Chapter 6

The Privatization Program—an Overview

6.1 Introduction

The importance that privatization would come to have in the economic policies of Mrs Thatcher's Government could not have been foreseen at the time of her election victory in May 1979. The Conservative election manifesto had relatively little to say about privatization, although the party's dissatisfaction with the performance of nationalized industries and its desire to "roll back the frontiers of the state" were prominent Conservative themes. During the Government's first term in office, the proceeds from the sale of state assets were below £500 million per annum, but after Mrs Thatcher's re-election in June 1983 the privatization program accelerated dramatically (see table 6.1). By the time of the 1987 election the annual proceeds from asset sales were approaching £5 billion, i.e. ten times the earlier level.

The expansion in the scale of the program accorded with a fundamental change in its nature. Before 1984 the firms that were privatized mostly operated in reasonably competitive industries. Firms like British Aerospace, Britoil, Cable and Wireless, and Enterprise Oil are important and sizeable companies, but they do not enjoy such market power as to pose major regulatory problems. The privatization of British Telecom (BT)—the first in a series of utility companies with great market power—therefore represented a radical shift in policy. Regulated private

Table 6.1 Privatization proceeds

Financial year	£ million
1979–1980	377
1980–1981	405
1981–1982	493
1982–1983	488
1983–1984	1,142
1984–1985	2,132
1985–1986	2,702
1986–1987	4,750*
1987–1988 to 1989–1990	5,000* annually

Source: HM Treasury (1985, Table 2.14; 1986, Table 2.23; 1987, Table 2.21 and p. 30). Figures shown are net proceeds. * Expected receipts.

enterprise was now regarded as superior to nationalization (see Moore, 1985) even in natural monopolies, where competition was impractical. With this extension of Government philosophy, privatization policies appear to have virtually unlimited scope in their application to state ownership of industry. Following the Conservative victory at the election in June 1987, the British Airports Authority (BAA) was sold, and the water authorities and the electricity supply industry are set to join BT, British Gas, British Airways (BA), and other privatized firms in the private sector.

The sale of public enterprises has been one of several components of policy designed to reduce state involvement and enhance private enterprise and ownership. Another important element has been *contracting out*—the private supply of publicly financed services. Instead of relying on internal supply, numerous Government bodies have been encouraged to introduce competitive tendering between rival contractors. Local authorities have contracted out rubbish collection, catering, cleaning, and construction and maintenance work. Public employees, who often enjoyed a quasi-monopoly position previously, were faced with competition from the private sector, and the evidence to date shows important gains in cost efficiency. Likewise, the Department of Health and Social Security and the Ministry of Defence are introducing competitive tendering for catering, cleaning, and a wide range of other services. We do not discuss contracting out at any length in this book (see Hartley and Huby, 1985), but we do touch on several of the relevant economic principles, notably in section 4.6.1 on franchising where some of the strengths and weaknesses of contracting out are surveyed.

The sale of public sector *housing* after 1979 was another major policy measure to enhance private ownership in Britain. Nearly 600,000 housing units were sold by local authorities between 1979 and 1983, more than in the entire postwar period before that time. Receipts amounted to almost £2 billion in 1982. Private purchase was encouraged by the policy of selling property to tenants (of some years' standing) at substantial discounts to market value. However, the rents under public ownership were often below commercial levels, and local authorities were relieved of maintenance burdens and saved significant administrative costs. Just as the privatization program was used to promote wider share ownership, public sector housing sales were used to extend private property ownership. Both measures were at the center of the Conservatives' desire to enhance "property-owning democracy" in Britain as strongly as possible.

Alongside policies to promote private enterprise and ownership, the Government introduced measures to stimulate *competition* in several public sector activities. The use of contracting out and competitive

tendering by local authorities and Government departments has already been mentioned. There were also major pieces of legislation designed to remove some barriers to competition in some nationalized (and often soon to be privatized) industries. The 1981 British Telecommunications Act, the 1982 Oil and Gas (Enterprise) Act, and the 1983 Energy Act sought to introduce some competition into parts of the telecommunications, gas, and electricity supply industries, and the Transport Acts of 1980 and 1985 radically deregulated the markets for coach and bus services. However, as we shall see in the chapters that follow, these liberalizing measures have often had limited practical effect, and policies to encourage private ownership have generally taken precedence over measures to promote effective competition in the frequent cases of tension between the two.

