

## ESSAY REVIEW

### **The Privatization of Public Enterprises in the United Kingdom, 1979–1987**

Parker, D. *The Official History of Privatisation. Volume 1: The Formative Years, 1970–1987*. London: Routledge, 2009. xxii + 598 pp., fig., tables, plates, index, ref. ISBN 978-0-415-46916-6 (hb). £55.00

How do states have privatized public enterprises? That question matters to those who are interested in reforming the economy by transferring state-owned assets to private ownership. From the literature on privatization, we know that several countries around the world have been through a neoliberal, market-oriented economic reform (Toninelli 2000; Megginson and Netter 2001; Clifton, Comín and Díaz Fuentes 2005; Henisz, Zelner and Guillén 2005; Millward 2005). The reform started at the end of the 1970s and, through the diffusion of institutions, the movement spread world-wide during the following decades. Some countries mimicked each other by transplanting effective institutions, while other countries reformed their economy at the request of the World Bank and the International Monetary Fund. Besides, the European Commission, by adopting new directives, contributed to the diffusion of privatization in its member states. The reform climaxed approximately twenty years later, at the end of the 1990s, when states divested from public enterprises.

In the 1970s, people spoke of denationalization. We now speak of privatization, a neologism introduced by Peter Drucker, to refer to states that deliberately transfer, through various methods of divestment, the ownership of public enterprises. As a general rule, countries started to privatize telecommunications, and, later on, they continued with electricity, transportation, energy and other industrial sectors. A few privatizations occurred in manufacturing, such as automotive companies and naval shipyards. After liberalization, several countries created regulatory agencies, which often became an independent body, separate from the legislative. Overall, governments tried to eliminate political interference on the economy. They implemented the recommendations of economic liberalism, after having put aside John Maynard Keynes' principles. In the book *The Official History of Privatization*, David Parker, a notorious economist of regulation and privatization, shed light on a country at the forefront of economic reforms.

## AN OFFICIAL HISTORY OF PRIVATIZATION IN THE UNITED KINGDOM

The United Kingdom sold £60 billion of public assets between 1979 and 1987. The state ownership of public enterprises dropped off from 10 per cent to nearly nothing of the gross domestic product. The economy shifted from mixed to liberal. A few studies have made a comparative, cross-sectoral analysis of that period of British history (Cook 1998; Millward 2000, 2003; Saal 2003; Heffernan 2005). It has been found that privatization had been preceded by years of nationalization of public utilities and manufacturing industries, under both Conservative and Labour governments. Margaret Thatcher's Conservative government did not plan to privatize public enterprises, but, by trial and error, it learnt to proceed by selling small public sector assets. Privatization created marginal gain in economic efficiency, when public and private enterprises were compared. Besides, the government had to regulate the economy, after having deregulated it, to constantly reduce the dominant market positions of privatized telecommunication and energy companies. In brief, Margaret Thatcher and John Major, as Prime Ministers of Conservative governments, 'rolled back the frontier of the state,' which the opposition reformulated as 'rolling back the frontier of socialism.'

To understand his predecessors' policies, the then Prime Minister Tony Blair, who was chief of the Labour government, commissioned an official history of privatization. The book's title is *The Official History of Privatization*, to which the publisher may have added 'in the United Kingdom' for clarity. Parker, who undertook the commission, browsed through Thatcher's papers, as well as the records of the ministries and committees involved in privatization, and he researched the Conservative Party's archives, politicians' (auto)biographies and secondary literature. In addition, he interviewed key ministers, civil servants, businessmen and people closely involved in the privatization of public enterprises. Parker has realized, in this book, an empirical tour de force that brings to our understanding a tremendous amount of hitherto restricted government information.

Parker, informed of the nitty-gritty of economic history, knows that the selection of facts represents an issue. He does not, however, push the implication of this further. Economists and political scientists of network industries, who are accustomed to deduction, will search for a theory; historians of the economy, who are at ease with induction, will look for an interpretative framework; but what Parker offers to both is a set of questions that were prompted in his mind. He was not interested in ploughing a theoretical field, more getting down to facts. This being said, the author does not render full justice to the book's implicit methodology. At nearly every turn of the page, Parker makes observations on sequences of events, on patterns of agents' and organizations' behaviour; and he shows an interest in organizational learning, in mechanisms that select economic arrangements, in path-dependence effects on

decision-making. As a surgeon acquainted with anatomical theory dissects a body, so Parker analyses the United Kingdom's economic reforms, by examining the privatization of public enterprises.

