THE OFFICIAL HISTORY OF PRIVATISATION

This first volume of the Official History studies the background to UK privatisation, and the privatisations that took place from May 1979 to June 1987. First commissioned by the then Prime Minister, Tony Blair, as an authoritative history, this volume addresses a number of key questions:

- To what extent was privatisation a clear policy commitment within the Thatcher Governments of the 1980s – or did Government simply stumble on the idea?
- Why were particular public corporations sold early in the 1980s and other sales delayed until well into the 1990s?
- What were the privatisation objectives and how did they change over time, if at all?
- How was each privatisation planned and executed, how were different City advisers appointed and remunerated, what precise roles did they play?
- How was each privatisation administered; in what ways did the methods evolve and change and why? How were sale prices determined?
- Which government departments took the lead role; what was the input of the Treasury and Bank of England; what was the relationship between Ministers and civil servants?

The study draws heavily from the official records of the British Government, to which the author was given full access, and from interviews with leading figures involved in each of the privatisations – including ex-Ministers, civil servants, business and City figures, as well as academics who have studied the subject. This new official history will be of much interest to students of British political history, economics and business studies.

David Parker is Research Professor in Privatisation and Regulation in the School of Management, Cranfield University, UK. He has researched privatisation for over 25 years, and has acted as a consultant on privatisation internationally. Previous publications include co-authoring *The International Handbook on Privatization*.

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THE OFFICIAL HISTORY OF PRIVATISATION

Volume I:
The formative years 1970–1987

David Parker

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ABBREVIATIONS

ABP	Associated British Ports
ADR	American Depository Receipts
AGM	Annual General Meeting
APS	Assistant Private Secretary
ASI	Adam Smith Institute
AUEW	Amalgamated Union of Engineering Workers
BA	British Airways Corporation later PLC
BAA	British Airports Authority later BAA PLC
BAe	British Aerospace Corporation later PLC
BBC	British Broadcasting Corporation
BCal	British Caledonian airline
BEA	British European Airways
BGC	British Gas Corporation later British Gas PLC
BL	British Leyland PLC
BNOC	British National Oil Corporation
BOAC	British Overseas Airways Corporation
BP	British Petroleum PLC
BR	British Rail
BRINDEX	The Association of British Independent Oil Exploration Companies
BS	British Shipbuilders Corporation
BSC	British Steel Corporation later British Steel PLC
BSI	British Standards Institute
BT	British Telecommunications Corporation later PLC
BTDB	British Transport Docks Board
BTG	British Technology Group
CAA	Civil Aviation Authority
C&W	Cable and Wireless PLC
CBI	Confederation of British Industry
CC	Competition Commission
CCA	Current cost accounting
CEO	Chief Executive Officer
CORGI	Corporation of Registered Gas Installers
CPRS	Central Policy Review Staff
CPS	Centre for Policy Studies
CUP	Central Unit on Purchasing

DG	Director General
DGGS	Director General Gas Supply (alternative title of DGOFGAS)
DGOFGAS	Director General of the Office of Gas Supply (also see DGGS)
DGOFT	Director General of the Office of Fair Trading
DGOFTEL	Director General Office of the Office of Telecommunications (also see DGT)
DGT	Director General of Telecommunications (alternative title of DGOFTEL)
DLO	Direct labour organisation
DOI	Department of Industry
DSH	Drake and Scull Holdings
DTI	Department of Trade and Industry
EEC/EC/EU	European Economic Community later European Community later European Union
EFL	External Financing Limit
ERDF	European Regional Development Fund
FCC	Federal Communications Commission (USA)
FCO	Foreign and Commonwealth Office
FT	Financial Times newspaper, London
GCHQ	General Communications Headquarters
GDP	Gross Domestic Product
GEC	General Electric Company Ltd
GLC	Greater London Council
GMBATU	General and Municipal Boilermakers and Allied Trade Union
GPO	General Post Office
GUC	Gas Users Council (later Gas Consumers' Council)
H&W	Harland and Wolff shipyard
HCA	Historic cost accounting
IEA	Institute of Economic Affairs
IFR	Investment and Financing Review
IMF	International Monetary Fund
IPO	Initial Public Offering (initial stock market flotation)
IRC	Industrial Reorganisation Corporation
JPPC	Joint Privatisation Promotion Committee (sale of British Gas)
LNG	Liquid natural gas
LPTB	London Passenger Transport Board
MEBO	Management and employee buy out
MMC	Monopolies and Mergers Commission
MoD	Ministry of Defence
MORI	Market & Opinion Research International Ltd
MP	Member of Parliament
MTFS	Medium Term Financial Strategy
n/a	not available/not applicable
NALGO	National and Local Government Officers' Association
NAO	National Audit Office
NBC	National Bus Company
NCB	National Coal Board
NCL	National Carriers Ltd (subsidiary of the NFC)

n.d.	no date
NDLS	National Dock Labour Scheme
NEB	National Enterprise Board
NEDC	National Economic Development Council
NEDO	National Economic Development Office
NESL	North Eastern Shipbuilders Ltd
NFC	National Freight Corporation
NGCC	National Gas Consumer Council
NHS	National Health Service
NLF	National Loans Fund
NPV	Net present value
NUM	National Union of Mineworkers
OFCOM	Office of Communications
OFGAS	Office of Gas Supply
OFGEM	Office of Gas and Electricity Markets
OFT	Office of Fair Trading
OFTEL	Office of Telecommunications
OPA	Oil and Pipelines Agency
OPEC	Organisation of the Petroleum Exporting Countries
ORPL/ORPT	Output-related profit levy/output-related profit tax
PABX	Private Automatic Branch Exchange
PAC	Public Accounts Committee of the House of Commons
PCN	Personal Communications Network
P/E	Price earnings ratio (the price of the share in relation to the earnings per share)
PEAU	Public Enterprises Analytical Unit (HM Treasury)
PM	Prime Minister
PO	Post Office/Post Office Corporation
POEU	Post Office Engineering Union
POUNC	Post Office Users National Council
PPS	Parliamentary Private Secretary
PRT	Petroleum Revenue Tax
PS	Private Secretary
PSA	Property Services Agency
PSBR	Public Sector Borrowing Requirement
PTA	Passenger Transport Authority
PTE	Passenger Transport Executive
R&D	Research and development
RO	Royal Ordnance/Royal Ordnance factories
RPI	Retail price index
RR	Rolls-Royce PLC
SBG	Scottish Bus Group
SBGI	Society of British Gas Industries
SERPS	State Earnings Related Pension Scheme
STG	Scottish Transport Group
TEMA	Telecommunications Engineering and Manufacturing Association
TGWU	Transport and General Workers Union

TH	Trafalgar House PLC
TRC	The Radio Chemical Centre Ltd
TSB	Trustee Savings Banks later TSB PLC
TUC	Trades Union Congress
TUPE	Transfer of Undertakings (Protection of Employment) Regulations 1981
UK	United Kingdom
UKCS	United Kingdom Continental Shelf
US/USA	United States of America
USH	United Scientific Holdings
VANS	Value added network services (in telecommunications)
VAT	Value added tax
VSEL	Vickers Shipbuilding and Engineering Employee Consortium
YTS	Youth Training Scheme
£M3	Sterling M3 – a broad measure of the money supply

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Plates

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PREFACE

In September 2004 I was appointed by the then Prime Minister Tony Blair to write the history of Privatisation in Britain as part of the programme of Official Histories managed by the Cabinet Office. I had worked as an economist researching privatisation internationally since the 1980s. Therefore I was delighted to be given the opportunity to prepare this Official History. My brief was to review the evolution of the privatisation programme from May 1979 to May 1997 or during the years of the Conservative Governments. I was also asked to review the years leading up to 1979 and especially from 1970 to better understand the programme's origins and context. I chose to concentrate upon the privatisations involving the sale of public corporations, including the nationalised industries and their subsidiaries. However, I have not entirely ignored the policies introduced that put public services out to competitive tender.

It soon became clear during the writing of this Official History that to do full justice to the wealth of information available in Government records and from interviews with those involved in implementing the privatisations, and to provide a truly authoritative account, two published volumes would be needed. This volume, Volume 1, studies the background to privatisation and the privatisations of the first two Conservative Governments led by Margaret Thatcher, from May 1979 to June 1987. Volume 2, to follow, will cover the privatisations undertaken during the third Thatcher Government from June 1987 to November 1990 and those undertaken by the Major Governments. John Major succeeded Margaret Thatcher as Prime Minister and headed two Governments, from November 1990 to April 1992 and from April 1992 to the beginning of May 1997. However, any division of Government policy into such discrete historical periods is to a degree arbitrary and throws up difficulties for the historian. In particular, in a number of cases the sales of second and third tranches of shares in privatised businesses were completed a number of years after the initial share flotation. It seemed most appropriate to discuss these later sales in the chapter or chapters concerned with the original share disposal. Equally some privatisations were planned under one Government but completed under another. In general my treatment is to discuss these privatisations when discussing the privatisation programme of the Government in which the shares were sold, unless there were good reasons not to do so. The main exceptions are the privatisations relating to the oil industry and to shipbuilding, which in each case are grouped together. This means, for example, that the privatisation of the British Airports Authority is studied in Volume 2. The planning for the disposal of BAA began well before the 1987 General Election, but the Election interrupted the final advertising campaign and the sale was not completed until afterwards.

The privatisation programme that began in Britain after the election of the Conservative Government led by Margaret Thatcher in May 1979 was strongly opposed by the Opposition

Labour Party in Parliament and treated with some hostility mixed with indifference by the smaller Social Democrat-Liberal Alliance, later renamed the Liberal Democrats. A number of economists and journalists also heavily criticised the policy at the time. They labelled it economically flawed, badly administered, unfair in terms of its wealth redistribution effects and largely irrelevant to reversing Britain's economic problems that had become so apparent in the 1970s. Needless to say the trade unions were strongly opposed to each of the privatisations in turn. And yet privatisation has not been reversed. Since May 1997 Labour Governments have continued to put public services into the private sector, albeit under the banner of public-private partnerships rather than privatisation. I was not asked to review privatisation policy under the post-1997 Labour Government and therefore leave this task to future scholars.

On embarking on this Official History a number of questions were uppermost in my mind. Notably, to what extent was privatisation a clear policy commitment within the Thatcher Governments of the 1980s – or did Government simply stumble on the idea? The Conservatives' 1979 Election Manifesto neither used the word "privatisation" nor heralded a major denationalisation programme. But this is not to say that behind the public façade such a policy was not taking shape.

Another question concerned what determined the sequencing of the privatisations: why were particular public corporations sold early in the 1980s and other sales delayed until well into the 1990s? Related to this, what were the privatisation objectives and how did they change over time, if at all? There is also the question of how each privatisation was planned and executed, how the different City advisers were appointed and remunerated, what precise roles they played and how the sale prices were determined. Complementing this theme, how was each privatisation administered, in what ways did the methods evolve and change and why? Which government departments took the lead role, what was the input of the Treasury and Bank of England, and what was the relationship between Ministers and civil servants?

The British Civil Service is known for its political impartiality, but were any alarm bells rung within the administration that led the politicians to change direction and perhaps even policy? Finally, how did the industries' managements respond and to what extent did they influence the content and timing of the privatisations?

The study draws heavily from the official records of the British Government to which I was given full access and from interviews with leading figures involved in each of the privatisations, including ex-Ministers, civil servants, business and City figures, as well as academics that have studied the subject. The official records are extensive and it was necessary to be selective if the Official History was ever to be completed. Heavy use has been made of the Prime Minister's papers held in the Cabinet Office, Cabinet minutes and memoranda and the minutes and memoranda of relevant Cabinet committees, along with departmental papers and HM Treasury papers, especially relating to the larger privatisations. In addition, the published autobiographies and memoirs of ex-Ministers and nationalised industry management proved useful in terms of corroborating certain facts and providing useful background information and sometimes a different perspective.

A large number of academic papers and books, many appraising the consequences of privatisation for economic performance, have been published since the 1980s and in preparing this Official History their content has not been neglected. However, my purpose was not to re-plough existing land but rather to capitalise on my privileged access to the official papers and those involved to provide a new insight into the UK's privatisation experiment. Incidentally, the careful reader will already have noticed that I have used the terms Britain and the UK seemingly interchangeably. This is the approach I adopt throughout the text, although some purists might criticise me for doing so. When writing the text, in terms of readability, sometimes the term Britain (or British) and sometimes the term the UK seemed the more appropriate.

In terms of interview material I would particularly like to thank those below for giving me the benefit of their insights. In addition, I would like to thank Andrew Riley of Churchill College, Cambridge, for arranging a most useful conference on 5 December 2006 which he kindly invited me to chair and which brought together many of the major players within Government, the City and management involved in the privatisation of British Telecommunications. Those who spoke at that conference and who in a number of cases subsequently provided me with further information are also listed here. My thanks go to the following: Malcolm Argent, Lord Kenneth Baker, Tim Barker, Peter Benson, Lord John Biffen, John Blundell, Sir Samuel Brittan, Sir Richard Broadbent, Sir Patrick Brown, Sir Ian Byatt, Sir Bryan Carsberg, Professor Martin Cave, Julian Cazalet, Kenneth Clarke, Sir David Clementi, Jeremy Colman, Roy Croft, Peter Cropper, Geoff Dart, Roger Davis, Jeannie Drake, Dr David Evans, Kit Farrow, Sir Christopher Foster, Lord Norman Fowler, Lord Ian Gilmour, Colin Green, Gerry Grimstone, Sir John R S Guinness, Giles Henderson, Lord Michael Heseltine, Mark Higson, Sir John Hoskyns, Lord Geoffrey Howe, Lord David Howell, Howard Hyman, Sir George Jefferson, Lord Patrick Jenkin, Professor John Kay, Bruce Laidlaw, Lord Norman Lamont, Lord Nigel Lawson, Peter Lilley, Simon Linnett, Professor Stephen Littlechild, Sir Callum McCarthy, Alastair Macdonald, Lord John MacGregor, Peter Meinertzhagen, John Michell, Nicholas Monk, Lord John Moore, Sir John Nott, Bill Paine, Lord Cecil Parkinson, Michael Parr, Lord James Prior, John Redwood, Michael Reidy, John Rhodes, John Rickard, Jonathan Rickford, Sir Adam Ridley, Sir Malcolm Rifkind, Professor Colin Robinson, Sir Steve Robson, Sir Denis Rooke, Sir Michael Scholar, Adam Scott, Tom Sharp, Sir Alfred Sherman, Victor Smith, Rupert Steele, Lord Jeffrey Sterling, Sir Keith Stuart, Lord Norman Tebbit, Sir Peter Thompson, Michael Valentine, Lord Iain Vallance, Sir John Vickers, Anna Walker, Lord Peter Walker, Laurie Young, Lord David Young.

I would also especially like to acknowledge the access provided by Sir Adam Ridley to his collection of Conservative Party Research Department papers.

Of course, none of the above is responsible for the final content of this Official History. Also, as some of those with whom I had the privilege of interesting discussion did not wish to have their comments attributed, I have chosen not to identify separately material that draws from these discussions in the Official History. However, it is quite proper to confirm that without the insights of those involved in each of the privatisations, this Official History would have been much less rich.

A further tranche of acknowledgements is due to those who assisted me in my research and preparation of the final text. In particular, I must thank Tessa Stirling, Sally Falk and Chris Grindall of the Histories, Openness and Records Unit of the Cabinet Office who administered this project and responded with enthusiasm to my requests to obtain government files and assisted in obtaining access to ex-Ministers and civil servants. Equally, I am most indebted to my Project Board chaired by Tessa Stirling, Head of the Histories, Openness and Records Unit, and including Tony Baker, Christopher Clarke, Gina Coulson, Peter Fish, Arthur Pryor, Irene Ripley, Stephen Twigge and Phillip Wood. Their advice at meetings and by correspondence and their careful reading and correction of draft chapters were invaluable.

Grateful thanks are also due to Eve Hussey and later Rosemary Cockfield and Dawn Richardson at Cranfield University, where I am based, for help in setting up interviews,

tracing and ordering inter-library loans, preparing tables and undertaking editing corrections. In addition, I would like to acknowledge my sincere appreciation to the Department for Business, Enterprise and Regulatory Reform (formerly the Department of Trade and Industry) for providing access to their library and various departmental records, HM Treasury for providing access to their records, and to Cranfield University library and especially Helen Wetherill for responding speedily and accurately to my requests for statistical data. Thanks are also due to Cranfield University for supporting this study by relieving me of many of the teaching and other academic duties normally expected of a University Professor. Last but not least I must thank my family and especially my wife, Megan, for tolerating the mood swings and long periods of absence in my study that always accompany the preparation of a major piece of research.

On 8 December 1986 at a meeting of the Bow Group at Westminster the then Secretary of State for Trade and Industry, the Rt Hon Paul Channon, commented with great prescience:

"When, in many years time, the history of Mrs Thatcher's Government comes to be written, it will be hard to single out any one thing as being our greatest and most lasting achievement. Already such changes as the taming of the trade union militants, the conquest of inflation and the re-establishment of Britain's reputation in the world have had a profound and far-reaching effect on the nation's future But there is one other policy which must also be a strong challenger for the title and in the longer term, may prove even more significant. That is privatisation."

The British privatisation experience is still widely admired and emulated across the globe. This Official History is intended to be useful and informative not only to academic students of privatisation and public policy, but to politicians and civil servants in Britain and overseas grappling with how best to privatise and keen to learn from the UK's pioneering programme.

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1

NATIONALISATION TO PRIVATISATION

1945–79 – The genesis of a policy idea

The term "privatisation" has common public currency from the early 1980s. Prior to this date the description "denationalisation" was preferred when referring to the sale of state-owned industries. It is not entirely clear who first coined the term privatisation. The writer on management, Peter Drucker, claims to have used the word as early as 1969,[1] but there are other claimants. A number of Conservative Ministers in the first Thatcher Government attribute the term to their shadow Cabinet colleague in the 1970s, David Howell, which suggests that Howell initiated the use of it within the Conservative leadership.[2] Margaret (later Baroness) Thatcher, the Prime Minister from 1979 to 1990, is on record as disliking the word – "Not a word I'm particularly fond of. In fact a dreadful bit of jargon to inflict on the language of Shakespeare".[3] But it was used in Cabinet and Cabinet Committees after 1979 and in the two volumes of her autobiography.[4]

Whatever the origins of the term and its possible detrimental effects on the English language, the years from 1979 to 1997 saw a large movement of assets in Britain from state to private ownership, now referred to as "privatisation". The programme involved a complex set of interacting policy initiatives including public flotations and trade sales of nationalised industries, divestments and asset sales, and competitive tendering and contracting out in central and local government and the National Health Service (NHS). In addition, privatisation cannot be separated completely from other economic policy initiatives at the time, notably monetarism and controlling public expenditure, tax reductions and other "supply side" reforms. Sometimes the whole set of economic policies is labelled "Thatcherism".

This opening chapter considers the origins of privatisation as policy from 1979. The starting point is a discussion of nationalisation. The chapter then turns to consider some developments in economic theory during the 1960s and 1970s which formed an intellectual underpinning for the privatisations that occurred later. The aim is to address why, by the late 1970s, privatisation was seen as being both a desirable and a feasible policy option by a growing number of economists. The extent to which privatisation was policy in the Conservative Party by 1979 is the subject of chapter 2.

The origins of state ownership

In 1776 Adam Smith published his seminal study of the market economy, *The Wealth of Nations*. In this treatise on capitalism, Smith commented: "Great nations are never impoverished by private, though they sometimes are by public prodigality and misconduct. The whole, or almost the whole public revenue, is in most countries employed in maintaining unproductive hands."[5] The message seemed clear enough: government enterprises are more likely to destroy the wealth of nations than create it. Although Smith acknowledged that some state provision would be needed for public works that would not be profitable for private enterprise to supply or where wider public benefits existed, normally economic activity was best pursued by competitive private enterprise. The success of the industrial revolution in Britain was founded firmly on Smith's principles of private enterprise, private property and free trade.

However, from the late nineteenth century state enterprises slowly increased in number and state regulation expanded. In spite of the dominance of "laissez-faire" economics in the nineteenth century, forms of state intervention developed to tackle perceived market failure. In some cases state intervention took the form of state regulation of private business. The railways were an example. Built by private capital, as early as the 1840s there was a demand that the railways be brought under state control because of their economic importance in terms of moving passengers and freight. This was reflected in the powers given to the Government under The Railways Act of 1844. This Act empowered the state to purchase all railways constructed after the passage of the Act and that were in existence after 21 years. Although these powers were never used, during the nineteenth century the railways became heavily state-regulated, especially in terms of the charges they could levy.

In gas, electricity, the water supply and tram (and later bus) transport, state intervention went further. A mixture of state-regulated private enterprise and municipally-owned enterprises resulted.[6] In the face of rapid urbanisation and the associated overcrowding and lack of sanitation in cities, during the nineteenth century municipal enterprises were established to provide water, gas and later electricity and public transport systems, often alongside state-regulated private sector operators. For example, the cholera outbreaks of the 1830s and 1840s were instrumental in leading councils to seek to improve water supplies and sanitation. This development is often referred to in the history books as the period of "gas and water socialism" or "municipal socialism". However, as most of the councils in the nineteenth century were dominated by ratepayers and businessmen, it is misleading to label the development "socialist". Rather it was a reflection of the social and economic needs of the time and the conclusion that the unregulated private sector was unable to supply adequate public services and that these services should be a function of the state, albeit at this time at the local rather than national level.

Between 1845 and the early 1870s there was a large growth in the number of statutory water undertakings, with 250 systems run by local government by the end of the period. There was also a similarly large spurt in local authority generation of electricity later in the century. Between 1895 and 1900 the number of statutory electricity undertakings in Britain rose from 91 to 229, of which 71 per cent were owned by municipalities. In the 1900s there was a comparable growth in tramways with the number of undertakings increasing to 311 in 1905, of which one half were municipally owned. In gas supply the most rapid growth of provision was from the 1850s to the 1880s, by which time local councils accounted for 39 per cent of gas supplies. The fact that these "public utilities" needed to seek compulsory purchase orders from Parliament to obtain rights of way to build their systems encouraged the movement towards state ownership.

The spread of municipally-owned enterprises was paralleled by a growth in state regulation of the private sector operators of public services. Charges and outputs for gas, water, electricity and tram transport became regulated by various state bodies. Arguments about the fair level of charges and the adequacy of services were not uncommon.[7] Study of the development of municipal enterprises draws attention to the extent to which regulatory failures in the nineteenth and early twentieth centuries made public ownership increasingly popular. It sometimes proved difficult to regulate the private sector operators effectively.[8] Also, research suggests that municipalisation may have been an economic solution to supplying public services. A number of municipally-owned gas and electricity suppliers may have performed no worse in terms of costs of production than their privately-owned counterparts.[9]

By the First World War, alongside the municipally-owned enterprises there existed a small number of businesses controlled by central government. The Royal Mail had been a Crown activity since the sixteenth century and in 1868 the Post Office took over the operation of the country's telegraph system. The Port of London became publicly owned in 1908 and the telephone system came under the control of the Post Office in 1912 (with the exception of the service in Kingston-upon-Hull, where the municipality mounted a successful campaign against central government control). At the outbreak of the First World War, in 1914, the then First Lord of the Admiralty, Winston Churchill, took the Anglo-Persian oil company into state hands to protect oil supplies for the Royal Navy. Later renamed British Petroleum (BP), some of the company's shares would be sold off by government in 1977 to raise revenue for the Exchequer, anticipating the start of large-scale privatisation in Britain after the General Election of 1979.

In the years between the two World Wars economic recession and the resulting unemployment led to mounting criticism of private enterprise. This period saw significant lobbying for nationalisation. For example, there were critical reports on the running of the coal mines in 1919 and electricity in 1926. These led to recommendations to establish bigger undertakings to replace the numerous private sector collieries and private and municipal electricity providers, respectively. Before the Sankey Commission in 1919 the miners' union proposed the transfer of the ownership of the mines and mineral rights to a Mining Council, a half of the membership of which would be appointed by the Crown and a half by the union.[10] The Commission only narrowly rejected the introduction of state ownership. In 1926 the Government established a state-owned national grid under a new Central Electricity Board to rationalise and develop electricity transmission across the country, thereby beginning the nationalisation of electricity supply. In the same year public wireless broadcasting was effectively nationalised with the establishment of the British Broadcasting Corporation (BBC). This was followed, in 1933, by the setting up of the London Passenger Transport Board (LPTB) in a bid to rationalise and improve public transport in the capital. Commercial air travel also came under state influence during the interwar years. In 1924 the Government encouraged the creation of Imperial Airways out of four private airlines and in 1935 British Airways was established. Imperial Airways and British Airways were nationalised in 1939 and the state-owned British Overseas Airways Corporation (BOAC) was created.[11]

The public corporation

The Labour politician Herbert Morrison was the chief architect of the LPTB and would play a prominent role in the nationalisations after 1945 by the post-war Labour Government. In his book *Socialisation and Transport* published in 1933, Morrison set out his vision for state enterprise: "We are seeking a combination of public ownership, public accountability, and business management for public ends."[12] In this vision the boards of the state enterprises would be independent of government, in the sense that Ministers would not interfere in their decision making except on matters where specific legal duties were imposed on them. This was intended to address the criticism that politicians and government departments were not appropriate managers of commercial enterprises. Later the role of Ministers would be restricted in the nationalisation statutes largely to powers to give "general directions" to the boards on matters that affected the national interest. In effect, the board of the public corporation would be the state sector equivalent of the board of a private sector joint stock company. The boards would have a high degree of independence, subject to being accountable not to shareholders but to the public through Ministers for the operation of their businesses.

In 1918, the young Labour Party had adopted a new constitution including Clause 4. Clause 4 pledged the Party to "the common ownership of the means of production, distribution and exchange". This commitment anticipated the socialisation of the economy: however it was unclear at the time what precise form "common ownership" should take. During the second half of the nineteenth century the nascent labour movement had supported the spread of municipal enterprises. The early part of the twentieth century saw the left wing of the labour movement flirt with syndicalism and control of industry through worker councils, especially around the time of the First World War. But in the interwar years the majority of the labour movement, including the major trade unions, backed away from such radical ideas in favour of the public corporation.[13] In part this was because of concerns about the impact on economic efficiency of worker control and in part because of the unions' anxiety about the possible effect on their role. The trade unions had been set up to negotiate pay and working conditions with employers rather than manage industries. What would be their raison d'être if workers actually ran the enterprises? In further part it arose because of the economic advantages of controlling industries such as electricity and the railways nationally rather than at the local or small-scale level. Worker-controlled enterprises, like municipal undertakings, were likely to remain small in size. They were unlikely to tackle the rationalisation of industries such as coal, gas and electricity, as recommended in the reports of various official inquiries in the interwar years.

The public board appeared to offer an alternative to bureaucratic control of industry by government departments. Whereas civil servants had little or no training in, or experience of, running businesses and Ministers rarely stayed long enough in one department to build up expertise in the activities of any industry, the boards would be filled with professionals with a long-term interest in their industries. During the drafting of the London Passenger Transport Bill it had been suggested that the Board should contain representatives of the former shareholders, of local government and of the workers. Morrison had successfully resisted this, stressing instead the case for appointments solely on the basis of ability. Professional, experienced management on public boards would mirror the professional management increasingly in control of companies in the private sector.

There was some concern at the time that representation of the labour movement in the running of state enterprises might be lost. Nevertheless, the appointment to state enterprises of management according to ability and experience rather than to represent sectional interests was endorsed by a Trades Union Congress (TUC) report in 1932; although the report did go on to suggest that Advisory Committees should be created alongside the boards to represent particular interests, including the trade unions. A subsequent joint statement by the General Council of the TUC and the Executive Committee of the Labour Party confirmed that day-to-day administration of businesses was a matter for "trained business administrators".[14] This and other Labour Party and TUC reports in the 1930s recommended that trade unions should remain independent of the management of public corporations, so as to be able to continue to undertake their traditional role of representing workers in negotiations over pay and working conditions. While this was not considered to rule out some board representation for the unions, the stance taken meant that there was to be no union or worker control of state industries. In 1945 a report of the TUC General Council confirmed that both the Labour Party and the TUC desired public control of industry but not workers' control, and that board appointments should be on the basis of ability so as to promote the efficient working of the industries.[15]

In a book extolling the virtues of the public corporation published in 1938, Lincoln Gordon of Harvard University wrote: "Perhaps no feature in recent thought in applied economics in this country is more striking than the rapidity with which it [the public corporation] has gained favour among almost all sections of opinion."[16] In the USA the Emergency Housing Corporation, the Electric Home and Farm Authority, the Inland Waterways Corporation and, best known of all, the Tennessee Valley Authority were just some of a number of public corporations created in the interwar years. In other words, the growing popularity in Britain of the public corporation form of state ownership mirrored a wider, international development.

By 1945 state ownership of a number of major industries in the form of the public corporation was accepted Labour Party policy and only the extent to which the trade unions should be represented on public boards remained to be settled.[17] Nor in Britain was the public corporation simply Labour Party policy; by 1945 it had won considerable cross-party support. The public board had been endorsed by an Industrial Inquiry for the Liberal Party in 1928[18] and by leading interwar economists such as A.C. Pigou and J.M. Keynes, the inspiration for post-war Keynesian economics. The Conservatives had created the Central Electricity Board and the BBC in the mid-1920s as public corporations.

Also, there was cross-party agreement that a number of the industries that were nationalised after 1945 needed major restructuring. The successful development of a national electricity grid in the late 1920s and 1930s by the Central Electricity Board seemed to vindicate government planning, but concerns continued about the state of the remainder of the electricity industry, as evidenced by the proceedings of the McGowan Committee in 1936. Only the War prevented the introduction of legislation to rationalise the distribution of electricity. Similar concerns were expressed in the Heyworth Report on gas supply.[19] Reporting just after the 1945 General Election, the Committee recommended rationalisation of the industry under public ownership. Turning to coal mining and transport, the Coal Mines Act of 1930 established a Coal Mines Reorganisation Commission with a view to amalgamating the collieries into larger and more viable units and in 1931 a Royal Commission considered how best to achieve co-ordination of the country's transport. While its report did not recommend nationalisation, neither did it formally reject it.[20] In March 1945 the Reid Committee criticised the continued fragmented structure of the coal industry involving a large number of small and inefficient pits. In July 1942 a confidential report for the Ministry of War Transport recommended unification of the country's transport system under a national Transport Corporation. This Corporation would, with certain exceptions, have an entire monopoly of internal transport by road, rail, canal and air.[21]

In other words, a momentum had built up by 1945 on the need for centralised control and planning of the outputs and inputs of a number of the industries that would be nationalised by the Government elected that year. The momentum towards centralised state ownership had been encouraged by wartime planning. During the Second World War, electricity, gas and parts of the transport system came partially under state ownership and coal mining and iron and steel production were heavily state-regulated.[22] State control of these industries during the War was used to justify continued state planning afterwards. Also, a number of the industries were in poor shape by 1945 so that their future under private ownership was uncertain. A neglect of investment as resources were diverted into maximising war production meant that the industries were in need of investment at the end of the War on a scale that private capital might be reluctant to provide, especially where prices and outputs remained state-regulated. Only from the late 1940s were wartime controls including rationing lifted in Britain. The railways and coal mining caused particular concern. The Railways Act of 1921 had provided for the compulsory amalgamation of the existing 119 companies into four regional companies as an alternative to nationalisation. But motor transport had continued to eat into the railways' markets in freight and passenger conveyance in the interwar years, and the competitiveness of the railways had deteriorated further during the War. By 1945 the economic position of the coal mines was at least as bad; coal production had actually declined during the War reflecting a lack of investment and the working out of the most easily mined coal seams.[23]

The 1945 Labour Government

The Labour Party's 1945 General Election Manifesto proposed the public ownership of the Bank of England, the fuel and power industries including coal mining, inland transport, and iron and steel. In the case of the coal industry the rationale was to bring "great economies in operation" by amalgamating the multitude of privately-owned collieries and modernising production methods. Public ownership of gas and electricity was expected to "lower charges, prevent competitive waste, open the way for co-ordinated research and development and lead to the reforming of uneconomic areas of distribution". Nationalisation of inland transport would provide for co-ordination of rail, road, air and canal transport; while in the case of iron and steel, the high prices and inefficient plants kept open under private ownership would be rationalised after nationalisation.[24] As the Official Historian of Nationalisation, Sir Norman Chester, concludes: "one feature common to most of the industries and services in the Labour Party's programme was the claim, supported in many instances by impartial reports, that some form of Government action was needed in the interests of promoting greater efficiency."[25]

The election in 1945 of the first Labour Government with a majority of MPs over all other parties led to the nationalisation of a number of industries, as summarised in Table 1.1. The Bank of England was taken into state ownership in 1946. The following year saw the nationalisation of the coal industry.[26] Coal proved to be a particularly complicated nationalisation because it involved the acquisition of the assets of 750 to 800 concerns rather than the nationalisation of entire companies.[27] The other nationalisations involved the take-over of companies. In 1948–9 the railways and electricity and gas supplies were brought into state ownership including, in the case of electricity and gas, the municipal undertakings. In 1949 the iron and steel industry was to be nationalised; however its transfer to the state sector had not been completed by the time of the election of a Conservative Government in 1951. This brought the nationalisation of iron and steel to a halt. After 1951 the Conservative Government transferred most of the industry back into private hands. Alongside these nationalisations, in 1945 two new public corporations were created for the state airlines to complement the existing BOAC, one for European and domestic air routes (British European Airways, BEA) and the other for South American routes (British South American Airways

Table 1.1 The main industries taken into state ownership 1945–51

Industry	*Date of state takeover*	*Numbers employed at the time*
Bank of England	1 March 1946	6,700
Civil aviation	1 August 1946	23,300
Coal	1 January 1947	765,000
Cable and Wireless	1 January 1947	9,500
Railways and subsidiary transport businesses	1 January 1948	888,000
Electricity	1 April 1948	176,000
Gas	1 April 1949	143,500
Iron and steel	15 February 1951	292,000

Source: Based on Childs, 2001, p.14.