The purpose of this chapter is twofold. First, we discuss the principal aims and objectives behind the British privatization program. Secondly, we give an outline history of the main asset sales to date. Subsequent chapters will examine the economics of competition and regulation in four key industries—telecommunications, energy, transport, and water—in greater detail. Other discussions of the privatization program are given by Beesley and Littlechild (1983), Kay and Silberston (1984), Vickers and Yarrow (1985), Kay *et al.* (1986), Kay and Thompson (1986), Yarrow (1986), and Veljanovski (1987).

6.2 Objectives of Privatization

In the British privatization program no one has defined a comprehensive list of goals ranked by priority or weight. Indeed, objectives are likely to differ between Government ministers and to change over time as opportunities, constraints, and perceptions develop. However, the following list summarizes what appear to have been the principal aims:

(i) improving efficiency;

(ii) reducing the public sector borrowing requirement (PSBR);

(iii) reducing government involvement in enterprise decision making;

(iv) easing problems of public sector pay determination;

(v) widening share ownership;

(vi) encouraging employee share ownership;

(vii) gaining political advantage.

The last of these objectives has only been implicit, but it has shaped a number of key policy decisions.

Privatization enhances economic efficiency if it sharpens corporate incentives to cut costs and set prices in line with costs. But we saw in chapter 2 that the achievement of efficiency improvements depends crucially upon the framework of competition and regulation in which the privatized firm is to operate. In the first phase of privatization, in the period up to 1984, there was relatively little concern in this regard, because the industries in question were reasonably competitive. But when utility companies like BT were sold to the private sector, measures were needed to reduce and contain market power, and a central stated objective of policy was to improve efficiency by unleashing competitive forces.

When the intention to privatize BT was announced in July 1982, much emphasis was also placed on another source of efficiency improvement—allowing BT to borrow freely from the capital markets without having to obey the borrowing constraints faced in the public sector. In short, privatization would facilitate more efficient capital allocation. Of course privatization is not necessary to achieve this end, because the borrowing constraints could be relaxed without transferring ownership, but there is a difference (at least in legal terms) insofar as the borrowings of a private sector company are not backed by Government guarantee.

A more important difference arose from the Government's objective of reducing the PSBR, because the borrowings of a formerly nationalized firm are no longer part of the PSBR once the firm has entered the private sector. Moreover, as a result of a curious accounting definition, the proceeds from the sale of state assets directly reduce the PSBR because they are treated as "negative public expenditure"! Unlike sales of gilts (i.e. U.K. Government bonds), sales of shares in privatized companies (i.e. Government equities) are deemed technically not to be borrowings, although in reality there is little difference between the two methods of Government finance. Privatization therefore accorded well with the objective of reducing the PSBR so as to meet the targets that the Government had set itself as part of its medium-term financial strategy for anti-inflationary monetary control.

Privatization also offered a direct way of furthering the aim of reducing state involvement in enterprise decision making, part of Mrs Thatcher's general philosophy of pushing back the frontiers of the state. A major weakness in the administration of nationalized industries was their vulnerability to short-term political intervention by ministers, and privatization provided a credible way of giving industry managements the independence to develop their business strategies free from interference. However, once again we would note that it is not the only way to achieve the desired result.

Privatization was also seen as a way of promoting Government objectives regarding the labor market. The labor relations record of many nationalized industries was bad, and public ownership was held partly responsible. Nationalization can increase the monopoly power of unions if public sector managers and their supervising ministries have weak incentives to reduce labor costs and a virtually unlimited purse with which to finance high wage settlements. However, privatization may do little by itself to reduce union power. It does not diminish the cost and damage that strikes could inflict, and if monopoly power persists, the company's purse is likely to remain effectively bottomless. Indeed, it can be argued that Government can resist union pressure better than private employers. It has greater resources with which to withstand union pressure, and, by virtue of its involvement with numerous groups of public sector workers, the Government has reputation reasons for not wanting to concede an unduly generous settlement to any one group. Both these effects were at work in the year-long coal strike in 1984–1985. The Government was content to incur massive financial losses to secure victory, and its resolve to defeat the National Union of Mineworkers was inspired in large part by the demonstration (or signaling) effect on other wage bargains in the economy—a factor that would not have entered the calculations of private sector negotiators.

