

# Abstract

This thesis will focus on the link between Thatcherism and privatisation, and what its consequences were for Britain and the rest of the world. The main question will be: was the rise of Thatcherism intrinsically linked to privatisation and what were its consequences for Britain and the rest of the world? In order to answer this question, the thesis is divided in three chapters.

The first chapter will look at the British economy since 1945. The perceived post-war consensus, the relative decline, difficult industrial relations and high inflation led to a seemingly ungovernable situation in the 1970s, culminating in the Winter of Discontent. This created a fertile ground for Thatcherism's radical policies at the British electorate.

The second chapter will focus on the actual principles of Thatcherism and how these were shaped by circumstances and the work think-tanks such as the Centre for Policy Studies. Disillusioned by the state of the country in the 1970s, Thatcher was attracted to the radical policies of Keith Joseph. Only a radical break with the post-war consensus was seen by Joseph and her as the solution to Britain's problems. Thatcherism was born out of this process of re-thinking the Conservative Party's policy. Its main focus was controlling inflation, individual freedom and rolling back the frontiers of the state. The ultimate goal was creating a thriving enterprise economy.

The third chapter looks at the large-scale privatisation programme under Thatcher. It analyses the state of the nationalised industries before 1979 and the economic policies during her administration, seeing a continuum with the overall objectives of the privatisation programme. One of the main objectives of this programme – the spreading of public ownership through shares – played a significant role in how privatisation was implemented from 1984 onwards. Privatisation through public share offering would eventually become the accepted privatisation method worldwide. The major privatisations of the 1980s reshaped Britain's economic landscape and sparked privatisation programmes worldwide. In that regard, Thatcher's privatisation programme changed the world economy.

This thesis states that Thatcherism's core principles and Thatcher's privatisation programme were intrinsically linked to each other. The privatisation programme altered the British economy and inspired other countries to pursue a similar policy of privatisation.

# Reshaping the Economy

The Causes and Consequences of Margaret Thatcher's  
Privatisation Programme

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# Introduction

When Margaret Thatcher passed away on 8 April 2013, a debate ensued in Britain about her legacy. Her death inspired heated debates either fiercely in favour or fiercely against her policies and views. There appeared to be no middle ground. An article published by *The Economist* a few days after her death stated that she ‘left behind a brand of politics and convictions which still resonate, from Warsaw to Santiago to Washington’, becoming the first British Prime Minister to give rise to an ‘-ism’ in her lifetime.<sup>1</sup>

However, there seems to be disagreement about what this *Thatcherism* actually implied. Critics view Thatcher mainly as a crude pragmatist as she applied old ideas in a populist manner and dividing the country socially in the process. Thatcherites almost revere her as a freedom-fighter for individual freedoms vis-à-vis the state and the one who reversed the decline of Britain by solving many of its structural problems. The objective of this thesis is not to prove or disprove either side of the argument. Rather, it will focus on one of her most important legacies: privatisation. In the process I will show why Thatcherism and privatisation were intrinsically linked and what the consequences of privatisation were for Britain and the rest of the world. Therefore the main question this thesis will be trying to answer is: was the rise of Thatcherism intrinsically linked to privatisation and what were its consequences for Britain and the rest of the world?

The first chapter will focus on the British economy between 1945 and 1979. Its purpose is to demonstrate how the economic circumstances inspired Thatcherism. There was the idea of a ‘Keynesian consensus’ in British politics that occurred after the war. Whether there actually was such a thing is irrelevant, because Thatcherites believed there was and

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<sup>1</sup> *The Economist*, ‘Margaret Thatcher: No Ordinary Politician’ (13 April 2013), <http://www.economist.com/news/briefing/21576081-margaret-thatcher-britains-prime-minister-1979-1990-died-april-8th-age> (accessed 20 May 2013)

inspired Thatcherism. This pre-history is relevant in order to better understand what Thatcherism was opposing.

The second chapter will focus on the main principles of Thatcherism. It builds on the first chapter and shows how a disillusioned Thatcher is drawn to the right-wing of the Tory Party. The influence of Keith Joseph, himself influenced by Hayek and Friedman, would be the basis of Thatcherism with its focus on individual freedom, financial discipline and focus on rolling back the frontiers of the state.

The third chapter will focus on the topic of privatisation. It explains why privatisation only gained momentum after 1984 and links the principles set out in the second chapter with the main objectives of the privatisation programme. The impact of privatisation on the British economy and the rest of the world are also analysed.

I have used a broad base of sources, both primary and secondary. Secondary sources, such as Eric Evans' *Thatcher and Thatcherism* and Green's *Thatcher*, were initially used as guidance to locate the proper primary sources. In numerous cases I have discovered that there was room for interpretation and came to a different conclusion. Other relevant sources involved economic data from institutions such as the World Bank and economic articles such as those written by Martin and Parker, Pill and Vogel, and Megginson and Netter. The goal was to remain as objective as possible and not let political bias of certain authors get in the way.

Primary sources are used carefully in the case of memoirs as they tend to be biased in favour of its author. They will be used primarily to demonstrate the views of a certain individual, but his or her intention in writing the memoir should always be kept in mind. Another primary source regularly used are the election manifesto's of both the Labour and the Conservative party. It is used primarily to demonstrate the political imperatives of the parties.

# Chapter 1: The British Economy since 1945

In order to understand the rise of Thatcherism in general and privatisation in particular, one needs to understand the economy Thatcher had sought out to change. She wrote in one of her autobiographies that ‘the thirty-year experiment had plainly failed’ after the war and talked about the approach of contemporary governments as bad for the economy being ‘themselves “blind forces” blundering about in the dark, and obstructing the operations of markets rather than improving them.’ In her mind, there were three challenges that were a daunting inheritance for a New Prime Minister in 1979: ‘long-term economic decline, the debilitating effects of socialism, and the growing Soviet threat.’<sup>2</sup>

After the 1979 elections Thatcher became Prime Minister. As a major critic of the economic demand management that had occurred after the Second World War – the so-called Keynesian consensus – she sought to turn around this development of increased government intervention. According to David Cannadine, Margaret Thatcher’s transformation ‘from welfare-state handmaiden and Heathite acolyte to monetarist prophet and apocalyptic crusader’ occurred in the 1970s and especially after she became Leader of the Opposition in 1975. During this period she fell under the influence of Keith Joseph, a Conservative MP who became her mentor.<sup>3</sup>

The main question that this chapter seeks to answer, is whether the economic situation in post-war Britain, the perception of relative decline, and the economic and social crises of the 1970s had created a fertile ground for the rise of Thatcherism?

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<sup>2</sup> M. Thatcher, *The Downing Street Years* (London, 1993), pp. 9-11

<sup>3</sup> D. Cannadine, ‘Apocalypse when? British politicians and British ‘decline’ in the twentieth century’ in P. Clarke & C. Trebilcock ed., *Understanding Decline: Perceptions and realities of British economic performance* (Cambridge, 1997), pp. 261-84 at p. 276; also see M. Thatcher, *The Path to Power* (London, 1995), pp. 135-6, 250-7

Thatcher's rise and her radical policies did not spring out of nowhere. Eric Evans mentions in *Thatcher and Thatcherism* that there were three factors linking the post-war economy to 'Thatcher's experiment' in the 1980s. The first factor was the relative decline after the Second World War despite simultaneous social advances. An example he gives is that whereas Britain had been ninth in GDP per head table in 1950, it had fallen to fifteenth place in 1971 and nineteenth in 1976. The second factor was the general crisis of confidence in the economic management after Keynesian policies had failed to bring down unemployment and inflation in the 1970s after the oil shock of 1973 and the breaking down of the Bretton Woods fixed exchange rates in 1971/72. It led to economic misery and regular strikes in the 1970s. The third and last factor was that Thatcher's predecessors, the Labour Prime Ministers Wilson and Callaghan, had demonstrated monetarist tendencies with stringent reductions in expenditure, wage restraint and moves towards a balanced budget. They had designed the so-called 'social contract' with trade union leaders where they discussed major issues. This way they tried to normalise the skew industrial relations. However, the contradictions of maintaining a deflationary policy while being a party that is paid by trade unions did not sustain itself, leading to the Winter of Discontent in 1978-79. The failure of this social contract and the economic and social chaos that followed set public opinion against trade unions, an opportunity Thatcher seized to break their power down.<sup>4</sup>

This chapter will demonstrate the relevance of these three factors for the rise of Thatcherism. It will describe the build-up of the Keynesian consensus after the war, the relative decline Britain was facing, and the economic and even social crises in the 1970s. They all contributed to the rise of Thatcherism.

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<sup>4</sup> E.J. Evans, *Thatcher and Thatcherism* (2<sup>nd</sup> edn, Oxford, 2004), pp. 9-12

## The Post-War Consensus

When the war was over in 1945, Thatcher argues in her memoirs that succeeding Conservative and Labour governments set out on a course of increased government intervention, and control of the economy had shifted to ‘disinterested civil services’ who pretended to know better than the blind forces of the ‘free market.’ ‘[W]e call them socialist, social democrat, statist or merely Butskellite – represented a centralizing, managerial, bureaucratic, interventionist style of government.’<sup>5</sup>

The Second World War had a lasting impact on British politics long after the fighting had stopped. Whereas for the right-wing politicians the war had ‘embodied constructive patriotism and the will to victory’, the centre-left thought the wartime political organisation had ‘implied social cohesion, Keynesian budgetary management, economic planning, the human version of social citizenship embodied in the Beveridge Report. It offered the intellectual and historical underpinnings of the post-war consensus.’<sup>6</sup>

The Beveridge Report, written in 1942, would also lead to the creation of a more egalitarian society by increasing social security payments and was responsible for the creation of the National Health Service (NHS) which made healthcare affordable or sometimes free for all citizens. As a consequence this inevitably meant higher tax rates, particularly for higher incomes. Higher taxation during the war and afterwards thus led to larger government budgets afterwards.<sup>7</sup>

This idea of a post-war consensus was not an uncontested idea. It was not the case that in the post-war period the parties had ‘more in common than the differences between them and that government, especially management of the economy, had proceeded according to a broad agreement.’ What did bind the two ruling parties after 1945 together was their acceptance of ‘[f]ull employment and the maintenance of the Welfare State’ as primary

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<sup>5</sup> Thatcher, *Downing Street Years*, p. 6

<sup>6</sup> K.O. Morgan, *Britain Since 1945: The People's Peace*, (3<sup>rd</sup> edn., Oxford, 2001), p. 4

<sup>7</sup> Pill & Vogel, ‘Blair Wealth Project’, p. 3-4



goals.<sup>8</sup> It involved Keynesian demand management and used mainly fiscal techniques to ‘produce sustained growth.’<sup>9</sup>

This demand management was ‘based on discretionary fiscal policy, aimed at fine tuning the economy and seeking to respond to changing economic conditions to ensure both that demand was high enough to avoid return to the high unemployment of the 1930s and also to smooth out business-cycle fluctuations.’ This was built upon the Keynesian notion that the government could lower unemployment by adopting expansionary economic policies that would expand the level of demand in the economy.<sup>10</sup> Basically, this involved increased government intervention.