Corporation). In 1949 BOAC and the British South American Airways Corporation were merged. Another state takeover involved Cable and Wireless Ltd, the operator of telecommunication services in a number of Commonwealth countries. This company was taken into public ownership after the War following a meeting of Commonwealth Governments in May 1944. The meeting decided that a public corporation should be created for telecommunications in each of the Commonwealth countries, each owned by the government of the country but linked to the UK company.

In total, the 1945–51 nationalisations transferred over 2.3 million employees from the private to the public sector. In terms of sheer size, the nationalisations of coal, railways, electricity, gas and iron and steel were the most important, accounting for over two million employees and 20 per cent of the country's fixed capital formation.[28] Subsequently the Conservatives denationalised some parts of road transport, as well as iron and steel, but otherwise the nationalisations remained in place.[29]

Each of the nationalisations necessitated a separate piece of legislation to give the Government the power to take over the enterprises and establish a public corporation, much as later each of the major privatisations of the 1980s and 1990s would be anticipated by legislation to establish an enterprise under the Companies Act.[30] Compensation was paid to the previous owners. Usually the appropriate amounts of compensation due were disputed, with owners arguing that they deserved more; an exception was coal nationalisation where the purchase terms were successfully agreed with the owners. The compensation terms for the railways were strongly criticised. The Government used Stock Exchange quotations and the shareholders of the railway companies argued that market quotations were not directly related to the value of the assets and their earning potential. The shares traded daily were a small proportion of the total capital involved.[31] The discontent over the amounts paid to nationalise the industries was mirrored in the 1980s by the controversy over the amounts the private sector paid to reacquire them.

The public corporations created had a number of similarities to companies in the private sector. They were given their own corporate legal status, their own separate accounts, appointed their own employees (who were not civil servants) and could sue and be sued in their own right. However, the nationalised industries were to have more complex objectives than making profits. Each board was given objectives that were a mixture of commercial aims and wider economic and social goals, which were categorised as "public interest objectives". For example, under the Coal Industry Nationalisation Act 1946, the National Coal Board (NCB) was required to make supplies of coal available "of such qualities and sizes, in such quantities and at such prices, as may seem to them best calculated to further the public interest in all respects, including the avoidance of any undue or unreasonable preference or advantage".[32]

The nationalised industries were expected to operate efficiently and economically, setting reasonable charges without price discrimination between consumers. This would later lead to some difficulty when the industries came under pressure to set prices according to the costs of supply. They were also expected to promote the development of production and good labour relations. No direct control over pricing was retained by government departments or in the form of a government price tribunal, as it was felt that pricing was a matter for the boards, perhaps subject to occasional Ministerial advice. The partial exception was the railways where prices had been state regulated since the nineteenth century.[33]

Early difficulties

Although in the Labour Party the public board was the accepted form of state ownership by 1945, there had been no real consideration of the constitutional, administrative and financial arrangements under which the boards should operate. In his book *Socialisation and Transport* Morrison had devoted a chapter to "The Management of Socialised Industries", but this was mainly given over to a discussion of the advantages and disadvantages of public corporations. This meant that a number of important organisational issues were left to be addressed later. In a number of cases this led to significant restructuring of the industries during the 1950s and 1960s.[34]

Monopoly positions in markets plus access to public funds threatened to remove the pressure to operate efficiently. The British public corporation was not the equivalent of a private sector joint stock company. To begin with it did not have shareholders and nor did it have a profit maximising objective, although it was expected that the public corporations would not make long-term losses. The boards of public corporations were in no sense "residual risk bearers". Risk fell ultimately on the taxpayer or on consumers through higher prices. Equally, members of public boards had no rights to any financial surpluses earned and they received fixed salaries rather than performance-related pay.

The result was very different corporations in the public and private sectors.[35] To a degree this was recognised at the time: Morrison applied the phrase "high custodian of the public interest" to the new boards. The assumption was that because the industries were state-owned they would be managed efficiently in the public interest. At the same time, the scope for conflict over what was the public interest was already evident in the expectations of the trade unions. The unions supported nationalisation in 1945 in the anticipation that their members would receive much more favourable treatment in terms of wages and working conditions than had been the case under private ownership. The implications of this for the management and finances of the nationalised industries were, again, left to be sorted out later.

Nor had the Labour Party in 1945 a clear view about the board structure for the new public corporations. The only issue that had been addressed in any real detail was the extent of worker representation on the boards, although even this had not been entirely settled. In each of the new public corporations, boards were created including non-executive directors, alongside executive directors, appointed by Ministers to represent the public interest.

Later it became common to have a token board member from a relevant trade union. The board members were both full-time and part-time appointees, usually for three or five year periods.

The issue of the appropriate level of pay for board members caused particular difficulty. The salaries were to be paid by the board and not the Treasury, in part because it was felt that Treasury-determined salaries were unlikely to attract people of the right calibre to the new boards. However, this did not stop the Permanent Secretary at the Treasury, on hearing that salaries of £15,000 to £20,000 were being talked about for the Chairman of the new National Coal Board, writing a letter of complaint to the Chancellor of the Exchequer. He warned that if salaries of that order were paid to the middle and upper staff of the corporations, civil servants who could be ill-spared would be tempted away from government departments. In spite of such protests, the Labour Government continued to take the view that a failure to pay market salaries would condemn the industries to being less efficiently managed. At the same time, and less publicly, some Ministers feared that the case for high salaries would not be understood by the Party's supporters and would be unpopular in the country – they were also likely to be above the amount normally paid to Ministers. In the end the Minister of Fuel and Power was asked to try and appoint the Chairman and other members of the NCB at salaries that fell short of what the Minister thought would be needed, although still above Civil Service norms.[36]

The appropriate mechanism for setting pay in the nationalised industries, at all levels, would remain a festering sore with disputes erupting from time to time. Periodic government intervention to reduce wage settlements in the public corporations as an example to the rest of the workforce produced a negative effect on labour relations. This came to a head during the 1970s when a number of the nationalised industries were plagued by strikes and it proved increasingly difficult to recruit high calibre management.[37] By the 1970s top salaries in the public corporations lagged well behind the norm for similar jobs in the private sector.

The emphasis at nationalisation was on creating large and highly centralised corporations to gain economies of scale and remove the inefficiencies highlighted in interwar official reports. Even where district management or area boards were established, the key strategic decision making was placed largely or wholly at the centre. The resulting businesses were much bigger than any existing government organisation. For example, the Post Office was an atypically large state body in 1945, employing 250,000. By contrast, the nationalised coal industry would employ 760,000 and went from having around 800 management units prior to nationalisation to one, the NCB.[38] In electricity the number of management units was 561 before nationalisation and 15 afterwards, and in gas 1,000 before and 13 after nationalisation. In road haulage the planned concentration was even more dramatic, with the industry post-nationalisation controlled by a single body, the British Transport Commission, reflecting the belief at the time in the virtues of a centrally planned transport system. In the event this arrangement quickly proved unsatisfactory, centralisation was never really accomplished, and the Commission was eventually disbanded.

Establishing highly centralised organisations had the advantage of achieving quicker nationalisations. Vesting the assets in one or a small number of state-owned bodies was administratively simpler than vesting them in large numbers of independent units. But the result was management structures and organisations that would prove problematic in the following years. The main exception to all of this was the iron and steel industry. A new Corporation was established in 1951 to oversee the operations of a number of publicly-owned companies and this meant that, in contrast to the other nationalised industries, the structure created was potentially decentralised.[39] In principle, the companies would have been able to compete for business and this could have had advantages in terms of promoting efficiency. However, the Corporation's creation was quickly overshadowed by the arrival of a new Conservative administration and denationalisation of the industry, and therefore the structure was never really tested.

Alongside inadequate consideration of the appropriate organisational structures for the nationalised industries other than the penchant for centralisation, there was insufficient attention paid to the future of the industries' finances. When the Coal Industry Nationalisation Bill was introduced, the Minister of Fuel and Power made it clear that the industry was not necessarily expected to pay its way each year, and should build up reserves to cover any deficits in later years (at this time a shortage of fuel seemed to rule out losses in the industry, for the foreseeable future at least). Therefore, in the draft Bill revenues were to be sufficient to meet all outgoings properly chargeable to revenue account "on an average of good and bad years". This phrase "on an average of good and bad years" was at first copied by the Ministry of Transport when drafting the Transport Bill, but the wording was later changed to "taking one year with another". This wording was then used in the Electricity, Gas and Iron and Steel Bills. The idea was that the public corporations should finance their operating and capital expenses without becoming a burden on the taxpayer and that where they competed with private sector firms there should not be unfair competition due to state subsidies. At the time, the Treasury was more concerned with avoiding the industries becoming a burden on the taxpayer than with making a particular level of profit.[40]

For this reason the Treasury had initially been hostile to the idea that it should guarantee the capital of the nationalised industries. However, when the Treasury guarantee became agreed Government policy, the Treasury's efforts switched to ensuring that there should be no concealed subsidy in the form of the corporations failing to make payments on their loans. Except in the cases of the Bank of England and the coal industry, at nationalisation Ministerial and Treasury opinion favoured the boards issuing stock in their own right rather than borrowing from the Treasury. Loans from the Treasury would make the Exchequer a direct creditor of the industry and it was felt that this might create an expectation of taxpayer funding. However, the boards soon experienced difficulty in selling the large amounts of new stock they wished to issue. As a result, a succession of issues was partly taken up by the Bank of England's Issue Department. It was therefore decided in 1956 to suspend direct stock issues and to finance future borrowings through the Treasury.[41] Henceforth, the borrowings of the nationalised industries for investment occurred through the National Loans Fund with an implicit government guarantee.[42]

The protection of consumers received little attention during the drafting and passage of the nationalisation legislation, in spite of the fact that a number of giant monopolies were being created. Consumer committees were set up in the industries to represent the consumer viewpoint such as the Coal Advisory Committee which provided advice to the Minister, [43] but without an obvious ability to influence the industries' strategies significantly. The corporations were subject to Ministerial oversight, but the concern at the time was not to place Ministers in a position where they might come under political pressure to intervene in pricing.[44] Hence, the Coal Bill did not give the Minister any power to control the prices charged by the NCB. Leaving the management with discretion over pricing and service levels was not considered to be a serious defect at the time because of the view that exploitation of the consumer resulted from the pursuit of profits for shareholders. The new public boards did not have a profit objective or shareholders and therefore this problem was removed.

Moreover, the public corporations were expected to operate the industries for the public benefit and were therefore, if anything, expected to perform more efficiently than the former private enterprises in the sense of supplying adequate outputs at low prices.

The precise responsibilities of Ministers towards the industries varied under the different nationalisation statutes. But in general the boards were given the main statutory duties, functions and responsibilities and Ministers only a few specific powers.[45] These powers related to the appointment and dismissal of Board members and approval of the investment programmes drawn up by the boards. Other powers related to agreeing programmes of research and development, approving the form of accounts and controlling each industry's borrowings subject to a ceiling approved by Parliament, and to issuing "general directions" to the boards in the national interest.

During the Second Reading of the Coal Industry Nationalisation Bill, the left-wing Labour MP Emanuel Shinwell asked, "Who are better fitted to judge [the public interest] than the people who are running the industry?" There was a belief, in retrospect naive, that the boards would necessarily act in the national interest. Reflecting this, the power of Ministers under the Acts to give general directives to the industries was not intended to provide wide scope for Ministerial interference in their management. Ministers were not given powers to issue "specific directives" to the boards. It seems that at the time the legal advice within Government was that the taking of specific powers, for example over output decisions or the use of particular assets, would tend to be regarded by the courts as a limitation on, rather than an enhancement of, the powers contained in the right to give general directions.[46] However, the phrase "matters appearing to the Minister to affect the national interest", introduced during the drafting of the Coal Bill, might have appeared to give Ministers considerable discretion when issuing general directives, but in a memorandum in July 1947 the Lord President stated that, "It is generally agreed that there should be as few general directions as possible issued by Ministers to Boards." In March 1948 a Ministerial Committee noted that it was "accepted policy that general directions should only be issued in exceptional circumstances . . . It would never be possible to control a recalcitrant board by issuing a stream of general directions".[47]

In the event no general directions were issued by the 1945–51 Labour Governments. The first was issued by the subsequent Conservative administration in its first few weeks in office, to limit the actions of the Iron and Steel Corporation ahead of the industry's denationalisation.[48] However, the restriction on Ministers' formal powers to intervene in the management of the nationalised industries would not prove a deterrent to Ministers and civil servants from using influence behind the scenes to get their way – and without becoming directly responsible for any mistakes. The formal division of powers between the boards and the Ministers would also mean that Ministers would be able to duck Parliamentary questions on matters of operational management that were legally the prerogative of the boards. In place of formal directions, Ministers and their civil servants tended to develop close channels of communication with the Chairmen and their boards through day-to-day contacts. As a result, in the public corporations informal rather than formal Ministerial influence evolved.[49]

Day-to-day intervention in the management of the industries by Ministers was supposed to be ruled out, but in reality it proved difficult to separate a Minister's responsibility for the future of an industry from operational decisions. Hence, a main reason for the adoption of the public corporation form – public accountability without political interference in the running of the industries – was compromised by the informal control process that evolved. This would become particularly obvious in the 1970s when Ministers interfered in the details of pricing decisions, wage settlements and investment projects.[50] But early signs of tension appeared immediately after nationalisation. By the end of the 1940s Ministers had become heavily involved in the details of the industries' pension schemes because of the implications for the industries' costs and the pensions payable to other public sector employees. Also, Ministers had considered it necessary to get involved in production and pay decisions in the industries.[51] In 1947 a national coal shortage compounded by a particularly harsh winter led the Government to press the NCB for six day working in the mines, to raise the output of coal, while at the same time avoiding a substantial rise in miners' earnings. No general direction was given. The Government preferred to express its views informally so as to "assist the Board in reaching a decision which would achieve the objective desired".[52] Later, Governments would intervene in management decisions especially when an industry faced financial difficulties or when large investment programmes were at stake or where major redundancies or strikes threatened.

Clearly there were inherent weaknesses in the form that nationalisation took after 1945, particularly in relation to organisational structures, finances, management and public accountability. Signs of dissatisfaction were already mounting by the late 1940s. In April 1947 an internal committee set up by the Prime Minister expressed concern about the increasing burden of administrative work placed on government departments by the nationalised industries, contrary to the expectation that the public corporation would avoid departmental bureaucracy. The committee also expressed concern about the growing size of the industries' administrations. The nationalised industries were not proving to be efficient, lean animals. By 1950 the Lord President was complaining about the large increase in staff in the electricity industry.[53] Although an important rationale for nationalisation had been improved economic efficiency, Ministers were already expressing worries about efficiency levels.

Growing disillusionment

By the early 1950s the unions and workers were already showing signs of disillusionment. The nationalisation legislation had left most of the managers, officials and supervisors still in charge. Unions complained that there seemed to have been little change in the attitude of management or in the status of workers. Nor was it obvious that there had been significant improvements in pay and working conditions. A sub-committee of a Ministerial Committee tasked to look into this matter acknowledged in May 1951 that there was a good deal of frustration and disappointment about the results of nationalisation. There was particular criticism of red tape and bureaucracy in the industries and extravagance in terms of official cars and other perks for top management. At the 1949 National Union of Mineworkers' annual conference there were more resolutions on nationalisation than any other matter.[54]

The growing discontent about the performance of the nationalised industries was reflected in the Labour Party's Election Manifesto in 1950. This stated that, "Labour will not be content until each public enterprise is a model of efficiency and social responsibility."[55] It was by now clear that the Government of the day would still be held accountable for the performance of the industries no matter what the legislation might say about the division of responsibilities between Ministers and Boards. On the doorstep at the General Election that year the public held Government answerable for service failures.[56] This would continue. The performance of the nationalised industries would remain a recurring embarrassment for governments and this played a part in convincing some politicians by 1979 that Government would be much better off without them.

Concern about the performance of the industries particularly surfaced whenever their finances deteriorated. In the late 1940s only the nationalised airlines needed subsidies and there was no call on the Treasury guarantee of debt.[57] But once the post-war years of shortage ended, in the 1950s, the finances of the coal and railway industries deteriorated sharply. They would become perennial loss makers. Both industries were subject to periodic capital restructuring involving subsidies and debt write-offs, but which reversed their financial position only temporarily. Periodically the performance of the other nationalised industries attracted unfavourable comment, due to their finances or because of poor services. For example, by the 1960s the long waiting list for telephones was a particular source of public discontent.

In addition to concerns in political circles about the finances of the nationalised industries, there was increasing criticism of the relationship between the Boards and Ministers. In an introduction to an influential Fabian Society study in 1963, Roy Jenkins, who later became Home Secretary and then Chancellor of the Exchequer during the 1964–70 Labour Governments, catalogued a number of the mounting problems of the nationalised industries.[58] Many of the difficulties, he argued, could be attributed to Conservative Governments since 1951 mismanaging the industries. But on the relationship between Boards and Ministers Jenkins recognised a more fundamental problem: "The creators of the nationalised industries in the post-war Labour Government do not seem to have anticipated the uneasy relationship that has grown up between ministers and the chairmen of the boards of the nationalized industries, for which the ministers are responsible."[59]

In an endeavour to improve Parliamentary scrutiny of the industries, in 1952 the House of Commons established the Select Committee on Nationalised Industries, which went on to publish a series of highly critical reports. For example, in 1967 the Committee examined the issue of "ministerial control" and diagnosed a series of problems related to "an underlying confusion touching all elements in the system, but centring on the sponsoring Departments. Sometimes this has revealed itself as a confusion about purposes . . . Sometimes it has been seen as a confusion about policies . . . Sometimes it has been a confusion about methods . . . But mainly it has been a confusion of responsibilities . . .".[60]

With disillusionment growing about nationalisation both inside and outside Parliament, financial performance targets were proposed in a White Paper in 1961. Until then the industries had operated under the "break even" requirement "taking one year with another" laid down in their nationalisation statutes. The 1961 White Paper stressed that "although the industries have obligations of a national and non-commercial kind, they are not, and ought not, to be regarded as social services absolved from economic and commercial justification."[61] From 1961 other financial objectives than "break even" were set for each of the industries separately, usually in terms of rates of return on assets or on sales over five year periods (major exceptions to this were the loss-making NCB, which was required simply to break even after interest and depreciation, and British Rail, which was asked to reduce its deficit and break even as soon as possible). The industries still lacked guidance, however, on how to set prices and determine investment levels. If prices were set too low and investments were not appraised using adequate return on capital tests then resource misallocation would occur. Resources would be diverted away from the private to the public sector even though they would have earned a higher economic return in the private sector.

In broad terms, decisions on resource allocation made by nationalised industries should approximate as closely as possible to those that would occur in a competitive market.[62] This means marginal cost pricing, minimised production costs and normal profits (equivalent to the cost of raising capital in a competitive capital market).[63] Reality was very different. Most of the nationalised industries were statutory monopolies and there was evidence that costs were not minimised. Profitability was low and sometimes well below the private sector cost of capital, despite the setting of financial targets from 1961. Some of the nationalised industries, such as electricity, telephones, airways and, especially after the substitution of natural gas from the North Sea for town gas, the gas industry, operated in expanding sectors of the economy. Others operated in relatively stagnant or declining markets, notably the Post Office, bus services, railways and the coal industry. The different market conditions determined differences in economic performance. A number of industries, notably public transport, also carried the burden of significant social objectives, such as keeping open bus and rail routes that were not financially viable.

In 1967 another Government White Paper established economic, performance targets.[64] Now the nationalised industries were expected to adopt marginal cost pricing and to use a test discount rate for investment appraisal, set at ten per cent from 1969. The aim was to achieve allocative efficiency and avoid the use of resources in the nationalised industries that would provide a higher economic return in private business. The fact that attaining these performance objectives might not be compatible with the financial targets set under the 1961 White Paper was, at least in public, largely sidestepped by Government. However, although the introduction of guidance on economic pricing and investment was a move forward, events in the nationalised industries were quickly overtaken by a severe deterioration in their finances. A war broke out in the Middle East in October 1973 and in the following months world oil prices quadrupled. In Britain this added to the economic pressures on the industries resulting from a deteriorating domestic economy. The result was a combination of rising inflation and rising unemployment, sometimes described at the time by the term "stagflation". A number of the nationalised industries were badly affected because oil was an important input, for example in road transport and electricity. Also, to protect their members' real wages from the effects of inflation, the industries' unions submitted large wage claims. The result was a significant rise in production costs. Moreover, Government responded to rising inflation by postponing or reducing the price increases demanded by the industries' managements to reflect their higher costs.[65] This started in April 1971 when the steel industry's proposed price rise of 14 per cent was trimmed to 7 per cent by the Government. The result was a serious decline in the financial position of the nationalised sector. This led to the setting up of an inquiry into the industries by the National Economic Development Office (NEDO).[66]

The NEDO inquiry reported in 1976 and looked in detail at four of the nationalised industries. It found that in no cases were prices based on marginal costs, despite the recommendations of the 1967 White Paper.[67] In contrast, the financial targets that originated in the earlier 1961 White Paper were taken more seriously by management, although Government intervention in the industries meant that managements were struggling to achieve the targets set. The NEDO report stressed that there was no effective system for measuring the performance of the industries or for assessing managerial competence. It also confirmed that the confusion in the roles of Boards, Ministers and Parliament, which had existed since the 1940s, was continuing to blur accountability for the performance of the industries. The report concluded that there was no systematic framework for reaching agreement on long-term objectives and strategy. In response, NEDO recommended changes to the governance of the state industries so as to address what it saw as a lack of trust and mutual understanding between those who ran the industries and Ministers and civil servants. In particular, it recommended that Policy Councils should be established to operate alongside the corporations' Boards with these Councils responsible for strategy and the existing Boards for executive authority.

The NEDO inquiry was followed by another government White Paper on the nationalised industries, in 1978.[68] This paper confirmed the importance of financial targets, usually set as a return on average net assets employed in each industry, and introduced a new "required rate of return" which the industries would be expected to achieve on their new investment (set at 5 per cent in real terms before tax). Otherwise, each industry was to be left "to work out the details of its prices with regard to its markets and its overall objectives, including its financial targets".[69] Given that a number of the industries were monopolies, it was not clear how this instruction would guarantee economic efficiency. Other recommendations in the White Paper included the publication of more performance indicators, some governance changes, and changes in consumer representation and reporting requirements. However, a primary recommendation of the NEDO inquiry, the creation of Policy Councils, was firmly rejected by Government. It was felt that this would merely add a further tier of complexity to what was already a difficult relationship between the Government and the corporation management.

Also new at the time were External Financing Limits (EFLs). EFLs were introduced from 1976/77 in response to concerns about the growing level of government debt and were limits on the annual borrowings of the nationalised industries. The lower the EFL, the more an industry would have to finance its investment plans out of its own resources and if set as a negative figure, a net repayment of loans would be due from the industry to the Exchequer. The introduction of EFLs would mean that prices in the nationalised industries would now be set with achieving the EFL target uppermost in mind. This added a further complication to the management of the industries when set alongside achieving financial targets and the requirements of the 1978 White Paper.

A dismal performance?

By the late 1970s the nationalised industries dominated strategic sectors of the economy and accounted for around 10 per cent of Britain's GDP, 14 per cent of total investment and 8 per cent of employment, employing around 1.5 million people. The largest investors were the British Steel Corporation, the Electricity Board and the Post Office, accounting in 1975 for some 9.4 per cent of gross domestic fixed capital formation. However, it was clear to many observers that the industries suffered from confused management leading to poor economic performance.[70] On average the nationalised industries earned financial surpluses in the 1950s, albeit not sufficiently large to meet the total interest payments on their debts. Net income (after depreciation at historic cost but before interest) as a proportion of total assets was generally less than 5.6 per cent but with some of the corporations, such as BEA, occasionally doing much better. In British manufacturing industry comparable rates of return were in the region of 16 per cent.[71] In the 1960s financial performance in the nationalised sector improved with the surpluses rising to four per cent of net fixed assets, which was just about the level needed to meet the interest costs on the industries' loan capital.[72] In a background paper accompanying its 1975 report into the nationalised industries, NEDO produced labour and total factor productivity figures for ten of the major nationalised industries and for manufacturing as a whole. It found wide disparities in the performance of each of the state-owned industries over the period 1960 to 1975.[73] There were also significant differences in performance in terms of output growth and employment (Table 1.2).

Table 1.2 Nationalised Industry Growth Rates 1960–75 (average percentage per annum)

Authority	*Period*	*Output (%)*	*Employment*	*Output per head (%)*
British Airways	1960–74	11.0	3.6	7.1
British Gas	1960–75	7.4	–1.4	8.9
British Rail	1963–75	0.0	–5.5	5.8
British Steel Corporation	1958–75	–3.9	–2.5	–4.4
Electricity	1960–75	4.7	–1.6	6.3
National Coal Board	1960–75	–4.3	–5.9	1.7
Post Office (Postal)	1960–75	0.5	0.1	0.4
Post Office (Telecommunications)	1960–75	5.9	2.1	7.7
National Bus	1969–75	–2.2	–3.4	1.1
Total manufacturing industry	1960–75	2.7	–0.7	3.4

Source: NEDO (1976) *A Study of the UK Nationalised Industries: their role in the economy and control in the future: A report to the Government from the National Economic Development Office*, London: HMSO, Table 1.2, p.16.

The economist Richard Pryke, in a detailed study of the relative performance of nationalised industries and private sector manufacturing companies, published in 1971, concluded that in terms of labour and capital productivity, on average the nationalised industries had performed relatively well especially in the 1960s.[74] Nevertheless, in terms of profitability and most other financial indicators the nationalised industries certainly performed badly.[75]Moreover, the financial performance of a number of the nationalised industries deteriorated during the mid and late 1970s as a result of rising input costs and the price restraint imposed by governments as part of their counter-inflation policies. Table 1.2 gives details of nationalised industry growth rates and average labour productivity growth between the early 1960s and the mid-1970s. Some industries performed well compared with British manufacturing industry as a whole. However, Table 1.3 provides profit figures for each year from 1970 to 1985 for the public corporations and private sector industrial and commercial companies. Throughout the entire period the differences were huge.[76] Two later studies by Richard Pryke, published in 1981 and 1982 and covering the nationalised industries in the period from when his previous study ended, the late 1960s, confirmed a major deterioration in economic performance in the 1970s. This failure Pryke blamed largely on a combination of poor management and government policy.[77]

Comparisons of the performance of particular state and private sector industries in Britain are limited by the fact that many of the nationalised industries were monopolies and had no obvious comparators in the private sector. At the same time, what seems clear is that in terms of profitability, in particular, on average the nationalised industries repeatedly underperformed compared to the private sector down to the 1970s, and profitability deteriorated further during that decade. There was also evidence of distorted investment in "prestige projects", such as the promotion of British nuclear technology in the electricity industry, occurring alongside under-investment in other areas. The financial consequences were painful. Taking the whole 30 years after 1954, accumulated government subsidies, capital write-offs and other payments to the nationalised industries totalled nearly £8 billion. Of course, profitability and sound finances may not be appropriate indicators of performance if state enterprises pursue legitimate non-profit goals in the public interest and it is the case that in terms of labour

Table 1.3 Profitability of public corporations and industrial and commercial companies, 1970–85 (percentages)

Year	*Public corporations*		*Industrial and commercial companies*[c] *(%)*
	[a] (%)	[b] (%)	
1970	6.4	5.6	16.8
1971	6.0	5.3	16.8
1972	6.2	4.6	18.5
1973	6.2	4.3	18.7
1974	4.9	2.4	17.2
1975	4.9	3.1	14.6
1976	6.2	4.8	15.6
1977	6.2	4.9	17.8
1978	5.7	4.4	17.1
1979	5.0	3.6	18.3
1980	4.7	3.4	16.1
1981	5.6	4.0	16.0
1982	6.6	4.8	16.7
1983	6.8	4.8	19.4
1984	6.3	3.4	20.6
1985	5.1	2.6	21.3

Notes:

a Gross trading surplus as a percentage of net capital stock at replacement cost
b Gross trading surplus, net of subsidies, as a percentage of net capital stock at replacement cost.
c Gross trading profit as a percentage of net capital stock at replacement cost

Source: *National Income and Expenditure* (various editions); Vickers and Yarrow (1988), p.143.

productivity the industries seem to have performed much better, at least until the late 1960s. Nevertheless, at best the performance of the industries was patchy. The belief of a growing number of commentators that the nationalised industries had much scope to improve their performance would be reinforced after 1980 when the Government permitted the Monopolies and Mergers Commission (MMC) to investigate the nationalised industries for the first time. The Commission's Reports of the early 1980s on the letter post, gas appliance retailing, electricity generation and coal mining, revealed a catalogue of deficiencies.[78]

"We cannot go on like this"

By the late 1970s there was considerable dissatisfaction with the state of the nationalised industries, the source of which can be traced back to the weaknesses inherent in the public corporation form of ownership. There was particular concern that the industries were out of control and "that something needed to be done" and that "we cannot go on like this".[79] Sir Geoffrey Howe, Chancellor of the Exchequer in the first Thatcher Government, concluded in May 1981: "The Morrisonian constitution grants our nationalised corporations a degree of autonomy which is probably unique in the Western world. In the strict sense of the word, they are constitutionally 'irresponsible'".[80] Howe's conclusion is in harmony with the view that even when Ministers did intervene in the management of the nationalised industries, the Boards' almost complete monopoly of technical expertise limited the effectiveness of their intervention. This is not inconsistent with the view that the industries suffered from excessive ministerial interference. In general, the Boards of the nationalised industries suffered from the worst of both worlds. They neither had sufficient independence from Government to operate fully commercially, especially where they were dependent on Government for their finances, nor were they properly accountable to Government for their actions; for example, it was almost impossible to remove Board members before their contracts expired. Moreover, the industries were often statutory monopolies and lacked the efficiency incentives resulting from competition. As a result, and despite the expectation in the 1940s that nationalisation would lead to higher economic efficiency by cutting out wasteful private sector competition, the economic performance of a number of the nationalised industries had been at best mixed and at worst downright poor. Notably bad performers in the 1970s were the coal industry, the railways and road freight transport. At the same time, it is wrong to suppose that all of the nationalised industries were consistently poor performers, even in the 1970s; this was not the case. For example, the gas industry had an enviable reputation for investment and technological development.

Successive governments had attempted to improve the performance and accountability of the industries with major initiatives launched in 1961, 1967 and 1978; but with seemingly limited effect. The Select Committee on Nationalised Industry in 1967 followed by the major inquiry into the industries by NEDO in the mid-1970s confirmed that the arm's length relationship between Ministers and Boards was failing and that numerous inefficiencies had arisen in terms of managing the industries. Such concerns had not prevented a Labour Government in 1967 from renationalising the steel industry and a subsequent Labour Government in 1974 from taking British Leyland (the country's largest vehicle manufacturer but in serious financial difficulty) into state ownership. This Government had also set up the National Enterprise Board to inject public money into industry and had established the British National Oil Corporation to invest in the North Sea oil fields. In 1977 Labour nationalised the country's aerospace and shipbuilding industries consolidating 31 companies into two new state corporations, British Aerospace and British Shipbuilding. Hence it would be a gross exaggeration to conclude that state ownership was in retreat before 1979. Indeed, Conservative Governments had occasionally expanded state ownership too, notably in 1971 when the Health administration rescued Rolls-Royce from bankruptcy. Nevertheless, within the Conservative Party by the late 1970s there was no enthusiasm for further nationalisation and there was a desire to find some way of reducing the size of the existing state sector. In the Labour Party there were those who favoured more state ownership, particularly on the left of the Party. But even here the suggestion was that it might take some form other than the public corporation. As Denis Healey, the Labour Chancellor of the Exchequer in the second half of the 1970s has since commented: "The public corporation which was chosen by the Attlee Government [after 1945] as the form of nationalisation, is now generally recognised to have failed to meet the nation's needs; it failed even to satisfy the aspirations of those who worked in the nationalised industries themselves."[81]

Privatisation: the economic rationale

The intellectual roots of privatisation can be traced back to Adam Smith and probably before.[82] However, "neoclassical economics", the dominant paradigm in economics in the twentieth century, with its origins in the theorising of economists such as Stanley Jevons, Alfred Marshall and Leon Walras in the nineteenth century, was primarily concerned with the importance of competitive markets in goods and services rather than ownership. Economic efficiency depended upon giving consumers plenty of choice. The development of neo-classical economics with its interest in modelling market equilibria under varying competitive conditions occurred at more or less the same time as the development of the joint stock company as an institution controlling resources in the economy. The joint stock company introduced a division of ownership and control in business or what would much later be called an "agency" relationship. The resulting arrival of "professional management" in the private sector seemed to blur the distinction between the private and public sectors.

