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The Thatcher privatisation legacy: not quite what she planned?

On April 8th 2013, Baroness Margaret Thatcher (UK Prime Minister 1979–1990) died. Recent obituaries and commentaries have focused on the Falklands War and on her role in breaking the trade unions. However, her greatest and most lasting legacy may have been her programme of privatisation of state-owned industries. Now that the mourning has subsided, Oxera Non-executive Director, Mike Toms, asks whether this programme delivered the changes and the benefits she envisaged

Government initiatives tend to be diluted as they collide with reality—privatisation was unusual in that the ambition grew with each succeeding year, with increasing numbers of industries and companies being added. Early in her role as Prime Minister, Thatcher and her radical new cabinet set out a bold and simple vision of 'rolling back the frontiers of the state',[1] but the starting programme was actually quite modest. In her first term, from 1979 to 1983, no utilities were sold. The first eight flotations were all commercial and/or industrial enterprises operating in competitive markets. They included British Aerospace, Cable & Wireless, Amersham International and the National Freight Corporation. They were accompanied by a large-scale sale of council homes.

It was in her second term that the vision massively widened to the sale of state utilities, starting with British Telecom in 1984, followed by British Gas in 1986, with the British Airports Authority (BAA) a year later and the water companies in 1989. Electricity transmission and distribution companies were sold by Thatcher's successor, John Major, in 1991, and Railtrack in 1997. Meanwhile, the disposal of competitive industries continued apace. British Airways, Rover, Rolls Royce, Jaguar Cars and British Steel all moved into the private sector.

The change to the structure of the UK economy was substantial. The drift to a mixed economy after the Second World War, with the state sharing in business across all sectors, was thrown into a sharp reverse. Over £60 billion of state assets were sold, and the share of employment accounted for by nationalised industries fell from 9% to under 2%.[2] The scale of the social and political transformation was in fact even greater than might appear from the numbers. What Thatcher did was to change attitudes so that the private ownership of public utilities moved from the far right to the centre ground of politics. The measure of this is that during Thatcher's government, the Labour Party moved from complete opposition to privatisation, first to acceptance and then to endorsement, as it started its own sales programme. This change in the conventional wisdom reached beyond the UK—the Thatcher dream created a model of ownership and regulation which has spread around the world. When Thatcher sold BAA in 1987, she probably did not imagine that it would form the catalyst for the privatisation of airports in France, Germany, the Netherlands, Mexico, Australia, New Zealand, India, South Africa and elsewhere.

So did it turn out how she intended? In some ways it is difficult to say, since the rationale for privatisation was never spelled out. Some ex post justifications have been suggested,[3] but the overriding impression at the time was that the programme was visceral and ideological, rather than economic or analytical. Thatcher believed that governments mismanaged companies and stifled creative management, and that the private sector would do a better job. She also believed in a shareholding democracy in which individuals at all levels would own a stake in the economic success of the country through share ownership. This suggested the concept of Britain as a nation of Sids, as a result of the marketing of British Gas shares to blue-collar buyers under the patronising slogan 'Tell Sid'.

Some of the enduring successes of privatisation are clear.

The views expressed in this article are those of the author.

- The first is simply that it survived. Many of the companies floated on the stock market have since changed ownership, but very few have failed and the government has had to step in only twice to re-establish control to deal with a crisis (at Railtrack and National Air Traffic Services, both of which had been sold after Thatcher left office). Those companies that did fail, notably Rover and British Coal, had been in serious decline for many years, and private ownership probably did little more than manage the death at lower cost to the taxpayer.

- A second success was in service to customers. In 1980, the wait for a new phone line could be measured in months; the likelihood of a year of trouble-free motoring in a Jaguar was negligible; a flat bed in business class on British Airways was the stuff of dreams; and a train that was on time was a cause for celebration. We all still complain about the services from utilities, and customer service has still not reached fully satisfactory levels in all cases, but in truth privatisation and competition have transformed what we receive.

- A third gain was in investment in the renewal of infrastructure. Access to capital markets and freedom from public spending limits have allowed utilities to renew and expand their assets more quickly. In 1985, the British Airports Authority found itself being instructed by the government to put off the build of the new Gatwick North terminal simply to comply with the government's artificial public spending limits, whereas, under the current regulatory system, BAA would be penalised for such a delay. The process was helped by the emergence of a whole new financing model in the form of infrastructure funds, which were borne out of utility privatisation and unlocked major new sources of capital.

