THE GREAT DIVESTITURE

EVALUATING THE WELFARE IMPACT OF THE BRITISH PRIVATIZATIONS 1979–1997

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To Antonella

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Acknowledgments

I started to read and to think about British privatization more than ten years ago, when I was at the London School of Economics (LSE) as a visiting scholar in the Department of Economics. I enjoyed the atmosphere, a wonderful library, many seminars, and lively informal discussions with brilliant colleagues. In my LSE years, I had been working on research on public-investment appraisal in the United Kingdom under the Thatcher government. I discussed several times with Nicholas Stern the idea of applying social cost-benefit analysis to public divestitures. I started writing the book several years later, in 1998. The research was made possible by generous funds awarded to the Department of Economics, University of Milan, by the Italian Ministry of University. I am particularly grateful for the friendly encouragement and support of Giuseppe Bognetti (Head, Department of Economics, University of Milan) and Luigi Bernardi (University of Pavia).

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Introduction

Privatization policies may induce significant changes in the state of a country's economy, with direct and indirect effects on various markets. Numerous subjects come into play: consumers, shareholders, foreign financial investors, company managers and workers, taxpayers, politicians, and regulators. The effects on the welfare of the various agents should be considered simultaneously. In this perspective, the evaluation of these policies should be carried out to consider the costs and benefits in terms of social welfare.

Having said this, the most logical route, although beset with difficulties, is to study the effects of privatization policies on the different economic agents and then aggregate the results. This implies explicitly discussing various methods for carrying out this aggregation, starting from the macroeconomic perspective, which is a crude approximation method to measure collective welfare, but easy to implement. Then one can resort to the tool kit of welfare economics, which is more precise from a theoretical viewpoint, but more difficult to use practically.

This book tries to use the British experience, by far the most important privatization case history available, as an illustration of a systematic method of investigation. This entails an exposition that runs in parallel on various levels. In each chapter some research topics are first introduced briefly, then the available evidence from the U.K. experience is presented, and finally the results are discussed.

What I believe an economist can say to evaluate the welfare effects of British privatization is much less than was purported by the rhetoric that accompanied and followed this policy. Many questions are still unanswered, many conjectures not proven. I am not able to propose a precise quantification of the aggregate welfare effects, just some conjectures. Nevertheless, the reconsideration of the studies carried out by other scholars and the additional empirical evidence presented here suggest that the great British privatization was not the unconditional success it is commonly thought to have been. The increases in productivity attributable to the changes in ownership of the privatized firms (and not to the change of regulatory regime, to the increase in demand, or to exogenous technical progress) were on the whole smaller than is often believed. The regressive distribution effects, some of which are clearly attributable mainly to privatization, were on the other hand not negligible. The joint consideration of the two effects does not appear to lead to an indisputable Paretian improvement (for what this criterion is worth).

Chapter 1 offers a broad historical overview of the origins of public intervention in the economy and in the nationalized sector in the United Kingdom. The starting point is the establishment of forms of public ownership of enterprises or of regulation of the private sector dating back to the nineteenth century, up to the Labour government nationalization in postwar years. The last section of the chapter is a reconstruction of the large-scale privatization of the Thatcher-Major period. This chapter lays no claims to originality, and anyone who knows the economic history of the United Kingdom will probably find it superfluous. However, some less expert readers may find it useful as background information to place British denationalizations in a broad historical perspective.

Chapter 2 concerns privatization theories. Although the approach of this work is mainly empirical, it seems appropriate to clarify from the beginning which conceptual framework was behind the collection and discussion of the data. I consider some of the propositions of the theory of property rights, of public choice, of the Austrian school, and of the principal-agent approach. I then present a framework of applied welfare economics. This is my preferred approach for the research, but I do not confine myself to a rigid model.

Chapter 3 is a selective presentation of some macroeconomic trends during the period of the Thatcher-Major governments. I am especially interested in the variables that in principle are correlated to a policy of large-scale privatization: output, investments, employment, prices, distribution of income, and public finance. The causal relationships between privatization and each of these trends are difficult to identify. The discussion appears, however, to be useful. It allows me to examine a large-scale policy in the broader context of the development path of an economy. The chapter does not allow for a univocal diagnosis, but it raises a number of questions that may find an interpretation in subsequent chapters.

Whereas the first three chapters deal with general issues, the next five chapters examine specific microeconomic impacts. Each of these chapters is organized as follows: a short presentation of the topics for analysis, empirical evidence, a discussion, and usually some suggestions for further reading.

Chapter 4 focuses on firms and examines productivity changes, finding that evidence of a structural break of labor productivity growth caused by privatization is weak.

Chapter 5 examines shareholders, with particular reference to the return on capital invested by savers, the relationship between shareholders and managers, and the ownership pattern of privatized companies. My main finding is that although public offerings are usually underpriced but subsequently underperform, for the British privatized companies there is evidence of both underpricing and outperformance (at least until 1997, the end of the Conservative government years). This is perhaps an indication of persistent excess profits.

In chapter 6, on workers and managers, I discuss changes in industrial relations, wages, and employment, and I find weak evidence that workers lost much more through privatization than they would have lost under continued public ownership.

In chapter 7, on consumers, I discuss price trends as well as the quantity and quality of goods after the change of ownership. The longest chapter in the book, it offers a review of evidence for each sector and an attempt, albeit very crude and tentative, to measure the welfare impact of price changes with and without privatization in a simple counterfactual scenario of public ownership.

The discussion in chapter 8, on taxpayers, involves the interplay between privatization and tax reform, and the long-term net wealth and financial position of the state after divestiture. The chapter displays evidence of a dramatic fall in public-sector net worth and some evidence that privatization contributed to that trend.

Finally, based on the issues raised in all of the previous chapters, chapter 9 studies the effects on the aggregate welfare of the largest of the British divestitures, that of British Telecom (BT). The reasons for this choice, in addition to BT's important size from a number of viewpoints (capital, turnover, employment, etc.), are as follows: The privatization of telecommunications is universally considered the most successful example of the policy of the Thatcher government. Widely imitated in all countries, this case now has nearly twenty years of history behind it and thus allows me to adopt a long-term perspective, which is of particular interest here. Other cases, like railways and electricity, have a shorter history. Sectors such as steel and coal are less interesting because they were industries in structural decline when they were privatized. But telecommunications is a dynamic sector that is central to the scenario of the coming decades. Finally, the privatization of telecommunications apparently has less social impact than that of industries such as water and gas. It follows that if a series of problems occurs in the case most favorable to privatization, it is likely that these will manifest themselves to a greater degree in more controversial cases.

Based on my own reading of more than forty years of BT data, I conclude that virtually any benefit to the consumer from BT's privatization was generated by a combination of long-term technological change, strict regulation, and allowed competition in the 1990s. Privatization per se contributed little or nothing to consumers' welfare.

The principal results of my overall interpretation of British privatization in the time period 1979–1997, the uninterrupted Conservative government years, are presented in the epilogue (chapter 10). Readers who want to get an idea of what is in store for him or her can obviously start reading from the end. Those interested in more detailed statistical material, in related research papers, and in reading comments on the book or offering their own may visit the author's Web site at the Department of Economics at Milan University: www.economia.unimi.it/florio/index.html.

1 Historical Background

1.1 A Double Track

Many years ago, at the beginning of *Industry and the State*, Philip Sargant Florence, a British economist, proposed a double chronology, one institutional and one cultural, to show the progressive shift in opinions and in the economic organization of the United Kingdom from laissez-faire to socialism. His long list of cultural and political events that contributed to the change starts with Adam Smith's *Wealth of Nations*, followed by major books by Jeremy Bentham and David Ricardo. Then there are the socialists and reformers—Robert Owen, John Stuart Mill—the Fabian Essays, and the new policy mood in Victorian times: the Reform Acts (1832, 1862, 1885). In the new century, among the contributory events, there are the influences of the Labour party and the Liberal government, John Maynard Keynes's *General Theory*, and the Beveridge Report (1942). On the other column of the chronology, which lists the main industrial legislation, there is an impressive array of acts starting with the 1801 Health and Morals Act (pauper apprentices in the textiles) and concluded by iron and steel nationalization by Labour (1949) and denationalization by Conservatives (1953), which was an exception to the prevailing trend of the times. When the book was published in 1957, the great postwar nationalization, promoted by Labour, and including the Bank of England and the electricity, coal, gas, transport, and telecommunications sectors, appeared to be irreversible. The public corporation was considered a pillar of British industry. For decades, no government really questioned this, in spite of occasional oscillations, until the arrival of Margaret Thatcher's government in May 1979.

If, today, we were to update the chronology of Sargant Florence in light of subsequent events, we would have to ask ourselves where we would place privatization. Was it a major divide in British economic evolution, as, for example, Karl Polanyi ([1944] 2001) described the Poor Law reform in his own celebrated book, *The Great Transformation*? Or, was it just a partial reshuffling of governance structures, with a limited impact on economic performance? To answer these questions we must go beyond a short-term reading.

The parallel growth of capitalism and public intervention in Great Britain is a subject that defies simplistic interpretative models. The two decades of the great divestiture (1979–1997) cannot be fully understood unless we begin with the five years of great Labour nationalization (1945–1951), which in turn were the result of a long evolution.

Many of the themes that came back into fashion with privatization were anything but new. The policy of comprehensive regulation in some sectors, the attempt to limit the field of action of the trade unions, the active attitude of public institutions toward unemployment, the encouraging of the middle class's participation in the stock market, the question of the corporate governance of large firms, the concern for the decline of national industry in international competition—these issues have been features of British economic history for over a century. We need to remember some of these past experiences to understand the last twenty years.

The organization of this chapter is as follows. First, I start from a discussion of the traditional view that associates Victorian times with the "golden age" of economic individualism, followed by the rise of socialism at the end of the nineteenth century. I review, against the interpretations proposed by such early scholars as Dicey (1907) and Sargant Florence (1957), the alternative view proposed more recently by Tomlinson (1994) and Millward (2000), of a more gradual shift of the boundaries of public intervention. I cite selected evidence that may support the view that a Victorian welfare state and a large vintage of municipal public firms were established well before the foundation of the British Labour Party (1900) or David Lloyd George's liberal government (1906).

Second, I review how World War I marked a transition from the Victorian welfare state to a large-scale public intervention, and how the years following the great slump of 1929 reinforced an economic trend that culminated in the public procurement planning arrangements during World War II. Thus, I show the increasingly pervasive role of the state in the management of many industries as an evolution of economic governance structures. This process only partially correlates with the diffusion of socialist ideas and of working-class organizations. Other factors also played a major role in the shift toward big government.

Third, I depict Clement Attlee's nationalization (1946–1951), from this angle, as the result of a long-term convergence of an ideology (Clause IV of the Labour Party constitution, approved in 1918) and of a response to structural change in the British economy. This response had a dimension of rationalization and amalgamation of some industries (e.g., coal, electricity, railways) that were already very far from the free-market paradigm. At the same time, I discuss, as a parallel process, the gradual transformation of large British firms into economic structures dominated by a bureaucracy of top managers and by financial institutions, a far cry from the entrepreneurial firm model.

