

**SWP 40/91 PRIVATISATION TEN YEARS ON: A CRITICAL
ANALYSIS OF ITS RATIONALE AND RESULTS**

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Abstract

Privatisation has featured as a major part of the Government's supply side reforms since 1979. This article critically reviews the policy and its achievements.

Introduction

Just as the 1940s is remembered as the era of nationalisation, the 1980s will be remembered as the decade of privatisation. It therefore seems timely to review the achievements of the privatisation programme. The programme has had two main strands: (1) the sale of state assets (denationalisation), and (2) the introduction of competition into areas previously monopolised by state owned suppliers (liberalisation). It is, however, the former programme which has captured the most attention and which is the primary focus of this paper.

Table 1 lists all of the major privatisations to date and Table 2 the amounts raised from each sale; in total the Government has sold almost £40 bn of state assets. In 1979 the state had a major stake in many of the UK's most important industries, namely steel, motor vehicles, aero engines, aerospace, coal, rail, road haulage, air travel, oil, telecommunications, electricity, gas and water. By 1991, however, only the coal industry and the railways remain in the state sector.

(Tables 1 & 2 around here.)

Three broad reasons have been put forward in support of privatisation: (1) it raises efficiency in sleepy state monopolies; (2) it widens share ownership with important gains in terms of raising public sympathy for private enterprise and profit making; and (3) it provides useful funds to augment the

Exchequer's coffers at a time when macroeconomic policy dictates a reduction in the PSBR.

In this paper each of the above rationale is critically assessed in the light of a decade's experience. An attempt is made to answer the question, to what extent has privatisation achieved its objectives? However, since the first rationale, the efficiency argument, is the most contentious, the paper concentrates upon the theoretical grounds for expecting privatisation to improve performance and the available data on actual performance changes.

The Efficiency Argument

The economic argument against state ownership in the 1970s came from the "new right" and drew on the public choice and property rights theories. Both theories are rooted in neoclassical economics and the concept of the rational utility maximiser and are worth reviewing in some detail.

According to public choice theory, boards of state industries, civil servants in sponsoring departments and politicians in government and Parliament are no different to other people. Whereas earlier in the century Weber had popularised the notion of disinterested state officials pursuing the "public interest", public choice theory argued that government employees are strongly motivated by their own self-interest. According to one of its leading exponents, Niskanen (1971),

this translates into the pursuit of "...salary, perquisites of the office, public regulation, power, patronage, output of the bureau, ease of making changes, and ease in managing the bureau". For politicians it means attempting to maximise the chances of remaining in office by shaping policies to gain votes justifying any kind of policy as being in the "public interest", even one which results in considerable burdens on tax payers.

In this atmosphere, public choice economists considered it inevitable that the management of state industries would become demoralised in the face of shifting and inconsistent objectives and that the industries would fall under the influence of pressure groups, notably rent seeking trades unions. Consequently, the industries would suffer both over-manning and wasteful investment. This pessimistic view of public ownership seemed to be born out in the UK. In the 1970s productivity growth in the nationalised sector lagged well behind growth in the private sector and profits net of state subsidies were negative (Pryke, 1981).

Property rights theory complemented the public choice critique. This argued that the source of the differing levels of efficiency in the public and private sectors lay in the capital market. State industries raised external funding through government, by loans with state guarantees, or directly from tax payers. The public, which in principle "owns" the state assets, has no formal property rights in the industries. They do not own tradeable shares or have rights to

attend annual general meetings of the firms to censure management. By contrast, in the private sector AGMs are held and shares are traded. Owners of shares are free to buy and sell them - buying further shares in companies which are well-run, hence raising the share price, and selling them in firms considered to be failing, thus deflating the share price and leaving the company exposed to a hostile takeover bid. Ultimately, according to property rights theorists, it is the vulnerability of companies to takeover by new management which is the vital spur to managerial efficiency in private enterprises and this is missing in the public sector. Inefficient nationalised industries are immune to take over. From a property rights perspective, the attenuation of property rights in the public sector inevitably leads to lower efficiency. No matter the good intentions of civil servants and politicians, the agent-principal relationship in the public sector leads to a waste of resources.

In sum, the idea in the early 1980s that privatisation would improve operating efficiency was based on removing political control and making firms rely on the private capital market. This is illustrated in Figure 1 by a movement from west to east, i.e. away from direct political control towards reliance on the private capital market.

(Figure 1 around here.)

The public choice and property rights literature was popularised in the UK by the Institute of Economic Affairs and

the Adam Smith Institute. It undoubtedly had a major influence on thinking about the public and private sectors in the 1970s and early 1980s, notably in the Conservative Party. However, it is not free from problems. In particular, studies of the operation of private capital markets have not demonstrated conclusively that a more active market in shares with an openness to hostile take over bids is economically beneficial. There is some suggestion that it might lead to an over-emphasis on short-term profits over long-term investment, thus lowering economic well-being. The economies of Japan and Germany with capital markets in which hostile bids are rare have performed much better since the War than the UK and the USA where such bids are more common place. Of course, the capital market may not be a reason for this, but at least their experience demonstrates that an open capital market is not necessary for high efficiency.

It is also difficult to square the notion of the takeover threat as the key motivator for managerial efficiency, with the Government's retention of a "golden share" in a number of privatised firms. The golden share was introduced precisely to prevent unwelcome (especially foreign) takeovers of companies considered to be of strategic importance, eg. British Aerospace and Rolls Royce. The removal of the golden share which led to Ford's takeover of Jaguar may be seen as a belated recognition of the contradiction in government thinking about the desirability of takeovers.