In the labor market, as elsewhere, it is competition rather than ownership that matters most. Union power in the coal industry derives chiefly from the monopoly power of British Coal, which is sustained by restrictions on entry, and not from public ownership. Privatization did not prevent the strike by BT engineers early in 1987, in which the telecommunications unions had a strong hand because of the limited extent of competitive alternatives to BT. Nevertheless, the impending arrival of privatization was a time of major reductions in staff numbers at BT, and the same thing happened at British Airways.

The encouragement of wider share ownership, especially by company employees, was another major goal of the program, though it must again be said that privatization by itself does not further the objective. Rather, it provided an excellent vehicle for rapidly expanding share ownership, because it gave a rare opportunity to offer shares to the general public at a discount and with additional bonuses for the small shareholder. Chapter 7 explains the size and scope of these incentives, and the massive public response that they brought forth. The chapter also quantifies their cost, and asks whether there are more efficient and less distortionary ways of widening share ownership than by selling state assets at discount prices.

That policy has nevertheless yielded important political benefit to the Conservatives. Millions of new small shareholders have portfolios that typically consist entirely of "privatization stocks" such as BT and British Gas. Share price movements before and during the 1987 election campaign showed that privatization stocks were highly sensitive to assessments of Mrs Thatcher's likely electoral fortunes. A visible financial interest of millions of people in Conservative victory was plain, and the party underlined that interest by writing to the shareholders concerned. Moreover, the windfall profits to successful applicants for shares in privatization issues had made the program politically popular. In contrast, the relative loss borne by taxpayers and consumers of public services as a result of underpricing was imperceptible, though nonetheless real. Politically, privatization was a winner, at least in the short term.

6.3 The Main Asset Sales 1979–1987

In this section we briefly describe the main asset sales in the eight years up to the middle of 1987. We list the companies in alphabetical order for ease of reference, and because some asset sales occurred in stages. In most cases our treatment is extremely brief; we comment at greater length only where there are points to make that are not covered in other chapters. For a summary of information relating to the pricing of the share issues, the reader is referred to table 7.1 in the next chapter.

Amersham International Amersham's main business is the development, manufacture, and sale of radioactive materials for medical, research, and industrial uses. In February 1982, £63 million was raised from Amersham's offer for sale. The offer was heavily oversubscribed, and the shares went to a hefty premium when dealings began. A political storm resulted, partly because the important and controversial sale of the British National Oil Corporation (in the shape of Britoil) was soon to take place. In the year to 31 March 1987 Amersham made pretax profits of £22 million on turnover of £148 million.

Associated British Ports (ABP) As well as its port operations, ABP has interests in property development and investment. It was privatized in two stages. Part of the company's equity was offered for sale in February 1983, and the remainder was sold by tender offer in April 1984. In total about £100 million was raised from the sales. In 1985 the company made pretax profits of £21 million on turnover of £138 million.

British Aerospace British Aerospace manufactures military and civil aircraft and weapon systems. The Conservatives were committed to the denationalization of the aircraft and shipbuilding industries when they came into power in 1979, and the Government sold approximately half of its stake in the company for £149 million in February 1981. Its remaining shareholding was offered for sale in May 1985 along with some new shares issued by the company, and a further £550 million was raised. In 1986 British Aerospace made pretax profits of £182 million on turnover of £3.14 billion. In early 1987 British Aerospace paid £190 million to acquire the **Royal Ordnance** munitions factories from the Government.

British Aerospace is a member of the European Airbus civil aircraft consortium: it makes the wings. Large amounts of Government finance have been committed to the Airbus project notwithstanding the privatization of British Aerospace. Thus £450 million of British launch aid for the A330/340 aircraft was announced in May 1987. The aid is mostly repayable as a levy on future sales. (In this respect it is perhaps closer to equity finance than debt finance.) Whatever its motivation may have been, this aid shows that privatization does not rule out public financing (which the private sector was unwilling to provide) for risky commercial ventures. The Government has sold its shareholding, but it continues to shield the company and its shareholders from important market disciplines. Even after privatization, it is taxpayers who are bearing some of the risk.