Fourth, my reading of the performance of the nationalized industries between Attlee and Thatcher is one of technocratic drift: a process of waning of ideological motivations, of loss of a clear social mission, and of increasing stress on the managerial-financial targets. This, combined with occasional short-termism in price control for anti-inflationary objectives, in the context of more general income policies, destabilized the finances of nationalized industries and eventually destroyed the rationale for public ownership of those industries. The long-term performance of the nationalized industries, however, was not so disappointing.

Fifth, I discuss the advent of a neoliberal ideology with Thatcher, an ideology that apparently involved a commitment to entrepreneurship and free markets. I suggest, however, that this return to laissez-faire was very weakly rooted in past British experience. It assumed that socialism was responsible for the stagnation of the British economy, something that probably had other explanations more related to structural aspects of British industry. In fact, the Conservative governments in the 1980s and in the 1990s tried to reverse a secular coevolution of markets and the state that was the core of British capitalism. Although highly successful in the implementation of the Conservative agenda, the privatization policy was probably a failure in terms of a social pedagogy of entrepreneurialism. The firms privatized under this policy were established as oligopolistic or monopolistic firms, under the control of different bureaucratic layers: top managers, regulators, and financial institutions. From this perspective, the policy outcome should be assessed in terms of its objective impact on various social agents.

Sixth, I discuss some of the legacies of the Conservative years (1979–1997), particularly in regard to public spending and taxation, distribution of incomes, productivity, and regulatory arrangements. I identify some of the issues that I shall discuss in detail in the following chapters. Suggestions for further reading and a statistical appendix complete the chapter.

1.1.1 The Myth of an Individualism Era

All exercises in periodization run the risk of being too rigid. A traditional view associates the economic supremacy of Britain with a golden age of individualism in the nineteenth century and the country's economic decline with extensive public intervention after 1890.

Classical economists had won their intellectual battle for free trade together with or immediately after the British victory in the Napoleonic wars. As Bairoch (1989) observed, however, it would be some time before the intellectual supremacy of laissez-faire was reflected in policy (see also Payne 1978; Checkland 1989; Schremmer 1989; and Landes 1965). The free-traders, economists, and industrialists of the Anti-Corn League advocated for many years the repeal of the Corn Laws, which protected inefficient British agriculture through import duties. The abolition finally took place in 1846 and was perceived as a major change in political and social equilibria, shifting power from the rural landlords toward the urban industrial classes. Three years later, protectionism in the shipping laws came to an end. The Bank Charter Act of 1844 institutionalized monetary discipline and granted the Bank of England a monopoly on issuing money, a system that was to stay in operation until 1931.

In 1825, Parliament repealed the Bubble Act (1720), a law that, in the wake of the speculative events of the South Sea bubble (an early example of large-scale financial fraud), had laid down strict constraints on public limited companies. Under the Bubble Act, establishment of any new public limited company required an act of Parliament. It was another thirty years before limited liability of registered companies was fully recognized (in the Joint Stock Company Acts of 1856 and 1862).

In 1834, the reform of the Poor Law only accentuated the moralistic approach to poverty relief that had prevailed for centuries in the parish councils (the bodies in charge of Poor Law administration). In principle, under the revised law, assistance was denied to able-bodied people who refused to work in the workhouses, where wages were lower than the market minimum level. Polanyi, in *The Great Transformation* ([1944] 2001), stresses the role of this policy in creating labor conditions more favorable to industrialization and capitalism than those that had existed prior to the reform. Around 1840 the electoral roll listed just five hundred thousand people out of a population of fourteen million (Checkland 1989), and the House of Lords maintained strong power as compared with the House of Commons.

On the other hand, as Sargant Florence conceded, one must not exaggerate the consistency of these public policies with classical economic thought. Early economists did not view at all favorably the legislation that liberalized the creation of joint-stock companies, the institution in regard to which advocates of the recent privatization most exercised free-market rhetoric. The personal responsibility of the entrepreneur is in fact an essential ingredient of the line of reasoning that, from Adam Smith onward, sees free individual economic action as a requirement of social order—free, but also *individual*. If economic action is no longer attributable to individuals, but to "anonymous" companies, and if the shareholders in such companies are not fully answerable for the credit granted to them with their own personal estate, then the moral and practical requirement of classical liberalism becomes rather obscured. The role of top management appears to be particularly problematic, in many ways detracting from the orthodox principle of individual responsibility.

At the culmination of the Victorian era, around 1885, joint-stock companies accounted for 5–10 percent of the major firms in Britain and were concentrated in a few sectors such as steel, shipbuilding, and cotton (Payne 1978). Many "public" companies were in fact private companies in disguise. Private ownership in the larger firms no longer bore any resemblance to that of the individual entrepreneur. Investors could divide their capital among dozens of different companies, and the firms' management could silence any dissent that arose about corporate govemance or the firm's performance by guaranteeing a satisfactory moderate dividend, achievable without risks or an excessive managerial effort. Payne says that the small shareholders in these firms were, for the most part widows, orphans, clergymen, and the like—people whose wish for information about the companies in which it had been suggested they invest quite often did not go much farther than the mere names of the companies. These savers were perhaps not that much different from those who, under the generic name of "the public," were to have their praises sung a century later with the rhetoric of "popular capitalism" under Thatcher.

Against a precocious trend toward large monopolistic companies, in laissez-faire Great Britain, Parliament never passed an antitrust law. Monopolies acts were passed later, in 1948 and 1973, but the subject of competition was not yet central to the privatization policies of the governments of Thatcher and John Major. Paradoxically, it was New Labour that brought the subject up again (following a European Union directive) with the Competition Act of 1998.

The golden age of laissez-faire consequently does not correspond to the classical vision, given that alongside the Lancashire entrepreneur, the manager of the anonymous monopoly companies soon emerged, together with his complement, the uninformed, passive private shareholder. It is true that the clearest signs of the "collectivist" tendency became evident only after about 1870 (confirming the chronology of Dicey, but not his interpretation). We can trace back to the previous era, however, many premonitory signs of this second phase of British capitalism.

1.1.2 The Victorian Welfare State

The neoliberal views that offered an intellectual justification for privatization at the end of the twentieth century were probably more influenced by some strands of North American contemporary thinking than by Adam Smith or by classical British economists. I discuss some of these ideas in chapter 2. In fact, the Victorian state was not "minimal," as was implied by the neoliberal nostalgia for a lost paradise before "socialism." The British ruling class at the time was ready to delegate to public agencies important social and economic functions. I review here four well-known issues: municipal corporations, public works, labor protection, and taxation.

1. Municipal Corporations. Local governments in the Victorian period were very active in establishing early examples of public utilities or of other forms of public provision of services. This was in general a response to the huge structural problems created by the industrial revolution and urbanization. Industrial entrepreneurs often favored municipal corporations for the provision of transport, water, and energy over the old, inefficient system of licenses to private monopolists. Parliament passed a Municipal Corporation Act as early as 1836. In 1848, as a result of pressure from reformists such as Edwin Chadwick, Par-

liament made municipalities responsible for sanitation, which led to public intervention at a local level in areas such as sewers, water supply, cemeteries, and public housing. Thanks to Lord Shaftesbury, as of 1851, municipalities were able to build dwellings for the poor, and subsequently they could oblige owners to redevelop unhealthy property they leased. In 1869, Glasgow municipalized the production and distribution of gas; Birmingham took over the existing private firm for the distribution of gas in 1874. Hundreds of local councils had to follow their example.

2. Public Works. Adam Smith explicitly mentioned public works as an appropriate area for government spending. As of about 1830, private local consortia managed the British road network. Prior to this, rural roads had been managed by landlords—the major ones by the Crown with the involvement of the Post Office—whereas most of the new "macadamized" roads were financed by capitalist companies through user tolls. The network extended for 21,000 miles, as much as in France, which had a territory three and a half times larger (Girard 1989) and public roads. The state of repair of the British roads was very poor, and the network lacked coordination. Equally heterogeneous and uncoordinated, but more profitable, was the system of internal navigation, based on private canals. The great protagonist of the transport revolution in Britain was the railway, based on long-term concessions by the government to private train operators, who had to finance the construction of the infrastructure. The railroad industry was the object of an investment fever from the late 1830s, excited by the expectations of high demand and profits. Fixed investment costs were, however, very high and competition severe, and bankruptcies and consequent service disarray created wide public concern. There was a common saying at the time that either the state would run the railways, or the railways would run the state. Over forty years, government and Parliament reacted to an increasingly unstable industry structure through a series of bills that culminated in the Railway and Canal Act of 1874. As a result of this legislative activity, the British transportation system, which had originally been totally private, became minutely regulated and largely subsidized by public contributions. Things did not go as far as nationalization, but the competitive freedom of companies in Britain's transportation sector lasted only through an initial disorderly and unsustainable phase of early capital accumulation.

3. Labor Protection. Concern with safeguarding workers in Britain goes hand in hand with the development of the workers' movement in

the country, but early Victorians were really concerned with the social impact of industrial development. As early as 1819, a law had been passed forbidding the employment of minors younger than nine years of age in the cotton mills and limiting the working day for children under sixteen years of age to twelve hours. The Trade Union Act (1824) recognized workers' right to form associations. The Factory Act of 1833 broached the problem of educating the children who worked in Britain's textile mills. In 1847, Parliament passed the Ten Hours Act, which limited the length of time spent working daily. In 1842, the Mines Act was passed, forbidding women and children to work in mines, and by 1852, there were already signs of social-welfare legislation. The first Trade Unions Congress was held in 1868, and from then onward, British trade unionism became an integral part of the unwritten constitution of the empire. A revised Trade Union Act in 1871 acknowledged the new legal status of the unions.

4. Taxation. As of 1842 (after a debut with William Pitt in 1798 as an emergency war tax), income taxes (under the Peel government) began —timidly, under the profile of progressiveness—to undermine the role of the debt as the leading source of public finance. This was also the beginning of the erosion of the social status of the rentiers, who had to pay taxes instead of earning income from interest on their loans to the Exchequer (but a century elapsed before Keynes suggested euthanasia for them!). Between 1689 and 1820 this social group financed an average of 30 percent of public expenditures. The income tax signaled a turning point. In 1867 the electorate increased to over two million men (Reform Act). In 1884, the electorate was further enlarged to almost five million voters. The access to vote of a larger number of people reinforced the political support for the increasing substitution of the more progressive income tax for debt finance and indirect taxation.

