CABINET

IRON AND STEEL BILL

NOTE BY THE LORD PRESIDENT OF THE COUNCIL

IN accordance with the decision of the Cabinet on 14th June, 1948 (C.M. (48) 39th Conclusions, Minute 5) the Socialisation of Industries Committee have examined the arguments which should be used in support of the provisions of the Iron and Steel Bill; and the Minister of Supply and I are now in a position to report the Committee's conclusions.

The Committee suggest that, when the Bill is published, Ministers and other members of the Government should advocate the provisions of the Iron and Steel Bill on the lines outlined in the attached memorandum. It is undesirable that Ministers, before the Bill is introduced, should refer to these arguments in public speeches unless after consultation with the Minister of Supply or myself, since tactically it would be preferable to refrain from indulging in detailed political argument on the Bill until it has been published and the full case in its favour can be deployed.

The Committee desired me to draw the attention of the Cabinet to paragraph 7 of the attached memorandum which gives grounds for socialisation based on the needs of the European Recovery Programme. It may be desirable that something like this might be said, provided that it is not felt that we are thereby seeming to dictate to other European countries how they should control their iron and steel industries.

1. No one seriously suggests that the structure and methods used for operating the British iron and steel industry before the war would be satisfactory or defensible for the future. Before 1933 the industry was more or less free from Government control and after 1933 it was subject to a certain limited amount of supervision by the Import Duties Advisory Committee. The industry has moved a long way from the attitudes and policies prevalent as recently as in the 'thirties and its development plan, prepared in response to a Coalition Government's decision in 1945, represents what would before the war have been regarded as a radical and untried experiment. The past history of the pre-war steel industry with its misdeeds and failings as well as its successes is not, therefore, highly relevant to the Bill. But, for the same reasons, the industry is hardly entitled
to claim that a theoretical and arbitrary experiment is being substituted for a well-tried system which was working perfectly efficiently. It is tacitly agreed on all sides that the pre-war system must be radically changed. The problem the nation has to decide is whether the fairly radical change in effect proposed by the owners of the iron and steel industry is, or is not, preferable to the more drastic change proposed by the Government.

2. The arguments may conveniently be reviewed under the following heads:—

(a) What the nation requires from the iron and steel industry.
(b) Development and finance.
(c) Marketing and price policy.
(d) Labour relations and conditions.
(e) Organisation and administration.
(f) Short-term considerations.

(A) What the nation requires of the iron and steel industry.

3. The future security and wealth of Great Britain and the part it can play in the world are more closely bound up with the possession of a modern, efficient, expansionist iron and steel industry than probably with any other single branch of manufacture. The dependence of economic progress on steel, which has long been marked, is becoming even greater. We are having to put a larger share of our national resources into metal-using and engineering industries and these industries can be and are at present seriously handicapped by inadequate steel supplies. In future they might be even more seriously crippled by being unable to get steel at world competitive prices—a frequent complaint by the British motorcar industry for years before the war. Failure by the steel industry to respond sufficiently quickly to technical and market changes affecting steel users might also be disastrous for our balance of payments. No responsible Government, therefore, could contemplate leaving to chance the question whether the managers of an industry, of such life and death importance to the national economy, would be able and willing to do the best possible job for the nation. The private enterprise basis in the accepted sense is not possible for iron and steel because there can be no guarantee that considerations of profitability for particular sets of shareholders, over the period for which their firms would choose to budget, would not lead to failure to develop or even maintain facilities and supplies which would be essential to the economic or military strength of the nation. Therefore, either the firms would have to be over-ruled or persuaded by tariffs or otherwise (as they often were before the war), or the nation would be economically or strategically weakened. An iron and steel industry without far-reaching public control may sound attractive in terms of classical economics, but it is not a practicable possibility for a responsible British Government of any political complexion. The area of argument, therefore, narrows itself to consideration whether a controlled, but privately owned, iron and steel industry could co-operate sufficiently closely to do all that the State would be bound to require of it without losing the advantages claimed for private enterprise. It is clear that such control would involve risks of conflict between the State and the private owners who must be concerned with their dividends and who, generally speaking, could not be forced, for instance, to spend money at rates or in directions contrary to their wishes. In these conditions directors and managements would be faced with frequent conflicts of loyalties, which in the strains and stresses which result, must be weakening to the State or to the industry or more probably to both. These conflicts would not arise under common ownership.

