duties for

the purpose which Fox had in mind. In particular it had been suggested<sup>1</sup> that an estate should be subjected to additional taxation upon its inheritance a second time, and again upon its inheritance upon subsequent occasions. Assume, for instance, an estate worth £100,000, acquired by grandfather Cræsus and subjected to a duty of 20 per cent. On the death of his son, Cræsus senior, the remaining £80,000 would be subjected to a 50 per cent duty; and the last remaining £40,000 would revert to the State when Cræsus junior, the grandson, died. In this way the acquisitions of grandfather Cræsus would revert to the State at the end of three lives, those of grandfather Cræsus, Cræsus senior, and Cræsus junior. It had been further suggested<sup>2</sup> that the proportion of inherited property which would be leviable on the death of the inheritor might be taken by way of anticipation when he first inherited it, and that, in return, he might be allowed a corresponding annuity during his lifetime. On this suggestion, Cræsus senior, for instance, would pay £60,000, instead of £20,000 on inheriting the property from grandfather Cræsus, but he would be allowed an annuity of, say, £1,500 or £2,000 a year during his lifetime in respect of the additional £40,000 taken from him. In this way the whole property would revert to the State on the death of Cræsus senior—that is to say, at the end of two lives—subject to an annuity in favour of Cræsus junior during his lifetime.

**The Scale Adopted: Special Cases.** It has to be remembered that Fox had fixed compensation in the form of annuities for terms not exceeding twenty-five years, because he took that period as the maximum for the transfer of property by socialisation to the community. It might equally be treated as the average of the number of years from the acquisition of property to the death of the acquirer. Not only was the inheritance of property on any substantial

<sup>1</sup> By Professor Rignano, as quoted in *The Next Ten Years in British Social and Economic Policy*, G. D. H. Cole (Macmillan, 1929), p. 377.

<sup>2</sup> By Dr. Hugh Dalton, as referred to by Cole, loc. cit.

scale repugnant to the ideas of a Socialist Government, but also it would obviously be unfair that, if the process of socialisation were incomplete, the former owners of socialised property should only receive an annuity for a lifetime while un-socialised property might be inherited from generation to generation. Accordingly, Fox used the death duties in aid of the machinery of socialisation to ensure, in substance, the transfer of un-socialised property to the State at the end of a lifetime. But, as in the case of compensation, there had to be exceptions in cases of individual hardship. The full burden of the change could not be taken up by the old. Even within the five years of the McCosh Government men died leaving widows accustomed to the use of some property : for them, and for other similar cases, there might reasonably be some alleviation of the death duties which Fox proposed. Special tribunals might have been set up for the purpose ; but it seemed simpler, and more likely to avoid confusion in practice, that the compensation tribunals should be used. They were accordingly empowered to give relief in cases of hardship, as regards death duties, as well as regards compensation in cases of socialisation. In addition, estates of small value were left with a total or partial exemption from the duties.

From estates worth £100 or less, which, as formerly, were completely exempt, there was a graded scale of duties. The first £100 of any estate was left untouched, the next £400 was subject to a 5 per cent duty, and succeeding amounts were taxed at a graded rate, rising to 100 per cent of all sums over the first £20,000. The result of the scale adopted was that no one, after paying death duties, could inherit more than £10,000, which might roughly be taken to represent an income of eight or ten pounds a week. The tribunals gave little exemption in respect of inheritances of such an amount or of claims to exceed it. Their attention was rather directed towards some alleviation, in proper cases, of the rates of duty on estates of lower value.

There was another distinction of some minor importance.

Estate duty, the largest of the former death duties, had been levied on the property bequeathed, according to its total amount, and without regard to the position of the person inheriting it. Other death duties, known as legacy duty and succession duty, varied in amount according to the relationship of the beneficiary to the deceased; close relations paid a lower rate. Fox now ran the various kinds of death duties together, and the tribunals, which were considering hard cases, considered them in the light of the whole position of the beneficiary. In grading the rates of tax on the property (up to £10,000 gross or £5,000 net) which could be bequeathed, there was some recognition of the distinction allowed by the former duties. In effect, close relations were able to receive a larger share of small estates than were other beneficiaries. Also, in grading the rates, some concession was made as regards small incidental bequests, which were not necessarily charged at a higher rate because they came out of a larger estate.

**The Proceeds.** Of the total annual value of estates falling in, about half came from some 5,000 persons, who died in the year with estates worth £20,000 or more. To allow them £5,000 each, still left about £250 millions each year. The yield on the smaller estates, with their measure of exemption and their provisions for special treatment, was more uncertain; it proved to amount to about £80 millions. Obviously the £330 millions so accruing should be treated as a transfer of capital: it could not be expected to continue indefinitely. Indeed, every transfer of assets from private to public ownership was intended to transfer capital to the community, and accordingly reduced the amount to be expected from death duties: the compensation annuity would form part of the estate, but its capital value would be less than that of the original asset. The faster socialisation proceeded, the faster would be the diminution from the annual £300 millions or £330 millions, which Fox might expect to receive at first. But the two processes would not have quite



the same effect. As appears from the figures given above concerning the value of large estates in comparatively few hands, a wealthy man might have most of his property socialised, and receive so much by way of compensation, that, even in the form of annuities, his estate would yield a considerable sum by way of death duties. Moreover there was another point to be considered. Both the compensation provisions and the death duties were ways of effecting the same thing—the transfer of property out of private ownership to the community. As capital was transferred by socialisation, or by death duties, the right to use its annual proceeds fell to the state. Fox might logically treat his first £300 millions as capital; but it was capital which would largely accrue in kind, and from which he might expect a future yield. In the same way the annuities payable by way of compensation would be a steadily decreasing charge; and, even apart from the graded decrease of those annuities towards the end of their currency (to which I have already referred), Fox might reasonably borrow in anticipation of the period when the annuities would cease and the full proceeds of socialised industry be available to meet public expenditure. This is one of the reasons why it is hard to say whether Fox's treatment of the money accruing to him during the first years of the McCosh Government did or did not amount to inflation. Clearly it was not a good time for borrowing in the usual sense. What he did, relying on the considerations I have mentioned, was to use a considerable proportion of the large yield from death duties in those years for purposes which could hardly be described as capital expenditure. In later years the money so used was found out of the proceeds of socialised industry.

**Annual Revenue in Capitalist Budgets and some corresponding Expenditure.** Let me now turn to some of the more important sources of public revenue under the capitalist system. Roughly speaking, income-tax and surtax, at the rates ruling in the later years of the National Government,

yielded rather more than £300 millions a year, of which some £50 millions or £70 millions was attributable to surtax. Indirect taxes in the shape of customs and excise duties had formerly ranged round about £250 millions, but had risen to nearer £300 millions under the tariff policy of the Government. Other indirect taxes were comparatively unimportant, the largest items being nearly £28 millions from motor-vehicle duties, and some £20 millions from stamp duties. Against these figures there was to be set an annual expenditure of rather over £300 millions in respect of the national debt, and, as regards the motor duties, some £23 millions on roads.

**Customs and Excise.** As regards the indirect taxes, I have already mentioned the motor tax in connection with transport, and customs duties in connection with overseas trade. It was the policy of the McCosh Government to reduce indirect taxation, and there was accordingly a considerable fall in the customs receipts. The £120 millions from excise duties came principally from spirits, beer and liquor licences, which between them accounted for more than £100 millions. The early socialisation of the drink trade made it unnecessary to consider any alteration in this source of revenue; as soon as the transfer was effected, the profits of the industry were sufficient both to maintain the yield to the public funds and to enable the price of beer to be reduced, with some shifting of the burden formerly borne by beer in the form of excise duties on to spirits and other drinks. In general, however, the yield from indirect taxation, even allowing for the duties payable on licences of the importation of comparatively useless articles, fell considerably in the first years of the McCosh Government.

**Direct Taxation or scaling down the National Debt?** In the circumstances, what was to be done as regards the direct taxation of income on the one hand, and the National

Debt charges on the other? It will be seen that the two items roughly corresponded, so that there was much truth in the suggestion that the payers of income-tax and surtax, as a class corresponding to the holders of the National Debt, made no contribution to the social services, but simply paid in one capacity what they received in another. To some extent the choice for Fox was a choice between two methods of dealing with their property rights. He might raise the direct taxation on the holders of such property, or he might, in some form or another, reduce the National Debt charges. In favour of the latter alternative there was the obvious argument that the owners of socialised industry were being deprived of their property against partial compensation, and there seemed to be no reason why the owners of the National Debt, as well as of similar stocks, such as the loans of municipalities and public bodies, should not be treated in the same way. Indeed there were plenty of precedents, even under the capitalist system. Countries which had inflated or devalued their currency had repudiated the claims of the *rentier* in whole or in part. The National Government, itself a Government of the capitalist class, deliberately declined to pay the debt to America, the settlement of which had been negotiated some years previously by one of its leading members. There would no doubt be deep feeling, but little logic, in the complaints of those who might seek similar treatment for their own claims to profit by the labour of the community. On the other hand there was much to be said, in practice, for another view. In 1933, for instance, the largest items in the unfunded debt, which included the various loans with fixed dates of redemption, were the repudiated American debt and outstanding treasury bills, which for the preceding ten years had never fallen below £500 millions. If there was to be some scaling down of capital liabilities, what was to be done with the treasury bills and the various other securities in the unfunded debt, many of which were redeemable at the end of a comparatively short period? Fortunately, perhaps, for Fox, most

of the actual stocks in the unfunded debt were not due for early redemption. The question I have just asked related, therefore, to such items as the Treasury Bills, Treasury Bonds and National Savings Certificates. It seemed not unreasonable that the holders of these securities—and the banks and other socialised financial institutions would be large holders of them—should be treated as creditors to be paid rather than as investors to be expropriated. Moreover, at the other end of the scale were the holders of the funded debt amounting to the enormous sum of £3,376 millions,<sup>1</sup> of which considerably more than half was represented by the converted War Loan: they had no right to capital repayment unless the Government so chose.

The alternative to any scheme for the scaling down of capital liabilities was to let the heavy death duties take their course, and meanwhile to stiffen the taxation of income. Fox would want to borrow, and also to preserve the credit of the Government abroad. It seems probable that he could have attained both these objects in spite of the scaling down of public obligations; but, having regard to the practical difficulties, he chose to rely on the death duties and on a high and steeply graded income-tax to eliminate the capital rights, which were inconsistent with a Socialist programme.

**The National Income and Taxation.** Of course, the national income, for purposes of taxation, did not consist only of the rent, profits and interest which Fox was anxious to eliminate. In 1929, for instance, the national income had been estimated at £4,006 millions, of which £287 millions came from overseas. Of the remaining £3,719 millions accruing at home, £1,482 millions represented wages, £838 millions salaries, and £1,399 millions rent, profits and interest.<sup>2</sup> Roughly, the proportion of wages in the total home-produced income had been fairly steady for

<sup>1</sup> *Statistical Abstract*, p. 146 (H.M.S.O., 1934).

<sup>2</sup> *The National Income, 1924-31*, Colin Clark (Macmillan, 1932), p. 72.

some years before that, while salaries had been slowly rising in proportion, at the expense of rent, profits and interest. The latter process had been continuing since the pre-War period, and in 1911, eighteen years previously, salaries were only responsible for less than half the proportion of the national income attributable to them in 1931.<sup>1</sup> The change reflected a corresponding increase in the number of persons receiving salaries.<sup>2</sup>

The effect of the Government's programme would be to increase the proportion of the national income attributable to wages, and not necessarily to decrease the proportion attributable to salaries. Fox realised that, during the transition period at any rate, if he was to get the best men to run socialised industry, he would have to pay them adequate salaries. In the long run, too, he was quite prepared to recognise some considerable disparity between earned incomes. So far, therefore, as salaries were concerned, there might be some increase of taxation on high salaries, but there would be an increase in the number of persons earning salaries who formerly had received rents, profits or interest. As socialisation proceeded, that proportion of the national income attributable to the latter head would go direct to the Government, in one form or another, instead of being subject to taxation as individual income.

Incomes for the year 1929 were subject to income-tax in the year 1930-31, and to surtax in the following year. The yield from income-tax, at the standard rate of 5s., in 1930-31 was about £256 millions, and from surtax in the following year about £77 millions. This was derived principally from salaries and employment, on the one hand, and from profits and interest on the other. Both these items, assessed respectively under Schedule E and Schedule D for income-tax and surtax purposes, amounted to between £1,000 millions and £1,100 millions each. Rent and other income from the occupation or use of land and buildings

<sup>1</sup> *The National Income, 1924-31*, Colin Clark (Macmillan, 1932), p. 72.