These illustrative examples suggest that the new responsibility of the state toward society in the Victorian period had its deep roots in the age of individualism itself. The process of building a comprehensive public intervention was mature around 1870. In that year, for the first time, a public competition was held for admission to the home civil service, just a symptom of an important series of political-administrative reforms starting in the 1860s. The perception of the state, largely negative among earlier political thinkers, including economists, whose target was the old system, changed along with the state itself. There was less patronage and inefficiency than previously, and the perception of government's taking an active role became more positive. A great British historian of the old generation, George Macauley Trevelyan, wrote:

> A characteristic of the new national machinery, fully apparent towards the end of Queen Victoria's reign, was the close interrelationship that had grown up on the one end between private philanthropic effort and State control, and on the other end between local and central government.... [This] complicated and constantly shifting relationship was rendered possible by the evolution of the permanent nonpolitical Civil Service of Great Britain with its accumulated stores of knowledge, experience and sound tradition. In the third quarter of the century, the Civil Service was removed from the field of political jobbery by the adoption of open competitive examination as the method of entrance, a device that seemed as strange as it has proved successful. (Trevelyan [1942] 1959, 463)

1.1.3 The Growth of a New Government, the Decline of an Old Empire

In the previous section, I mentioned some of the interventionist trends in Britain before 1870. The growth of a new public sector paralleled the decline of British economic supremacy among the nations of the world.

In the first decades of the nineteenth century, international openness was seen by the British ruling elites through the eyes of an imperial power. Britain was proud of its technical superiority over the rest of the world. Gradually, however, awareness spread among investors about the increasing competitiveness of other countries, especially Germany and the United States, but also of some of the British colonies. In fact, as Landes (1965) documents, British entrepreneurs had lost their leadership in international business before World War I, also perhaps because of the inability of the third generation of industrial revolution capitalists to manage the new competitive age and because of the bureaucratic behavior of management in British firms.

From this perspective, the years leading up to World War I, that is, until 1913, can be seen as a cumulative process of socialization of capitalism within a liberal macroeconomic policy. This socialization was not, however, without uncertainties. It is possible to grasp single aspects, rather than a coherent picture, of this phase of transition from the Victorian welfare state to the new age of extensive public intervention.

I have already mentioned the important role of local government in Britain as a factor driving change in the economic role of the state. Municipal corporations were active in a wide variety of sectors, from roads and trams, to water, gas, and electricity, to refuse collection, public housing, public parks, school meals, and the like (Foreman-Peck and Millward 1994; Millward 2000). Parliament granted local authorities the power to levy local taxes, however, only to a very limited extent. Muncipal service tariffs usually covered service costs. In 1914, each of the over three hundred local authorities in Britain supplied one or more public services on a commercial basis, to such an extent that one spoke of the trend toward "municipal socialism."

Transport in Britain was increasingly placed under public control. In 1873, the first example of a British regulatory authority, the Railway and Canal Commission, was established. Tariff control, while already in force in the previous three decades of railway development, became more systematic. The commission had the task of amalgamating transport firms and of coordinating the network of canals and railroads. The first modern public corporation in Britain was the London Port Authority (1909), a forerunner of the port authorities privatized eighty years later.

Another increasing trend in Britain at the time was the regulation of labor markets. In 1905, with the Unemployed Workmen's Act, local authorities were given the power to take measures to create jobs. In 1909, "labor exchanges" (offices in charge of job placement at the industry and local levels) were created. The previous year, the state had assumed responsibility for welfare with the Old Age Pension Act, which entitled those who had not made any contributions to pension funds to collect a pension of five shillings a week once they reached the age of seventy. Other measures in this area that preceded World War I involved technical education, unemployment, solving labor disputes, occupational diseases of workers, job placement, public houses and town planning, establishing fair wages and subsequently also minimum wages, and national health insurance, among others. Education offers perhaps the clearest example of large-scale public provision of a universal service in Britain. Whereas in 1870 there were 16,800 teachers in primary schools, after subsequent Elementary Education Acts, the number of teachers rose to 50,700 in 1890 and 132,000 in 1900. Between 1870 and 1913 the teacher/pupil ratio in British schools fell from 1:85 to 1:33 (Schremmer 1989).

To finance the new arrangements for the provision of public services, taxation became more progressive. In 1894, after various reforms to the previous tax system, a progressive inheritance tax was introduced. The marginal rate was just 8 percent, but by 1913, the tax—which at the time was considered to be radical—was to account for almost 17 percent of the country's tax revenues.

Most of these late Victorian and post-Victorian reforms were only partly an effect of the spread of leftist ideas, first of Chartism, and then of socialism. Largely they represented rather an independent evolution of the British institutions and of the mentality of those who had to run them, in a context in which one could clearly see the tangible shortfalls of private action in many fields. In the words of Trevelyan ([1942] 1959, 529–30): "As Sir William Harcourt said as far back as 1894, 'we are all socialist now'. At any rate, by whatever name you call it, this system of State assistance to the life of the poorer citizens is a great fact of modern English life." Moreover, the feeling that the empire was under attack by the new international competitors helped to shape a political consensus across the political spectrum. Britain was having to struggle abroad for commercial supremacy and therefore could not afford disruptive internal struggles.

Whereas in the rest of Europe, revolutionary Marxism attracted the workers' movement and a large number of intellectuals, British socialism had acquired its own peculiar moderate features. Workers' claiming of their rights, after earlier radical origins, can be traced back to the course of a democratic-parliamentary battle in one sense, and to the design of schemes to reform the functioning of capitalism in another.

The socialization of productive resources was an essential ingredient of Fabian socialism, as it was of Marxism. As shown below, however in a position that was in many ways ambiguous, Fabians quite often invoked social ownership for efficiency reasons, rather than as an aspect of class struggle and income redistribution. This orientation of the Fabian ideology ended up giving the postwar Labour nationalization an administrative and technical stamp rather than a political and social one.

Tomlinson (1994) defined the attitude toward socialism of the neoclassical economists themselves, *in primis* Marshall, as "skeptical sympathy." Persistent hostility to the idea of government involvement in general economic activities did not prevent widespread acceptance of the need for considerable specific intervention in economic matters. We are now a long way from the earlier suspicion of a state that is hostile to the individual, a widespread sentiment among classical economists. The champion of neoclassical orthodoxy, Arthur Cecil Pigou, who followed Alfred Marshall as the professor of economics at Cambridge, was ready to admit that without public intervention, the market, in many cases, for example, in urban development, produces undesirable effects.

We cannot therefore accept the orthodox periodization, which sees the era of individualism triumph between 1820 and 1870 and the era of collectivism establish itself thereafter. In mid-nineteenth century, individualism in running firms was a phenomenon in decline. Public intervention was precocious and pragmatic. Market and state interacted and changed in complex ways. These changes appear to be a case of gradual shifts without net caesuras. A biologist might describe this process as symbiosis and coevolution of two species.

1.1.4 The State between the Wars

World War I marked a crisis and the passage to large-scale public intervention in the economy. The year 1917 saw the birth of the Ministries of Food and Labour. In 1918, the number of voters had reached twenty million. There were other important policy changes during the war years. Women over the age of thirty were allowed to vote if they were married or the head of a family. The mines came under government control. The Ministry of Ammunition planned vast sectors of the economy.

The postwar period marked a break in government interventionism. Despite contemporaries', especially Keynes's, acute critical perception of this policy reversal, however, the attempts to return to laissez-faire (and to the prewar monetary regime) do not appear to have been so strong. The interlude between the two wars was above all in Britain a social crisis, particularly in the form of mass strikes. Especially important was the general strike of 1926. The government responded to these strikes by intensifying the legislation aimed at settling the social conflict between the working class and the owners and managers of the large corporations (particularly in the mining, steel, textile, and transport industries) through organs of control of industrial relations and health and welfare institutions.

Economic orthodoxy crumbled after occasional attempts had been made up to the early 1930s to return to the previous Victorian and Edwardian order: The gold standard, free trade, and a balanced budget ceased to be the compulsory reference point for any government economic policy that could command parliamentary consensus. An attempt in 1925 by the Conservatives, led by Winston Churchill, to return to the old social order based on relatively weak unions and to constrain the working class proved totally unrealistic and resulted in the return to power of a Labor government (headed by Ramsey MacDonald).

In 1919, the Ministry of Health was set up. In the same year, the British government raised old-age pensions and extended state education secondary schools. The Housing Act increased housing subsidies, and the Housing and Town Planning Act was passed, financing the construction of 170,000 new houses by local authorities. Numerous other laws followed that led to the construction of 1.3 million subsidized dwellings between 1919 and 1939. In 1920, the Unemployment Insurance Act granted twelve million workers public protection against loss of work. The measure was extended in 1927. In 1929, the existing Poor Law unions (totaling about 600) were dissolved, and welfare assistance became part of local authorities' ordinary responsibilities. Local authorities by 1936 were providing welfare assistance to 1.6 million people. The welfare system had already become broad and comprehensive in 1939, well before William Beveridge's reforms.

While the role of the state as public services provider increased, the type of company in which ownership and control were separate firmly established itself in the private sector. Imperial Chemical Industries (ICI) was founded in 1926 from the merger of four large firms, modeled on the kind of multidivisional decentralized organization illustrated by Alfred Chandler for the United States (Payne 1978). Industrial concentration in Britain was such that in 1935, the 135 largest companies in the country controlled 25 percent of total employment. In thirty-three industries, the top three firms accounted for over 70 percent of employment.

In parallel, the national government was establishing its own direct role in the large-scale supply of essential services. This went a lot further than Victorian municipal socialism and the sporadic acquisition of strategic companies, like the future British Petroleum (BP), originally the Anglo-Iranian Oil Company, a government acquisition backed by Churchill in 1912. Prewar state companies included the British Broadcasting Corporation (BBC) (1927) and British Overseas Airways Corporation (BOAC) (1939), the nucleus of the future British Airways.

Government plans were proposed by the ministries to tackle the perceived declining performance in Britain's coal, steel, railway, cotton, and shipbuilding sectors, plans that included proposals for nationalization of industries in these sectors, also with a forerunner of subsequent regional policies (Special Areas Act, 1934). These plans and the related new legislation appear to run parallel to those on the continent, with the establishment of large public companies at the height of the Great Depression, even though the democratic political context and the liberal tradition give these British policy trends specific features, particularly as compared with authoritarian state interventionism in Nazi Germany and Fascist Italy.

One leading example of this specificity (i.e., of a search for a compromise between outright nationalization and private ownership) is the Electricity Supply Act of 1926, which created a peculiar centralized system of coordination of the electricity market through a public body, the Electricity Board, which controlled a large majority of the country's private and municipal power plants. In the opinion of Hammond (1992), in certain ways the 1990 privatization of electricity in Britain was a return to the system put in place by the act.

The London Country Council in 1933 was able, without effective opposition, to take the London bus and underground system into public ownership. Herbert Morrison, later an influential member of Attlee's cabinet, designed the institutional framework for London Transport. This framework became a model for postwar nationalization, and I discuss it further below.

In 1926, in *The End of Laissez-Faire*, Keynes wrote: "For more than one hundred years our philosophers ruled us because, by a miracle, they nearly all agreed or seemed to agree on this one thing [individualism and laissez-faire]. We do not dance even yet to a new tune. But a change is in the air" (272). Perhaps that century-old undisputed intellectual kingdom never existed. In 1936, when Keynes published his *General Theory of Employment, Interest and Money*, the orthodoxy against which he fought was still influential, and laissez-faire was still the ideology of a large part of the economic and political elite. It was perhaps by now, however, a vestige of a waning social order, rather than a consistent policy option.

