'One of Britain’s most successful exports': 
the origins of the British privatisation strategy

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A paper presented to the XIV International Economic History Congress, Helsinki, Finland, 22 August 2006.

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When Margaret Thatcher undertook a tour of Asia in 1992, about two thirds of Britain’s nationalised industries had been privatised and her successor, John Major, was making plans to sell-off British Rail with British Coal to follow. For Thatcher, happy to outline the principles of Thatcherism to the ‘Asian Tigers’, who were particularly interested in her economic gestalt, privatisation had become ‘one of Britain’s most successful exports’.³

There was plenty of justification for Thatcher’s remark. UK privatisation had proved a successful export because it amounted a programme to advance liberal economic reform, rather than a miscellaneous set of asset sales, however sizeable. Perhaps the single element which gave the programme a potential worldwide sale was the fact that it extended to the utilities, a sector widely found in state hands and large enough to promise a sizeable impact on economic performance. In this respect it was notably innovative. Some regulatory structures created in the process of privatising utilities were ripe for export, as was the insight that big privatisations could be politically entrenched by selling shares to the public on attractive terms. Of course, entrenchment finally depended on electoral embrace of market economics, but small investor share sales certainly helped along the way.

There has been an excess of literature on the arguments about the rights and wrongs of privatisation, how the state-owned enterprises were privatised and the economic implications of the programme.⁴ Instead, the paper wishes to explore the genesis of what

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⁴ Florio, The great divestiture; Saunders and Harris, Privatization; Bishop, Kay and Mayer, ‘Privatization’, Clarke and Pitelis, Political economy; Foster, ‘Rival’; Kay and Thompson, ‘Privatisation’.
has been referred to as the ‘flagship’ or ‘jewel in the crown’ of Thatcherism. The origins of the UK programme have barely been examined in the literature with even one of its greatest champions, Nigel Lawson, circumspect as to its origins. Some conclusions have been reached by default, in particular, the fact that there was no significant commitment to privatisation in the 1979 Conservative Manifesto has led some to conclude that UK privatisation was shallow in conception, less a programme than an expedient adopted after the formation of the Thatcher Government to meet public expenditure targets. This suggestion has come from a range of sources and does sit a little uncomfortably with criticism that the Thatcher Governments were excessively doctrinaire in their economic policy. Indeed, as John Vickers has pointed out, there is an illusion in the argument for reducing the borrowing requirement by privatisation because ‘in macroeconomic terms, it ought to matter little whether a firm is in public or private ownership, when it does a given amount of borrowing’. A tendency exists, then, to impeach the degree of Tory commitment to privatisation, both in respect of depth of motivation and breadth of purpose.

The documents and sources that are becoming available to researchers help us to begin to form some judgment of what the Conservatives were thinking and planning in Opposition, 1975-79. Thatcher’s papers up to 1979 have been open since 2003 and are still largely unexplored. We have had access to the archives of the Conservative Party and our full paper makes use of these and correspondence and interviews with former economic advisers and Ministers involved. Based on the evidence so far, our principal conclusions are that key figures within the Conservative leadership were always more ambitious than the party’s public commitments suggested. The goal of economic reform did influence Conservative thinking. But this was politically dangerous territory and even proto-Thatcherites moved cautiously. A whole range of tactical arguments coalesced to obstruct Conservative radicalism, with the result that public commitments were minimised. The line was to take a step at a time. There was probably good political sense in this approach for a party in Opposition and it did not mean that Conservatives were shallow in their desire to tackle the issue. On the other hand, although the programme had deeper roots than expediency or happy accident, it was far from completely conceived in Opposition, particularly in relation to utilities. There were intellectual, as well as tactical, constraints bearing on the Conservative position, evident in the party’s internal policy-making. It is

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5 See Gilmour, Dancing, pp. 92-3; Riddell, Thatcher Decade, pp. xx
6 Lawson, View, p. 199. Of the two ‘historical’ as opposed to ‘economic’ account, Stevens, ‘Privatisation’, has used Thatcher’s speeches and Green, Thatcher, pp. 83-101, has used a narrow selection of documents released at Churchill College Archives. Neither account thoroughly examines the evolution of policy within the Conservative Party after 1975.
7 For example see Brittan, ‘The Politics’, Marsh, ‘Privatisation’.
8 Vickers, ‘Privatisation, Regulation and Competition’. 
unlikely that anything ‘exportable’ would have emerged if the Party had stood pat on its (partly concealed) 1979 posture.