<sup>2</sup> *Ibid.*, pp. 26, 42-44.

was assessed under Schedules A and B at about £300 millions, while the individual income from overseas investments was assessed under Schedule C at rather over £160 millions. It will be noticed that there are some minor differences between the above figures and those given in the preceding estimate, but, for my present purpose, their explanation is immaterial. Equally, there were differences between these figures and those of previous and subsequent years. For my present purpose, however, it is sufficient to point out that, while wages naturally paid a comparatively small share of income-tax, the proportion of income-tax and surtax attributable to salaries and wages together roughly corresponded to the proportion attributable to profits and interest, without counting rent and income from overseas investments in the latter. Further, income by way of salaries and wages was assessed and taxed under a separate schedule, though the taxes were levied and collected on the same forms and through the same officials.

**Salaries.** One of the questions which Fox had to consider was what sort of maximum he should have in mind as the salary of a public official. Clearly, any excess of salary above this figure, paid from private sources during the period of transition, might be taxed to elimination. Under the previous system there had been some substantial payments to public servants. The record was held by the Archbishop of Canterbury, with £15,000 a year. He was followed, in a curious alliance of Church and State, by the Chairman of the London Passenger Transport Board, with £12,500. Next to these twin peaks rose a small range of minor eminences at £10,000 a year—the full-time member of the same Board, the Lord Chancellor and the Bishop of London—a queer trio. It is fair to add that the salaries of the bishops were derived from the estates and revenues of the Church—but an established Church. Some of the above figures were subject to a temporary abatement in 1931, which was subsequently restored. Subject to a similar abatement, the principal Ministers and the judges of the

High Court received £5,000 a year each, while the Permanent Secretary of the Treasury had to be content with £3,500, and the Permanent Secretaries of the other principal Government departments had £3,000 each. Learning was not so remunerative as religion; and the Director of the British Museum received £1,500, while university professors were expected to live on even less. It may safely be said that there were very many salaries paid, directly or indirectly, by private business at higher rates than these. Indeed, by comparison with private enterprise, the Civil Service was by no means overpaid.

**The Scale Adopted.** For the time being, Fox took the comparatively high figure of £5,000 a year as the most that ought to be paid for the highest posts in the public service. While he had to have regard to existing arrangements, he proposed to levy taxation on that footing. Generally, he expected to get his higher class of administrators at salaries of between £1,000 and £2,000 a year, and from the latter figure upwards he was prepared to stiffen taxation. For the time being, he proposed to make some increase as regards incomes between £1,000 and £2,000, but to allow a corresponding relief to the lower incomes then liable to taxation. Let us see how these changes worked out.

Out of the £453 millions assessed to surtax in 1931-32, £202 millions consisted of incomes between £2,000 and £5,000, while the remaining £251 millions was in incomes of more than £5,000. Fox wanted as much as he could get of the latter. On the other hand, having regard to the general policy of the Government, he might expect a lower sum than the 1931-32 figure to be available, and he could not hope to get quite all of it. What he did was to put a 100 per cent tax on all incomes over £10,000 a year (amounting for 1931-32 surtax to £147 millions), and to stiffen the rates slightly between £1,000 and £2,000, steeply between £2,000 and £5,000, and even more steeply between £5,000 and £10,000. These rates, however, were

only in respect of earned income, and were levied, in effect, by granting earned income relief against a higher scale of taxation, intended to affect rent, profits and interest. It is to be remembered that taxation on this scale was not meant to be a means of raising recurring revenue, but to serve as an instrument in the transfer of private property to public ownership. In 1929, for instance, as I have already mentioned, nearly £1,400 millions accrued in the shape of rent, profit and interest, while the total yield of the corresponding income-tax and surtax, including salaries and wages, had been only £333 millions.

**The Proceeds.** By the above measures, after allowing for relief in the lower grades of income, Fox was able, in the first year of the McCosh Government, to raise £700 millions by direct taxation. Naturally, as in the case of death duties, the larger part of this sum came in kind—that is to say, by the acceptance of land, shares and other property in settlement of taxation. During succeeding years the total might be expected to fall considerably, but, in fact, during the first two or three years of the Government there was not so much decrease as might have been expected. Undoubtedly there had been some evasion in the first year, as appears from the above figures, and the tightening up of the machinery of taxation offset to a considerable extent the fall in the amount available to be taxed. Fox, however, remembering that the purpose of his taxes was as much transfer as revenue, was not prepared to treat the income from direct taxation in his earlier years of office as nothing but income. It came in largely in the form of capital; and to a large extent it was capital, to be expended in the reorganisation and development of Socialist industry and in such other capital purposes as school buildings or research work.

**Capital Increment.** There was one important development in tightening up the machinery of taxation. One of the difficulties in taxing income had always been to know



what income was. A man might make considerable profits by purchase and resale, say, of shares, or of land along a new road ; but, unless he made a business of it, his profits were not counted as income and escaped direct taxation. The stiffening of income-tax in the first Planning and Finance Act led to determined attempts to avoid paying it. One of the most common and most successful was to try and make as much of your profits as possible in the form of capital increment not subject to income tax. The practice was not altogether easy to stop, but the income-tax machinery could be adapted to the purpose. In very many cases the Inspector of Taxes already knew the source of the income, returns of which were sent to him annually. He had, and exercised, the power to inquire what they were. It was tolerably simple to get him, at the same time, to ascertain their value. Similar inquiry into capital value was needed and made for the purpose of death duties. The value of shares could usually be checked, and there was not much difficulty as regards the value of land in the inspector's district. In the second Planning and Finance Act there were accordingly provisions for the yearly ascertainment of capital value and for a tax on increment, to be supplementary to the taxes on income and levied through the same machinery : there was an exception of capital assets up to the first £5,000, and agricultural property required special treatment. This form of taxation was intended as much to check evasions of the direct taxes on income as to provide any additional yield. It was largely responsible for there being so little decrease in the first few years of the McCosh Government from the figure of £700 millions mentioned above.

**Some Points in Expenditure.** I do not propose to deal in detail with the expenditure side of the national accounts under the McCosh Government. I have already given some indications of the scale of expenditure that was required. The actual allocation involved some complicated accounting as between the central Government, the regional

authorities and socialised industry. The State audit department, set up by Fox at an early stage, under the authority of the first Planning and Finance Act, proved to be a necessary instrument for dealing with these matters, and a body of considerable importance both in the transition stage and to some extent afterwards. It is, however, convenient to refer to three points, two of which I have already had occasion to mention. In the first place, a very large proportion of the expenditure was capital expenditure, which might be expected to bear fruit in later years, and which did in fact do so; hence the increasing importance in subsequent Planning and Finance Acts of the proceeds of socialised industry. In the second place, some considerable relief in one matter of recurrent expenditure was afforded by the foreign policy of the Government. I refer, of course, to armaments, and to the figures given in the chapter on foreign affairs and disarmament.

**Unemployment Contributions:** The third point was one of some importance. The effect of the Government's programme was considerably to reduce the burden of unemployment on the community. On several occasions before the McCosh Government came into power, the T.U.C. General Council and other organs of Labour opinion had pointed out the inconvenience and injustice of placing that burden on industry in the form of unemployment contributions from employers and workers instead of placing it on the community as a whole by means of taxation. Suggestions had even been made for a special levy for the purpose; but the increased taxation imposed by Fox left no room for such a levy and offered a simpler alternative. Moreover, under taxation on that scale, private industry was in no position to make indirect contributions towards the insurance fund. In the circumstances, Fox took over the whole burden of unemployment insurance, now considerably reduced, and treated the matter as a national responsibility, to be financed out of the national funds. Unemployment contributions were accordingly abolished.

**Public Finance in Transition.** It has not been easy to consider the whole question of national finances as Fox must have had to consider it. The modern reader will no doubt feel that I have been approaching the beginnings of the Socialist economy as though it were the continuation of capitalist finance. In reply I would claim some credit for my power of historical imagination. The capitalist system, as Fox must have known it, was a complex affair, and the machinery of public finance, which formed part of it, ran on traditional lines. It was Fox's business to use that machinery in the process of altering the system of which it formed part. He was prepared to disregard a number of capitalist taboos, for which capitalist bankers were so largely responsible. He was, for instance, not particularly interested in what were really academic discussions as to whether his "Budget"—and he himself never called it that—balanced or did not balance, or as to whether he was inflating or reflatting or deflating or not flatting at all. Most of those discussions showed a complete misunderstanding of the purpose he had in mind, and a singular disregard of the possibility that the community, as such, might have, and was to have, capital (in so far as that word really represented its assets) as well as income. The essential points before Fox were that a complex capitalist system was there, and that he had to play his part with the instruments at his disposal into converting it, not only to other uses, but into a different system.

**Regional Finance.** Before proceeding to other matters, it seems appropriate to mention the financial arrangements as regards regional authorities. The possibility of a local income-tax was obvious: it had already been the subject of considerable discussion. But, under the existing system, there were grave difficulties in collecting it. In what region, for instance, was a capitalist railway to be domiciled, or a capitalist multiple store, or indeed any large concern with branch factories or offices? There was not much difficulty in assessing the value of the land

occupied in any given area by such a concern, but there was bound to be considerable difficulty in dividing up its profits area by area. Even so far as the land was concerned, there was much to be said against local taxation in such a case : profits were really a better and fairer basis. In the first instance, therefore, Fox centralised taxation on the lines I have already indicated, and provided, in the main, for regional expenditure out of funds collected centrally. He left, however, to the regional and local authorities power both to continue existing taxation in the form of rates, and to adopt such other forms of local taxation as the regional authorities might recommend and he might approve. In practice there were some schemes of an experimental character, which did not amount to very much and which now are only interesting to special students. The important matter is that Fox had no intention of leaving the regional authorities indefinitely dependent on central taxation. The dependence was a necessity in the earlier stages of transition, but, as socialisation proceeded, the reasons for it disappeared. There was no real difficulty in the local taxation of individual earnings, or in the assessment of contributions to regional funds from socialised industries regionally administered. The growth of local taxation to meet such purposes as education, public order and the development of a regional industry, began in the last two years of the McCosh Government. There was, of course, a corresponding relief in central taxation, and in Codd's time the average citizen was more directly concerned with regional than with national finance. The machinery of taxation, set up under the capitalist system for the purpose of collecting direct taxes on a national basis, proved to be easily adaptable to the purpose of collecting regional taxes from the individual citizens of a Socialist community.

## § II. INVESTMENT AND THE INSURANCE COMPANIES

I HAVE ALREADY REFERRED to the National Investment Board and some of its activities. It was concerned with the investment of public funds available for the purpose, and also with the investment of such part of the deposits of the socialised banks as could be used to provide long-term credit. It was the financial instrument for the reorganisation and development of socialised industry. At an early period in its existence, it became clear that its work would be much more difficult, if other bodies engaged in the business of investment on capitalist lines were allowed to continue side by side with it, and to some extent in competition. The industrial and trading companies, the investment of whose reserves played such a large part in capitalist finance, were in process of socialisation. What was to be done with such bodies as the insurance companies and investment trusts, which were indirectly, but not directly, affected by the socialisation of trade and industry?

**The Socialisation of Insurance.** The socialisation of insurance would fit in well, from other points of view, with the Government's programme. As regards life insurance, a Government already engaged in administering a pensions scheme on a comprehensive scale could easily combine it with supplementary benefit on a contributory basis, such as had formerly been available under the endowment policies of insurance companies and societies. Death duties on the scale proposed by Fox would destroy life insurance policies as a means of passing on capital from one generation to another. A socialised industry ought to be able to provide for its own risks of fire and accident. The socialised shipping service might well be expected to carry its own marine risks, as to some extent they had been carried in the past by mutual insurance among shipowners or out of the

insurance funds of large liner companies. Insurance, after all, was a highly profitable business under expert management; the management was as readily available to a Socialist Government as to the private concerns, and there seemed to be no good reason to continue to pay this form of tribute to private capital.