1.1.5 British Socialism and Clause IV

Clause IV of the Labour Party Constitution of 1918 summarized the role of public ownership in British socialist doctrine. The clause returned to the limelight recently when Tony Blair's New Labour repealed it. Sidney Webb, founder of the Fabian movement (and of the London School of Economics [LSE]; see the official LSE history by Dahrendorf [1995]) probably drafted the text. It read: "To secure for the producers by hand or brain the full fruits of their industry, and the most equitable distribution thereof that may be possible, upon the basis of the common ownership of the means of production, and the best obtainable system of popular administration and control of each industry and service."

This rather elaborate formula was very careful in its choice of wording. For example, it referred to "producers by . . . brain" as well as "by hand." It made a distinction between the specific question of distribution and equity and the appropriation of the fruits of labor of the working class, and the "upon the basis of common ownership" formula itself was open to a number of operative solutions.

According to McDonald (1989), the version of Clause IV that was approved was the broader one of the two proposed. The more moderate wing of the party would have preferred a reduced version that talked about "common ownership of all monopolies and essential raw materials" (more or less what was to happen subsequently).

Webb felt that the most appropriate method for common ownership should be decided for each individual case. It was clear from the beginning that various forms of common ownership were possible, from departmental enterprise, under the responsibility of a ministry (the prototype was the Post Office), to forms of municipal ownership and management, to workers' and consumers' cooperatives.

As to which sectors to nationalize, the recurrent ones in the Labour proposals were land, railways, and mines, and the arguments for nationalizing these industries often had a Ricardian flavor. The existence of rents in these industries, rather than profits, simultaneously created inefficiency and inequity in the distribution of income from them. Public ownership of these industries was therefore justifiable also in the light of classical economics. Support for public ownership of these industries could have been found not only among the working class, but also among the productive bourgeoisie, who would have benefited from energy and transport at lower prices than were offered by private management.

Perhaps the most detailed, and in the end most influential, version of the Labour vision of what common ownership could signify in practice is the type of public corporation proposed by Herbert Morrison in *Socialisation and Transport* (1933). This book goes far beyond what its title suggests. Largely it is a discussion of the London Passenger Transport Bill, worked out by Morrison when he was Minister of Transport for the Labour government between 1929 and 1931. It also, however, outlines the model for the British public corporation, which was subsequently fully implemented by the Attlee's government.

The core of the Morrisonian model is a public body whose board is nominated by—but functions independently of—the government. The public corporation must, Morrison felt, be subject to parliamentary control and managed by people with considerable professional experience who consider themselves "high custodians of the public interest." The idea that became popular fifty years later of being able to regulate the market by granting a small group of people (the directors of the regulatory offices for nationalized firms) ample discretionary powers is not very far from Morrison's model, which entrusts the public interest to the "good chaps" in the boards of the nationalized firms (Helm 1995).

Morrison's model had several strong points at the time he proposed it: From an ideological point of view, it fit in with the socialist tradition; from a practical point of view, it offered a concrete and well-defined institutional framework. Its weak point was its lack of democratic governance.

Morrison's draft was the finishing line in a debate within the Labour movement. On one side of the debate was the radical idea of public ownership as a fundamental method of exercising the power of the workers. On the other was the revisionist idea of public ownership as just one possible mechanism for social control of the economy. In the Morrisonian model, the workers themselves were excluded from participation in the boards, as they likewise were from representation on the boards of sector interests. According to Morrison's model, the boards had to be organs of top administration, subordinate to the government, but with a dominant technical-managerial element.

Thus there was a simultaneous refusal of the self-management governance, linked in many ways to guild socialism or to some forms of trade unionism, and of the departmental enterprise, based on the example of the Post Office, which was considered bureaucratic and inefficient. Keynes, certainly not a socialist, was sympathetic to the Morrisonian ideas. In *The End of Laissez-Faire* (1926), he advocates a role for a new form of public corporation, as a cure for the divergence of private and social interest. Keynes says that "progress lies in the growth and recognition of semi-autonomous bodies within the State" and mentions as examples the universities, the Port of London Authority, and "even perhaps the railways companies" (289).

The militarization of the British economy in World War II led to the public administration's management of different strategic sectors. In this perspective, the great Labour nationalization, which I shall describe in the next section, appears to be more the epilogue of a long season that started in the early Victorian era than the beginning of a new phase.

1.2 The Great Labour Nationalization, 1946–1951

1.2.1 The Attlee Government

After the short-lived experience of the first MacDonald cabinet in 1923–1924, Labour was back in office in 1929–1931, again under MacDonald, who then led a national coalition government (1931–1935). Except in those years, the Conservatives were always in office until the end of World War II. Labour returned to power in the United Kingdom with the first postwar election in July 1945, bringing with it an ideology that was clearly in favor of public ownership. The nationalization program that Labour implemented in a remarkably short space of time came as no surprise to anyone who knew the Labour constitution. With the exception of the banking and cotton sectors, the government nationalized those industries that the Labour Party had envisaged "socializing" in the 1930s, a program subsequently blocked by electoral defeats leading to sustained Conservative majority in the decade 1935–1945. Subsequent Conservative governments until 1979 did not overturn the public economic structure created by Labour in the postwar years.

In 1946, the British government took under public ownership the Bank of England, the nation's coal industry, and civil aviation. In 1947, most transport and electricity was brought under state control, followed by gas in 1948. As of that year, the nationalized sector accounted for 10 percent of the workforce, 17 percent of GDP, and 19 percent of investments.

After these achievements, in its electoral platform for 1950, Labour announced its intention to proceed further by nationalizing the sugar and cement sectors, and in general, private firms that were allegedly not operating in the public interest. During Labour's two years in power (1950–1951), however, it did not implement these measures.

In his monumental study of the postwar Labour government experience, Chester (1975) reconstructs the nationalization process that led to a public sector with over 2.3 million employees in 1951, a long way from the small public sector of the Victorian period. Although

Table 1.1
Employment in nationalized firms, 1951

Sector	Employees
British Airways	23,300
Bank of England	6,700
Cable and Wireless	9,500
Electricity boards	176,200
Gas boards	143,500
British Steel	292,000
North Coal Board	765,000
North Scotland Hydroelectricity Board	2,700
Transport Commission	888,000
of which Railways	600,000
Total	2,306,900

Sources: Chester 1975; Gourvish and Day 1991; and other sources.

nationalization was the realization of a fundamental aspect of received British socialist doctrine, perhaps the partisan dimension was not as important as one might think.

As table 1.1 shows, a considerable share of employment in the nationalized sector as of 1951 derived from industries that a Conservative government had already subjected to state coordination during the war: coal, steel, transport, electricity, and gas. The government was quite well versed in the problems of these sectors, and the change from a wartime system of controlled supply prices to one of direct government control did not appear to be subversive to the large majority of the public.

The great postwar nationalization was not reducible to an essentially technical-administrative phenomenon, as would perhaps emerge from Chester's reconstruction. There was, however, a broad consensus across the political spectrum about the need for state-led reconstruction and rationalization of national industries. This was certainly the case for the railways and coal, both sectors that suffered much from the war and in which national reconstruction appeared to be indispensable to recovery, but it is also at least partly true for the other sectors that were nationalized. In the case of the railways, for example, in their final year under private ownership, they sustained substantial losses that had to be covered with public subsidies.

The core motivation behind nationalization seemed to have become achieving efficiency through amalgamation plus a dose of national planning. The main argument concerned technical scale economies that would have been lost through fragmentation in ownership, not only private, but also municipal. The policy discourse was about nationalization rather than socialization. The transformation of social relations played a minor, although not entirely marginal, role.

For example, the gas sector, nationalized in 1948, was above all a case of amalgamation. At the time there were 1,046 private and municipal gas companies operating. The establishment of twelve regional gas boards, which were later merged to form British Gas, seemed sensible and long overdue (O'Neill 1996). Even the names of the new corporations were drawn from the experience of the electricity boards set up in 1926 by a Conservative government (electricity companies at the time numbered 550).

Oil and gas deposits were already the property of the Crown, so the companies in these sectors operated in a regime of concessions. The nationalization of both the gas and the electricity sectors had already been recommended, for reasons of efficiency, in 1936 and 1944, respectively, by parliamentary commissions with a Tory majority.

In the case of nationalization of the coal industry, the social dimension of this policy was more important than in other sectors, where technical and coordination aspects prevailed. Perhaps it is worth stopping for a moment to reflect on the role of coal miners in a country that from the start of the industrial revolution, through steam technology, was to be highly energy intensive.

On October 13, 1992, British Coal announced it was closing thirty-one of its remaining fifty mines. At that point, coal miners had practically disappeared as a social group. But when Sidney Webb wrote Clause IV in 1918, there were 1,133,700 coal miners in Britain, and of these 250,000 were ex-servicemen. Miners had been by far the most highly represented social group in the British army during World War I (Kernot 1993).

As far back as 1842 the British government had seen the need to intervene in the regulation of working conditions in the mining sector with the Mines Act, which prohibited the employment of women and children in the mines. Between 1856 and 1886 there were a series of trade union protests about the extremely hard working conditions in British coal mines (deaths through accidents were no fewer than a thousand a year). A climate of proud class solidarity, bordering on self-isolation, among miners is the one constant feature of industrial relations in the coal sector that caused long nationwide strikes among miners (particularly in 1926, as in 1972, and to the last lost battle in 1984–1985, led by the coal union leader Arthur Scargill).

But in 1946 nationalization of the coal industry could have been seen more as a rational measure to reorganize an industry that in practice was already under indirect public control than as an act of social justice. In that year, the Coal Board merged more than 800 mines, with a total workforce among them of 716,500. Huge numbers of layoffs and intense industrial action followed nationalization. Ministries, not private shareholders, appointed the management of the National Coal Board that forty years later would have the last word in the industry and eventually defeated the unions.

1.2.2 The Technocratic Drift

Gradually the structure derived from the great Labour nationalization was evolving into a complex organization mainly driven by technical and financial considerations, developing its own internal logic, without any clearly stated political-social mission (apart from occasional government interference in pricing and employment decision making). Public and private enterprise seemed able to coexist in Britain without major tensions.

If there was a wide consensus about the existence of a large array of public corporations, in other ways the government emphasis on the purely technical aspects of their management was a limitation. One hint of this limitation was the different positions taken (and solutions offered) on the subject of who should effectively control the boards or these corporations. Only a minority position in the Labour cabinet favored greater involvement of the workers in the decision making. The compromise reached between those who held more technocratic views and those who favored a more democratic corporate governance was that the government had to appoint the managers of public corporations, but with parliamentary control.

Therefore, public corporations lacked a clear definition of their strategic objectives, in the framework of well-designed industrial policies. Moreover, the government did not pay much attention to the public corporations as a way to change the economic structure of the country and the distribution of income and power among social classes, as in the traditional socialist view. According to Sassoon (1996): "By nationalizing public utilities the Labour government acquired a potentially formidable weapon for restructuring the private sector. As part of an overall plan, or at least a fairly comprehensive industrial policy, nationalization could have played a major role. The Labour government had, however, no comprehensive plan. It simply maintained the financial and physical controls it had inherited from the wartime coalition" (154).

