

26 February 1985

PRIME MINISTER

PRIVATISATION PROGRAMME

It is time to give privatisation another push. There is some inertia creeping into departments, and the problem-mongers are beginning to overwhelm some of the better prospects. Over the life of this Parliament a significant dent could be made in the public industrial sector, leading to more competitive pressures, the breaking up of monopolies, more jobs and more enterprise. And the proceeds will help with the public expenditure and revenue equation.

The principal targets are:

BL: Unipart and Land Rover Leyland vehicles

British Airports Authority: A paper is due in the first quarter of the current calendar year. There has been delay: it is vital to bring it forward if the necessary measures are to be taken in good time to ensure sale.

British Airways: Continuing difficulties with the law suits: more gentle pressure needed.

British Gas Corporation: Fifteen months of delay over whether and how to sell the gas interests and the showrooms.

British Nuclear Fuels Limited: Delayed for policy and political reasons.

British Rail Engineering Limited: BR review of future options has been delayed: now that the miners' strike has proceeded as far as it has, can't this issue be reopened with the management?

Covent Garden Market Authority: Delay in selling Market Towers.

Electricity Supply Industry: Policy action awaiting successful resolution of gas questions.

Forestry Commission: £1,200 million of assets, earning no return, with sales proceeding at a very slow pace. (Around £10 million per annum.) Could be stepped up very considerably, although Forestry Commission will be reluctant.

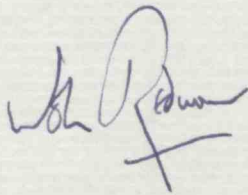
National Coal Board: Open-cast coalmining could be sold, as could National Fuel Distributors, Southern Depot, Horizon Exploration, National Smokeless Fuels, and Environmental and Mechanical Services. Also

substantial land holdings, many surplus to requirements.

National Girobank: Awaiting policy decisions.

Short Brothers and Rolls Royce: Privatisation being delayed by difficulties in returning them to adequate profitability.

Empty Land and Buildings at PSA, DHSS and other Government Departments and Local Authorities: E(DL) agreed to the principle of sales, but progress extremely slow.



JOHN REDWOOD

file
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BM



bc John Redwood.

10 DOWNING STREET

From the Private Secretary

28 February 1985

Privatisation

BSF
The Prime Minister thinks it would be appropriate for E(A) to have a further look in about a month's time at the privatisation programme. She would be grateful if the Treasury could prepare a paper setting out progress to date of putting forward proposals for further action.

I am copying this letter to the Private Secretaries to members of E(A) and to Richard Hatfield (Cabinet Office).

(Andrew Turnbull)

Mrs. Rachel Lomax,
HM Treasury

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10 DOWNING STREET

1. Mr Turnbull ✓

2. Mr Fisher ✓

- to keep.

→ } Puhatsaki file

~~I~~ I am putting a
separate (highlighted)

copy into the Pm's box

- I think she will want
to see it.

Stephen

25/9.

SPEECH BY RT HON ROY HATTERSLEY MP, SHADOW CHANCELLOR OF THE EXCHEQUER AND DEPUTY LEADER OF THE LABOUR PARTY, ON THE EXTENSION OF SOCIAL OWNERSHIP, AT THE SOCIALIST ECONOMIC REVIEW CONFERENCE AT COUNTY HALL, LONDON SE1, AT MIDDAY ON SUNDAY, 23 SEPTEMBER 1984

- 1 The Labour Party re-examines its policy for public ownership about once in every decade. The time has come to start the process again. But this year, the discussion ought not to be about the need to extend the public sector but about the method by which the extension is made.
- 2 Our previous arguments on the subject have been prejudiced by failures of both language and logic. The linguistic complication concerns the word "nationalisation", a term sometimes used to describe social ownership in general and sometimes employed to define one particular form of public enterprise - the state monopoly owned by the Government and managed by a board of ministerial nominees.
- 3 In the public mind the two definitions have become confused. Social ownership - indeed Socialism itself - has become identified with the remote and bureaucratic state corporation. In fact the commitment in Clause 4 of the Labour Party constitution "to secure for the workers by hand and by brain the full fruits of their labour" can be fulfilled in a number of ways. It may mean a state corporation that provides national ownership of a public utility. It may mean a single publicly owned company created to compete with private sector rivals. It may mean worker or consumer co-operatives, which are not the property of the general public at all. All these forms of organisation are embraced by the title social ownership.
- 4 Today I want to argue for an increase in social ownership. But I do not propose an extension of nationalisation. If all we espoused was the creation of more Government monopolies some of our opponents' criticisms might be justified. A society in which a higher percentage of productive capacity

is owned by the state is unlikely to be highly efficient or truly free. Social ownership should give power to the people not to the Government. It is meant to diffuse wealth and influence, not concentrate them in the hands of Ministers and civil servants.

- 5 State monopolies are sometimes justified as instruments of national planning. But in practice what that amounts to is often "rationalisation" and "elimination of surplus capacity" - or in plainer language, closures and redundancies. The fulfilment of the real planning function is best typified by the results of the 1948 Transport Act which undertook to create "an integrated transport system". Thirty years later the integrated transport system is no nearer. But we have closed a large number of railway lines.
- 6 The problems assume an extra dimension when social ownership is extended to manufacturing industry. The management of public utilities at least partly accepts that they were created to behave in a way which distinguishes them from the private gas works and the London Midland and Scottish Railway. On the other hand, British Steel and the Coal Board seem desperately anxious to behave as if they were privately owned.
- 7 Of course, some of the problems of the nationalised industries are less inherent within their structure than imposed upon them by the Government. The NCB does not have to be run by an elderly American who rejects workers' involvement in management with the zeal of a 19th Century plantation owner. Nor does the Government have to set external financing targets for the gas and the electricity industries which increase prices, hold down wages and produce an artificially high profit which is syphoned off and used as a surreptitious indirect tax. But some forms of social ownership would make such Government intervention impossible. If social ownership is to meet the needs of the 1980s and 90s we must create new forms of enterprise which exist independent of Government.