Turning to motivation in the public sector, which lies at the heart of the public choice literature, detailed studies of the working of government suggest that the idea of self-interested individuals is a crude caricature. For example, the civil service went about cutting its own manning levels in the 1980s with an enthusiasm which is hard to square with the idea of "looking after number one" (Dunsire and Hood, 1989)

The economic case for believing that privatisation will necessarily raise efficiency is therefore not clear cut. Indeed, some economists have argued that increasing competition in the product market is a more reliable way of creating an environment in which management has the necessary incentives to operate enterprises efficiently (Millward and Parker, 1983; Kay and Thompson, 1986). The role of competition in allocative efficiency is, of course, central to the neoclassical models of perfect competition and monopoly. Also, Leibenstein (1966) has emphasised the link between product market competition and "x-efficiency".

The allocative and x-efficiency gains from increasing competition are illustrated in Figure 1 by a movement from north to south, i.e. from monopoly towards more competitive markets. By combining the capital market and competition arguments, and accepting the notion that private capital markets are beneficial for economic performance, it appears that the largest efficiency gains can be expected where there is an ownership change which leads to both more competition

and more reliance on private capital markets - a movement from north-west to south-east in Figure 1.

The actual movement of a number of privatised firms has been plotted in the Figure. It can be seen that very few privatisations have been associated with a significant movement from north to south - in other word, with an increase in competition. Firms such as National Freight (NFC), which while in the state sector always had less than 10 per cent of the UK haulage market, have continued to compete as before. The same applies to Jaguar cars. State monopolies, in particular the water industry, are no more open to competition now than before privatisation. BT faces competition from Mercury Communications and in the future from cable and PCNs, but in 1991, seven years after privatisation, still retains 95% of the UK telecommunications market. British Gas remains the monopoly supplier of domestic gas, though, following a Monopolies Commission report in 1988, it is being forced to permit increased competition in the industrial market. At the present time, even electricity generation offers only a promise of more competition. Also, there is a case where competition has actually declined (a south to north move). British Airways strengthened its market power, in an industry where competition is already highly regulated, when it was allowed to takeover a major rival within the UK, British Caledonian.

Given the earlier reservation about the role of the capital market in ensuring efficiency, the fact that the opportunity

was not taken to inject more competition into state firms at the time of privatisation must remain a source of regret. Also, it is worth recalling that privatisation was not a necessary step in increasing competition. The legislation which created Mercury as a rival to BT, liberalised coach and later bus services, and enabled any energy supplier to utilise the gas and electricity distribution systems, preceded privatisation of the relevant industries.

Share Ownership

Reversing the decline in individual share ownership has been a goal of recent Conservative Governments. Since the War, the proportion of shares held by the large institutional investors has grown at the expense of individual share ownership. By giving priority to the small shareholder when selling state assets, the proportion of adults owning shares has trebled from around 7 to 25 per cent since 1979. Small shareholders have been enticed through expensive advertising campaigns of the "Tell Sid" variety, and by the offer of bonus shares or vouchers against their telephone and gas bills.

There are obvious political gains for the Conservatives in fostering a "property owning democracy", but ministers from time to time have also hinted at a possible economic dividend. It has been suggested that private shareholders will be more supportive of the goals of capitalism. Also, where employees of privatised firms hold shares, and employees have been given

preference in share flotations, it has been argued that they now have a direct interest in the financial health of their companies. The implication is that they will work harder and strike less.

When governments attempt to pursue more than one economic objective using only one policy instrument, contradictions can arise. This has been true of privatisation. There appears to be a contradiction between creating large numbers of small shareholders and the argument that the capital market is important in producing more efficient industries following privatisation. The mechanism in the property rights literature by which the capital market promotes efficient operation is arguably more consistent with a capital market dominated by a few large shareholders rather than many small investors. This follows because it is rational for a person who has only a small stake in an enterprise to invest little time and effort in monitoring its performance. The costs of continuous monitoring and consequent share dealing will far outweigh the benefits. Rather, detailed scrutiny of industries and managements is an economic proposition for the large institutional investors who have a lot more funds at stake in a firm. Similarly, because of transactions costs, notably brokers charges, small shareholders are less likely to trade actively in the shares, thus it is the large investors who are the ones to be courted during a takeover bid.

It is also easy to exaggerate the impact of privatisation flotations on the composition of share ownership in Britain.

The Government likes to emphasise the rise in the proportion of adults holding shares since 1979, but 54% of investors hold shares in only one company and only 17% have shares in more than four enterprises (HM Treasury, 1991). Privatisation has widened share ownership but it has not deepened it, nor as it reversed the relentless growth in the financial power of the City institutions. During the 1980s the institutional investors continued to raise their proportion of shareholdings at the expense of the private investor, whose share of the market fell from 30% to 20%. However, insofar as the capital market is an important constraint on management behaviour in the private sector, this may be a desirable development.

Raising Funds

Just as there is an apparent conflict between the policy objective of promoting shareholding and that of promoting efficiency, there is also a conflict with the goal of raising funds for the Exchequer. If the priority had been to spread wealth through maximising the number of small shareholders, the shares could simply have been given away. Instead, the shares have been sold though usually at far less than their opening market value on the first day of trading (see Figure 2). This has raised funds for the Exchequer but at the cost of reducing the potential spread of share ownership. It has also provided windfall capital gains to "stags" at a cost to tax payers in general (as Figure 2 illustrates, the Government's

ability to set a flotation price close to the true market valuation does not appear to be improving with experience).