Despite this crucial failure in the nationalization design, the inclusion of a large part of the working class within the public sector was in fact an important change in British society, a change that had consequences for industrial relations, wages, and public spending priorities. The tension between the social and economic role of the nationalized industries was probably a crucial factor in the crisis involving them in the 1970s (more on this subsequently). Successive governments never established a transparent way to trade off the corporations' two functions, social and economic. Over the next thirty years, without any fundamental differences between periods of Conservative and Labour governments, the public corporation gradually lost its social and strategic dimension. The "commanding heights" of the economy were apparently under the control of the new owners, but they were not willing to use this power.

For example, in the case of the Transport Commission, the statutory objective of the public corporation was very generic: to provide an "efficient, adequate, economic and properly integrated system of public transport." No government, however, offered a strategic support plan to give the objective any concrete form, and there was no clear indication of coordinated tariff policy across the different transport modes, but each corporation was under a statutory obligation to break even each year. This obligation originated from the increasing role of H.M. Treasury as the department in charge of the control of the nationalized industries and reflected the budgetary perspective of the Exchequer. (I discuss this point in detail in chapter 7.)

As we shall see, a comparison between the legislation and statutes concerning the nationalized industries in the 1950s and those that established regulatory bodies in the years of privatization shows a similar vagueness of objectives. Successive governments never stated in a clear way the true, hard decisions that needed to be made about the national transport system, particularly the balance that needed to be struck between the investment in infrastructure across different transport modes: rail, buses, cars, and so on. The Transport Commission (like the future regulators in the transport sector) had in fact no strategic guidance concerning investment priorities and pricing policy.

The government's own ability to influence the investment programs of the nationalized sector soon proved to be limited. The mechanism for consulting workers to improve industrial relations was also found to be ineffective. The trade unions, although involved in the day-by-day management of public corporations through frequent meetings with the executives, were mostly interested in pay and working time, not in the overall strategy of the nationalized industries and their relationship with consumers. On several occasions, industrial relations proved to be worse in the public than in the private sector.

Subsequent White Papers from H.M. Treasury (1961, 1967, 1978) established rules for the behavior of management of public corporations that were oriented more toward financial or budgetary targets than toward economic policy criteria, for example, in terms of social costs and benefits of the public corporations' investment programs. The financial criteria included the obligation to break even on an annual basis (subsequently, every five years); the determination of a test discount rate (TDR)[1] for investment projects (8 percent, which was believed to be comparable to that for low-risk projects in the private sector); fairly mechanical attempts to impose price rules for the nationalized industries' output, rules based on marginal cost (which under increasing returns to scale could bring about a loss and thus contradict the required rate of return in excess of TDR); the requirement to evaluate the burden of social responsibilities (for example, the low fares for some disadvantaged users) with a shadow price;[2] and, lastly, the imposition of cash limits (external financial limits),[3] which created rigid ceilings to firms' ability to recur to borrowing to finance investment or cover losses.

A year before the turning point under Thatcher, the White Paper of 1978 adopted a required rate of return of 5 percent for investment programs undertaken by public corporations (rather than for single projects). It also required "performance indicators" (especially productivity and unit cost indices) to be published for every sector. In the end, this combination of general rules was no substitute for a national development plan or a consistent strategy for the provision of public services. It neither transmitted nor maintained a sense of social change among workers and users or a sense of clear mandate or mission in management.

Among the Labour ranks, the new idea of a "competitive" public corporation (i.e., a state-owned enterprise that had to compete in the market with private firms) was catching on. One result of that market-oriented approach to public ownership was to be the establishment of the National Enterprise Board (NEB). The Labour Party envisaged creation of the NEB during opposition years 1970–1974. The initial grand design for the NEB included public ownership of twenty-five of the country's hundred largest companies. When it was actually established, the NEB's role was limited to being a shareholder in British Leyland and to offering venture capital for small, research-intensive companies and eventually "a hospital for sick companies" (Sassoon 1996, 515). Harold Wilson's government, although it did nationalize shipbuilding and aircraft, was very far from the early view embodied in Clause IV.

1.2.3 Crisis of the Nationalized Industries

Probably the government's occasional interference in controls on the prices of public services caused the greatest damage to nationalized firms. This interference was part of a more general income and price control policy implemented by the government. Restraint of wages and tariffs, however, was particularly strong in the public sector. Such interference only aggravated state-owned companies' financial position, making the budget cost of such companies visible to the taxpayers, whereas the social benefit of containing inflation was obviously limited and "one-off." Perhaps the image of inefficiency in public corporations in fact appeared, in the case of Britain, to be linked mainly to their pricing policy rather than to excessive costs. This image of inefficiency was coupled with scarce consideration for customers' needs by the management of public corporations, because of a lack of clear targets from the government.

Foreman-Peck and Millward (1994) observe that the long-term trend of productivity in Britain's nationalized sector was no lower than that for private firms. Moreover, the profitability crisis of state-owned firms and thus the capacity for self-financing in the 1970s left the public corporations wide open to subsequent attack by Thatcher.

A historic assessment of the role of the nationalized industries in economic growth and crises in Britain between World War II and the 1980s will be less severe than many seem to believe nowadays (Millward 2000). (I discuss productivity trends before and after privatization in chapter 4.) It can be conjectured, however, that from the moment the criterion for evaluating the performance of the nationalized sector became, in the final analysis, simply its financial viability and consequently its profitability, public ownership lost its raison d'être. This shift had already begun before the arrival of the Thatcher government. The National Economic Development Office (NEDO) (1976) report depicts a sector with an identity crisis more than one in financial difficulty. In conclusion, I suggest that the roots of the collapse of the nationalized industries in Britain lie outside the corporations, in the inability or refusal of successive governments to provide the management of these corporations with a consistent policy framework and strategic planning.

1.3 The Great Divestiture, 1979–1997

1.3.1 Background

In the period between the great postwar nationalization and the great privatization of the 1980s and 1990s, there were only marginal changes in the extent of public ownership of British corporations as table 1.2 shows. For example, the government of Edward Heath sold Thomas Cook travel agency and some council houses in 1970–1974.

Some of these marginal changes were simply oscillations of a pendulum. Burk (1988) documents the story of the first privatization, that of British Steel, which was nationalized in 1949, denationalized in 1953, renationalized in 1967, and denationalized again in 1988. This is, perhaps, an extreme case of ebb and flow of public ownership. One cannot say, however, that the Conservative governments of the period intended to dismantle public firms. Although a Labour government in 1974 nationalized (to avoid bankruptcy) British Leyland and Jaguar, the Conservatives had done the same with Rolls-Royce in 1971. The Conservative Heath government nationalized the water industry in 1973.[4]

It is also worth remembering how the large private firms had developed in postwar Britain. They continued to merge and separate ownership from management. About a hundred leading holding companies that controlled 24 percent of GDP in 1935 were controlling roughly 45 percent by 1970 (Prais 1974, 283; see table cited by Payne [1978]). Already in 1950, two-thirds of firms were no longer managed by their owners, but by directors. This is probably the main difference between the British economic structure and the one prevailing in most of continental Europe after World War II.

Table 1.2
Nationalization and privatization by British governments, 1945–1997

Prime minister	Majority	Years in office	Main nationalizations and denationalizations
Attlee	Labor	1945–1951	Nationalizations: British Airways, Bank of England, Cable and Wireless, electricity boards, gas boards, British Steel, North Coal Board, North Scotland Hydroelectricity Board, Transport Commission
Churchill	Conservative	1951–1955	Denationalization of British Steel
Eden	Conservative	1955–1957	
Macmillan	Conservative	1957–1963	
Douglas-Home	Conservative	1963–1964	
Wilson	Labor	1964–1970	Renationalization of British Steel
Heath	Conservative	1970–1974	Nationalization of Rolls-Royce, water industry
Wilson-Callaghan	Labor	1974–1979	Nationalizations: British Leyland and Jaguar, British Shipbuilders, British Aerospace. Partial divestiture of British Petroleum
The great divestiture (see Appendix for more detailed chronology)			
Thatcher	Conservative	1979–1982	British Petroleum, National Enterprise Board holdings, British Aerospace, Cable and Wireless, Britoil
Thatcher	Conservative	1983–1986	British Telecom, British Gas
Thatcher	Conservative	1987–1988	British Airways, Rolls-Royce, British Airports Authority
Major	Conservative	1989–1993	Water, Electricity
Major	Conservative	1993–1997	Coal, Railtrack
Blair	Labor	1997–2004	NATS (air traffic control), public-private partnerships, bail out of Railtrack and National Air Traffic Service

Source: See text.

The majority of the directors of private firms came from the upper classes. They often had had a humanistic education at Oxford or Cambridge and some experience in the accounting field. It was not exceptional for them to have been in the civil service (Payne 1978). In short, those managing private firms usually did not have an entrepreneurial or technical background.

By the time Anthony Crosland, a leading Labour politician, published *The Future of Socialism* in 1956, the perception of the bureaucratic nature of the modern large firm was widespread. In 1964, Robin Marris, an academic, published his illuminating contribution on the managerial firm, *The Economic Theory of "Managerial" Capitalism*, largely founded on his observation of large British corporations. In the intellectual climate created by these works, the view that there were fundamental differences in efficiency between nationalized and private firms would have had little credibility. After all, the same type of person could appear to be in control of both types of firms.

The premonitory signs of the change in perceptions of corporate governance and efficiency that would affect the destiny of the public firm in Britain over the next twenty years were weak. On an international level, a political swing to the right definitely occurred in many countries at the time, particularly in the United States (Hood 1994). The change in climate was also in response to considerable increases in tax burden in Britain because of policies put in place to control budget deficits in the second half of the 1970s, following the trade union battles of those years.

Chile was the first laboratory among significant world economies of large-scale privatization. In 1975 the government of Chile hired economic advisors from Chicago who proposed a "shock therapy" for Chile based on a monetary squeeze, reduction in public spending, large-scale privatization, deregulation of public services, and liberalization of foreign trade. The government of General Augusto Pinochet, which had seized power in 1973 with a military coup, implemented the recommendations of the U.S. advisors, with the backing of the International Monetary Fund (IMF). Of the five hundred firms that had been nationalized in the space of a few years by the previous government, headed by Salvador Allende, Pinochet's government left in public hands only twenty-seven. Chile may have looked to many like a special political case,[5] but American economists influenced a new breed of British free-marketers.

In 1976, in her *The Right Approach* policy statement, Thatcher did not mention privatization. The Labour government, on the other hand, in the same year, when faced with a recession and budgetary crisis, felt the necessity of turning to the IMF for an emergency loan. To meet the IMF's conditions for assistance, the Chancellor of the Exchequer had to sign a Letter of Intent that, among other things, precluded transfers to nationalized firms. To raise additional cash to cover the government budget deficit, shares in British Petroleum were sold, an *ante litteram* privatization out of necessity.