In neoclassical economics, competition matters more than ownership. However, there were dissenters: Marxist economists certainly emphasised the importance of property ownership and from the opposite ideological perspective so did the so-called Austrian economists. During the formative years of neoclassical economics certain theorists, notably Carl Menger and Friedrich von Wieser and later Ludwig von Mises and Friedrich von Hayek, established an alternative approach to economics. This later became known as the Austrian school; a term which reflects its origins. Instead of studying competition in terms of market equilibria, the Austrian school preferred to view competition as a process of innovation and discovering new profit opportunities. There was renewed interest in Austrian economics in the 1970s, and an interest in certain other economic theories that came together to present a powerful critique of state ownership, namely public choice theory, agency theory, the new economics of regulation, and monetarism.

Austrian economics

In Austrian economics the crucial importance of the competitive market economy lies in its flexibility to respond to market signals. As one of the leading exponents of this view, Hayek, a student of Mises, wrote in 1948 (p.79): "The really central problem of economics . . . is how the spontaneous interaction of a number of people, each possessing only bits of knowledge, brings about a state of affairs . . . which could be brought about by deliberate direction only by somebody who possesses the combined knowledge of all these individuals".[83] According to Austrian economics, private enterprise seeks out new markets and production methods through a discovery process. By contrast, because of the absence of the profit motive and private property rights, state-owned enterprises lack the incentive and ability to respond similarly to changes in demand and supply. Moreover, even if politicians and civil servants were minded to try and mimic private markets, they would lack the information to do so. In the absence of competitive market signals reflecting resource costs under private ownership, decision makers cannot know what decisions to take to maximise economic efficiency. In other words, in Austrian analysis private property is a precondition for efficient exchange in the market. Austrian economists also equate private enterprise and competitive markets with human action and therefore individual freedom. State ownership is considered to be incompatible with individual freedom. In this tradition ownership certainly matters.

In 1945 Hayek had published an apocalyptic warning about the growth of the state and its impact on individual freedom and enterprise in his book *The Road to Serfdom*, from which Winston Churchill, the Conservative Party leader, had quoted to no avail during the 1945 General Election.[84] Hayek had followed this up with other publications critical of big government including *Individualism and Economic Order* in 1948. Margaret Thatcher met Hayek in 1975 and would later credit him with influencing her economic thinking.[85] She wrote to him in 1989 after ten years as Prime Minister, acknowledging that: "There is of course still so much to do. But none of it would have been possible without the values and beliefs to set us on the right road and provide the right sense of direction. The leadership and inspiration that your work and thinking gave us were absolutely crucial."[86] Thatcher's introduction to Hayek was achieved through the good offices of the Institute of Economic Affairs (IEA) in London. Established by Ralph Harris and Arthur Seldon in 1957, the IEA trod an isolated path in the 1960s as a promoter of small government and private enterprise at a time when state intervention was in the ascendancy, especially under the Labour Governments of 1964–70. Hayek had been instrumental in founding the IEA and the IEA would become a populariser of Austrian economics. It published a number of Hayek's essays including in the 1970s *Full Employment at Any Price* (1975) and *Denationalisation of Money* (1976). Thatcher attended its lunches and seminars after she became Conservative Party leader and in 1979 Ralph Harris was created a life peer in the first honours list of the new Thatcher Government.[87]

Public choice theory

In addition to Austrian economics, the IEA was a promoter of public choice theory. Public choice theory draws upon neoclassical economics and especially the notion of individual utility maximisation. Some of its earliest exponents were James Buchanan, Gordon Tullock and William Niskanen.[88] Public choice theory applies market economic principles to the study of political decision making – hence its alternative title, "the economics of politics". Central to public choice theory is the notion that government employees may pursue self-interest when making economic policy and taking political decisions. Niskanen equated this with 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".[89] All but the last two relate to the size of the bureau and hence this led to Niskanen's claim that public sector outputs would be greatly oversupplied. For politicians, individual utility maximisation would take the form of maximising the chances of remaining in office by focusing on vote-winning programmes and courting influential pressure groups and potential sources of political funding. While the resulting policies might be promoted as being in the "public interest", the reality is government spending and intervention that advances the utility of particular interests both inside and outside government. The taxpayer acquiesces in the rising cost of funding public programmes because each individual taxpayer notices only a small incremental rise in their tax burden on each occasion that public spending rises. By contrast, the beneficiaries of public spending are more concentrated, gain more individually, and therefore lobby even harder for more spending on their causes.

From this theoretical perspective, state ownership makes the allocation of resources dependent on political rather than market forces.[90] In public choice theory state ownership is associated with empire building, gold plating of public investments, union restrictive practices and other economic waste. The theory had a powerful influence on economic thinking during the 1970s and 1980s. It was popularised in Britain through the publications and meetings of the IEA and, after its foundation in 1977, by another free market "think tank" based in London, the Adam Smith Institute (ASI) directed by Madsen Pirie. Public choice theory has been criticised for an over-emphasis on self-seeking over other, possibly altruistic, behaviour within government.[91] Nevertheless, it provided a sobering antidote in the 1970s to the Morrisonian view that nationalised industry boards would necessarily be the "high custodian of the public interest". The more cynical view of motivation within government encapsulated within public choice theory seemed more consistent with the experiences of nationalisation in Britain at the time, especially the actions of the industries' trade unions, who seemed determined to raise the wages of their members no matter the costs to the public at large. Public choice theory would go on to influence later theorising on privatisation in the 1980s and 1990s.[92]

Agency theory

Public choice theory was joined in the 1970s by a new interest in the role of property rights and agency relationships. In the 1970s the term property rights theory was commonly used, but today the description agency theory is more prominent in the literature. The theory of agency is applied to both the public and private sectors and differences in the efficacy of monitoring and controlling agent behaviour in the two sectors are contrasted.[93] In joint stock companies the principals are the shareholders who appoint boards of directors as agents to manage their assets. In state enterprises the public are the principals and through the political process officials are appointed as agents to manage the resources.

The starting point is the contention that if complete contracts could be written by principals (i.e. shareholders in the private sector and the public or taxpayer in the state sector) covering all possible contingencies during the contract period so as to determine agent behaviour, and agent behaviour could be costlessly monitored, the precise form of ownership should not matter. This conclusion about the neutrality of ownership relies on very strong assumptions, however, the main ones being information and the ability of principals to enter into complete contracts.

In reality incomplete contracts are the norm in owner-manager relationships.[94] Also, because of information asymmetries, principals may not be able to monitor agent behaviour at low cost. In particular, it is often difficult for principals to know if management failures are due to the behaviour of the management or to other variables such as the effects of the business cycle or macroeconomic policy (sometimes summarised in the literature as "states of nature"). In this situation, property rights and the different governance structures that exist in the private and public sectors do matter. When only incomplete contracts are feasible, in theory the form of ownership, or more specifically managerial incentives, can dramatically affect a firm's economic performance.

In the absence of complete contracts and costless monitoring of agents, principals must arrange for governance schemes to encourage the management behaviour they prefer. In the opinion of a number of economists, in the private sector corporate governance regimes have evolved that encourage through profit-related pay, stock options and the like, and because of the ever present threat of takeover by new management, management to drive out waste and maximise profitability.[95] By contrast, in the state sector such incentives are considered to be absent or at least attenuated.[96] Certainly in the post-war period the managers of public corporations in Britain tended to have fixed salaries, no stock options (there was no publicly quoted stock in the nationalised industries) and there was no credible takeover threat. In addition, state industries were rarely, if ever, allowed to fail. Sanctions against poor performance were more evident in the private sector than in the public sector.[97]

Like Austrian economics and public choice theory, agency theory leads to the conclusion that state enterprises will be managed less efficiently than private enterprises and will be less responsive to changes in consumer demand and input costs. However, like public choice theory, the conclusions from agency theory for ownership are open to challenge. There is an obvious incentive for the sole trader to maximise profit and without doubt Margaret Thatcher's views on individual responsibility were weaned by her upbringing in her father's grocery store. But it is less clear that a similar incentive exists in large joint stock companies, which are the real alternative to nationalised industries.[98]

In the agency literature much weight is placed on the existence of the takeover threat facing publicly-quoted joint stock companies, in which, if a company's share price is depressed because shareholders lose confidence in the management, the firm becomes vulnerable to a hostile takeover bid. In the same literature the common conclusion that large-scale industry in the private sector performs more efficiently than in the state sector, relies heavily on the existence of a well-functioning market for corporate control. Yet studies of the capital market in Britain suggest that takeovers are not necessarily a reliable vehicle for policing management behaviour; in particular, research shows that it is by no means always the worst performing firms that become takeover targets.[99] Also, there is now a voluminous literature that provides conflicting evidence on whether mergers improve the economic and financial performance of the companies involved.[100] To complicate matters further, stock markets may suffer from a free-rider problem so that investors will not necessarily dispose of their shares when a firm's performance is disappointing. It may be rational behaviour on the part of an individual shareholder to hold on to his or her shares and not sell when the share price falls, in the anticipation that the share price will recover particularly if there is a takeover bid.[101] Moreover, both public and private sector firms are likely to perform better when they operate in competitive product markets because competition for consumers weeds out the underperformers irrespective of ownership. Consistent with most of neoclassical economics, this suggests that the product market may be more important in terms of creating efficiency incentives than the market for corporate control.[102]

Nevertheless, alongside Austrian economics and public choice theory, agency theory provided a powerful theoretical rationale for privatisation from the 1970s.[103] All these theories have in common the conclusion that state-owned and privately-owned firms differ in behaviour and performance because of differences in (a) information and incentives, (b) objectives, and (c) constraints on managerial behaviour. The theories lead to predictions of both overmanning and wasteful investment in nationalised industries, conclusions that appear consistent with the record of the British nationalised industries.

The new economics of regulation

Another important intellectual development in the 1970s occurred in the economics of regulation. In welfare economics a competitive private enterprise economy can produce what is known as a Pareto efficient outcome or a "Pareto equilibrium".[104] A Pareto equilibrium occurs when no reallocation of resources can occur to make at least one individual in society better off without making another individual worse off. However, for a competitive economy to produce this outcome a number of strong assumptions are needed. In practice, these conditions are too restrictive to be taken as an adequate determinant of public policy. "Market failure" exists in the form of external costs and benefits from market transactions, information asymmetries, monopoly provision and inequalities in income and wealth.

In tackling market failure, the government might choose to manipulate consumer demands and firms' supplies through the use of taxes and subsidies. An alternative is for the state to regulate the output of private sector firms, for example by requiring permission to produce and by controlling prices and outputs. This is the approach that was adopted in Britain for some utility services in the nineteenth century and by government for the privatised monopolies in the 1980s. A further possibility is state ownership and direct provision of goods and services or nationalisation.

From the 1940s in a number of countries nationalisation was the preferred option for tackling the market failure associated with "natural monopoly". A natural monopoly occurs when economies of scale or scope mean that it is more cost-efficient for the output to be supplied by one firm than by two or more competing firms, as is usually the case where duplicating networks of pipes, rails or cables would be economically inefficient. But from the 1970s the idea of private ownership with state regulation became more popular. Instead of government owning the monopolist to prevent the abuse of market dominance, there was new interest in the prospects for private sector ownership with the state regulating prices and outputs.[105] In this way monopoly profits might be avoided without removing the incentive for firms to be efficient. By restoring private ownership, the agency problem inherent in public ownership would be avoided.

A perfectly operating state regulator should be able to set prices and outputs so as to prevent monopoly abuse and achieve allocative efficiency, while private property rights encourage maximum productive efficiency or production at least cost. The problem is that perfectly operating regulators do not exist. The advances in economic thinking on regulation in the 1960s and 1970s concentrated on this and three main sets of arguments resulted. Most, if not all, of the relevant research related to regulation as practised in the USA, where there was a history of privately-owned but state-regulated provision of public services such as transport, telecommunications, energy supplies and water. Firstly, there were advances in the understanding of the motivation for regulation. A number of studies from the early 1970s proposed that regulation will be captured by special interests. This "regulatory capture" literature suggested that regulation is designed to benefit the public interest, but over time is distorted to serve the interests of the regulated industries, for example by preventing new competitors entering the industry.[106] An especially strong form of the thesis argued that from the outset regulation is shaped by special interest groups to their own advantage. The result, which received much attention in the 1970s and 1980s, was a new impetus in public policy in favour of deregulation and market liberalisation. Competitive markets have always been preferred by economists. What the "regulatory capture" literature did was to add weight to the argument that government should strive to make industries more competitive so as to remove the need for regulation.[107]

The second set of advances in the economics of regulation concerned the understanding of regulatory decisions and their impact on private sector resource allocation. Regulators have imperfect information about the markets they regulate, including the economically efficient level of prices and outputs. In this environment, state regulators risk introducing economic distortions that lead to inferior performance. In the 1970s the literature particularly emphasised the likelihood of over-investment in industries where the rate of return was regulated, or the so-called "Averch-Johnson effect".[108] But other possible outcomes were also highlighted depending upon the precise form regulation takes, including over-employment and a reduced (or inflated) quality of service.[109] The outcome was renewed interest in the 1970s on how best to structure regulation to avoid monopoly abuse, while maintaining efficiency incentives. This was evident in the early 1980s during the planning of the privatisation of British Telecom with the development of "price cap" in place of rate of return regulation (see chapter 12).

Thirdly, new research into "contestable markets" published at the time of the first Thatcher Government underlined that even where a monopoly exists, provided that there are no appreciable barriers to entry into or exit from the market, the monopolist will have to price outputs *as if* the industry is competitive.[110] Prices above the levels set in competitive markets would stimulate new entry and lower prices. This in turn created interest in removing barriers to entry in monopoly industries such as telecommunications and subjecting remaining monopoly activities to periodic competitive tendering. An extension to the logic of contestable market theory was periodic competition for contracts, which provided an economic rationale for the Government's policies in the 1980s of "contracting out" public services.[111] Under what became known as a "Chadwick-Demsetz auction", the winning bidder would agree to provide the public service at least cost.[112]

Monetarism

Finally, during the second half of the 1970s monetarism challenged Keynesianism as the dominant force in macroeconomics. The impact of this is difficult to exaggerate. Under the influence of Keynesian economics, governments in the post-war period had felt obliged to intervene in the economy by "pump priming" aggregate demand whenever a recession threatened. In 1936 in his *The General Theory of Employment, Interest and Money*, Keynes had suggested that governments could reverse general unemployment by stimulating demand using their tax and spending powers.[113] A classic application of this was the action of the Heath Government in 1971/72 when faced with the threat of one million unemployed. The administration reduced taxes and raised public spending. Through fiscal (tax and public spending) and sometimes monetary policy (interest rate and bank reserve asset) changes, successive post-war governments in Britain boosted demand to avoid recession and attempted to cut demand whenever the economy began to "overheat" and prices rose, leading to "stop-go" cycles. By contrast, the central tenet of monetarism was that inflation was the result of monetary expansion or, more simply, "printing too much money". Inflation would only be brought back under control and the conditions for more real jobs created by controlling the money supply, and in turn this necessitated restraint in government borrowing. Through the banking system the issuing of government debt tended to expand the money supply. Also, whereas Keynesian economics involved government management of demand in the economy, monetarists preferred to leave economic adjustments to the free market. Politically inspired demand adjustments were judged to distort market adjustment, resulting in inflation.[114]

Monetarist economics would be important in determining budgetary policy after 1979. During the second half of the 1970s the Conservative Party leadership embraced monetarism and in turn the need to restrict public borrowing. This was something Conservatives were ideologically disposed to favour anyway. It is not therefore too surprising that a number of leading Conservatives endorsed monetary restraint to curb inflation. Although monetarism did not necessarily imply privatisation, its leading proponent at the time, Professor Milton Friedman at the University of Chicago, was certainly a free marketeer.[115] He was also a believer in low taxes and deregulation. Lower taxes would provide the conditions for entrepreneurial activity and higher investment. When in 1976 two Oxford University academics, Bacon and Eltis, published a study which suggested that Government in Britain was "crowding out" private sector employment and investment through excessive spending and borrowing, the conclusion was consistent with the monetarist notion that public spending must be reigned back. The concept of "crowding out" achieved widespread favourable media coverage in Britain in the mid-1970s.[116] The search for ways of restraining public borrowing both to free up funding for tax cuts and to reduce monetary expansion would, after the 1979 General Election, be an important stimulus for a privatisation programme.

* * *

Economic theory provided an important intellectual underpinning for privatisation. Without the change in economic thinking brought about by monetarism and the intellectual arguments of public choice theory and agency theory, regarding the workings of government and the effects of ownership on economic performance, it is probable that there would have been less momentum for privatisation both within and outside government. Equally, without the insights of economists researching regulation from the 1960s, it is possible that deregulation and market liberalisation policies would not have evolved as they did and that private ownership with state regulation would not have been seen as an appropriate response to monopoly instead of nationalisation. Even though there was widespread disenchantment with nationalisation by the late 1970s, it was developments in economic theory that provided the intellectual rationale for Thatcher's privatisations; they provided the policy with an economic legitimacy.

Of course, there is a risk that economists over-emphasise the importance of economic theory in changing public opinion and shaping public policy: this notwithstanding Keynes' oft-quoted remark that "Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist." Possibly no Minister in the Thatcher Cabinets of the 1980s that introduced the privatisations had read many or possibly any of the original theoretical papers (Sir Keith Joseph is the most likely exception). Almost certainly, therefore, they were unaware of their assumptions and limitations. With the exception of monetarism and a fleeting reference to "supply side" reforms, Thatcher's autobiographies make no mention of economic theories. However, this does not detract from the fact that theoretical developments favourable to privatisation helped to alter attitudes towards state ownership. At the time when there was real disillusionment with the performance of state enterprises, a growing number of economists were producing theoretical contributions explaining why state ownership failed. Moreover, the meetings and publications of organisations like the IEA and ASI helped to popularise the ideas beyond the world of academic economics. Newspaper and magazine articles began to appear with the content reflecting the theoretical developments. The change in editorial policy of *The Economist*, during the 1970s for example, reflected this trend. Explanations appeared for the poor performance of the nationalised industries, where the solution lay not in their reform but their abolition.

Without the developments in economic theory, privatisation would have been simply a matter of political ideology with no persuasive economic underpinnings. In 1986 John Kay and David Thompson published an article in *The Economic Journal* titled "Privatisation: a policy in search of a rationale". Kay and Thompson's title derives from their view that the Conservative Party's privatisation programme had a number of not always well-articulated objectives some of which were potentially inconsistent. As they comment: "the reality behind the apparent multiplicity of objectives is not that the policy has a rather sophisticated rationale, but rather that it is lacking any clear analysis of purpose or effects; and hence any objective which seems achievable is seized as justification."[117] Arguably, however, this is misleading, for by the late 1970s there were economic theories clearly supportive of privatisation and growing in popularity – privatisation had a rationale. What was less clear was whether the new Conservative Government had the political will to bring it about.

By the late 1970s the high hopes for nationalisation that had existed in the mid-1940s had been dashed. The public corporation form of state ownership had revealed a number of serious, perhaps fatal, organisational weaknesses and the economic record of the nationalised industries had not been such as to fulfil the Morrisonian belief that the management would act as "high custodian of the public interest". Nationalisation was increasingly criticised. However, this is not to say that the Conservative Government elected in May 1979 was necessarily committed to large-scale privatisation. In public policy it is one thing to acknowledge a problem, it is quite another to do something about it.

NOTES

1 NATIONALISATION TO PRIVATISATION: 1945–1979 – THE GENESIS OF A POLICY IDEA

1 P.F. Drucker (1969) *The Age of Discontinuity*, New York: Harper & Row; P.F. Drucker (1985) *Innovation and Entrepreneurship*, London: Pan Books, p.167.
2 David Howell (2000) *The Edge of Now: New Questions for Democracy in the Network Age*, London: Macmillan, p.34, suggests that a Conservative Political Committee document which he helped prepare, *A New Style of Government,* published in April 1970, was the first political publication in Britain to mention the word privatisation. Also on the origins of the term see D.Yergin and J.Stanislaw (1998) *The Commanding Heights: The Battle between Government and the Marketplace that is Remaking the World*, New York: Simon & Schuster.
3 M.Thatcher in London, 10 November 1986, in Collins, C. (ed.) *The Complete Public Statements of Margaret Thatcher 1945–1990 on CD Rom*, Oxford: Oxford University Press; also cited in E.H.H.Green (2006) *Thatcher*, London: Hodder Arnold, p.100.
4 M.Thatcher (1993) *The Downing Street Years*, London: HarperCollins; M. Thatcher (1995) *The Path to Power*, London: HarperCollins.
5 A. Smith (1910 ed.) *The Wealth of Nations*, vol. 1, London: J.M.Dent & Sons Ltd, p.306.
6 R. Millward (2000) "State Enterprise in Britain in the Twentieth Century", in P. Toninelli (ed.) *The Rise and Fall of State-Owned Enterprises in the Western World*, Cambridge: Cambridge University Press, p.159.
7 Ibid., p.165.
8 J. Foreman-Peck and R. Millward (1994) *Public and Private Ownership of British Industry 1820–1990*, Oxford: Clarendon Press, pp.41–61.
9 J. Foreman-Peck and M. Waterson (1984) "The Comparative Efficiency of Public and Private Enterprise in Britain: Electricity Generation between the World Wars", *Economic Journal*, conference papers, supplement to vol.95, pp.83–95; R. Millward and R. Ward (1987) "The Costs of Public and Private Gas Enterprises in late 19th Century Britain", *Oxford Economic Papers*, vol.39, pp.719–37.
10 Sir N. Chester (1975) *The Nationalisation of British Industry 1945–51,* London: HMSO, p.384.
11 L.J. Tivey (1966) *Nationalization in British Industry*, London: Jonathan Cape, p.46.
12 H.S. Morrison (1933) *Socialisation and Transport*, London: Constable, p.149.
13 G.N. Ostergaard (1954) "Labour and the Development of the Public Corporation", *Manchester School*, vol.22, pp.192–226. E.E. Barry (1965) *Nationalisation in British Politics: The Historical Background*, London: Jonathan Cape.
14 Chester, op.cit., pp.458–9.
15 Ibid., p.461.
16 L.Gordon (1938) *The Public Corporation in Great Britain*, London and New York: Oxford University Press, p.3.
17 Chester, op.cit., p.386.
18 Liberal Party (1928) *Britain's Industrial Future* (The Liberal Yellow Book), London: Liberal Party.

19 L.Hannah (1979) *Electricity before Nationalisation*, London: Macmillan; Foreman-Peck and Millward, op.cit., pp.282–3.
20 Chester, op.cit., pp.12–18.
21 Ibid., p.392.
22 As another example, the aircraft manufacturer Short Brothers in Northern Ireland succumbed to full state ownership during the War. The company became state-owned after a failure to meet production targets.
23 D. Greasley (1995) "The coal industry: Images and realities on the road to nationalisation", in R, Millward and J.Singleton (eds.), *The Political Economy of Nationalisation in Britain, 1920–50,* Cambridge: Cambridge University Press.
24 Labour Party (1945) *Let us Face the Future: A Declaration of Labour Policy for the Consideration of the Nation*, London: Labour Party.
25 Chester, op cit., p.19. At this juncture it is appropriate to observe that nationalised industries took on the public corporation form but that not all UK public corporations were nationalised industries and while the term public corporation describes a specific legal term of organisation, the term "nationalised industry" is not a legal term. In this Official History the terms used are interchangeable unless the distinction is significant.
26 Ibid., p.389.
27 Ibid., p.90.
28 Ibid., p.39.
29 The election of the Conservatives stopped a further nationalisation, of the sugar industry, planned by Labour.
30 The exception was where companies already existed prior to privatisation, as in the case, for example, of Cable and Wireless.
31 Ibid., p.270.
32 Coal Industry Nationalisation Act, 1946, cited in M.G. Webb (1973) *The Economics of Nationalized Industries*, London: Nelson, p.14.
33 Chester, op cit., p.645. The new Transport Commission was asked to progress the principles of a future rate structure for consideration by the Minister. In the meantime, the existing structure of charges on the railways continued; Chester, p.667.
34 Ibid., p.387.
35 W.A. Robson (1962) *Nationalized Industry and Public Ownership*, 2nd ed., London: Allen and Unwin. Admittedly, performance-related pay for senior management was less prevalent in the private sector in the 1940s and 1950s than it became later.
36 Chester, op cit., p.509.
37 D.Winchester (1983) "Industrial Relations in the Public Sector", in G.S.Bain (ed.) *Industrial Relations in Britain*, Oxford: Basil Blackwell.
38 Chester, op cit., pp.1025–6.
39 Ibid., p.450.
40 Ibid., pp.562–3.
41 Ibid., p.1024.
42 The industries remained funded by loan capital on which interest payments were made. In 1966 the capital structure of BOAC was divided into loans with fixed interest and Exchequer Dividend Capital (later renamed Public Dividend Capital) with payments based on financial performance. In 1969 this scheme was extended to the British Steel Corporation. The rationale for this (slight) movement away from a reliance on fixed interest loans was to help cushion industries especially subject to fluctuations in revenues from the effects of fixed interest payments. In reality, most of the nationalised industries remained dependent on internally generated funds for their capital investment programmes.
43 Chester, op cit., p.648.
44 Ibid., p.641 & 652.
45 Ibid., p.1043; A.H.Hanson (1954) "Labour and the Public Corporation", *Public Administration*, vol.32, pp.203–9. Tivey (1966), op cit.; L.J. Tivey (1973) "British Nationalization in the 1960s", in (ed.) L.J.Tivey *The Nationalized Industries since 1960: A book of Readings*, London: Royal Institute of Public Administration/George Allen & Unwin.

46 Chester, op.cit., pp.1036–7.
47 Ibid., p.958.
48 Ibid., p.1036.
49 D. Coombes (1971) *State Enterprise: Business or Politics?* London: Allen and Unwin; C.D.Foster (1971) *Politics, Finance and the Role of Economics: an essay in the control of public enterprises*, London: Allen and Unwin.
50 Webb, op cit., p.9.
51 Chester, op cit., p.1038.
52 The Minister of Fuel and Power to the Chairman of the NCB, in ibid., p.807.
53 Ibid., pp.922–3.
54 Ibid., pp.848–56.
55 Labour Party (1945) *Let us Face the Future: A Declaration of Labour Policy for the Consideration of the Nation*, London: Labour Party.
56 Chester op cit., p.973.
57 Ibid., p.640.
58 Although this did not appear to dim his optimism about the future of public ownership; R. Jenkins (1963) "Foreword" in M. Shanks (ed.) *The Lessons of Public Enterprise*, London: Jonathan Cape.
59 Ibid., p.8.
60 Select Committee on Nationalised Industries (1967–8) *Ministerial Control of the Nationalised Industries*, H.C.371, London: Her Majesty's Stationery Office.
61 HMSO (1961) *The Financial and Economic Obligations of the Nationalised Industries*, Cmnd.1337, London: Her Majesty's Stationery Office, para.2.
62 In reality, the pricing rule is more complicated than this because of possible externalities (external costs and benefits) and "second best" pricing in the private sector.
63 Correctly, the existence of a higher risk of default by the private sector than by government should mean that on average the cost of raising capital will be lower in the state sector.
64 HMSO (1967) *Nationalised Industries: a review of economic and financial objectives*, Cmnd.3427, London: Her Majesty's Stationery Office.
65 R. Millward (1976) "Price Restraint, Anti-inflation Policy and Public and Private Industry in the UK", *Economic Journal*, vol.86, pp.226–42.
66 NEDO was the administrative office of the National Economic Development Council with representation from unions, management and government, established in 1962 to act as a forum for discussions on national economic issues. NEDO would be abolished in 1992.
67 NEDO (1976–7) (National Economic Development Office) *A Study of UK Nationalised Industries: their role in the economy and control in the future,* London: Her Majesty's Stationery Office.
68 HMSO (1978) *The Nationalised Industries,* Cmnd.7131, London: Her Majesty's Stationery Office.
69 Ibid., 1978, para.68.
70 A.Nove (1973) *Efficiency Criteria for the Nationalised Industries*, London: Allen and Unwin; R.Kelf-Cohen (1973) *British Nationalisation 1945–73*, London: Macmillan; C. Harlow (1977) *Innovation and Productivity under Nationalization*, London: Allen and Unwin; D. Heald (1980) "The Economic and Financial Control of UK Nationalised Industries", *Economic Journal*, vol.90, pp.243–65. J.Redwood (1980) *Public Enterprise in Crisis: the Future of the Nationalised Industries*, Oxford: Basil Blackwell.
71 Webb, op cit., p.151.
72 Millward, op cit., p.174.
73 NEDO (1976) *A Study of UK Nationalised Industries: their role in the economy and control in the future,* Background Paper 3 "Output, Investment and Productivity", London: Her Majesty's Stationery Office.
74 R. Pryke (1971) *Public Enterprise in Practice: The British Experience of Nationalisation over Two Decades*, London: MacGibbon and Kee. A later study by Robert Millward on the performance of the nationalised industries between 1950 and 1985 has also suggested that productivity growth was as good as, if not better than, that achieved by the private manufacturing sector in Britain at the time, Millward, 2000, op cit. Other studies suggesting a more favourable

picture of the performance of the nationalised industries than commonly portrayed include Foreman-Peck and Millward, op cit., pp.309–11; and most recently C.H. Iordanoglou (2001) *Public Enterprise Revisited: A Closer Look at the 1954–79 UK Labour Productivity Record*, Cheltenham: Edward Elgar. The results are clearly sensitive to the performance measure used with the record of the nationalised industries much improved by using productivity measures rather than financial results.

75 N.M. Hamilton (1971) *Pricking Pryke: the Facts on State Industry*, London: Aims of Industry; G. Polanyi (1968) *Comparative Returns from Investment in Nationalised Industries*, London: Institute of Economic Affairs; G. Polanyi, and P. Polanyi (1971) "The Ailing Giants", in R.Boyson (ed.) *Goodbye to Nationalisation*, London: Churchill Press; G. Polanyi and P. Polanyi (1972) "The Efficiency of Nationalised Industries", *Moorgate and Wall Street Review*, spring, pp.17–49; G. Polanyi and P. Polanyi (1974) *Failing the Nation: the Record of the Nationalised Industries,* London: Fraser Ansbacher.

76 One account suggests an even weaker position for the nationalised industries with earnings before interest and tax estimated to have ranged between –0.4% and 1.1% in the period 1972–82; S. Brittan (1984) "The Politics and Economics of Privatization", *Political Quarterly*, vol.55, p.128.

77 R. Pryke (1981) *The Nationalised Industries: Policies and Performance since 1968*, Oxford: Martin Robertson; R. Pryke (1982) "The Comparative Performance of Public and Private Enterprise", *Fiscal Studies*, vol.3, no.2, pp.68–81.

78 MMC (Monopolies and Mergers Commission) (1980a) T*he Inner London Letter Post: a Report on the Letter Post Service in the Area Comprising the Numbered London Postal Districts*, HC 515, London: Her Majesty's Stationery Office; MMC (1980b) *Domestic Gas Appliances: A Report on the Supply of Certain Domestic Gas Appliances in the United Kingdom*, HC703, Session 1979–80, London: HMSO; MMC (1981) *Central Electricity Generating Board: a Report on the Operation by the Board of its System for the Generation and Supply of Electricity in Bulk*, HC 315, London: HMSO; MMC (1983) *National Coal Board: a Report on the Efficiency and Cost in the Development, Production and Supply of Coal by the NCB*, Cmnd. 8920, London: HMSO.

79 This point has been reiterated by many who lived through this period interviewed during the writing of this History.

80 G. Howe (1981) *Privatisation: The Way Ahead*, pamphlet based on a speech given to the Selsdon Group 1 July 1981, London: Conservative Political Centre and quoted from in the brief on nationalised industries and privatisation for the Debate on the Address, 9 November 1982, in E(DL) Part 6.

81 D. Healey (1989) *The Time of My Life*, London: Michael Joseph, p.580. In the 1945–51 Labour Governments Clement Attlee was Prime Minister.

82 A. Shleifer (1998) "State versus Private Ownership", *Journal of Economic Perspectives*, vol.12, pp.133–50.

83 F.A.Hayek (1948) *Individualism and Economic Order*, Chicago: University of Chicago Press, p.79.

84 F.A. Hayek (1944) *The Road to Serfdom*, London: Routledge

85 She wrote later, *The Road to Serfdom* was "the most powerful critique of socialist planning and the socialist state which I read at this time [the late 1940s] and to which I have returned so often since"; Thatcher, 1995, p.50. She went on to say that the full implication of Hayek's argument was fully grasped only in the mid-1970s "when Hayek's works were right at the top of the reading list given me by Keith Joseph".

86 Cited in R. Cockett (1994) *Thinking the Unthinkable: Think Tanks and the Economic Counter Revolution, 1931–1983*, London: Harper Collins, pp.173–5. Also see J. Campbell (2001) *Margaret Thatcher, Volume One: The Grocer's Daughter*, London: Pimlico, p.60.