Both the Labour and Conservative Party accepted the mixed economy that this system of government intervention produced in the first three decades after the war. The concept of mixed economy is defined by Bradley Schiller as an ‘economy that uses both market signals and government directives to allocate goods and resources.’<sup>11</sup> In other words, it is not a socialist-planned economy, but it also is not a completely free-market economy. Rather, it is a hybrid of the two. A consequence of the Conservatives’ acceptance of the mixed economy, they did not turn back Attlee’s nationalisation of industries between 1945 and 1951 when they were in power between 1951 and 1964 (see chapter 3). Concerning economic policy, it was kept on the move ‘by corporate negotiations between government, business, and a hugely expanded trade union movement.’<sup>12</sup> This was what the Keynesian consensus was all about: involving all the parties in decision-making regarding economic policies.

The two main objectives of post-war British governments were full employment and keeping a fixed exchange rate with the United States according to the Bretton Woods system.

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<sup>8</sup> P. Jenkins, *Mrs Thatcher’s Revolution; The Ending of the Socialist Era* (London, 1987), pp. 3, 5

<sup>9</sup> Morgan, *Britain Since 1945*, p. 5

<sup>10</sup> N.F.R. Crafts & N.W.C. Woodward, ‘The British Economy since 1945: Introduction and Overview’ in N.F.R. Crafts & N.W.C. Woodward ed., *The British Economy since 1945* (Oxford, 1991), p. 2

<sup>11</sup> B. Schiller, *The Economy Today*, (12<sup>th</sup> edn., New York, 2012), p. 15

<sup>12</sup> Morgan, *Britain Since 1945*, p. 6

However, these objectives were not necessarily complementary to each other. They led to so-called ‘stop-and-go cycles’. In the case of rising unemployment, the government would implement expansionary policies such as tax cuts, higher public expenditures, and lower interest levels to bring the unemployment level down again. These expansionary policies would in turn lead to inflation and the balance of payments would suffer. Because dollar reserves were finite and there was limited capital mobility, the reversal of expansionary policies would be necessary in order to avoid devaluation of the pound. Obviously this once again led to higher unemployment. Responding similarly as before, the cycle would start all over again. According to Roger Middleton, Britain had a total of four of these stop-and-go cycles between 1951 and 1971.<sup>13</sup>

## Industrial Relations

The heart of the problem of these were the adversarial nature of industrial relations in Britain at the time. Wage moderation was required for full employment to be consistent with price stability. However, unions had a powerful legal position in post-war Britain. A secret ballot was not required for striking, secondary picketing – i.e. disrupting operations of parties not involved in the dispute – was allowed, and ‘closed shops’ – i.e. the obligation of companies to hire union members – were ubiquitous.<sup>14</sup>

The Trades Union Congress (TUC) was a national organisation that represented the collective interests of most trade unions. It had founded the Labour Party in 1900 and kept financing it for the rest of the twentieth century. Unions had been heavily involved in the war effort and the nationalisation of industries afterwards. This made them a powerful force in the British economy. Approximately 45% of British workers were member of a union, three-quarters of which belonged to the TUC. However, the independent unions kept control over

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<sup>13</sup> R. Middleton, *The British Economy Since 1945* (New York, 2000), p. 103

<sup>14</sup> Pill & Vogel, ‘Blair Wealth Project’, p. 3-4

their financial and decision-making powers. This made the TUC an ‘outwardly formidable but ultimately weak organisation of fragmented affiliates with no control over member’s operations or funds.’<sup>15</sup>

Added to this fragmentation of collective bargaining power was the power of plant-level shop stewards. These had a lot of influence on industrial relations due the lack of control union officials had over them and their frequent threats to use ‘unauthorised’ strikes. Symptomatic for this was the fact that Britain had 38 times more days lost to strikes than Germany between 1966 and 1970. The fragmentation of collective bargaining and the power of shop stewards combined made ‘British manufacturing enterprises so vulnerable to worker actions and that reinforced Britain’s lag in productivity growth.’<sup>16</sup>

## Relative Economic Decline

After the Second World War, Britain’s significance in the world economy had shrunk dramatically. Its share of world manufacturing exports decreased from 35% around 1900 to 25.5% in 1950. This relative decline would continue after the war. Furthermore, Britain had to devalue the pound in 1949 and it also lost most of its colonies after the war. The United States, other continental European countries and Japan all outpaced Britain when it came to productivity and output growth during the first three decades of the post-war period.<sup>17</sup>

Table 1 shows the declining share of Britain in manufactured world exports after the Second World War until the end of the 1980s. The UK was also losing ground on the other developed countries during that period when it came to GDP per capita as shown in table 2. This steady loss of economic supremacy generated a sense of declinism especially with Thatcherites.

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<sup>15</sup> B. Ebbinghaus & J. Visser, *Trade Unions in Western Europe since 1945* (New York, 2000), p. 714

<sup>16</sup> R. Dore, W. Lazonick & M. O’Sullivan, ‘Varieties of Capitalism in the Twentieth Century’, *Oxford Review of Economic Policy*, vol. 15, no. 4 (1999), pp. 102-120 at pp. 110-111

<sup>17</sup> Pill, & Vogel, ‘Blair Wealth Project’, p. 2

**Table 1 Share of World Manufactured Exports (%)**

	<b>1950</b>	<b>1960</b>	<b>1970</b>	<b>1979</b>	<b>1988</b>
UK	25.5	16.5	10.8	9.1	8.3
USA	27.3	21.6	18.5	16.0	14.9
France	9.9	9.6	8.7	10.5	9.1
Germany	7.3	19.3	19.8	20.9	20.6
Japan	3.4	6.9	11.7	13.7	18.1

*Source:* Crafts, N.F.R. & Woodward, N.W.C. ed., *The British Economy since 1945* (Oxford, 1991), p. 12

**Table 2 GDP per capita in international dollars (UK = 100)**

	<b>1950</b>	<b>1973</b>	<b>1987</b>
USA	160.6	148.1	147.6
France	70.5	100.7	103.2
Germany	60.1	102.5	108.6
Japan	26.8	89.3	106.3

*Source:* Crafts & Woodward ed., *The British Economy*, p. 9

It has to be noted, however, that Britain's economy was not declining in absolute terms as can be seen in table 3 below. Declinism has been a recurrent theme in British politics since the last quarter of the nineteenth century as David Cannadine demonstrates. Britain as a 'nation in decline' has been debated at length in numerous articles and has been the subject of various studies. An important feature was that Britain's foreign competitors were simply closing the gap that had occurred after Britain's rise in the late-18<sup>th</sup> and early-19<sup>th</sup> century. Cannadine mentions that '[d]uring the last hundred years, levels of output, income, and national wealth have increased unprecedentedly. Today, for most people, life in Britain is more rich, prosperous, varied, abundant, and secure than it was for their late Victorian forebears one hundred years ago.'<sup>18</sup> He effectively puts this sense decline in perspective.

However, constructed or not, declinism was used by the Conservatives in the 1970s to press the necessity of radically turning things around. They treated the economic problems Britain had in the 1970s not 'as the result of conjunctural events or specific policy failings, but as symptoms of a profound long-term malaise in the British economy and British

<sup>18</sup> Cannadine, 'Apocalypse when?', p. 261

society.’ In light of this declinism, inflation became symbolic for the need of a rethinking of the right approach to economics. Therefore, controlling inflation would later become central to the Thatcherite claim that only a complete overhaul could reverse Britain’s economic decline.<sup>19</sup>

**Table 3 GDP growth over 5-year periods in UK (%)**

	<b>Increase in real GDP (%)</b>
1950-55	15.2
1955-60	13.4
1960-65	17.5
1965-70	13.4
1970-75	10.8
1975-80	9.3

Source: R. Middleton, *The British Economy Since 1945* (New York, 2000), pp. 146-47

## The 1970s and the Breakdown Consensus

As mentioned earlier, Britain was only declining in relative terms. In absolute terms, Britain was experiencing economic growth since 1945, pushed by a growing world economy. However, at the end of the 1960s there were first signs of the British economy slowing down. The 1970s would turn out to be disastrous in economic terms. As can be seen in table 4, unemployment and especially inflation started rising during this decade.

The abandonment of the fixed exchange rates in 1971/2 and the oil crisis of 1973 exacerbated these effects. These events shook the foundations not just of Britain, but of the entire Western World according to Andrew Gamble. Managing the economy like had been done since the war was going to be a whole lot more difficult in the decades to come.<sup>20</sup>

<sup>19</sup> J. Tomlinson, ‘Thatcher, Monetarism and the Politics of Inflation’, in B. Jackson & R. Saunders ed., *Making Thatcher’s Britain* (Cambridge, 2012), pp. 62-77 at p. 62; Cannadine, ‘Apocalypse When?’, pp. 261-84; E.H.H Green, *Thatcher* (London, 2010), pp. 55-6

<sup>20</sup> A. Gamble, *The Free Economy and the Strong State: The Politics of Thatcherism* (London, 1994), p. 3

**Table 4 Inflation and unemployment in the UK, 1969-1979**

	<b>Annual inflation (%)</b>	<b>Total unemployed (millions)</b>	<b>Unemployment rate of total labour force (%)</b>
1969	5.4	0.597	2.5
1970	6.4	0.640	2.7
1971	9.4	0.797	3.5
1972	7.1	0.876	3.8
1973	9.1	0.619	2.7
1974	16.0	0.619	2.6
1975	24.2	0.978	4.2
1976	16.5	1.359	5.7
1977	15.8	1.484	6.2
1978	8.3	1.475	6.1
1979	13.4	1.390	5.7

Source: Middleton, *British Economy*, p. 149

The Conservative government of Heath and the Labour government of Wilson and Callaghan tried to overturn this economic backlash. The former tried to reduce public spending and limit the government's intervention. However, after the bankruptcy of Rolls Royce in 1971, he feared social disintegration which led him to abandon his radical policies in a famous 'U-turn'. To make matter worse for Heath, his Industrial Relations Act – aimed at reforming the skew industrial relations – was rejected by trade unions. The National Union of Mineworkers (NUM) went on a twelve-week strike in 1974, leading to energy shortages and elective power cuts. Heath declared a state of emergency and imposed a three-day work week in order to save energy. He held elections in the same year, challenging Labour's dependence on the unions.<sup>21</sup> But after two general elections in 1974 – the first being indecisive – Heath was no longer Prime Minister. As the BBC documentary *Margaret Thatcher: Prime Minister* so eloquently put it: 'a nation working under candle light was the final blow to Heath's government.'<sup>22</sup>

<sup>21</sup> Pill & Vogel, 'Blair Wealth Project', p. 6

<sup>22</sup> BBC Documentary *Margaret Thatcher: Prime Minister* shown on 18 April 2013 on BBC Parliament

An agreement between the unions and the government of Labour Prime Minister Harold Wilson exchanged increased social benefits and greater equality for wage restraints. This so-called social contract was necessary in order to combat Britain's economic problems. However, shop stewards started threatening their employers with wildcat strikes and obtained local wage increases. The social contract, which was dependent on collective bargaining on a national level, consequently collapsed.