The British Conservative manifesto (Conservative and Unionist Party 1979) offers no hint of a great plan for divestiture of the nationalized industries. It concentrates on some specific denationalizations: British Shipbuilding, British Aerospace, and National Freight. A review of the status of Britoil, limitations on the scope of the National Enterprise Board in the acquisition of stakes in private firms, and a greater financial discipline for nationalized firms were also considered. There was speculation about broadening the policy of licenses for private buses and selling a large share of council houses (public housing). That was all the manifesto proposed or even hinted at, although it is highly likely that in some circles there were already ideas that were much more ambitious. One example of these more ambitious ideas was the Ridley Report (Boardman and Ridley 1979), a working document produced by an authoritative group within the Conservative Party that proposed axing the welfare state, passing anti-union legislation, and denationalizing some public corporations. The report had remained officially unpublished for tactical reasons, but *The Economist* disclosed it.

Thatcher's political ideas, in fact, can be traced back to her association with the Institute of Economic Affairs (IEA, founded in 1957) and the Centre for Policy Studies (CPS, founded in 1974), two right-wing think tanks. The tenets of the new Conservative thinking were the perception of big government as an obstacle to growth and liberty, a commitment to monetarism, and the rejection of income policies. Hence, there was an outright rejection of a special relationship between government and the trade unions. Other ingredients were the willingness to restore profit incentives to the private sector through a reduction of taxes and a cut to public expenditures, including the welfare state and subsidies to nationalized industries.

Having gained the majority, in Parliament the Thatcher government in 1979 adopted a policy that went far beyond the electoral program proposed in the manifesto, reflecting the deep convictions that had developed during the long years of crisis in the governments of Harold Wilson and John Callaghan, and perhaps also an intolerance for the moderate, paternalistic approach of previous Conservative governments. The shift toward a more radical approach, however, was initially gradual and pragmatic. Again, the manifesto of the Conservative Party of 1983 spoke only of a partial privatization of British Steel, and for electricity and gas, preference was given to liberalization over privatization. A Thatcher supporter, Sir Keith Joseph, Secretary of State for Industry, wrote:

> We came to office convinced that the structure of the nationalized industry contributed to the national malaise ... in all too many cases, particularly when the nationalized industry commanded a monopoly, those concerned did not see themselves as living under the healthy necessity of satisfying the customer in order to survive; they had no incentive to cut costs to beat competitors; they were free of risk of liquidation ... Such was our diagnosis; what was our aim? our aim [was] to abate inflation and to create a prospering social market economy—that is, a mainly free enterprise economy. (quoted in Miller 1995, 85)

These convictions influenced a policy approach that could be defined as "pedagogic." Nigel Lawson, Thatcher's Chancellor of the Exchequer, declared that through the policy of privatization adopted by the Thatcher government, the public attitude toward private ownership, entrepreneurship and the values of a free-market economy would have to become more positive.

According to Braddon and Foster (1996) this attack on public intervention in the economy had a cultural foundation that must be sought in the reemergence within the British political elite of the old tension between the ideals of the "good society" and the "good person." This tension was reflected in Berlin's (1969) two concepts of liberty: the fundamentally positive "socialist" one, and the fundamentally negative "liberal" one. For those who believed that the ideal of the "good society" had overcome that of the "good person," privatization should have contributed to the destruction of the "dependency culture." Moreover, the latter was the degeneration, or perhaps the inevitable consequence, of an excess of positive liberty (i.e., the freedom from destitution and poverty that was one possible justification of the welfare state and the public provision of basic goods and services through the nationalized industries). Maybe: But why did these ideas, which were certainly not new, become popular at the end of the 1970s?

It has been claimed that neoliberal ideology, of which privatization is an essential ingredient, became popular because of a crisis of the Keynesian-type economic policies. This crisis occurred in the context of a crisis of accumulation sparked by the oil shocks of the 1970s. According to Foreman-Peck and Millward (1994), this policy shift could be traced back to high unemployment coupled with high inflation in the mid-1970s, a combination of macroeconomic diseases that could not be cured through Keynesian demand management. A more specific view is put forward by Galal et al. (1994, 173):

> The UK divestiture program of the 1980s arose because of a decline in the efficacy of government management of public corporations. Over the 1970s this became especially acute, with successive governments facing conflicts between macroeconomic and microeconomic objectives. The macroeconomic pressures diminished the availability of investment funds and exerted pressure for monopoly pricing; both these results were in direct conflict with underlying microeconomic principles. This ultimately led to the introduction of a large-scale divestiture program.

These explanations are interesting, but probably incomplete. Privatization was in fact part of a broader agenda.

If we look back to the parallel growth pattern of industry and state in Britain since early Victorian times, the neoliberal agenda was probably more than a break in the postwar social policy. It was an ambitious attempt to revive a golden age of individualism, reversing a secular trend. Privatization should be examined as part of this public-policy project.

1.3.2 Privatization Policy: Facts and Interpretation

In October 1979, only a few months after coming into power in May, the Thatcher government inaugurated its privatization program with the sale of 5 percent of the shares in British Petroleum, which was already listed on the stock exchange. As previously mentioned, a Labour government had done the same thing some years before. Between 1979 and 1983, the years of the Conservatives' first term in office under Thatcher, twelve public firms were partially or totally privatized, and the sale of council houses was launched. These early divestitures were of relatively small companies, some of which had been supported by the National Enterprise Board.

The Thatcher government's second term, 1983–1987, saw the privatization of twenty-four major state-owned enterprises. In its third term, 1987–1991 (the last for Thatcher, who resigned in November 1990), forty major corporations were privatized, including the twelve regional electricity companies and the ten water and sewerage companies. The two successive terms of Conservative government, under John Major, saw the almost complete integration of the program.

We can identify four methods of privatization practiced in Great Britain under the governments of Thatcher and Major and subsequently widely copied abroad: placement of a corporation on the stock exchange, with an initial fixed price by public offering or with a minimum price tender (accounting for around 40 percent of British privatization operations); employee or management buyouts (25 percent); trade sales (30 percent); and private placement (5 percent). In some cases, there was a bulk sale of 100 percent of the corporation's shares (for example, British Airways); in other cases the operation was split into installments (British Telecom). In some companies, the government remained a shareholder with special powers through the "golden-share" formula (British Aerospace, British Airports Authority, British Gas, and British Telecom). The special, "golden" shares that the government held were formulated differently from case to case; in general they gave the Treasury the power to block hostile takeovers or acquisitions by foreign investors in some sectors, usually only for a limited period.

Ex post, the privatization program could be said by its supporters to have had a number of results. The large majority of British public firms were sold off. Over a million employees were transferred to the private sector (in 1979, public firms in Britain employed around 1.5 million people). The percentage of GDP attributed to public firms, which was originally over 9 percent (more than 11 percent of fixed investments), fell to less than 3.5 percent in 1990 (investments dropped below 3 percent). The percentage of the workforce employed in the public sector, which was 7.2 percent in 1979, had fallen to just 1.9 percent in 1992, and presumably was less than 1 percent in 1997.

The main sectors involved in the privatization effort were energy, transport equipment and services, telecommunications, and water. Some other specific sectors such as steel (British Steel) were also involved. A hodgepodge of particular firms were also privatized (e.g., hotels belonging to the railways and some factories producing arms).

An estimate of the government's gross receipts from the divestiture of public corporations and sale of debt is in the region of £86 billion (see appendix) in constant sterling (1995). In one particular year, 1989, receipts from privatization were the equivalent of 4 percent of the British public debt. Whereas in 1979 the British government had to provide for the financial requirements of public firms by way of loans to the tune of £3 billion, privatization greatly reduced those requirements. Furthermore, although the real return on equity in the nationalized sector was close to zero in 1979, privatized firms would have had a higher average profitability than the share market. In turn, higher profits would have generated additional tax receipts for the government through corporate taxes.

Privatization should have facilitated liberalization in some sectors previously in a public-monopoly regime. This did happen in part, but a new regulated private sector also emerged. The regulators of this sector were given broad powers in areas such as the determination of prices, transfer of ownership, specification of the services that the firms were required to provide, and qualitative standards for those services. At the end of the privatization process, the regulated industries accounted for capital of £80 billion and 400,000 employees.[6]

Despite the initial doubts of some financial experts regarding the capacity of the stock exchange to absorb the share placements of the privatized firms, private national investors showed themselves more than willing to absorb the issue of shares. In fact, generally they were oversubscribed. This created an army of millions of new, small shareholders. Between 1979 and 1993, the number of individual shareholders in British corporations rose from three million to over eleven million, or from 7 percent to 22 percent of the total adult population. Moreover, perhaps 90 percent of the employees of privatized firms purchased shares of the firms in which they worked. The demutualization of some building societies[7] and other mutual life assurance companies is relevant here (the demutualization of Abbey National was a prominent example, resulting in the creation of millions of new shareholders).

As a result of privatization, there were significant reductions in prices in real terms and improvements in the quality of the service provided in telecommunications, gas, electricity, air transport, and so on. In contrast, there were sizeable increases in prices in the case of water. On the other hand, as we shall see, the interpretation of the data on prices and productivity is a delicate and controversial subject.

To the promoters of privatization and their followers, this record of achievements was beyond doubt a success story and a major opportunity for changing the pattern of British economic history.

1.3.3 The Historical Perspective

The privatization policy of the Conservative governments in the period under study consisted of a hodgepodge of declared objectives. Literature on the subject, partly based on official documents (H.M. Treasury 1989, 1993) or on declarations by government representatives, including biographies of key politicians (Thatcher, Lawson, Ian Walker, Cecil Parkinson), have identified lists of varying numbers of objectives. For example, Miller (1995) identifies thirteen objectives based on twenty-four empirical works (a rather heterogeneous sample as regards quality and coverage):

- reduce the size and scope of government
- reduce government control of business
- reduce political interference in management decisions
- free government funds
- create a free-market economy
- promote domestic investment
- benefit the economy through higher returns on capital in private business
- generate new sources of tax revenues
- reduce the government budget deficits
- broaden domestic equity ownership
- promote equity ownership among employees
- provide consumers with improved service, better quality, more choices, new products, and lower prices
- improve the efficiency and performance of the privatized firms through competition or other means.

According to Miller, there was perhaps a fourteenth objective, which was never made official: to reduce the power of the trade unions. There is little doubt that privatization and contracting out actually had this more or less hidden objective as well.

I take a closer look at each of these objectives and the evaluation of the results in later chapters. The evidence of a great success in achieving these objectives appears to many to be so overwhelming that any further analysis is deemed superfluous. *The Economist* (1995), however, offered the following commentary:

> One of the Conservatives' clearest triumphs over the past 15 years has been the privatization of state-owned companies. Fat nationalized industries have been transformed into fit and profitable enterprises. Huge subsidies have been eliminated. The prices of phone calls, electricity and gas have dropped in real terms. Services have improved strikingly. Eager to learn from this success, scores of governments have studied the British example and much of Europe is now following in Britain's footsteps. Curiously, the only group which remains unimpressed is the British public. Many Britons still do not believe they have benefited from privatization.