**The Existing System.** On the other hand, the various forms of insurance, with long traditions behind them, were so organised as to make the process of socialisation by no means an easy one. In some cases the body which received premiums and paid benefits was a mutual insurance association, concerned to invest the contributions of its members, and to distribute the result among them, after allowing for the expenses of administration, but without making any profit. In others it was a company receiving premiums and paying claims, but concerned to make a profit for its shareholders in the process. Life insurance, for instance, was conducted in both those ways; and some companies offered a mixture between the two by issuing policies under which the policy holder received, not only a fixed sum, but also a share of the profits of the company. Again, in most forms of insurance, business at home was combined with business abroad, and the larger insurance companies held, directly or indirectly, through subsidiary companies, large investments in foreign countries, made out of the premiums they received in foreign currency, and intended to meet foreign claims. Lastly, not only did insurance companies go abroad for business, but also a large amount of foreign business came to London. The reputation of the London insurance companies and underwriters was high, and insurers all over the world placed their business there, through foreign or London brokers, or reinsured it in the London market.

**Life Insurance.** The first Planning and Finance Act gave power to take over insurance companies or any insurance business and to control the investment of insurance

funds. The power was to be exercised by the Secretary for Investment as chairman of the National Investment Board. As regards life and endowment insurance, he directed the funds of the mutual life insurance associations to be transferred to the Board as trustee. The Board had a representative on the management of each association, with power to direct the investment of new funds or the reinvestment of existing funds, or to exercise a veto in such matters. Further, the Board had the right to suggest, and, if necessary, to enforce, amalgamations between existing associations. A similar course was followed as regards the companies carrying on life and endowment business. If the company existed mainly or solely for that purpose, it was taken over, and compensation given to the shareholders on the usual annuity basis. The large companies, which combined this type of business with others, kept their life insurance funds separate, and often transacted the business through a subsidiary company. These companies were taken over, and the life insurance side of their affairs was handed over to the insurance department of the National Investment Board. Their foreign business, unless it was quite small, was left in the hands of the former owners and under their control. I need only add that the death duties introduced by Fox altered the whole character of life insurance, and left as the principal insurance business of this type the provision of old age pensions or capital sums supplementary to the pensions provided by the State. Due account was taken of this change in assessing the compensation payable to shareholders, and the result was to enable the State to acquire on favourable terms a large amount of funds which were of considerable assistance in the official pensions scheme.

**Industrial Assurance.** Among the workers, life insurance was carried on by friendly societies and by some insurance companies, which employed collectors to receive premiums. In this form it was known as industrial assurance, and was regulated through the chief registrar of friendly

societies as the Industrial Assurance Commissioner. The expenses of collection and administration were considerable, partly of necessity, and partly owing to unnecessary competition between the various societies and companies. The number of agents employed for the purpose was large, including nearly 20,000 in the National Federation of Insurance Workers, and some 7,000 in the National Amalgamated Union of Life Assurance Workers.<sup>1</sup> They had always shown some opposition to any suggestion that industrial assurance should be socialised—having in mind, no doubt, the possibility that in that event not so many agents would be employed. But the Socialist Government, with its programme before it, could be certain of finding alternative employment for any redundant agents with their training and qualifications, and the Cabinet was not prepared to continue the unnecessary burden of competitive arrangements for collecting premiums from the workers. There was no doubt that industrial assurance could be worked with more economy and efficiency in the trade unions, which already had some experience of not dissimilar work. Accordingly the industrial assurance companies were taken over, and Codd and Cobleigh called a conference of trade union representatives, including those of the insurance workers' unions, and of the managers of industrial insurance in the companies and in the friendly societies. The Industrial Assurance Commissioner acted as the chairman of the conference, and, after some weeks of discussion and investigation, a scheme was worked out for running the business of industrial assurance as a whole under trade union management, through the General Federation of Trade Unions, subject to the control of the Commissioner. Further powers had to be obtained from Parliament to put it into operation, and the scheme did not come into effect until early in 1938. Its results were to diminish the cost of administration and collection, and to make it possible to give correspondingly higher benefits for the same premiums. There were other improvements in such matters

<sup>1</sup> *T.U.C. Annual Report, 1933.*



as lapse policies, surrenders and the like, which I need not describe in detail.

**Fire, Accident and Marine.** In socialised industries the usual risks of fire and accident, including liability for workmen's compensation, were carried by the industry itself. But in some special cases, and throughout unsocialised industry, the State insured against those risks, and, for that purpose, took over the appropriate departments of the larger companies. During the transition stage some smaller companies, many of them specialising in particular types of risk, were left to carry on their business. Motor accident insurance was taken out of its unsatisfactory condition—a mixture of private enterprise and detailed State control—and transferred for administration under the National Transport Board. In the same way the socialised shipping service provided for its own marine risks.

**Lloyd's.** All these types of insurance—fire, the different varieties of accident, and marine—had been largely transacted at Lloyd's, a corporation with individual members who carried on, in their individual capacities, a large insurance business at home and abroad. Incidentally the corporation, as such, performed semi-public duties as a classification society and controlled a chain of agencies all over the world for collecting maritime intelligence and attending to cases of loss or damage to ships or cargo. The actual business of insurance, often highly profitable, was carried on by a comparatively small number of underwriting agents, with full authority to pledge the credit of the far more numerous members, whose names appeared on each policy, but who took no part in the actual business of charging premiums and dealing with claims. In marine business especially—the oldest form of insurance carried on at Lloyd's—there were considerable dealings with foreigners, both by way of direct insurance and of reinsurance of risks accepted abroad. Indeed, the London market, at Lloyd's and with the companies, served

as the principal centre for marine insurance all over the world.

The members of Lloyd's, other than the underwriting agents, were capitalists in every sense of the word. They risked their money and they took their profits : in the actual business of insurance they played no part at all. The funds, held on behalf of the corporation as security for their engagements, were considerable. It seemed clear that, in the process of socialisation, their home business, at any rate, should be taken over on the usual terms of compensation, and carried on by the underwriting agents without competition and on behalf of the community. As regards the foreign business, not only were there difficulties in separating it from the business at home, but also it would obviously be hard for individuals, during the process of socialisation and having regard to the Government's scheme of taxation, to continue to carry foreign risks on the same scale as formerly. In the circumstances the Government, after taking over the large insurance companies, also took over the whole insurance business of Lloyd's and proceeded to carry it on through the same underwriting agents as formerly. The effect, however, of running these various forms of insurance without competition was to reduce to some extent the number of persons employed in them. The number so affected was comparatively small, and their special qualifications well fitted them for re-employment in other administrative services.

**Administration.** For purposes of administration the insurance service was attached, so far as possible, to the appropriate industries. Marine insurance, for instance, both at home and abroad, was administered in conjunction with the socialised shipping service; while socialised industries carried their own fire and accident risks, and, in effect, administered a scheme for insuring themselves in those matters. Other fire and accident insurance, which could not conveniently be attached to a socialised industry or which related to industries as yet unsocialised, was administered

for the time being under the Financial Secretary of the Ministry of Industry.

The above outline of the steps taken towards the socialisation of insurance is necessarily incomplete, for the details would involve a mass of technical matter and are of little general interest. The task was a difficult one, but not so difficult as it must have appeared at first. The reason that made the change possible and ensured the continuous running of the insurance business during its progress, was that insurance was so largely carried on by professional underwriters, managers and other assistants, whose services were as readily available to a Socialist State as to private enterprise. These technicians, as a class, were not at all unwilling to see their services transferred so as to benefit the community instead of earning profits for a small class of shareholders under directorates more conspicuous for their financial and social position than for any particular knowledge of the business of insurance.

**The Investment Trusts and Building Societies.** Among the other financial institutions taken over in the time of the McCosh Government I need only mention the investment trusts and the building societies. In both cases the importance of these institutions lay in their control of investments, and the business they carried on was of a financial character. The knowledge required for it was essentially financial knowledge, and there was not the same element of other skill that existed in the case of insurance. In consequence the investment trusts and the building societies were easily taken over on the usual basis of compensation, and their activities were merged in those of other Socialist institutions. The National Investment Board held, administered and controlled their assets. So far as the facilities provided by the building societies still remained necessary, they were provided through the socialised banking system under arrangements made in conjunction with the Secretary for Housing.

In conclusion, I would repeat what I have already said—

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that for purposes of national investment the socialisation of insurance business, of the investment trusts and of building societies, was a practical necessity. Looking back now, with the fullest view one can have of the former capitalist system, it seems clear that the National Investment Board could not have carried out its functions properly as an instrument of socialisation, and, indeed, would probably have met with complete failure, if the control of investments exercised by those institutions had not been transferred to it at an early stage.

## CHAPTER 19: THE NEW TIMES

**Starting the Motor-Car.** To set going the change to Socialism was rather like starting a motor-car. The 1924 Labour Government was one swing at the handle, the 1929 Government another. Neither started the engine : the mixture in the cylinders was not rich enough. McCosh set the machine going. It was a complicated affair, and I have only been able to describe the working of some of the main parts. It misfired once or twice to begin with ; but this time the swing on the handle had been vigorous enough and the mixture in the cylinders was right. As it got going it gathered impetus, and swung through difficulties of adjustment and friction that might have stopped a cold engine. After a little running it drove the car of State to good purpose.

**Were there too many Committees?** Let me try to gather up the story now and to describe a little how the change affected people in the country. In so doing I shall assume the background I have already described, and I shall have to refer to other changes, which I have only mentioned casually or not at all. Life in England was, and still is, a complex affair. The parts of it that most affect the life of its people are not always those that appear on the surface and that they meet from day to day. The Englishman, for instance, used to regard any public authority or public committee as a potential nuisance : and, indeed, at first the wheels of government often ran clumsily. In the time of McCosh many people saw with misgiving the setting up of one public authority after another and the appearance of what seemed to be an interminable series of committees. Their misgivings were not unnatural, but the difference was that previous committees had been restrictive bodies for control and regulation, while these were essentially constructive, to manage and develop. They took the place, too,

of an equally complicated mechanism in capitalist society, which had been less advertised and was less known. If it required a National Transport Board, with its sections and regional boards and its many officials, to operate a socialised system of transport by rail, road and water, it at least took the place of a variety of capitalist organisations even more numerous and more complex. For every Government committee that was set up, and for every new department in Whitehall or in the regional centres, there disappeared countless boards of directors and all the various associations, federations and institutions that formed part of the financial and industrial machinery of capitalism.

**Managers, Technicians and Professional Men.** On the whole the changes in the management of business were no greater than might have been expected under a scheme of capitalist reorganisation. As I pointed out in the last chapter, the proportion of salaried employees in the community had been steadily rising. The small masters and the individual owners of the Victorian period had been disappearing. They now served as managers in larger concerns. The small business, where it survived, formed part of some comprehensive organisation. There had been a corresponding change in the character of the control exercised by those at the head of the business. To an increasing extent the directors of a capitalist company were concerned with questions of finance and of general policy, while the actual management of the mine or factory or store was left in the hands of a salaried employee. Managers and technicians, a class growing in numbers and in importance, were often convinced Socialists and, still more often, ready to accept and welcome Socialist practice. They stood to lose little. On the one hand, under the capitalist system, they shared with the manual worker all the uncertainties of employment and the burden of the increasing power of the owners of capital. Big business was still largely a matter of inheritance and personal connections. The hereditary aristocracy of the early nineteenth century had given place to an

aristocracy of wealth, still largely hereditary. The growth of trusts and of large holding companies tended to place the real control of business in a decreasing number of hands, growing steadily more and more powerful. The manager might work his way up into this class, but the chances of his doing so became smaller and smaller every year. Under a Socialist system, he might look, like the manual worker, for more security of employment, and he might expect as good a chance as anyone else of finding full scope for his talents. He would no longer find the real control of the business reserved for a limited class of the relations and friends of the directors or of those with financial knowledge and useful connections.

Socialism opened the doors of power and responsibility to the managers and technicians, as well as to the manual worker. Business requiring special knowledge and experience was still carried on by the same type of manager as formerly, with the difference that the avenues to his position and from his position upwards were now accessible by merit and industry and not on other grounds. No doubt the best plums on the tree were not so juicy as formerly; but the crop was now large enough to give everyone a fair share of fruit and some certainty that he would get it every year. It was significant that during the years immediately before the McCosh Government there had been an increasing tendency among those leaving universities and other centres of higher education to look for a safe job rather than for the uncertainty of glorious prospects. They were too well aware of the number of men who were ready to take chances and found nothing but unemployment. Unemployment among manual workers was marked out by statistics and known to all; it bore no less hardly, if less conspicuously, on what was then known as the educated class.