The government failed once again to reach an agreement on decreased public spending in 1976. Harold Wilson resigned as Prime Minister and his Chancellor of the Exchequer, James Callaghan, succeeded him. But neither he could turn the tide. The value of the British pound dropped spectacularly as international speculators lost confidence in the British government's ability to curb inflation and control fiscal deficits. Callaghan turned to the International Monetary Fund (IMF) to request a big loan. This led to the imposition of IMF reforms in 1976 in the form of an austerity plan, including the implementation of monetary targets and lower public spending. The consequences of this plan were lower inflation but higher unemployment which had passed the one million mark – which held great symbolic value – in 1976 as can be seen in table 4.<sup>23</sup> At a Labour Party conference in 1976, Callaghan introduced the IMF-imposed reforms and denounced Keynesianism and seeing controlling inflation as crucial. Ironically, this would also be a central imperative of Thatcher a few years later.<sup>24</sup>

With wage increases below inflation and public employees working near or below the poverty level, it led to a social conflict called the Winter of Discontent in 1978-79. It got sparked by the Labour government's 5% limit on wage rises for the year in July 1978. Higher wage raises were not made illegal for companies, but sanctions would be made against companies that went over that limit. This presented many companies with a problem. Alex

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<sup>23</sup> Pill & Vogel, 'Blair Wealth Project', pp. 5-6

<sup>24</sup> Middleton, *British Economy*, p. 92

Grover gives the example of Ford Motors. They had a good year so they could easily give their workers a raise of over 5%. But they were also a large government contractor. They decided to stick by the 5%-rule, leading promptly to an unofficial, non-union strike, two weeks later made legal by the Transport and General Workers Union. When Vauxhall Motors, a rival of Ford, gave their workers a 8.5% wage increase, Ford also gave in to the striker's demands.<sup>25</sup> The lack of collective bargaining by the trade unions demonstrated once more its effects. Public sector unions went on strike, demanding wage increases above the level of inflation. It led to images of uncollected garbage on the streets of English cities and even the dead were left unburied as undertakers went on strike as well. It was 'to haunt the electoral chances of the Labour party and the image of the trade unions for the next 18 years.'<sup>26</sup>

## Conclusion

The main question asked at the beginning of this chapter was whether the economic situation in post-war Britain, the perception of relative decline, and the economic and social crises of the 1970s had created a fertile ground for the rise of Thatcherism. Was this the case?

According to some, the Conservatives treated the economic problems Britain had in the 1970s not 'as the result of conjunctural events or specific policy failings, but as symptoms of a profound long-term malaise in the British economy and British society.' In the light of the 'declinist approach', inflation became symbolic for the need of a rethinking of the right approach to economics. Inflation became central to the Thatcherite claim that only a complete overhaul could reverse Britain's economic decline. In their 1979 manifesto the Conservatives claimed that inflation had come 'near to destroying our political and social stability.'<sup>27</sup>

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<sup>25</sup> A. Grover, *Margaret Thatcher: A Tribute, 13<sup>th</sup> October 1925 – 8<sup>th</sup> April 2013* (London, 2013), p. 27

<sup>26</sup> Pill & Vogel, 'Blair Wealth Project', p. 5

<sup>27</sup> Conservative Party, *Conservative Election Manifesto 1979* (1979), <http://www.margarethatatcher.org/document/110858> (accessed on 29 May 2013)



High inflation in the 1970s and the economic and social consequences in Britain had thus created a fertile ground for Thatcher's rise. The Conservatives had three main problems to tackle: the post-war economic approach with its focus on Keynesian demand management, the sense of decline, and the industrial relations with the power of the trade unions.<sup>28</sup>

Margaret Thatcher had focused on the disastrous consequences of inflation while in Opposition years before the elections of 1979, saying already in 1975 that 'no democracy has survived a rate of inflation consistently higher than 20 per cent.'<sup>29</sup>

An important aspect that led to the rise of Thatcherism, was the idea that Britain had become ungovernable in the 1970s, especially because of the role of the trade unions in bringing governments to its knees with endemic strikes, and the inability of succeeding governments to solve Britain's economic problems. The post-war consensus and the post-war industrial relations seemed to have caused the chaos of the 1970s. Solving these problems seemed to require drastic reforms. Trying to battle inflation with more Keynesianism was, according to Thatcher, 'like trying to cure leukaemia with leeches.'<sup>30</sup> However, without the high inflation of the 1970s, their radical ideas would have fallen on deaf ears.

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<sup>28</sup> Tomlinson, 'Politics of Inflation', p. 62

<sup>29</sup> Margaret Thatcher, *Speech at Roosevelt University* (22 September 1975), <http://www.margaretthatcher.org/document/102465> (accessed on 20 May 2013)

<sup>30</sup> Thatcher, *Downing Street Years*, p. 8

## Chapter 2: Thatcherism

Margaret Thatcher is the topic of a substantial literature, with dozens of biographies, documentaries, memoirs and diaries. She was and is still very much a contested figure. Ben Jackson and Robert Saunders start their book *Making Thatcher's Britain* by demonstrating a few contradictions during her political lifetime. She was the first Prime Minister to win three elections in a row since the Great Reform Bill of 1832, but she also was the first to be evicted by her own party since Neville Chamberlain. She was the most successful party leader of the modern era in electoral terms, but her share of the vote was smaller than any Conservative government since 1922 and she received fewer absolute votes than her successor, John Major. Lastly, she would be the first occupant of 10 Downing Street to give rise to an “-ism” in her lifetime, but there is ‘no agreement on what it was or who believed in it.’<sup>31</sup> Whatever Thatcherism is or was, *The Economist* wrote a few days after her passing that ‘[s]he left behind a brand of politics and a set of convictions which still resonate, from Warsaw to Santiago to Washington.’<sup>32</sup>

So what was this ‘brand of politics’? And even more important for this paper, how did the large privatisation programme of the 1980s fit into the idea of Thatcherism? After all, the numerous privatisations in the 11 ½ years that Mrs Thatcher was Prime Minister is seen as one of the defining policies of her time in office. Thatcher herself claimed that it was an essential part of Thatcherism’s main principles.<sup>33</sup> However, in the Conservative Party’s

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<sup>31</sup> B. Jackson & R. Saunders, ‘Introduction: Varieties of Thatcherism’ in B. Jackson & R. Saunders ed., *Making Thatcher's Britain* (Cambridge, 2012), pp. 1-21 at p. 1

<sup>32</sup> *The Economist*, ‘No Ordinary Politician’

<sup>33</sup> M. Thatcher, *The Principles of Thatcherism speech* (Seoul, 3 September 1992), <http://www.margaretthatcher.org/document/108302> (accessed 12 February 2013)

manifesto for the general elections of 1979, privatisation is not mentioned once and the nationalised industries are dealt with in one paragraph.<sup>34</sup>

Even though there were some privatisations before her second term, they were generally industries that had only been nationalised recently. Also, the proceeds of their sale were relatively minor compared to later privatisations. Therefore, some authors believe that privatisation was only part of the 'pure', 'mature' Thatcherism of the mid- to late 1980s. This would assume that privatisation had a limited pre-history before her governments started implementing it and thus had no intrinsic link to Thatcherism.<sup>35</sup>

The goal of this chapter is to try and uncover whether a connection can be drawn between privatisation and Thatcherism. This will mainly require a closer look at Thatcherite economics in order to see whether there exists a link between the earlier thoughts about economics and the privatisation programme of the 1980s which will be the topic of the next chapter.

## Thinking the Unthinkable

The two successive general elections of 1974 were a disaster for the Conservatives. Its total share of the vote fell from 37.9% in February to 35.9% in October. To indicate its disastrous nature, the total share had not been below 40% since 1945.<sup>36</sup> This meant Heath's position as Tory Leader had been weakened. Because of his alleged U-turn in 1972, the Tory's right wing rebelled. A likely candidate for the leadership would be the influential right-wing Keith Joseph. But he could not stand the pressure after a public outrage followed public comments he had made about poor, unmarried single girls. However, he did believe that Heath, who he deemed too much of a compromiser, had to go. Thatcher, who had been

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<sup>34</sup> Conservative Party, *Election Manifesto 1979*

<sup>35</sup> Green, *Thatcherism*, p. 84

<sup>36</sup> C. Cook & J. Stevenson, *The Longman Companion to Britain Since 1945* (Essex, 1996), pp. 51-52

Joseph's unofficial campaign manager for the leadership battle, eventually took Joseph's place and won, becoming Tory Leader on 11 February 1975.<sup>37</sup>

According to Mrs Thatcher speaking in South-Korea in the early 1990s, she believed after the 1974 elections that the Conservative Party should challenge 'socialist consensus politics' instead of upholding it. According to her it had 'retarded economic growth, undermined the management and competitiveness of industry and failed to bring out all that was best in the character of our people.'<sup>38</sup> Thatcher's doctrinal inclinations were linked to the perceived necessity of finding an alternative this Keynesian economic management.<sup>39</sup>

Disillusioned with the Heath government's economic policies, Thatcher allied herself with the Tory Party's right-wing and their intellectual leader: Keith Joseph. Joseph had founded a new think-tank in March 1974, one month after the first Conservative electoral loss, and made Thatcher his vice-chairman. His aim was to 'convert the Tory Party.'<sup>40</sup>

Heath's government had applied a Keynesian demand boost when the crunch came in 1972 and 1973. It demonstrated that the Conservative Party did not seem to have an alternative approach in the early 1970s to the prevailing economic orthodoxy of the time which argued that 'incomes policies were necessary to combat inflation and sustain employment.'<sup>41</sup>

Joseph was bent on exposing the failings of the mixed economy. The Keynesian consensus was making Britain the 'poor man of Europe' according to him. Risk taking, which meant rewarding success and punishing failure, had to be stimulated. Wealth creation for society was crucial. That meant permitting individuals to make money and build up assets.