- 8 Nationalisation - monopolies owned by the state and insulated from detailed, parliamentary control - remains the right model for the public utilities. Basic industries, on which the whole economy depends, ought to remain under the control of central Government. And strategically sensitive industries, like oil and airlines, should have within them a nationally controlled company. But that is not an argument against different forms of organisation in different sorts of enterprise.
- 9 The creation of autonomous socially owned companies will provide for our economy the stimulus which it has traditionally lacked - the feeling amongst working men and women that they have a vested interest in the success of the economy. John Stuart Mill was right to say that the people most likely to further the interests of an enterprise are those whose future is most intimately concerned with its success. Those people are not, as we have pretended for the last 100 years, shareholders: they are the employees. Yet in Britain employees are chronically and crucially alienated from interest in their companies' futures. Whilst that alienation continues it will be difficult - perhaps impossible - to solve the problems of this economy.
- 10 The creation of autonomous socially owned companies will not absolve the Government from direct intervention in the economy. Firm competition, prices and location policies will still be needed to ensure that every form of independent enterprise observes national as well as sectoral interests. But we must abandon the idea of a mixed economy in which the public and private sectors are wholly distinct from each other. There are common characteristics in both privately and socially owned companies. The time has come to blur the distinction between the two systems. As well as occupying more of the private sector we need to penetrate the whole capitalist economy.
- 11 We ought to advocate that course of action for reasons which are largely unconcerned with ideology. Of course, the creation of a more equal society is an article of faith. And a

radical change in the pattern of ownership is essential to the achievement of that ideal. But supporters of public ownership are no less economically hardheaded than supporters of private enterprise. Most private companies do not struggle for a level of output where marginal revenue and marginal cost coincide. Many do not even attempt to maximise profits. They prefer arrangements which reduce price competition and thereby increase security, finding non-price competition much more comfortable.

- 12 We seek to extend social ownership into manufacturing industry with the insistence that each new enterprise must operate with competitive efficiency. We cannot afford, politically or economically, to use the public sector as the casualty clearing station of the free enterprise battle ground. Whoever was responsible for attempting to prop-up the night storage heater and soft drink co-operative set back the cause of public enterprise by years. The general rule must be that public firms contribute to the efficiency of the economy. That does not prevent them from being good employers. In future the national investment bank - our successor to the NEB - must invest in private industry in order to make it more efficient.
- 13 In R H Tawney's words "Whether in any particular instant social ownership is desirable or not is a question to be decided in the light not of a resounding affirmative of the virtues of either free enterprise or socialism, but on the facts of the case". The facts of the case in 1984 call for a substantial extension of social ownership though not of centralised state monopolies.
- 14 The object of that extension is threefold:
 - a) to improve the efficiency of British industry by creating the opportunities for and availability of the new investment which private institutional sources have failed to provide;
 - b) to improve price competition by setting the pace in industries which were previously dominated by monopolies and oligopolies.

- c) to involve in the management of businesses of all kinds, the men and women who work within it, thus
- defusing power and influence
 - promoting a commitment to success of the enterprise
 - tapping enthusiasm and skills which are too often wasted.

The achievement of these aims is as important to the consumer as it is to the worker in the socially owned industry. It is monopolies - private and public - which have held prices artificially high and depressed the quality of the product. A commitment to success includes and involves pride in the product which the enterprise is producing.

- 15 We dismiss the objective of tapping enthusiasm and skills as intangible or sentimental at our peril. The world's most successful economies - in societies as diverse as Sweden and Japan - have built on the understanding that the worker has a stake in the firm's success. Yet in Britain we allow our industry largely to be owned by absentee landlords - pension funds, life assurance companies, unit trusts and multinational corporations which are as remote from their employees as 19th Century landlords. Our future depends on British workers believing that British industry belongs to them. That belief can be most easily and honestly encouraged by extensions of autonomous social ownership.
- 16 There is no universal blueprint for every sector or industry. So what we need now is:
- a) single companies, initially owned by the state but rapidly turned into common property by extensions of industrial democracy;
 - b) companies owned or sponsored by local authorities;
 - c) consumer and worker co-operatives.
- But as well as making capital available for enterprises which are wholly socially owned we must provide:
- a) more public investment in private companies bringing with it influence which equity capital always carries;

- b) fiscal incentives, financial assistance and statutory rights for employees who wish to acquire shareholdings in the companies where they work;
- c) the opportunity for workers to exercise increasing influence on the policies of companies which employ them.

The last two objectives are directly related. The share acquisition schemes which we encourage and promote must be more than a technique for paying low tax bonuses to highly paid employees. They must be available to all the work force. And they must carry with them rights to contribute to the policy of the company. By observing those criteria, they become genuine extensions of social ownership.

17 Three forms of social ownership deserve special consideration:

- a) the single socially owned company, competing with the private corporations which make up oligopolies and thus contributing to a more rigorous competition policy. Britain needs tougher monopolies and mergers legislation. But one way of reducing the concentration of power is to take over socially owned counter weights - in banking, brewing sugar refining, the provision of concrete and construction material and construction itself. And since the Government is determined to privatise the clubs in the airlines and oil industries, a substantial public presence must be recreated there. Such new or reformed companies will have to involve the work force in their management. Otherwise they may revert to the old pattern of "nationalised industry", indistinguishable from private companies. But they will break the cosy world of "informal agreements".
- b) The local authority sponsored company may sometimes be a wholly owned enterprise which is the natural horizontal extension of a service which the council provides. But most local authority industrial involvement will be concerned with a type of activity described in simple and stark terms in a brochure distributed by the West Midlands Enterprise Board: "We invest at fully commercial but very

competitive terms. No subsidies or grants are given ... Control of a company remains and will continue to remain with the shareholders". As an assertion of rampant ideology that statement leaves something to be desired. But all over Britain it is being applied in a way which fills a vacuum left by the timid and unimaginative investment institutions.

- c) The co-operative enterprises - particularly workers' co-operatives - are treated in Britain with a scepticism which is not justified by the experience of other industrialised countries. There has been a record growth in worker co-operatives in Europe during the last five years. Part of that development has been a response to Europe's deepening depression. But it has not been a vain attempt to breathe life into incurable enterprises. The failure rate of new co-operatives in Britain is barely 5 per cent - a figure much less than the failure rate for industry as a whole. And the amount of public support employed to keep co-operatives in business has been comparatively small. In 1983, three million pounds generated two thousand new jobs. At £1,500 per job it is a much better bargain than the £7,000 it costs to keep a worker unemployed.

Despite the enthusiasm of some adherents the necessary growth in co-operative enterprises will not come about without Government action to counteract the bias of the financial institutions. We need a far more effective form of investment agency and a series of fiscal incentives to encourage co-operative enterprise, such as preferential "start-up grants" and "enterprise allowances".