4. Moreover, there are divergencies of interest over the scale of expansion of the iron and steel industry. From a national standpoint, both economically and strategically, it is better to risk some over-development of iron and steel capacity in order to guard against a recurrence of the present position where the economy is being throttled down by steel shortage, or the war-time position where the war effort is cramped by lack of steel, even if the outcome is that at certain periods a part of the steel capacity does not need to be fully utilised. On the other hand it is in the interest of private owners of the steel industry to keep the industry well on the small side as measured against future national needs in order to transfer as far as possible to other industries at home and abroad the difficult problems of adjustment to peak demands. Even the United States steel industry, which has a far more expansionist tradition than ours, was most reluctant to increase its capacity early in the war to levels which are now generally
admitted to be by no means excessive for American peace-time needs. The United States steel industry's calculation of post-war demand is now seen to have been grossly under-stated owing largely to this inherent bias, and a similar tendency is visible in the British industry. If we were to use as much steel as America in proportion to population our steel capacity would need to be just twice what it is now and although this is obviously over-ambitious, private steel industry here and elsewhere has an inherent tendency to set its sights too low and to make its forecasts of demand come true only by exercising a restrictive influence on the rest of the economy.

Put quite briefly, the position is that in our present economic situation, the capacity of the iron and steel industry must be expanded beyond the conservative size which directors answerable to private shareholders would regard as prudent to achieve. Only the State can effect this expansion. Private enterprise follows demand; the State can anticipate it and prepare for it.

5. In terms of economic planning, steel is so vital and comes in at so early a stage that it is doubtful whether any economic planning worth the name can be realised on the basis of a privately owned steel industry. The private operators of the steel industry cannot be expected to operate with complete impartiality in the public interest. They must have regard to their commercial and other connections, and this gravely weakens the socially necessary priorities and allocation systems by the weight which they give to these commercial interests and by their day-to-day practice in delivering steel differentially to different consumers against forward orders. Unless a private industry is to be saddled with a bureaucracy which would hamstring its daily operations, these tendencies cannot be controlled and they are inherent in the private enterprise structure.

6. Strategically, as possible future warfare becomes more highly mechanised, iron and steel become relatively even more vital, and indeed iron and steel capacity is possibly the best single index of the war potential of a modern State. The factors which induced Tudor and Stuart monarchs to make arsenals and dockyards the first nationalised industries are pressing powerfully for similar treatment of iron and steel. The growing security problems affecting new weapons are a further consideration and it might become a source of grave embarrassment that plants vital to national security could be controlled by directors under contractual or unwritten obligations to pool technical information and developments with potential enemies.

7. The European reconstruction programme and Western Union are introducing a further factor likely to prove of growing importance. If closer economic integration of Western Europe is ever to mean anything the iron and steel industry must be at the heart of it. This means that, if the iron and steel industry of Western Europe is to be effectively integrated on economic and strategic grounds, the necessary regulation must be carried out under Government auspices rather than left to the free play of private enterprise. Questions such as the right location of new developments on economic and strategic grounds are already arising and are likely to become of growing importance. The sort of difficulties which arose over Ebbw Vale before the war, where social and strategic considerations conflict with the wishes of private managements, may be repeated on a European scale before long. The Government would not presume to say how these difficulties should be met by other European countries; but, in the circumstances of this country, the Government is satisfied that nothing short of public ownership will give the necessary degree of effective control.

(B) Development and Finance

8. There are many possible variants in the direction and pace of development of a modern iron and steel industry any one of which may be argued to be economic. There is not one "economic" line of development which is right and a whole number of alternatives which are uneconomic and therefore wrong. Everything depends on the pace of research and development work, the terms on which finance can be provided, the period over which the budget runs and plant is amortised, the possibilities of reciprocal arrangements with overseas producers (e.g., of semi-finished steel), and many other factors which are themselves shaped partly by conscious policy and partly by outside forces. Any group of managers for the steel industry will, therefore, be compelled to make a number of arbitrary forecasts and decisions within their own discretion. The degree to which these forecasts and decisions will be harmonised with national needs will depend largely
on whether managers feel themselves responsible to the nation and identify their interests with national needs, or whether they are responsible to some sectional body which will be constantly tempted to take a different view, particularly in cases where companies controlling steel works are themselves identified with particular users or suppliers.