British Airports Authority BAA operates seven of the principal airports in Britain, including Heathrow, the busiest airport in the world, and Gatwick. £1.28 billion was raised when the company was offered for sale in July 1987. For a fuller discussion of BAA's privatization see section 10.3 below.

British Airways British Airways, one of the leading airlines in the world, was a prime candidate for privatization for several years. It was finally offered for sale in January 1987, and £900 million was raised. Section 10.2 is concerned with British Airways.

British Gas In terms of sales proceeds, British Gas is the largest privatization in Britain so far, apart from the offering of the tranche of BP shares in October 1987 (see below), and was sold as a single entity in December 1986 for £5.6 billion. The company is the subject of section 9.2.

British Petroleum (BP) The British Government's initial stake in BP, one of the giant "seven sisters" of the oil industry, was acquired just before the

First World War. In general Governments have not participated actively in the running of the company, and BP has enjoyed about as much commercial freedom as privately owned companies such as Shell. Since the mid-1970s the public shareholding in BP has progressively been reduced by sales of tranches of shares by both Labour and Conservative Governments. The last tranche (31.5 percent of the company) was offered for sale (together with a rights issue) in October 1987 and raised £7.2 billion, to become the largest ever share offering. The stock market crashed before the share offer closed, and virtually all the new shares were left with the underwriters (see section 7.2 below). BP is discussed further in section 9.4.

British Telecom BT was the first major utility company in Britain to be privatized. Approximately half its shares were offered for sale in November 1984, and £3.9 billion was raised. The government continues to own fractionally less than half of BT's shares, but BT's management has complete commercial freedom. Chapter 8 below is devoted to the privatization of BT.

Britoil Britoil is the successor company to the British National Oil Corporation (BNOC), the nationalized North Sea oil exploration and production company set up by the Wilson Government in 1975. The offer for sale by tender of Britoil shares in November 1982 was the worst flop of the privatization program before the BP offer in 1987. Seventy percent of the shares were left with the underwriters amid gloomy reports of the company's profit prospects and signs of weakness in the oil price. The rest of Britoil's shares were sold in the summer of 1985, and the privatization of the company raised £1 billion in total. BP made a bid for Britoil in December 1987. Britoil is discussed further in section 9.4.

Cable and Wireless Cable and Wireless provides telecommunications services, mostly under franchise agreements with governments, in numerous countries. Its subsidiary, Mercury Communications, is the only public network operator licensed to compete with BT (see chapter 8, especially sections 8.2.2 and 8.4.4). Cable and Wireless was privatized in three phases. After the passage of the British Telecommunications Act 1981, the Government sold 49 percent of the shares in Cable and Wireless. Its stake was reduced further by dilution due to the company's rights issue in 1983 in connection with the acquisition of Hong Kong Telephone, and the Government sold a further tranche of its shares by tender offer in December of that year. The issue was not fully subscribed, and a portion of

the shares was left with the underwriters. The final 23 percent Government holding was sold in December 1985 along with some newly issued shares. The three sales together raised about £1.1 billion for the Exchequer. In the year to 31 March 1987 the company made pretax profits of £340.5 million on turnover of £913 million.

Enterprise Oil Enterprise Oil was formed after the 1982 Oil and Gas (Enterprise) Act to take over the offshore oil interests of British Gas. The company is engaged in oil and gas exploration and production. It has interests in more than a hundred U.K. Continental Shelf blocks, the bulk of which have yet to be developed. (British Gas sold its 50 percent stake in the Wytch Farm onshore oilfield in May 1984 after three years of wrangling between British Gas, potential bidders, and ministers. The buyer was the Dorset Bidding Group consortium, who agreed to pay £215 million to the Government over five years and a profit share to British Gas.) See further section 9.4.

Jaguar Jaguar, the luxury car maker, became a subsidiary of British Leyland (BL) in the industrial reorganization of the car industry in the 1960s. BL went bankrupt in 1974, and was rescued by large injections of public money. There followed years of further heavy losses, labor relations problems, and declining market shares, despite successive attempts to rationalize the company's operations. Conservative policy has been to sell off the more profitable parts of the business. Thus Jaguar was offered for sale for £294 million in July 1984. Since returning to the private sector, the company's performance has been strong, especially in the United States, although the recent weakness of the dollar may restrain progress. In 1986 Jaguar made pretax profits of £121 million on turnover of £830 million. The XJ6 model was well received when it was launched in the spring of 1986, and Jaguar's car production is growing at around 15 percent annually.