In those circumstances the managers and technicians were either prepared in advance for work in a socialised community, or at least showed readiness to adapt themselves to it. As a class, they were less directly affected than any

other by the taxation that Fox imposed. In combination with the social services introduced or enlarged by the Government, and with the transfer of property to public ownership, those taxes served to bring others down to their level rather than to affect their own standard of life. Much the same thing happened with those professional men whose success had been moderate. Among doctors, lawyers, engineers and others, they formed the largest class. They, like the managers, found ample compensation for the loss of the remote chance of greater success in the increased certainty, and, it may be added, the increased interest, of their own employment. There was, of course, a considerable transfer of professional men from employment in some form of private practice to employment under a public authority or in direct connection with socialised industry. The change was only a development of a tendency which had already shown itself—especially, perhaps, among doctors—and the professional classes on the whole accepted it with gratitude and some enthusiasm. Unconsciously, perhaps, they had for many years past been finding themselves squeezed by the economic pressure of the capitalist on the one hand and the organised worker on the other.

**The Owner of Capital.** Upon the capitalist, as such, the change bore heavily. In the many cases where ownership of capital was combined with the practice of some profession, or with employment at a salary, there were corresponding advantages of the type I have indicated. As regards the capitalist in control—the financial magnate or the director of many companies—the change was a different matter, and his reaction to it depended on the man himself. To the old the blow was softened, and rightly so, by such provisions as those for cases of hardship in connection with compensation. Some few of the young were obdurate: they regarded their inherited rights of class and power as so much property, and a Socialist Government, setting out to remove those rights, as the Devil in person. But such cases were not nearly so frequent as had been expected. Not enough allowance



had been made for the force of public opinion in the country and the enthusiasm attendant on a successful change over to Socialism. The young, after all, like others, sought in the long run a happy life ; they were naturally more ready than their elders to change their conception of what that life might be. A common activity, a common plan, some measure of peace and brotherhood, were the ideas that lay behind the conception of Socialism and the schemes under which that conception was now being put into practice. They were ideas with an appeal to all : that they had not been fully understood was partly the fault of the Labour Party itself, at any rate before Colet's time, and partly of circumstances to which I am about to refer.

**Control of Propaganda.** In methods of propaganda the capitalist class had controlled the necessary instruments to influence public opinion, and had spent freely the money required to work them. Their success had been large, but not astonishing. With almost all the Press behind them, with the average non-political publicist unconsciously on their side, with a national wireless service predominantly capitalist in its conception and operation, the property owners as a class had held the trump cards in matters of popular appeal. For generations past, using such means as these, the Tory Party had succeeded in hiding from the average man the truth that it was a class party, working for class interests and, in the long run, concerned to subject him and his comrades and his whole life to those interests. Hunters speak with respect of the wild rush of a lion at bay : it was nothing to the rush of the Tory Party at bay, after some years of misgovernment, just before a General Election. Of all political parties they were the most unscrupulous and, like perfect gentlemen, the most savage. The rules of fair play, the standard of conduct enjoined by the public school, or the best traditions of some profession or of business in the City, did not apply when you were fighting Socialists. What would have happened if lies like the 1931 effort about the Post Office savings bank had been spread

abroad by Socialists? What did happen when they were uttered in public by the accredited representatives of property in the process of defending property? In such an estimable cause the best people forgave much and were themselves forgiven.

**The Press.** The instruments for this type of propaganda had to be placed under public control. They were not necessarily to be used for propagating Socialist opinion, as in the past they had been used for capitalist purposes. The Socialist has some regard for freedom of opinion and for the freedom of the Press: but the freedom of the Press was not to mean the freedom of the proprietor and the subjection of the opinions of others to his particular views. Various methods had been suggested for dealing with the whole question. It had been said, for instance, with some truth, that the root of the trouble, so far as the popular Press was concerned, lay in its dependence on advertisement revenue, and that, if that source of revenue was removed or sufficiently controlled, the newspapers could be left to run themselves with the assurance that they would be run with judgment and independence. The suggestion did not go far enough. Its effect would no doubt have been to remove one bad influence: the change might have been surprising and considerable. But the control would have remained in the hands of the former owners—a control of policy exercised not only in leaders, but in a thousand different ways by the selection of news and the colour given to it. The McCosh Government took over the newspapers, as it took over other forms of private property. Here, as in other cases, they were prepared to apply the principle of workers' control and to allow the journalists a measure of self-government. A heavy tax on private trade advertisements—one of the few indirect taxes introduced by Fox—served the double purpose of giving the journalist a freer hand and, incidentally, of encouraging a tendency to split up the dailies with a large circulation and to put in their place a network of real journals of opinion. I need not go in detail

into the organisation of the Press. The control of the Secretary for Arts and Propaganda was directed, not to influencing the opinions expressed, but, to ensuring that there should be fair scope and fair play for all points of view.

**Books : Libel : State Publishing.** Books, published in a cheap form and with a sufficiently convincing puff, were another means of propaganda. By comparison with the Press magnate, the publisher, with a few exceptions, was an inoffensive fellow. His capital was of less importance than the considerable degree of skill, judgment and expert knowledge required in his peculiar trade or profession. There was in fact far more liberty of opinion as regards the publication of books than as regards the Press. Some publishers were known to be Socialists and reputed to be successful. There was not the same case for interference with their activities, except to the extent of allowing the authors, an ill-paid class of artistic workers, some more reasonable remuneration than they already received ; but that was a matter for the gradual reorganisation of the whole business of writing and publishing as a public service. In fact, authors and publishers alike had already suffered from a large measure of indirect interference—not so much by the Government as under the Common Law. The law of libel had shown an increasing tendency to become a means for limiting what was really fair comment, and for transferring large sums of money to persons whose ethical claim to it was at least doubtful : it was questionable whether its disadvantages in that respect had been sufficiently offset by the free shows which from time to time it provided for casual spectators in the law-courts and for the readers of the daily Press. This was conspicuously one of the cases in which someone who was anxious not to break the law might be given an opportunity of finding out first whether he was likely to do so. I need not refer here to the changes in the law of libel itself ; they were of some effect in extending the limits of fair comment. What Colet did, however, was to

give the Secretary for Arts and Propaganda a licensing power as regards books and other publications. A licence was not compulsory ; but, if it was sought and obtained, it constituted a bar to any libel action.

A further development was also of general interest. For a number of years past, the Stationery Office, as a Government publishing business, had been increasingly successful both in the quality of its products and in its methods for their sale. Colet felt that that business could be usefully combined with the publication of unofficial matter of a political and economic character, and that to do so would be to take a real step in public education. He accordingly set up the first State Publishing Office, hoping and intending that it should meet with the success which it has in fact had; and should gradually concentrate the business of publishing in the hands of the State. The process was a gradual one, and lies far beyond the historical scope of this book. I need only refer to its beginnings under the McCosh Government, and to the freedom of choice which it was allowed among unofficial matter. The first governing body consisted of a publisher with Socialist views, and one or two writers whose work had lain in the appropriate field.

**The B.B.C.** The trouble about the B.B.C. lay partly in its internal organisation and partly in the excessive caution it had shown, at any rate at first, as regards political propaganda. As regards the former, Colet felt that the powers of the Director had become excessive, and the whole organisation too formal and too subject to discipline of a character more appropriate to the army than to a service for the entertainment and information of the public. The internal changes were accordingly directed to giving those engaged in the service a measure of co-operative self-government, subject to the control of the Secretary for Arts and Propaganda, assisted by an advisory committee. The Secretary became directly responsible to Parliament for the programmes and the working of the service. As regards political matters, the B.B.C., under the

pressure of public criticism, had recently been showing some measure of willingness to let all points of view be heard. This tendency was encouraged, and in practice, after the changes in internal management, the wireless service was freely used for the expression of political opinions either in support of the Government or in criticism of it. I have no space here to describe the socialised theatre and opera, or the "movie clubs," which replaced the commercial cinemas and gave the workers the chance to choose, and often to produce, their own films.

**Changes in Middle-Class Employment.** Besides the changes in the character of the Press and the other professional and educational changes to which I have already referred, there were one or two other matters which directly affected the former middle classes. As regards the legal profession, the socialisation of the law resulted in a change in the conditions of admission to its practice. The heavy fees and expenses hitherto incurred by would-be lawyers had deterred many who were otherwise able and willing to practise. These monetary barriers were removed, but at the same time admission was restricted to the number of those whose services were really required. As in other departments of Government, the vacancies to be filled were announced and candidates submitted to a competitive examination in which their previous record and an oral examination played a leading part. There was no need for similar restrictions as regards prospective doctors and engineers: the Socialist State could employ them all. The socialisation of the medical profession and of the hospitals had little direct effect on employment; but the developments in preventive medicine called for more doctors and biologists. The Anglican Church was disestablished in 1940—a change not unwelcome to many of its leaders. One result of it, however, was to reduce both the demand for curates and the supply. In the reduced defence forces under international control both the reduction in numbers and the alterations as regards the selection and training of officers

had the effect of releasing an additional number of young men for other Socialist services.

**A Career in the Public Service.** For these and other reasons a career in public administration or socialised industry was much the most attractive and promising proposition open to the type of young man who had previously passed through a university into private business, the law, the Church, or some service in connection with the defence forces. The choice among would-be administrators and technicians of this type was considerable. The changes in higher education had a similar effect, and, at any rate after the time of the McCosh Government, the Socialist State was well supplied with personnel. It was only during the earlier years that the need for Socialist administrators was acutely felt.

**The Status of Women and Family Endowment:** In administration, in the professions, in the management of socialised industry, women found their position vastly improved. We know that before the McCosh Government came into power there had been considerable discussion, in which both Fox and Colet had taken part, as regards the advantages of some scheme of family endowment. There was, indeed, much to be said for it ; but the Party and its leaders, having regard to the difficulties of a transition period, did not attempt to put the idea into operation at once. They took the view that the resources of the community ought first to be applied towards a general rise in the level of wages, and towards the extension of social services on the scale and in the ways to which I have already referred. They felt that such matters, necessarily accompanied in those early years by the first steps in the socialisation of trade and industry, would of themselves produce so large a change that its effects ought first to be given full play and allowed to operate on the life of ordinary men and women. The general trend of those effects was clear enough: how they would work out in practice, especially as regards

such matters as the position of women and children, was less easy to forecast. In short, the McCosh Government felt that the whole question of family endowments should stand aside for the present—not necessarily because it was unsound, but because both the form and the effect of any such scheme could not properly be considered until the new order had had time to shape itself. It is fair to add that Colet, at any rate—and there was no one in the Government who took more interest in such matters than he or showed better judgment as regards them—was inclined to the view that family endowments would lower the position and status of women, by setting them aside, in their own opinion or in that of others, as a class apart. He thought that they stood a better chance of the fair treatment to which they were entitled in theory, but which they so rarely received in practice, by a general rise in the standard of living, coupled with the deliberate opening of the door to women in all departments of administration and management.

As regards the immediate future, those views were justified by events. Free education, and the schemes for the care of the very young that went with it, removed many of the disadvantages from which a married household had suffered. At the other end of life, adequate pensions and adequate housing for the old had a similar effect. Further concessions were made in adjusting the burden of taxation by allowances for children. Most important of all, women were needed for the work and management of the Socialist State, with its shorter hours of work and its ambitious schemes of reorganisation. Something no doubt was due to the knowledge, common to so many members of the Party, of the position of women in Russia, something to the inclusion of so many women in the higher posts of Government. It can be said with truth that no previous change was of such help to women as the actual transfer of property into public ownership. In the past, the ownership and management of property had been predominantly a matter for men. It now became a public duty, in which women could take their share on level terms. The peaceful

revolution to Socialism proved to be their greatest step towards a real freedom.

In the long run the improvement in the status of women lent force to the claim for family endowment. After considerable discussion the Party accepted the idea, and it became an issue in the General Election of 1941. A scheme was, in fact, introduced under the Codd Government; for what would have been impracticable in the earlier stages of transition had by then become possible in a Socialist economy in which the benefit to each was according to his or her needs. The scheme was not put into operation without some difficulties at first; but its introduction and its form are matters belonging to a period beyond the scope of this book.

**The Schools.** Children, as well as women, were affected by the changes in Colet's time. In referring to education I have necessarily confined myself to matters of administration—to education from the point of view of the community. I have said little about the teachers themselves. There was a spirit of freedom in the air: it was natural that it should show itself in schools. The teachers had always been one of the most enlightened groups in the community. They were among the first to give full play to the possibilities of the Socialist spirit in their daily work. The most striking point was the experiments in some form of self-government among the children themselves, which Elizabeth Porter, with Colet's encouragement, fostered and developed. They were but another instance of the spirit which led to workers' control in the factories, with all its successful results. In higher education, as well as in the ordinary schools, teachers had no longer to pay the same regard to commercial considerations. They were free to devote their whole energies to the task of forming and operating a system of training the members of a Socialist community.