Of course, reliance on private capital had some less attractive consequences. Projects are now deliverable only if they make commercial returns, and the government is less able to make companies deliver schemes on public policy grounds. If it still owned the electricity generation industry, it would not be having to wait for the board of EDF to secure the next generation of nuclear power stations.

Other events turned out in ways that had not been expected—and which Thatcher would probably have loathed.

The dream of a nation of small shareholders fell victim to the workings of the market. Small investors proved to be astute capitalists. Although millions subscribed for the new shares, many simply 'stagged' the share issues, selling out at handsome profits at the end of the first day's trading. All the floated companies saw a gradual shrinkage of their registers as small shareholders took profits. In due course, many of the new companies became private. Of the ten water and sewerage companies floated on the stock market, only three remain listed. BAA is now mainly Spanish, and Jaguar is Indian. I doubt that Thatcher would have smiled benignly on the notion that so many British companies should fall so quickly into foreign ownership.

Herein lies a particular irony. Thatcher would have been proud that her privatisation vision caught on overseas and became an integral part of domestic economic policy in countries as far apart as New Zealand and Argentina. I suspect that she would have been aghast to see that privatisation in many European states was seized on to balance budgets to allow the creation of the euro. She would probably be even more distressed to see it now being deployed across the weaker eurozone economies to hold the euro together.

Thatcher understood from the outset that she could not simply privatise monopolies without establishing mechanisms to protect consumers, but the creation of intrusive regulatory agencies closely monitoring and second-guessing the management of those companies would have been anathema to her. She wanted government agencies to get out of commercial decision-making, and found the solution in the notion of 'light-touch' regulation, based on ex ante price controls. A simple constraint on total prices was set for a number of years and the regulator left the company to get on with its affairs until a simple resetting process for the next period. The system was to be administered by professional regulators, drawn from outside the civil service, independent of government, and supported by small offices of experts. In the event, political independence has been fiercely maintained by the regulators, but the job has proved more complex than had been imagined and there has been a gradual descent into a level of oversight which I doubt very much she had envisaged. The 593 staff now employed by Ofgem[4] would probably have surprised and disappointed her.

Thatcher's view of regulation has to be considered in the context of her view of the role of competition in the future of the privatised industries. Indeed, the adoption of RPI – X for the first utility sale at BT was seen as a temporary tool that would wither on the vine as competition emerged. That apart, looking back it is surprising how little attention was given to the structuring of privatisations to foster competition. In the early privatisations it was judged to be more important to attract investor interest in well-known names and businesses than to offer new untested industry structures and companies to the market. Thus British Gas was sold as an unreconstructed vertical monopoly, and the London airports were floated as a single entity, despite backbench pressure to break them up into 'competing' businesses. In both cases, the monopoly proved unsustainable (although for different reasons), and regulators intervened to override the privatisation structure. In the case of British Gas this happened quite quickly, and the process informed the later sale of the components of the electricity industry. Although Thatcher might not have intended this outcome, I suspect she would have welcomed it.

Whatever the shortcomings—and we should remember that privatisation was a bold and radical programme—Baroness Thatcher can be said to have changed the industrial structure of Britain and of many other countries, and created a new orthodoxy of ownership that has proved both enduring and adaptable. The vision she created has survived her death and gained an enduring momentum as we contemplate the privatisation of Royal Mail, a project which she did not dare to propose even in her prime. Had any of her ministers even dreamed of the nationalisation of the banks, they would have had to wake up to apologise!

Mike Toms

[1] Lawson, N. (1980), *Economy: the New Conservatism*, Centre for Policy Studies, London, August, reproduced by the Thatcher Foundation, available at: http://www.margaretthatcher.org/commentary/displaydocument.asp?docid=109505.
[2] Cook, P. (1998), 'Privatisation in the UK: policy and performance', chapter 12, in D. Parker (ed.), *Privatisation in the European Union: Theory and Policy Perspectives*, Routledge.
[3] HM Treasury (1995), 'Privatisation – sharing the UK experience'.
[4] Ofgem (2012), 'Annual Report and Accounts 2011/12', July.

If you have any questions regarding the issues raised in this article, please contact the editor, Dr Leonardo Mautino: tel +44 (0) 1865 253 000 or email l_mautino@oxera.com

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