- 18 The promotion of autonomous co-operatives and local authority supported companies will, even after the life time of several Labour Governments, still only account for a small fraction of British industry. If there is to be a general move towards social ownership which is something other than wholesale nationalisation we have to consider those proposals which

apply to the whole economy and give workers rights of both investment and influence in every company. The next Labour Government will, of course, reintroduce proposals for industrial democracy. But ownership and control are indivisible. Share option schemes which carry no voting rights are no more than a sophisticated form of bonus ^{/at the taxpayer's expense.} Share options which involve worker participation in management must carry with them the right to influence management decisions. The notion of control without ownership was part of the socialist sentimentality of the 1950s and 60s. We have to turn our attention to processes by which employees can own part of the company in which they work. Extensions of existing schemes for share ownership offer some scope for progress. But share option schemes could only receive the support and encouragement of a Labour Government if they included two essential features. They must be available for all employees. And they must carry with them the right to influence policy which equity holdings normally provide. Thus

- a) extensions of the 1978 Finance Act profit sharing scheme should not only continue to provide tax incentives to companies which introduce such schemes and should remove the legal limit on the amounts which can be so distributed;
- b) workers "buy-outs" should be encouraged by loans and tax incentives if the equity - unlike the case of the National Freight Corporation - is reasonably apportioned amongst the employees;
- c) stock options such as those which were introduced in the 1984 Finance Act should be encouraged as a way of diffusing ownership amongst all employees, provided that the 1978 principle of allocation pro rata to wages and salaries is respected.

19 Of course, such schemes will have a far from universal application and if they are badly conceived or managed they will wholly fail to meet the object of a wider distribution of power. Many recipients of preferential issues sell them at the first opportunity, producing - as in the case of Amersham - a return to the normal pattern of ownership with institutions owning about half the equity of the company within

weeks of the issue.

A generalised free issue - which could only be advocated by someone more interested in headlines than in thought-would so flood the market, that for a time, the shares would be resold at a heavy discount to their real value. In the case of sensible and specific schemes the proposed national investment bank would perform the role of market maker in the after-market.

- 20 A new scheme for providing workers with real economic power and meeting the needs of an expanding economy is now being introduced in Sweden. It is worth our sympathetic consideration for it is intended to increase public ownership in a way which improves national economic performance. The scheme proposes that a special profit tax and a pay roll levy be allocated to an investment fund which is run by five regional boards on which workers have a majority of members. The object is to obtain co-operation in creating a high profit economy in which the profits are reinvested.
- 21 History shows that high profits do not, in themselves, automatically generate beneficial investment. And it also demonstrates that trade unions, whose co-operation is necessary for a successful incomes policy, are reluctant to take part in such an essential operation when profits rise abnormally high - even if there is a statutory control on dividends. For a wage increase, once foregone, is never regained. But a retained profit adds to the value of the asset. To ask trade unions to contribute to a high profit economy requires us to promise both the reinvestment of those profits and a trade union voice in how the reinvestment is distributed.
- 22 Such a scheme can contribute to a major shift in economic power, for, over the years, the new investment funds, largely controlled by representatives of the workers will make up a gradually increasing share of each company's equity capital. The scheme assists in the re-distribution of wealth as well as

of power. And it makes more risk capital available. In short, it is exactly the sort of scheme that we should be examining in the Labour Party - looking for ways of making it more associated with the workers in individual companies and less the property of giant national or regional institutions.

- 23 My proposals for the extension of social ownership cannot be portrayed as the triumph of ideology over realism. However, I have no doubt that some commentators will attempt to do so. For one of the other confusions of the public ownership debate, comparable to those that I have described at the beginning of this speech, is that the Labour Party's view on social ownership is wholly dogmatic while the Conservatives' is wholly practical. In fact, the reverse is increasingly the case. On the one hand the Financial Secretary to the Treasury promises an extension of privatisation in the apparently genuine belief that the public ownership of the railways and the coalmines was a mistake and that before their nationalisation those two industries made a profit, satisfied their consumers and benefitted from the effects of competition. His speech represented one form of Conservative dogmatism - blind faith in the free market. The Government's new policy for the nationalised industries represents another strand of Conservative policy - authoritarianism. Their wish to create a state in which disagreement is stifled and dissent prevented is a wholly unhealthy development. The Labour Party wants to extend power by distributing it more widely. That is the purpose of my proposals.

PRIVATISATION

8
Privatisation

(i) Selling-off valuable national assets?

Objective of denationalisation is to promote competition and improve efficiency. Apart from benefits to consumers and taxpayers, whole nation benefits if assets put to better use and made more productive. Inefficiency helps no-one.

(ii) Performance of privatised companies?

The performance of privatised companies has been excellent:

- Cable & Wireless profits more than doubled since privatisation;
- Associated British Ports pre-tax profits up from £5.5 million to £14.5 million in first year as private company;
- Amersham profits up by over 50 per cent despite fierce overseas competition;
- National Freight Company profits over £8 million in 1983 compared with last year before privatisation when barely broke even;
- Britoil in first full year in private sector declared profits up 35 per cent over proforma accounts for previous year.

(iii) Salutary effect of impending privatisation?

Prospect of denationalisation has given a powerful spur to improved performance.

- In 1980-81, 122,000 businesses and members of public waiting for telephones to be connected by BT; present waiting list down to around 1,000. Time taken to repair faults has fallen dramatically;
- BA now world's most profitable airline (net profits announced for year to end March 1984 £181 million, compared with £52 million previous year);
- Jaguar performance transformed from heavy loss to £55 million profit.

(iv) PAC 17th Report: sale of Government shareholdings in publicly owned companies

The Government will carefully consider the points made by the Committee and will reply to the House of Commons in due course in a Treasury Minute.

(v) Will Government consider sale by gradual release of shares?

We do not automatically rule out any method of sale that might achieve our objectives. But phased release of shares has drawbacks which have precluded its use so far. You cannot have clear private sector control when a large part of the shares remain in Government hands. Also the effect on receipts of the known intention of the major shareholder to sell and go on selling at short intervals must also be taken into account.

(vi) Failure to choose correct sale methods?

[Heavy over subscription for British Aerospace, Cable and Wireless, Amersham International, Associated British Ports: undersubscription for Britoil, second Cable and Wireless sale and Enterprise Oil 7.

Choosing a sale method - whether in the public or private sector - is essentially a matter of judgement. The Government always seeks the best available advice. In all cases the companies concerned have been successfully transferred to the public sector.