National Freight National Freight, the road haulage operator, was sold for £53 million to a consortium of managers, employees, and company pensioners in 1982. However, the Government paid £47 million back to the company's pension fund to remedy previous underfunding. Its shares have not been quoted on the Stock Exchange, although plans to float the company were announced in May 1987. The interests of managers and employees have been safeguarded by the restriction on the transferability of National Freight's shares—investors have only been able to buy and sell equity from and to the company at a price periodically fixed by accountants. The sale of National Freight yielded little net revenue to the Exchequer, but it has been one of the greatest successes of the privatization program. Its pretax profits rose ninefold from £4.3 million in 1981 (before privatization) to £37 million in 1986. The fact that National Freight has become such a thriving business underlines the importance of good incentive structures—achieved in this case by the employee buyout—in determining the success of privatization.

Rolls-Royce We comment on Rolls-Royce (R-R) at greater length because to date it is the largest privatization not covered in other chapters, and because the company has been at the heart of British industrial policy for some two decades. The company was formed in 1906 by the merger of the Rolls and Royce motor car companies. In the First World War R-R began to design and manufacture aero-engines in addition to its car business. In the 1940s R-R was the leading firm in jet engine technology, and for a while it enjoyed considerable commercial success in both civil and military markets. Competition from Pratt & Whitney, helped by the American dominance of the civil airframe industry by Boeing and McDonnell Douglas (M-D), posed growing problems for R-R in the 1960s. The company embarked on the major RB-211 project to develop its own new large jet engine to compete with the American rivals. But by 1971 it became apparent that R-R did not have the financial, technological, and organizational strength needed to accomplish the project on time.

The company went into liquidation in February of that year. The Government bought the aero-engine business, and the Rolls-Royce motor car business was put into a separate company which is now a subsidiary of Vickers. In the 1970s R-R's aero-engine business recovered. The RB-211 engine was successfully developed, and was bought in large numbers by Boeing and Lockheed for aircraft sold to airline companies throughout the world. But the civil aircraft industry entered a period of recession in 1980 as oil prices rose, before demand strengthened in the mid-1980s. (The fortunes of British Airways followed a similar pattern—see section 10.2.) Employee numbers were cut by more than a third in the recession, and efficiency improvements were reflected in profitability. Operating profits (before net R&D) increased from £74 million in 1983 to £273 million (on a turnover of £1.8 billion) in 1986, largely thanks to a recovery in the civil aero-engine business. Over the same period a pretax loss of £115 million was converted into a pretax profit of £120 million.

This improvement in R-R's performance made privatization attractive.

In May 1987, 801 million shares were offered for sale at 170 pence each, payable in two equal instalments, to raise £1.36 billion for the Government. Two million people applied for shares, and the public offering was 9.4 times oversubscribed. When dealings began on 20 May, the shares went to an immediate premium of 62 pence, or 73 percent over the partly paid share price.

The company's future prospects depend heavily upon continued growth in world airline demand, exchange rate movements (especially the sterling/dollar rate), and technological developments. R-R is collaborating with Pratt & Whitney on propfan engine technology, which may be used in future generations of long-range airliners being developed by Boeing, M-D, and the European Airbus consortium (of which British Aerospace is a member). On the military side, R-R can anticipate substantial business in the 1990s if the European Fighter Aircraft goes ahead.

Although the future is full of uncertainties, R-R faces it as a soundly based private sector company. The Government rescue of the company in 1971 has turned out to be comparatively successful, though perhaps the main strides towards commercial viability were made in R-R's latter years in the public sector. In the 16 years under public ownership the Government acted essentially as R-R's investment banker, in circumstances where private finance was not forthcoming. When R-R's prospects were improved, that task was done and privatization became appropriate. Together with the social benefits of saving such a company the successful flotation of R-R in 1987 is evidence that, at least on this occasion, the public investment paid off.