The volume *The Formative Years, 1979–1987*, covers the first two Thatcher Conservative governments. One cannot think of a more emblematic figure than Margaret Thatcher, the then Prime Minister, who heralded economic liberalism. In the formation of her political ideas, she was persuaded by Keith Joseph, a Conservative member of Parliament, and by Friedrich von Hayek, an economist at Chicago University, who both advocated free-market capitalism. Yet, on being elected in the General Election of 1979, Thatcher did not have an articulated, structured programme of privatization. The Conservative Party's manifesto only proposed a free market, monetarism and low taxes for voters. This programme intended to reduce the state's interference in the economy, by diminishing public borrowing and spending. We should recall that the government was endorsing monetarism, a macroeconomic theory that explains the effects of money supply on prices, to handle the soaring inflation rates in Britain. The Treasury started to search for sellable assets, whose sale would contribute to balancing the national accounts. The government privatized the British National Oil Corporation, British Gas, British Aerospace, Cable and Wireless, Amersham International, National Freight Corporation and Associated British Ports. The Exchequer used methods of floatation, an additional financial instrument, for money borrowing and taxation.

At the General Election in 1983, Thatcher's Conservative government had an ambitious programme, naming explicitly which companies would be privatized. After the election, the Conservative government, whose policy remained monetarism, continued to balance the national accounts by privatizing public enterprises, the revenues of which corresponded approximately to 3 per cent of public spending. The government privatized British Airways, Rolls-Royce, Royal Dockyards, National Bus Company, Scottish Transport Group and many others. It went further with large companies, British Telecom and British Gas, which necessitated the creation of dedicated regulatory agencies. Indeed, the government had difficulty introducing competition in telecommunication, for British Telecom continued to act as a regulated monopoly. Later on, British Gas was broken up into three parts: Centrica dealt with retailing gas and serving businesses; Transco operated the gas pipelines and storage facilities; and British Gas, was involved in exploring and exploiting gas fields. All three enterprises saw an increase in their share values on the stock markets. Although privatization went right up to the provision of government services, it did not put the Welfare State at risk, which continued to provide education, health and social security – three enduring public goods.

## FINDINGS ON THE FORMATIVE YEARS

Parker made broad findings on the formative years. The first Thatcher government envisioned a policy on the sale of state enterprises progressively. There was no blueprint, no road map, no back casting. The government started, mildly, to put special assets up for sale; and, only after the sale of British Telecom, which was very successful, did it engage decisively in privatization. Some economists miss the point, therefore, when they think that the first, unique objective of these sales was to increase static efficiency gains. Indeed, the government sold the assets to balance the national accounts, relieving the burden from private firms and tax payers. Several enterprises, which were productive and profitable, were purchased by private parties. The sale receipts raised £12.5 billion. Most of the public enterprises performed well, too, after being sold off, for the value of their shares increased on the stock markets, and they reported growing profits. Hence the goal of increasing economic efficiency in their policies had come after, and certainly not before, the successful sale of public enterprises.

Whilst the government had no blueprint at the beginning, Parker makes the original observation that it followed a pattern of behaviour to a certain extent. The legislative assembly drafted and voted each time on private laws, instead of on an omnibus bill that would have had empowered someone to conduct the sales. The Treasury, at the centre of the privatization, coordinated the actions of the Prime Minister's cabinet, the Ministries that oversaw public enterprise, special consulting bodies, private banks and consulting firms. A typical sale included setting the share price, underwriting security issues and using instalment payments. The Treasury had become used to selling enterprises with a fixed price or, in other words, a public flotation share price. It did use private sales by the end of the 1980s, but it discarded tendering on the basis of its marketing disadvantages. Besides, it wanted to be free, as quickly as possible, of saleable assets. Consequently, civil servants did not develop extensive skills in bringing about privatization. In fact, they were backed up by major private banks who valued the public enterprises and chose the method of sale, as well as drafted contracts and did the underwriting.