On a more general level, one could ask what legacy the policies developed and implemented in accordance with the policies of five Conservative government passed on to the following generation and what the relationship of those policies was with previous history. From this angle, four points are important: trends in public spending and taxation, distribution of incomes, national productivity, and regulation.

John Hills (1998) observes that New Labour, which came into power in May 1997, inherited a welfare state that was in some ways different from that of 1979 but nonetheless had surprising elements of continuity with the welfare state of that time. The share of public spending on GDP in the crucial sectors of the welfare state (education, health, social security, housing, personal social services) had risen slightly between 1979 and 1997, a surprising result from the point of view of those who had declared the objective of rolling back the state to be an absolute priority. Although spending on housing and education diminished over the two decades, spending for social security increased more than proportionally. Table 1.3 shows the breakdown of public expenditure in Britain by functions as a percentage of GDP since 1890. Table 1.4 offers the breakdown of social expenditures in Britain since 1960.

If public spending is considered as a whole, the Conservative governments of the period achieved a modest reduction of the expenditure/GDP ratio, mainly through cuts in spending for public investments, which dropped from 6.4 percent of GDP in 1975 to 0.9 percent in 1997. Furthermore, on a long-term view, the breaking point in the growth of government spending came in 1976, under a Labour government, because of the conditions imposed by the IMF on the granting of its emergency loan.

Figure 1.1 shows the long-term trends of British GDP and public expenditures. Figure 1.2 shows expenditures as a percentage of GDP in the United Kingdom since 1850. Evidence suggests that public expenditure growth closely correlates to output growth since the beginning

Table 1.3
Breakdown of public expenditure in Britain by functions (percentage of GDP)

Year	Administration and other	National debt	Law and order	Defense	Social services[a]	Economic services	Environmental services	All services
1890	1.07	1.62	0.61	2.37	1.85	0.98	0.34	8.87
1895	1.05	1.47	0.54	2.78	2.56	1.19	0.48	10.13
1900	0.85	1.01	0.51	6.98	2.62	1.88	0.62	14.53
1905	0.94	1.17	0.54	3.02	3.26	1.88	0.66	11.54
1910	1.00	0.91	0.58	3.35	4.01	1.70	0.65	12.25
1915	0.79	1.70	0.40	21.13	2.75	1.05	0.37	28.25
1920	1.16	5.26	0.54	8.42	6.67	3.29	0.41	27.38
1925	1.28	6.57	0.69	3.57	10.82	3.17	0.65	26.75
1930	1.07	6.59	0.67	2.74	11.89	2.69	0.73	26.38
1935	1.07	5.52	0.72	2.70	14.05	2.72	0.92	27.69
1955	1.49	3.99	0.61	8.90	11.60	3.57	0.81	30.98
1960	2.20	3.80	0.78	6.92	13.74	5.70	1.25	34.47
1965	1.66	3.86	0.94	6.14	16.00	5.98	1.52	36.09
1970	2.38	3.96	1.09	5.38	15.58	7.21	1.83	40.33
1975	5.15	3.76	1.38	4.79	18.31	5.71	1.95	43.66
1980	3.17	4.36	1.51	4.72	23.99	4.73	1.60	44.08
1985	3.02	4.90	1.76	5.17	25.06	4.58	1.13	45.63
1990	3.40	3.95	1.84	4.40	22.81	2.46	0.86	39.72
1995	3.50	3.15	2.25	3.78	26.27	2.66	0.68	42.28

Sources: 1890–1935: author's elaboration on Peacock and Wiseman 1961; 1955–1995: author's elaboration on Liesner 1989; ONS, n.d.
Note: 1890–1920: yearly data; 1925–1995: five-year-average data.
[a] See table 1.4.

Table 1.4
Breakdown of social expenditure in Britain (percentage of GDP)

	Education	Health	Social security	Housing	Total social services	Total public expenditure
1960	3.4	3.2	5.7	1.9	14.2	34.5
1965	4.1	3.4	6.3	2.2	16.0	36.1
1970	4.7	3.8	7.3	2.5	15.6	40.3
1975	5.5	4.4	8.0	3.7	18.3	43.7
1980	5.5	4.7	10.3	3.4	24.0	44.1
1985	5.3	5.2	12.9	1.7	25.1	45.6
1990	4.9	5.0	11.9	1.0	22.8	39.7
1995	5.3	5.7	14.3	1.0	26.3	42.3

Source: Author's elaboration on ONS (n.d.-a) data.
Note: Five-year averages.

of the period. Moreover, in contrast to widespread perceptions, the ratio of public expenditures to GDP since the late 1960s does not show a clear increasing trend. Between 1920 and 1960 the ratio increased from 20 percent to 40 percent. In the following forty years, it fluctuated around its previous level, with occasional increases in the 1970s best explained by the oil shocks of that time period and other rather exceptional circumstances. From this long-term perspective, it is difficult to attribute a major role in public-expenditure restraint to the Conservative governments after 1979.

A perhaps even more important aspect of the Conservative legacy was that fiscal pressure on the taxpayers did not decrease in the last two decades of the twentieth century. Although there was a reduction in the income tax rate and in other taxes on income, there was an increase in the value-added tax (VAT) and in national insurance contributions. I discuss these trends in chapter 8.

One of the fundamental reasons for the Conservative governments' failure to cut back the welfare state during their nearly twenty years in power was the explosion in the demand for welfare services, especially as a result of the increase in the rate of unemployment among men (the trend was similar for women, but the levels lower), from roughly 5 percent in 1979 to peaks of 13 percent and 14 percent in 1986 and 1993, respectively. At the same time there was in Britain, as there was elsewhere in Europe, a noticeable aging of the population, but also—to a degree that was unparalleled in other European countries—an

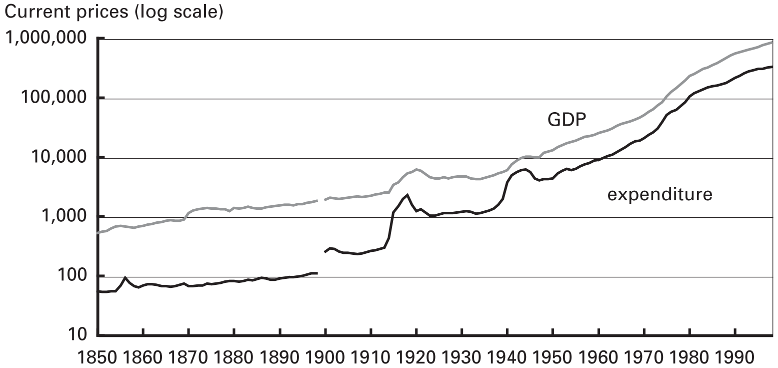

Figure 1.1
Public expenditure and GDP in Britain, 1850–1998.
Sources: 1850–1899: central government expenditure and GNP—Mitchell 1988; 1900–1947: total public expenditure—Middleton 1996; GDP—Liesner 1989; 1948–1998: general government expenditure and GDP—ONS, n.d.-a.

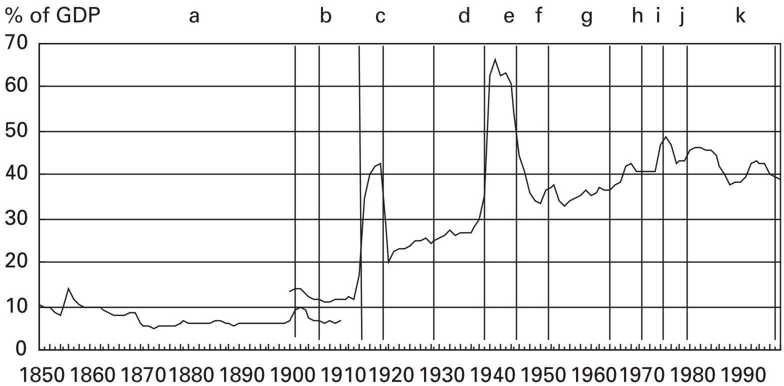

Figure 1.2
Public expenditure as a percentage of GDP in Britain, 1850–1998. a: Victorian age; b: foundation of Labour Party—Lloyd George government; c: World War I; d: the Great Depression; e: World War II; f: Labour government (Attlee); g: Conservative government (Churchill, Eden, Macmillian, Douglas-Home); h: Labour government (Wilson); i: Conservative government (Heath); j: Labour government (Wilson-Callaghan); k: Conservative government (Thatcher, Major).
Sources: 1850–1899: central government expenditure share of GNP—Mitchell 1988; 1900–1947: total public expenditure—Middleton 1996; GDP—Liesner 1989; 1948–1998: general government expenditure share of GDP—ONS, n.d.-a.

explosion of family disintegration and poverty. Between 1979 and 1995 the proportion of lone-parent families with children in Britain doubled, from 12 percent to 23 percent, and 80 percent of these families were dependent on public assistance.

Equally surprising is the fact that the attitudes of the electorate, far from being increasingly supportive of government policies to control spending, actually showed the opposite trend. The results of the British Social Attitude Survey, conducted over a number of years, show that in 1995 over 60 percent of interviewees were in favor of increased taxation and spending, and just 5 percent were in favor of further cuts (Hills 1998). Lawson's pedagogy does not appear to have been very successful.

Seen at this first level, the results obtained by the policies of the Conservative governments were less profound than could have been expected. From the point of view of controlling public spending, privatization played a very modest role (I discuss this in detail in chapters 3 and 8).

On one aspect of the economy and of British society, the politics of the Thatcher and Major governments did have a profound effect: the distribution of income and wealth. As official data show (ONS 2000b), in 1979 the proportion of the British population below 50 percent of median income was slightly more than 5 percent; in 1997, it was around 15 percent. The percentage of the population under 60 percent of median income doubled over the same time period. This dramatic change in the social structure had various causes, including increasing wage inequality, a phenomenon known to a similar extent only in the United States and partly due to the decline in the role of the trade unions (and of minimum wages established by the wage councils); an increase in long-term unemployment and in the number of families dependent on public assistance; changes in the government policies for indexing benefits to the disadvantaged; and a tax policy that was generous with capital income, increased indirect taxation, and diminished the progressivity of the income tax.

At the end of a social experiment that promoted "popular capitalism," in 1996, 1 percent of the U.K. population owned 20 percent of the kingdom's marketable wealth (about £388 billion), and around 50 percent of total wealth was owned by 10 percent of the population. In 1997–1998, around one-third of households had no savings at all, and over half had less than £1,500.[8]

I discuss in chapter 3 the available evidence on output and productivity trends in the United Kingdom. As I show there, it seems difficult to say to what extent the set of economic policies implemented in the 1980s and 1990s affected the country's growth path. I present evidence at the firm level in chapter 4.