(Figure 2 around here.)

Figure 3 illustrates the effect of privatisation revenues on the PSBR since 1980. The revenues are treated as negative public spending under UK public sector accounting convention and thus reduce the size of the government's financial deficit. Although much play has been made of the way privatisation receipts have improved the look of the public finances, in fact only in one year, 1987-88, did they turn a positive PSBR into a debt repayment. At best, privatisation receipts have provided a useful but small supplement to taxation. Suggestion that the privatisation receipts have "massaged" government finances in some dramatic way cannot be supported. In terms of the share of public spending in GDP, they reduced the percentage by 1.5 points in 1988-89, but in other years by less.

(Figure 3 around here.)

Assessing the Efficiency Argument: some empirical results and the problem of regulation

We saw earlier that privatisation is most likely to raise the operating efficiency of the enterprises concerned when it is coupled with more competition in the product market. We now

turn to consider the evidence to date on the impact of privatisation on efficiency. This is approached by looking at some of the available economic and financial data relating to privatised companies and by reviewing research recently undertaken at the University of York into the effects in terms of Figure 1 of west to east shifts in ownership. The discussion concludes by considering some of the issues for efficiency raised by the need for on-going regulation of natural monopolies.

Privatisation: the results so far

Since most privatisations occurred after 1983, it is still too early to make conclusive judgments on the impact of ownership change on many of the companies concerned. What we can say is that the experience of privatised firms to date is mixed. A recent study of Britain's most profitable companies in terms of profits per employee in 1990, placed 4 former nationalised industries in the top 20. The star performers were the British Airports Authority in 8th position, followed by 5 water companies, British Steel and BT. (Management Today, May 1991, p.55). However, profitability is generally considered on its own to be an inadequate indicator of gains in economic efficiency, and the level in one year tells us nothing about trends in the enterprise resulting from privatisation. Perhaps these enterprises would have been just as profitable had they remained in the state sector.

Table 3 gives a series of financial performance indicators for a selection of companies since their privatisation. It is apparent from the figures that, while top manager salaries have risen impressively, improved performance has not always resulted. The return on capital has improved marginally in the case of British Gas, BT and Rolls Royce but has declined badly at Associated British Ports, Enterprise Oil and Jaguar cars (the latter two firms were affected by adverse demand movements). Sales per employee (a crude productivity indicator) improved most at Associated British Ports but not dramatically in the other firms, and it actually declined at Rolls Royce and Enterprise Oil. The idea that privatisation leads to a shake-out of labour as wasteful working practices are terminated receives some support in the cases of British Gas and Associated British Ports, where employment declined, but elsewhere employment rose (though since 1989 BT has also begun a major programme of redundancies). Of course, many of the improvements in performance may have occurred before privatisation, but this raises the question, was privatisation really necessary? Interestingly, nationalised industries raised their profitability as a percentage of GDP and also increased their productivity faster than the private sector in the 1980s (Table 4). Bishop and Kay in 1988 concluded that the growth in total factor productivity between 1979 and 1988 in the privatised firms they studied appeared "wholly unrelated to privatization". After also studying accounting data similar to that reproduced in Table 3, they observed:

"The overall picture to emerge is one of substantial change. Output and profits have grown, margins have increased, employment has declined. But the relationship of these changes to the fact of privatization is not immediately apparent from the data. The privatized industries have tended to be faster growing and more profitable, but it seems that the causation runs from growth and profitability to privatization, rather than the other way round." (pp.40-41)

(Tables 3 and 4 around here.)

The York research project

The research undertaken at the University of York between 1986 and 1990, in which the author of this paper was involved, consisted of a study of the effects of ownership on economic and financial performance.¹ The organisations studied had either crossed the public-private boundary (privatisation or nationalisation) or had undergone major changes of status within the public sector. These changes of status involved the introduction of more commercial management and financial independence, and a reduction in direct political involvement in day-to-day operations. The organisations studied and their changes in ownership status are summarised in Figure 4. Only two of the Thatcher privatisations, British Aerospace and the National Freight Corporation, were included; but since all of the other cases test for the effects of a Figure 1 west to

east movement, the results have general relevance to a discussion of privatisation.

(Figure 4 around here.)

Performance was measured three ways: (1) in terms of employment efficiency using an established employment function, (2) in terms of labour and total factor productivity and (3) through an analysis of a basket of standard accounting ratios. The productivity results were compared with national trends to ensure that the changes observed were not simply the product of productivity trends in the macro economy.

Table 5 summarises the results of the study. The hypothesis that a movement away from political control improves performance was generally supported in six out of the ten organisations studied - the Royal Mint, HMSO, London Transport (1984 change), National Freight, British Airways and the privatisation of British Aerospace. This includes both of the "privatisation" cases. However, the results for Rolls Royce consistently contradicted the hypothesis, performance improved following nationalisation, and performance failed to improve as expected in the cases of the postal and telecommunication services and the Royal Ordnance Factories.

(Table 5 around here.)

What the results imply is that a Figure 1 west to east shift may improve performance, but that this improvement is not

guaranteed. Performance improvement may depend upon other factors than ownership. Simple propositions about ownership and performance need to be qualified and treated with some caution. This implies that future research needs to focus on other sources of efficiency which may or may not be associated with changes in ownership - namely, greater competition in the product market, improvements in management, and changes in employment contracts which encourage improved performance.