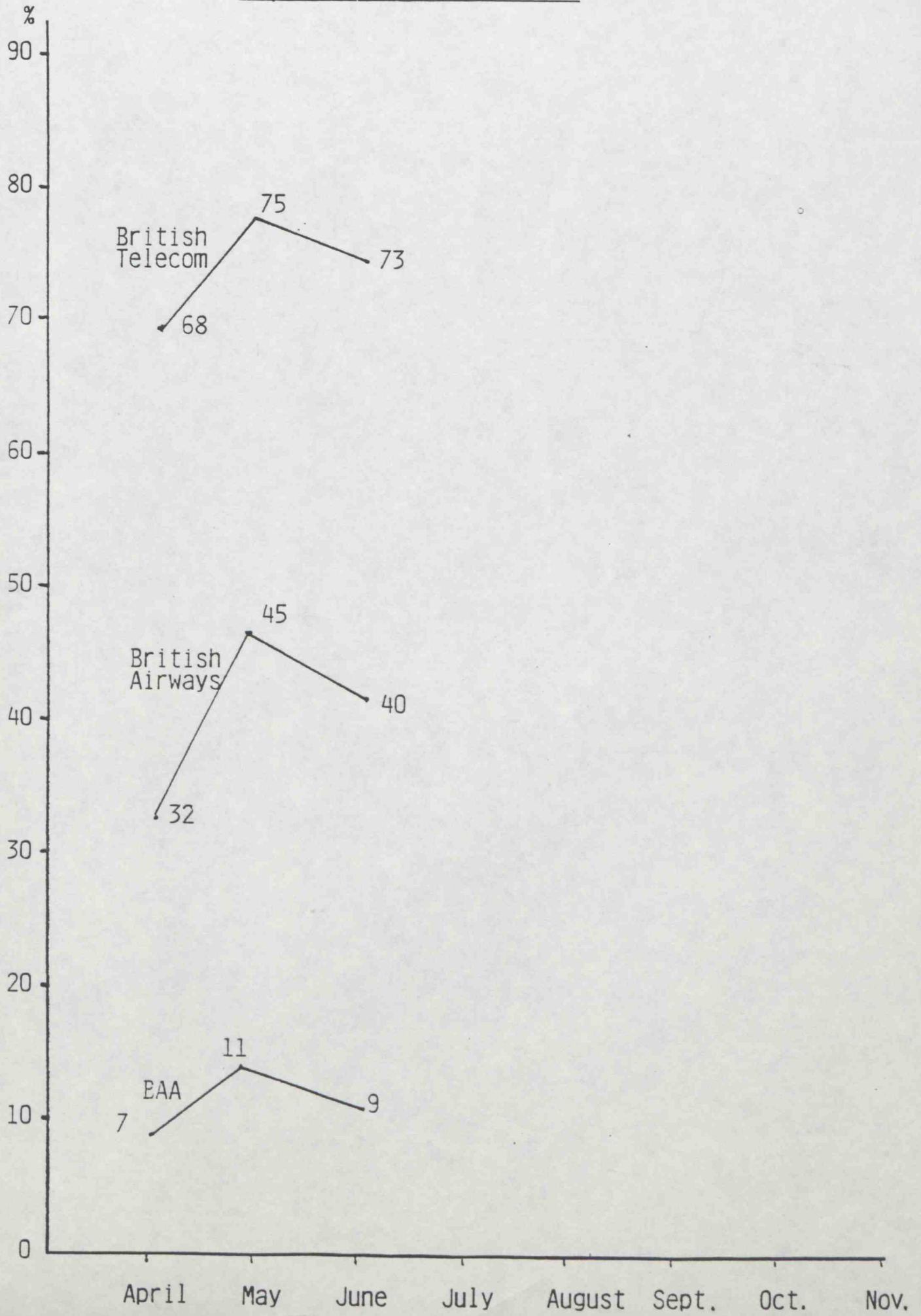
(vii) Why have Government share sales been underwritten?

Offers for sale are underwritten to ensure that the shares offered are actually sold to the private sector. This is necessary to make sure that privatisation is achieved. The outcome of the Britoil sale shows that the cost of underwriting is fully justified.

(viii) Excessive fees paid to City over privatisations?

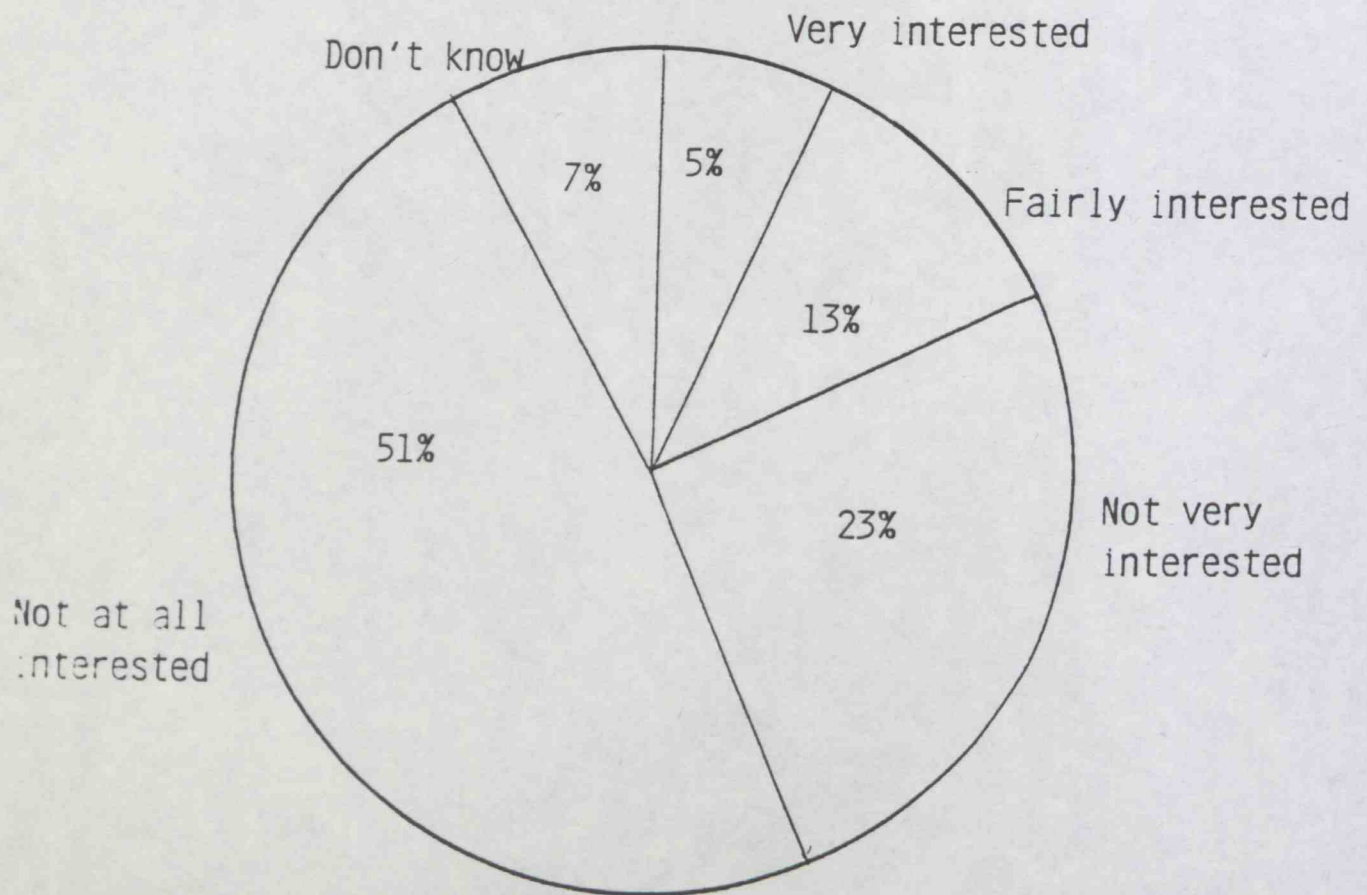
Fees reflect services provided. Largest items are underwriting commissions which represent insurance against failure of sale. Those concerned take significant risks and in some cases have had to take large numbers of shares at above then market price..