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<sup>37</sup> D. Yergin & J. Stanislaw, *The Commanding Heights: The Battle for the World Economy* (Rev. and updated edn., New York, 2002), pp. 82-83

<sup>38</sup> Thatcher, *Principles of Thatcherism*

<sup>39</sup> J. Bulpitt, 'The Discipline of the New Democracy: Mrs Thatcher's Domestic Statecraft', *Political Studies*, Vol. 36, No. 1 (1986), pp. 19-39 at pp. 32-33

<sup>40</sup> Interview with Sir Keith Joseph (June 1991), quoted in R. Cockett, *Thinking the Unthinkable: think-tanks and the economic counter-revolution, 1931-1983* (London, 1995), pp. 237

<sup>41</sup> Bulpitt, 'Discipline of the New Democracy', pp. 29-30

Instead of subsidising employment, the government should have the generation of wealth as their objective.<sup>42</sup>

Joseph argued that originally the Heath government had been right in their economic thinking, 'but the political application of that thinking to the real economy had not been thought through.' That is why it eventually fell back on Keynesian techniques. Think-tanks such as the Institute for Economic Affairs (IEA) – a free-market think-tank founded in the 1950s – had laid the foundations of the revival of economic liberalism. Joseph wanted the CPS to insert economic liberalism into politics where the IEA had inserted it only in the intellectual community. In 1983 Alfred Sherman, the Director of Studies of the CPS between 1975 and 1983, summarised the initial objective of the institute: 'Our job was to question the unquestioned, think the unthinkable, blaze new trails.'<sup>43</sup>

Joseph's attack on the main feature of post-war consensus became very influential among right-wing Tory MPs. Joseph and the right-wing economists believed that the post-war governments had financed welfare provision by printing money. As a result there was high inflation, rising to almost 25 per cent in 1974.<sup>44</sup> Joseph himself explained why inflation was such a big problem in a speech at Preston in 1974, warning that it was threatening to destroy 'the savings and plans of each person and family and the working capital of each business and other organization.'<sup>45</sup>

This Preston-speech became the 'seminal text' of the Conservative intellectual rethink in the 1970s.<sup>46</sup> In his speech Joseph argued that pursuing full employment was the primary mistake which made the country ungovernable. Instead, he believed that governments should pursue the controlling of the money supply so that inflation would remain low. He believed

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<sup>42</sup> Yergin & Stanislaw, *Commanding Heights*, p. 81

<sup>43</sup> Cockett, *Thinking the Unthinkable*, p. 236-38

<sup>44</sup> Evans, *Thatcher and Thatcherism*, p. 7

<sup>45</sup> Keith Joseph, *Inflation is Caused by Government speech* (Preston, 5 September 1974),

<http://www.margaretthatcher.org/document/110607> (accessed 14 June 2013)

<sup>46</sup> Jenkins, *Thatcher's Revolution*, p. 62

that inflation was ‘largely a self-inflicted wound’, caused by governments creating new money and the consequent deficit financing ‘out of proportion to the additional goods and services available.’ In order to control inflation, public spending had to be reduced and the deficit had to be cut back because they were both responsible for growth of the money supply causing inflation.<sup>47</sup>

In his thinking Joseph was influenced by the Chicago school of anti-Keynesian economists – Friedrich Hayek and Milton Friedman – and their theory called monetarism. This theory focused on reducing the governmental spending and especially the amount of that expenditure not covered by tax income: the Public Sector Borrowing Requirement (PSBR). This theory therefore provided the perfect solution for the Conservative Party in the 1970s. It offered the solution to prevalent incomes policies that included difficult bargaining with unions, because inflation could be controlled by governments acting on their own.<sup>48</sup> Bargaining with unions had caused difficulties for Heath’s government, so this solution was more than welcome.

## Thatcherism

Margaret Thatcher’s years as Leader of the Opposition between 1975 and 1979 created the theoretical framework for what some would later call the ‘Thatcherite Revolution’. What had to be done was working out the specific policies that an eventual government led by Thatcher would pursue to ‘reverse the trend of collectivism and advance towards a free-market political economy.’<sup>49</sup> She personally argued that this period were the formative years of Thatcherism, saying about her years with the CPS and her time as Leader of the Opposition as starting ‘the testing process of re-thinking Conservative policy from the stance of the free market, limited government and the rule of law. (...) The philosophy of

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<sup>47</sup> Joseph, *Inflation is Caused by Governments*

<sup>48</sup> Bulpitt, ‘Discipline of the New Democracy’, p. 32

<sup>49</sup> Cockett, *Thinking the Unthinkable*, p. 243

Thatcherism, then, was born of all this personal and collective experience.<sup>50</sup> Nigel Lawson, who claimed that he coined the term Thatcherism, expanded on that definition calling it ‘a mixture of free markets, financial discipline, firm control over public expenditure, tax cuts, “Victorian values”, privatisation and a dash of populism.’<sup>51</sup>

Thatcherism combined many ideas and political attitudes that were by no means new. Free trade ideology, patriotism, the attacks on the trade unions: they had all been done before by predecessors. It was not the originality of Thatcherism that is relevant, however, but the context of the 1970s and 1980s.<sup>52</sup>

Eventually this new ‘brand of politics’ found fertile ground by the end of the 1970s. As described in the previous chapter, the combination of high inflation, the sense of decline, labour conflict, and social discontent had created the circumstances in which a radical shift in policy was possible. Keynesian demand management did not seem to offer solutions that could fix the country’s problems. The Winter of Discontent was the final nail in the coffin for the Keynesian consensus. It made the country appear ‘ungovernable’.<sup>53</sup>

When the general elections came in 1979, the Conservatives set out five tasks in their manifesto. These were:

1. To restore the health of our economic and social life, by controlling inflation and striking a fair balance between the rights and duties of the trade union movement.
2. To restore incentives so that hard work pays, success is rewarded and genuine new jobs are created in an expanding economy.
3. To uphold Parliament and the rule of law.

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<sup>50</sup> Thatcher, *Principles of Thatcherism*

<sup>51</sup> Nigel Lawson quoted in P. Clarke ‘The Rise and Fall of Thatcherism’, *Historical Research*, Vol. 72, No. 179 (October 1999), pp. 301-22

<sup>52</sup> Evans, *Thatcher and Thatcherism*, p. 3-4

<sup>53</sup> Bulpitt, ‘Discipline of the New Democracy’, p. 34

4. To support family life, by helping people to become home-owners, raising the standards of their children's education, and concentrating welfare services on the effective support of the old, the sick, the disabled and those who are in real need.
5. To strengthen Britain's defences and work with our allies to protect our interests in an increasingly threatening world.<sup>54</sup>

It is not surprising that the Conservatives put controlling inflation as their first task. In the previous chapter it became clear that they saw it as one of the main reasons for Britain's economic problems. Despite prior Conservative governments having given bringing down inflation a high priority, they had 'not developed a coherent doctrine about its causes or how to combat it.'<sup>55</sup>

## Rolling Back the State Frontiers

An recurrent theme in the debate about Thatcherism is individual freedom and the role of state. In her foreword to the 1979 manifesto, Margaret Thatcher expresses that especially individual freedom and the reverse of decline were in the balance at the upcoming elections, saying that 'the balance of our society has been increasingly tilted in favour of the State at the expense of individual freedom.'<sup>56</sup>

The Conservative Party blamed Labour for many things that were wrong in Britain in 1979. One of the major accusations was that, according to the Conservatives, Labour had been responsible for enlarging the role of the state at the expense of the individual, crippling enterprise in the process. The Conservatives claimed that they could halt the relative decline that was occurring in Britain, claiming that the 'country's relative decline is not inevitable,' and that the way to do it is 'helping people to help themselves.' It would seem that the basis of Thatcherism was 'rolling back the frontiers of the state in order to enlarge the space for

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<sup>54</sup> Conservative Party, *Election Manifesto 1979*

<sup>55</sup> Quoted in K. Harris *Thatcher* (London, 1989), p. 250

<sup>56</sup> Conservative Party, *Election Manifesto 1979*



private enterprise, competition, and individual liberty.’<sup>57</sup> As she told House of Commons in 1983 that she had a vision of ‘long-term economic growth’ that was based on the creation of an ‘enterprise culture’.<sup>58</sup>

In a 1987 interview with a German magazine, Thatcher argued that ‘[t]he management of property, whether it is a home, whether it is your shares or savings, building your own security for the future, brings a sense of responsibility ... that is what Thatcherism is.’<sup>59</sup> The goal was to free the economy from the ‘dead hand of the State’ so individuals would be able to exercise their talents to the full and thereby make them responsible for their own fate. Rolling back the frontiers of the State meant that individuals had to be free and not depend on others ‘in the form of taxpayer-subsidized industries or benefits. Reducing the scale of State activity and giving more scope to the individual, providing incentives for effort through cutting the level of personal taxation, encouraging people to acquire and pass on property in the form of houses and equities, all established a link between economic freedom and the ability to exercise and fulfil personal choice.’<sup>60</sup>

These goals could only be achieved, according to Thatcher, by ‘rolling back the frontiers of the State’ both in the economic sphere as the social sphere. However, the state would provide a strong defence and also enforce law and order. Gamble calls this part the concept of the ‘strong State’ complemented by the ‘free economy.’<sup>61</sup> Therefore a ‘private-sector-dominated market economy’ had to replace the current mixed economy. This involved lowering direct taxation, reforming and reducing the welfare state, encouraging wider property ownership, trade unions and other institutions that ‘hampered the operation of the market’ had to be curbed, and finally, low inflation should be the main goal of economic

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<sup>57</sup> J. Peck & A. Tickell, ‘Conceptualizing Neoliberalism, Thinking Thatcherism’ in H. Leitner, J. Peck & E. Sheppard ed., *Contesting Neoliberalism: Urban Frontiers* (New York, 2007), pp. 26-50 at p. 28

<sup>58</sup> Thatcher quoted in Harris, *Thatcher*, p. 250

<sup>59</sup> Thatcher interview with *Der Spiegel* (8 September 1987) quoted in Green, *Thatcher*, p. 27

<sup>60</sup> Green, *Thatcher*, p. 27

<sup>61</sup> Gamble, *The Free Economy and the Strong State*

policy. 'In short, Thatcherism sought to dismantle the policy structures that had come to be defined as the 'post-war settlement' or the post-war consensus.'<sup>62</sup>

## Critical Views

When one reads about Thatcherism, it becomes clear that there is no single uncontested meaning. Many commentators even doubt if Thatcherism is an actual coherent ideology. Jim Bulpitt sees Thatcher predominantly as 'statecraft', 'designed primarily as an experiment in government survival rather than in economic or political theory,' dismissing the ideological side of Thatcherism as of secondary importance and also the monetarist objectives such as 'the revival of the free market, individual initiative, rolling back the frontiers of the state, public expenditure cuts, and above all, the defeat of inflation' as inferior to statecraft.<sup>63</sup>