Trustee Savings Bank (TSB) It was the Government that decided to "privatize" the TSB, but strictly speaking the sale of the TSB Group was not a privatization because it emerged that the Government did not after all own the assets in question. In fact it was ruled that no one, not even the bank's depositors, owned the TSB, and the proceeds of the sale were retained by the bank itself. This posed peculiar problems for pricing the issue because, whatever the issue price, the shareholders would end up owning not only the assets of the bank, but also the money that they paid for those assets! Thus the TSB was almost literally given away. Ignoring transactions costs, there could be no finite equilibrium price (unless the TSB's management was thought to be worse than the shareholders at looking after their money).

Strong demand for the issue was therefore guaranteed. In September 1986 the offer for sale by the TSB Central Board of 1.5 billion shares at 100 pence was heavily oversubscribed, and large profits were immediately gained by lucky applicants. Priority was given to TSB customers and to employees and pensioners of the company. A one-for-ten share bonus was offered to shareholders prepared to keep their shares for three years (rather than just take their short-term profits), and 135 million of the shares were retained for this purpose. The Group raised further capital in November 1986 when it offered for sale 49 percent of the equity in its Channel Islands subsidiary.

Personal banking services constitute the TSB's main business. The bank has 1,600 branches throughout the U.K., and services 14 million accounts for its massive base of 7 million customers. The Group also provides investment management services, insurance and unit trusts, credit card operations (via its Trustcard), and vehicle rental services (through its Swan National subsidiary). In 1986 the TSB's pretax profit exceeded £200 million. The Group is now facing the challenges presented by the growth of competition throughout the financial services industry. With its large and relatively underexploited customer base, the TSB has an opportunity to grow rapidly in the years to come. The question is whether it has the management expertise to do so.

Other Asset Sales The companies above do not by any means constitute an exhaustive list. Denationalization of state-owned **shipbuilding** industries has been on the Conservative agenda ever since 1979, but progress here has not been easy, especially because of the loss-making state of parts of the industry. Nine subsidiary companies were sold in 1983, and the following year the Government announced its plan to sell off **British Shipbuilders'** warship yards (which happen to include Vickers and Yarrow). Yards have been sold piecemeal to British companies (such as GEC and Trafalgar House), but relatively little net revenue has been raised because of the unprofitability of the industry. Indeed, it may be impossible to sell some yards except perhaps at negative prices.

Some of **British Rail**'s (BR's) assets have been sold to the private sector, for example BR hotels, and in July 1984 the Sealink ferry subsidiary was sold by tender to British Ferries Ltd, a subsidiary of Sea Containers Ltd. Three companies submitted proposals to buy Sealink, but there was only one firm bid which was accepted. The £66 million realized from the sale fell far short of the £108 million book value of the company, and it is questionable whether the method and timing of sale were entirely appropriate. Other nonrail interests of BR have been grouped into British Rail Investments Ltd, and are being sold piecemeal to the private sector.

The prospects for privatizing parts of BR's core railway business are briefly discussed in section 10.5.

The Government's 24 percent holding in **British Sugar** was sold in 1982. The public shareholding dated back to the company's formation as a result of amalgamations in 1936. Before the U.K. joined the EEC in 1973 the Government provided support for the sugar beet industry, but the EEC then took over that function. In May 1980 a bid for British Sugar was made by S&W Berisford, and this was approved after a reference to the Monopolies and Mergers Commission. Berisford completed its purchase of British Sugar's shares in 1982. There have since been further unsuccessful attempts to acquire British Sugar from Berisford.

The electronics companies **ICL** and **Ferranti** were amongst those that received public support under the auspices of the National Enterprise Board (NEB) set up by the Wilson Government in the 1970s. The Government had taken a 10 percent stake in ICL at the time of the company's formation by merger in 1968, and its shareholding was increased to more than 24 percent in 1976. The Conservative Government sold its shareholding at the end of 1979 for £37 million. ICL hit serious problems in the recession shortly afterwards, and further public aid was provided in 1981. However, a turnaround was then achieved, and the company was acquired by STC in 1984. The Government's rescue of Ferranti also turned out to be successful. After the company's transformation in 1974–1979 the NEB's 50 percent holding was sold for £55 million. In 1980–1981, under the Conservative policy of reducing state involvement, the NEB disposed of numerous other shareholdings, including Fairey, and pulled out of other companies (e.g. Sinclair, Cambridge Instruments, and Alfred Herbert, the machine tool company). Its two largest interests (BL and R-R) were transferred to direct Government control. In general the NEB had a mixed record; on commercial criteria, NEB investments performed badly on average. Some companies were rescued successfully, but others were a constant drain on public funds. (For a critical view of Government involvement in industry over this period see Redwood (1984).)