87 Thatcher (1995) op cit., p.254; Cockett, op cit., p.173; Campbell, op cit., p.372. Ralph Harris helped to write some of Mrs Thatcher's speeches in the 1970s.

88 J.M. Buchanan (1972) *Theory of Public Choice*, Michigan: University of Michigan Press; J.M. Buchanan (1978) "From Private Preference to Public Philosophy: The Development of Public Choice", in J.M. Buchanan et al., *The Economics of Politics,* IEA Readings 18, London:

Institute of Economic Affairs; G. Tullock (1965) *The Politics of Bureaucracy*, Washington, DC: Public Affairs Press; G. Tullock (1976) *The Vote Motive,* London: Institute of Economic Affairs; W.A. Niskanen (1971) *Bureaucracy and Representative Government,* Chicago: Aldine; D.C. Mueller (1976) "Public Choice: a Survey", *Journal of Economic Literature,* vol.14, no.2, pp.395–433; C.B. Blankart (1983) "The contribution of public choice to public utility economics: a survey", in ed. J. Fissinger *Public Sector Economics*, London: Macmillan; and W.C. Mitchell (1988) *Government As It Is,* Hobart Paper 109, London: Institute of Economic Affairs for good overviews of the theory.

89 Niskanen (1971) op cit., p.38.

90 S.C. Littlechild (1978) *The Fallacy of the Mixed Economy: An 'Austrian' critique of recent economic thinking and policy*, Hobart Paper 80, London: Institute of Economic Affairs; R.E. Caves (1990) "Lessons from Privatization in Britain: State Enterprise Behavior, Public Choice, and Corporate Governance", *Journal of Economic Behavior and Organization*, vol.13, pp.145–69.

91 A. Dunsire, K. Hartley, D. Parker and B. Dimitriou (1988) "Organisational status and performance: a conceptual framework for testing public choice theories", *Public Administration,* vol.66, no.4, pp.363–88; A. Dunsire and C. Hood (1989) *Cutback Management in Public Bureaucracies: Popular Theories and Observed Outcomes in Whitehall,* Cambridge: Cambridge University Press; P. Dunleavy (1991) *Democracy, Bureaucracy and Public Choice: Economic Approaches in Political Science*, London: Harvester-Wheatsheaf; H.G. Rainey (1991) *Understanding and Managing Public Organizations,* San Francisco, CA: Jossey-Bass; L. Udehn (1996) *The Limits of Public Choice: a sociological critique of the economic theory of politics,* London: Routledge; J.Willner and D.Parker (2007) "The Performance of Public and Private Enterprise under Conditions of Active and Passive Ownership and Competition and Monopoly", *Journal of Economics*, vol.90, no.3, pp.221–53.

92 For example, G. Yarrow (1986) "Privatisation in Theory and Practice", *Economic Policy*, vol.2, pp.319–78; J. Vickers and G. Yarrow (1988) *Privatization: An Economic Analysis,* Cambridge, Mass.: MIT Press; M. Boycko, A. Shleifer and R.W. Vishny (1996) "A Theory of Privatisation", *Economic Journal,* vol.106, March, pp.309–19.

93 S.A. Ross (1973) "The Economic Theory of Agency: the Principal's Problem", *American Economic Review*, vol.62, pp.134–9.

94 D.E.M. Sappington and J.E. Stiglitz (1987) "Privatization, Information and Incentives", *Journal of Policy Analysis and Management,* vol.6, no.4, pp.567–82; Vickers and Yarrow, op cit., ch.2; C. Shapiro and R.D. Willig (1990) "Economic Rationales for the Scope of Privatization", in E.N. Suleiman and J. Waterbury (eds.) *The Political Economy of Public Sector Reform and Privatization*, Boulder, Colorado: Westview Press; A. Shleifer and R. Vishny (1994) "Politicians and Firms", *Quarterly Journal of Economics*, vol.109, pp.995–1025.

95 H.G. Manne (1965) "Mergers and the Market for Corporate Control", *Journal of Political Economy,* vol.73, pp.110–20; E.G. Furubotn and S. Pejovich (1972) "Property Rights and Economic Theory: a Survey of the Recent Literature", *Journal of Economic Literature*, vol.10, pp.1137–62; E.G. Furubotn and S. Pejovich (1974) *The Economics of Property Rights*, Cambridge, Mass.: Ballinger; M. Jensen and W.R. Meckling (1976) "Theory of the firm: managerial behaviour, agency costs and ownership structure", *Journal of Financial Economics,* vol.3, pp.305–60; E.F. Fama and M.C. Jensen (1983) "Separation of Ownership and Control", *Journal of Law and Economics*, vol.26, pp.301–25.

96 A.A. Alchian (1965) "Some Economics of Property Rights", *Il Politico,*vol.30, pp.816–29; L. De Alessi (1980) "The economics of property rights: a review of the evidence", *Research in Law and Economics,* vol.2, pp.1–47; D. Bös (1991) *Privatization: a Theoretical Treatment*, Oxford: Clarendon Press.

97 A recent paper has suggested that "extrinsic motivations" in the public sector, such as the award of titles, medals and other honours, may be effective in promoting good performance; B.S.Frey and M.Benz (2005) "Can Private Learn from Public Governance?", *The Economic Journal*, vol.115, November, pp.F377-F396. However, whether such incentives can ever be as powerful as the profit motive remains questionable.

98 Dunsire, et al., op cit.

99 A. Singh (1971) *Takeovers, their Relevance to the Stock Market and the Theory of the Firm*, Cambridge: Cambridge University Press; A. Singh (1975) "Takeovers, Economic Natural Selection and the Theory of the Firm: Evidence from Post-war UK Experience", *Economic Journal*, vol.85, pp.497–515; T. Jenkinson and C. Mayer (1994) *Hostile Takeovers: Defence, Attack and Corporate Governance,* London: McGraw-Hill.

100 For example, see K. Cowling, P. Stoneman, J. Cubbin, J. Cable, G. Hall, S. Domberger, and P. Dutton (1980) *Mergers and Economic Performance*, Cambridge: Cambridge University Press; Jenkinson and Mayer, op cit.

101 S. Grossman and O.D. Hart (1980) "Takeover bids, the free-rider problem, and the theory of the corporation", *Bell Journal of Economics,* vol.94, pp.691–719.

102 Of course, if public sector firms resort to state subsidies when damaged by competition then the efficiency incentives are further dulled. Some would argue that Government is unlikely to allow a public enterprise to fail. Equally, however, large private sector firms may be bailed out by government because of the serious effect of their collapse on economic activity and social conditions.

103 S. Martin and D. Parker (1997) *The Impact of Privatisation: Ownership and Corporate Performance in the UK*, London: Routledge, chapter 1.

104 The term is named after Vilfredo Pareto, an Italian economist.

105 W.W. Sharkey (1982) *The Theory of Natural Monopoly*, Cambridge: Cambridge University Press.

106 G. Stigler (1971) "The theory of economic regulation", *Bell Journal of Economics and Management Science*, vol.2, no.1, pp.3–21; S. Peltzman (1976) "Toward a more general theory of regulation", *Journal of Law and Economics*, vol.14, August, pp.109–48; G. Becker (1983) "A theory of competition among pressure groups for political influence", *Quarterly Journal of Economics*, vol. 98, pp.371–400.

107 The exception is regulation to promote competition or "competition policy". In 1980 the new Conservative Government would augment the powers of the Monopolies and Mergers Commission especially in relation to the nationalised industries. Competition policy involves "ex post" regulation by penalising anti-competitive conduct rather than "ex ante" regulation, which involves establishing detailed rules of business behaviour. The deregulation agenda is more compatible with ex post than ex ante regulation.

108 H. Averch and L.L. Johnson (1962) "Behavior of the Firm under Regulatory Constraint", *American Economic Review*, vol.52, pp.1052–69.

109 E.E. Bailey (1973) *Economic Theory of Regulatory Constraint*, Lexington: D.C.Heath & Co.

110 W.J. Baumol (1982) "Contestable Markets: an uprising in the theory of industry structure", *American Economic Review*, vol.72, no.1, pp.1–15; W.J. Baumol, J.C. Panzar and R.D. Willig (1982) *Contestable Markets and the Theory of Industry Structure*, New York: Harcourt Brace and Jovanovich.

111 Contestable market theory also contributed to deregulation, for example of airline travel.

112 H. Demsetz (1968) "Why Regulate Utilities?" *Journal of Law and Economics,* vol.11, no.1, pp.55–65.

113 J.M. Keynes (1936) *The General Theory of Employment, Interest and Money*, New York: Harcourt Brace.

114 An important development in the evolution of monetarism from the 1970s was "rational expectations theory" in which economic agents respond rationally to economic phenomena including price rises. This theory helped discredit the prevailing view that governments could trade off lower unemployment against higher inflation.

115 M. Friedman and R. Friedman (1980) *Free to Choose*, London: Secker & Warburg.

116 R.W. Bacon and W.A. Eltis (1976) *Britain's Economic Problem: Too Few Producers*, London: Macmillan.

117 J.A. Kay and D.J. Thompson (1986) "Privatisation: a policy in search of a rationale", *Economic Journal*, vol.96, March, p.19.

2 THE CONSERVATIVE PARTY, NATIONALISATION AND THE 1979 GENERAL ELECTION

1 H. Macmillan (1938) *The Middle Way: A Study of the Problem of Economic and Social Progress in a Free and Democratic Society*, London: Macmillan.
2 Richard Austen Butler, invariably referred to as Rab.
3 The Bow Group was founded in 1950 and took its name from the Bow & Bromley Constitutional Club where its first meeting was held. It was established to be the focus for new ideas within the Conservative Party.
4 S. Ball and A. Seldon. (eds.) (1996) *The Heath Government 1970–74: a reappraisal*, London: Longman, pp.143–6.
5 A. Denham and M. Garnett (2001) *Keith Joseph,* Chesham: Acumen Publishing Ltd, p.167.
6 Ibid..
7 N. Ridley (1991) *'My Style of Government': The Thatcher Years,* London: Hutchinson, pp.3–4.
8 Conservative Party (1970) *A Better Tomorrow*, London: Conservative Party.
9 The Labour Government had introduced a National Port Corporation Bill which fell with the calling of the General Election. The Bill would have nationalised the trust ports and the Port of London and merged them with the state's existing ports run by the British Transport Docks Board.
10 Ball and Seldon, op cit., p.13.
11 P. Cosgrave (1978) *Margaret Thatcher: A Tory and her Party,* London: Hutchinson, p.81.
12 Campbell (2001) p.201. In September 1969 an earlier meeting of the Conservative leadership had occurred at Sundridge Park to discuss future economic strategy. However, the Selsdon Park meeting is the one that attracted the most public attention. David Howell reveals on these meetings that, "The results were mixed. Most shadow ministers clearly received the message, with varying shades of enthusiasm, that the public sector had to be reduced. . . . Most future ministers also seemed to grasp that this was not going to be a simple matter . . ."; D. Howell (2000) *The Edge of Now: New Questions for Democracy in the Network Age*, London: Macmillan, p.339.
13 M. Thatcher (1995) *The Path to Power*, London: HarperCollins, p.160; J. Campbell (1993) *Edward Heath: A Biography*, London: Jonathan Cape, pp.264–5.
14 D. Young (1990) *The Enterprise Years: A Businessman in the Cabinet*, London: Heedline, p.15.
15 N. Tebbit (1988) *Upwardly Mobile,* London: Weidenfeld and Nicolson, p.94.
16 E. Heath (1998) *The Course of My Life: My Autobiography*, London: Hodder & Stoughton, p.329.
17 Ibid., p.330.
18 The Conservative Manifesto in 1970 stated bluntly "Labour's compulsory wage control was a failure and we will not repeat it" (Conservative Party, 1970).
19 J.Bruce-Gardyne (1984) *Mrs Thatcher's First Administration*, London: Macmillan, p.79
20 Ball and Seldon (ed.), op cit., pp.148–9.
21 Heath, op cit., p.343.
22 Ibid., pp.585–6.
23 Campbell (1993), p.301.
24 Tebbit, op cit., pp.101–3; Campbell (1993), op cit., p.330.
25 Campbell (1993), p.418.
26 Campbell (1993), pp.460–4.
27 Heath, op cit., p.329.
28 Ibid., p.342; Ball and Seldon eds. (1996), p.149.
29 Heath, op cit., p.343.
30 Ibid., p.339. DTI (Department of Trade and Industry) (1973) *Rolls-Royce Ltd and the RB211 Aero-engine*, Cmnd. 4860, London: Her Majesty's Stationery Office.
31 Heath, op cit., p.341.
32 Ibid., p.340. Campbell (1993), p.332.
33 Thatcher, op cit., p.207.
34 Tebbit, op cit., p.103.

35 Campbell (1993), p.443.
36 Heath, op cit., p.348.
37 Thatcher, op cit., p.215.
38 Heath never accepted that the Government did a U-turn on industrial policy during his years as Prime Minister (Heath, op cit., p.330), although few appeared to agree with this assessment at the time, or since.
39 Heath, op cit., p.348.
40 Ibid., p.400.
41 Ball and Seldon (1996), p.142.
42 Cited in Ball and Seldon (1996), p.140.
43 Heath, op cit., pp.400–1.
44 Ball and Seldon, op cit., pp.156–7. Heath made his famous remark in 1973. From the 1960s Tiny Rowland transformed Lonrho into a major corporation with international mining interests but was criticised for running the company as a personal fiefdom. A boardroom row and an unsuccessful attempt to dislodge him ensued.
45 The total cost of the modernisation programme was expected to be around £3bn over 10 years.
46 Campbell (1993), p.455.
47 Heath, op cit., pp.413–5.
48 Ridley, op cit., p.5.
49 Heath, op cit., p.400.
50 Ridley, op cit., p.4.
51 K. Baker (1993) *The Turbulent Years: My Life in Politics,* London: Faber & Faber, p.36.
52 Heath, op cit., p.416.
53 R.Lewis (1975) *Margaret Thatcher: A Personal and Political Biography*, London: Routledge & Keegan Paul, Chapter 11. Also standing against Heath was Hugh Fraser a right-wing backbencher but he was never a serious contender. The real contest in the first ballot was between Heath and Thatcher.
54 The other candidates in the second round were Sir Geoffrey Howe, Jim Prior and John Peyton.
55 Thatcher, op cit., p.261.
56 W. Keegan (1984) *Mrs Thatcher's Economic Experiment*, Harmondsworth: Penguin Books, p.52.
57 Heath, op cit., p.520.
58 R. Skidelsky (1988) "Introduction", R. Skidelsky (ed.) *Thatcherism,* London: Chatto & Windus, p.14.
59 Baker, op cit., p.42.
60 Ibid.
61 Thatcher, op cit., p.239.
62 Ibid., p.251.
63 Thatcher, op cit., pp.165–93; Campbell (2001), pp.227–8.
64 Cited in Cosgrave, op cit., p.95.
65 Campbell (2001), pp.77–8, 82.
66 D. Kavanagh (1987) *Thatcherism and British Politics: The End of Consensus?*, Oxford: Oxford University Press, p.10.
67 K. Harris (1988) *Thatcher*, London: Weidenfeld and Nicolson, p.41.
68 B. Arnold (1984) *Margaret Thatcher: A Study in Power,* London: Hamish Hamilton, p.38. The idiosyncratic psychological study of Thatcher by Abse (1989, p.112) attributes her views to "inner insecurities" in her childhood. However, there is no serious evidence to back up the claim. The suggestion should be dismissed.
69 Campbell (2001) op cit., p.179.
70 Ibid., p.91. "No politician since Churchill has appealed so emotionally to British nationalism", ibid., p.409.
71 Ibid., p.182.
72 Ibid., pp.245–6.
73 Thatcher, op cit., p.196.
74 M. Thatcher (1993) *The Downing Street Years*, London: HarperCollins; Thatcher (1995), op cit.

75 Lord Carrington (1988) *Reflect on Things Past: The Memoirs of Lord Carrington*, London: Collins, p.276.
76 S.R. Letwin (1992) *The Anatomy of Thatcherism*, London: Fontana, pp.88–9.
77 D. Butler and D. Kavanagh (1979) *The British General Election of 1979*, London: Macmillan, p.13.
78 HM Treasury (1976) *Cash Limits in Public Expenditure*, Cmnd.6440; Healey, op cit., pp.429–30; D.Wass (2008) *Decline to Fall: The Making of British Macro-Economic Policy and the 1976 IMF Crisis*, Oxford: Oxford University Press, pp.290–304.
79 J. Callaghan (1987) *Time and Chance,* London: Collins, p.426. Not that this prevented the Labour Party Conference from passing resolutions in favour of even more public spending. Keegan (1984, pp.89–91) has questioned the sincerity of Callaghan's speech, seeing it as an attempt to placate the financial markets that were in a state of panic at the time and especially the US Treasury whose support was needed to obtain further funding from the IMF.
80 Lord Blake (1976) "A Changed Climate", in Lord Blake and J. Patten (eds.) (1976) *The Conservative Opportunity*, London: Macmillan, p.7.
81 A. Clark (1998) *The Tories: Conservatives and the Nation State, 1922–1997*, London: Weidenfeld & Nicolson, p.385.
82 Harris, op cit., p.59. Also, as one of her earliest biographers noted: "To a considerable extent, when the predominantly male composition of the Conservative Parliamentary Party elected her as their leader, they changed history in a way in which the majority of them did not fully understand at the time." E. Money (1975) *Margaret Thatcher – First Lady of the House*, London: Leslie Freewin Publishers.
83 Thatcher (1995), pp.442–56. However, in her autobiography covering her period as Prime Minister, Thatcher generously pays tribute to Thorneycroft for helping her win the 1979 Election; M. Thatcher (1993) *The Downing Street Years*, London: HarperCollins, p.152.
84 At the press conference on 11 February 1975 after winning the leadership contest, Thatcher acknowledged that she was "pledged to offer Mr. Heath a place [in the shadow Cabinet] if he wishes to have it"; M. Thatcher (1975) Press Conference after winning Conservative leadership, 11 February 1975, Conservative Central Office, http://www.margaretthatcher.org/speeches/displaydocument.asp?docid=102487. But the pledge was not sincere – "In fact, I privately hoped that he would not take up my offer at all" – and was received by Heath with equal ill will; Thatcher, op cit, pp.282–3.
85 A. Seldon and D. Collings (2000) *Britain under Thatcher,* Harlow: Longman, p.5.
86 Thatcher (1995, p.291) states that by ensuring that the shadow "Treasury team . . . shared my and Keith's views on the free-market economy, [this] shifted the balance of opinion within the shadow Cabinet as a whole somewhat in my direction". The emphasis should be placed on "somewhat".
87 Howe is on record as believing that the IEA was very important in determining the direction of Conservative Party policy after 1979; for example, G.Howe (2006) "Influence at arm's length: Arthur Seldon's Influence on policy making and politicians", *Economic Affairs*, June, p.76. Dr Rhodes Boyson in his memoirs pays tribute to Ralph Harris and Arthur Seldon at the IEA for helping to shape his ideas (Boyson, 1995, p.91,119). In May 1978 he wrote a book, *Centre Forward: A Radical Conservative Programme,* which called on the next Conservative Government to pursue full-scale denationalisation, lower government expenditure, lower taxation, strengthened law and order, and the end to all trade union legal privileges. Earlier, in 1971, he had edited a volume with the provocative title, *Goodbye to Nationalisation*.
88 Cockett, op cit., p.163, 167.
89 Ibid., p.176.
90 Ibid., p.158.
91 P. Cosgrave (1978) *Margaret Thatcher: A Tory and her Party,* London: Hutchinson, pp.87–8.
92 Denham and Garnett, op cit., p.322.
93 The Selsdon Group was formed as a fringe group of the Conservative Party in September 1973 and projected what would later be described as a Thatcherite free market agenda; Cockett, op cit., p.213.

94 Thatcher, op cit., p.265. One of its members, John Nott, attributes the development of what became known as Thatcherism as much to this Club as to the better known Centre for Policy Studies; J. Nott (2002) *Here Today, Gone Tomorrow: Reflections of an Errant Politician,* London: Politico's Publishing, p.138. Other members were "sound money men" such as Jock Bruce-Gardyne and John Biffen.
95 Nott, op cit., p.173.
96 One study has claimed that economic liberalism was championed in the 1970s by around 50 people, mostly males; Cockett, op cit., pp.3–4.
97 Thatcher, op cit., p.221.
98 Denham and Garnett, op cit., pp.239–41; Thatcher, op cit., p.252.
99 Cited in Cockett, op cit., p.238.
100 However, Sherman's influence was short-lived. His blunt and critical manner alienated many who worked with him; Ridley, op cit, p.7. Thatcher more gently criticises his otherworldliness: "He was more interested, it seemed to me, in the philosophy behind policies than the policies themselves"; Thatcher, op cit., p.251.
101 K. Middlemas (1991) *Power, Competition and the State volume 3, The End of the Postwar Era: Britain since 1974*, London: Macmillan, p.198, 219.
102 Young, op cit., p.29.
103 Lord Blake (1976) "A Changed Climate", in Lord Blake and J. Patten (eds.) (1976) *The Conservative Opportunity*, London: Macmillan, p.12.
104 Ridley, op cit., pp.13–14.
105 "I never felt much affection for *The Right Approach to the Economy*. Unlike *The Right Approach* of 1976, it made little impact either on the outside world or on the policy we would pursue as a Government"; Thatcher, 1995, p.404.
106 J. Redwood (1976) "Managing the Economy" in Blake and Patten (eds.) op cit., p.75.
107 Conservative Party (1976) *The Right Approach – A Statement of Conservative Aims*, London, p.10, 18.
108 Ibid., p.33.
109 Conservative Party (1977) *The Right Approach to the Economy*, London, p.34,47.
110 M.Heseltine (2000) *Life in the Jungle: My Autobiography,* London: Coronet Books, pp.163–75.
111 M.Thatcher (1979a) Article for *Western Mail* "The kind of society I would most like to live in . . .", 1 May, http://www.margaretthatcher.org/speeches/displaydocument.asp?docid=104057. M.Thatcher (1979b) General Election Press Conference, 2 May, Conservative Central Office, http://www.margaretthatcher.org/speeches/displaydocument.asp?docid=104069.
112 Heseltine, op cit., p.176.
113 Butler and Kavanagh (1979), p.78.
114 Heseltine, op cit., pp.176–7. Thatcher skirts over the row in her memoirs; Thatcher (1995), p.300.
115 F. Pym (1984) *The Politics of Consent*, London: Hamish Hamilton, p.6.
116 Denham and Garnett, op cit., p.304.
117 P. Junor (1983) *Margaret Thatcher: Wife, Mother, Politician*, London: Sidgwick & Jackson, p.117.
118 The views are articulated in Ian Gilmour's book *Inside Right* published in 1977. Ian (later Lord) Gilmour served in Heath's Cabinet as Defence Secretary and would serve in the first Thatcher Government as Lord Privy Seal from 1979 until September 1981.
119 Campbell (2001) op cit., p.325.
120 Ibid., p.367.
121 Lord Gowrie (1976) "Industrial Relations", in Blake and Patten (eds.), op cit., p.139.
122 Thatcher, op cit., pp.421–2.
123 Ibid., p.414.
124 Harris, op cit., p.76. S. Blake and A. John (2003) *The World According to Margaret Thatcher*, London: Michael O'Mara Books Ltd, p.38.
125 Conservative Party (1979) *Conservative Party General Election Manifesto*, London.
126 Seldon and Collings, op cit., p.6.
127 Closed shop agreements restricted the employment of labour to union members and sometimes new recruits to applicants endorsed by the industry union or local union officials.

128 Campbell (2001) op cit., p.439.
129 Heath, op cit., p.523.
130 Baker, op cit., p.41.
131 Thatcher (1995), op cit., p.246.
132 Nott, op cit., p.185.
133 J. Prior (1986) *A Balance of Power*, London: Hamish Hamilton, p.112.
134 Lord Hailsham (1990) *A Sparrow's Flight: The Memoirs of Lord Hailsham of St Marylebone*, London: Collins, p.406.
135 P. Sinclair (1976) "The Economic Roles of the State", in Blake and Patten (eds.), op cit., p.63.
136 J. Redwood (1976) "Managing the Economy", in Blake and Patten (eds.), p.75.
137 Aims (1978) *Still more Galloping Nationalization,* London: Aims, The Free Enterprise Organisation.
138 Ridley, op cit., pp.15–16. Consistent with his 1968 report, Ridley again suggested that privatising gas, electricity and water supply would be impractical. Ridley did stress the desirability of breaking up many of the nationalised industries into smaller units before they were sold off. In a number of the later privatisations this did not occur.
139 N. Lawson (1992) *The View from No.11: Memoirs of a Tory Radical*, London: Bantam Press, p.199.
140 Conservative Research Department, *The Campaign Guide*, 1979, London. A further briefing from the Conservative Research Department on the Party's 1979 Manifesto confirmed the very limited commitment to denationalisation, conceding: that even for aerospace and shipbuilding we "are not committed unequivocally to denationalisation" (p.61); that the National Freight Corporation would have to become profitable before it could be denationalised (p.62); that while profitable enterprises currently under the NEB's control (e.g. Ferranti) should be sold, "We have not said we will abolish the NEB" and that there was a case for retaining a body to nurse back to health enterprises in temporary trouble (pp.64–5). Also, the briefing reminded that the Party had made no commitment on the future ownership of British Leyland and Rolls-Royce (p.68); and that while the future of BNOC would be reviewed on taking office, there was no pledge to abolish it (p.83); Conservative Research Department (1979) *"Tory Pledges Briefs": Briefing on the Conservative Manifesto* 1979, London, 5 April.
141 Thatcher (1979b), op cit..
142 Campbell (2001) op cit., p.438.
143 Ibid., p.387.
144 "We have made absolutely no statement about BP and we shall leave our hands completely open. We have no intention of just selling the lot off just like that, no intention whatsoever."
145 Interview with Lord Howe, 3 December 2006.
146 Butler and Kavanagh, op cit., p.338.
147 Keegan, op cit., p.111.
148 Skidelsky, op cit..
149 Butler and Kavanagh, op cit., p.340.
150 R. Behrens (1980) *The Conservative Party from Heath to Thatcher: Policies and Politics 1974–1979*, Farnborough: Saxon House
151 Ridley, op cit., p.13.

3 BALANCING THE BOOKS: PRIVATISATION AND THE 1979–83 GOVERNMENT

1 Privatisation: the UK Experience, Chancellor of the Exchequer's speech in Paris 15 December 1988, E(DL), Part 16. E(DL) files are the papers of the Cabinet Sub-Committee on Disposals. Also see footnote 3.
2 Thatcher (1993) *The Downing Street Years*, London: HarperCollins. p.45.
3 C(83)5, "Economic Strategy Memorandum by the Chancellor of the Exchequer", 1 February 1983. C indicates Cabinet meeting paper, the figure in parenthesis is the year, and the final figure is the paper number. A similar convention applies to E Committee and E(DL) Sub-Committee papers in this and subsequent chapters. Burton and Parker (1991), "Rolling Back the State? UK

Tax and Government Spending Changes in the 1980s", *British Review of Economic Issues*, vol.13, no.31, p.40, give slightly higher figures for taxation as a percentage of GDP but the same trend.

4 In correspondence on 9 and 10 May 1979 Joseph and Howe privately agreed that the earlier report from the Party policy group chaired by Nicholas Ridley in 1978 should form the framework for future reform of the nationalised industries; Policy towards the Nationalised Industries, Nationalised Industries files, Cabinet Office, Part 1. However, it was far from clear at this time that the view of Howe and Joseph would hold sway in the Cabinet. In any case, the report included some denationalisation but had also been concerned with how best to manage the nationalised industries. The shadow Cabinet had largely ignored it, see chapter 2, p.49.

5 As one of the Ministers, Norman Tebbit, remarks: "just as she balanced her original shadow Cabinet with due respect to her former colleagues in Ted Heath's Cabinet, so her first Cabinet was largely its shadow given substance." N. Tebbit (2005), "On the inner culture of the Tories" in S. Roy and J. Clarke (eds.) *Margaret Thatcher's Revolution: How It Happened and What it Meant*, London and New York: Continuum, p.20.

6 Lawson (1992), p.199. He concludes: "privatization was a central plank of our policy right from the start." This conclusion may be coloured by subsequent policy developments. In any case, there is no claim that the *scale* of the subsequent privatisations was anticipated. Lawson includes David Howell and John Nott in his list of Ministers who were enthusiasts for privatisation. Howell's subsequent performance as Secretary of State for Energy suggests that his enthusiasm was too easily subdued when faced with the realities of privatising assets, as detailed below and in chapter 4.

7 Interviews with former Ministers.

8 Conservative party, Ministerial Dossiers, 1979, Treasury, p.5, Transport, p.3. I would like to thank Sir Adam Ridley for providing me with access to his collection of these dossiers. The point is also made in some ministerial memoirs, e.g. D. Howell (2000) *The Edge of Now: New Questions for Democracy in the Network Age*, London: Macmillan, p.84.

9 C(79)1, "The Queen's Speech on the Opening of Parliament", 8 July 1979.

10 E(DL)(79), 2nd meeting, 20 June 1979, E(DL) Part 1; E(DL)(79), 6th meeting, 4 October 1979.

11 Green (2006), p.98.

12 C(79) 2nd meeting conclusions, 17 May 1979; C(79)4, "Public Expenditure: Scope for Cuts. Memorandum by the Chief Secretary, Treasury", 14 May 1979.

13 C(79)4.

14 C(79) 2nd meeting conclusions; H. Stephenson (1980) *Mrs Thatcher's First Year*, London: Jill Norman Ltd., p.47; Thatcher (1993), p.50.

15 Extract from Treasury letter of 23 May 1979, in E(DL)1st meeting papers.

16 C(79) 2nd meeting conclusions.

17 C(79)4th meeting conclusions, 31 May 1979.

18 Ibid.

19 Nor was the issuing of a Direction to require an asset sale to take a specific form problem free. This is discussed where relevant in later chapters. NIP (79) 42, "Power of Specific Direction: Report by the Official Committee on Nationalised Industry Policy", HM Treasury papers, Filefolder 11271559.There would be continuing uncertainty within Government about Ministerial powers to force through asset sales over the following months.

20 Ibid.; C(79)13, "Public Expenditure Reductions 1979–80. Memorandum by the Chief Secretary, Treasury", 29 May 1979.

21 Its title became the Ministerial Steering Committee on Economic Strategy, Sub-Committee on Economic Affairs.

22 In this Official History Margaret Thatcher's papers (PM Papers) have been used when accessing E Committee and E(DL) Committee proceedings. These files not only include the usual minutes and memoranda but associated correspondence and the PM's comments.

23 Apart from the Chancellor of the Exchequer, E(DL) membership included the Chief Secretary to the Treasury and the Financial Secretary; it was Treasury dominated. Thatcher has been

criticised for conducting economic policy outside a full Cabinet meeting, including in breakfast meetings with a favoured few; Prior (1986) *A Balance of Power*, p.133. There were Thursday Breakfast Group meetings at No. 10 ahead of the Cabinet meeting including an inner circle of Ministers, notably Howe, Ian Gow her private parliamentary secretary, Wolfson the chief of staff in her Political Office within No. 10, Joseph, Nott, Biffen and Howe; G. Howe (1994) *Conflict of Loyalty*, London: Macmillan, p.147. Given the divisions in Thatcher's first Cabinet, which erupted from time to time on the direction policy should take, such gatherings were to be expected. However, there is still a good deal of discussion of economic matters in the E and E(DL) committee papers, from which much of the information in this chapter draws.

24 E(79), 1st meeting, 14 May 1979.

25 E(79) 5th meeting, 17 July 1979.

26 E(79)35, "Nationalised Industries' Cash Limits and Performance Targets for 1980/81. Memorandum by the Chancellor of the Exchequer", 17 September 1979. The EFL was the difference between a state-owned firm's profits plus depreciation charge minus capital expenditure and any change in working capital. The EFL set governed the amount of grants and borrowing, including leasing, the firm could arrange in any year.

27 E(79) 5th meeting, 17 July 1979.

28 Ibid..

29 E(79)35. The tight squeeze on public sector wages would continue in 1980 when the Government set public sector financing on the basis of a 6% ceiling on wage rises. At the time the nationalised industries' pay settlements were averaging around 20%.

30 E(79) 5th meeting, 17 July 1979.

31 E(DL)1st meeting, 5 June 1979.

32 BNOC earned royalties on oil from North Sea fields; see chapter 4.

33 E(DL)2nd meeting, 20 June 1979.

34 Stephenson (1980), pp.36–7; Gamble (1988) *The Free Economy and the Strong State: The Politics of Thatcherism*, London: Macmillan, p.104.