AWARENESS OF PRIVATISATION



INTEREST IN BUYING

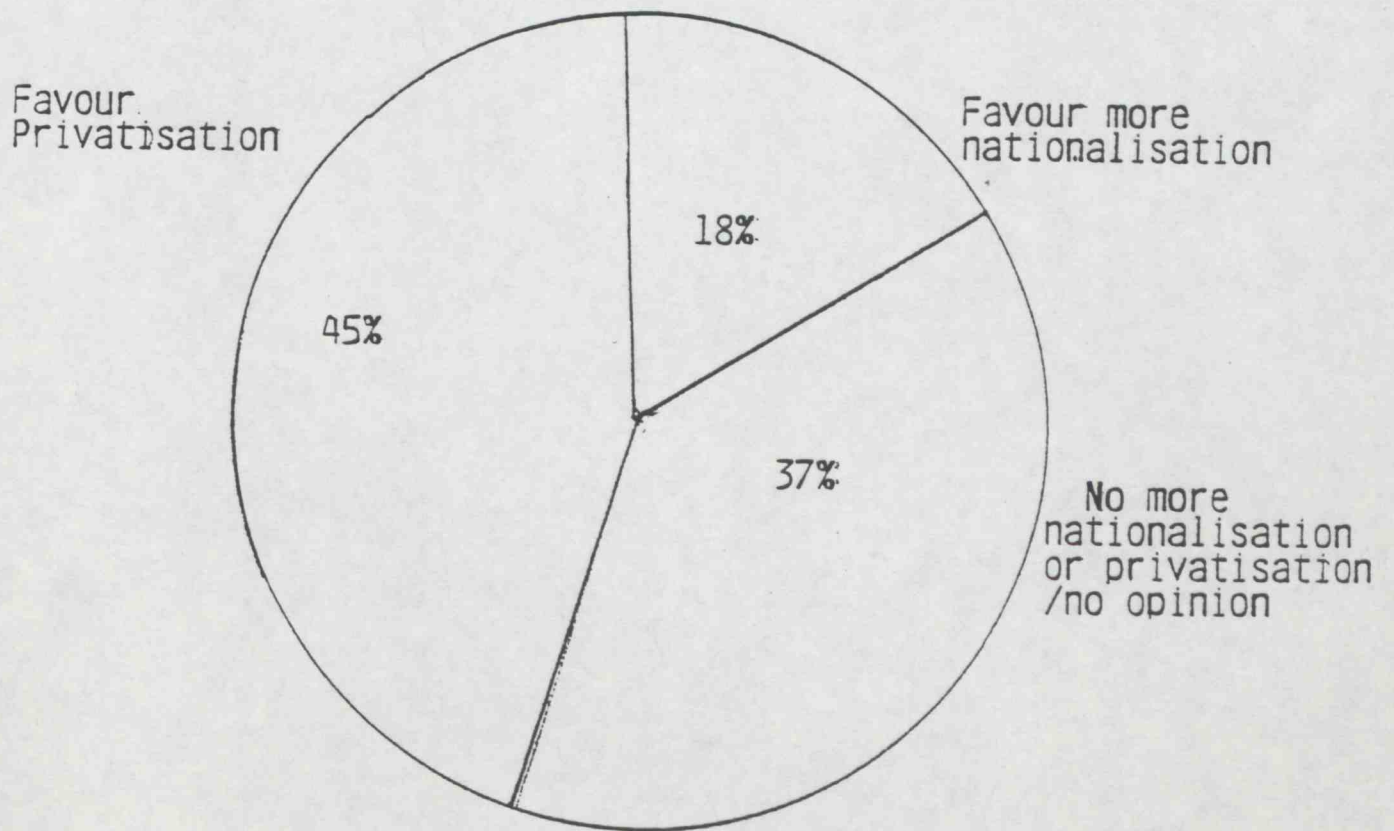
Q. The Government intends to offer shares in British Telecom for sale this year. How interested do you think you will be in purchasing such shares?



Base: All

SOURCE: MORI
(June, 1984)