6.4 The Future of the Program

The Conservative Election Manifesto in 1987 set out the party's future plans for privatization:

"We will continue the successful programme of privatisation. In particular, after the privatisation of the British Airports Authority we will return to the public the

Water Authorities, leaving certain functions to a new National Rivers Authority.

Following the success of gas privatisation, with the benefits it brought to employees and millions of customers, we will bring forward proposals for privatising the electricity industry subject to proper regulation."

The Liberal-SDP Alliance Manifesto opposed the privatization of the water and electricity industries on grounds of concern for safety and the environment. The party stated that, despite its opposition at the time of privatization, it would not return BT or British Gas to the public sector, but would focus instead on competition and efficiency in those industries. The Alliance said that it would consider the privatization of British Steel.

The Labour Party announced plans to extend social ownership. Its manifesto stressed the importance that the party attached to social ownership of basic utilities like gas and water. Labour stated that it would

"... start by using the existing 49 per cent holding in British Telecom to ensure proper influence in their decisions. Private shares in BT and British Gas will be converted into special new securities. These will be bought and sold in the market in the usual way and will carry either a guaranteed return, or dividends linked to the company's growth."

Labour also proposed to set up British Enterprise, a socially owned holding company, to invest public funds in, for example, high technology industries.

Following the Conservative election victory in June 1987, the BAA was offered for sale the following month (see section 10.3). The water industry is expected to be privatized in 1989 (see chapter 11) and plans are being developed to sell parts of the electricity supply industry (see section 9.3). It is not clear how the latter sale will be structured, but senior management has declared its opposition to splitting up the Central Electricity Generating Board into competing private companies.

Other industries are likely to be on the agenda for privatization before long. After years of heavy losses, **British Steel** has returned to profitability (£178 million net profit in 1986–1987) following a radical efficiency drive involving manpower reductions and plant closures. The company has therefore become a natural candidate for privatization.

The Government has also asked the **Rover Group** (formerly **British Leyland**) to prepare plans for its privatization, preferably to individual shareholders, by 1992. As well as Jaguar (see above), parts of the group have already been sold, including Leyland Bus, Leyland Trucks, and the spares business Unipart. Political controversy arose in 1986 when it emerged that Austin Rover cars and Land Rover might be taken over by the American companies Ford and General Motors. The plans were

dropped, but the episode highlights the central difficulty in privatizing the Rover Group. The company's past record of financial losses and declining market share is so poor that it is unlikely to appeal to individual investors except at a very low offer price. The alternative of selling the group to a foreign competitor would raise more revenue, but is fraught with political difficulty for the Government.

The **Post Office** has often been regarded as a possible candidate for privatization, but the sale of the Royal Mail was ruled out by Mrs Thatcher during the 1987 election campaign. The Post Office monopoly on time-sensitive mail has already been relaxed, and the question arises of whether its monopoly of the letter post should cease, whether or not privatization occurs. The Chairman of the Post Office has argued against such liberalization on the grounds that "cream skimming" by entrants into profitable business segments and cut-price intra-urban mail services would cause price increases in rural areas and would jeopardize efficiency. These points are debatable, but once again we have the familiar picture of senior management opposing liberalization.

The list of possible future privatizations does not end there. In the 1987 election campaign Mr Peter Walker, then the Energy Secretary, said that **British Coal** (see section 9.5) would not be privatized during the next Parliament, but its sale may be contemplated eventually. Privatization would be fiercely opposed by mining unions, but with a comfortable majority and the earlier victory in the 1984–1985 coal strike the Government might not be deterred from returning the company to private ownership. The privatization of **British Rail** (see section 10.5) is perhaps a more remote prospect, though Conservative philosophy is now such that little can be ruled out. Between 1979 and 1987 more than a third of state-owned businesses were privatized, the bulk of which were sold from 1984 onwards. Privatization is set to go much further in the next few years.