Peter Riddell also does not see Thatcherism as an ideology. Instead, he sees it as 'essentially an instinct, a series of moral values and an approach to leadership rather than an ideology. It is an expression of Mrs Thatcher's upbringing in Grantham, her background of hard work and family responsibility, ambition and postponed satisfaction, duty and patriotism.' He sees 'consistency' as the striking feature of her approach with recurrent themes such as personal responsibility, the family and national pride. He adds that her references to Victorian values are exemplary for Thatcher's rhetoric.<sup>64</sup>

Just like other -isms, Thatcherism is not an explanation in itself but it does 'identify phenomena that are coherent enough to warrant further investigation.' Gamble believes that Thatcherism is particularly relevant for understanding events after 1975, because 'Thatcher identified herself with the ideas and the causes of the New Right and used her position as

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<sup>62</sup> Green, *Thatcher*, p. 27

<sup>63</sup> Bulpitt, 'Discipline of the New Democracy', p. 34

<sup>64</sup> P. Riddell, *The Thatcher Government* (Oxford, 1983), p. 7

leader to promote the spread of these ideas in a manner that was highly unusual for a Conservative leader.’<sup>65</sup>

That means that whether or not Thatcherism was an ideology, her consistency in spreading certain core principles is what is relevant. As can be seen in the manifesto’s five primary tasks, these had been consistent from the mid-1970s until 1979. In my opinion, therefore, Thatcherism was at least a coherent set of ideas especially about the role of the state, individual freedom and personal responsibility.

## Conclusion

Large volumes have been written about Thatcher and Thatcherism. Most authors seem to agree that she had a lasting impact and that she profoundly changed British society and economy, either for the worse or for the better. The attention this so-called ‘revolution’ has received, is demonstrated by the numerous books and articles about this ‘Thatcher Revolution’.<sup>66</sup>

Her intent was to break radically with the status quo. Evans sees Thatcherism as the antitheses of everything that the Thatcherites thought was wrong what they believed to be the Keynesian consensus. It was against too much state intervention, therefore in favour of individual rights. It was against state initiatives that encourage a dependency on the state, therefore in favour of private enterprise within a free market. It was against consensus-politics, therefore in favour of firm leadership. It was against high levels of taxation, therefore in favour of low levels of taxation. It was against the distorting of market forces by both organised labour and entrenched professional interests, therefore in favour of reforming

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<sup>65</sup> Gamble, *Free Economy*, p. 3

<sup>66</sup> For example Jenkins, *Mrs Thatcher’s Revolution*; R. Subroto & J. Clarke ed., *Margaret Thatcher’s Revolution* (London, 2005); and E. Reitan, *The Thatcher Revolution* (Oxford, 2003)

trade unions. It was against the declining reputation of Britain in the world, therefore in favour of simple patriotism.<sup>67</sup>

One of the central arguments of Thatcher was that government should not be in business. She may not have said it explicitly before 1979, but to me privatisation is a logical consequence of that thought. However, she was also a pragmatic politician and aware of the difficulties both economically and politically of rushing into a large privatisation programme. De-nationalising recently nationalised industries was not necessarily the problem. But some State-owned industries, for example the phone system, had never existed under private ownership. These first had to be rationalised before they could be sold off. Also, there was no clear blueprint for this because it never had been done before anywhere. It required planning and careful consideration.

Lastly, Thatcherism may or may not be an ideology, it had been consistent all throughout the 1970s. It was coherent set of ideas focusing particularly on the role of the state, individual freedom and personal responsibility.

This chapter thus demonstrates that although Thatcherism did not explicitly have privatisation or denationalisation as a primary goal before 1979, its ideas concerning the role of the state in the market were in the same line of thought. Privatisation, therefore was intrinsically connected to the core ideas of Thatcherism.

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<sup>67</sup> Evans, *Thatcher and Thatcherism*, p. 3

# Chapter 3: Privatisation

Although most people associate modern privatisation programmes with Margaret Thatcher, her government was not the first to try privatisation. In the first years of Heath's government, the Conservatives tried to implement a denationalisation programme. However, Heath's aforementioned U-turn in that government's economic policy killed the programme rapidly.<sup>68</sup> Outside Britain the Adenauer Government in the Federal Republic of Germany and the Chilean government under Pinochet tried large-scale, ideologically motivated 'denationalisation' programmes after 1945. However, both programmes failed and the denationalised companies had to be re-nationalised some time later. It was Britain under Thatcher that started the trend of large-scale privatisation programmes and was therefore the most important historically.<sup>69</sup>

Before Thatcher's privatisation programme is analysed, there needs to be defined what privatisation actually means. William Megginson and Jeffrey Netter define the political and economic policy of privatisation as 'the deliberate sale by a government of state-owned enterprises (SOEs) or assets to private economic agents.'<sup>70</sup> This definition will be the one used for this chapter.

To understand the link between Thatcherism and privatisation, it is necessary to understand how privatisation actually took place. The impact of the privatisation programme can only be analysed if it is clear what the programme actually was.

To analyse the privatisation programme and its consequences, this chapter will be split up in five sections. The first section will be a short history of the state-owned enterprises

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<sup>68</sup> R. Rees, 'Economic Aspects of Privatization in Britain' in V. Wright, *Privatization in Western Europe* (London, 1994), pp. 44-56 at p. 44

<sup>69</sup> W.L. Megginson & J.M. Netter, 'From State to Market: A Survey of Empirical Studies on Privatization', *Journal of Economic Literature*, Vol. 39, No. 2 (1 June 2001), pp. 321-389 at p. 323; G. Roland ed., *Privatization: Successes and Failures* (New York, 2008), p. 10

<sup>70</sup> Megginson & Netter, 'From State to Market', p. 321

(SOEs). It will partly clarify the main motivations for privatisation between 1979 and 1990. The second section will discuss Thatcher's main economic policies and the British economy in general during the period 1979-90. Privatisation was part of a broader vision Thatcherites had of Britain. Therefore privatisation cannot be singled out without mentioning other economic policies. Also, the effects of the British economy and the world economy on policy decisions were important. The third section will be about Thatcher's privatisation programme between 1979 and 1990. When were the first initial ideas about privatisation formulated? How did they proceed and how was the programme actually implemented? The fifth section will be the consequences of the privatisation on Britain and the rest of the world. The sixth section will summarise and conclude this chapter.

## **The Nationalised Industries**

Meggison and Netter argue in their survey of empirical studies on privatisation that the argument for a more active role of governments around the world, 'including ownership of production and provision of all types of goods and services', was a consequence of the Depression, World War II and the final breakup of colonial empires. In Western Europe there was a debate as to how deeply involved the State should be in regulating the domestic economy and which industries should be owned exclusively by the State. Until 1979 the prevailing answer, not just in Britain but elsewhere as well, was that the State should at least control the telecommunications, postal services, electric and gas utilities, and most forms of non-road transportation such as airlines and railroads. There was also a widespread belief among many politicians that the state should control certain strategic manufacturing industries – the 'commanding heights' – steel and defence production for example.<sup>71</sup>

In Britain's case, the nationalisation of certain industries started in July 1945 when the Labour Party of Clement Attlee won the elections. One of their primary objectives was the

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<sup>71</sup> Meggison & Netter, 'From State to Market', p. 322

nationalisation of major industries and taking control of the commanding heights of the economy. Coal, iron and steel, utilities, and some other major firms were nationalised under this government. They thought the government was better at controlling the economy than the market forces. The general idea was that nationalisation would lead to better operation of firms, full employment and growth. Added to that was the hope that government-ownership would lead to a fairer allocation of resources. In 1946 20% of the British workforce was employed in SOEs.<sup>72</sup>

Under the Conservative Party, who were the governmental party between 1951 and 1964, there was not a large denationalisation programme. Only the steel industry was returned to the private sector. The latter was re-nationalised once more under Labour. In the 1970s Labour Government there was a more interventionist stance to industry and brought several more industries and even single enterprises into public ownership. In 1979 the public corporation in the British economy represented 10.5% of total GDP and 8.1% of the labour force.<sup>73</sup>

Nigel Lawson, Chancellor of the Exchequer between 1982 and 1989 and therefore one of the main protagonists of Thatcher's privatisation programme, gave several reasons why he believed that nationalisation had failed. First, he believed that the nationalised industries actually turned out to be the 'biggest threat to industrial peace' due to the combination of strong central union power and the safety-net of the Treasury. Second, the goal of full employment had led to overmanning and consequently greater job losses in the long term.<sup>74</sup>

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<sup>72</sup> W. Megginson & J. Netter, 'History and Methods of Privatization', D. Parker & D. Saal ed., *International Handbook on Privatization* (Cheltenham, 2003). pp. 25-40 at p. 27

<sup>73</sup> J. Dunkerly & P.G. Hare, 'Nationalized Industries' in N. Crafts & N. Woodward ed., *The British Economy since 1945* (Oxford, 1991), pp. 381-416 at p. 381, 405

<sup>74</sup> N. Lawson, *Memoir of a Tory Radical: an abridgement of "The View from Number 11" with a new concluding chapter* (rev. ed., London, 2010), pp. 119-20

He added two other main criticisms that were on the arguments that nationalisation led to an increase in productivity and a more efficient regulation of monopolies. About the former, he mentioned that private enterprises were performing better than their nationalised counterparts based on a report by a former-advocate-turned-critic of nationalised industries in the late 1970s, Richard Pryke.<sup>75</sup> His main conclusion was that ‘they had used capital and labour less effectively than their private counterparts, and were operating at a loss.’ Lawson added that public ownership eliminates the necessary ‘threat of take-over and ultimately bankruptcy, and the need, which all private undertakings have from time to time, to raise money from the market.’ Lawson saw the regulation of monopoly argument as neglecting the advantages of introducing competition.<sup>76</sup>

The ‘politicisation’ was another threat of state-owned companies according to Lawson. Politicians in power drove the firm’s decision, not their managers. This involved decisions regarding wage increases, the location of new plants, acquiring new equipment, and other major projects. Lawson argued in his 1982 speech that what was missing, was the discipline of the market. ‘What public ownership does is to eliminate the threat of take-over and ultimately bankruptcy, and the need, which all private undertakings have from time to time, to raise money from the market.’<sup>77</sup>

Dunkerly and Hare give five reasons why nationalisation eventually failed. First, the model of nationalisation assumed that changing ownership would solve problems, not looking to the specific nature of the problems involved. Second, government intervention weakened the industry’s incentives to produce efficiently and produce good services leading to lower productivity. Third, each industry made its own demand, cost, and investment forecast without coordinating it with the other SOEs. There was a low degree of planning which could have ensured ‘reasonably well coordinated development in the absence of

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<sup>75</sup> R. Pryke, *The Nationalised Industries: Policies and Performance since 1968* (Oxford, 1981)

<sup>76</sup> Lawson, *Memoirs*, p. 120

<sup>77</sup> *Ibid.*, p. 120



market signals which are supposed to achieve such coordination in the private sector.’ Fourth, the model became a ‘kind of dogma’, applying virtually the same model for nationalisations in the 1960s and 1970s as for the industries nationalised directly after the war, although these industries had different problems. Fifth, the industrial relations had serious shortcomings. Workers were put in an adversarial role to management in bargaining about wages and conditions. This worked well enough when the public sector was growing, but if economic pressure forced management to cut jobs, this was met with fierce opposition as can be seen in chapter 1. Dunkerly and Hare conclude that the approach to nationalisation ‘eventually ran against an increasing number of serious difficulties which could not be resolved merely by tinkering with the established model. This model has had its day.’<sup>78</sup>

## Thatcherite Economic Policies

After the elections of 1979 the Conservatives had received 43.9 % of the total votes and won 339 seats in total – an increase of 62 seats. They gained an overall majority over all other parties of 43 seats due to the First-Past-The-Post system.<sup>79</sup> The first Thatcher Administration came into office.