9. The argument that the huge necessary developments in the steel industry can best be financed on Government terms has some force, since cheaper money means to that extent cheaper steel. It is true that at the present time the steel industry is in a position on its own credit to finance its immediate expansion programme, but there is no guarantee that it can do so for future schemes of development: and in any event the problem in terms of national economic policy is to provide the real resources of man-power and materials out of which new development on a large scale can be realised, rather than merely to find money. There is the further point that investment authorised in other fields for purposes of construction, export, &c, can be rendered abortive unless corresponding developments are set in hand by the steel industry in order to provide the right supplies at the right time. In fact, whoever controls the steel industry holds a right of veto over the development of the engineering industries.

(C) Marketing and Price Policy

10. The steel industry inevitably becomes closer and closer to a monopoly and a cartel and indeed pre-war Governments were compelled as a lesser evil to press cartel arrangements on those leaders of the industry who were most fervidly in favour of competition. With the best will in the world, the industry in private hands cannot help wielding dangerous monopoly powers. No doubt existing price levels may be sufficient to cover the costs of the higher cost producers and therefore may give an excessive profit margin to the more efficient. This may be inevitable on the argument that we need every ton of steel at present almost regardless of cost, but the steel shortage is likely to persist even after the sellers' market ends and it may then become essential to find some method of keeping high cost units temporarily in production without inflating the price structure of the whole industry for that purpose. This could readily be done under socialisation, but it may lead to abuse under private enterprise.

(D) Labour Relations and Conditions

11. The steel industry has an excellent record of labour relations and is not, therefore, likely to suffer from the acute initial management difficulties apparent in an industry such as coaling, where labour relations have been ineptly handled for many years. Thanks to this excellent tradition some of the advantages of socialisation in the labour relations field should be more readily reaped in steel than in industries such as coaling, and while the owners are fully entitled to claim that this is evidence of their capacity to continue running the industry, it is from a practical standpoint an indication that recent achievements and records might be still further improved on under socialisation, which would not in this case have to deal with an unpleasant legacy from the past. At the same time conditions as regards canteens, welfare, &c, could be improved with advantage in the less progressive units which should be brought up to the level of the best.

(E) Organisation and Administration

12. One of the most important arguments for socialisation is that under single public ownership there will be infinitely better scope for effecting rationalisation, elimination of wasteful competition and proper physical industrial planning than under the present diversified private ownership. Efficiency in the industry depends more and more on effective team work between those responsible for different processes and complete integration of working between plants—many of which are at present in different hands and cannot readily, under private ownership, be led to co-operate with sufficient closeness or given a common financial interest. Even where such arrangements can be made under the present system they are a great tax on the time and energy of leaders of the industry who have to give much thought and patience to pacts and negotiations, the need for which would be largely removed by socialisation. Public ownership will give better results than close public control over private ownership. All experience goes to show that public control in certain spheres without public ownership can regulate and check development, but cannot secure positive action of a forward-looking, expansionist character.
Short-term Considerations

13. One of the strongest arguments against socialisation at this stage is that it would upset and dislocate the industry at a time when every ton of steel is needed. Experience of other recent socialisation measures does not bear this out. The coal owners and the electricity supply corporations were opposed on principle to socialisation and certainly less used to subordinating company to industry interests than are the leaders of iron and steel, and in both cases there was an even more critical shortage of their output at the time of socialisation, yet there is no evidence that unsettlement over the process of transfer led to any significant slackening in output.

14. It may be argued that iron and steel is more intricate and technical and would, therefore, be more largely affected. This depends very much on the attitude of the managers and technicians. Certainly, if considerable elements among them made obstacles to co-operation like the doctors and dentists and were prepared to leave the industry, this argument would have a good deal of force. But this is unlikely to happen in an industry where the special skill and experience of the managers would be of little help to them in getting good jobs elsewhere.

15. The fact that it is proposed to socialise on a basis of existing companies and not by setting up new boards is an important safeguard against dislocation, which in most cases would approximate more closely to the very mild process of socialising the Bank of England or Cable and Wireless, rather than the more drastic process of superseding large numbers of colliery companies by the N.C.B. and its intricate and novel subordinate bodies.