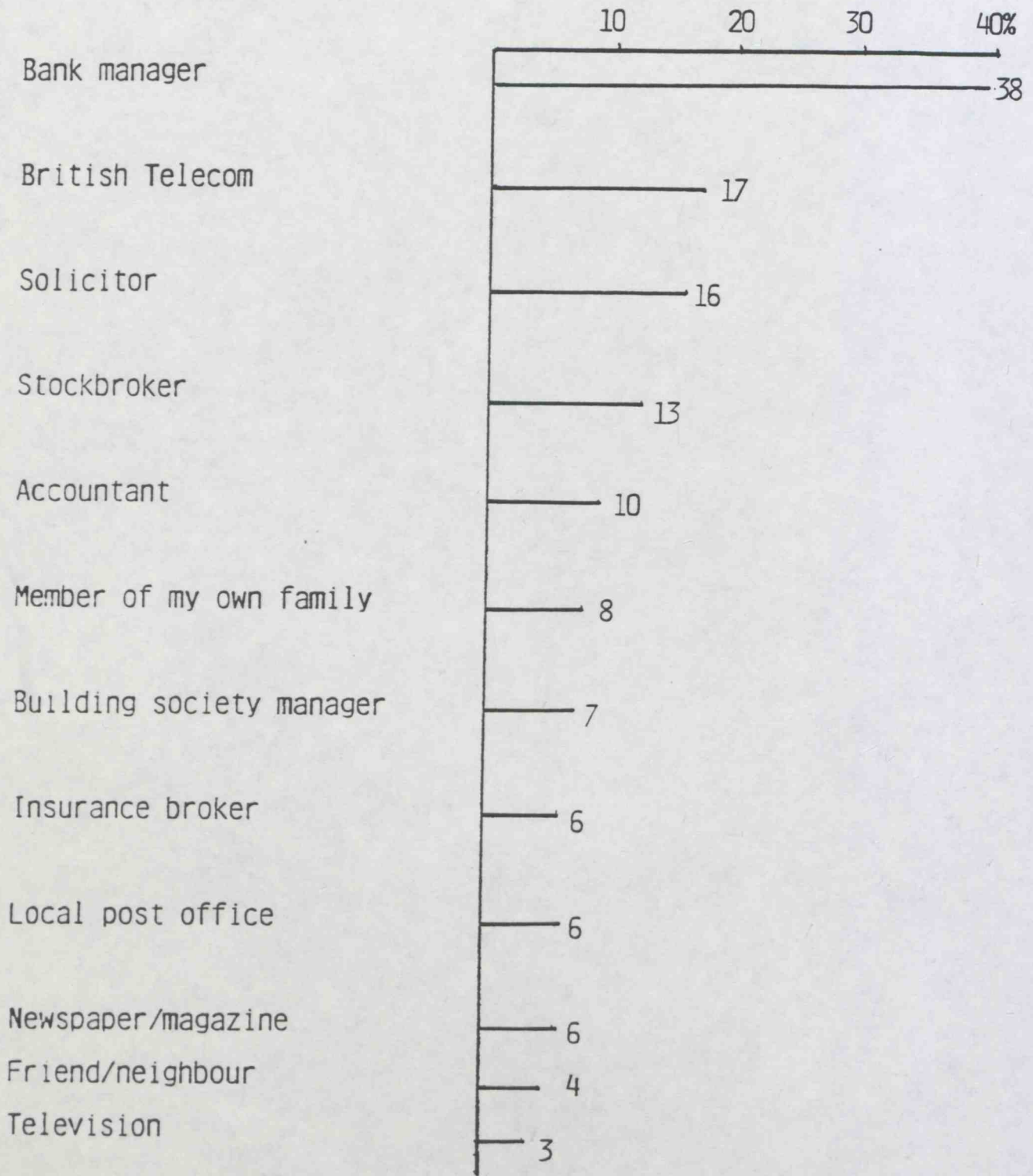
PRIVATISATION - GENERAL



SOURCE: MORI

(June, 1984)

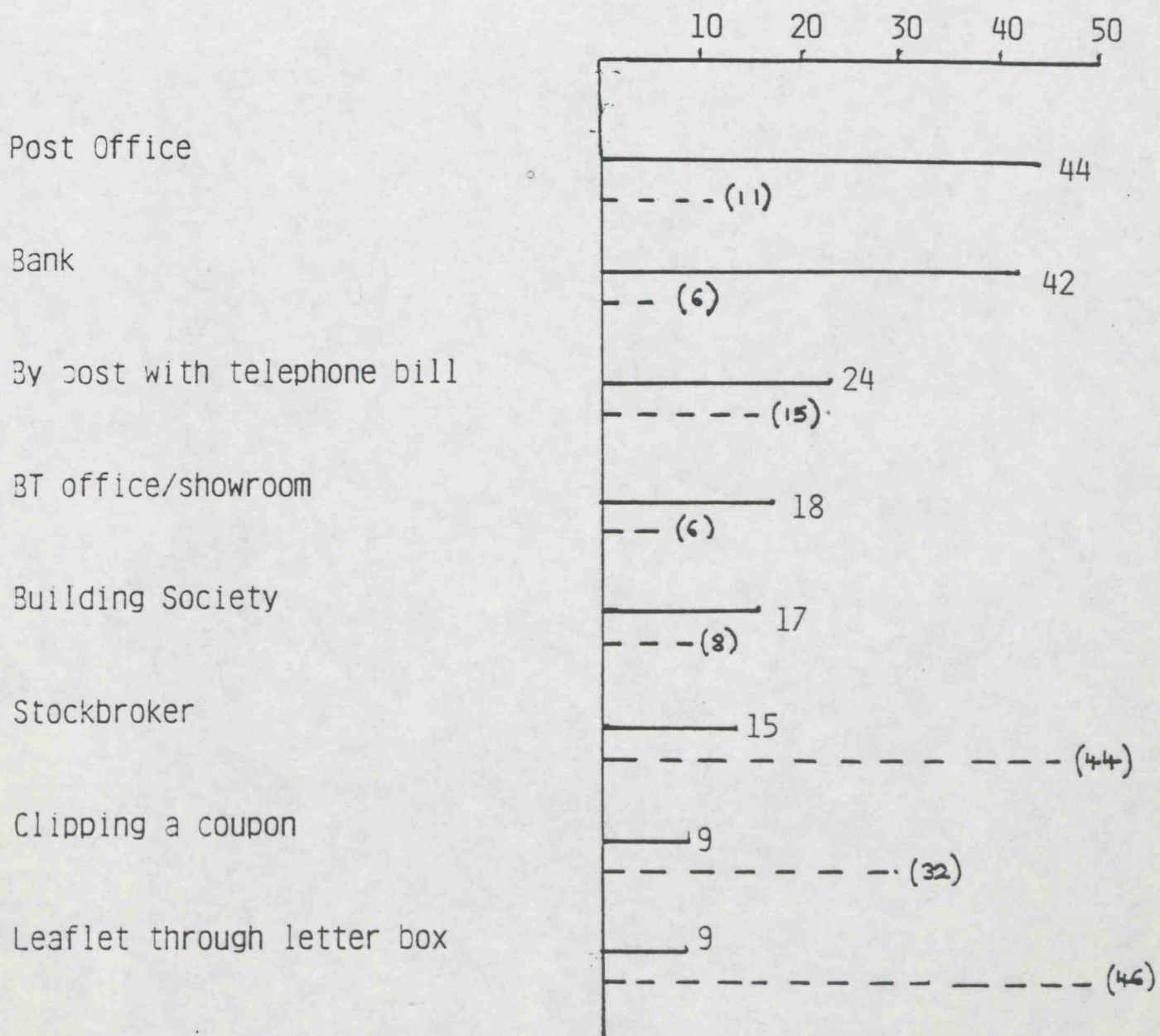
ADVISERS



Base: Those interested in buying

SOURCE: MORI
(June, 1984)