The Problem of Regulation

The conclusion that economic performance depends upon many factors, of which ownership status may only be one, is supported by international studies of the relative efficiency of public and private enterprises. Studies of publicly and privately owned firms operating in the same or similar markets have not demonstrated that private firms are always more efficient, especially in terms of costs of production and productivity, though they usually record higher profits (for reviews of the evidence see e.g. Borchertding, Pommerhene and Schneider, 1982; Millward and Parker, 1983). What these studies do suggest is that competition in the product market is often a key variable, with the efficiency of both publicly owned and privately owned firms enhanced by rivalry. A conclusion which accords with our earlier discussion of the relevant economic theory. Where competition is precluded by natural monopoly factors, most especially in the electricity,

gas and water industries, there are reported cases of lower cost production in the public sector.

A likely explanation of this result lies in the need to regulate private suppliers. In other words, the choice is not between dynamic and competitive private firms and sleepy state monopolies, but between private monopoly or state monopoly. In both cases, to protect consumers from monopoly exploitation some form of government regulation must exist. Under public ownership this is hidden within the bureaucratic mechanism and is likely to be flexible and reactive to political as well as economic pressures. Privatisation pushes regulation into the open and makes it more visible and structured.

In the UK the privatised monopolies are now regulated by terms laid down in their privatisation legislation and their operating licences. For example, BT, which was the first public utility to be privatised, has an operating license which runs for 25 years in the first instance, and which sets out the terms under which the utility must operate, including the supply of rural services, call boxes and 999 emergency calls. Prices are largely regulated by formula and the regulatory system is policed by the Office of Telecommunications (OFTEL). This structure has been copied for gas, water and electricity.

The impact of a regulatory system depends upon its influence on managerial behaviour. In the USA, where private monopoly suppliers of electricity, gas and water have existed for many

years, the regulatory system has led to confusion, litigation and commercial disaster. The regulations control, inter alia, the level of service, environmental considerations and pricing, much as in the UK.

Three broad problems have been experienced in the US. Firstly, the quasi-judicial system has given too many opportunities to lobbyists and lawyers. Consequently, resources are used up in lengthy rent seeking operations. Secondly, the regulatory agencies in the US have been criticised for siding with the supplier against the consumer. Although to date the UK regulatory bodies have shown commendable independence, the American experience suggests that "regulatory capture" is an ever present threat where private regulated monopolies exist (Peltzman, 1976; Stigler, 1971). Thirdly, prices have generally been regulated with a view to achieving or preserving a "satisfactory" rate of return on capital. But where a ceiling on the rate of return on capital exists, the incentive for management to control costs is reduced and an incentive exists to extend the capital base through more investment - the so-called Averch-Johnson effect (Averch and Johnson, 1962).

The method of price control introduced in the UK when BT was privatised, and subsequently extended to the other privatised monopolies, is summarised in Figure 5. It was designed to overcome the distortionary effects of US style regulation. The "RPI minus X" formula was intended to control prices while permitting increased profits resulting from lower costs.

However, despite its advantages over direct rate of return control, it does contain a major flaw which can lead to precisely the same inefficiencies as US style regulation.

(Figure 5 around here.)

The flaw lies in the "X" factor. For example, initially BT could raise its tariffs by the RPI less 3%, therefore when inflation was 7% the charges covered by the formula could rise by up to 4%. This was designed to leave an incentive for management to reduce costs by more than 3% thereby boosting profits to shareholders. However, this will only work if cost savings are not clawed back when the pricing formula is reviewed. In other words, if OFTEL decides that profits are "too high" following a BT efficiency drive, and the "X" factor is therefore increased - consumers benefit but shareholders lose out. Thus shareholders can gain only from the time of the efficiency improvement to the time when the price formula is renewed - at most, five years.

In practice, it appears that the "X" factor is indeed being set at renewal with a view to what the regulatory body considers to be a "satisfactory" rate of profit. In the face of increasing profits, BT's "X" was raised to 4.5% in 1989 and to 6.25% in 1991. James McKinnon, Director General of OFGAS, has made it known that he considers that gas prices should be set to earn a rate of return of around 5 to 7% on regulated gas supplies. In May 1991 the Office of Water Supplies (OFWAT) expressed concern about the growth of profits in the water

industry, which is ahead of estimates made at the time of privatisation.

Profits gained through monopoly exploitation are unacceptable. But threatening noises made about the growth of profits by the regulator, especially when accompanied by an up-grading of the "X" factor, destroy managerial incentives to reduce costs and become more efficient. Also, insofar as investors take account of the risk of a change in the "X" factor, this raises the firm's cost of capital. Moreover, the regulatory bodies have to prevent the monopolies increasing profits by raising prices unduly in services not covered by the pricing formula or by lowering the quality of the service. Recently, OfGAS informed British Gas that if it discovered that the quality of service was being sacrificed, the "X" factor might be raised as a penalty. The use of the "X" factor in this way, however, risks a further blurring of its purpose.

Therefore, the "RPI minus X" formula has not overcome the distortionary effects on resource allocation associated with American style regulation. Also, there is no sign of new competition in the foreseeable future removing the need for pricing and service regulation. Indeed, quite the reverse. Since privatisation, OFTEL has been drawn into regulating international calls and interconnection charges, and OFGAS into monitoring industrial gas pricing, precisely to facilitate new entry.