The first budget in 1979 had two primary objectives: reduce inflation and restructure the tax burden. Inflation would be brought down by a severe monetary and fiscal squeeze. The tax structure would be reformed so income taxes were brought down, especially for higher incomes, while the value-added tax was nearly doubled. This shift from taxing spending instead of income had the objective to ‘widen choice and improve incentives.’ Other crucial measures were the announcement of new money-supply targets, a pledge to reduce the PSBR, raising the minimum lending-rate, and cutting back on public

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<sup>78</sup> Dunkerly & Hare, ‘Nationalised Industries’, pp. 415-16

<sup>79</sup> Cook & Stevenson, *Britain since 1945*, p. 52

expenditure.<sup>80</sup> The first phase of Thatcher's government was dominated by the consequences of the government's determination to maintain a strict monetary policy in order to bring down inflation. The conquest of inflation was the government's top priority.<sup>81</sup>

In line with the philosophy of Thatcherism, the first Thatcher Administration attempted to create a thriving enterprise economy. Riddell mentions that the government had shown 'an almost moral fervour about its desire to extol the entrepreneur, to roll back the state, to sell off public corporations and to change the whole climate in which business operates.' The goal was a cultural change to recreate the conditions of the nineteenth century that led to the rise of Britain's commerce and industry.<sup>82</sup> Crafts and Woodward added that they thought that deregulation and instilling more competition in financial markets was the emphasis of Thatcher's economic policy. This was in direct opposition to the preceding years when the government's intent had been getting efficient allocation of resources which was supposed to result in a much more rapid rate of financial innovation.<sup>83</sup>

Several key agencies and institutions that had been responsible for intervening in the economy previously were abolished. The government instead placed 'its faith in the private sector and the removal of obstacles to the workings of free markets.' Symbolic for the move towards the achievement of economic freedom was the abolition of restrictions on the import and export of capital in July and October of 1979.<sup>84</sup>

As described in chapter 1, the power of the trade unions and shop stewards were very significant on industrial relations after the war. A number of Trade Union Acts under

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<sup>80</sup> G. Howe, *1979 Budget (Howe 1)*, <http://www.margaretthatcher.org/document/109497> (accessed 12 April 2013)

<sup>81</sup> Gamble, *The Free Economy*, p. 107

<sup>82</sup> Riddell, *The Thatcher Government*, pp. 164-5

<sup>83</sup> Crafts & Woodward, 'British Economy since 1945', p. 15

<sup>84</sup> Gamble, *The Free Economy*, p. 108

Thatcher were focused on rolling back their influence. For example, the government made secondary picketing virtually impossible and it made an end to the infamous closed shops.<sup>85</sup>

The National Union of Mineworkers (NUM), which was the traditional elite of the trade unions and had been responsible for the Heath government's downfall in 1974, would eventually start a strike against these governmental policies. Unlike in 1974, this time the government was prepared for a long strike of the NUM. Learning from the Heath government, the government made sure that an eventual strike would not lead to power shortages by stockpiling coal in advance and assuring imports of energy if it would be needed. Economically it made sense as well, because the nationalised coal industry was losing money and proved to be a drain on governmental subsidies. It required drastic rationalisation, mines would have to close and the workforce would have to shrink. However, the NUM turned it into a class-war.<sup>86</sup>

The strike started in 1984 and lasted a year. It eventually failed in 1985 for several reasons, one of which was the refusal of the NUM president, Arthur Scargill, to hold a secret ballot before calling the strike, which damaged the strike's legitimacy in the public's eyes. After the strike was defeated, the national coal mining industry shrank drastically. It was a monumental victory for Thatcher, effectively breaking the influence of the unions reinforced after another major strike of print workers was defeated in 1986. The total number of trade unionists in Britain fell from 13.5 million in 1979 to about 10.5 million in 1986, and went under the 10 million mark when Thatcher left office in 1990. 'Margaret Thatcher appeared to have slain another of her dragons.'<sup>87</sup>

It is also important to realise that Britain was very much affected by the world economy. Gamble connects Thatcher's time in office to distinct phases in the world economy, more or less coinciding with her three terms. The first period was between 1979

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<sup>85</sup> Evans, *Thatcher and Thatcherism*, p. 38

<sup>86</sup> Yergin & Stanislaw, *Commanding Heights*, p. 95

<sup>87</sup> Evans, *Thatcher and Thatcherism*, p. 39-40

and 1982 and was during a worldwide slump in the world economy after a rise in oil prices in 1979. High interest rates and the increased oil prices led to an increase of the sterling by 12%. British companies thus saw their competitive position decline dramatically while profits and liquidity became tighter. It led to numerous bankruptcies, plant closures and lay-offs. Unemployment and inflation were both soaring. In 1982 the recovery started, mainly because of the United States' trade and budget deficits. This boom lasted until 1987 when the stock-market crashed in 1987. Gamble blames this collapse on the unsustainable growth of debt, leading to high inflation.<sup>88</sup>

## The Privatisation Programme

In previous chapter it has been mentioned that Thatcher claimed that one of the main principles of Thatcherism was the privatisation of industry in order to roll back the frontiers of the state. She 'believed that private property should be spread as widely as possible, as a bulwark for the liberty and independence of the people and to enhance a sense of responsibility to future generations.'<sup>89</sup> As described in the previous chapter, however, privatisation or denationalisation was barely mentioned in the 1979 manifesto. Therefore, several authors have portrayed the privatisation programme as a 'product of the "pure" or "mature" Thatcherism of the mid- to late 1980s.'<sup>90</sup>

That does not tell the whole story though. In task two of the five tasks set out in the 1979 manifesto (see chapter 2) there are some signs that privatisation was indeed part of the Thatcherite agenda though not explicitly. A phrase directly from the manifesto states: 'We all hope that those firms which are at present being helped by the taxpayer will soon be able to succeed by themselves; but success or failure lies in their own hands.' It is followed by a statement that they oppose Labour's plans to nationalise more firms and actually mention

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<sup>88</sup> Gamble, *The Free Economy*, p. 107

<sup>89</sup> Thatcher, 'Principles of Thatcherism'

<sup>90</sup> Evans, *Thatcher and Thatcherism*; Green, *Thatcherism*, p. 84

selling back to private ownership the recently nationalised aerospace and shipbuilding firms.<sup>91</sup> Furthermore, they already announced that they aimed to sell shares in the National Freight Corporation to the general public in order to achieve substantial private investment in it. Also, a large part of task two focuses on profits being the ‘foundation of a free enterprise economy’, seeing effective competition as a solution to low profits.<sup>92</sup>

The Conservatives explained why they should not rush into radical economic reform straight away in a 1977 paper called *The Right Approach to the Economy*. This document was the only official document published regarding Conservative policy between February 1975, when Thatcher became Tory leader, and the 1979 manifesto.<sup>93</sup> Amongst the writers were prominent Tories including Sir Keith Joseph and Geoffrey Howe who would later become Chancellor of the Exchequer. In the paper they presented a broad outline of the next Conservative’s government economic strategy. They argued for introducing more competition into the economy and ‘removing other barriers to enterprise.’ They add, however, that they understand that industrialists require stability and therefore would not want to ‘rush into major institutional changes.’<sup>94</sup> In my opinion, large-scale privatisation programme would be considered a major institutional change.

Most nationalised industries could not just be privatised. They first had to be ‘fixed’ in order to be able to sell them in the first place. This meant reducing their loss-making activities, restructuring their organisation, and establishing a basis for profitability. To demonstrate the approach of the government regarding this problem, Yergin and Stanislaw use the example of British Steel. From the mid-1970s until the mid-1980s this company lost billions of pounds which had to be covered by the Treasury. Restructuring was therefore

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<sup>91</sup> Conservative Party, *Election Manifesto 1979*

<sup>92</sup> Conservative Party, *Election Manifesto 1979*

<sup>93</sup> J. Campbell, *The Iron Lady: Margaret Thatcher, from Grocer’s Daughter to Prime Minister* (London, 2009), p. 97

<sup>94</sup> G. Howe, K. Joseph, J. Prior & D. Howell, *The Right Approach to the Economy: Outline of an Economic Strategy for the next Conservative Government* (London, October 1977)

necessary in order to stop its drain on public funds. By the time British Steel was finally privatised, ‘its labor force had already been drastically reduced and its productivity dramatically increased, its facilities rationalized. And it was profitable- and internationally competitive.’<sup>95</sup> Yergin and Stanislaw argue that restructuring the SOEs before selling was also crucial ‘since governments are better able than private owners to cushion the financial blow to any displaced workers by using unemployment or pension schemes.’ It would let the private buyers of SOEs start with a ‘clean slate’. In Britain, preparing companies for privatisation was standard practice during the 1980s, ‘in part to smooth the transition with the trade unions.’<sup>96</sup>

The first explicit mentioning of a large-scale privatisation programme was in 1981. On 19 October of that year, Nigel Lawson, at his first appearance as Energy Secretary, announced to a ‘surprised’ House of Commons the intention of privatising the entire businesses of British Gas and the British National Oil Corporation (BNOC). Two months later he elaborated on this initial statement: ‘No industry should remain under State ownership unless there is a positive and overwhelming case for it doing so. Inertia is not enough. As a nation we simply cannot afford it.’<sup>97</sup>

As for the actual implementation of the privatisation programme, Pill and Vogel state that it happened in three phases. The first phase involved the more obvious and competitive sectors and companies such as Amersham International, Cable and Wireless and British Aerospace. In the second phase, the commanding heights were privatised, including steel, coal and shipbuilding. Third and last were the privatisations of the utilities such as electricity and water.<sup>98</sup>

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<sup>95</sup> Yergin and Stanislaw, *Commanding Heights*, p. 100

<sup>96</sup> Megginson & Netter, ‘From State to Market’, p. 340

<sup>97</sup> Lawson, *Memoirs*, p. 128

<sup>98</sup> Pill & Vogel, ‘Blair Wealth Project’, p. 9

These were the objectives that were set by the Conservatives for the British privatisation programme:<sup>99</sup>

1. Raise revenue for the State
2. Promote economic efficiency
3. Reduce government interference in the economy
4. Promote wider share ownership
5. Provide the opportunity to introduce competition
6. Subject SOEs to market discipline

The first actual privatisations, meaning the selling of state assets, began on 19 June 1979 when the National Enterprise Board was ordered to sell over £100 million worth of assets. Also, the BNO had to give up its interests in oil exploration, including selling its 23 blocks in the North Sea.<sup>100</sup> The recently nationalised Cable & Wireless and British Aerospace were both privatised in 1981. Other examples of early privatisations were roadside gas stations and hotels belonging to the state-owned railway system. However, the sale of council housing units to its tenants turned out to be the most significant form of privatisation in the early Thatcher years due to its popularity.<sup>101</sup> It led to 40% of council house owners voting for Thatcher in 1983 while only 25% of council house tenants did that.<sup>102</sup> Privatisation got a good reputation in the public opinion.