**Henry Dubb and Mary Dubb: their Advantages:** Let me now turn, more particularly, to Henry Dubb and Mary



Dubb. It was by them, and by reference to them, that the success or failure of the whole programme of McCosh and his colleagues was to be judged. From their point of view, what were its results?

In the first place, Henry Dubb secured a number of definite and concrete advantages. His hours of work were shorter; his pay tended to rise. He could no longer be employed at starvation rates. As regards expenditure, he had the full assurance, with all the resources of the State behind it, that he could get his daily needs without having to provide profits for all those who made them and dealt in them. He was assured of decent housing, without the intervention of the private builder and all the profits that the private builder had to make. The socialisation of professional services, as it proceeded, made those services as available to him as to any other member of the community. His children had the same advantages of education as the children of others, and the same opportunity of profiting by them. He had no longer to face old age as a time of hardship and uncertainty at the end of his working life. All these concrete advantages, rightly claimed for so long and for so long denied, came to him, not indeed at first, nor without an intervening period of some doubt and difficulty, but came, as socialisation proceeded, as the result of the transfer of the means of production to the use and ownership of the community, and as the result too, of the levelling of wealth that went with it.

In the second place, the door was open to Henry Dubb—and it led, not to the office of the Public Assistance Committee, but to such place and power in the community as he might be fit to fill and to exercise. Here again there was a period of transition. But socialised industry as it spread from trade to trade, building up the units of a Socialist State, gave Henry Dubb a security of employment which was impossible in a capitalist system, with all its alternating failures and successes of individual competitors and its inevitable series of alternating periods of apparent prosperity and real adversity. Codd met the first requirement of

Henry Dubb easily enough, by eliminating from the question of employment the uncertainty whether this or that particular enterprise would win or lose in the competitive struggle. The second uncertainty, of whether Henry Dubb was to live and work at any given time, in a boom or in a slump—equally beyond his control—was to be eliminated too. It disappeared more slowly, but it has disappeared: and, even during the period of transition, internal taxation and the social services of the State took the burden of chance from off Henry Dubb's shoulders, where it had so long lain. There is no doubt that the practical certainty of employment from one day to another was the greatest economic benefit which Socialism brought to Henry Dubb and his friends.

**The Spirit of Socialism:** Thirdly, I turn to matters of which Henry Dubb would have spoken less often and with diffidence. They were none the less present to him, as the growth of Socialism throughout the country had shown. The job was now Henry Dubb's job, the factory Henry Dubb's factory, the mine his mine, and the land his land. The whole enterprise of living and working together was his concern, in which he shared as fully as any other person. What was the result to him? The first result was a real enthusiasm. In the past Henry Dubb had not had much to live for, until the change to Socialism became a practical possibility. He had voted for it, with a good enough notion of the ideas behind it, but with no great appreciation of how they would work out in practice. Now they were being worked out, slowly at first, as it seemed to him, and with all the difficulties more apparent than the possibilities. He was prepared to wait for a time. As the difficulties were met and the machinery worked, things began to happen. His ordinary life was affected. There were mistakes at first—they were inevitable—but the change was happening under his eyes. The first signs were the tangible things, of which I have spoken already. Then followed the gradual spread of eagerness for the change; of activity to work it; of hope that

it would succeed—the sort of common impulse that Henry Dubb, if he were old enough, perhaps associated with times of war. What could be done in war could be done in peace, if the same common endeavour were there : and in the one case the impulse was merely to win a struggle, without too much regard for the consequences, while in the other the consequences showed themselves as the work went on, and there gradually opened up the prospect of a new way of living, with new hopes in it. It is no wonder that in those days there grew up such enthusiasm for the scheme that it showed itself in every house and in every works and factory in the land. Henry Dubb, at long last, was on his own job—that of making the country and the world fit for himself and his children to live in.

Enthusiasm of that kind does not last for ever. It has something of the feverish in it. Clearly, if the work of the McCosh Government had been merely to set about the transfer to public ownership and control of the means of production, the enthusiasm of those early days would have been followed by some reaction. That it settled down into the steady drive that led to the accomplishment of the original purpose was due as much to the type of work that Robinson and Colet had in hand as to any other—due, too, to Gresham, perhaps the most venturesome spirit of them all.

**The Utopia of Citizen Dubb.** The plain fact is that there was one thing Henry Dubb had unconsciously sought more than any other. Wages, hours, security of employment, a decent standard of life, were important enough—important because out of such material he could find a way out of the conditions under which he had lived in the past. But, in the long run, the way out was to lead somewhere, and what Henry Dubb sought above all was the chance of giving full scope to himself and to his folk, of developing the power in him, of finding in his way of living some real progress towards the fuller life which he instinctively felt to be possible.

Take, for instance, what Robinson had in hand. It was

to "build Jerusalem in England's green and pleasant land." There came a change in the cities: you cannot live to the full in the slums and small houses that there then were. The large houses were split up, as the levelling of wealth made it impossible for a single family to live in them. Houses of middling size became accessible to Henry Dubb and his friends. Of the small houses there were fewer and fewer, and the move on to the national estates left room in the city for those who remained there to use open spaces and have some access to air and sunlight. In the mixed areas, round the edges of the towns, the old ugly disorder of jerry-built houses gave place to a planned arrangement of dwellings and gardens and public parks. The country itself was no longer the playground of those who could afford motor-cars, or the refuge of the last remnants of an agricultural population, so many of whom had preferred the chances of the town. The estates, and the fields and farms round them, were as much a part of one national economy as the factories and houses of an urban area. The new land was Henry Dubb's land, just as much as the new works or the new housing. In these conditions, and with these chances, he could at last make some practice and experiment in the matter of living.

Colet again, directly or indirectly, opened many doors. It was not merely the equal opportunity in education, the sense of purpose in teaching, or such things as security in old age. These were the first steps, the opening of one or two doors. What resulted from them must have seemed at the time an amazing and wonderful thing. True enough that at first Henry Dubb's demand was for better conditions and more leisure, but it did not continue wholly or mainly on those lines. The demand in the new times, once the first requirements had been satisfied, was not for more and more comfort or leisure, but for other things, to which in the past Henry Dubb had had little access. Colet was Robinson's best helper, for Henry Dubb began to travel on a large scale. As a first step, this was his country, and he must know its face; and, beyond that, this was his world, and

he must see it. Then, as to books<sup>7</sup> and the Press, Henry Dubb had read little in the past. He could afford<sup>6</sup> to do so now, and to become critical of what he read; if he did not write it himself. The few Socialist publishers, to whom I have already referred, had had some inkling of what was possible. Under a Socialist State the dream came true, and, from the publishers' point of view, circulations broke all records. It was not a case of a bargain Bible or a cheap compendium of all the world's knowledge. Henry Dubb began to read greedily—all sorts of books and with increasing discrimination. There was a corresponding change in the Press. Journalism ceased to be the tasty presentation of the beauties of the film and the horrors of the world: the world was on the whole less horrid, and people more interested in its possibilities than in its horrors. Newspapers continued to provide news, but it was news of what was being done, and not of what was being suffered. They became increasingly the vehicle of intelligent summary and criticism of the efforts that were being made, and of suggestions as to what more might be effected. They began to provide space for some pause and reflection, some consideration and criticism of this new matter of living. There were other instruments to hand. Science, in the past, had been too bound to the capitalist—having some sense of purpose of its own, but tied to the requirements of immediate use and profit. What had already been discovered could be applied, and was applied, by Henry Dubb and his friends to serve their main purpose of living to the full. To live fully, and to live dangerously, are not so very far apart; but in the past Henry Dubb's dangers had not been of his own making. In science generally, and most particularly in those forms of it that seemed to constitute research for the benefit of the community, a spirit of adventure spread from the few scientists of former days to many others. It grew side by side with the spirit of adventure in social life. The land and the factories were not reconstituted without some change in the laboratory and the university. There grew up an increased respect for research work and for the

practice of learning : such matters became a public concern, for all such traces of classes as remained in an increasingly classless society.

It is not within the purpose of this book to carry matters further, or to trace the steps by which the young Socialist State avoided the dangers that at first beset it and that grew so early round it. What the men and women of those times had in mind was the classless society that we know to-day. Their main peril was the risk of eliminating class distinctions in the past, only to set them up again in the new times under a different form. There might be differences of skill and differences of industry—the rewards of one man might be greater than those of another—but there must be, so they were determined, no distinction of class, whether by heredity, wealth or occupation. That determination was no doubt there, among some few of them, at the beginning. It grew among those few, and spread to others as the work proceeded, and what had seemed at first to be a remote ideal became an object possible of attainment and worth working for. There were many who had come to realise that in an individualist system there were narrow limits both to what a man could do and to the measure of happiness to which he could attain. The classless society was but that form of living together in which men and women could find a fuller development and a fuller purpose in group action and the life of the group. It might be put in many ways—brotherhood, common endeavour, or, in the fullest sense, peace on earth. But, however put, and whether it was stated in the form of the economy of life or in other terms, that comradeship in hope and in achievement was incompatible with the world as McCosh and his colleagues first found it. It was not incompatible with the world as they left it. The measure of their achievement is that they set forward on the path towards a classless society in which the men and women of the world could find hope and happiness in living and working together.

## APPENDIX

## EMERGENCY POWERS (FINANCIAL) ACT, 1936

AN ACT for making provision in the present financial emergency and for the temporary appointment of an Emergency Commissioner at the Bank of England and for the authorisation of certain emergency powers and for purposes incidental thereto.

Be it enacted, etc.

1. (1) For the purposes of this Act and for so long as this Act shall continue in force it shall be lawful for His Majesty to appoint an Emergency Commissioner at the Bank of England (in this Act referred to as "the Commissioner").

*Emergency  
Commissioner  
at the Bank  
of England.*

(2) The office of the Commissioner appointed under this Act shall not render the holder thereof incapable of being elected to or sitting or voting as a member of the Commons House of Parliament.

(3) . . . (*Provisions for staff, lent from the Civil Service or temporarily appointed and for payment of expenses, subject to Treasury control.*)

2. It shall be the duty of the Commissioner to exercise the powers conferred on him by this Act for the maintenance of the national economy and in such manner as to provide for the present financial emergency.

*Duties of  
Commissioner.*

3. It shall be lawful for the Commissioner to make, and from time to time vary, Orders authorising the taking of such measures in relation to the exchanges and otherwise as he may consider expedient for meeting difficulties arising in connection with the present financial emergency.

*Foreign  
Exchange.*

4. The Commissioner may require and authorise the Bank of England to increase the fiduciary note issue and for that and other purposes the Currency and Bank Notes Act, 1928, shall, so long as this Act continues in force, have effect as though that Act were amended in the manner set out in the Schedule to this Act.

*Fiduciary  
note issue.*



*Directions as to rate of interest or discount and as to dealings in securities and other matters.*

5. (1) The Commissioner may give directions to the Bank of England as to any one or more of the following matters:—

(a) The rate of interest to be charged by the Bank of England on any moneys howsoever advanced:

(b) The rate of discount at which the Bank of England may purchase or offer to purchase bills of exchange or other negotiable instruments:

(c) The terms upon which the Bank of England may make advances or purchase bills of exchange or other negotiable instruments:

(d) The sale by the Bank of England of any securities the property of the Bank of England:

(e) The purchase by the Bank of England on its own behalf of any securities, in which a trustee might invest trust funds under the powers of section one of the Trustee Act, 1925, or section ten of the Trusts (Scotland) Act, 1921:

(f) Whether and, if so, to what amount and on what terms and in what form advances shall be made by the Bank of England to other Banks.

(2) Notwithstanding any provision in any Act or any charter to the contrary the Governor and Company of the Bank of England shall comply with any directions given by the Commissioner to the Bank of England under this Act.

*Requisitions from other Banks.*

6. (1) The Commissioner may at any time direct the Bank of England to requisition in writing from any other Bank (in this Act referred to as "the requisitioned Bank") any security or securities issued or guaranteed by His Majesty's Government and owned by the requisitioned Bank.

(2) Notwithstanding any Act or Charter to the contrary the Bank of England shall comply with any directions given under this section and the requisitioned Bank shall comply with any requisition made under this section.