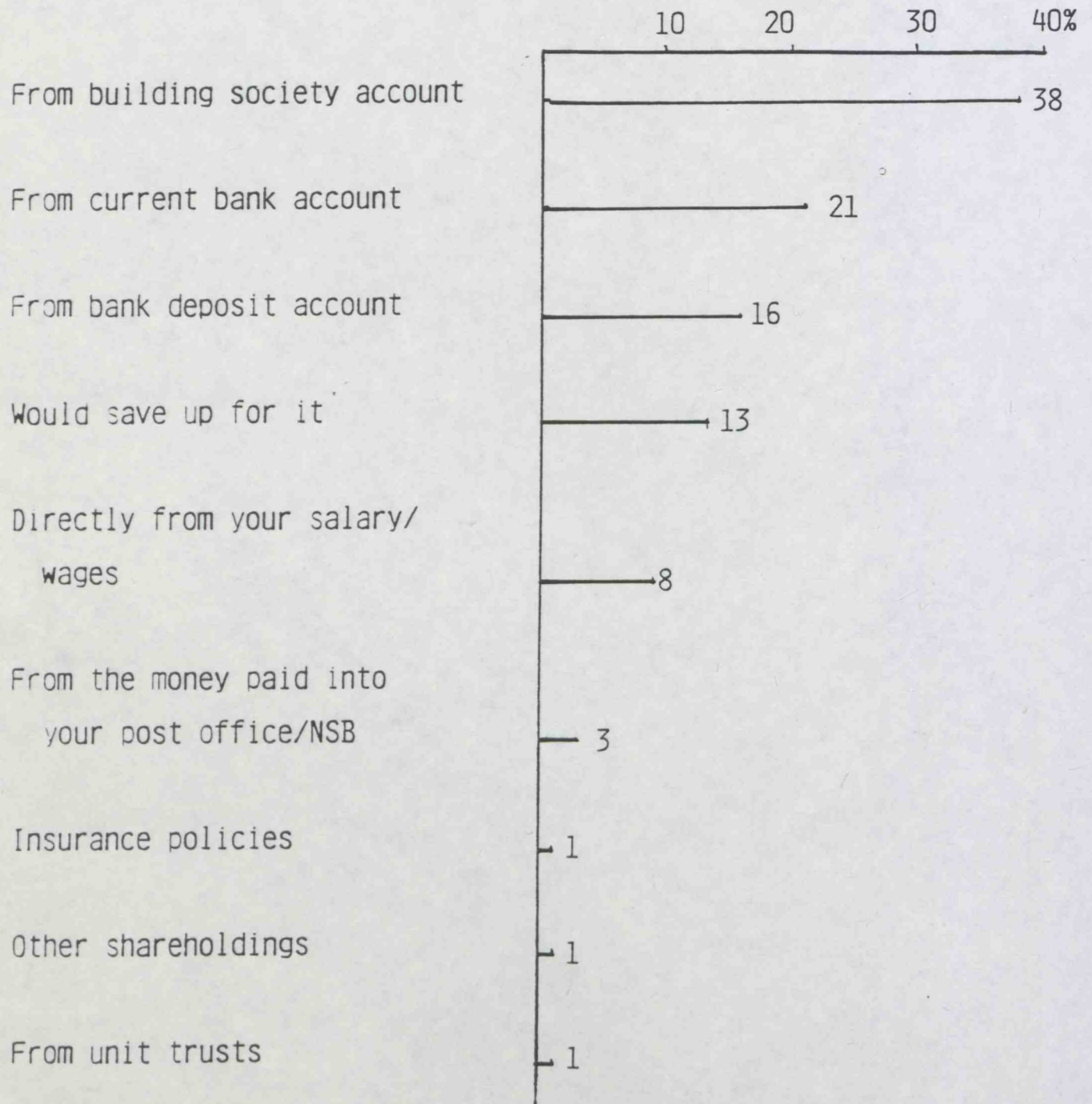
HOW PREFER TO PURCHASE



Use ———
 (Definitely not use) - - - -

SOURCE: MORI
 (June, 1984)