Objective four, promoting wider share ownership among the population, became very important for the Thatcher government. Nigel Lawson mentioned that ‘widespread ownership of private property is crucial to the survival of freedom and democracy.’<sup>103</sup>

Very important in that objective of achieving this ‘capital-owning democracy’ was the privatisation of the state telephone system into British Telecom in November 1984. It was symbolic for the shifting balance from production to the consumer in the economy and would

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<sup>99</sup> Price Waterhouse, *Privatization: Learning the Lessons from the U.K. Experience* (London, 1989); Price Waterhouse, *Privatization: The Facts* (London, 1989)

<sup>100</sup> Gamble, *The Free Economy*, p. 109

<sup>101</sup> Yergin, *Commanding Heights*, p. 98

<sup>102</sup> Evans, *Thatcher and Thatcherism*, p. 27

<sup>103</sup> Lawson, *Memoirs*, p. 98

be considered the real breakthrough for privatisation. The attention was a lot more dramatic for the privatisation of the phone system, because it affected consumers much more than the gas and oil privatisations.<sup>104</sup>

However, a more important reason was the fact that the success of the initial public offering of British Telecom led to privatisation by public share offering becoming a standard model. It was a major success with 2.3 million people buying shares and a total revenue raised of almost £4 billion, dwarfing all the privatisations that had gone before. It led to increasingly massive share issue privatisations (SIPs) through public share offering in the second half of the 1980s and early 1990s as can be seen in table 5. It reduced the role of SOEs in Britain's economy to essentially nothing when the Conservatives left office in 1997, from more than 10% of GDP when they came into office in 1979.<sup>105</sup>

There was also opposition to privatisation from the press, parts of the public, trade unions within SOEs and also from managers of those companies. An example was an attempt in 1981 to sell the nine hundred showrooms British Gas owned that held the exclusive right to sell gas-fired stoves and other appliances. This decision was met with heavy protests. An alliance of Labour and even some Conservative MPs with British Gas's unions 'egged on by management that did not want to lose any of its empire' managed to portray this sale as an assault on the British way of life. Lawson did not expect this strong opposition, so he had to back down for now.<sup>106</sup> This episode demonstrated that privatisation was not a battle easily won.

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<sup>104</sup> Yergin & Stanislaw, *Commanding Heights*, p. 101

<sup>105</sup> Megginson & Netter, 'From State to Market', p. 324

<sup>106</sup> Yergin, *Commanding Heights*, p. 99



**Table 5 Privatisation by public share offering, 1981-1991**

Month	Year	Company	Equity initially sold (%)	Proceeds (millions of pounds)
Feb	1981	British Aerospace	51.6	150
Oct		Cable and Wireless	50	224
Feb	1982	Amersham International	100	71
Nov		Britoil	51	549
Feb	1983	Associated British Ports	51.5	22
June		Enterprise Oil	100	382
July	1984	Jaguar	99	294
Nov		British Telecom	50.2	3,916
Dec	1986	British Gas	97	5,434
Feb		British Airways	100	900
May	1987	Rolls-Royce	100	1,363
July		British Airports Authority	100	1,281
Dec	1988	British Steel	100	2,500
Dec		Regional Water Companies	100	5,110
Dec	1990	Electricity Distribution Companies	100	5,092
Mar		National Power and PowerGen	60	2,230
May	1991	Scottish Power and Scottish Hydro Electric	100	2,880
<b>Total</b>				<b>32,398</b>

Source: Pill & Vogel, 'Blair Wealth Project', p. 21

Another issue with privatisation was the problem of selling assets which were strategically important such as oil. These could not end up in foreign hands. Lawson therefore created a 'golden share' when the government sold more than 51% in one of these industries. This special share would be retained by the Government after privatisation and would retain a 'quite disproportionate power.' This way they could 'prevent control of the company from falling into unsuitable hands,' mainly meaning foreign hands.<sup>107</sup> This would become the standard for privatisation of certain strategic assets.<sup>108</sup>

The protests against privatisation eventually died down. In their general election manifesto for the 1983 elections, Labour still promised 'the return to public ownership of those public industries sold off by the Tories,' wanting to bring Britoil and British Petroleum

<sup>107</sup> Lawson, *Memoirs*, p. 134

<sup>108</sup> Megginson & Netter, 'From State to Market', p. 23

back under public control.<sup>109</sup> In their 1987 manifesto, however, Labour did not mention re-nationalisation or public ownership at all. They only opposed further privatisation of the NHS and public utilities such as water and electricity.<sup>110</sup> Privatisation had become a fact.

## Consequences of Privatisation

A major criticism on privatisation comes from Evans who believed that the enhanced productivity of the privatised firms was because the CEOs had made them ‘leaner’ and ‘fitter’ by reducing the workforce.<sup>111</sup> However, the largest increases in unemployment happened before the major privatisations of the second half of the 1980s and could be blamed on the global recession.<sup>112</sup> Also, nationalised industries had been instrumental in previously government’s policies in pursuing full employment, leading to overmanning of these companies. Rationalising the workforce was done prior to privatisation, but was necessary in order to make them more efficient and in the end profitable. In the 1987 manifesto the Conservatives condemned returning to the ‘overmanning practices’ of the 1970s.<sup>113</sup>

It was expected that privatisation would lead to increased performance of the privatised companies. Stephen Martin and David Parker have done several studies on the effects of privatisation on the performance of eleven British companies privatised during the period 1981-88 and analysing the changes in several features of the companies over the course of privatisation.<sup>114</sup> These were the rate of return on capital employed, annual growth in value-added per employee-hour, labour productivity growth and total factor productivity

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<sup>109</sup> *Labour Party Manifesto 1983* (1983), <http://www.labour-party.org.uk/manifestos/1983/1983-labour-manifesto.shtml> (accessed 17 June 2013)

<sup>110</sup> *Labour Party Manifesto 1987* (1987), <http://www.labour-party.org.uk/manifestos/1987/1987-labour-manifesto.shtml> (accessed 17 June 2013)

<sup>111</sup> Evans, *Thatcher and Thatcherism*, p. 38

<sup>112</sup> Middleton, *The British Economy*, p. 145

<sup>113</sup> *Conservative Election Manifesto 1987* (1987), <http://www.conservative-party.net/manifestos/1987/1987-conservative-manifesto.shtml> (accessed 6 June 2013)

<sup>114</sup> S. Martin & D. Parker, ‘Privatization and Economic Performance throughout the UK Business Cycle’, *Managerial and Decision Economics*, Vol. 16, No. ‘3 (May/June 1995), pp. 225-237; S. Martin & D. Parker, ‘The Impact of UK Privatisation on Labour and Total Factor Productivity’, *Journal of Political Economy*, Vol. 42, No. 2 (May 1995), pp. 201-220

growth. The outcome was mixed. Half of the studied firms did not have outright performance improvements after privatisation. They highlight the run-up to privatisation as most influential on improvements in performance, leading to the conclusion that the ‘threat’ or ‘opportunity’ of privatisation may lead to improved performance because it ‘gels management’. It also demonstrates that performance improvement is possible under public ownership ‘when the incentive and will exist.’ These mixed results confirm for them that ‘privatisation does not guarantee good performance.’<sup>115</sup>

However, Megginson and Netter come to a different conclusion. They surveyed 22 different studies about the impact of privatisation via public share offering on performance and employment in developed countries. Their conclusion is that, except for one, they all ‘offer at least limited support for the proposition that privatization is associated with improvements in the operating and financial performance of divested firms,’ adding that ‘all studies that examine post-privatization changes in output, efficiency, profitability, capital investment spending and leverage document significant increases in the first four and significant declines in leverage.’ They add that the studies are not unanimous regarding the impact privatisation has on employment levels. According to them, privatisation does not necessarily lead to unemployment due to employment reduction in privatised companies, ‘though this will likely occur unless sales can increase fast enough after divestiture to offset very large productivity gains.’<sup>116</sup>

Pill and Vogel explain these different findings by explaining that it was not privatisation per se that led to an increase of performance and productivity, but rather the introduction of competition into markets. In some cases in Britain, as for example the utilities, competition was only introduced ten years after privatisation. That would explain

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<sup>115</sup> Martin & Parker, ‘Impact of UK Privatisation’, p. 216-17

<sup>116</sup> Megginson & Netter, ‘From State to Market’, pp. 350-351

why there was no immediate impact after privatisation.<sup>117</sup> Most of the times privatisation programmes were accompanied by a changed corporate governance system which spurred on competition in the market.

An important incentive for governments to privatise SOEs was raising funds. In Britain, a total of £45 billion worth of state assets were sold involving telecommunications, manufacturing, transport and energy industries between 1979 and the early 1990s.<sup>118</sup> These revenues were welcome, because they could fund other economic imperatives such as tax cuts and increased social benefits due to high unemployment.

One of Thatcher's main objectives for her privatisation programme was increasing the number of individual shareholders in Britain, intended to draw out the public's entrepreneurial spirit.<sup>119</sup> Thatcher's dream was creating 'popular capitalism'.

