Oxera

Agenda

Advancing economics in business

The Thatcher privatisation legacy: an insider's view

In May's *Agenda*, Mike Toms looked back on the huge—and, in some respects, unintentional—consequences of Margaret Thatcher's mission of privatisation. Graham Mather was an influential figure in Thatcher's inner circle, first as Head of Policy at the Institute of Directors, then as Director General of the Institute of Economic Affairs, and latterly as a Member of the European Parliament. He shares his personal perspective on why and how the privatisation programme emerged and grew

The 1979 Manifesto on which Margaret Thatcher came to office had been a bland and conventional document that omitted any radical reforms to the nationalised industries (or, for that matter, trade unions). The first impulse for privatisation was the catastrophic underperformance of the nationalised industries in the early 1980s, especially British Leyland and British Steel, which had a traumatising and galvanising effect.

This was not initially channelled into privatisation. A lot of time was spent on innumerable departmental, Monopolies and Mergers Commission (MMC) and National Audit Office (NAO) inquiries into why the nationalised industries were underperforming so badly. These eventually gave way to rather woolly notions of recapitalising the businesses through bonds (the famous BT Buzby Bond) and various half-baked schemes such as Allied Steel and Wire—which was to be a 50% private, 50% public body (although the governance challenges of this were never satisfactorily resolved).

A leading component of privatisation was the Nationalised Industries Study Group at the Centre for Policy Studies, of which I was a member, and of which the organisational leading spirits were John Redwood and John Hatch. This group began to develop a matrix of the different nationalised industries and the possible solutions to their problems, most of which involved privatisation in some form. Hatch was especially interested in water as I recall.

These ideas were fed into Downing Street, initially through Sir John Hoskyns as Head of the Number 10 Policy Unit. Accompanying them was a strand of wider share ownership work developed by Nigel Vinson. Michael Grylls MP was also active in both the wider ownership and privatisation idea developments.

Thinking back politically now, it seems to me that two strands coincided in around 1983. One was the failure of nationalised industries to respond to treatment, and the increasing dissatisfaction of their chairmen—gathered together in the Nationalised Industries Chairmen's Group—that various Treasury, MMC, NAO departmental and other controls being placed on them in an attempt to get their accounts back in order were making the operation of their businesses impossible. There was a point at which the mood among the chairmen switched and, instead of defending the traditional structure to the last ditch, they decided that on certain conditions they would entertain the idea of privatisation. The prospect of greater freedom, but also of share options and so on, probably played a part in this.

The other strand is not usually connected with this issue by economists, because it was the lesson learned on the ground from the early sales of council houses. Those of us who fought the 1983 election came back astonished at the political effect of the change of ownership. Even if a handful of houses in a council estate had been sold, the emulation and aspiration effects were profound, and that estate would disproportionately vote Conservative.

Thus the nationalised industry privatisation matrix (Redwood and Hatch) and the wider ownership message (Vinson and Grylls) came together, and there was a preparedness to entertain more radical ideas. Mike Forsyth had been looking at the privatisation or contractualisation of municipal services in the USA and

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

this also had an impact—the fact that the fire service in Scottsdale, Arizona was run by private contractors attracted interest and attention if not, so far, emulation.

As I recall, Thatcher personally tended not to get involved in the detail of privatisation, leaving it to the relevant Secretaries of State, who had a relatively free hand in designing the competitive structure that would prevail at the time of privatisation. Moreover, there were obvious differences between the approach at BT (which had a clear path to competitive entry, although privatised largely as a monopoly); British Gas (where the clear path was not designed by Peter Walker, Secretary of State for Energy, and had to been retrofitted by the competition authorities); electricity (where Cecil Parkinson, Secretary of State for Trade and Industry, designed quite a durable system); and eventually rail (which, in my opinion, went too far in attempting early competition and would have been better handled along the lines of the BT privatisation).