Conservatives caution in Opposition

One of the overriding reasons for caution in opposition was quite simply electoral anxieties. This was Thatcher’s dominant concern pre-1979 and her public posture was summarised when she was interviewed for *The Sun* in July 1978. ‘I’m not going to go rushing into mass denationalisation,’ she insisted. ‘The first thing is to get the economy on to a wealth-producing course’. At one point, close to the polls, she even seems to have wanted to remove all reference to privatisation from the manifesto (in favour of mentioning it in a frontbench speech), though she was prevailed upon to leave the commitment in.

Even the committed radical, Sir Geoffrey Howe, was painfully aware of the political impact of drastic decisions in this area. Following a visit to British Leyland in November 1976, he wrote to Keith Joseph that ‘a very large number of seats, in the West Midlands area, must depend upon the votes of British Leyland workers’ and suggested that policy be looked at so as to introduce ‘some more hopeful factor’. For this solid supporter of economic reform, electoral constraints were very close to the surface in any consideration of Conservative industrial policy. Moreover, with Labour threatening further nationalisation (e.g. banking and insurance and building being discussed), which was electorally unpopular, the Conservatives could win a fight on this ground, but risked muddying it by introducing privatisation into the argument. As Keith Joseph remarked in an April 1975 paper, ‘Presumably we do not think that denationalisation is practicable. Who would buy under Labour threats? Can we go half-way – B.P.? We must study.’

Another obstacle, although not directly spelt out, was the initial lack of confidence and cooperation in the City, which was essential to preparation and sale. Support for the Conservatives was shaky amongst the City during 1975, partly because of the legacy of the Heath government. Similarly, some in private industry was also wary of denationalisation. Sir Arnold Hall, chairman and managing director of aircraft manufacturer, Hawker Siddeley, whom Keith Joseph greatly respected, argued that the Conservatives should not commit themselves to ‘total denationalisation of the aircraft industry – since this would only renew uncertainties’, and instead, ‘there are ways in which we can introduce private capital, private

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10 Howe to KJ, 16 Nov 1976, THCR 2/1/1/31.
11 Joseph and Maude, ‘Notes towards the definition of policy’, 4 April 1975.
12 Howe to Thatcher, 16 Dec. 1975, THCR 2/1/1/30.
enterprise disciplines, maximum autonomy from government, which will be effective for all our main purposes’. Joseph account of this to Heseltine (and copied to Thatcher, Howe and Maude) is revealingly lukewarm, showing no sign of a deep commitment to privatisation at this stage whatsoever. Joseph adds that ‘I haven't looked up what we have all said. Our main purpose is to keep talent and enterprise in the industry – and give it some scope’. More generally, there was a great deal of unease with some industrialists wanting to stop sharp changes of policy and mistrusting Conservative extremisms about monetarism. In this atmosphere privatisation was unlikely to be helpful in restoring party finances or Conservative credibility as the friend of business.

Perhaps more fundamentally than any of the above, the divisions in the Party towards denationalisation made it imperative to ‘go slow’. The argument about privatisation was to a significant degree embedded in the most fraught of all political issues of the day: trade union power, because labour resistance to privatisation would raise the issue of ‘confrontation’ between the Conservatives and the unions. It is no accident that when the party’s internal study of nationalised industries – the “Ridley Report” - was leaked to The Economist in 1978, it was the annex on industrial relations in nationalised industries that was seized on. There is little doubt that the consequent controversy rattled Thatcher.

Joseph, Howe and Lawson were more committed reformers at this stage. Indeed, for the Conservative right, this made privatisation all the more necessary: the significance of the state sector unions within the trade union movement meant that the nationalised industry problem and trade union problem significantly overlapped. But it made the policy more dangerous electorally and divisive internally within the Conservative Party. And like most members of Thatcher’s frontbench, they had been marked by the experience of the Heath Government. As Joseph commented of nationalised industry policy: ‘I am very conscious of a reservoir of disenchanted experience among our colleagues’.