(3) At any time while this Act continues in force the Bank of England may, with the concurrence of the Commissioner, elect to compensate the requisitioned Bank by delivering to the requisitioned Bank the securities requisitioned or the same amount of securities of the same issue as those requisitioned and by accounting to the requisitioned

Bank for the interest accrued on the requisitioned securities during the period of requisition.

(4) Failing any such election as in the last sub-section is provided for, the Bank of England shall compensate the requisitioned Bank by payment to the requisitioned Bank at any time within six months after the date of requisition, of the market value of the requisitioned securities at the date of requisition together with the interest accrued on the requisitioned securities from the date of requisition to the date of payment. The Bank of England shall comply with any directions which the Commissioner may give as to the date of any such payment.

(5) Compensation under either of the two preceding sub-sections shall be in full settlement of any claim of the requisitioned Bank arising out of the requisition.

(6) (Any question under this section to be submitted to arbitration : Lord Chancellor to appoint Umpire.)

7. (1) At any time while this Act remains in force it shall be lawful for His Majesty by Order in Council :—

(a) To prohibit or suspend for any period all, or any class of, or any, dealings in securities whether upon a Stock Exchange or otherwise :

(b) To appoint Deputy Commissioners, who shall have such powers as regards any person or persons transacting banking business and named on that behalf in the Order in Council, as if in section five of this Act (i) the words "the Deputy Commissioner" were substituted throughout for the words "the Commissioner" and the name of the person or persons were substituted throughout for the words "the Bank of England" and (ii) the words "or other persons" were added at the end of sub-section (1) (f) :

(c) To make such provision as may be requisite out of moneys provided by Parliament for the assistance and expenses of Deputy Commissioners.

(2) The office of a Deputy Commissioner appointed by Order in Council under this Act shall not render the holder thereof incapable of being elected to or sitting or voting as a member of the Commons House of Parliament.

*Power to suspend dealings in securities and to appoint Deputy Commissioners.*

(3) Any Order in Council made for the purpose of this Act may be added to varied or revoked by a subsequent Order in Council.

- Penalties.* 8. (*Penal provisions for persons contravening Commissioners' directions, etc.*)
- Duration of Act.* 9. This Act shall continue in force for a period of six months or until such day before the expiration of that period as His Majesty may by Order in Council appoint.
- Short title.* 10. (*As usual.*)

## SCHEDULE

*(Amendments of the Currency and Bank Notes Act, 1928, with the effect of substituting the Commissioner for the Treasury as the authority to direct an increase or decrease of the fiduciary note issue (without securities beyond £260 millions), of ordering the Bank to give the Commissioner, as well as to the Treasury, information on request as to the securities held, and lastly of authorising the Commissioner to direct such an increase without any application by the Bank and without laying his directions before Parliament.)*

## BANKING ACT, 1937

AN ACT for appointing a Secretary for Banking and establishing a Board of Commissioners of Banking and for placing the currency and credit system of the country under public control and for carrying on the same and for purposes incidental thereto.

Be it enacted, etc.

### PART I

#### SECRETARY FOR BANKING AND BOARD OF COMMISSIONERS OF BANKING

- Appointment of Secretary and establishment of Board.* 1. (1) It shall be lawful for His Majesty to appoint a Secretary for Banking (in this Act referred to as "the Secretary") who shall hold office under the Minister of Finance during His Majesty's pleasure.

(2) For the purposes of this Act there shall be established a Board of Commissioners of Banking (in this Act referred to as "the Board") consisting of the Secretary who shall be the First Commissioner and of such other Commissioners, not exceeding four in number, as the Secretary may from time to time appoint.

(3) Subject to the provisions of this Act a Commissioner appointed by the Secretary shall hold office until the Commissioner resigns or until his services are no longer required by the Secretary.

2. It shall be the duty of the Board to assume the control *Duties of Board.* of the currency and credit system of the country and to operate the same in the interests of the workers of this country, and for those purposes the Board shall have the rights, powers and duties conferred on it by this Act and such powers and duties of any Government department or authority, whether conferred by statute or otherwise, as His Majesty may by Order in Council transfer to the Board or authorise the Board to exercise or perform concurrently with or in consultation with the Government department or authority concerned.

3. (1) The Secretary, with the assistance of the other *Powers and duties of Secretary.* Commissioners (if any) shall perform the duties of the Board.

(2) Any power or right of the Board may be exercised by the Secretary alone without consultation with other Commissioners.

(3) The Secretary shall be under no duty to appoint any Commissioner or Commissioners save such and so many as from time to time he may require for his assistance.

(4) Subject to the provisions of this Act the Secretary may from time to time:—

(a) By Order declare the number and the respective styles of the Commissioners or vary their number and their styles:

(b) By Order or otherwise make provisions with respect to the proceedings of the Board and the manner in which the business of the Board is to be distributed among the Commissioners;

(c) Appoint and dismiss such standing or temporary advisory committees as he may require.

*Staff remuneration and expenses.*

*Style, seal and proceedings of Board.*

4. (*The usual provisions.*)

5. (1) On the establishment of the Board under the provisions of this Act, the person or persons, who for the time being shall be the Commissioner or Commissioners, shall be a corporation by the name (and style of the Board of Commissioners of Banking and by that name shall and may have perpetual succession and a common seal and may sue and be sued and may for all purposes be described by that name.

(2) (*Power to hold land. Common seal. Authentication of documents issued by Board.*)

*Right to sit in Parliament.*

6. (*Secretary and Commissioners may be Members of House of Commons.*)

## PART II

### THE BANKS

*Transfer of stock of Bank of England.*

7. Upon such day as His Majesty may by Order in Council appoint the Stock of the Bank of England shall by the operation of this Act and subject to the provisions thereof be transferred to and vest in the Board.

*And of Banks named in Schedule or by Order in Council.*

8. Upon such day as His Majesty may by Order in Council appoint there shall, by the operation of this Act and subject to the provisions thereof, be transferred to and vest in the Board all the shares of the corporations named in the First Schedule to this Act and of such other corporations, incorporated in the United Kingdom and carrying on in any part of the United Kingdom any form of banking business, as His Majesty by Order in Council before or upon the appointed day may designate.

9. At any time after the day appointed in accordance with section 8 of this Act His Majesty may by Order in Council :—

*Further transfers of shares or of undertakings.*

(1) Designate any corporation incorporated in the United Kingdom and carrying on in any part of the United Kingdom any form of banking business and appoint a day, upon which by the operation of this Act and subject to the

provisions thereof all the shares of the corporation so designated shall be transferred to and vest in the Board :

(2) Designate any person or persons carrying on in any part of the United Kingdom an undertaking consisting of or comprising any form of banking business and appoint a day, upon which, by the operation of this Act and subject to the provisions thereof, all or any part of the undertaking so carried on shall be transferred and vest in any corporation named on that behalf in the Order in Council :

[Note: This is to give power to transfer partnership or private undertakings to corporations, which have already been socialised, or to convert them into socialised companies.]

Provided that, for the purpose of acquiring any shares transferred under this sub-section, the Board may promote such private company or companies within the meaning of section 26 of the Companies Act, 1929, as to the Board shall seem fit, and any person appointed by the Board on that behalf may hold a share or shares in any private company so promoted :

(3) Prescribe the terms and conditions upon which any transfer contemplated in this section of this Act may be effected.

10. (On transfer of shares, copy of register of shareholders to be delivered to Board and to be conclusive evidence, subject to rectification by Board.)

[Delivery of copies of registers of shareholders.]

11. Notwithstanding any provision in any Act or any Charter to the contrary, upon and after the transfer of any shares by the operation of this Act :—

[Powers of Boards and Directors.]

(1) The Board may exercise in writing or by a secretary all or any of the powers and rights exercisable whether in writing or personally by the holders of the shares transferred immediately before the transfer :

(2) The Governor, Deputy Governor and Directors of the Corporation concerned may continue to exercise the powers and perform the duties which they exercise and perform at present :

Provided that :—

(a) The Board may at any time dismiss one or more of such Governors, Deputy Governors or Directors and at its discretion appoint in place of any person so dismissed or

without any such dismissal such and so many Governors, Deputy Governors or Directors as may be required :

(6) The Board may at any time require the Directors or other proper persons to make, and, if so required, the Directors or other proper persons shall make, such changes in the internal affairs and management of the corporation concerned as to the Board may seem fit.

*Further  
charters of  
corporations.*

12. (*Provision for new charters to alter or replace the charters of corporations, the stock of which has been transferred to the Board.*)

*Board to  
license  
banking  
business.*

13. (1) Upon and after such day as His Majesty may by Order in Council appoint it shall not be lawful for any person or persons to carry on any form of banking business in any part of the United Kingdom save under licence of the Board :

Provided that this section of this Act shall not apply to any corporation, the shares of which shall have been transferred by the operation of this Act.

(2) The Board may issue such licences to carry on banking business as to the Board shall seem fit. In particular, but without prejudice to the power of the Board to issue any form whatsoever of licence, the Board may for such period as it thinks fit issue licences to carry on banking business or any form of banking business either generally or to particular persons and subject to such restrictions, conditions and terms as the Board may at its discretion impose. Such terms may include the payment to the Board of fees or of a percentage of turnover or of profits :

Provided that the Board shall be deemed not to become a partner by reason of the terms of any such licence.

(3) The Board may decide whether any transaction or class of transactions is or is not banking business within the meaning of this Act and such decision shall be final and conclusive for all purposes in any court of Law. A decision under this sub-section as regards any class of transactions may be published in an Order of the Board.

(4) For the purposes of this sub-section the Board may issue Orders and Regulations, which shall have the same effect as if they were enacted in this Act.

## PART III

## FINANCIAL PROVISIONS AND COMPENSATION

14. (1) Compensation shall be allowed in accordance with the provisions of this part of this Act, but not otherwise, to persons (in this Act referred to as "former shareholders") named in a copy of a Register of shareholders delivered under section 10 of this Act and to persons (in this Act referred to as "designated persons") designated under sub-section 9 (2) of this Act :

*Compensation, Appointment of Representatives.*

Provided that no compensation shall be allowed to any corporation the shares of which are vested in the Board.

*[Note: The object of the proviso is merely to avoid compensating yourself.]*

(2) *(Provisions for appointment of persons to represent former shareholders, etc., in arranging compensation.)*

(3) Persons nominated under either of the two preceding sub-sections are in this Act referred to as "representatives."

15. (1) For the purpose of providing compensation under this Act the Board may issue annuities to be called "Bank Compensation Annuities" to run for such period of years not exceeding twenty-five as the Board may determine in respect of each issue of annuities made by them.

*Board may create Bank Compensation Annuities.*

(2) The amount annually payable in respect of each Bank Compensation shall be such amount as the Board may determine at the time of issue :

Provided that the amount so determined may be reduced from year to year during the last five years of the currency of the annuity to such extent and in such stages as the Board may direct and declare at the time of issue.

(3) Bank Compensation Annuities shall be redeemable on any quarter day at the option of the Board upon three calendar months' notice. The redemption price shall be the amount of the future payments due in respect of the redeemed annuity or annuities discounted on the date of redemption at the average money yield obtainable by a purchase of stock charged upon the Consolidated Fund of the United Kingdom on the date upon which notice of redemption is published. The Board may certify the amount of the redemption price of



any annuity or annuities and the price so certified shall be deemed to be the redemption price ascertained in accordance with the provisions of this section.

(Supplementary provisions as to transfer of annuities, trustee status etc.)

Ascertainment of certified dividends.

16. (1) Upon the transfer by the operation of this Act of any shares of a corporation the Board shall cause to be ascertained the average rate of dividend declared on the shares for the three financial years last preceding the transfer and the sum, which at such average rate would be payable in any one year as dividend on the share transferred.

(2) From time to time the Board shall certify the total applicable to each financial year of the sums ascertained in accordance with the preceding subsection. The total so certified is in this Act referred to as "the total of certified dividends."

Banking Dividends Fund.

17. Dividends received by the Board shall be paid into a fund to be called "the Banking Dividends Fund," which shall be applied in making the following payments in the following order:—

(1) Amounts payable in respect of Bank Compensation Annuities issued under this Act :

Provided that the amount so applied in any one financial year shall not exceed the total of certified dividends as defined by this Act :

(2) Payments for such (if any) of the following purposes as the Board may deem fit:—Purchase or redemption of Bank Compensation Annuities, paying up capital on shares vested in the Board, subscribing capital to corporations of which the shares are vested in the Board or which are being or have been promoted by the Board :

(3) The expenses of the Board :

(4) Such purposes (if any) as Parliament may from time to time designate:

(5) Such purposes as the Board may from time to time designate by Order :

Provided that no Order shall be made under this sub-section unless a copy of the Order proposed to be made has lain before the Commons House of Parliament for fourteen

days before the making of the Order and during those fourteen days no address has been presented to His Majesty by that House praying that the proposed Order be not made.