If privatization was to have been the prelude to a full restoration of a free-market economy, in which regulation played only a transitory role, then Conservative expectations were in some ways disappointed. Regulation does not seem to be a transitory phenomenon at all. The progressive liberalization in some sectors, for example, in telecommunications and in electricity, was neither a necessary prerequisite for nor a necessary consequence of privatization, as other countries' experience shows. In fact, in some cases it appears that public utilities liberalization in Britain has probably been deferred and limited to pave the way for placing shares on the stock exchange and to preserve the stability of management. Neither does it appear that privatization broke the penetrating role of higher public bureaucracy in these sectors. This role draws its raison d'être from a complex regulatory game between ministries, regulators, and top managers. Ownership of listed corporations may be private, but the actual owners of the corporations are not the great numbers of individual shareholders. Ironically, pension funds, other financial institutions, and foreign groups, including French state-owned enterprises in the electricity and water sectors, now control most of the British privatized industries in those sectors. A new breed of bureaucrats has taken the place of the old one. Quite often, the game they play is not plain competition, and for good economic reasons.

More generally, if the "Thatcher revolution" was a radical attempt to change the secular route of coevolution of state and market in British economic and political history since the Victorian era, as discussed in this chapter, the attempt cannot be said to have succeeded fully. It certainly reshuffled ownership rights and some rules of the game and determined a new social equilibrium, but it did not revive the conditions for a golden age of a free-market economy. Big government and intrusive regulation are still present, wearing new clothes. From this angle, it is interesting to ponder why the result of the social experiment was different from that envisaged by its proponents. To understand this, we must go beyond privatization rhetoric and turn to economic analysis.

1.4 Further Reading

Hannah (1994) offers a review of evidence on the nationalized industries. See also Polanyi and Polanyi 1972 and Polanyi and Polanyi 1974. Hood (1994) has an interesting chapter on possible general explanations for the policy reversal from public enterprise toward privatization. The issue of a "political economy of privatization" is discussed by several contributors in Clarke and Pitelis 1993. Worcester 1994 is an account on the role of marketing and public relations advisors in privatization.

There is a huge scholarly literature on British economic history. In this chapter I have cited just a very small sample. Additional references may be found in Moggridge 1989; Pollard 1978; Ashworth 1991; Tomlinson 1994; Millward and Singleton 1995; Foreman-Peck and Millward 1994; Floud and McCloskey 1993; and Millward 2000, 2002.

Ample literature exists on the Thatcher government's record, including Thatcher's own memoirs (1993) and serious academic research by contemporary historians, public-policy scholars, and other social scientists. Seldon and Collings (2000) provide a short and readable account, with a chronology of 1979–1990, abstracts from selected documents, and a bibliography. See also Browning 1994; Glennerster 2000; Dunleavy 1986; Hare and Simpson 1996; Haskel 1992; Jenkin 1995; Johnson 1991; Kay 1987; Kay, Bishop, and Mayer 1984; Mac Avoy et al. 1989; Miller 1997; and Walters 1989.

Selected case histories include Bailey and Baldwin 1990 for British Airways; Beesley 1996 and Beesley 1997 for the utilities; Bradshaw 1996 for the bus industry; Bradshaw 1997; Bradshaw and Lawton-Smith 2000; and Welsby and Nichols 1999 for rail and transport; see also Estrin and Whitehead 1987; Foster 1992; and Hoopes 1994 on oil assets. On postal services, see Waterson 1992 and London Economics 1994. For a survey of liberalization in the United Kingdom, see Pollitt 1999; Ramanadhan 1988; and Yarrow 1993.

Appendix

Table 1A.1
Privatization database (1979–1997) (constant 1995 million pounds)

	Business	Years privatized	Methods of privatization[a]	Proceeds[b]
Amersham International	Chemicals	1982	FPO	124.0
Associated British Ports holdings	Transport	1983	FPO	83.3
Associated British Ports holdings	Transport	1984	TO	83.9
Atomic Energy Authority Technology	Energy	1996	FPO	204.6
Belfast International Airport	Transport	1994–1997	MBO/EBO	48.0
British Aerospace	Manufacturing	1981; 1985	FPO	633.4
British Airports Authority	Transport	1987	FPO + TO	1,697.2
British Airways	Transport	1987	FPO	1,262.2
British Coal	Energy	1994–1997	TS + MBO/EBO	937.4
British Gas	Energy	1986–1993	Redemption of debt	3,259.0
British Gas	Energy	1986	Sales of shares: FPO + TS	7,568.0
British Petroleum	Energy	1979	FPO	691.7
British Petroleum	Energy	1983	TO	940.3
British Petroleum	Energy	1981; 1987–1990	Public offer	7,014.2
British Steel	Steel	1988	FPO	3,151.5
British Sugar Corporation	Manufacturing	1981	TS	85.3
British Technology Group	Manufacturing	1992	MBO/EBO	27.5
British Telecom	Telecommunications	1984–1987	Loan stock	1,389.0
British Telecom	Telecommunications	1986–1989	Redemption of preference shares	1,075.6
British Telecom	Telecommunications	1984; 1991; 1993	Sales of shares: FPO + TO	16,873.4
Britoil	Energy	1985	FPO	665.6

Britoil	Energy	1982	TO	1,112.4
Cable and Wireless	Telecommunications	1981; 1985	FPO	1,252.3
Cable and Wireless	Telecommunications	1983	TO	455.4
Chessington Computer Centre	Services	1996–1997	MBO + TS	10.6
DTELS (formerly Home Office Directorate of Telecommunications)	Telecommunications	1993–1994	TS	5.2
Drivers, Vehicles, and Operators Information Technology (Department of Transport)	Services	1993–1994	TS	12.4
Electricity companies[c]	Energy	1991–1995	Redemption of debt	2,406.9
Electricity companies: England and Wales[c]	Energy	1995	Sales of shares: FPO	11,327.9
Electricity companies: Scotland[c]	Energy	1991	Sales of shares: FPO	2,915.4
Enterprise Oil	Energy	1984	TO	631.8
Forestry Commission	Forestry	1982–1995	TS	279.1
Forward	Services	1993–1994	TS	4.1
General Practice Finance Corporation	Services	1989	TS	90.3
Harland and Wolff	Manufacturing	1989	MBO/EBO	10.1
Her Majesty's Stationery Office	Manufacturing	1996–1997	TS	1.9
Insurance Services Group	Services	1991–1992	TS	18.0
Land Settlement Association	Services	1983–1987	TS	35.2
Motorway Service Area leases	Services	1982–1993	TS	31.5
National Enterprise Board holdings	Various	1979–1980	TS	647.6
National Freight Corporation	Transport	1982	MBO/EBO	9.7
National Seed Development Organisation	Agriculture	1987	TS	93.6
National Transcommunication Ltd.	Telecommunications	1991	TS	76.9
Northern Ireland Electricity[c]	Energy	1992–1993	Redemption of debt	72.5
Northern Ireland Electricity[c]	Energy	1992–1993	Sales of shares: FPO + MBO + TS	725.8

Table 1A.1
(continued)

	Business	Years privatized	Methods of privatization[a]	Proceeds[b]
Nuclear power industry[c]	Energy	1996	FPO	653.3
Professional and Executive Recruitment	Services	1988–1999	TS	6.7
TSA (building management)	Services	1993	TS	20.6
Railtrack[c]	Transport	1996	FPO	2,235.7
Recruitment and Assessment Services	Services	1996–1997	TS	6.7
Rolls-Royce	Manufacturing	1987	FPO	1,485.2
Rover Group	Manufacturing	1989–1990	TS	188.6
Royal Ordnance Factories	Manufacturing	1987	TS	267.7
Short Brothers	Manufacturing	1989–1990	TS	37.7
Transport Research Laboratories	Transport	1996–1997	TS	2.9
Water	Water	1989–1990	Redemption of debt	91.8
Water[c]	Water	1989	Sales of shares: FPO	3,896.3
Wytch farm (British Gas Onshore Oil Association)	Energy	1984–1985	TS	178.8
Privatized companies' debt, various	—	1992–1998	—	4,091.1
Residual share sales, various	—	1995–1998	—	1,907.6
Miscellaneous	—	1979–1997	—	813.9
Total	—	—	—	85,926.5

Sources: H.M. Treasury 1997c, table 3.13; ONS 2000c, table 2.1G; Vickers and Yarrow 1988a; Bishop, Kay, and Mayer 1994; Veljanovski 1987; NAO, various years.

[a] Methods of privatization: FPO: fixed-price offer; MBO/EBO: management/employee buyout; TO: tender offer; TS: trade sale.

[b] Proceeds (1995 prices) are Treasury net proceeds deflated using GDP deflator (1995 = 100).

[c] Detailed data about electricity, rail, and water companies are provided in table 1A.2.

Table 1A.2
Gross proceeds from privatization of water, electricity, and railways companies

Company	Date privatized	Gross proceeds (millions of pounds, current prices)	Gross proceeds (millions of pounds, 1995 prices)
Water Companies			
Anglian Water	December 1989	707	904
Northumbrian Water	December 1989	157	201
North West Water	December 1989	854	1,092
Severn Trent	December 1989	849	1,086
Southern Water	December 1989	392	501
South West Water	December 1989	293	375
Thames Water	December 1989	922	1,179
Welsh Water	December 1989	346	442
Wessex Water	December 1989	246	315
Yorkshire Water	December 1989	472	604
Total (water)		5,238	6,699
Electricity: Regional electricity companies (RECs)			
Eastern Electricity	December 1990	648	770
East Midlands Electricity	December 1990	523	621
London Electricity	December 1990	523	621
Manweb	December 1990	285	338
Midlands Electricity	December 1990	503	597
Northern Electricity	December 1990	295	350
Norweb	December 1990	415	493
Seeboard	December 1990	306	363
Southern Electricity	December 1990	648	770
South Wales Electricity	December 1990	244	290
SWEB	December 1990	295	350
Yorkshire Electricity	December 1990	497	590
Total		5,182	6,153
Electricity: Generating companies			
National Power	March 1991	2,231	2,482
PowerGen	March 1991	1,367	1,521
Scottish Power	June 1991	1,956	2,176
Scottish Hydro	June 1991	920	1,023
Northern Ireland Electricity	June 1993	726	736
Total (electricity)		12,382	14,091
Railways			
Railtrack	May 1996	1,950	1,888

Table 1A.2
(continued)

Company	Date privatized	Gross proceeds (millions of pounds, current prices)	Gross proceeds (millions of pounds, 1995 prices)
Rolling stock companies (presale dividend)	September 1995	800	800
Rolling stock companies (sale proceeds)	January–February 1996	1,822	1,764
Freight operators	September 1995–March 1997	255	247
Track renewal	February–July 1996	48	46
British Rail infrastructure service companies	February–May 1996	171	166
British Rail Maintenance Ltd.	April–June 1995	32	32
British Rail Infrastructure Services Design Offices	July–December 1995	8	8
British Rail Central Services	February 1994–December 1996	70	70
Other companies	1995	144	144
Total (railways)		5,300	5,165
Total (water, electricity, railways)		22,920	25,955

Sources: Author's elaboration on ONS, n.d.-b; Hayri and Yilmaz 1997.

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