There were also divisions within even the right wing of the party. Although the Conservative left was not monolithic – self-made men like Heseltine and Walker have to be distinguished from the rural-paternalists like Prior and Whitelaw – a figure from the right, Nick Ridley, had the lead role on policy and he was cautious, evidently doubting the political will to make serious moves. And like most at this time, he was intellectually unconvinced that

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13 Joseph to Heseltine, 10 Sep. 1976, THCR 2/1/1/38.
14 Plowden to Thorneycroft, 18 July 1975, THA 2/1/1/38.
15 ‘Appomattox or civil war?’, The Economist, 27 May 1978; correspondence with Nigel Lawson [Collins], 7 July 2006.
16 Joseph and Maude, ‘Notes towards the definition of policy’, 4 April 1975.
privatisation could ever reach the utilities. It is interesting to note, that Ridley, seen as being on the radical right of the party, was being scolded as late as 1989 by Nigel Lawson for not making much of a case for water privatisation. Lawson himself (probably the strongest supporter of privatisation at that stage), was still climbing the hierarchy in Opposition.

Another of the problems facing the Conservatives, expressed succinctly by a US financier in a conversation with Joseph, was that Denis Healey was ‘still a determined and shrewd socialist intent on demonstrating the failure of the private sector – as an excuse for nationalisation a la francaise’. Nationalisation would then not appear to be dogmatic but a ‘commonsense’ solution to the problem of lack of investment vitality. This conversation was reported to Howe and may have influenced Howe’s judgment on the party’s strategy. In a note to Thatcher, at the end of July 1976, he indicates that he prefers ‘Conservatism is common sense’ as a foundation for presentation of policy rather than wrapping it all in talk of freedom. He notes that first of our ‘principal themes’ is ‘Wasteful and Excessive Government’. Another ‘Ownership: Council Houses - and the rest’. ‘The case for wider ownership and partnership in industry is important and we should do all we can to make it our own. Home ownership is the best plum in the tin from the Tory point of view’. The documents do not reveal any sense in which during the summer of 1976, Howe sees any electoral potential in privatisation, although spreading ownership and co-partnership are considered major themes.

The course of events is as follows. In July 1975, Joseph asked the Conservative Research Department to check what commitments party had ‘to de-nationalise, amend legislation on nationalisation’ and this was followed in September by a suggestion from Sir Geoffrey Howe for a weekend getaway to discuss ‘broad policy themes and strategies’. In October, David Howell was in the process of setting up a group to examine the subject, but at a meeting of the Economic Reconstruction Group at the end of the month, it was decided that Michael Heseltine and David Jenkin would look at the nationalised industries. Following a special meeting on nationalised industries on 20 November, Joseph urgently sought someone to chair the Nationalisation (later Nationalised Industries) Policy Group. It is interesting that Joseph’s first choice was Maurice Macmillan who was a strong Heathite and near the end of

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17 Lawson, View, pp. 205-6.
18 Joseph to Howe, 19 July 1967, THCR 2/1/1/37.
20 Howe to Joseph, 1 Sep. 1975, THCR 2/1/1/30. The personnel at the getaway were Margaret Thatcher, Geoffrey Howe, Keith Joseph, Jim Prior, Ian Gilmour, John Nott, David Howell, John Biffen, Leon Brittan, Nick Ridley and Ken Clarke.
his career, and perhaps a sign that Joseph had limited expectations from it. Macmillan turned down the offer, so on 5 February 1976, Nick Ridley agreed to chair and began work in March 1976. By July 1976, the group reported to the Shadow Cabinet. Although they had not reached any conclusions, they foreshadowed the 1977 report. In particular, it noted the ‘inherent defects’ within the nationalised industries, with the ‘only solution’ being to return the industries to the private sector although it cautioned against wholesale denationalisation by legislation ‘of the old fashioned variety’. Such stark statements might seem surprising when the list of group members contained no one prominent on the right beyond Ridley himself. However, the ‘main policy’ was stated as planning a ‘more organic and automatic erosion of the public sector of industry’ (hardly very radical) and the suggestion of denationalising the National Bus Company reads more as an act of tokenism than a root and branch attack on the nationalised industries.