35 A. Denham and M. Garnett (2001) *Keith Joseph,* Chesham: Acumen Publishing Ltd, p.343.

36 J. Campbell (2004) *Margaret Thatcher, Volume Two: The Iron Lady*, London: Pimlico, p.98.

37 A. Halcrow (1989) *Keith Joseph: A Single Mind*, London: Macmillan; Thatcher (1993), p.151 notes that "Keith Joseph had told me that he wished to move from industry." But it is likely that he would have been moved anyway. For critical comments on Joseph's stewardship of the Department of Industry see N. Ridley (1991) *'My Style of Government': The Thatcher Years,* London: Hutchinson, p.6; A. Sherman (2005) *Paradoxes of Power: Reflections on the Thatcher Interlude*, Exeter: Imprint Academic, p.100.

38 E(DL)79 1st meeting, 5 June 1979; E(DL)(79)2, "Disposals of Public Sector Trading Assets. Memorandum by the Financial Secretary", 4 June 1979.

39 Stephenson (1980), p.106; Holmes (1984) *The First Thatcher Government*, p.42; Denham and Garnett (2001), p.346. Within a few months Knight stood down for personal reasons and was replaced by Sir Freddie Wood from Croda International.

40 *Hansard*, columns 235–264, http://www.margaretthatcher.org/speeches/displaydocument.asp?docid=109497. Gamble (1988), p.99.

41 Memorandum from the Chancellor of the Exchequer to the PM, 22 June 1979, in E(DL) Part 1.

42 Letter from David Hunter to the Chancellor of the Exchequer, 23 May 1979, reply by the Chancellor on 22 June 1979, and associated internal memoranda; in E(DL) Part 1.

43 E(DL)(79)3, "Disposal of BP Shares and NEB Holdings. Memorandum by the Financial Secretary", 18 June 1979, in E(DL) Part 1.

44 E(DL)(79)9, "Disposals in 1980/81. Memorandum by the Financial Secretary", 17 July 1979, in E(DL) Part 1.

45 G. Howe (1981) *Conflict of Loyalty*, London: Macmillan, p.128.

46 K. Baker (1993) *The Turbulent Years: My Life in Politics,* London: Faber & Faber p.77.

47 E(79)24, "Strategy: Note by the Central Policy Review Staff".

48 Letter from the Financial Secretary, Treasury to Sir Keith Joseph, Secretary of State for Industry, 19 June 1979, included with E(DL) 2nd meeting minutes.

49 "Financing of British Airways", Department of Trade and Industry", June 1979; E(DL)(79)4, "Financing of British Airways – Share Issue. Memorandum by the Secretary of State for Trade", in E(DL) Part 1.
50 Official Committee on Nationalised Industry Policy, NIP (79) 9th meeting, 25 September 1979, HM Treasury Filefolder 11271561.
51 "Financial Aspects of Disposals", Official Committee on Nationalised Industries paper NIP(79)23, HM Treasury Filefolder 11271558.
52 E(DL)(79)3rd meeting Minutes, 5 July 1979; E(DL)(79)5, "Disposal of Assets. Memorandum by the Financial Secretary, Treasury", 2 July 1979; both in E(DL) Part 1.
53 Contents of letter mentioned in E(DL)(79)3; E(DL)2nd meeting, 20 June 1979, in E(DL) Part 1.
54 E(DL)(79)5, "Disposal of Assets. Memorandum by the Financial Secretary, Treasury", 2 July 1979, in E(DL) Part 1.
55 The Government owned nearly 8% of the equity in the French registered company, a holding that originated from the former Suez Canal Company in which the British Government had a stake.
56 The British Sugar Corporation had been established in 1936 as a result of the merger of a number of sugar beet producers, D.Swann (1988), *The Retreat of the State: Deregulation and Privatisation in the UK and US*, London: Harvester Wheatsheaf, p.192. The Government held 14.5m shares in British Sugar or around 11% of the voting capital. Subsequently the sale was slowed by an on-going dispute between the Corporation and another sugar supplier, Tate & Lyle.
57 The Government's financial year ran from 1 April to 31 March.
58 E(DL)(79)5.
59 Letter from Nigel Lawson to Sir Keith Joseph at the Department of Industry, 16 July 1979 in E(DL) Part 1.
60 Letter from E.C.Flanagan, Private Secretary (PS), Department of Transport to T.P.Lankester, PS to the PM, 6 July 1979, in E(DL) Part 1.
61 Correspondence in E(DL) Part 1.
62 Note for the Record, PM's Meeting with Gordon Pepper. Discussion on the Budget and Monetary Policy, 18 May 1979, PM Papers Box no.220.
63 Letter with E(DL)1st meeting papers.
64 Letter from Heseltine to Howe, 6 June 1979, in E(DL)2nd meeting papers.
65 Letter from Howe to Heseltine, 8 June 1979, with the minutes of E(DL)2nd meeting.
66 C(79)13, "Public Sector Reductions 1979–80. Memorandum by the Chief Secretary, Treasury", 29 May 1979; "Disposal of Public Sector Trading Assets. Note by Officials", HM Treasury, with E(DL)1st meeting minutes.
67 Papers with E(DL)2nd meeting minutes.
68 Letter from D.Brereton, Principal PS, Department of Health and Social Security, 20 November 1979. The PM's comment is written on the letter. The PM's conclusion was transmitted to Brereton in more measured language on 26 November: "She is very pleased that there has been some progress on this front"; note to Don Brereton; all in E(DL) Part 2.
69 E(DL)(79)10, "Disposal of Surplus Land and Buildings in the Public Sector. Memorandum by the Secretary of State for the Environment", 16 July 1979, in E(DL) Part 1.
70 E(DL)5th meeting 26 July 1979, in E(DL) Part 2.
71 Ibid.
72 Memorandum from Sir Kenneth Berrill, CPRS, to T.P.Lankester, 19 July 1979, in E(DL) Part1.
73 Personal Minute from the Prime Minister to Heseltine, 24 July 1979, in E(DL) Part 2.
74 E(DL)(79)17, "Disposal of New Town Assets. Memorandum by the Secretary of State for the Environment", 30 October 1979; letter and report by Healey & Baker, 13 September 1979 in E(DL) Part 2.
75 Note from D.A.Edmonds, PS at the Department of the Environment, 3 December 1979, 5 December, in E(DL) Part 2.
76 Letter from Nigel Lawson to George Younger with a copy to Nicholas Edwards,15 August 1979, in E(DL) Part 2.

77 Letter from Younger to Lawson, 28 September 1979, in E(DL) Part 2; letter on behalf of the Financial Secretary and signed by his PS, P. Diggle, to Younger, 11 October 1979, in E(DL) Part 2.
78 Letter from Lawson to Peter Walker, Minster of Agriculture, 16 July 1979, in E(DL) Part 1.
79 Letter from Younger to Lawson, 18 July 1979, in E(DL) Part 1.
80 Letter from Edwards to Lawson, 19 July 1979, in E(DL) Part 1.
81 Note from T.P.Lankester, PS No. 10, to J.S. Wilson, Scottish Office, 30 July 1980, in E(DL) Part 3.
82 Note from the Secretary of State for Scotland to the PM, 31 July 1980, in E(DL) Part 3.
83 E(79)31, "Disposal of Public Assets in 1979–80. Memorandum by the Chancellor of the Exchequer", 7 September 1979.
84 E(DL)(79)13, "Drake and Skull Holdings Ltd (DSH). Memorandum by the Secretary of State for the Environment", 23 July 1979, in E(DL) Part 2.
85 E(DL)(79) 5th meeting, 26 July 1979, in E(DL) Part 2.
86 "PSBR and Public Corporations Sales of Assets and the Injection of Private Capital. Note by the Treasury", 18 July 1979, in E(DL) Part 2.
87 The Government's power to intervene and the exclusion of loans from the PSBR were set down in memoranda of understanding with the companies.
88 Minute from the Central Statistical Office to HM Treasury 15 September 1982, HM Treasury papers JA/1760/01 Part B. The guidance was further reviewed and revised in July 1984, NIP(84) 10, Public/Private Sector Clarification: Note by HM Treasury and the Central Statistical Office, Official Committee on Nationalised Industry Policy, HM Treasury papers, A/301/01.
89 E(DL)(79) 6th meeting, 4 October 1979.
90 E(DL)(79)7th meeting, 17 October 1979; E(DL)(79)16, "Privatisation of British Aerospace, British Airways, and the National Freight Corporation. Note by the Secretaries" (P.Mountfield, G.D.Miles and A.S.D.Whybrow), 15 October 1979.
91 C(79) 9th meeting conclusions, 12 July 1979; C(79)25, "Public Expenditure 1980–81 to 1983–84: The Scope for Reductions. A Report by the Public Expenditure Survey Committee".
92 Lady O. Maitland (1989) *Margaret Thatcher: The First Ten Years*, London: Sidgwick & Jackson p.61; J.Cole (1987) *The Thatcher Years: A Decade of Revolution in British Politics*, London: BBC Books, p.44.
93 Prior (1986), p.134. Ian Gilmour, another "wet", has stated: "The first Thatcher Cabinet, with its complement of wets, dries and those who were too intelligent, cautious, fearful or uncommitted to be either, was palpably not a happy and united body"; I.Gilmour (1992) *Dancing with Dogma: Britain under Thatcherism*, London: Simon & Schuster, p.3.
94 C(79)37, "Nationalised Industries' Investment and Financing Review: 1981–82 to 1983–84. Memorandum by the Chancellor of the Exchequer", 10 September 1979.
95 C(79)15th meeting conclusions, 13 September 1979; C(79)18th meeting conclusions, 25 October 1979.
96 Bruce-Gardyne (1984) *Mrs Thatcher's First Administration*, p.58.
97 "Brief on nationalised industries and privatisation for the Debate on the Address", 9 November 1982, in E(DL) Part 6. Part of this could be attributed to the unwinding of subsidies used by Labour to massage prices down ahead of the 1979 Election; Howe (1981), p.4.
98 Letter from Peter Walker to Nigel Lawson, 6 August 1979, in E(DL) Part 2.
99 E(79)31, "Disposals of Public Assets in 1979–80. Memorandum by the Chancellor of the Exchequer", 7 September 1979.
100 E(79) 6th meeting, 24 July 1979.
101 E(79) 7th meeting 10 September 1979; E(79)31.
102 E(DL)(79)8th meeting, 19 December 1979.
103 E(79)7th meeting, 10 September 1979.
104 C(79)20th meeting conclusions, 8 November 1979; Thatcher (1993), pp.54–5.
105 A. Walters (1986) *Britain's Economic Renaissance: Margaret Thatcher's Reforms 1979–1984*, Oxford: Oxford University Press, p.78.
106 Campbell (2001), p.49.

107 C(79)21st meeting conclusions, 15 November 1979; C(79)25th meeting conclusions, 13 December 1979; C(79)61, "The Economic Outlook and Public Expenditure. Memorandum by the Chancellor of the Exchequer", 10 December 1979.
108 C(79)25th meeting conclusions; C(79)61; C(80) 3rd meeting conclusions, 24 January 1980; C(80)3, "Public Expenditure. Memorandum by the Chancellor of the Exchequer and the Chief Secretary, Treasury", 21 January 1980.
109 C(79)18th meeting conclusions, 25 October 1979; C(79)46 "White Paper on Public Expenditure 1980–81. Memorandum by the Chief Secretary, Treasury", 22 October 1979.
110 C(80)2nd meeting conclusions, 17 January 1980.
111 C(80)4th meeting conclusions, 31 January 1980: C(80)9, "Public Expenditure. Memorandum by the Chancellor of the Exchequer", 29 January 1980; Stephenson (1980), pp.108–9.
112 *Hansard*, 26 March 1980, columns1439–91, http://www.margaretthatcher.org/speeches/displaydocument.asp?docid=109498; Thatcher (1993), pp.96–7; Lawson (1992), p.68.
113 Abolition was advocated by the guru of monetarism, Professor Milton Friedman, and by Mrs Thatcher's personal economic adviser, Professor Douglas Hague of the Manchester Business School. However, the possibility had not been mentioned in the Conservatives' Election Manifesto and the decision took most Ministers by surprise.
114 C(80)35, "The Economic Prospect. Memorandum by the Chancellor of the Exchequer", 1 July 1980; C(80) 28th meeting conclusions, 10 July 1980.
115 E(80)64, "The Nationalised Industries: 1980 Investment and Financing Review. Memorandum by the Chief Secretary, Treasury", 3 July 1980.
116 C(80)27th meeting conclusions, 3 July 1980.
117 C(80)28th meeting conclusions, 10 July 1980; C(80)38, "Report by the Public Expenditure Survey Committee. Note by the Chief Secretary, Treasury", 3 July 1980; C(80)39, "Public Expenditure: Main Issues. Note by the Chief Secretary, Treasury", 3 July 1980; C(80)40, "Public Expenditure, 1981–82 to 1983–84. Memorandum by the Chief Secretary, Treasury", 4 July 1980.
118 G.C.Peden (1991) *British Economic and Social Policy: Lloyd George to Margaret Thatcher*, second edition, London: Philip Allan, pp.197–220; K.Middlemas (1994), "The Party, Industry, and the City", in A. Seldon and S. Ball (eds.) *Conservative Century: the Conservative Party since 1900*, Oxford: Oxford University Press, p.488.
119 Holmes (1985), p.156; Harris (1988), *Thatcher*, (1993), p.105; E.J. Evans (1997) *Thatcher and Thatcherism*, second edition, London: Routledge, p.21.
120 A. Seldon and D. Collings (2000) *Britain under Thatcher,* Harlow: London, p.15.
121 S. Blake and A. John (2003) *The World According to Margaret Thatcher*, London: Michael O'Mara Books Ltd, p.49.
122 J. Hoskyns (2000) *Just in Time: Inside the Thatcher Revolution*, London: Aurum Press, p.326.
123 C(80)38th meeting conclusions, 4 November 1980; C(80)39th meeting conclusions, 6 November 1980; C(80)40th meeting conclusions, 13 November 1980; C(80)41st meeting conclusions, 19 November 1980; C(80)64, "Public Expenditure Changes. Memorandum by the Chancellor of the Exchequer and the Chief Secretary, Treasury", 29 October 1980.
124 C(80)72, "Public Expenditure: Memorandum by the Chancellor of the Exchequer", 17 November 1980. F. Pym (1984) *The Politics of Consent*, London: Hamish Hamilton p.105, confirms that he would have resigned if the defence cuts had gone through.
125 Howe (1994), pp.189–190. Some abatement of social security benefits was included, C(80)41st meeting conclusions.
126 C(80)72; J.Bruce-Gardyne (1984) *Mrs Thatcher's First Administration*, London: Macmillan, pp.89–91; Lawson (1992), p.90; Thatcher (1993), p.128.
127 Biffen moved to the Department of Trade to take Nott's place. Nott moved to the Ministry of Defence. A few weeks earlier Biffen had made known his lack of enthusiasm for the MTFS. As Thatcher (1993, p.130) states on her decision to move him: "some ministers were trying to discredit the strategy itself. This could not be allowed to continue." On St. John-Stevas she comments: "He had a first class-brain and a ready wit. But he turned indiscretion into a political principle". Angus Maude, the Paymaster General, also left the Cabinet in January 1981 but seemingly voluntarily.
128 E(DL)(79)8th meeting, 19 December 1979.

129 Letter from the Chancellor of the Exchequer, 28 January 1980, in E(DL) Part 3.
130 Letter from Joseph to Howe, 12 February 1980, in E(DL) Part 3.
131 Letter from Heseltine to Howe, 7 February 1980, in E(DL) Part 3.
132 Letter from David Howell to Howe, 4 February 1980.
133 Letter from Norman Fowler to Sir Geoffrey Howe, 18 February 1980, in E(DL) Part 3.
134 Letter from M.A.Hall, PS, Treasury, to Tim Lankester, at No.10, 4 March 1980, in E(DL) Part 3.
135 No.10 briefing note, "Meeting with the Chancellor Thursday, 6 March 1980"; a note to the PM prior to the meeting accused the Secretary of State for Energy of being "unco-operative"; both in E(DL) Part 3.
136 Note for the Record of the meeting between the PM and the Chancellor of the Exchequer 6 March 1980, in E(DL) Part 3.
137 "Disposals Programme in 1980–81", memorandum to the PM from Howe, 12 March 1980, in E(DL) Part 3.
138 T.P. Lankester, PS to the PM, to W.J. Burroughs, Department of Energy, 18 March 1980, in E(DL) Part 3.
139 David Howell did bring in, in 1980, David Maitland as the Department's Permanent Secretary from the Foreign and Commonwealth Office to try and change departmental views and over time attitudes did change, assisted also by other changes in the departmental personnel.
140 E(81)102 "Gas Legislation. Memorandum by the Secretary of State for Energy", 19 October 1981. Section 7(2) of the Gas Act 1972 required the Secretary of State to take the Corporation's views into account when framing a Directive. BGC's principal statutory duties were set out in the Act as: to develop and maintain an efficient, co-ordinated and economical system of gas supply and to satisfy, so far as it is economical to do so, all reasonable demands for gas. The Board might argue successfully that a directive impeded these duties. Lord Denning's judgment on Tamlin vs Hannaford in 1950 supported the notion that the assets of a public corporation belonged to the corporation and not to the Government. Therefore, the proceeds from their sale accrued to the corporation not to the Exchequer.
141 Memorandum from the Secretary of State for Energy to the PM, 20 March 1980, in E(DL) Part 3.
142 Emphasis in the original. Another disappointment around the same time was a report from Leo Pliatzky. Pliatzky had just retired as Permanent Secretary to the Department of Trade and was asked by the Government to formulate ideas on privatisation. He reported in secret in 1980 and suggested either: (i) a single vast state holding company for the nationalised industries, in which shares might later be sold; or (ii) the issuing of a new type of government security valued by capitalising future revenue streams to raise more capital for the nationalised industries without privatisation. The report was dismissed by Treasury Ministers and quietly shelved; Lawson (1992), p.205.
143 E(DL)(80)3, "Reducing the Public Sector and Promoting Competition. Memorandum by the Parliamentary Under Secretary of State for Industry" (Michael Marshall, MP), 7 May 1980, in E(DL) Part 3; E(DL)(80) 2nd meeting, 12 May 1980.
144 "Disposals in 1980/1. Memorandum by the Financial Secretary, Treasury", 7 May 1980, in E(DL) Part 3; E(DL)(80) 2nd meeting.
145 "Progress with Privatisation. Note by the Secretaries", 20 October 1980, E(DL)(80)18, in E(DL) Part 3.
146 E(DL)(80)20, "Progress with Disposals in 1980–81. Note by the Secretaries" (D.J.L. Moore, G.D. Miles and W. Moyes), 8 December 1980, in E(DL) Part 4.
147 E(DL)(81) 1st meeting, 18 February 1981; E(DL)(81)2, "Prospects for Disposals in 1981–82. Memorandum by the Financial Secretary", 23 January 1981, in E(DL) Part 4.
148 On 22 January Ministers agreed to sell oil from the Government's stockpile to assist meeting the disposals target for 1981/2. The result was sales valued at £63m (with disposals totalling £33m in 1982/3 and £4m in 1983/4).
149 E(DL)(81)6, "Royal Mint and Bank of England Printing Works. Memorandum by the Financial Secretary", 16 February 1981, in E(DL) Part 4.

150 E(DL)(81) 3, "The Crown Agents. Note by the Minister of State, Foreign and Commonwealth Office", 16 February 1981; E(DL)(81) 1st meeting, 18 February 1981. Both in E(DL) Part 4.
151 Walters (1986), p.85. Walters' proposals were supported by Professor Jurg Niehans of the University of Berne, who had been called in on the recommendation of Walters to provide an independent assessment of economic policy; Cosgrave (1979), p.116; and by Professor Douglas Hague of the University of Manchester, the part-time economic adviser to the PM; Thatcher (1993), p.126. Also, see Minford (2005)"Inflation, unemployment and the pound", pp.52–3.
152 Lawson (1992), ch.9; Howe (1994), pp.203–4. Thatcher (1993), pp.134–6 reveals how perilously close the Government came to raising the basic rate of income tax.
153 C(81)8th meeting conclusions, 24 February 1981; C(81)10, "1981 Public Expenditure Survey. Memorandum by the Chancellor of the Exchequer", 19 February 1981.
154 Walters (1986), p.90.
155 Thatcher (1995) *The Path to Power*, p.569.
156 Prior (1986), p.140.
157 Harris (1988), p.109.
158 Bruce-Gardyne (1984), pp.95–6; J. Hillman and P. Clarke (1988) *Geoffrey Howe: A Quiet Revolutionary,* London: Weidenfeld and Nicolson, p.147; Campbell (2004), p.112.
159 *The Times*, 30 March 1981. Walters' (1986, p.88) response to the letter was dismissive: "Academic economists had sunk so low in both ministerial and, I believe, popular esteem that the conjunction of so much academic opposition was taken as some faint confirmation that the policy must be right – or at least not obviously wrong."
160 T. Congdon (2006) "Why the 1981 Budget mattered: the end of naïve Keynesianism", in P. Booth (ed.) *Were 364 Economists All Wrong?*, Readings 60, London: Institute of Economic Affairs, p.29.
161 A broad definition of the money supply, including cash and bank deposits.
162 Later research would highlight the problem of targeting any one monetary measure. Howe (2004), p.13, comments with the benefit of hindsight: "In truth, at a time of economic volatility it was to prove practically impossible to establish any single monetary indicator as consistently the "right" one."
163 Peden (1991), p.214.
164 Thatcher (1993), p.132.
165 Thatcher (1993), pp.143–7; Campbell (2004), pp.113–4.
166 One concrete result of the riots was to add to the urgency within government to come up with measures to restore economic prosperity in deprived areas. Between 1981 and 1983 the Government introduced 24 so-called Enterprise Zones in economically depressed areas with a package of financial incentives and exemptions from certain regulations to encourage business start-ups, in spite of the prevailing agenda to cut public spending. In 1984 six free ports with their own package of incentives would be established near airports or ports, again to encourage new enterprise. On Merseyside, particularly badly affected by economic decline, Michael Heseltine set up the Merseyside Task Force to promote and co-ordinate public and private sector regeneration efforts and a new urban development grant scheme was established.
167 Bruce-Gardyne (1984), p.104.
168 Booth ed. (2006) "Were 364 Economists All Wrong?"
169 C(81)18th meeting conclusions, 17 May 1981.
170 C(81)29th meeting conclusions, 23 July 1981; J. Nott (2002) *Here Today, Gone Tomorrow: Reflections of an Errant Politician*, pp.196–7; Gilmour (1992), p.5; Howe (1994), pp.222–3; Harris (1988), p.111; Lawson (1992), p.108;Thatcher (1993), p.149.
171 Thatcher (1993), p.148.
172 M. Heseltine (2000) *Life in the Jungle: My Autobiography,* London: Coronet Books, pp.229–30.
173 *Observer,* 25 February 1979, cited in Campbell (2001), p.325.
174 Soames was blamed by Thatcher for mishandling a strike by civil servants in 1981. In return he felt that the PM had mishandled the dispute; Campbell (2004), pp.103–4; Lawson (1992), p.107. In late July Thorneycroft had publicly questioned the direction of economic policy, admitting to "rising damp"; Thatcher (1993), p.150. Carlisle was politically left of centre and Thatcher claimed (1993), p.151 "had not been a very effective Education Secretary".

175 He also held the post of Paymaster General in the Cabinet.
176 See chapter 4 below. Howell was of the Thatcherite tendency in the Conservative Party when in Opposition, but he does not appear to have cultivated a good working relationship with the PM in Cabinet. Lawson (1992), p.132 describes him guardedly as "a gown-man and not a sword-man" – a thinker rather than a doer. According to Howell the move in September 1981 was at his own request, but there is no evidence that Thatcher tried to dissuade him. The move was seen as a demotion.
177 Lawson (1992), p.123.
178 Albeit after the intervention of a special group of Ministers, the Ministerial Group on Public Expenditure (MISC 62) chaired by the Home Secretary, William Whitelaw. The Group held discussions with Ministers in an attempt to overcome remaining differences; C(81)57, "Public Expenditure. Memorandum by the Secretary of State for the Home Department", 24 November 1981. The arrangement of a small group of Ministers arbitrating on spending with the Home Secretary in the chair was used on a number of occasions during the 1980s when the Treasury Ministers and departmental Ministers could not at first agree. The grouping became popularly known as the "Star Chamber".
179 C(81)33rd meeting conclusions, 20 October 1981; C(81)38th meeting conclusions, 26 November 1981; C(81)50, "Economic Policy and Public Spending. Memorandum by the Chancellor of the Exchequer", 14 October 1981; C(81)51, "Public Expenditure. Memorandum by the Chief Secretary, Treasury", 14 October 1981. The result included an acceptance by the Treasury of some increase in the nationalised industries' EFLs to reflect their economic problems.
180 Memorandum from the Chancellor of the Exchequer to the PM, 10 March 1981, in Nationalised Industries files, Part 4.
181 Memorandum from Robert Armstrong to the PM, 13 March 1981, in Nationalised Industries files, Part 4. Ibbs had been recruited from the chemicals firm ICI. The CPRS had been established within the Cabinet Office to provide policy advice to Ministers during the Heath Government and had been retained by Labour. Sir Kenneth Berrill was its head in May 1979 but was replaced within a year by Sir Robin Ibbs. Ibbs held the post for two years before returning to ICI. He was replaced by John Sparrow, a merchant banker; D. Kavanagh and A. Seldon (2000) *The Powers behind the Prime Minister: The Hidden Influence of Number Ten*, London: HarperCollins, p.168. The No. 10 Policy Unit had been established in March 1974 under the previous Labour Government to provide policy advice to the PM. From May 1979 it was headed by John Hoskyns and also included another adviser from Thatcher's period as Leader of the Opposition, Norman Strauss, seconded from Unilever. The Unit also included one civil servant, Andrew Dugoid, from the Department of Industry. Hoskyns resigned from the Policy Unit in March 1982 over what he considered to be the slow pace of change. He later became head of the Institute of Directors; Hoskyns (2000). Hoskyns was replaced as head of the Policy Unit by Ferdinand Mount, the political editor of the *Spectator* magazine.
182 Memorandum from John Hoskyns in the Policy Unit at No. 10 to the PM, 17 March 1981, and note to Sir Robert Armstrong by T.P. Lankester, 17 March 1981, in Nationalised Industries files, Part 4.
183 Note of a meeting between the PM and the Chancellor of the Exchequer, 18 March 1981, in Nationalised Industries files, Part 4.
184 Note by T.P. Lankester, 20 March 1981 and note from Sir Robert Armstrong to T.P. Lankester, 24 March 1981, in Nationalised Industries files, Part 4.
185 Memorandum from the Chancellor of the Exchequer to the PM, 9 July 1981, in Nationalised Industries files, Part 4.
186 Note from J.R. Ibbs to T.P. Lankester, 15 July 1981, in Nationalised Industries files, Part 4.
187 Note from T.P. Lankester to A.J.Wiggins at the Treasury, 20 July 1981, in Nationalised Industry files, Part 4.
188 Howe (1981), p.4. Howe (1981) *Privatisation: The Way Ahead*, pamphlet based on a speech given to the Selsdon Group 1 July 1981, London: Conservative Political Centre. In the speech Howe also considered the approach adopted for the control of public utility monopolies in the USA, a subject that was beginning to be discussed within Government.
189 C(79) 2nd meeting conclusions, 17 May 1979.

190 Public Expenditure White Paper, Cmnd.8494–11, pp.74–8. "Brief on nationalised industries and privatisation for the Debate on the Address", 9 November 1982, in E(DL) Part 6. Also, see Howe (1994), p.154; S. Jenkins (1983) "Government Policy Towards the Nationalised Industries" ", in T.J.G. Hunter (ed) *Decision Making in a Mixed Economy*, Milton Keynes: Open University Press; Swann (1988), p.236.
191 *Hansard*, column 740, 9 March 1982.
192 As the name suggests, the Group was the forum for nationalised industry chairmen to meet and exchange views. It met on a regular basis.
193 "Record of a Meeting between Ministers and the Nationalised Industries Chairmen's Group" 20 February 1980; letter from the Secretary of State for Energy to the Chancellor of the Exchequer 28 February 1980; letter from the Secretary of State for Scotland to the Chancellor of the Exchequer 28 February 1980; all in Nationalised Industries files Part 2.
194 "Nationalised Industry Financing", memorandum by J.R.Ibbs to T.P.Lankester 22 January 1981, in Nationalised Industries files Part 3.
195 Handwritten note on the memorandum from J.R.Ibbs, ibid.
196 The National Economic Office was the administrative arm of the National Economic Development Corporation established in 1962 as a tripartite (Government, industry and unions) forum to agree national economic strategies.
197 The Ryrie Rules dominated thinking on the use of private capital in Government in subsequent years, especially for public sector projects. The rules included the proposition that where the ultimate risk of a project stayed with Government, the project remained in the public sector and the funding remained part of the PSBR. The Treasury expected a substantially higher degree of private sector initiative and management than could be achieved if the project was publicly funded, leading to higher benefits to at least offset the higher funding cost. HM Treasury papers L/1821/01 Part C.
198 "The Relationship between Government and the Nationalised Industries: A Report by the Central Policy Review Staff"; note of a meeting held 10 Downing Street on Tuesday 4 August 1981; and Personal Minute M11/81 from the PM to the Secretary of State for Trade, 4 August 1981; all in Nationalised Industries files, Part 4.
199 Minutes of the Sub-Committee on Nationalised Industries, E(NI)(81)1st meeting, 2 November 1981.
200 The CPRS had proposed the creation of a new audit unit within Government to investigate the efficiency of the nationalised industries, but this idea was successfully opposed by the Department of Trade (on the grounds that it would be too difficult to get the co-operation of the industry boards) and the Department of Energy and the Department of Industry (on the grounds that it would make recruiting top quality senior management even more difficult); NIP(80) 3rd meeting, 6 November 1980, HM Treasury Filefolder 11271674. The Department of Trade also worried that such work would conflict with the work of the MMC now able to investigate the nationalised industries. However, the Official Committee on Nationalised Industry Policy based in the Treasury concluded that management consultants could usefully complement MMC inquiries and their use should not be ruled out; NIP(81)2nd meeting, HM Treasury papers H/1579/1000/01 Rev NIP/4. The Treasury continued to favour value for money audits in the nationalised industries despite opposition from sponsor departments; NIP(82)3, "Value for Money Audit". Note by the Treasury", 6 December 1982, H/1579/1000/01 Rev NIP/413.
201 Lawson (1992), p.204; note by Sir John Hoskyns to the PM, 20 April 1982, in Nationalised Industries files Part 6. The performance reviews were prepared by the sponsor department and the corporate plans by the industry boards.
202 NIP(82)11 "Review of Nationalised Industries' Performance Reviews and Corporate Plans in 1982", H/1579,1000,01, Rev NIP/413. Also, "Note by the Treasury", 17 November 1982, ibid.
203 Note from the Chancellor of the Exchequer to the PM, 6 April 1982, in Nationalised Industries files, Part 6.
204 "A Study of the State Monopolies by the Central Policy Review Staff", 21 October 1982, in Nationalised Industries files, Part 7.
205 Ibid., Annex "A Review of Regulatory Agencies".
206 Ibid., main body of the report.

207 Ibid., Annex.
208 Ibid., main body of the report.
209 Brief on nationalised industries and privatisation for the Debate on the Address, 9 November 1982, from the Conservative Research Department, in E(DL) Part 6.
210 "Government Policies towards Nationalised Industries. Report by the Official Committee on Nationalised Industry Policy", NIP(79)43, 21 December 1979, HM Treasury papers Filefolder 11271559.
211 Similarly, John Redwood, who was a leading champion of privatisation in the Conservative Party in the early 1980s wrote in 1980, "Nor is it realistic to suppose that the nation's economy would necessarily benefit or withstand a major change in state monopoly undertaken too hastily and without sufficient political support across the spectrum of debate. It is therefore necessary to propose certain other methods of dealing with monopoly regulation." He offered no alternative of substance and it seems that, like Ridley, at the time he saw little scope for selling off the big monopoly utilities.
212 *Hansard*, 5 November 1981, vol.12, cols.440–1.
213 The £600m disposals figure is in cash terms (equivalent to £500m at 1979 Survey prices). In fact, the actual sales total turned out to be somewhat less, at £494m. Public borrowing would be affected that year by an unwinding of the advance oil payments that had done much to fill the gap in the Chancellor's Budget figures in 1979/80. Oil prices had started to fall and the state of the oil market effectively ruled out further large forward sales; E(DL)(81)17, "Prospects for Special Disposals. Memorandum by the Financial Secretary, Treasury", 20 November 1981; E(DL)(81)4th meeting, 27 November 1981; both in E(DL) Part 5.
214 C(82)1, "Economic Strategy. Memorandum by the Chancellor of the Exchequer", 26 January 1982.
215 *Hansard*, 15 March 1983, columns 134–58, http://www.margaretthatcher.org/speeches/display document.asp?docid=109500. Some of this favourable fiscal outcome had arisen because oil prices and therefore North Sea tax revenues had not fallen by as much as expected at the time of the 1982 Budget; C(83)5, "Economic Strategy. Memorandum by the Chancellor of the Exchequer", 1 February 1983.
216 Ibid.; C(82)28, "Public Expenditure: Objectives for 1982 Survey. Memorandum by the Chief Secretary, Treasury", 8 July 1982.
217 C(82)46th meeting conclusions, 2 November 1982; C(82)38, "Public Expenditure Survey 1982. Memorandum by the Chief Secretary, Treasury", 27 October 1982.
218 Economic Subsidies to Nationalised Industries, HM Treasury papers, Loss Makers: PEAU Project, AD/982/1514/01. REV NIEA/132.
219 Bruce-Gardyne (1984), p.80.
220 The sale of Sealink was delayed by a Monopolies and Mergers recommendation against the purchase by its rival on cross-channel routes, European Ferries. The MMC also set conditions on the takeover of British Rail Hovercraft Ltd and Hoverlloyd Ltd. The Government was not always able to reconcile its desire to see more competition with its desire to sell off state assets as these cases, and a joint venture entered into by British Steel with Guest, Keen and Nettlefolds, illustrate. This joint venture led to a rationalisation of production but some diminution of competition.
221 Memorandum from Heseltine to the PM, 18 February 1982. Also, letters from Heseltine to Nicholas Ridley, 9 and 22 March 1982, in E(DL) Part 5. Letter from Patrick Jenkin to Howe, 30 September 1982, in E(DL) Part 6.
222 Letters from Nicholas Ridley to Michael Heseltine, 26 February 1982 and 17 and 25 March 1982, in E(DL) Part 5.
223 International Computers Ltd. The shares were purchased by STC International Computers Ltd.
224 "Privatisation Present Situation and Prospects. Report by the Secretary of State for Industry", 13 September 1982, paragraphs 12–13, in E(DL) Part 6; Middlemas (1991), pp.357–9; Denham and Garnett (2001) *Keith Joseph*, p.347.
225 Letter from Patrick Jenkin to Nicholas Ridley, 22 April 1983, in E(DL) Part 7. The English Industrial Estate Corporation and the Welsh Development Corporation had also sold some properties. Plus the NCB sold a small subsidiary, Associated Heat Services. British Shipbuilders'

Scott Lithgow rig-building yard was sold to Trafalgar House and there was a small management buyout at Brigham and Cowan, also owned by British Shipbuilders. However, the main merchant shipbuilding yards could not be sold because of the parlous economic state of the industry, see chapter 9.