Through privatisation – particularly of privatisation which leads to the widest possible share ownership by members of the public – the state's power is reduced and the power of the people enhanced. (...) Privatisation is at the centre of any programme of reclaiming territory for freedom.<sup>120</sup>

The number of these individual shareholders had risen between 1980 and 1990 from 3 to 11 million, more than there were members of trade unions. However, 54% of these people held shares in just one single company and 20% only in two. This meant that 26 per cent held shares in three or more companies which is less than 3 million. Simultaneously, institutional ownership – shares owned by large financial organisations, pension funds, hedge funds etc. – had increased over the 1980s from 72% to 79%. The limitations of Thatcher's ideal of a 'capital-owning democracy' were clearly visible. Shareholder meetings of the privatised utilities were exemplary for this. 'On these occasions critical small shareholders were very

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<sup>117</sup> Pill & Vogel, 'Blair Wealth Project', p. 9

<sup>118</sup> Martin & Parker, 'Impact of UK Privatisation', p. 201

<sup>119</sup> Pill & Vogel, 'Blair Wealth Project', p. 9

<sup>120</sup> Thatcher, *Downing Street Years*, p. 676

numerous and, as individual voters, were always in the majority, but they were outweighed by the votes cast by institutions.<sup>121</sup>

Another major consequence for the British economy was the shrinking of the public sector and the growing of the private sector. By the general election of 1992, roughly two thirds of formerly SOEs in the UK had been privatised. This comprised about 46 major companies.<sup>122</sup> As can be seen in table 6 below, at the end of Thatcher’s term the private sector provided employment for 3 million more people than before. Self-employed increased by a factor of over 1.5 in that same period. It is also noteworthy that not only did the nationalised industries provide less jobs, also the public sector shrunk by 1.5 million in terms of employment.

**Table 6 Employment in different sectors, 1979-90**

	Private sector	Self-employed	Public sector	Nationalised industries
1979	17.9	1.9	7.5	1.9
1982	16.9	2.2	7.0	1.6
1985	17.8	2.6	6.6	1.1
1988	19.3	3.0	6.3	0.8
1990	20.9	3.3	6.0	0.7

Source: Cook & Stevenson, *Britain since 1945*, p. 170

In my opinion the most important consequence for Britain was the altered role of the state vis-à-vis the economy. Privatisation was the highlight of this new focus on the supply-side of the economy, meaning the government’s main task was creating a framework favourable for enterprises to flourish. Amongst others, this led to drastically decreased income taxes, especially over corporation taxes and tax rates for higher incomes which declined from respectively 83% and 98% in 1978 to both 40% in 1990.<sup>123</sup> Also, especially

<sup>121</sup> Green, *Thatcher*, p. 101

<sup>122</sup> Lawson, *Memoirs*, p. 115

<sup>123</sup> Pill & Vogel, ‘Blair Wealth Project’, p. 23

after the start of the major privatisations at the end of 1984, there was a steady decline of public spending.<sup>124</sup>

*The Economist*, writing in an article on the day she passed away that '[h]er enthusiasm for privatisation launched a global revolution.'<sup>125</sup> But what was this revolution *The Economist* had perceived? The perceived success of Britain's privatisation programme led to other countries following its example and began full-scale privatisation programmes themselves. In France, Jacques Chirac privatised 22 companies, worth a total of \$12 billion\* between 1986 and 1988. In the 1990s these privatisations continued after a small break where a Socialist government was in charge. Other European governments – including Italy, Germany and Spain – started privatisation programmes in the 1990s. Most of these were done in the form of public share offerings. Privatisation soon spread to other parts of the world, especially Latin American countries and the former Soviet-bloc countries of Central and Eastern Europe. Megginson and Netter argue that privatisation was so popular and spread to all parts of the world so rapidly because 'governments have found the lure of revenue from sales of SOEs to be attractive.'<sup>126</sup> The cumulative value of these worldwide proceeds in the 1990s was almost \$1 trillion as can be seen in table 7.\*

Megginson and Netter have collected data from other papers and discovered that the role of SOEs in the economies of high-income countries has declines from 8.5% of GDP in 1984 to less than 6% in 1991. This decline has continued since 1991 and they argue that at the time of their writing in 2001, it was probably below 5%. The low- and middle-income countries experienced an even sharper decline in public ownership. The former's SOE share of GDP has dropped from a high point of 16% to barely 7% in 1995 and has continues to

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<sup>124</sup> The Guardian website, *How Britain changed under Margaret Thatcher in 15 charts* (8 April 2013), <http://www.guardian.co.uk/politics/datablog/2013/apr/08/britain-changed-margaret-thatcher-charts> (accessed 13 April 2013)

<sup>125</sup> The Economist, *Margaret Thatcher: The Lady who changed the World* (8 April 2013), <http://www.economist.com/blogs/blighty/2013/04/margaret-thatcher> (accessed 12 June 2013)

\* 1995 dollars

<sup>126</sup> Megginson & Netter, 'From State to Market', p. 324-26

drop since then. However, the middle-income countries' decline of SOE share was most severe, because it comprised the transition economies of Central and Eastern Europe. For example, the Czechoslovakian government owned 98% of all property in 1989.<sup>127</sup>

**Table 7 Total global privatisation proceeds in the 1990s**

	<b>Total amount raised (US \$ million)</b>	<b>Percentage of global total</b>
OECD countries	655,680	70.0%
Of which EU-countries	420,564	44.9%
Non-OECD countries	280,962	30.0%
<b>Global total</b>	<b>936,642</b>	<b>100.0%</b>

*Source: Parker & Saal ed., International Handbook on Privatization, p. 5*

A dramatic impact of privatisation was on the development of capital markets. The increase in market capitalisation and trading volumes of shares in the 1980s and 1990s has been impressive. In Britain the market capitalisation in 2001-US dollars increased from \$83 billion in 1983 to over \$1 trillion in 1992. Worldwide market capitalisations increased tenfold from \$3.4 trillion in 1983 to \$35 trillion in 1999. The total value of shares traded increased more than nine times in Britain from \$42 billion in 1983 to \$383 billion in 1992. Worldwide this was even more impressive, from \$1.2 trillion in 1983 to \$37.5 trillion in 1999. This trend not only occurred in developed countries, but underdeveloped countries as well. The development of efficient capital markets have been proven to 'promote economic growth and allow individual firms to fund investment opportunities they otherwise would have to forgo.' An additional consequence of these large-scale privatisation programmes were that they spurred modernisation of a nation's corporate governance system.<sup>128</sup>

<sup>127</sup> Megginson & Netter, 'From State to Market', p. 327

<sup>128</sup> Megginson & Netter, 'From State to Market', pp. 362-64, 369

## Conclusion

Thatcher's economic policies all had one objective in common: rolling back the frontiers of the state and let the free market forces play. In the 1970s the nationalised industries had demonstrated their inefficiency and inflation was damaging the country. Trade unions were blocking the play of free market forces. Regulation and several governmental institutions were intervening too much in the economy. These problems had to be solved in order to reach the goal of a free economy. Privatisation proved particularly valuable, because it not only reduced the role of the state in the economy, it also had the additional benefit of being able to finance the tax and public spending cuts. The fact that the world economy started a recovery period from 1982 onwards and military victory in the Falklands War secured Thatcher's position.

Privatisation could not happen overnight. The Conservatives had even admitted earlier in the paper, *The Right Approach*, that major institutional changes would be done gradually. Also, before the SOEs could be privatised, they first had to be 'prepared' for the private sector. The argument that privatisation was only part of a later-Thatcherism is therefore invalid.

An important objective of the privatisation was creating a capital-owning democracy. This objective influenced the method of privatisation which happened mostly through public share offering, especially after the successful SIP of British Telecom in 1984. The concept of widespread ownership of private property fits into one of the pillars of Thatcherism: the focus on the free individual and a smaller state. Therefore it could be said that the way privatisation was executed, is intrinsically linked to Thatcherism's goals of creating a thriving enterprise economy where individual freedom is paramount and the role of the state drastically reduced.

In my opinion, the most important consequence of privatisation within Britain was how it reshaped the economy. It irreversibly led to a new thinking about the relation between



the state and the economy that 'New Labour' did not alter under Tony Blair and which is still dominant in Britain today.<sup>129</sup> In that regard, Thatcher's economic policy in general and her privatisation programme in particular represented a radical break with the post-war consensus which was based on an interventionist government. She effectively changed the mixed economy into an economy based on free enterprise.

Globally, Britain's privatisation programme worked as a catalyst. Following Britain's success-story, other countries soon followed suit. In the 1990s the role of the state in economies worldwide reduced drastically, increasing international capital markets which further reinforced globalisation. The individual results per country or region are topics of many studies, but the main impact remains: Thatcher's privatisation programme started a trend of economic liberalism in markets all over the world.

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<sup>129</sup> Pill & Vogel, 'Blair Wealth Project'

# Conclusion

The idea that Britain had become ungovernable in the 1970s gave rise to Thatcherism. According to Thatcherites, it was caused by the perceived post-war consensus, the relative decline of Britain, difficult industrial relations and high inflation. This led to the Winter of Discontent at the end of the 1970s. The sense of ungovernability created a fertile ground for Thatcherism's radical policies.

Disillusioned by the state of the country in the 1970s, Margaret Thatcher was attracted to the radical policies of Keith Joseph whose ideas were the foundation of Thatcherism. It presented itself as a radical break with the post-war consensus. Its main focus was controlling inflation, individual freedom and rolling back the frontiers of the state. The goal was to create a thriving enterprise economy.

Privatisation fits in neatly with the main principles of reduced state intervention and individual freedom. It also financed the possibility to reduce public spending, an important tool for Thatcherites in controlling inflation. One of the main objectives of the privatisation programme – the spreading of public ownership through shares – played a significant role how privatisation was implemented from 1984 onwards. Public share offering would eventually become the accepted privatisation method worldwide. The major privatisations of the 1980s reshaped Britain's economic landscape and sparked privatisation programmes in other European countries and regions such as the former Soviet Union and Latin America. In that regard, Thatcher's privatisation programme changed the world economy.

The main question of this thesis – was the rise of Thatcherism intrinsically linked to privatisation and what were its consequences for Britain and the rest of the world? – has the following answer. Thatcherism stood for reduced state intervention, individual freedom and wider public ownership so a thriving enterprise economy could be shaped. This was also the

main motivation behind privatisation. As it also made other objectives possible – controlling inflation for example – it can even be said that privatisation was essential for Thatcher's economic policy. Privatisation and Thatcherism are therefore intrinsically linked to each other.

The privatisation programme reduced the role of the state in the economy not just in Britain and destroyed the mixed economy. Globally, increased market capitalisations and share trade volumes show the increasingly globalised economy, enforced by the privatisation and liberalisation programmes of many countries especially in the 1990s. Thatcher's privatisation programme inspired this and her focus on widespread public ownership also influenced the accepted method of privatisation.

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