Yet, following Parker's original observations, the government achieved several other goals than purely generating receipts for balancing the national accounts. First, it created special shares to limit future ownership arrangements. By this it avoided, in particular, those enterprises of strategic importance to the nation, defence industries, for example, falling into the control of foreign hands, whose participation was therefore limited to 15 per cent. Second, by selling enterprises at a fixed price, it widened up the ownership to small, individual British shareholders. This was called 'popular capitalism.' The government's advertisements painted an enticing picture in which Mr and Mrs Average were stakeholders, too, in the future of British utilities. In fact, after some years of trading on stock markets, large investors concentrated on the

ownership of former public enterprises in the City. Third, the government smoothed industrial relations with former workers, who had the opportunity to buy shares before the public openings of markets. This offer did not solve the problem of pension funds though, the debt of which was often sold to investors at the same time as the enterprise.

If readers of *Competition and Regulation in Network Industries* know the United Kingdom's regulatory agencies well, they will be surprised to learn that they were created as temporary institutions. After having privatized public enterprises, the government realized that dedicated regulatory authorities would be necessary to oversee the telecommunication and energy companies. For this purpose, it created the Office of Telecommunications and the Office of Gas and Electricity Markets. These agencies introduced price-cap regulation, upon the initiative of the economist Stephen Littlechild. This method was privileged, because the country was juggling with dramatic inflation rates and was applying a monetarist policy. They were not supposed to become permanent agencies, however, for a regulated economy was only a transitory means to achieving a fully liberalized, reformed single market. Meanwhile the Office of Fair Trading and the Monopolies and Mergers Commission, created at the beginning of the 1970s, continued to prevent private enterprises evolving further as monopolies.

## A NEW ECONOMIC AND POLITICAL ORTHODOXY

Parker, in the book's conclusion, offers a thesis that calls for discussion:

That privatization was more than simply a product of blinkered ideology is evident in the fact that, domestically and internationally, left or centre Labour-oriented governments, as well as more traditional market-oriented political parties, embraced what became, in effect, the new economic and political orthodoxy of privatization. (p. 449)

This thesis draws on a specific case to build a general one about privatization. Yet, by being limited to the case of the United Kingdom, the book does not provide any evidence from other countries. This evidence can be found in broad international comparative studies, from which an interesting comparison could have been made to discuss the peculiarities of the case of the United Kingdom, in relation to Europe and the rest of the world (Megginson and Netter 2001; Henisz, Zelner and Guillén 2005).

Orthodox thinkers believe they have the right idea about human affairs, because they pretend to be grounded in reality. They have faith in an established doctrine. Thatcher, in her pivotal discourse *The Right Approach* (1976), asserts that Conservatives are more ready to 'to listen and examine the facts of life objectively.' Furthermore, she adds that Conservatives are, 'not blinkered by a Socialist ideology that assumes the

omnicompetence of the State and is rooted in a theory of ownership and class conflict already decades out of date' (Thatcher 1976: p. 7). Although not all Conservatives in the United Kingdom were orthodox politicians, their chief, Thatcher, certainly was. She pretended that she was not blinkered by an ideology, socialism, which she fought against fiercely during her political career. Privatization was as much a political ideology as nationalization. An ideology exists when a set of ideas, whether grounded in reality or not, forms a doctrine.

Thatcher's Conservative government behaved with political opportunism during the reform. That is, by fearing that the British would reject the sale of public assets, it engaged slowly in privatization to test how the population would react at the 1983 election. It also designed the sale of public enterprises in such a way that, if a Labour government had won the election, it could not go back to the preceding *status quo* for obvious pragmatic reasons. Conservative governments made it difficult to play a ping-pong game of nationalization, denationalization, renationalization. It is comparable to when Labour governments nationalized several enterprises during the 1940s and 1950s. Successive Conservative governments continued furthering nationalization, by being hesitant to denationalize the state enterprises. In both cases, the long-term action of a government creates an institutional inertia that any following government will have difficulty in moving into one or another direction.

It is to Parker's credit for having trawled public records, to bring to light new details on the complex, long process of the privatization of public enterprises in the United Kingdom. Practitioners used to text on best practices and policy recommendations will be interested by the chapters that detail particular cases of privatization in their industrial sector of interest. Economists and political scientists of network industries will appreciate Parker's conclusions, despite the fact that they do not engage in a discussion with theory. To make a definitive assessment on the book, we will have to wait for the publication of the second volume, which will cover the years from 1987 to 1997.

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