226 Note from Howe and attached paper to the PM, 3 December 1982, in E(DL) Part 6. The paper, after slight revision, became C(82)41, "Using Private Enterprise in Government. Memorandum by the Chancellor of the Exchequer", 10 December 1982.

227 C(82)53rd meeting conclusions, 16 December 1982. Note from Ferdinand Mount to the PM 13 December 1982, and annotated comment by the PM, in E(DL) Part 6.

228 Cabinet Office File 236/25, Government Research and Development: Scope for Privatisation; Campbell (2004) *Margaret Thatcher, Volume Two: The Iron Lady*, p.39.

229 From the outset the Government welcomed local authorities experimenting with the use of private contractors, Conservative Research Department *General Election 1979: Questions of Policy*, p.122.

230 Letter from Heseltine to Howe with attached memorandum, 19 October 1982, in E(DL) Part 6.

231 C(79)1st meeting conclusions, 10 May 1979. However, when the House of Commons Public Accounts Committee initiated a move to extend the scope of the Exchequer and Audit Department to oversee the nationalised industries this was rejected by Government.

232 Heseltine (1987) *Where There's a Will*, p.21.

233 Heseltine (2000), p.190; Campbell (1993), pp.314–15.

234 Another factor in the case of gas was that new gas suppliers were likely to obtain gas at higher prices than British Gas, which benefited from older, lower-priced contracts; chapter 14 below.

235 Baker (1993), pp.75–8.

236 *Hansard*, columns 399–400, 3 December 1981. The legal action was taken by Norwich council after the Department of the Environment set up an office in the city to sell council homes in response to the Labour controlled council's dilatory approach to sales; M. Crick (1997) *Michael Heseltine: A Biography*, London: Penguin Books, p.200; Heseltine (2000), p.196.

237 *Hansard,* column 729, 26 April 1983; correspondence in PM Papers Box no 533 Policy on Sale of Council Houses; S. Edgell and V. Duke, (1991) *A Measure of Thatcherism*, London: HarperCollins, p.140; S.R.Letwin (1992) *The Anatomy of Thatcherism*, London: Fontana, pp.179–80.

238 House of Commons, *Second Report from the Environment Committee, Council House Sales, Volume 1*, Session 1980–81, HC 366-I, London: HMSO. The number of council houses built each year in Britain fell from 85,000 in 1979 to 15,000 by 1990. The number of homes built for rent by housing associations also fell sharply; Gilmour (1992), p.145. In later years the Treasury further restricted the percentage of housing receipts that councils could spend.

239 T. Raison (1990) *Tories and the Welfare State: A History of Conservative Social Policy since the Second World War*, Houndsmill: Macmillan, pp.111–12; M. Drakeford (2000) *Privatisation and Social Policy*, Harlow: Longman, p.87. In early 1983 pensions and social security and housing benefits were linked to the immediate past increase in prices in the economy rather than forecast prices. But this again was tinkering with the welfare state.

240 Hillman and Clarke (1988), p.149.

241 *The Economist* 18 September 1982. It may even have had the initial backing of the PM; Young (1993), p.301.

242 Cole (1987), pp.92–3; Howe (1994), p.259.

243 Thatcher (1993), p.277.

244 Speech to the Party Conference 8 October 1982, http://www.margaretthatcher.org/speeches/displaydocument.asp?docid=105032.

245 Gilmour (1992), p.151.

246 In 1981 Arthur Seldon of the IEA did publish a pamphlet, *Wither the Welfare State*, and the Centre for Policy Studies offered some ideas for reform, including a move to private insurance, but such ideas for replacing the state by markets were unlikely to appeal to any government needing assurance of re-election.

247 Thatcher (1993), p.30.

248 C(82)36, "The Queen's Speeches on the Prorogation of Parliament and the Opening of the New Session".
249 PM's Personal Minute M6/82, emphasis in the original.
250 E(DL)(82)8, "Privatisation: Sustaining the Momentum. Note by the Financial Secretary, Treasury", 18 October 1982.
251 Ernst & Young (1994) *Privatisation in the UK: The facts and figures*, Table 18, p.32.

4 PRIVATISING OIL

1 Letter from David Howell to the Chancellor of the Exchequer, 4 September 1979, in E(DL) Part 2.
2 Ibid.
3 *Hansard*, columns 891–2, 26 July 1979.
4 Letter from T.P. Lankester, Private Secretary (PS), No. 10 Downing Street, to P.C.Digggle, HM Treasury, "Disposal of Public Sector Trading Assets. Note by Officials", HM Treasury, 4 June 1979, in E(DL) Part 1.
5 E(DL)(79)3rd meeting, 5 July 1979; "Disposal of Public Sector Trading Assets. Note by Officials", HM Treasury; E(79)6th meeting, 24 July 1979.
6 Note from the Chancellor of the Exchequer dated 20 July 1979 attached to the minutes of E(79) 6th meeting.
7 "Disposal of Public Sector Trading Assets. Note by Officials", HM Treasury.
8 Lawson (1992), p.217.
9 "BNOC Review: Disposal Options" dated 31 May 1979, in E(DL) 2nd meeting papers; letter from the Secretary of State for Energy to the Prime Minister, 18 July 1979 and note from the Chancellor of the Exchequer, 20 July 1979 both in E(DL) Part 2.
10 "Disposal of Public Sector Trading Assets. Note by Officials", HM Treasury.
11 Note from the Chancellor of the Exchequer dated 19 July 1979 on David Howell's letter to the Prime Minister, in E(DL) Part 2.
12 E(DL)(79)3, "Disposal of BP Shares and NEB Holdings. Memorandum by the Financial Secretary", 18 June 1979. These figures include BP shares held by the Bank of England since the collapse of Burmah Oil in the mid-1970s but which at the time were subject to a legal dispute. The dispute ended in October 1981 when Burmah Oil announced that they would not be appealing against a High Court decision in favour of the Bank of England's ownership of the shares. The 311m BP shares held by the Bank were then transferred to the Treasury; minute from the Chancellor of the Exchequer to the PM, 19 October 1981, in PM Papers, Box no.309, Part 5.
13 Ibid. On 14 June 1979 Patrick Sergeant in the *Daily Mail* newspaper put forward an idea that seems to have originated with the chairman of Orion Bank, David Montagu, of issuing a new government loan stock convertible into BP shares rather than selling the Government's holding of BP shares directly, which he argued might depress the share price ("How a BP convertible would save us £737m", *Daily Mail*, 14 June 1979). This received some support in Parliament (*Hansard*, 19 June 1979), but not in the Treasury. However, the idea of a bond secured against oil assets did resurface during the long debate in Government on the privatisation of BNOC, as discussed below.
14 E(DL)(79)3.
15 Unsigned internal No. 10 memorandum to the PM, 22 June 1979, in E(DL) Part 1.
16 Letter from T.P. Lankester to A.M.W. Battishill, HM Treasury, dated 25 June 1979, in E(DL).
17 Note for the Record, 25 June 1979, in E(DL) Part 2. It seems that a plan to sell BP shares in New York and Frankfurt, as well as London, played a part in the PM's decision to stop the sale and consider alternative options.
18 Letter from Peter Walker, Minister of Agriculture, Fisheries and Food, 25 June 1979, in E(DL).
19 PM Papers, Box no 308, The Future of BNOC: Proposed Sale of BP Assets, Part 1.
20 Telegram from Lord Carrington, 27 June 1979; letter from T.P. Lankester to Martin Hall at the Treasury, dated 27 June 1979, in E(DL); "Note for the Record: Disposal of Government Assets", 25 June 1979; also, handwritten note by the PM, 24 June 1979 headed "Disposal of Assets". All in E(DL) Part 1.

21 Note from the Chancellor of the Exchequer, 19 July 1979 in response to David Howell's letter to the PM, in E(DL) Part 2.
22 Minute from Sir Kenneth Berrill, Central Policy Review Staff, to T.P. Lankester, PS No. 10, PM Papers, Box 308, The Future of BNOC: proposed sale of BP Assets, Part 1. There was a further consideration: there was some evidence that OPEC countries increasingly preferred to do business on a government-to-government basis. This too told in favour of retaining the oil trading business of BNOC in the public sector; minute from T.P.Lankester to the PM, 11 December 1979, PM Papers, Box no.308,The Future of BNOC: Proposed Sale of BP Assets, Part 2.
23 Conservative Party Election Manifesto May 1979. This was echoed in the Ministerial Dossier on Energy produced by the Conservative Research Department in 1979; Conservative Research Department (1979) *Ministerial Dossier*: *Energy,* p.10.
24 J. Redwood (1976) "Managing the Economy" in Lord Blake and J. Patten (eds,) *The Conservative Opportunity,* London: Macmillan, p.183.
25 Minute from David Howell to the PM, July 1979, in PM papers, Box 308, The Future of BNOC: Proposed Sale of BP Assets, Part 1.
26 E(79) 6th meeting 24 July 1979; E(79)20, "Securing the UK's Oil Supplies: Role of BNOC. Memorandum by the Secretary of State for Energy", 13 July 1979; E(79)21, "BNOC: Implications of Disposal of Assets. Memorandum by the Secretary of State for Energy", 13 July 1979; E(79)22, "BNOC: Future Strategy. Memorandum by the Secretary of State for Energy", 13 July 1979.
27 E(79) 21, "BNOC: Implications of Disposal of Assets. Memorandum by the Secretary of State for Energy", 13 July 1979.
28 A sentiment echoed in a paper from Howell: E(79)21, "BNOC: Implication of Disposal of Assets. Memorandum by the Secretary of State for Energy", 13 July 1979.
29 Letter from Howell to Lawson, 4 September 1979, in E(DL) Part 2. On 24 June in E(DL) it had been noted that the BGC Board would oppose a separate sale of Wytch Farm.
30 Under the Act the Secretary of State was empowered to direct BGC to discontinue any activity either wholly or to a specified extent, but only after consulting with the Corporation. The Act required the Secretary of State to take the Corporation's views into account when framing a Direction. It was unclear whether this section permitted the Secretary of State to enforce a privatisation of any of the Corporation's activities that the Board opposed.
31 "Disposal of Public Sector Trading Assets. Note by Officials", HM Treasury.
32 E(79)7th meeting, 10 September 1979; E(79)36, "BNOC Disposals. Memorandum by the Secretary of State for Energy", 7 September 1979.
33 Ibid.
34 Later the Treasury would take the view that Howell had been over pessimistic about the likely receipts from a sale in the short term; minute from the Chancellor of the Exchequer to the PM, 14 November 1979, PM Papers, Box no.308, The Future of BNOC: Proposed Sale of BP Assets, Part 2.
35 E(79)7th meeting, 11 September 1979; E(79)36.
36 E(79)7th meeting. £622m would be raised from advance oil payments in 1979/80; "Privatisation Programme 1983–84 to 1987–88: Progress Report – July 1984. Note by the Treasury", in E(DL) Part 10.
37 Minute from Sir Kenneth Berrill to T.P. Lankester, 10 September 1979, PM Papers, Box no.308, The Future of BNOC: Proposed Sale of BP Assets, Part 2.
38 The main costs were merchant bank, broking and underwriting fees. Underwriting is the process by which financial institutions, in return for a commission, commit themselves in advance to take up shares in a public offer for sale in the event of an offer not being fully subscribed. It effectively insures the seller of the shares against the risks of a flotation failure and being left with unsold shares. In the UK in the 1980s lead underwriters typically laid off the risks from underwriting the offer to sub-underwriters. The lead underwriter (often the issuing house for the shares) was paid an overall commission out of which stock broking and sub-underwriting commissions were paid. The residual percentage accruing to the lead underwriter or underwriters

was known as "the overrider". In the BP share sale the underwriting commission rate was 1.375% out of which 1.25% was paid for sub-underwriting.

39 The merchant bank S.G.Warburg & Co advised the Bank of England in the preparation of the offer. The Bank of England had handled the sale of BP shares in 1977 and did so again in 1983.

40 "UK Employee Participation in Sale of BP Stock: A Note by the British Petroleum Company Limited", 21 June 1979, in E(DL) Part 1.

41 Unlike in a number of later privatisations the preferential terms for employee share purchases were modest. Price Waterhouse (1987) *Privatisation: The Facts*, pp.37–8. The allocation to the trust scheme was necessary if the employee was to benefit from the preferential tax regime for employee shares introduced in the Finance Act 1978. Employee trust share schemes were set up to hold shares allocated on preferential terms in all subsequent privatisations. Provided that the shares were held by trustees for at least two years, the value of preferential shares allocated was not subject to full Income Tax on the employee. The longer the shares were held in the trust the more favourable the tax treatment with no tax liability after seven years.

42 This had been guaranteed for a number of years by what was known as the "Bradbury letter", which was required by the Securities and Exchange Commission to permit BP shares to be traded in New York.

43 In June 1981 the Government had not taken up a BP rights issue so as to avoid its shareholding increasing. This reduced the Government's holding in the company from 46% to 39%.

44 E(79) 15th meeting, 26 November 1979; E(79)67, "BNOC – Future Structure and Private Sector Participation. A Memorandum by the Secretary of State for Energy", 21 November 1979.

45 E(79)67, Annex 3, "The British National Oil Corporation – Privatisation: an Interim Report" by Philip Shelbourne, Samuel Montagu & Co. Ltd., London. In British Columbia a Conservative administration had come to power and wanted to sell off a public corporation established by the previous administration. To deflect criticism that the public were being asked to buy something they already owned, albeit indirectly (the same point was made from time to time in the UK), the decision was taken to offer the public free shares with an option to buy additional shares. The scheme was successful.

46 Unfortunately, the Committee minutes do not identify who raised the objections, but it is reasonable to assume that it was Treasury Ministers.

47 Minute from T.P.Lankester to W.J.Burroughs, Department of Energy, 14 November 1979 and minute from Howell to the PM, 30 December 1979; both in PM Papers, Box no.308, The Future of BNOC: Proposed Sale of BP Assets, Part 2.

48 Howell's proposals received a critical reception in No. 10; minute from T.P.Lankester to the PM, 11 December 1979, PM Papers, Box no.308, ibid.

49 E(79)67, annex, "The British National Oil Corporation – Privatisation: an Interim Report" by Philip Shelbourne, Samuel Montagu & Co. Ltd., London.

50 E(79)67.

51 E(79)68, "The Privatisation of BNOC: Note by the Central Policy Review Staff", 22 November 1979.

52 E(79), 19th meeting 12 December 1979; E(79)80, "BNOC: Future Structure and Private Sector Participation. Memorandum by the Secretary of State for Energy", 7 December 1979.

53 E(80)9th meeting, 11 March 1980; E(80)22, "BNOC: Private Sector Participation. Memorandum by the Secretary of State for Energy", 6 March 1980.

54 E(80)22.

55 The Department of Energy was meantime arguing that it could see no advantages other than receipts to the Exchequer from the restructuring and sale of BNOC. The Official Committee on Nationalised Industry Policy based in the Treasury noted at a meeting on 3 December 1979: "The Department of Energy saw no substantial benefits in terms of greater efficiency by [BNOC] Operating as a result of the split and removal of Government controls"; NIP(79)12th meeting, HM Treasury Filefolder 11271561. Also, the Department of Energy continued to worry about the implications for oil supplies. Related to security of supply was the Department's view that the depletion of the North Sea fields should be regulated. Howell (2000), pp.84–5, has since written, "I saw my task while serving as Secretary of State for Energy as being to parcel up and

prepare the state's vast possessions in the energy sector, so that they could then be floated as properly working and potentially profitable corporations, attracting the widest possible investor interest. Treasury officials had a different and quite disruptive view. They wanted sales of assets to start forthwith, beginning with the sale of oil-and-gas field interests, which looked to them like fat and ripe fruit on the state tree waiting to be plundered . . .. My perspective may well have seemed overly idealistic and even procrastinating. But it was based on a perfectly solid strategy and in the end, of course, it broadly prevailed."

56 Note for the Record, 23 April 1980, PM Papers, Box no.308, The Future of BNOC: Proposed Sale of BP Assets, Part 3.

57 "Disposals Programme in 1980–81", memorandum to the PM from the Chancellor of the Exchequer, 12 March 1980, in E(DL) Part 3.

58 Note from T.P.Lankester, PS No.10 to Bill Burroughs, PS, Department of Energy, 18 March 1980, in E(DL) Part 3.

59 E(80)30th meeting, 6 August 1980; E(80)81, "Disposal of BGC oil assets. Memorandum by the Secretary of State for Energy", 30 July 1980.

60 E(80)30th meeting; briefing note to the PM from Robert Armstrong, Cabinet Secretary, 12 September 1980, in E(DL) Part 3.

61 E(DL)(80)2nd meeting.

62 E(DL)(80)6, "Public Participation in British Gas. Memorandum by the Secretary of State for Energy, dated 13 June 1980.

63 E(DL)(80)3rd meeting, 24 June 1980.

64 E(80)81, "Disposal of BGC's Oil Assets. Memorandum by the Secretary of State for Energy", 30 July 1980.

65 Letter from the Secretary of State for Energy to the Secretary of State for Industry, dated 24 July 1980, in E(DL) Part 3; E(80)81, "Disposal of BGC Oil Assets. Memorandum by the Secretary of State for Energy", in E(DL) Part 3.

66 Letter from Howe to Howell, 1 August 1980, in E(DL) Part 3.

67 Note from Howe to the PM, 1 August 1980, in E(DL) Part 3.

68 E(80)29th meeting 4 August 1980; E(80)80, "BNOC: Private Sector Participation. Memorandum by the Secretary of State for Energy", dated 30 July 1980.

69 Quoted in E(80)80. It seems that officials in the Department of Energy expected that the Treasury would oppose the idea and were sceptical as to whether it would ever come to fruition.

70 E(80)32nd meeting 10 September 1980; E(80)95, "BNOC Revenue Bonds Scheme. Memorandum by the Secretary of State for Energy", 5 September 1980. Minute from T.P.Lankester to J.West, Department of Energy, 14 July 1980, PM Papers, Box no.309, The Future of BNOC: Proposed Sale of BP Assets. Petroleum and Continental Shelf Bill, Part 4.

71 The Secretary of State's memorandum makes reference to a third scheme, which is briefly described as a hybrid of the other two schemes. This Scheme does not appear to have been considered in detail; E(80)95.

72 E(80)80.

73 Various correspondence in PM Papers, Box no.309, The Future of BNOC: Proposed Sale of BP Assets. Petroleum and Continental Shelf Bill, Parts 4 and 5.

74 Letter from Howell to the Chancellor of the Exchequer, 14 May 1981; PM Papers, Box no.309, The Future of BNOC: Proposed Sale of BP Assets. Petroleum and Continental Shelf Bill, Part 5.

75 BGC's principal statutory duties were set out in the Gas Act 1972 (for details see endnote 140, chapter 3). The Board judged that disposing of its oil assets was inconsistent with these duties and the best interests of the Corporation.

76 Letter from Sir Denis Rooke to Howell, 23 July 1980, with E(80)(80). Also in E(DL) Part 3.

77 Letter from Howell to Rooke, 14 August 1980, with E(80)(80). Also in E(DL) Part 3.

78 The request was made in discussion but later in the year Lawson refers to it as a commitment made by the Secretary of State, see below.

79 Letter from Rooke to Howell, 27 August 1980, in E(DL) Part 3.

80 E(80)97, "British Gas Corporation – Disposal of Oil Assets. Memorandum by the Secretary of State for Energy", 10 September 1980, in E(DL) Part 3.
81 E(80)33rd meeting, 15 September 1980.
82 Note from Howell to the PM, 8 October 1980, in E(DL) Part 3.
83 Note from Lawson to the PM, 16 October 1980, in E(DL) Part 3.
84 Memorandum from Joseph to the PM, 27 October 1980, in E(DL) Part 3.
85 Letter from T. Lankester, PS, No. 10, to Ian Ellison, Department of Industry, 29 October 1980, in E(DL) Part 3.
86 Memorandum from Lawson to the PM, 16 October 1980, in E(DL) Part 3.
87 Note from Howell to the PM, 22 October 1980, in E(DL) Part 3.
88 Memorandum from D.J.Wright, No. 10, to the PM, 24 October 1980, in E(DL) Part 3; letter from T. Lankester, PS No. 10, to J.D.West, Department of Energy, 27 October 1980, in E(DL) Part 3.
89 Memorandum from Howell to the PM, 27 April 1981, in E(DL) Part 4.
90 Annotated note on ibid.
91 Note from Lawson to the PM, 6 May 1981, in E(DL) Part 4.
92 PM, 30 July 1981, *Hansard*, column 1159. http://www.margaretthatcher.org/speeches/displaydocument.asp?docid=104697.
93 Lawson (1992), p.214.
94 Notes of the Secretary of State's meeting with the Dorset Group, 17 January 1983, in E(DL) Part 9.
95 As one civil servant in the Department of Energy at the time commented during the preparation of this chapter, "once the department had an effective Minister in Nigel Lawson, civil servants were only too delighted to vigorously drive through his clear agenda. The sense of purpose and direction under Lawson were a different world from the ineffectiveness and lack of achievement under Howell." However, to be fair to Howell, Lawson inherited the planning that Howell had put in place.
96 Note of the Secretary of State's meeting with the Board of the British Gas Corporation, 30 March 1983, and letter from Lawson to Rooke following the meeting, in E(DL) Part 9. BP was the largest single investor in Dorset with a 50% interest.
97 Letter from Rooke to Lawson, Secretary of State for Energy, 10 March 1983, in E(DL) Part 9.
98 Letters from Walker to Rooke, 2 and 17 November 1983, in E(DL) Part 9.
99 Letter from Rooke to Walker, 7 November 1983, in E(DL) Part 9.
100 Letter from Rooke to Walker, 26 March 1984, in E(DL) Part 9.
101 Briefing note to the PM from Sir Robert Armstrong, Cabinet Secretary, 5 April 1984, in E(DL) Part 9.
102 Note from Andrew Turnbull, PS to the PM, 5 April 1984, in E(DL) Part 9.
103 Note from David Pascall in No. 10 to Turnbull, 9 April 1984, in E(DL) Part 9.
104 "Wytch Farm", memorandum from the Secretary of State for Energy, 7 April 1984, in E(DL) Part 9.
105 Note of the PM's meeting to Michael Reidy, Department of Energy, 9 April 1984, in E(DL) Part 9.
106 Memorandum from the Secretary of State for Energy to the PM, 2 May 1984, in E(DL) Part 9.
107 Note from Armstrong to Turnbull, 3 May 1984, in E(DL) Part 9.
108 Note from Walker to the PM, 4 May 1984, in E(DL) Part 9.
109 Annotated note on ibid. BGC would also receive 40% of production profits after Dorset had recovered its investment and production had reached 23m barrels.
110 The Direction was issued by the Secretary of State on 4 August 1982 under Section 11(1) of the Act.
111 Similarly, on 1 November 1983 BGC's prospective exploration assets were transferred to a separate BGC subsidiary, which was transferred to Holdings, now called Enterprise Oil, on 23 December 1983. Some consideration was given to selling the businesses separately, but this was ruled out because of the higher value that was likely to arise from a combined sale.
112 The Board's co-operation with the sale increased after the Election with the change in Secretary of State – Lawson and Rooke had been at loggerheads – and the fact that the return of a Conservative Government made privatisation inevitable.

113 Holdings (later Enterprise Oil) decided not to appoint its own advisers believing that it had sufficient skills in its new management team to handle the sale. However, the company appointed Schroder Wagg (Schroders) after the flotation to advise on the RTZ bid, see below.
114 There was also the point that a trade sale might have been to an American company. In privatisations the financial adviser was a City merchant bank and was later also known as the investment banking adviser.
115 Operating agreements relating to offshore oil assets provided for preferred purchasing rights for BGC's co-licensees in the event of a sale of licence interests, but not in the event of a change in the ownership of the company owning the interests.
116 The reason was that once the corporation became a company it stepped outside the usual Treasury controls over a nationalised industry's finances. This is discussed in more detail in the review of a number of other privatisations in later chapters.
117 Letter from Nigel Lawson, Secretary of State for Energy to the Chancellor of the Exchequer, 10 May 1983, in E(DL) Part 7; Letter from the Chancellor of the Exchequer to Lawson, 18 May 1983, in E(DL) Part 7.
118 Letter from Alick Buchanan-Smith, Minister of State, Department of Energy, to John Moore, Economic Secretary, Treasury, 17 August 1983 and the reply 22 August 1983 from the Chancellor, both in E(DL) Part 7.
119 Department of Energy (1984) *Enterprise Oil: A report on the Privatisation of Enterprise Oil*, London.
120 House of Commons, Session 1981–82, *Tenth Report from the Committee of Public Accounts. Department of Industry. Sale of shares in British Aerospace; Sales of Government Shareholdings in other publicly owned Companies and British Petroleum Limited*, HMSO, 1982.
121 Department of Energy (1984), pp.21–3.
122 Cazenove & Co and de Zoete & Bevan acted as stockbrokers. Wood Mackenzie provided independent advice to the Government on the pricing of the offer.
123 Note to the Prime Minister from the Secretary of State for Energy, 13 June 1984, in E(DL) Part 10.
124 Note to the PM from the Foreign Secretary, 18 June 1984, in E(DL) Part 10.
125 The issue was valued mainly on a dividend yield basis. The sale price implied a dividend yield of 5.41%.
126 In this issue there were no free shares or matching offers for employees, as used in many other privatisations, because the company had few employees. Thirty four employees applied under the preferential application scheme for a total of 61,250 shares.
127 *The Times*, *Guardian*, *Daily Telegraph*, *Financial Times* Lex column, all 20 June 1984, press cuttings in E(DL) Part 10.
128 In tender issues the share price finally set reflected the demand and supply of shares on offer, which reduced the prospect of an under-pricing of the sale.
129 Department of Energy (1984), op cit., p.30.
130 Letter from Lord Rothschild, 27 June 1984, in E(DL) Part 10.
131 Letter from Callum McCarthy, PS, Department of Trade and Industry, to David Peretz, PS/Chancellor of the Exchequer, 28 June 1984, in E(DL) Part 10.
132 CC(84)24th meeting conclusions, 28 June 1984.
133 Later it appears that the limit was raised further to just over 29%. Note to the PM from Andrew Turnbull, 27 June 1984, in E(DL) Part 10.
134 Secretary of State for Energy's statement to the House 28 June 1984, *Hansard*, column 1167; Price Waterhouse *Privatisation: The Facts*, p.61.
135 Out of the 1.55%, the lead underwriter took 0.3% and the sub-underwriters 1.25%.
136 For essentially political reasons the company was registered in Scotland, making it the largest Scottish registered company.
137 Background note on Britoil's Oil Interests, 25 November 1985, Department of Energy files, G63/602/14, Part 1.
138 "Gas Privatisation: Upstream Matters", G.63/602/14, Part 1.
139 In effect, Warburgs and Rothschilds became joint managers of the offer but with Warburgs in the lead. The brokers to the offer were Rowe and Pitman, Cazenove & Co, Wood Mackenzie,

Hoare Govett and W. Greenwell & Co. Freshfields acted as solicitors. By now the Treasury was insisting on "beauty contests" (competition) when departments appointed advisers for a sale. However, the Department of Energy was permitted to appoint Warburgs without competition because the firm had already been advising the Department on the sale of BNOC.

140 In this case Freshfields.

141 In addition, profit sharing and share option schemes were introduced. Consideration was given to providing employees that had remained with BNOC following the separation of the Operating arm with free and matching shares on the grounds that they too had helped build up the business. However, the benefits would have been taxable and the idea was abandoned.

142 In this privatisation involving a public offer, as in later privatisations, the shares for employees came out of the Government's remaining holding. Also, in this and other privatisations, employees were permitted to decline the free and matching share offers. This was because a share offer to employees on different terms to other potential shareholders was likely to be classified as a separate offer for sale. This would have led to additional costs. Also, to ensure that gains from the shares were treated as capital gains and not income for tax purposes, the shares had to arise from the offer for sale not from the employment.

143 The terms did differ, however, from those introduced by the Department of Energy for the special share in Amersham International sold in February 1982 (see chapter 6), in which a shareholding of more than 15% was effectively prohibited. As mentioned elsewhere, in these early days of privatisation how special shares would work, if at all, was not entirely clear. There was some experimenting with the terms.

144 The rationale was the same as in the later tender sale of shares in Enterprise Oil, to make the application process simpler and more predictable for small investors; Lawson (1992), p.220. Interestingly in the light of the subsequent undersubscription for the shares, City institutions complained about the special terms for small investors on the grounds that it could leave them having to pay a higher price.

145 Individuals who applied for up to 2,000 shares could take advantage of the loyalty bonus.

146 Minute from Nigel Lawson to the Chancellor of the Exchequer, 25 October 1982, PM Papers, Box No. 309, The Future of BNOC: Proposed Sale of BP Assets, Part 5.

147 Note from M.C.Scholar, PS No. 10, to J.West, Department of Energy, 29 October 1982, ibid.

148 Lawson (1992), p.210.

149 Minute from N.L.Wicks, 5 November 1982, PM Papers, Box no.309, Part 5, op cit. Independent advice on the oil price was provided by brokers Fielding Newson-Smith.

150 The adviser was Dundas Hamilton, a distinguished stockbroker.

151 Department of Energy (1982) *Britoil: Departmental history of the share offer*, London; Price Waterhouse *Privatisation: The Facts*, p.46. The final decision to proceed with a sale by tender was made on 5 November. As in the case of Enterprise Oil, the total underwriting commission paid was 1.55%, with 0.3% to the lead underwriter and 1.25% to sub-underwriters. Serious consideration was given to undertaking the sub-underwriting first before the lead underwriter committed with a view to reducing the commissions payable. If the sub-underwriting succeeded there would be no need to undertake and pay for the lead underwriting function. However, Warburgs, the prospective lead underwriter, feared that they would be left with a large underwriting commitment if the sub-underwriting failed, opposed the idea and argued that they should be paid a higher main underwriting commission to bear the risk should it go ahead. The idea was dropped.

152 Even so, 35,000 small investors ended up with shares.

153 *Hansard*, column 305, 13 March 1985.

5 PRIVATISING BRITISH AEROSPACE AND CABLE AND WIRELESS

1 E(DL)(79)4th meeting, 19 July 1979; E(DL)(79)8, "British Aerospace: Sale to the Private Sector. Memorandum by the Secretary of State for Industry", dated 13 July 1979; both in E(DL) Part 1.