Conclusions

The UK in the 1980s was subjected to a privatisation experiment, now much copied around the world (Hemming and Mansoor, 1988). But like nationalisation, privatisation has been surrounded by more rhetoric than objective research. Only now are economists able to begin to analyse its theoretical rationale alongside its actual effects. Two possible conclusions suggest themselves:

(1) privatisation is sound in principle but the policy could have been better executed - the attempt to pursue three broad goals: increasing efficiency, widening share ownership and reducing the PSBR led to inevitable conflicts in policy;

(2) privatisation is defective in principle, there are no sound theoretical or empirical underpinnings for a policy of transferring large chunks of the public sector to private enterprise.

At present it is not possible to be sure which of these conclusions is correct. The theoretical case for privatisation relies upon a particularly pessimistic view of motivation in the public sector, alongside what some would consider an overly optimistic view of the disciplining effect on management of exposure to the private capital market. At the same time, the available empirical evidence on the effects of privatisation on operating efficiency is ambiguous. Some organisations have registered improved performance after

privatisation, while others seem to have recorded large efficiency gains while in the public sector.

Economic theory and the international evidence suggest that competition is a key factor in ensuring high operating efficiency, and this is also borne out by the UK's experience of competitive tendering for government services during the 1980s, where cost savings of around 20% or more were recorded (Parker, 1990). Belatedly the Government has recognised this. During the privatisation of the electricity industry some competition was injected into electricity generation and since 1989 10% of gas from new North Sea fields has been sold through other suppliers than British Gas. Also, in March 1991 the government announced an end to the duopoly in telecommunications, permitting new applications to run trunk networks.

In at least the immediate future, however, the privatised public utilities will remain dominant in their industries. After 7 years of competition from Mercury Communications, BT still controls 95% of the UK telecommunications market; while the private sector's share of gas and electricity supplies is limited to a small amount of the industrial market. In much of the water industry it is difficult to see how competition can develop.

The existence of privatised monopolies has necessitated the creation of a regulatory structure for each industry. Hence, privatisation has altered the form of regulation - from

political direction to arm's length control by the means of legislation, operating licenses and regulatory bodies. Given the pivotal role of the telecommunications, gas, electricity and water industries in the economy, it is difficult to see how any government could have abdicated responsibility for their behaviour. But while privatisation has removed the inefficiencies resulting from direct political intervention, it has introduced distortions, notably in terms of price control. Moreover, based on the American example, there remains an ever present threat of regulatory capture and regulatory muddle (the regulatory structure of the water industry appears to have been designed to maximise the chances of confusion - the industry is now subject to the scrutiny of not only OFWAT, but H.M. Inspectorate of Pollution, the Department of the Environment, the Ministry of Agriculture, the Monopolies and Mergers Commission, the European Commission and the National Rivers Authority!).

Consequently, the 1990s is likely to see heated debate about the form and extent of regulation and its impact on the way the firms behave. The UK has created the regulatory structure without much thought as to whether it is to be temporary or permanent or to its economic effects. This is particularly surprising given the evidence on regulatory failure in the US - evidence available to government at the time of privatisation. If regulators get involved in questions of costs, prices, rates of return and service quality, they are almost managing the industries. With what consequences?

Footnote

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Questions for Discussion

1. To what extent does the policy of privatisation have firm roots in economic theory?
2. Why did the Government consider it important to widen share ownership through privatisation? Was this economically sensible?
3. To what extent does the Government's retention of a "golden share" inhibit the mechanism by which the capital market is supposed to raise efficiency?
4. Given that it does not appear from the evidence that privatising enterprises guarantees efficiency gains, how might coal and rail be best privatised?