16. A more serious difficulty is that on present form the fate of the industry seems likely to be a pivotal point of the next General Election. There is no saying what unsettlement might be introduced by political controversy at that time and it is certainly the responsibility of the Government on its side to see that everything possible is done to insulate the current operation of the industry from the controversy which will be going on over its head.

On the other side, it may fairly be argued that unsettlement and uncertainty about the future will be reduced rather than increased by the Bill which has been hanging over the industry so long that it has inevitably affected the atmosphere in which development and day-to-day operations have to be conducted.

17. Much will depend not only on the weight of the respective cases, but on the atmosphere which is created. It is most important, therefore, that the introduction of recriminations and emotionalism should be strictly avoided from the Government side. The Government being responsible for the national economy has an interest in ensuring that whatever decisions are reached about iron and steel are discussed and settled with the utmost calmness and goodwill, and that an atmosphere of crisis, partisanship and division is avoided.

Points to Avoid

18. We must seek to carry the technicians and the workers with us. Therefore it is suggested that Government spokesmen should take particular care to avoid getting involved in arguments such as the following:—

(a) Misdeeds of the Industry before the War.—There are a number of tempting debating points, such as cartels, price policy, the Sir William Firth incident, &c. It must be recognised, however, that full information on matters of this character is available only to the Federation, and that in most if not all of the major issues the Federation had the tacit or open acquiescence of the Government of the day for what it did. While we may disagree with the Government policies of that time (and fundamentally those policies were restrictionist), we should be on dangerous ice in blackguarding an industry for having fallen in with current Government views. The right line is to emphasise the arguments on general grounds set out above in favour of public ownership rather than control, and to use the public suspicions and doubts in regard to the policy of the industry which developed during the pre-war period of I.D.A.C. control, as evidence of the inherent weaknesses of such a system of control, without explicitly endorsing those suspicions or accusing the leaders of the industry of discreditable behaviour.

(b) Financial Domination by “the City.”—For each of the major public companies the voting rights are exercisable by several thousand share-
holders, and there is no factual evidence to support any allegation that there are at present organised groups in a position to exercise "control." The Prudential and other insurance companies and finance houses are trustees for the debenture holders in some cases, but they have no rights save in the event of default. Acquisition of debentures in industrial concerns is a normal means of investment for surplus funds of insurance companies.

(c) Subsidies.—Exchequer subsidies are now being paid in respect of iron and steel at a rate of about £22 million a year, but it should not be suggested that this money is being paid to bolster a bankrupt industry or that it is distributed among the shareholders. This subsidy, which is analogous to the food subsidies, has developed out of war circumstances, and is payable to keep down the costs of steel to the steel-consuming industries. Of the £22 million, £9 million represents the difference between the cost of imported iron and steel and the controlled selling price in Great Britain; £7 million is assistance towards the high cost of freight on imported ore (and this is kept high in the absence of outward coal cargoes); £5 million is towards the cost of imported scrap. After nationalisation it may well be found that it is in the public interest to maintain some of these subsidies in order to avoid a sharp rise in price consequent on paying world prices for imported materials.

(d) Suggestion of Inefficiency or Mismanagement.—There is no concrete evidence which can be adduced for inefficiency or mismanagement on the part of those now in control of the iron and steel industry, and the current output records justify this contention. It can no doubt be argued that certain plants are inefficient, out of date, and badly sited, but the responsibility for this legacy can hardly be placed on the present generation of those in control. As indicated in previous paragraphs, it is most important not to alienate directors, managements and technicians; accordingly sweeping generalisations about their incompetence should be eschewed, and credit given for their recent achievements.

CONCLUSION

19. The industry is now on its best behaviour and particularly anxious to give the Government no argument which it could use that "the steel barons" are acting contrary to the public interest. For this reason they are particularly amenable to Government policy on such matters as increased production, limitation of prices, restriction of dividends, location of industry, co-operation in the Distribution Scheme, &c. On these matters we have no serious ground for complaint. As indicated in paragraph 18 (a) above, we should be in difficulties about attacking in detail their pre-war record. Our case must rest on the part which this industry must play in the future economy of the country and our general propaganda should be on the lines indicated in paragraphs 3 to 12 above.