2 Official Committee on Nationalised Industry Policy, NIP(79) 2nd meeting, HM Treasury Papers, Filefolder 11271561.
3 E(DL)(79)8; E(DL)(79)4th meeting.
4 Letter with draft Statement from Peter Mason, Private Secretary (PS), Department of Industry, to Martin Hall, PS/Chancellor of the Exchequer, 19 July 1979, in E(DL)(79) Part 1.
5 *Hansard*, 23 July 1979, columns 30–39.
6 Conservative Research Department (1979) *General Election 1979: Questions of Policy*, p.121.
7 E(DL)(79)14, "British Aerospace: Introduction of Private Sector Capital. Memorandum by the Secretary of State for Industry", dated 2 October 1979, in E(DL) Part 2.
8 In other words, there were certain contingent liabilities that might arise if BAe went bust. Official Committee on Nationalised Industry Policy, NIP(79)9th meeting, 25 September 1979, HM Treasury papers Filefolder 11271561.
9 The main exception was the sale of the first tranche of shares in Cable & Wireless, which was already at an advanced stage of planning when the BAe sale was completed.
10 Article 223 states: "Any member state may take such measures as it considers necessary for the protection of the essential interests of its security which are connected with the production of or trade in arms, munitions and war material; such measures shall not adversely affect the conditions of competition in the common market regarding products which are not intended for specifically military purposes."
11 E(DL)(79)7th meeting, 17 October 1979.
12 E(DL)(79) 6th meeting, 4 October 1979, in E(DL) Part 1.
13 Note from the Chairman of Vickers Ltd to T.P. Lankester, PS in the PM's Office, 23 April 1980, in Nationalised Industries files Part 2. The dispute also extended to the nationalisation terms for shipbuilding and related to setting the compensation by reference to the value of the securities to be acquired, with the valuations based on the average share price during a six month period prior to the nationalisation. Critics argued that the share prices were depressed at this time and the valuations therefore too low. In Opposition Sir Keith Joseph had been highly critical of the compensation terms, but after becoming Secretary of State for Industry, in August 1979 he announced that no acceptable way could be found to alter the terms, on the grounds that those who had already accepted them would be adversely affected if the terms were now improved. In the following months agreement was reached on a number of the outstanding compensation claims. However, some former owners applied to the European Court arguing that the compensation terms were in breach of the European Convention on Human Rights; BT/C/30, Part 2 (BT files relate to the privatisation of BT and are held by the DTI/BERR). Sir William Lithgow, the largest single shareholder in Kincaid, one of the shipbuilding companies nationalised, was a leading appellant and for a number of years continued his legal action. The issue of the compensation terms arose during a number of the privatisations, including British Telecom, when Lithgow demanded a stronger statement on the threat of nationalisation by a future Labour Government and possible financial loss in the sale prospectus.
14 The Bank did handle the later sale of BP shares in 1983 and would continue to be consulted on other privatisations as part of the Bank's oversight of the timing of new issues in the Stock Market.
15 Henry Benson, one of the most eminent accountants of the time, was an adviser to the Governor of the Bank of England and a former director of Hawker Siddley, one of the constituent companies of BAe at nationalisation. Benson believed that BAe's balance sheet was too weak to survive in the private sector and the company was too dependent on government contracts. It seems that his views influenced the Bank into judging that a privatised BAe might be a financial failure. Although Kleinworts continued as advisers to the sale, they too worried about the effect on their reputation if the sale flopped.
16 E(DL)(80)5th meeting, 5 August 1980; E(DL)(80)10, "British Aerospace. Memorandum by the Minister of State, Department of Industry", 30 July 1980, in E(DL) Part 3. The Government had pulled out of the Airbus project in the late 1960s and re-entered in 1978 with an agreement that the Government would stand behind BAe's financial participation in the project.
17 E(DL)(80)10.
18 *British Aerospace Act*, chapter 26, London: HMSO.

19 E(DL)(80)6th meeting, 14 October 1980; E(DL)(80)15, "British Aerospace: Timing of Vesting in a Successor Company. Memorandum by the Minister of State, Department of Industry, 10 October 1980; both in E(DL) Part 3.
20 E(DL)(80)6th meeting. E(DL)(80)4, "British Aerospace: Prospects for Sale of Shares in 1980/1: Memorandum by the Minister of State for Industry", 8 May 1980.
21 Letter from A.J. Wiggins, HM Treasury, to T. Lankester, No. 10, 17 October 1980, in E(DL) Part 3.
22 Memorandum from Joseph to the PM, 23 October 1980, in Nationalised Industries files Part 3.
23 E(DL)(80)7th meeting, 23 October 1980.
24 Letter from Pym to Joseph, 20 October 1980, in E(DL) Part 3.
25 Letter from Joseph to Pym, 7 November 1980, in E(DL) Part 4.
26 Letter from Pym to Joseph, 24 November 1980, in E(DL) Part 4.
27 This followed a review of the accounts and forecasts of Airbus Industrie.
28 MISC 11, 16 July 1979 during Public Expenditure Survey discussions.
29 Letter from Biffen to Joseph, 18 December 1980, in E(DL) Part 4.
30 Letter from Butler to Biffen, 2 January 1981, in E(DL) Part 4.
31 E(DL)(80)15, 10 October 1980.
32 E(DL)(80)19, "British Aerospace Vesting in the Successor Company and Flotation. Memorandum by the Minister of State for Industry", 9 December 1980, in E(DL) Part 4.
33 E(DL)(80)8th meeting, 11 December 1980.
34 E(DL)(80)5th meeting; letter from PS/Chancellor, to T.Lankester, PM's Office, 15 December 1980, in E(DL) Part 4.
35 For details of the debt write-off see footnote 39 below.
36 Letter from Jenkins to Lankester, 15 December 1980, in E(DL) Part 4.
37 E(DL)(80)15, "British Aerospace: Timing of Vesting in a Successor Company. Memorandum by the Minister of State, Department of Industry", 10 October 1980, in E(DL) Part 4.
38 E(DL)(80) 8th meeting, 11 December 1980, in E(DL) Part 4.
39 Draft written answer in E(DL) Part 4. BAe's liability in respect of commencing capital of £158.7m and public dividend capital of £110m was extinguished, but outstanding National Loans Fund advances and other liabilities were transferred to the new company.
40 Letter from Butler to Lawson with a copy to the PM, 16 December 1980, in E(DL) Part 4.
41 Memorandum from Norman Tebbit, Minister for State at the Department of Industry, to the PM, 7 January 1980, in E(DL) Part 4.
42 Letter from Lawson to Tebbit, 8 January 1981, in E(DL) Part 4.
43 Annotated note to the PM from T. Lankester on the memorandum from John Nott, below. Also, note to the PM from the Chancellor, 19 January 1981, in E(DL) Part 4.
44 Memorandum from Nott to the PM, 16 January 1981.
45 Memorandum from Joseph to the PM, January 1981 (the precise date is not given it but was probably the 19th), in E(DL) Part 4.
46 Notes of the meeting, letter to Brian Norbury, Ministry of Defence, from Clive Whitmore, Principal PS, No.10, 19 January 1981. The Foreign and Commonwealth Secretary attended because of concerns about the impact of the announced defence cuts on relations with allied governments and especially the US government; memorandum from Sir Robert Armstrong to the PM, 19 January 1981. Both documents in E(DL) Part 4.
47 Price Waterhouse *Privatisation: The Facts.* The stockbrokers to the offer were Hoare Govett, Cazenove & Co, and W.Greenwell & Co.
48 House of Commons, Session 1981–82, *Tenth Report from the Committee of Public Accounts*.
49 Minute by G.M.A.Lambert, DTI, to T.Tarkowski, HM Treasury, 31 May 1985, British Telecom privatisation files, BT/A/61 Part 4.
50 The flotation was underwritten incurring a total commission of 1.75%, out of which the sub-underwriters received 1.25% and brokers' fees were paid.
51 House of Commons, Session 1981–82, *Tenth Report from the Committee of Public Accounts*, paragraph 14.

52 HM Treasury (1982) *Treasury Minute on the Seventh, Ninth to Eighteenth and Twentieth to Twenty-Ninth Reports from the Committee on Public Accounts*, Session 1981–82, Cmnd. 8759, London: HMSO.
53 Ibid., paragraphs 16–17. E(DL)80, 1st meeting, 10 March 1980.
54 Letter from the Secretary of State for Industry to the PM, 13 March 1980, PM Papers, British Aerospace: Shares for Employees, Cabinet Office.
55 This was set out in a letter from the Chancellor of the Exchequer on 28 July 1980.
56 Letter from the Chancellor of the Exchequer to the PM, 18 June 1980, ibid.
57 "Privatisation Present Situation and Prospects. Report by the Secretary of State for Industry", 13 September 1982, in E(DL) Part 6. Memorandum of understanding sent by Joseph to Sir Austin Pearce, Chairman of BAe, 3 February 1981, in E(DL) Part 4. Kleinworts had been against retention of government directors in case this acted as a disincentive to private investors.
58 Note from Joseph to Sir Peter Carey, 20 February 1981, in E(DL) Part 4.
59 Letter from Secretary of State for Industry to the PM, 23 March 1983, PM Papers, British Aerospace: Shares for Employees.
60 After the June 1983 General Election the Departments of Industry and Trade were combined.
61 Letter from Lazard Brothers & Co, Ltd. and attached report, 28 November 1984, in E(DL) Part 11.
62 Letter from the Chancellor of the Exchequer to the Secretary of State for Trade and Industry, 9 January 1985, in E(DL) Part 11.
63 *Hansard*, 15 January 1985, columns 185–91. Late during the planning of the sale of the second tranche of shares the issue of MoD procurement again raised its head. The issue was whether BAe was going to get a particular new contract. The MoD was pressed to make an exception to its developing policy on the use of competitive tendering and declared in advance that BAe would win the contract, so that the sale would not be disrupted.
64 After £188m raised for the company for restructuring. PM Papers, Aerospace, Part 3. As this was a second issue, setting the flotation price should have been less hazardous because there was already a market price for the company's shares. However, there was a suspicion within Government that the City deliberately marked down the BAe share price the day before the sale of the second tranche of shares so that the issue price would be set low. The costs of the issue to the Government were £18m and to the company around £8m. The underwriting commissions were set lower than for the first issue, at 0.425%; out of which brokers' commissions of 0.125% were paid; Price Waterhouse *Privatisation: The Facts*, pp.21–2. The second share sale coincided with a BAe rights issue.
65 DTI internal note, "British Aerospace: Offer for Shares", in BT/A/61, Part 4.
66 Statement to the House by Geoffrey Pattie, Minister for Information Technology, *Hansard*, 13 May 1985, column 40.
67 Correspondence in PM Papers, Box 4, British Aerospace: Possible Merger Between British Aerospace and Thorn-EMI or GEC. *Hansard*, columns 361–2, 16 May 1984.
68 Again, the Government took advantage of Article 223 of the Rome Treaty.
69 Letter from Tebbit to Lawson, 14 January 1985, in E(DL) Part 11.
70 Tebbit (1988) *Upwardly Mobile*, p.177.
71 Chester (1975), p.453.
72 Also, its debt was never treated as part of public sector borrowing.
73 The company was formed following the merger of the international cable and wireless companies Eastern Telegraph and Marconi Wireless.
74 Ibid; Baglehole (1970) *A Century of Service*; *Cable and Wireless plc Offer for Sale of Ordinary Shares by Kleinwort Benson Ltd on the instructions of the Lord Commissioners of HM Treasury and the Secretary of State for Industry*, 1981, pp.2–3.
75 E(DL)(79)5, "Disposal of Assets. Memorandum by the Financial Secretary, Treasury", dated 2 July 1979, in E(DL) Part 1.
76 E(81)27, "Cable and Wireless. Memorandum by the Secretary of State for Industry", dated 3 March 1981.
77 Barings and Rothschilds carried out initial feasibility studies of a C&W sale in 1979 and Barings was chosen to advise the Government. C&W engaged Rothschilds but after Sharp became

Chairman of the company (see below) Kleinworts was appointed because of the bank's previous experience of privatisation sales. Kleinworts also became the Government's advisers in the summer of 1980 because of cheaper fees than Barings and because C&W was unwilling to work with Barings.

78 Ted Short became Chairman of C&W in 1976, six months after retiring as Labour's Deputy Prime Minister, providing an example of how state-owned firms were susceptible to politically-inspired senior appointments.

79 E(DL)(80)11, "Cable and Wireless: Sale of Shares. Memorandum by the Minister of State, Department of Industry", 25 July 1980, in E(DL) Part 3.

80 E(DL)(80)5th meeting, 5 August 1980.

81 E(DL)(80)16, "Cable and Wireless: Sale of Shares. Memorandum by the Minister of State, Department of Industry", 21 October 1980, in E(DL) Part 3.

82 Ibid.

83 Ibid.

84 In his memoirs, David Young, involved in the sale of C&W, comments on the attitude of senior management in the company, that they were concerned with managing decline rather than expansion; Young (1990) *The Enterprise* Years, p.51.

85 E(DL)(80)16.

86 Ibid.

87 Ibid.

88 E(DL)(80) 7th meeting, 23 October 1980.

89 Ibid; E(DL)(80)16.

90 E(DL)(80)7th meeting.

91 E(DL)(81)1, "Cable and Wireless. Memorandum by the Minister of State, Department of Industry", 26 January 1981.

92 Ibid.

93 E(81) 9th meeting, 5 March 1981; E(81)27, "Cable and Wireless. Memorandum by the Secretary of State for Industry", 3 March 1981.

94 Reported in a note from N.J.Sanders, PS to the PM, to J.C.Hudson at the Department of Industry, 23 February 1981, in Nationalised Industries files Part 3.

95 Draft statement in E(DL) Part 4, along with PM's annotated comment.

96 E(81)27, paragraph 2; letter from S.A.J. Locke, PS at the Treasury, to J.C.Hudson, PS/Minister of State for Industry, 27 February 1981, in E(DL) Part 4.

97 Annotated note to the PM on a letter from L.Riley, PS, Department of Industry, to Sanders on 27 February 1981, in E(DL) Part 4.

98 Note from T.P.Lankester, PS No.10, to L. Riley at the Department of Industry, 2 March 1981.

99 Letter from David Young to Lankester, 2 March 1981, with E(81)27.

100 E(81)27, paragraph 10.

101 Letter from Riley to Sanders, 27 February 1981.

102 Correspondence in E(DL) Part 4. E(81)27, para. 10

103 E(81)27, para. 10.

104 Briefing for the PM by the Cabinet Secretary, 4 March 1981, in E(DL) Part 4.

105 Letter from PS/Lord Privy Seal to Sanders, 27 February 1981, in E(DL) Part 4.

106 Note from J.R.Ibbs to Lankester, 4 March 1981, in E(DL) Part 4.

107 E(81) 9th meeting, 5 March 1981; Baker (1993) *The Turbulent Years*, p.76.

108 Note from T.P. Lankester to J.C.Hudson at the Department of Industry, 9 March 1981, in E(DL) Part 4.

109 E(DL) (81) 13, "Cable and Wireless: Post Flotation Ownership and Control. Memorandum by the Minister of State, Department of Industry", 17 July 1981; E(DL)(81)3rd meeting, 23 July 1981; both in E(DL) Part 4. The Minister of State was Kenneth Baker.

110 E(DL)(81)3rd meeting.

111 Cable and Wireless Offer for Sale document, p.20. Meanwhile, Government retained the right to appoint not more than two non-executive directors.

112 Following a 'beauty contest' the Treasury engaged W. Greenwell & Co for a second opinion on the price advised by Kleinworts. As in the setting of the share price in other privatisations,

the forecast dividend yield and the price-earnings ratio were both taken into account when determining the price. The advisers came up with a range of prices of between 165p and 170p. The number 168 was considered to be a lucky number in the Chinese community and it has been suggested that this had an influence on the final price chosen given the simultaneous flotation in Hong Kong. When pronounced in Chinese Mandarin, 168 sounds like the phrase "making money all the way". The stockbrokers to the offer were Cazenove & Co, James Capel & Co, and Rowe and Pitman.

113 Press release from Kleinwort Benson Ltd., 2 November 1981, in E(DL) part 5.

114 In this privatisation the free shares were made available over a period as part of a company employee profit-sharing scheme. In subsequent privatisations the free shares were allotted immediately after the flotation to employees, albeit to be held in trust. This resulted from the experience of the C&W share offer, where employees were found to prefer an obvious personal benefit at the time of privatisation. The reason for the trust scheme was again fiscal, to benefit from tax concessions for employee share schemes under the 1978 Finance Act. Shares were also allocated for overseas employees and in these cases the terms reflected local tax laws.

115 The largest part, £4.7m, represented underwriting fees; G.M.A.Lambert, DTI, to T.Tarkowski, HM Treasury, 31 May 1985, BT/A/61 Part 4. The underwriting commission was 1.75% out of which 1.25% went to the sub-underwriters and brokers' fees were also paid.

116 Letter from Patrick Jenkin to Francis Pym, Lord President of the Council, 9 October 1981, in E(DL) Part 4.

117 Memorandum from Jenkin to the PM, 4 November 1981, in E(DL) Part 5. Jenkin replaced Joseph as Secretary of State for Industry in September 1981.

118 Letter from Sir Geoffrey Howe to Jenkin, 9 November 1981, in E(DL) Part 5.

119 Letter from the PM to Jenkin, 17 November 1981, in E(DL) Part 5.

120 Letter from the Chancellor of the Exchequer to the PM, 25 October 1983, in PM Papers E(DL) Part 7.

121 In early 1983 Hong Kong Land, a shareholder in the Hong Kong telephone company, Telco, decided to dispose of some of its holding. Eager to prevent another operator such as AT&T from buying the shares, C&W offered to acquire them. The C&W Board financed the acquisition by the allotment of some 30m previously unissued C&W shares to Hong Kong Land, who immediately renounced them in favour of pre-arranged UK institutional purchasers. The Foreign Office favoured the Government taking up its entitlement in the new issue to avoid possible objections to a lowering of the Government's shareholding in C&W to under 50% from overseas governments. However, the Treasury opposed the expenditure, which would have amounted to some £50–60m to acquire the shares. The PM backed the Treasury. Letter from M. O'Mara, PS Treasury, to M.C. Scholar, PS No. 10, 23 March 1983 and PM's annotated agreement, in E(DL) Part 7.

122 *Hansard*, column 437, 27 October 1983.

123 Letter to Andrew Turnbull from M. O'Mara, HM Treasury 25 November 1983 and accompanying background papers, in E(DL) Part 8.

124 Note by John Redwood, Policy Unit, to Turnbull, 6 December 1983, PM Papers E(DL) Part 7.

125 Letter from the Chancellor of the Exchequer to the PM, 30 August 1985, PM Papers E(DL) Part 10.

126 Building on experience in earlier privatisations, a number of performance incentives were built in, including merchant bank fees linked to reducing the pricing discount and lower underwriting commissions; Cable and Wireless Share Sale 1985: Points of General Interest. Note by HM Treasury, NIP (85)18, 18 December 1985, HM Treasury papers A/06 Part 4.

127 146m shares were sold in the UK, including 43.5m new shares offered by the company. In addition, 13m shares were sold simultaneously in Japan and Canada through a private placement.

128 Young (1990) p.60.

129 Cable and Wireless plc Report and Accounts 1986. Figures are for years ending 31 March.

6 PRIVATISING AMERSHAM INTERNATIONAL, THE NATIONAL FREIGHT CORPORATION AND ASSOCIATED BRITISH PORTS

1 E(DL)(81)15, "Disposal of Amersham International Limited. Memorandum by the Secretary of State for Energy", 17 November 1981, in E(DL) Part 5.

2 E(DL)(81), 4th meeting, 27 November 1981, in E(DL) Part 5.
3 E(DL)(80), 2nd meeting, 12 May 1980.
4 Ibid.
5 E(DL)(81)15.
6 Ibid.
7 Ibid., and attached "The Disposal of the Secretary of State for Energy's Interest in Amersham International. Note by the Department of Energy", in E(DL) Part 5.
8 This contrasts with the view held in the Department of Industry during the sale of the first tranche of C&W shares that a public flotation was beneficial to obtain an accurate valuation of the company; see p.127 above.
9 E(DL)(81)16.
10 E(DL)(81)15.
11 E(DL)(81)4th meeting, 27 November 1981, in E(DL) Part 5.
12 In addition, the company raised a further £7.3m by the sale of new shares.
13 *Hansard*, column 298, 16 March 1982. The price was near to the mid-point of the range of prices suggested by the independent adviser W. Greenwell & Co. Greenwells had acted as independent adviser to the Government on the flotation price during the C&W sale and also advised on the Amersham share price.
14 Ridley (1991) *'My Style of Government': The Thatcher Years*, p.59.
15 Lawson (1992), p.209.
16 *Hansard*, column 261, 16 March 1982.
17 Letter from Ingham to Chipp, 26 February 1982, in E(DL) Part 5.
18 Minute from J.M.Sterling to the Secretary of State for Trade and Industry, 31 December 1983, BT/A/26 Part 3.
19 The share was redeemed on 27 July 1988.
20 The shares were held in a Share Participation Scheme established by the company, again for tax reasons.
21 House of Commons, Session 1981–82, *Tenth Report from the Committee of Public Accounts*, paragraph 23.
22 Lawson (1992), p.210.
23 Letter from Howe to Jenkin, 30 March 1982; also "Methods of Privatisation. Memorandum by the Financial Secretary, Treasury"; both in E(DL) Part 5.
24 Conservative Party (1979).
25 McLachlan (1983) *The National Freight Buyout*; Thompson (1990), *Sharing the Success*.
26 Letter from Fowler to Lawson, 29 June 1979.
27 E(DL)(79)12, "Sale of Shares in the National Freight Corporation. Memorandum by the Minister of Transport", 17 July 1979, in E(DL) Part 1. The Minister of Transport's proposals also included an amendment to the 1968 Transport Act to remove the concept of integrated freight transport and repeal powers to set up a special licensing scheme for long distance road transport. However, the idea of a planned and integrated freight transport system had more or less already died in the 1970s.
28 Letter from Fowler to the Chancellor, 6 June 1979, with E(DL)2nd meeting papers.
29 E(DL)(79)12.
30 E(DL)(79)5th meeting, 26 July 1979, in E(DL) Part 2.
31 McLachlan (1983), pp.87–8.
32 "A Note for the Record", 6 March 1980, in E(DL) Part 3.
33 Letter from Fowler to Howe, 23 July 1980, in Nationalised Industries files, Part 2.
34 Thompson (1990), p.17.
35 Ibid.
36 Letter from Lawson to Fowler, 1 August 1980, in Nationalised Industries files, Part 2.
37 E(DL)(80)5th meeting, 5 August 1980, in E(DL) Part 3.
38 Letter from Fowler to Howe, 5 August 1980, in E(DL) Part 3.
39 Letter from Howe to Fowler, 6 August 1980, in E(DL) Part 3.
40 Thompson (1990), p.74.
41 Note from Fowler to the PM, 10 June 1981, in E(DL) Part 4.

42 McLachlan (1983), pp.4, 31–2. However, there is no evidence that the Government seriously considered this alternative. Being left with the unprofitable bits of NFC was unlikely to be attractive to the Treasury.
43 Ibid., p.29.
44 Note from Fowler to the PM, 10 June 1981, in E(DL) Part 4.
45 Letter of offer from P.A.Thompson to Fowler, 11 June 1981, in E(DL) Part 4.
46 Letter from Fowler to Joseph, 12 June 1981, in E(DL) Part 4.
47 Letter from Lawson to Fowler, 16 June 1981, in E(DL) Part 4.
48 Thompson (1990), p.11.
49 Note from Howell to the PM, 16 October 1981, in E(DL) Part 4.
50 Thompson (1990), pp.109, 128–31.
51 Letter from Howell to Howe, 16 February 1982, in E(DL) Part 5.
52 McLachlan (1983), p.57. Some 1,300 NFC pensioners took part in the purchase buying an average of 700 shares each.
53 The PM in the House of Commons 20 October 1981, *Hansard* column 161, http://www.margaretthatcher.org/speeches/displaydocument.asp?docid=104718
54 Thompson (1990), p.137 & 151.
55 Sir P. Thompson (1988) 'The Buyout at National Freight' in E.Butler (ed.). *The Mechanics of Privatization*, London: Adam Smith Institute.
56 Ibid., ch.6.
57 Ibid., p.126.
58 There were four unions in the NFC, three gave the buyout varying degrees of support. The TGWU, however, had the largest membership within the company. Ibid., pp.97–9, 164; McLachlan (1983), pp.63–5.
59 At privatisation the company had committed itself not to seek a stock exchange quotation for at least five years. When the company listed in 1989 it had a market capitalisation of £900m, compared to the buyout price of £54m; Thompson (1990), p.168.
60 The NDLS was reviewed in March 1984 when there was a call for it to be abolished to help save the financially embarrassed Port of London Authority. However, the fear of a national dock strike at a time when a serious dispute with the mine workers had just broken out meant that the proposal did not meet with much support in Government; E(A)(84)9th meeting, 20 March 1984. The scheme would not be abolished until 1989.
61 Official Committee on Nationalised Industry Policy, NIP(79)2nd meeting, HM Treasury papers Filefolder 11271561.
62 Letter from Fowler to Lawson, 21 June 1979, in E(DL).
63 E(DL)(80)1, "British Transport Docks Board: Introduction of Private Capital. Memorandum by the Minister of Transport", 7 February 1980.
64 The Government appointed separate financial advisers to Kleinwort, Benson who were advising the Corporation, reflecting the Government's new concern to prevent a possible conflict of interest when the same banks advised the Government and the Corporation. During the planning of the BTDB sale understandably the company wanted the strongest balance sheet going forward and the Government suspected that the advice being provided by Kleinworts on the appropriate capital restructuring was being compromised by Board pressure on Kleinworts. Both sets of advisers were appointed after expressions of interest were canvassed in the City and tenders for the work were invited.
65 Ibid.
66 Letter 21 February 1980 from Howe to Fowler, 21 February 1980, in E(DL) Part 3.
67 Letter from Nott to Fowler, 27 February 1980, in E(DL) Part 3.
68 E(80)4th meeting, 8 July 1980; E(DL)(80)9, "Introduction of Private Capital to British Transport Docks Boards (sic.). Memorandum by the Minister of Transport", dated 4 July 1980.
69 E(80)4th meeting.
70 Ibid.
71 Ibid.
72 Letter from Norman Fowler to Keith Joseph, Secretary of State for Industry, 17 July 1980, in E(DL) Part 3.

73 The Act also enabled British Rail to sell off subsidiary businesses, such as Sealink ferries and hotels.
74 Letter from Fowler, 7 November 1980, in E(DL) Part 4.
75 Letter from Leon Brittan to Fowler, 5 March 1981, in E(DL) Part 4.
76 Letter from Fowler to Brittan, 1 April 1981, in E(DL) Part 4.
77 Letter from Howell to Jenkin, 27 October 1981, in E(DL) Part 5; letter from Howell to Howe, 3 November 1981, in E(DL) Part 5.
78 It seems that no written contract was ever signed between BSC and the BTDB; letter from Nicholas Edwards, Secretary of State for Wales, to Howell, 8 November 1982, PM Papers, Nationalised Industries. The Steel Industry, Part 11.
79 E(DL)(82)10, "Privatisation of the British Transport Docks Board: Dispute with the British Steel Corporation. Memorandum by the Secretary of State for Transport", 11 November 1982, in E(DL) Part 6.
80 Letter from Howell to Jenkin, op cit.
81 Letter from Howell to Howe, 3 November 1981, in E(DL) Part 5.
82 Letter from Ridley to Howell, 18 November 1981, in E(DL) Part 5.
83 Letter from Howell to Ridley, 30 November 1981, in E(DL) Part 5.
84 Letter from Ridley to Howell, 7 December 1981, in E(DL) Part 5.
85 Letter from Howell to Ridley, 23 December 1981, in E(DL) Part 5. On the issue of the trust ports, Howell responded to Ridley that while he would look at the prospects for privatisation in the context of a general review of ports policy, the ports were "statutory bodies with statutory obligations which could not be sold in their present form". Primary legislation would be needed to create a structure similar to that set up for the BTDB. Also, he argued that it was by no means obvious that the trust ports would be attractive to private investors and the financial benefits for the Treasury from their sale were unclear. The ports had not made any applications for NLF loans for over a year and were already relying on private capital for investment, although the Government remained the lender of last resort.
86 Letter from Howell to Howe, 18 January 1982, in E(DL) Part 5.
87 Letter from Howell to Howe, 30 April 1982, in E(DL) Part 5.
88 Letter from Howell to Jenkin, 24 June 1982, in E(DL) Part 5.
89 Letter from Ridley to Jenkin, 2 July 1982, in E(DL) Part 5.
90 Letter from Lamont to Howell, 22 July 1982, in E(DL) Part 5.
91 Letter from Howell to Jenkin, 20 October 1982, in E(DL) Part 6.
92 Letter from Howell to Jenkin 5 November 1982, in E(DL) Part 6.
93 E(DL)(82)10, "Privatisation of the British Transport Docks Board: Dispute with the British Steel Corporation. Memorandum by the Secretary of State for Transport", 11 November 1982, in E(DL) Part 6.
94 Note from Sparrow to the PM, 31 January 1983, in E(DL) Part 7.
95 Memorandum from Howell to the PM, 31 January 1983, op cit.
96 Confirmed in writing on 1 February 1983, in E(DL) Part 7.
97 In addition, preference was given to employee applications to buy shares, up to a total of 3% of the shares on offer less those purchased under the matching offer.
98 Price Waterhouse (1987), p.9, there were also sale costs incurred by the Government of £3m and by the company of £0.25m. At 112p per share the company was effectively valued at £44.5m or around 25% of the value of the assets in the company's books. The financial restructuring including the write-off of debt in the balance sheet required detailed negotiation with the Inland Revenue over the tax consequences.
99 'Privatisation Programme 1983–84 to 1987–88. Progress Report – July 1984. Note by the Treasury', E(DL) Part 10.
100 Letter from R.Bird, Private Secretary (PS) Department of Transport, to M.C. Scholar, Economic Affairs PS No. 10, 14 February 1983, in E(DL) Part 7.
101 Memorandum from Howell to the PM, 31 January 1983, in E(DL) Part 7.
102 Memorandum from Ridley to the PM, n.d. April 1984 and Draft Press Release, 9 April 1984, both in E(DL) Part 9.
103 Sir K. Stuart (1988) "Making the ports private", in Butler (ed.), pp.45–7.

7 THE FIRST FOUR YEARS – A RETROSPECTIVE

1 Including £82m in sales of oil stockpiles and commodity stocks.

2 All figures exclude council home sales. The figures given in the text exclude small amounts, in the bottom section of Table 7.1, which relate to the sale by nationalised industries of subsidiaries and where the Exchequer did not benefit from the receipts directly. The advance oil payments, introduced as an emergency measure in 1979/80 when it became clear that the Chancellor of the Exchequer would be unable to meet his £1bn budget target for asset sales, were unwound in 1980/1 and 1981/2.

3 Speech to the Conservative Party Conference, 8 October 1982, http://www.margaretthatcher.org/speeches/displaydocument.asp?docid=105032

4 Letter from Howe to Nigel Lawson, 23 April 1982, in E(DL) Part 5.

5 Thatcher (1995) *The Path to Power*, p.569.

6 Campbell (2004) *Margaret Thatcher, Volume Two*, p.95.

7 Howe (1994), p.257.

8 Thatcher (1993) *The Downing Street Years*, p.284.

9 *The Times*, 18 February 1983.

10 NIP(79)3rd meeting, 12 June 1979, HM Treasury papers filefolder 11271561.

11 Minor exceptions include some British Rail subsidiaries in need of new investment and some of the assets of the National Enterprise Board.

12 Letter from John Butcher, Parliamentary Under Secretary of State at the Department of Industry, 21 September 1982, in BT/A/12, Part 1.

13 House of Commons, Session 1981–82, *Tenth Report from the Public Accounts Committee*. The quotation is from paragraph 25. The report deals with the sale of BP, BAe, C&W and Amersham shares.

14 The big exception was, of course, the NFC where employees were offered the opportunity to participate in the buyout by subscribing directly for shares.

15 Letter from Howe to Patrick Jenkin, 30 March 1982, in BT/A/52, Part 1.

16 As part of this, from the early days it was usual to provide that the Secretary of State could dispose of the shareholding in the enterprise only with the consent of the Treasury. The formal consent was usually given shortly before the issue of the prospectus (or pathfinder prospectus where this was issued). Given that the Treasury was generally consulted throughout the sale process and was represented on the relevant interdepartmental committees organising the sale, this process of seeking permission was a formality.

17 NIP(82)4th meeting, 18 November 1982, H1579/1000/01 Rev NIP/43. The Unit was established within the Treasury's Public Enterprise Division and was led by Herbert Christie and included teams of economists and accountants. From the earliest days the economists were led by Dr John Rickard and the accountants by Graham Houston. Initially there were three economists and three accountants. Shipbuilding, British Leyland (BL) and Rolls-Royce remained outside the Unit's responsibility and were overseen separately by a dedicated economic adviser within the Treasury, Dr Kosmin; HM Treasury Office Notice, ON(82)13, 28 January 1982; memorandum from H.Christie to Sir Douglas Wass, MH Treasury, 15 December 1982.

18 "She took office with a deep distrust of the Civil Service"; Campbell (2004), p.22. Hoskyns resigned in 1982 in part because he had failed to get what he saw as the PM's support for a more radical economic agenda; Hoskyns (2000).