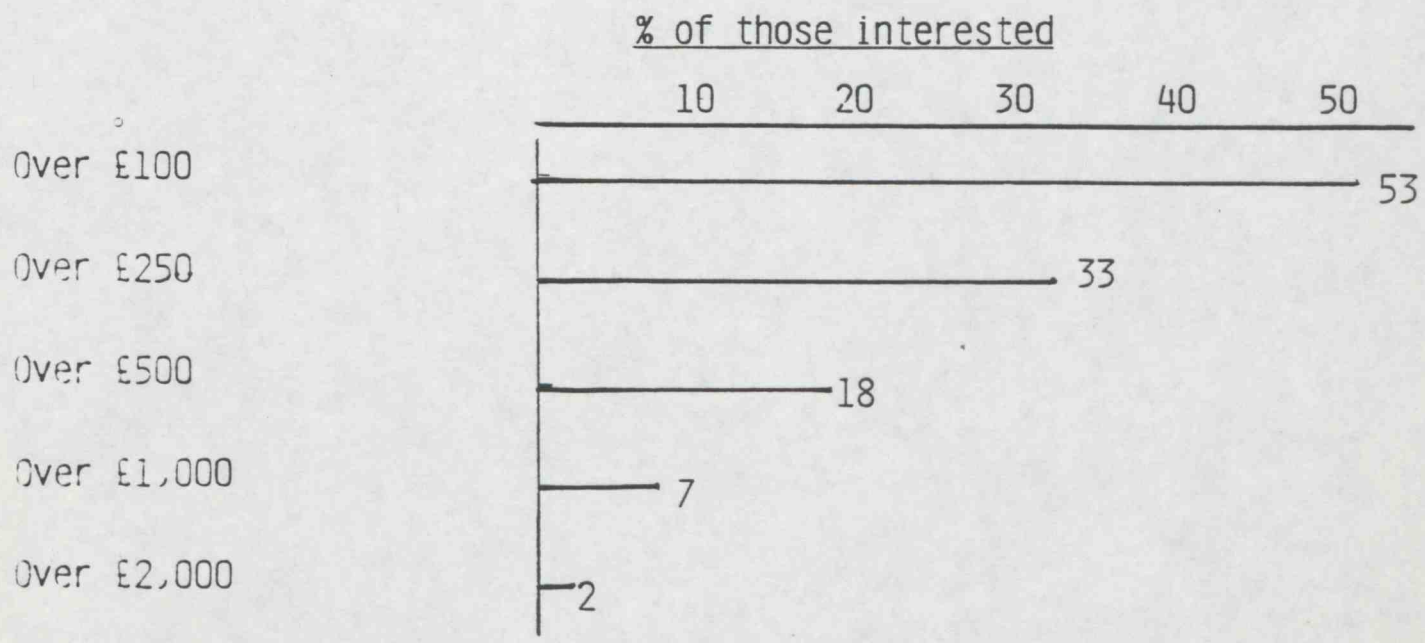
WHERE MONEY WOULD COME FROM



SOURCE: MORI
(June, 1984)

Base: All interested

AMOUNTS INTEND TO INVEST

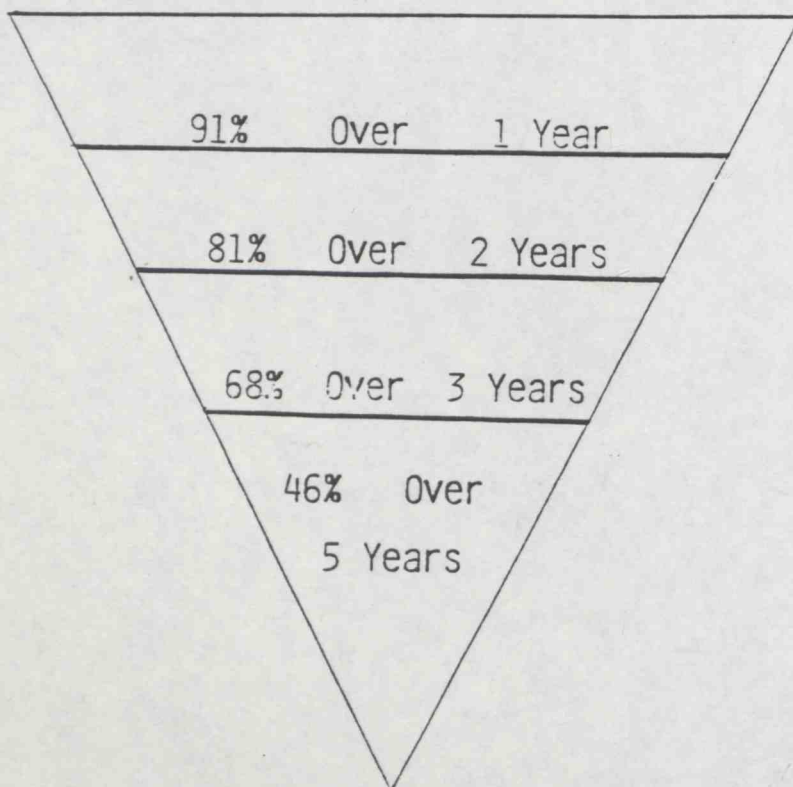


	AB %	C1 %	C2 %	DE %
Over £100	60	63	51	43
Over £250	39	43	29	25
Over £500	26	25	13	11
Over £1,000	10	8	5	5
Over £2,000	2	4	-	3

SOURCE: MORI

(June, 1984)

LENGTH OF PERIOD OF INVESTMENT

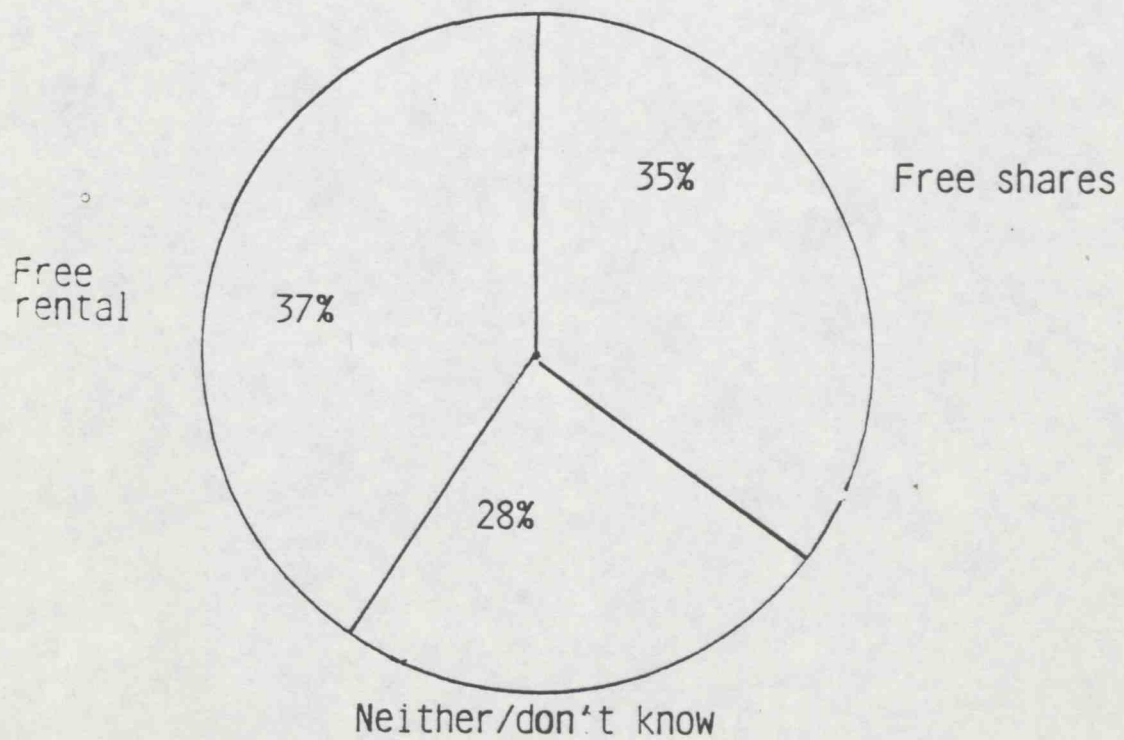


(REPERCENTAGED TO
EXCLUDE "DON'T KNOWS"
= 16%)

SOURCE: MORI
(June, 1984)

PREFER SHARES OR RENTAL

ALL RESPONDENTS



ALL INTERESTED