The fact that departments were relatively powerful, and the centre—notwithstanding close Treasury interest and enthusiasm—was not as strong as might be imagined, does explain some of the structural problems that followed. It may also be why the rationale for privatisation tended to be provided by those around the Centre for Policy Studies, the Adam Smith Institute and, to some extent, the Institute for Economic Affairs—ie, the pamphleteers, rather than the ministers and officials. In this connection, economist Cento Veljanovski was an early and powerful contributor, bringing to bear an international understanding of law and economics and of privatisation in other jurisdictions. Keith Boyfield played an important part in securing the Labour Party's adoption of privatisation following the 1997 election victory and, in collaboration with Steve Robson at the Treasury, produced a weighty compendium that demonstrated the results of privatisation thus far and drew up a handy guide to what might be next on the list, a guide which was indeed followed by Gordon Brown's Treasury.

Returning to Mrs Thatcher herself, another area in which, in my experience, she never showed huge interest was that of the economic regulators, then in the form of Directors General. She showed considerable respect for individuals such as Sir Bryan Carsberg, Director General of Telecommunications, and Stephen Littlechild, Director General of Electricity Supply, but, to my mind, tended to leave them to get on with it and was also rather inclined to leave the competition authorities to their own devices.

One final tale out of school was that when I was appointed to the MMC in 1987, a leading member of the government came along to its general meeting and explained to us that a number of French firms were attempting to buy up our water companies. As we could not do the same in France, he said, he knew that we would do our duty when these matters were referred to us. I pricked up my ears as we left the meeting to hear what the members would say about this. Indeed, as they filed out they were muttering to one another that it was quite inappropriate for a Secretary of State to tell them what to do; they would decide the cases under the Act;[1] and, as I recall, all of them were in due course cleared on competition grounds under the then-prevailing public interest test. I don't think that, on this occasion, the politician in question was speaking directly as his mistress's voice, and in due course someone she regarded as rather more reliable, Norman Tebbit, introduced the Tebbit Doctrine which prioritised competition against other public interest concerns. It is only more recently, of course, that some elements of national preference have entered British competition law, brought about, ironically, by an EU-friendly Labour government.

Graham Mather

[1] The Monopolies and Mergers Act 1965, which was replaced by the Competition Act in 1998.

Thatcher's contemporaries

- *Keith Boyfield*: Research Fellow at the Centre for Policy Studies
- *Gordon Brown*: Chancellor of the Exchequer (1997–2007)
- *Sir Bryan Carsberg*: Director General of Telecommunications (1984–92)
- *Mike Forsyth MP*: Parliamentary Private Secretary to the then Foreign Secretary. Under-Secretary of State at the Scotland Office
- *Michael Grylls MP*: MP for North West Surrey (1974–97). For 16 years, Chairman of the Conservative MPs' Trade and Industry Committee, and of the Small Business Bureau
- *John Hatch*: Management Consultant, Deloitte Haskins & Sells
- *Sir John Hoskyns*: Head of the Number 10 Policy Unit
- *Stephen Littlechild*: Director General of Electricity Supply (1989–98)
- *Cecil Parkinson*: Secretary of State for Trade and Industry & President of the Board of Trade (1983)
- *John Redwood MP*: Head of the Prime Minister's Policy Unit. Parliamentary Under-Secretary in the Department of Trade and Industry for Corporate Affairs
- *Steve Robson*: Second Permanent Secretary at HM Treasury until 2001. Previously Private Secretary to the Chancellor of the Exchequer
- *Norman Tebbit*: Secretary of State for Trade and Industry & President of the Board of Trade (1983–85)
- *Cento Veljanovski*: research and editorial director of the Institute of Economic Affairs (1987–91)
- *Nigel Vinson*: Co-founder of the Centre for Policy Studies
- *Peter Walker*: Secretary of State for Energy (1983–87)

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

Other articles in the June issue of *Agenda* include:

- **behavioural economics and its impact on competition policy: a practical assessment**
- **how many mobile network providers do we need?** ***Bruce Lyons, University of East Anglia***
- **squeezed and damaged: follow-on damages actions in margin squeeze cases**

For details of how to subscribe to *Agenda*, please email agenda@oxera.com, or visit our website

www.oxera.com