FIGURE 1: PRIVATISATION : A SCHEMA

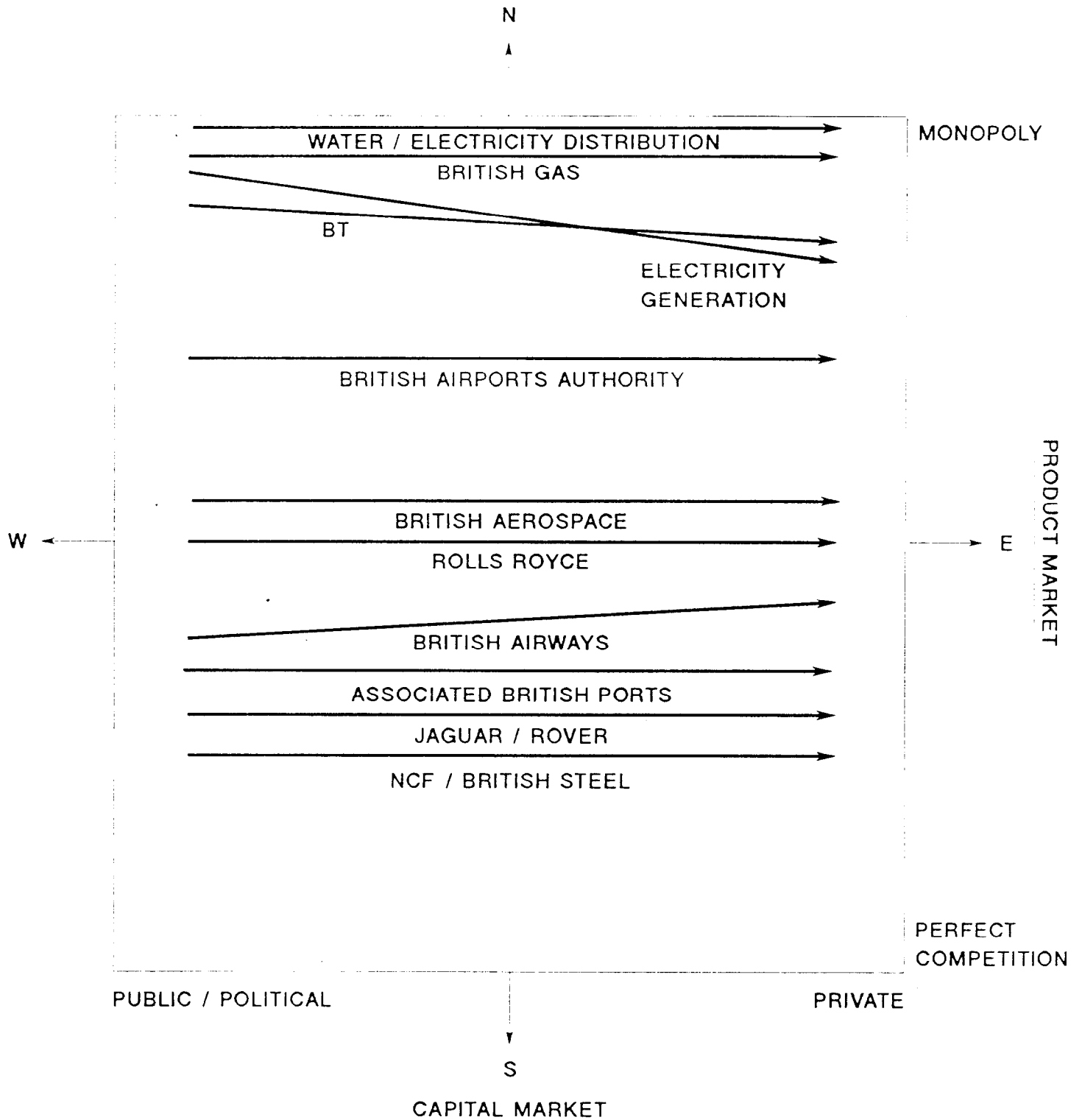


Figure 2

PRIVATISATION NEW ISSUES: PREMIUM AFTER FIRST DAY'S TRADING

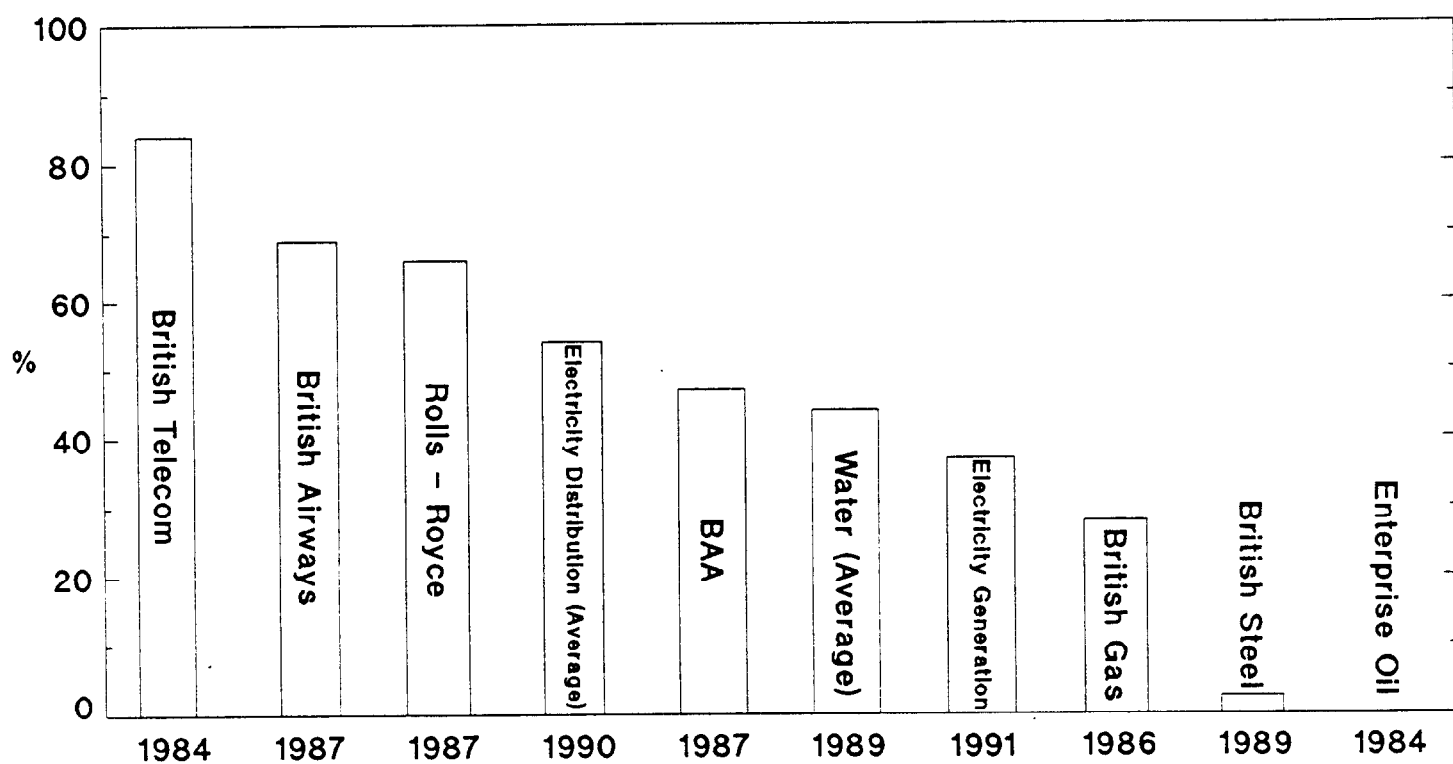
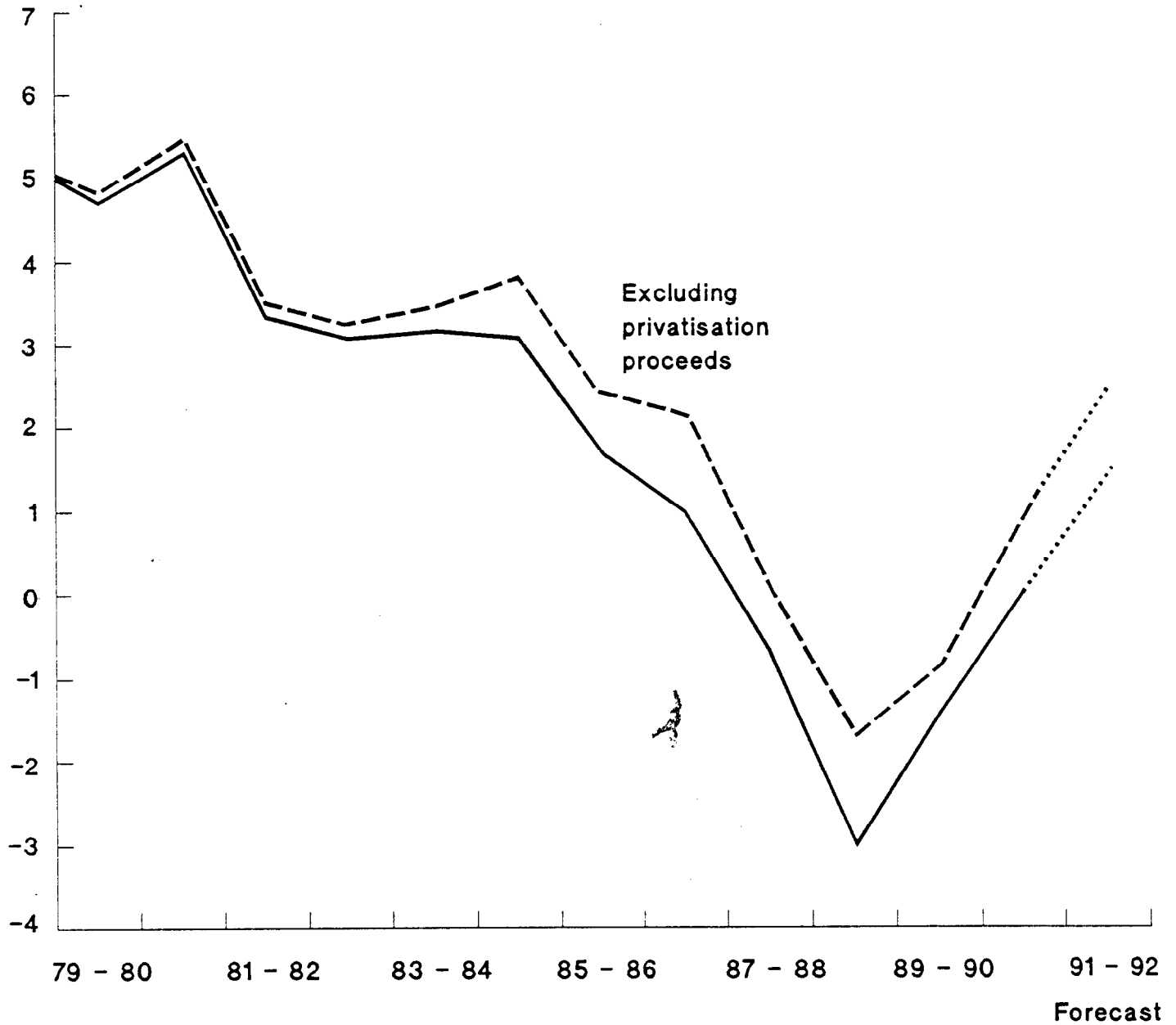


Figure 3

PRIVATISATION : IMPACT ON THE PUBLIC SECTOR BORROWING REQUIREMENT



Source: H.M. Treasury, 1991, Financial Statement and Budget Report 1991 - 1992, HMSO, London, p.67

Figure 4

THE ORGANISATIONS

Type of change	Organisation	Date of change
I <u>Movements within the public sector</u>		
(a) Government department to trading fund	Royal Ordnance Factories Royal Mint HMSO	July 1974 April 1975 April 1980
(b) Government department to public corporation	Post Office Postal Post Office Telecommunications	April 1969 April 1969
(c) Public corporation accountable to local government	London Transport	January 1970
(d) Local government accountability to normal public corporation status	London Transport	June 1984
II <u>Ownership change</u>		
(a) Private to public	Rolls Royce British Aerospace	February 1971 April 1977
(b) Public to private (privatisation)	British Aerospace National Freight	February 1981 February 1982
(c) Anticipating privatisation	British Airways	1980-1987

Figure 5**UK PRIVATISED MONOPOLIES: PRICE REGULATION**

Organisation	Main Feature of Price Regulation	Comment
British Telecom (BT)	RPI-3% 1984-89 RPI-4.5% 1989-91 RPI-6.25% 1991-	Initially applied to around one-half of turnover. Now extended to 80 per cent of turnover.
British Gas	RPI-2% 1986-92 RPI-5% 1992-	Excludes input costs from North Sea which can be passed through to the consumer; applies to domestic market only.
British Airports Authority (BAA)	Maximum annual revenue per passenger	Duty free shops franchised.
Water	RPI + k	"k" varies for each company and reflects agreed future capital investment programmes, eg to improve water quality. Allowed to pass through costs of complying with new statutory obligations.
Electricity Distribution	RPI-X + y	Allowed to pass through certain generation costs (the "y" factor). The initial value of X has been set at zero for all the regional electricity companies.
Scottish Electricity Companies	RPI-X	Generation, transmission and distribution have separate "X" factors.