It is worth examining Nick Ridley’s paper on privatisation because it demonstrates how the constraints came together to create intellectual problems. Ridley had dealt with this subject matter before, having prepared policy for Heath in run-up to 1970 General Election, and his thinking hadn’t changed significantly. It is fairly plain that Ridley doubted whether Conservative ministers would be able to resist political pressure to interfere in detail and would let unpopular job losses or price rises take place. He detected no stomach for a fight. His report suggested:

- The rejection of price controls, essential to any serious effort to let the nationalised industries manage themselves. (This implied price rises and no means of regulating monopolistic behaviour if the utilities were sold)
- A general rate of return on capital across all nationalised industries to be the sole criterion of performance.
- ‘Fragmentation’: this entirely a wrong road, but key to his notion of what could be denationalised. Ridley suggests breaking businesses down to the smallest possible units for sale, partly because he thinks it will diminish Labour’s hostility by doing so (i.e. he thinks there will be no will for a fight). The highest scope for fragmentation were in the coal, shipbuilding, docks, airports, cars, buses and freight industries. This was hardly a list of prime candidates for sale.

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23 Stevens, ‘Privatisation’, p. 53, assumes incorrectly that the work by Ridley was done in 1978.
24 ‘Interim report of policy group on nationalised industries’, 9 July 1976, THCR 2/6/1/159
• Ridley suggested that in coal, port and airports, ‘we should seek to sell, or form workers’ co-operatives of each pit, port or airport’ and fragmentation would be favourable to ‘a genuine experiment in co-ownership or workers control’.
• Ridley saw little or no scope for fragmentation and hence denationalisation of the utilities. His argument was that you could not extend to public utilities where natural monopolies apply.

**Underlying Conservative commitment to privatisation**

**Philosophical Underpinnings**

Thatcher’s revolution had many aspects, but at its core was a drive to improve economic performance. That goal was to be achieved by creating a stable macroeconomic framework, while increasing incentives (primarily through tax reform) and reducing – where possible eliminating – supply side constraints on growth. A programme of this kind simply had to involve a significant measure of privatization, because in 1979 Britain’s nationalised industries produced almost a quarter of output and constituted organized labour’s strongest fortification. Unsurprisingly, the desirability of shrinking the state sector was the premise of much internal party debate. Economic liberalisation would have made little sustainable progress if the state sector was placed permanently off limits to reform.

Accordingly, if the trade union obstacle was somehow overturned or outflanked, if Labour’s ability to counterattack was diminished, if the Conservatives gained power (and with it the ability to master the issues in detail and influence opinion), then it was entirely to be expected that the party’s position on privatization would shift, as, of course, it did after 1979.

**Margaret Thatcher**

Sources are consistently clear that during Opposition Thatcher’s was a voice of caution on privatization. This was not the result of ignorance or indifference, however. She had a long experience of nationalised industries, especially the utilities – shadowing Fuel & Power as early as 1967-69 – and was sharply critical of their performance (British Gas especially). She was particularly disturbed by their tendency to compete on unfair terms with the private sector.27 Although Thatcher probably saw the argument less in terms of economic reform...
than most, there is no doubt that she was deeply hostile to the nationalised industries and understood the case for reform.

Thatcher’s worries as Leader of the Opposition were electoral. In the Britain of the late 1970s privatization seemed a barely credible programme and detailed proposals would have been a gift to a Labour Party keen to deflect attention from its own performance. But convince her that the sale of state industries was electorally sustainable and she would have no problem whatever. What attracted her to privatisation was not the arguments about the reduction in the PSBR but its wider part in the rolling back of the state. In her autobiography, she notes:

Privatization … was fundamental to improving Britain’s economic performance. But for me it was also far more than that: it was one of the central means of reversing the corrosive and corrupting effects of socialism … Just as nationalization was at the heart of the collectivist programme by which Labour Governments sought to remodel British society, so privatization is at the centre of any programme of reclaiming territory for freedom.28

It would be possible to argue that this is a rosy reflection on a policy which Thatcher did not view in such grandiose terms between 1975 and 1979, but her annotations on the July 1976 report and a 1978 paper ‘The nationalised industries in practice’ show that these issues were close to her thinking at an early stage.