18. (1) For the purposes of this Act and for such purposes as may be determined by Acts to be passed hereafter there shall be constituted tribunals (to be called and in this Act referred to as "Compensation Tribunals"), each consisting of three members. *Compensation tribunals.*

(2) The Secretary for Judicial Affairs shall from time to time by Order declare how many Compensation Tribunals are required and in what place or places each Compensation Tribunal shall sit.

(3) The members of a Compensation Tribunal shall be appointed by the Secretary for Judicial Affairs from time to time, as occasion may require, and shall hold office for such period as the Secretary for Judicial Affairs may direct upon appointment or, failing such direction, during His Majesty's pleasure.

*(Provisions as to special classes of tribunals, casual vacancies, temporary incapacity, attendance of witnesses, production of documents, costs, rules of procedure, staff and expenses of tribunals.)*

19. For the purposes of this Act and of any Act to which this section may be applied hereafter it is hereby declared that no compensation in any form shall be allowed in respect of the capital value of any shares, undertaking, part of an undertaking or other property whatsoever transferred by the operation of this Act or of any Act to which this section may be applied. Compensation shall be allowed (during such period as the annuities may run without reduction of amount) on the basis of the continuation of income from the property transferred and (during the period of reduction) on the basis of the gradual elimination of income so that at the end of the currency of the annuity the holder thereof shall have no further rights either to capital or to income : *Principle of compensation.*

Provided that due regard shall be had in all cases to any risk of the decrease or failure of the income if no transfer had been made :

Provided further that notwithstanding anything hereinbefore contained full compensation as regards both capital and income shall be allowed upon the transfer of any property

of a trade union, co-operative society or other organisation declared by Order of the Secretary for Central Finance to be a working-class organisation and upon the transfer of any property certified by the Minister of Social Services or any Secretary under him to be held or used for purposes of social advantage :

And that additional or full compensation may be allowed by a Compensation Tribunal in cases of individual hardship due to old age or infirmity and in cases of necessary dependence for other reasons upon the compensation allowed.

*Board to agree or determine compensation, subject to appeal to Compensation Tribunals.*

20. (1) Upon the transfer of any shares by the operation of this Act the compensation to be allowed for each share shall be in the form of Bank Compensation Annuities to an amount, which may be agreed upon between the Board and the representatives of the former shareholders or, failing such agreement, shall be determined by the Board.

(2) Upon the transfer under sub-section 9 (2) of this Act of any undertaking or part of an undertaking compensation may be allowed to the designated person or persons in the form of Bank Compensation Annuities or money. The Board may agree with the designated person or persons or with their representatives whether any compensation shall be allowed and, if so, whether in Bank Compensation Annuities or in money and in either event to what amount. Failing agreement on any such matter the Board shall determine the same.

(3) From any determination of the Board under either of the two preceding sub-sections (except a determination under sub-section (2) as to whether compensation shall be allowed in Bank Compensation Annuities or in money) an appeal shall lie to a Compensation Tribunal, which by an unanimous or a majority decision may affirm, vary or reverse the determination of the Board.

(4) The Board shall not entertain any claim to additional or full compensation upon the ground of individual hardship or necessary dependence but shall agree or determine the compensation to be allowed to the claimant irrespective of his further claim upon those grounds. The further claim shall be made to a Compensation Tribunal which shall determine what further compensation (if any) is to be allowed and whether in Bank Compensation Annuities or in money.

21. The Board in agreeing or determining any matter under the preceding section of this Act and a Compensation Tribunal in determining any matter or deciding any appeal thereunder shall have regard :—

*Regard to be had to certain matters in agreeing, determining or deciding compensation.*

(1) To section 19 of this Act :

(2) In the case of a transfer of shares, to :—

(a) The dividends declared on the shares for the three financial years last preceding the transfer :

(b) Any uncalled liability in respect of the shares :

(3) In the case of a transfer of an undertaking or part of an undertaking, to :—

(a) The terms of the transfer :

(b) The average net profits earned by the undertaking for the three financial years last preceding the transfer :

(c) The risk of any decrease in such profits if this Act had not passed :

And, if that which is transferred is described by the relevant Order in Council as part of an undertaking, to :—

(d) The proportion of the profits of the said undertaking attributable to the operation of the part transferred, when operated in conjunction with the part not transferred :

(e) Any advantage or disadvantage accruing to the part not transferred by reason of the transfer of ownership of the part transferred :

(4) In the case of compensation in the form of Bank Compensation Annuities, such annuities being payable out of dividends pooled under section 17 of this Act :

(5) But shall not have regard in any case to :—

(a) The possible advantage to any corporation, undertaking or part of an undertaking of any change of ownership or association, which might have happened if this Act had not passed :

(b) Any increase in the value of any shares, any undertaking or any part of an undertaking, due to the operation of this Act.

22. (1) The Board may establish a fund to be called the "Banking (Capital) Fund."

*Banking (Capital) Fund*

(2) From time to time there may be paid into the Banking (Capital) Fund by any corporation, the shares of which are all held by the Board or by any person appointed by the Board to hold the same, the proceeds of the sale of any assets of the corporation or any other capital moneys of the corporation (including such moneys as represent the capital reserve of the corporation or any part thereof) or such sums as the Board may direct to be so paid in respect of economies effected in the business of the corporation.

(3) The Board may apply the Banking (Capital) Fund in making such payments as are described under sub-sections (2), (4) and (5) of section 17 of this Act in the order stated in the said section and subject to the provisions thereof.

*Bank  
Pensions  
Fund.*

23, (1) The Board shall establish a fund to be called the "Bank Pensions Fund" into which shall be transferred all moneys held for the purpose of providing pensions or for any similar purpose for the benefit of persons employed or formerly employed by any corporation, the shares of which are all held by the Board or by any person appointed by the Board to hold the same.

(2) A decision of the Board as to what moneys are to be transferred under the preceding sub-section shall be final.

(3) There shall be paid by any such corporation as aforesaid into the Bank Pensions Fund such sums as the Board may direct to be so paid in respect of economies effected in the business of the corporation.

(4) The Board shall apply the Bank Pensions Fund in providing pensions or making other payments for the benefit of persons employed in banking business. Such payments may include any expenses of or incidental to the provision of full compensation or the finding of alternative employment for persons dismissed from employment in banking business.

(5) For the purposes of the preceding sub-section the Board shall make such arrangements as it may think fit for the appointment of representatives of persons employed in the banking industry and shall consult the representatives so appointed. After consultation with the said representatives the Board may issue such orders or schemes as shall be

requisite for the purposes of the preceding sub-section and such orders or schemes shall be deemed to replace the trusts or other purposes upon or for which any moneys paid into the Bank Pensions Fund may previously have been held.

## PART IV

## MISCELLANEOUS

24. The Board may require and authorise the Bank of England to increase the fiduciary note issue and for that and other purposes the Currency and Bank Notes Act, 1928, shall be amended in the manner set out in the Second Schedule to this Act.

25. (*Penal provisions against unlicensed banking business.*) *Penalties.*

26. In this Act the following words and phrases have the following meanings:— *Interpretations.*

“Shares” includes stock and “shareholders” includes stockholders and proprietors of stock of the Bank of England.

“Banking business” means such business as is habitually carried on by the corporations named in the First Schedule to this Act and includes the acceptance of money on current account, to be withdrawn by cheques, or on deposit account for a short term or subject to notice of withdrawal, the granting of secured or unsecured advances by way of overdraft, bank credit, acceptance or negotiation of bills of exchange or in any other way usual among bankers, the purchase, sale or collection of bills of exchange or Treasury bills, the purchase or sale of foreign currency and the purchase or sale of securities, interest or dividend coupons, cheques or other instruments expressed in foreign currency; but does not include the acceptance of money on deposit for a fixed term of six months or more, the purchase or sale through stockbrokers of securities not expressed in foreign currency, any transactions effected with or through any Government department or authority, or the acceptance or negotiation by a principal or mercantile agent of bills of exchange drawn, accepted and negotiated for the purpose of a commercial transaction.

<i>Orders in Council.</i>	27. ( <i>Power to vary or revoke as usual.</i> )
<i>Statute Title.</i>	28. ( <i>As usual.</i> )

## FIRST SCHEDULE

Bank of Scotland.<sup>1</sup>  
 Barclays Bank Limited.<sup>2</sup>  
 C. Hoare & Co.  
 Commercial Bank of Scotland Limited.  
 District Bank Limited.  
 Glyn, Mills & Co.<sup>3</sup>  
 Lloyds Bank Limited.<sup>4</sup>  
 Manchester and County Bank Limited.  
 Martins Bank Limited.  
 Midland Bank Limited.<sup>5</sup>  
 National Bank Limited.  
 National Provincial Bank Limited.<sup>6</sup>  
 Royal Bank of Scotland.<sup>7</sup>  
 Union Bank of Scotland Limited.  
 Westminster Bank Limited.<sup>8</sup>

## SECOND SCHEDULE

(Amendments of the Currency and Bank Notes Act, 1928, with the effect of transferring to the Board the powers temporarily exercised by the Emergency Commissioner except

<sup>1</sup> Constituted by Scottish Act of Parliament, 1695.

<sup>2</sup> Controlling (among others)—Barclays Bank (Dominion, Colonial and Overseas), Barclay Bank (France), etc., etc., British Linen Bank, Union Bank of Manchester.

<sup>3</sup> Controlling Child & Co., Holt & Co.

<sup>4</sup> Controlling (among others)—National Bank of Scotland, Bank of London and South America and (with National Provincial Bank Ltd.) Lloyds and National Provincial Foreign Bank Ltd.

<sup>5</sup> Controlling (among others)—Belfast Banking Co., Clydesdale Bank, North of Scotland Bank.

<sup>6</sup> Controlling (among others)—Coutts & Co., Grindlay & Co.—and see note <sup>4</sup> above.

<sup>7</sup> Controlling Williams Deacon's Bank.

<sup>8</sup> Controlling (among others)—Ulster Bank, Westminster Foreign Bank.

that the Bank's obligation to give information is repealed, being now unnecessary, and that any directions as to an increase of the fiduciary note issue have to be laid before the House of Commons.)

## NATIONAL INVESTMENT ACT, 1937.

AN ACT for appointing a Secretary for Investment and for establishing a National Investment Board, and for controlling the investment of money and for the better management of public moneys and public investment and for purposes incidental thereto.

Be it enacted, etc.

### PART I

#### NATIONAL INVESTMENT BOARD

1. (1) It shall be lawful for His Majesty to appoint a Secretary for Investment\* (in this Act referred to as "the Secretary") who shall hold office under the Minister of Finance during His Majesty's pleasure.

*Appointment  
of Secretary  
and establish-  
ment of  
National  
Investment  
Board.*

(2) For the purposes of this Act there shall be established a National Investment Board (in this Act referred to as "the Investment Board") consisting of the Secretary and of such other members as subject to the provisions of this Act the Secretary may appoint.

(3) The Secretary with the approval of the Minister of Finance may appoint a member of the Board of Commissioners of Banking as a member of the Investment Board.

(4) Of the members of the Investment Board other than the Secretary and any member of the Board of Commissioners of Banking appointed by the Secretary, one half (in this Act referred to as "the political members") shall each of them hold office until he resigns or until his services are no longer required by the Secretary and one half (in this Act referred to as "the financial members") shall hold office each member until he resigns or for such term, not exceeding



five years, as the Secretary may determine at the time of the member's appointment.

*(Provisions as to removal from office for inability or misbehaviour, reappointment, etc.)*

*Investment Board to be a body corporate.*

2. (1) The Investment Board shall be a body corporate with power to purchase and hold land without licence in mortmain.

*(Provisions for a common seal, authentication of documents, documentary evidence, etc.)*

*Duties of Investment Board.*

3. It shall be the duty of the Investment Board to control the investment of money and to exercise its powers under this Act for the management of public moneys and public investment in the interest of the workers of this country.

*Right to sit in Parliament.*

4. The office of the Secretary of of a member of the Investment Board (other than a financial member) appointed under this Act shall not render the holder thereof incapable of being elected or sitting or voting as a member of the Commons House of Parliament.