Table 1

MAJOR UK PRIVATISATIONS

Sales of government's holdings in		Dates
British Petroleum	various dates	1979 to 1987
National Enterprise Board investments	various dates	1980 to 1986
British Aerospace		1981 & 1984
Cable and Wireless		1981, 1983 & 1985
Amersham International		1982
National Freight Corporation		1982
Britoil		1982 & 1985
British Rail Hotels		1983
Associated British Ports		1983 & 1984
British Leyland (Rover)	various dates	1984 to 1988
British Telecom (BT)		1984 & 1991*
Enterprise Oil		1984
Sealink		1984
British Shipbuilders and naval dockyards	from	1985
National Bus Company	from	1986
British Gas		1986
Rolls Royce		1987
British Airports Authority	first issue	1987
British Airways		1987
Royal Ordnance Factories		1987
British Steel		1988 & 1989
Water		1989 & 1990
Electricity distribution		1990
Electricity generation		1991

Note:

* planned.

Table 2

PRIVATISATION PROCEEDS
(£bn.)

Year	Proceeds
1979/80	0.4
1980/81	0.2
1981/82	0.5
1982/83	0.5
1983/84	1.1
1984/85	2.1
1985/86	2.7
1986/87	4.5
1987/88	5.1
1988/89	7.1
1989/90	4.2
1990/91	5.3
1991/92	5.5*

Notes:

* planned.

Figures rounded to one decimal place.

Sources: Cmnd. 1021 (1990); H.M. Treasury, Financial Statement and Budget Report, 1991-92, March 1991, HMSO, Table 5.1.

THE RECORD SINCE PRIVATISATION

SOME PERFORMANCE INDICATORS

	British Gas		British Telecom		Rolls Royce		Assoc British		Jaguar Ports		Enterprise Oil	
	31/3/87	01/3/90	31/3/85	31/3/90	31/12/87	31/12/89	31/12/86	31/12/90	31/12/85	31/12/88	31/12/85	31/12/89
on												
red (%)	22.7	23.4	18.3	21.3	15.2	16.3	14.9	8.8	47.7	13.2	27.8	10.7
er ree real	86.2	90.1	34.9	43.0	49.0	46.4	21.8	43.5	65.6	70.0	2443	1251
number employees	88469	80481	238000	248000	42000	55475	6401	3633	9662	12835	109	374
st or's												
real	109	183	172 *	308	130	171	79	155	86	180	98	167

Datastream
* 1986

Table 4

PERFORMANCE OF NATIONALISED INDUSTRIES

Year	Gross Trading Surplus		Labour Productivity (annual % change)		
	£bn	%GDP	Nationalised Industries	Whole Economy	Manufacturing
1979/80	1.1	0.5	0.1	0.7	0.9
1980/81	1.5	0.6	-0.5	-3.8	-5.3
1981/82	2.1	0.8	6.5	3.5	6.9
1982/83	2.7	1.0	2.4	4.0	6.4
1983/84	2.7	0.9	7.2	4.0	8.3
1984/85	3.1	0.9	6.0	2.9	4.8
1985/86	3.9	1.1	9.6	1.1	2.4
1986/87	4.5	1.2	6.2	3.6	4.8

Source: Treasury, Economic Progress Report, No.193, December 1987, p 5.

SUMMARY OF THE YORK RESEARCH RESULTS

Did Performance Improve as Expected?

Organisation	Performance Measure			
	Employment Function	Labour Productivity	Total Factor Productivity	Financial Ratios
Royal Mint	Confirmed	Confirmed	Confirmed	N/A
London Transport (1970 change)	Not confirmed	Not confirmed	Confirmed	Not confirmed
London Transport (1984 change)	Mainly confirmed	Confirmed	Confirmed	Confirmed
British Airways	Confirmed	Confirmed	Confirmed	Confirmed
British Aerospace (nationalisation)	Mainly confirmed	Confirmed	Unclear	Not confirmed
British Aerospace (privatisation)	Confirmed	Confirmed	Unclear	Confirmed
National Freight	Confirmed	Confirmed	Confirmed	Confirmed
Post Office Postal	Not confirmed	Confirmed	Unclear	Confirmed
Post Office Telecommunications	Mainly confirmed	Confirmed	Unclear	Unclear
HMSO	Confirmed	Unclear	Not confirmed	Confirmed
Royal Ordnance Factories	Not confirmed	Not confirmed	Unclear	Confirmed
Rolls Royce	Not confirmed	Not confirmed	Not confirmed	Not confirmed

Notes:

N/A = not available

For financial ratios, "confirmed" applies to these cases where 40% or more of the results supported the central hypothesis.

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For further details of the results see Parker and Hartley (1991), Hartley, Parker and Martin (1991) and Parker, Hartley and Martin, (1991).