The Case of BNOC

The case of BNOC provides a good glimpse of Conservative thinking and illustrates the reservations about making pledges to privatise while in Opposition. There were difficulties establishing the precise nature of the business/balance sheet obscurities; political hesitations, plus no prospect of support from private industry (still less potential shareholders). Joseph’s report to Thatcher of a meeting in May 1978 with Tom King & Nick Ridley on BNOC show no sign that he was unhappy with King’s stance, which was essentially against any manifesto pledge of privatisation ‘to preserve our total flexibility’.29

There were three reasons for circumspection.

The first was the narrowly technical, namely that there were insuperable difficulties of establishing exact legal implications of the ‘participation agreements’ with oil companies that gave BNOC the right to purchase 51 per cent of all North Sea oil. These were not

28 Thatcher, *Downing Street*, p. 676.
transparent to the Opposition and without knowing them it was felt that powers to control flow of oil in a crisis might have been given away, opening the party up to serious political risks. Secondly, if the Conservatives did pledge to sell off BNOC, ‘Labour would find it easy [to accuse us of] damaging … the national interest as well as to the benefit of the multinationals’. Thirdly, there were concerns that a pledge to scrap or sell BNOC could cause chaos in the oil industry and damage investment. In short, ‘this, of course, is not an argument against doing something about BNOC’s current role. But it is one against making too clear-cut a public pledge without consultation of a kind which is difficult in Opposition’.

The approach suggested by Tom King was to attack BNOC’s privileges and to pledge to remove them, ‘but to leave open the question of its survival in a much attenuated form. … The ultimate fate of BNOC would then have to be decided once we are in office, when we could actually determine how much there is in the argument that BNOC is the only vehicle for retaining the necessary degree of British Government control’. King’s whole approach found favour with Thatcher, who annotated around 27 July that she was against selling BNOC in its entirety and ‘I am very doubtful of the participation agreement’. Adam Ridley minuted Thatcher that this was the reverse of party policy and that the commercial function is ‘not in itself something we object to’ and could be privatised, but at this point Thatcher annotated ‘I do’.

There was no commitment to sell BNOC in the Conservative manifesto and instead an ambiguous formula was chosen: ‘We shall undertake a complete review of all the activities of the British National Oil Corporation as soon as we take office’. But within six years, the state oil industry was gone. During the first Parliament the corporation was split: the valuable exploration and production business was sold, in two stages, in November 1982 and August 1985, while a separate trading business (including the politically sensitive participation agreements) was initially kept in government hands, then quietly wound down.

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30 A week earlier, she had told Shrimsley of The Sun that BNOC should get out of the oil-producing business and stick to its responsibility of policing oil production in the North Sea. See ‘My Way By Maggie’, 18 July 1978, http://www.margaretthatcher.org/speeches/displaydocument.asp?docid=103493
Conclusions

• Conservative reluctance to spell out their policy in Opposition primarily reflected tactical considerations rather than indifference. The premise of internal debate was that privatisation was desirable, circumstances allowing.

• The 1979 manifesto stated the philosophy, ‘more nationalisation would further impoverish us and further undermine our freedom’ and only made a commitment to sell back aerospace and shipbuilding and shares in the National Freight Corporation. Back to Selsdon with ‘we want to see those industries that remain nationalised running more successfully and we will therefore interfere less with their management and set them a clearer financial discipline in which to work’.

• Essentially while in Opposition the game is to leave options open as wide as possible for government.

• No fully formed programme evolved in Opposition and what detailed work was done proved largely irrelevant. Interestingly, Nick Ridley was removed from economic policy-making altogether when the first Thatcher Government was formed in May 1979, going to the FCO.

• Nigel Lawson became Financial Secretary, with direct responsibility for evolving policy on privatisation. His role in pushing the policy was crucial.

• Evolution of the programme in the first term.
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