*Staff and expenses.*

5. (1) The Investment Board may appoint such secretaries, officers and servants as the Investment Board may determine.

(2) There shall be paid out of moneys provided by Parliament to the financial members, secretaries, officers and servants of the Board such salaries or remuneration and to the political members such salaries (if any) as the Secretary for Central Finance may from time to time determine.

(3) The expenses of the Investment Board to such amount as may be sanctioned by the Secretary for Central Finance shall be paid out of moneys provided by Parliament or otherwise in accordance with the provisions of this Act.

*Procedure, Advisory Committees.*

6. (1) Any power or right of the Investment Board may be exercised by the Secretary alone.

(2) Subject to the provisions of this Act the Secretary may from time to time by Order or otherwise :

(a) Make provision with respect to the procedure of the Investment Board, including provision as to the number of the Board required to constitute a quorum :

Provided that in the absence of such provision and subject to the right of the Secretary to act alone the quorum shall be three :

(b) Appoint and dismiss such standing or temporary advisory committees (including or not including members of the Investment Board) as he may require.

## PART II

## PUBLIC ISSUES, OFFERS FOR SALE AND LOANS

7. (1) Upon and after such day as His Majesty may by Order in Council appoint and subject to the provisions of this Act no public issue or offer for sale shall be made save under licence of the Investment Board.

*Prohibition of public issues and offers for sale save under licence of Investment Board.*

(2) In this Act the phrase "public issue" means :

(a) Any invitation to the public or to any class of the public (including the class of holders of a specified security) to subscribe to stock, debentures or other securities issued by a Government other than His Majesty's Government in Great Britain and Northern Ireland or issued by a public authority :

(b) Any invitation to a person or persons or to the public to subscribe to the shares, stock, debentures or other securities of any corporation or to subscribe any of the capital of a limited partnership :

And the phrase "offer for sale" means any offer to sell securities addressed to the public or to any class of the public (including the class of holders of a specified security).

8. (1) Upon and after such day as His Majesty may by Order in Council appoint and subject to the provisions of this Act no person shall lend to any other person or persons and no person shall borrow from any other person or persons any sum or sums exceeding at any one time in the aggregate ten thousand pounds save under licence of the Investment Board.

*Prohibition of certain loans save under licence of Investment Board.*

(2) For the purposes of this section loans to or by a corporation, the majority of the shares of which are held, beneficially owned or directly or indirectly controlled by another person or persons as partners or joint owners, shall be

deemed to be a loan, to or by such person or each of such persons.

*Exception of licensed banking business and other transactions.*

9. (1) The following transactions shall be excepted from the operation of this Act so that they may lawfully be effected without licence of the Investment Board:

(a) Any transaction effected by the Board of Commissioners of Banking:

(b) Any loan made to or by a corporation the shares of which are vested in the Board of Commissioners of Banking:

(c) Any transaction or class of transactions licensed by the Board of Commissioners of Banking or carried on as banking business by a person acting under a licence of the Board of Commissioners of Banking, whether or not the transaction or class of transactions is specifically mentioned in the licence.

(2) Any transactions authorised by this Act shall be deemed to be licensed by the Investment Board.

*Licensing of public issues, offers for sale and loans.*

10. (1) For the purposes of this Act the Investment Board may license public issues, offers for sale or loans, either by licensing any transaction or class of transactions or by licensing a person or persons to perform or take part in such transactions or class of transactions (whether described specifically or generally in the licence) as may appear advisable to the Investment Board.

(2) The Investment Board may issue licences subject to such restrictions conditions and terms (including payment of fees to the Investment Board) as the Investment Board may at its discretion impose.

(3) The Investment Board may make such Orders and regulations as appear requisite for facilitating and regulating the issue of licences under this Act. In particular the Investment Board may prescribe what information is to be given and in what form and by whom on any application for a licence under this Act.

## PART III,

## CAPITAL ISSUE FUND

11. For the purpose of establishing a fund<sup>2</sup> to be administered by the Investment Board and called "the Capital Issue Fund" there shall be issued out of the Consolidated Fund or the growing produce thereof a sum not exceeding one million pounds in such instalments and at such times as the Secretary for Central Finance may think fit.

*Capital Issue Fund.*

12. (1) The Investment Board may :—

*Power to apply Capital Issue Fund.*

(a) Underwrite public issues or procure the underwriting thereof :

(b) Promote or render services in and about the promotion of companies :

Provided that in so doing notwithstanding any Act or rule of law to the contrary the Investment Board shall be under no liability to any person other than such liability (if any) as the Investment Board may expressly assume in a prospectus :

(c) Promote private or local Acts of Parliament :

(d) Make offers for sale :

(e) Negotiate or make loans :

(f) Carry on any such business as is usually carried on by issuing houses or other financial institutions :

And may do any of the above matters upon such terms (whether financial or other) and for such reward (whether given in money or in securities or otherwise) as the Investment Board shall think fit.

(2) For the purpose of this section the Investment Board may purchase hold and sell securities.

(3) Any liability of the Investment Board arising out of operations under this section shall be discharged out of the Capital Issue Fund and not otherwise.

(4) The cost and expenses of operations by the Investment Board under this section shall be paid out of the Capital Issue Fund and the rewards or other profits accruing from such operations shall be credited to the Capital Issue Fund.

(5) The accounts of the Capital Issue Fund shall be kept in such form as may be agreed between the Investment Board and the Secretary for Central Finance and shall be submitted annually to Parliament.

## PART IV

### NATIONAL INVESTMENTS

*National Investment Fund. Issue from Consolidated Fund and power to borrow.*

13. (1) For the purpose of establishing a Fund to be administered by the Investment Board and called "the National Investment Fund" there shall be issued out of the Consolidated Fund or the growing produce thereof a sum not exceeding one million pounds in such instalments and at such times as the Secretary for Central Finance may think fit.

(2) For the purpose of augmenting the National Investment Fund the Investment Board may from time to time with the approval of the Secretary for Central Finance create and issue stock or annuities which shall be called by such name, shall be redeemed (if at all) at such times, shall be issued at such prices and shall bear interest at such rates, as the Board may determine in respect of each issue.

(3) The principal and interest of any stock or annuities issued under this section may with the approval of the Secretary for Central Finance be guaranteed by His Majesty's Government or may be made payable out of the National Investment Fund and the growing produce thereof or may be made payable out of the produce of or may be secured upon all or any of the national investments (as hereafter defined) in such manner and to such extent as the Investment Board may think advisable.

(4) The Investment Board may by Order authorise any issue of stock under this section to be included among the securities in which a trustee may invest funds under the powers of section nine of the Trustee Act, 1925, or section ten of the Trusts (Scotland) Act, 1921.

*National Investments.*

14. (1) The Investment Board may at any time hold property acquired, accepted, transferred or requisitioned under

this Part of this Act or as otherwise provided by Act of Parliament and the property so held shall be called national investments."

(2) The Investment Board may employ the National Investment Fund in the acquisition in any of the following ways of national investments :—

(a) The Investment Board may purchase securities.

(b) The Investment Board may subscribe for shares debentures or other securities.

(c) The Investment Board may advance money on the security of a mortgage or other charge of real or personal property.

(3) His Majesty may by Order in Council at any time direct that there be transferred to the National Investment Board any property of His Majesty or of any Government Department or other public authority or that the same or any part thereof be re-transferred or be transferred by the National Investment Board to any other Government Department or other public authority and may impose any terms or conditions upon which such transfer or re-transfer shall be made or upon which the property transferred shall be held.

(4) The Investment Board may at any time sell or otherwise dispose of national investments.

15. (1) If any person (hereinafter called an "indebted person") is indebted to His Majesty or to any Government Department or other public authority he may offer securities for sale to the Investment Board in discharge or part discharge of his indebtedness and the Investment Board may if it thinks fit accept such securities at an agreed price.

*Indebted persons and the transfer of securities as national investments.*

(2) The Government Department or other public authority to which a debt is due and payable or which is concerned in the collection of a debt due and payable to His Majesty may give written notice (to be called a "security notice") in the form prescribed in the First Schedule of this Act to the indebted person.

(3) An indebted person having received a security notice :

(a) Shall not for the period of one month thereafter

sell mortgage pledge charge or otherwise dispose of or encumber his property or interest in any security :

(b) Shall within fourteen days deliver to the Investment Board a Schedule of Securities in the form and with the particulars indicated in the Second Schedule of this Act :

(c) Shall transfer to the Investment Board such securities shown in the Schedule of Securities (which may be or include a part of an item in the Schedule) as the Investment Board may by notice within fourteen days of the delivery of the Schedule require to be transferred either at the price shown in the Schedule or at an agreed price or at a price to be determined by arbitration.

(4) The price of securities accepted by or transferred to the Investment Board under this section shall be paid out of the National Investment Fund in discharge or part discharge of the debt of the indebted person. The securities so accepted or transferred shall be national investments.

*Power to  
requisition  
securities.*

16. (1) The Investment Board may at any time by Order requisition any security the principal or interest of which is payable in foreign currency or which in the opinion of the Investment Board is useful for the purpose of controlling the exchanges.

(2) For the purposes of this section the Investment Board may by Order or otherwise direct :—

(a) Any person or persons named in the direction to deliver within such a time as may be prescribed by the direction a Schedule of Securities in the form and with the particulars indicated in the Second Schedule of this Act, such Schedule of Securities to be correct as on the date of delivery :

(b) All persons holding or interested in any security or securities specified in the direction to deliver within such time and in such form as may be prescribed by the direction particulars of such security or securities held or owned by them and of their interest therein and of such other matters as may be prescribed by the direction.

(Provisions for requisitioned Orders to be either general or directed to some particular person or persons and for compensation out of the National Investment Fund by returning or purchasing the requisitioned security within six months of requisition. Securities purchased are to be national investments.)

17. The accounts of the National Investment Fund and of the national investments, shall be kept in such form as may be agreed between the Investment Board and the Secretary for Central Finance and shall be submitted annually to Parliament.

*Accounts of National Investment Fund and of National Investments.*

18. (1) Any price or value to be determined by arbitration under this Act shall be determined by the sole arbitration of a special arbitrator.

*Arbitration.*

(Secretary for Judicial Affairs to appoint a panel of special arbitrators and to designate a Master of the High Court who shall select one of the panel for each arbitration. The arbitration to be decided upon the written submissions of parties, with any valuations, accounts, etc., annexed. Arbitration Act, 1889, not to apply. Secretary for Judicial Affairs to prescribe rules of procedure and to make any necessary Orders. Provision for staff, expenses, remuneration of special arbitrators when acting.)

## PART V

### GENERAL

19. (1) All the powers and duties of the Public Works Loan Commissioners shall be transferred to the Investment Board.

*Transfer of powers and duties of Public Works Loan Commissioners.*

(2) In connection with the aforesaid transfer of powers and duties the provision set out in the Third Schedule of this Act shall have effect.

(Incidental provisions and amendments may be made by Order in Council.)

20. (1) No stamp duty shall be payable in respect of any document required for the performance of a transaction effected by or upon the orders of the Investment Board.

*Exemption from stamp duty.*



(2) A certificate of the Board that any document is required for the last mentioned purpose shall be conclusive evidence that it is so required.

*Power to prohibit dealings and transfers.*

21. (1) For the purposes of this Act the Investment Board may by Order or otherwise either prohibit or impose such condition as it sees fit upon :

(a) Dealings upon the Stock Exchange in any security or class of securities :

(b) The transfer of any security or class of securities otherwise than by inheritance or operation of law.

(2) In addition to the penalties provided by this Act the transfer of any security contrary to a prohibition or without compliance with conditions imposed under this section shall for all purposes be void and illegal.

*Penalties.*

22. (*Penal provisions as regards contravention of ss. 7, 8, 15 (3), 21.*)

*Orders in Council.*

23. (*May be varied, etc.*)

*Short title.*

24. This Act may be cited as the National Investment Act, 1937.

#### *First Schedule.*

(Form of security notice, demanding payment of debt, requiring compliance with s. 15 (3) of the Act and calling attention to penalties.)

#### *Second Schedule.*

(Form of Schedule of Securities, indicating amounts, descriptions, name of registered holder, property or interest of person preparing Schedule, price asked, any incumbrances or charges : notice as to costs of arbitration, if price awarded less than that asked.)

#### *Third Schedule.*

(Transitory provisions for transfer of powers and duties from Public Works Loan Commissioners.)

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