19 Harris (1988), p.96.

20 Campbell (2004), p.44.

21 At the same time, civil servants were keen to remain in the picture. Young (1990, p.55) notes that a suggestion by him to Sir Keith Joseph that they should have a series of dinners with the Chairmen of the nationalised industries without department officials being present "went down like a lead balloon in the Department and over the next few weeks all kinds of ingenious suggestions were made for introducing officials". Alfred Sherman at the Centre for Policy Studies canvassed in vain for the establishment of an army of advisers across government departments to weaken the influence of the civil service and for the creation of a separate PM's department, populated with "carefully selected" civil servants; Sherman (2005), p.103. In spite of such advice,

Thatcher introduced few changes in the structure of No. 10, Whitehall or of the Cabinet Office: "She made few institutional innovations, but broadly accepted the structures and practices of the Whitehall village as she found them: and though she remained suspicious of civil servants as a class, she quickly came to trust the key individuals who served her far more than she did her political colleagues." Campbell (2004), p.23; also, see Kavanagh and Seldon (2000) *The Powers Behind the Prime Minister*, p.149. In her memoirs Thatcher pays tribute to the "professionalism" of the civil service; Thatcher (1993) *The Downing Street Years*, p.18. Such praise did not, however, prevent the occasional difficulties, including an awkward dinner with Permanent Secretaries from various ministries in May 1980. The Permanent Secretaries unwisely chose the occasion to raise complaints about Government policy; ibid., p.48.

22 Howe (1994), pp.125–6. In March 1983 Wass was succeeded by Peter Middleton who even more obviously supported the Government's economic strategy; Holmes (1985), p.204. Kavanagh and Seldon (2000), p.166, argue that Thatcher remained suspicious of the Treasury especially while Wass remained its Permanent Secretary. However, at the time her relations with the Chancellor of the Exchequer were cordial and this probably counterbalanced any doubts she may have had about Treasury loyalty.

23 The sale of subsidiary businesses by the boards of the public corporations, but not the Government directly, usually could be undertaken without the taking of new legal powers. Where the board resisted, as in the case of British Gas and the sale of oil and gas fields, the Minister could issue (or threaten to issue) a Directive. The legal scope of a Directive to sell depended upon its wording and the relevant wording in the industry's nationalisation statute.

24 http://www.margaretthatcher.org/speeches/displaydocument.asp?docid=105260

25 E.g. M.E. Beesley and S.C. Littlechild (1983) "Privatization: Principles, Problems and Priorities", *Lloyds Bank Review,* July, pp.1–20. Reproduced in Beesley (ed.) 1997, ch.2.

26 E(DL)(19)4, "Financing of British Airways – Share Issue. Memorandum by the Secretary of State for Trade", in E(DL) Part 1.

27 C(83)16th meeting conclusions, 9 May 1983.

28 A comment attributed to the Labour MP Gerald Kaufman.

29 Thatcher (1995), p.567.

8 INTO THE HEARTLANDS OF THE PUBLIC TRADING SECTOR: PRIVATISATION AND THE 1983–7 THATCHER GOVERNMENT

1 D. Butler and D. Kavanagh (1984), *The British General Election of 1983*, London: Macmillan p.119.

2 C. Johnson (1991) *The Economy under Mrs Thatcher 1979–1990,* London: Penguin, p.200.

3 D. Kavanagh (1987) *Thatcherism and British Politics*, p.236.

4 N. Lawson (1992) *The View from No11*, ch.36.

5 Lawson (1992) pp.138, 461–70, 488–99. R. Harris (1991) *Good and Faithful Servant: The Unauthorised Biography of Bernard Ingham,* London, Faber and Faber, p.125.

6 The chief objective was to prevent the pound falling below three Deutschmarks to the pound. C.F. Pratten (1987) "Mrs Thatcher's Economic Legacy", in K.Minogue and M.Biddiss (eds), *Thatcherism: Personality and Politics,* London: Macmillan, p.73; Lawson (1992) pp.654, 682–3; E.Dell (1996) *The Chancellors: A History of the Chancellors of the Exchequer 1945–90*, London: Harper Collins, ch.16.

7 Johnson (1991), p.312.

8 In part this probably reflected the generous redundancy package for the miners the Energy Secretary, Peter Walker, teased from the Treasury.

9 M. Crick (1985) *Scargill and the Miners*, Harmondsworth: Penguin; M. Adeney and J. Lloyd (1986) *The Miners' Strike 1984–85: Loss Without Limit*, London: Routledge; I. MacGregor (1986) *The Enemies Within: the Story of the Miners' Strike 1984–85*, London: Collins; Thatcher (1993) *The Downing Street Years*, pp.139–43 and Ch.13; Campbell (2004) pp.355–69.

10 Lawson (1992) p.160.

11 C(84)5th meeting conclusions; C(84)7, "Capital and Current Expenditure. Memorandum by the Chief Secretary, Treasury", dated 3 February 1984; C(84)25th meeting conclusions, 5 July 1984. C(84)30th meeting conclusions, 13 September 1984.
12 There was a particular need to rein back spending in the autumn of 1983, which had risen in the run-up to the Election; C(80)30th meeting conclusions, 20 October 1983.However, the reduction agreed was only £1bn reflecting the continuing difficulty in reining back public spending, and involved a half in the form of genuine spending cuts and the other half as funding from a further sale of BP shares. The revenue from which, as was the convention in public sector accounting, was treated as negative public spending; Lawson (1992) pp.282–4. Also, Thatcher (1993), p.316; Seldon and Collings (2000) *Britain under Thatcher*, p.26.
13 Holmes (1989), p.28.
14 Whitelaw held the Cabinet post of Lord President and Leader in the House of Lords.
15 D. Kavanagh (1987) *Thatcherism and British Politics*, p.98.
16 C(84)24th meeting conclusions, 28 June 1984; Thatcher (1993), pp.538–44, Campbell (2004), pp.305–6.
17 For important discussions on public spending during the second Thatcher administration, C(84) 5th meeting conclusions, 9 February 1984; C(84)5, "Economic Strategy. Memorandum by the Chancellor of the Exchequer", 3 February 1984; C(84)6, "Public Expenditure and Taxation in the Longer Term. Memorandum by the Chancellor of the Exchequer", 3 February 1984; C(84)36th meeting conclusions; E(A)(84)17th meeting, 3 July 1984; C(84)32nd meeting conclusions, 9 October 1984; C(84)29, "Public Expenditure Survey 1984. Memorandum by the Chief Secretary, Treasury", 3 October 1984; C(85)28th meeting conclusions, 3 October 1985; C(85)31st meeting conclusions, 7 November 1985; C(86)22, "Public Expenditure Survey 1986. Memorandum by the Lord President of the Council"; C(86) 36th meeting conclusions, 6 November 1986; C(86)17, "Economic Prospects. Memorandum by the Chancellor of the Exchequer", 14 July 1986; C(86)18, "1986 Public Expenditure Survey. Memorandum by the Chief Secretary, Treasury", 15 July 1986; C(86) 28th meeting conclusions, 17 July 1986.
18 J. Baker (1993) *The Turbulent Years*, p.113; Campbell (2004), p.212.
19 E.J. Evans (1997) *Thatcher and Thatcherism*, p.60.
20 S.R. Letwin (1992) *The Anatomy of Thatcherism*, p.177.
21 C. Parkinson (1992) *Right at the Centre: an autobiography*, London: Weidenfeld and Nicholson, p.253.
22 A. Denham and M. Garnett (2001*) Keith Joseph*, p.405.
23 F. Pym (1984) *The Politics of Consent*, p.13.
24 Cole (1987), p.136.
25 CC(85)37th meeting conclusions, 19 December 1985.
26 CC(86)1st meeting conclusions, 9 January 1986. J. Critchley (1987) *Heseltine*, London: Andre Deutsch, pp.143–56; W. Whitelaw (1989) *The Whitelaw Memoirs,* p.225; R.Harris (1991), pp.128–33; B. Ingham (1991) *Kill the Messenger*, pp.335–7; J. Critchley (1992) *Some of Us: People who did well under Thatcher,* pp.110–12; Thatcher (1993), pp.425–37; M. Crick (1997) *Michael Heseltine: A Biography*, London: Penguin Books, pp.283–8; Heseltine (2000) *Life in the Jungle*, ch.15.
27 Campbell (2004), p.496.
28 Lawson (1992), p.9.
29 The term did not have official sanction; Lawson (1992), p.32 footnote, explains that Thatcher hated the expression.
30 Lord Young (1990) *The Enterprise Years*, pp.146–9.
31 D. Swann (1988) *The Retreat of the State*, p.280; Lawson (1992), pp.398–402, 627.
32 Swann (1988), pp.281–2. The original impetus for "big bang" was a Labour Government decision to prosecute the Stock Exchange for activities considered to contravene the Restrictive Trade Practices Act. The case never came to court and in July 1983 the Chairman of the Stock Exchange instead reached agreement with Cecil Parkinson, then Secretary of State for Trade and Industry, to reform the stock market to remove the identified restrictive practices.
33 C(85)28th meeting conclusions, 3 October 1985; C(85)23, "Public Expenditure Survey 1985. Memorandum by the Chief Secretary, Treasury", 1 October 1985.

34 Cited in K. Harris (1988) *Thatcher*, p.187.
35 HM Treasury (1983) "The Financial Secretary Speaks out on Privatisation", 1 November, London: HM Treasury Press Release 190/83. For similar statements see HM Treasury (1984a) "Financial Secretary Reviews Privatisation Achievements", 16 July, London: HM Treasury Press Release 122/84; Moore (1986) "The Success of Privatisation" in J. Kay, C. Mayer and D. Thompson (eds.) *Privatisation and regulation: The UK experience*, Oxford: Clarendon Press.
36 J. Moore (1985) "The Success of Privatisation", Treasury Press Release 107/85.
37 D. Kavanagh and A. Seldon (2000) *The Powers Behind the Prime Minister*, p.193. From 1983 the No. 10 Policy Unit dominated as the source of policy advice at the heart of Government. Following the General Election the Central Policy Review Staff was disbanded and in the autumn of 1983 the Centre for Policy Studies was brought totally under the Government's control. It would not again be the power house of economic ideas that it had been earlier.
38 Note from John Redwood to the PM, 19 July 1984, and note from Andrew Turnbull to the PM, with the PM's annotated agreement, 20 July 1984; both in E(DL) Part 10. Nevertheless, John Redwood continued to put his weight behind injecting a new impetus into the privatisation programme fearing that it was "in danger of losing its way"; memorandum from John Redwood to Ferdinand Mount, No. 10. Policy Unit, 20 October 1983, E(DL) Part 8.
39 Conservative Party Election Manifesto 1983, p.7.
40 C(83)19th meeting conclusions, 16 June 1983; C(83)19, "Legislative Programme 1983–84. Memorandum by the Lord President of the Council", dated 30 June 1983; C(83)20, "Summary of Bills Proposed for the Legislative Programme 1983–84. Note by the Lord President of the Council", dated 30 June 1983.
41 M. Holmes (1989), p.64. The sale of the TSB was delayed for a number of months by a legal dispute over its ownership, which went as far as the House of Lords. Also, the fact that the receipts from the sale stayed within the bank created a circularity in the sale process because the sale value added to the bank's value. Unsurprisingly, therefore, investors found the issue attractive. Lawson (1992) p.229 notes: "Fortunately, neither the Press nor the Opposition tumbled to the conceptual and practical problem involved in his circularity." However, some investors did spot it. Government plans to sell off another organisation with an odd legal arrangement, the Horserace Totalisator Board (the Tote), were abandoned due to legal difficulties and the fact that the Treasury lost interest when it became clear that the Government would not gain from the sale financially; miscellaneous correspondence in PM Papers Policy Towards the Nationalised Industries. Financial Control, Part 11.
42 The Abbey National sale attracted the largest number of investors, around 4m.
43 Interview with Sir Robin Day, BBC, 17 February 1986, *Thatcher CD-ROM.*
44 Ibid. Lawson (1992) p.224 claims that he coined the term "people's capitalism", which was changed to "popular capitalism" by Thatcher who felt that the expression "sounded Communist, reminding her of expressions like 'people's republic'". In addition to promoting wider share ownership through privatisations, the Government provided tax incentives for companies to adopt share schemes for their employees and management, following an initial measure introduced in 1980. This altered the value of shares firms could allocate to each employee every year without attracting tax and brought in tax relief for savings-related share option schemes. Later measures included the extension of tax relief for senior management share schemes in 1984 and, in the 1986 Budget, further tax measures aimed at promoting share ownership. By 1987 there were over 1,200 approved employee share schemes, compared to a mere 30 in 1979, covering over 1.25m employees.
45 Letter from Lawson to Sir Emmanuel Kaye, 14 July 1986, in E(DL) Part 14.
46 C(83)22nd meeting conclusions, 7 July 1983; C(83)21, "Public Expenditure in 1983–84. Memorandum by the Chancellor of the Exchequer", dated 5 July 1983.
47 E(A)(83)2nd meeting, 14 July 1983; E(A)(83)4, "Nationalised Industries' 1983 Investment and Financing Review (IFR). Memorandum by the Chief Secretary, Treasury", 8 July 1983.
48 There was also discussion of including a requirement for regular value for money audits for the industries, a particular Treasury favourite. "Desirable Changes in Nationalised Industry Statutes. Note by HM Treasury", 18 July 1984; PM Papers Nationalised Industries. Financial Control,

Parts 9 and 10. Official Committee on Nationalised Industries, "Desirable Changes in Nationalised Industry Statutes. Note by HM Treasury", 18 July 1984, HM Treasury papers A/301/01. The Public Accounts Committee had already criticised the large reserves held by a number of the nationalised industries and there was broader recognition that the traditional breakeven financial constraint on the industries after paying interest on government loan stock was an insufficient financial control because of the declining importance of debt in the balance sheets of a number of the nationalised industries. At nationalisation most of the firms were given debt liabilities equal to their net assets and interest payments on the debt were considered an adequate reflection of the opportunity cost of capital. Over the years inflation had wiped out most of the firms' initial debt. The PAC criticised the Government for failing to develop a mechanism to collect the mounting cash surplus in some of the industries. The Bill would have facilitated a capital restructuring of the industries using a mixture of public equity capital, loans and reserves. The equity might have taken the form of ordinary shares or cumulative preference shares. A rate of return target on capital employed plus dividend targets on the share capital would have introduced a new form of financial control; Official Committee on Nationalised Industries, HM Treasury papers NIP(84)3rd meeting, 25 September 1984, REV NIP/809; "Desirable Changes in Nationalised Industry Statutes", 3 August 1984, NIP(WG)(84)5; "Nationalised Industries Legislation: Consultative Proposals. Note by HM Treasury", 14 November 1984, NIP(WG)(84)7; and NIP(85)6, 29 March 1985, A/06.

49 Note from John Redwood to Turnbull, 31 May 1994, in Nationalised Industries Part 5. John Redwood was strongly supportive of the Bill so as to speed up privatisation and improve the monitoring of the performance of the nationalised industries; minute from Redwood to Andrew Turnbull, 18 April 1985, PM Papers, Nationalised Industries. Financial Control, Part 10.

50 E(NI)(85)3, "Nationalised Industry Legislation. Note by the Chief Secretary, Treasury", 3 April 1985.

51 Letter from John MacGregor, Chief Secretary, Treasury, to the PM, 22 October 1985; letter from MacGregor to Sir Robert Haslam, Chairman, Nationalised Industries Chairmen's Group, 12 November 1985; minute from Andrew Turnbull to the PM, 28 June 1984; in PM Papers Nationalised Industries: Financial Control, Part 10.

52 E(NI)(83)5th meeting, 26 April 1983; E(NI)(84)1st meeting, 17 January 1984; E(NI)(84)3rd meeting, 29 June 1984; CC(84)8th meeting; E(NI)(84)14, "Nationalised Industries Bill. Note by Chief Secretary, HM Treasury". The decision to defer the introduction of the Bill until after the 1984/85 Parliamentary Session was made on 3 October 1984, E(NI)(84)6th meeting. Left open was the option of introducing it at a later date, but in reality the Bill was dead. Holmes (1989), pp.62–3; Swann (1988), p.261; S. Jenkins (1995) *Accountable to None: The Tory Nationalisation of Britain,* London: Hamish Hamilton, p.29.

53 Minute from the Chancellor of the Exchequer to the PM, 25 July 1983, HM Treasury papers, Competition and Privatisation: PEAU Exercise, AD/1790/01, Part C. Rev NIEA/53.

54 A report, "The Overseas Role of the Nationalised Industries" (the Ewebank Report), produced by a working party of the British Overseas Trade Board's Overseas Project Board, recommended that the nationalised industries contract out more project management to the private sector. The report received the Government's backing; letter from the Chancellor of the Exchequer to the Secretary of State for Trade and Industry, 7 May 1985, PM Papers Nationalised Industries: Financial Control, Part 10.

55 It was also important in ensuring that the industries' required rates of return, a principal financial target since 1978 (see Chapter 2, p.15), were appropriately calculated. HM Treasury (1986b) *Accounting for Economic Costs and Changing Prices; A Report by HM Treasury and Advisory Group*, London: HMSO.

56 E(A)(83)6th meeting, 27 October 1983. Letter from John MacGregor, HM Treasury, to Paul Channon, Secretary of State for Trade and Industry, 17 February 1986, PM Papers Nationalised Industries: Financial Control, Part 10.

57 HM Treasury papers, Loss Makers: PEAU Project, AD/982/1514/01 Rev NIEA/132. The PEAU promoted privatisation in government and externally through briefings to sympathetic journalists. Grimstone wrote a number of Treasury Ministers' speeches on privatisation in the mid-1980s.

58 C(83)33rd meeting conclusions.
59 E(A)(83)13, "Competition & Privatisation. Memorandum by the Chancellor of the Exchequer", dated 19 October 1983.
60 E(A)(83)13.
61 Speaking Note, July 1983, HM Treasury papers, Competition and Privatisation: PEAU Exercise, AD/1790/01, Part D.
62 E(A)(84)3 "Competition and Privatisation. Memorandum by the Chancellor of the Exchequer", 16 January 1984.
63 For example, see "Selling state fossils", *The Economist*, 23 February 1985, pp.15–16. *The Economist* was a supporter of the Government's privatisation programme, as were most of the national newspapers, but was critical of some of the detail.
64 M. Beesley and S. Littlechild (1983) "Privatization: Principles, Problems and Priorities", *Lloyds Bank Review,* July, pp.1–20. Beesley and Littlechild volunteered to prepare a paper on natural monopoly and its solutions; minute from J.H. Rickard to I. Byatt, HM Treasury papers, Competition and Privatisation: PEAU Exercise, AD/1790/01, Part B, REV NIEA/52.
65 Other studies at the time stressing the importance of competition include, D. Heald and D. Steel (1982) "Privatizing Public Enterprise: An Analysis of the Government's Case", *Political Quarterly,* July, pp.333–49; R. Millward and D. Parker (1983) "Public and Private Enterprise: comparative behaviour and relative efficiency", in R.Millward, D. Parker, L. Rosenthal, M.T. Sumner and N. Topham (eds.) *Public Sector Economics,* London: Longman; J. A. Kay and D.J. Thompson (1986) "Privatisation: a policy in search of a rationale", *Economic Journal*, vol.96, March, pp.18–32.
66 For example, immediately after the 1983 Election the PEAU produced papers on energy pricing, competition and privatisation, and on generating comparable financial pressures in public and private enterprises.
67 HM Treasury papers, PEAU Paper on "Competition and Privatisation" and Nationalised Industry Policy. Note by the Deputy Chief Economic Adviser, S/1295/02 REV NIP 591 & AD/1790/01 Part A, REV NIEA/51.
68 E(A)(84)3, "Competition and Privatisation. Memorandum by the Chancellor of the Exchequer", 16 January 1984.
69 C(84)8th meeting conclusions, 1 March 1984.
70 The Treasury already held the residual shares in Britoil and Cable & Wireless for historical reasons. E(A)(84), 25 January 1984, 2nd meeting; E(A)(84)3, "Competition and Privatisation. Memorandum by the Chancellor of the Exchequer", dated 16 January 1984.
71 Peter Rees, Chief Secretary, Treasury, *Hansard*, 14 March 1984, column 420. Minute from G.E. Grimstone, 23 January 1984, HM Treasury papers, Competition and Privatisation: PEAU Exercise, AD/1790/01 REV VNIP/591.
72 E(A)(84)2nd meeting; "Privatisation Programme 1983–84 to 1987–88: Progress Report – July 1984. Note by the Treasury" in E(DL) Part 10.
73 E(A)(85)26, "The Privatisation Programme. Memorandum by the Chancellor of the Exchequer", 8 May 1985.
74 E(A)(85)10th meeting, 15 May 1985. For the record, on the evening of 30 September 1984 the Bank of England launched a rescue package to save the Johnson Matthey Bank from collapse to prevent a wider banking crisis. Loans advanced by Johnson Matthey had turned bad and exceeded the bank's capital. The bank was purchased for the princely sum of £1 with the Bank of England absorbing its large debts. However, this did not in any real sense represent an extension of state ownership. The arrangement was part of a wider rescue package in the City and resulted from the Bank of England's responsibility to maintain the security of the financial system.
75 C(85)24, "The Queen's Speeches on the Prorogation of Parliament and the Opening of the New Session. Note by the Secretary of the Cabinet" (Lord Armstrong), dated 22 October 1985.
76 E(A)(85)26, "The Privatisation Programme. Memorandum by the Chancellor of the Exchequer", 8 May 1985.
77 E(A)(83)6th meeting, 27 October 1983.

78 E(A)(84)27, "Disposal of INMOS. Memorandum by the Secretary of State for Trade and Industry", dated 15 May 1984; E(A)(84)38, "INMOS. Memorandum by the Secretary of State for Trade and Industry", dated 4 July 1984; E(A)(84)18th meeting, 10 July 1984. HM Treasury (1984b) *Treasury Minute on the Thirteenth to Eighteenth Reports from the Committee of Public Accounts*, Session 1983–84, Cmnd. 9325, London: HMSO, p.3. What remained of the British Technology Group was put onto a statutory footing in the British Technology Group Act, 1991, with the Treasury as a sole shareholder. In March 1992 a management buyout from the Government was arranged and in 1995 the company was floated on the London stock market; National Audit Office (1993) *The Sale of the British Technology Group*, HC59 Session 1993/94, London: Stationery Office.

79 National Audit Office (1985) *Report by the Comptroller and Auditor General. Department of Energy, Trade and Industry and Transport: Sales of Subsidiary Companies and Other Assets by Nationalised Industries*, London: HMSO, January.

80 Norman Fowler, representing a Birmingham constituency, led the opposition in Cabinet.

81 M. Holmes (1989) *Thatcherism: Scope and Limits, 1983–87*, London: Macmillan.

82 As in the case of all special shares, the objective was to provide for a Government veto should there be an attempt at any time to change the company's Articles of Association to permit a winding up of the company or a takeover of the business which the Government considered undesirable. There was a fear that Jaguar would be quickly taken over. However, when it was taken over by Ford in 1989, at a time when it was struggling to survive as an independent company, the Government decided not to invoke its special share. The Government also retained a special share in Sealink because of the importance of cross-channel ferries for the movement of troops at a time of national emergency.

83 Letter from A.R.W.Large, Company Secretary, British Leyland, to Sir Nicholas Goodison, Chairman, Stock Exchange, 25 September 1984, in DTI British Telecommunications privatisation papers, BT/A/12 Part 5.

84 In Unipart the employees were allocated 12% of the shares and management were given the right to raise their stake from 10% to 20% if certain performance targets were met.

85 Price Waterhouse (1987) *Privatisation: The Facts*, pp.80–1.

86 "Arrangements for Appointing Advisers to Work on the Privatisation Programme. Note by HM Treasury", 23 February 1984, in E(DL) Part 10.

87 The table draws from various sources.

88 Lawson (1992), p.240.

89 C(84)16, "Using Private Enterprise in Government. Memorandum by the Chief Secretary, Treasury", 29 June 1984; MISC 14(80)5th meeting; "Contracting Out Public Sector Functions. A progress report by the Central Policy Review Staff" and letter to the Chancellor of the Exchequer, 13 July 1981, in E(DL) Part 4.

90 Letwin (1992), p.178; Evans (1997), p.61.

91 Letter from W.S. Ricketts Private Secretary (PS) No. 10 to D. Clarke, Department of Health and Social Security, in E(DL) Part 7; "Statement on Contracting Out in the NHS", in E(DL) Part 7; *Hansard,* 17 February 1983. K. Ascher (1987) *The Politics of Privatisation: Contracting out Public Services*, Houndsmill: Macmillan.

92 C(82)41, "Using Private Enterprise in Government. Memorandum by the Chancellor of the Exchequer", 10 December 1982.

93 Letter from Tom King to Nigel Lawson, 30 June 1983, E(DL) Part 7.

94 Letter from Peter Rees to William Whitelaw, 16 December 1983, in E(DL) Part 9.

95 C(83)24th meeting conclusions, 21 July 1983; C(83)24, "Civil Service Numbers after 1984. Memorandum by the Chief Secretary, Treasury", 18 July 1983; C(83)25, "Using Private Enterprise in Government. Memorandum by the Chief Secretary, Treasury", dated 18 July 1983.

96 C(83)25, "Using Private Enterprise in Government. Memorandum by the Chief Secretary, Treasury". 18 July 1983, copy in E(DL) Part 7.

97 E(A)(84)10, "Contracting out in Local Government. Memorandum by the Secretary of State for the Environment", 22 February 1984, in E(DL) Part 9. E(A)(84)52, "Contracting out Local Authority Services. Memorandum by the Secretary of State for the Environment", 27 September 1984.

98 Letter from the Secretary of State for the Environment to the Chancellor of the Exchequer, 5 February 1985, and attached draft paper, "Competition in the Provision of Local Authority Services", in E(DL) Part 11.
99 Note from Andrew Turnbull, PS No. 10, to John Ballard at the Department of the Environment, 7 February 1985, in E(DL) Part 11.
100 C(83)25, op cit.
101 C(84)16, op cit.
102 Note from Andrew Turnbull to Richard Broadbent, HM Treasury, 26 February 1985, in E(DL) Part 1; memorandum from the MoD to the PM, 4 February 1985, in E(DL) Part 11. Also, see C(84)25th meeting conclusions, 5 July 1984; C(84)16, "Using Private Enterprise in Government. Memorandum by the Chief Secretary, Treasury", dated 29 June 1984 and "Cabinet Paper on Contracting Out: Using Private Enterprise in Government", July 1984, in E(DL) Part 10.
103 Memorandum from Peter Rees, Chief Secretary, Treasury, to the PM, 31 July 1985, in E(DL) Part 12.
104 Letter from Andrew Turnbull to Richard Broadbent, HM Treasury, 5 August 1985.
105 "Using Private Enterprise in Government: Report of a multi-departmental review of competitive tendering and contracting for services in Government Departments", August 1986, in E(DL) Part 14.
106 Ibid., paragraph 1.
107 Ibid., paragraph 9 and Note 2, p.18.
108 Ibid., paragraph 26.
109 Covering letter from John MacGregor to Departments, 23 September 1986, in E(DL) Part 14.
110 "Competitive Tendering & Contracting Out Management Overview", Central Unit on Purchasing (a Cabinet Office-Treasury joint unit), December 1986, in E(DL) Part 15.
111 Various correspondence in E(DL) Part 13.
112 Centre Unit on Purchasing, Using Private Enterprise in Government: Progress Report – 1986/87, October 1987, in E(DL) Part 16.
113 "Competitive Tendering in Government: Progress Report 1985–86. Note by RCM division HM Treasury", n.d., in E(DL) Part 14.
114 R. Cockett (1994) *Thinking the Unthinkable*, p.305.
115 Cole (1987) p.109. For critical papers by academics see J. LeGrand and R.Robinson (eds.) (1984) *Privatisation and the Welfare State*, London: George Allen & Unwin.
116 The Conservative Minister Nicholas Ridley would later conclude that the Government's caution was mistaken and that health and education should have benefited from the privatisation broom, Ridley (1991), pp.82–3, 257.
117 N. Fowler (1991) *Ministers Decide,* p.198.
118 Fowler (1991), pp.184–5.
119 Thatcher (1993), p.278 & 578
120 R. Boyson (1995) *Speaking my Mind*, pp.164–6.
121 Cockett (1994), p.309.
122 Holmes (1989), pp.97–8; Raison (1990), p.121. Joseph also suggested student loans in place of maintenance grants, something adopted much later; C(85)16, "Review of Student Support. Memorandum by the Secretary of State for Education and Science". In Cabinet it was agreed that this would be too politically unpopular. The PM concluding: "In the circumstances the proposals for student loans . . . should be neither published nor pursued " CC(85)24th meeting conclusions, 1 July 1985.
123 As did another of Joseph's ideas billed as "privatising the current public arrangements for educating children below the compulsory school age"; letter from the Department of Education and Science to the Treasury, 25 September 1985, E(DL) Part 12.
124 Baker (1993), pp.162–3.
125 Raison (1990), pp.131–3.
126 Raison (1990), p.146; Denham and Garnett (2001), p.404.
127 Cole (1987), p.110; Raison (1990), pp.133–6; Lawson, (1992), p.587.
128 Lawson (1992), p.596.

129 C(85)27, "Review of Social Security: Final Decisions. Memorandum by the Secretary of State for Social Services," 25 November 1985.

130 The case for personal pensions had been made in a CPS paper in 1981; Centre for Policy Studies (1981) *Personal and Portable Pensions for All*, London: CPS. It seems that the PM was instrumental in requiring that the personal pension contributions were compulsory, something that Fowler (at first) and Lawson appear to have opposed; Lawson (1992), p.590. Fowler's reform also addressed the difficulties employees faced when they changed employers and left behind their pensions in "frozen" accounts. These pensions would now be revalued each year or transferred to the leaver's new pension scheme with the objective of reducing a barrier to the willingness to change jobs.

131 Lawson (1992) p.589. Lawson was particularly angered by the fact that when he first inquired about the PSBR costs, he discovered that no one had made the calculation.

132 C(85)27.

133 CC(85)34th meeting conclusions, 28 November 1985; N. Fowler (1991), pp.206–23.

134 P. Minford (2005) "Inflation, unemployment and the pound", p.55.

9 PRIVATISING BRITISH AIRWAYS, ROLLS-ROYCE, SHIPBUILDING AND THE ROYAL DOCKYARDS

1 NAO(1989), paragraph 37. This was the first MoD sponsored privatisation and the MoD had no departmental experience to draw on.

2 A. Reed (1990) *Airline: the Inside Story of British Airways*, London: BBC Books. Seven Concordes were sold to BOAC with £160m of public dividend capital provided by the Government to fund the purchase. In February 1979, following a review that concluded that BA could not operate the aircraft at a profit, the Government decided to write off the public dividend capital. In return BA agreed to pay the Government 80% of any future operating surpluses from flying Concorde. This continued until 1983/4, when BA paid the Government a total of £16.5m for the aircraft and spares.

3 Nott had stated in a speech, "We have no plans to sell off parts of British Airways or breaking up the company in any way . . . The possibility of employees being enabled to have a financial stake in the future of British Airways, the chance of offering some of its shares to pension funds and individuals and of British Airways being able to raise equity in the market – perhaps along the lines of British Petroleum – is certainly an idea we might consider with management and employees following a Conservative victory." Conservative Research Department (1979) *General Election 1979: Questions of Policy*, London, p122.

4 *Hansard*, 21 July 1979, column 2188.

5 The Department of Trade was the sponsoring department for aviation until the 1983 General Election when the function was transferred to the Department of Transport.

6 E(DL)(79)4, "Financing of British Airways – Share Issue: Memorandum by the Secretary of State for Trade", dated 29 June 1979; E(DL)(79)4th meeting, 19 July 1979.

7 Department of Trade, "Financing of British Airways", June 1979, second part, p.7.

8 E(DL)(79)4.

9 Letter from Nigel Lawson, Financial Secretary, to John Nott, 18 July 1979, in E(DL) Part 1.

10 Statement "Financing British Airways", 20 July 1979, in E(DL)(79) Part 1; *Hansard*, 20 July 1979, column 2184.

11 *Civil Aviation Act 1980*, Chapter 60, London: HMSO.

12 Tebbit (1988), p.165. During the Second Reading of the Civil Aviation Bill on 19 November 1979 John Nott stated, "At the appropriate time the Government will sell a minority of the shares in British Airways", *Hansard*, column 39. By 30 June 1980 this was being interpreted in Parliament as selling up to 49% of the new company; *Hansard*, column 1088.

13 Letter and accompanying draft answer to a Parliamentary question from N. McInnes, Private Secretary (PS) Department of Trade to Mike Pattison, PS No.10, 8 January 1981, in E(DL) Part 4.

14 Letter from Nicholas Ridley to John Biffen, 8 October 1981. Biffen replaced Nott as Secretary of State for Trade in the January 1981 Cabinet reshuffle.

15 Letter from Biffen to Ridley, 21 October 1981. The financial advisers to BA were Lazard Brothers & Co.
16 King had joined the Board of BA in late 1980.
17 D. Campbell-Smith (1986) *Struggle for Take-Off: the British Airways Story,* London: Coronet; C. Marshall (1988a) "British Airways", in R.Nelson (ed.) *Turnaround: How Twenty Well-Known Companies came back from the Brink,* London: Mercury Books.
18 Nevertheless, economic weaknesses remained, as identified in a report commissioned by BA from Price Waterhouse; "British Airways: Report by Price Waterhouse", March 1982, in PM Papers, The Future and Structure of British Airways, Part 1. The report suggested that the Government should take over £812m of BA's debt to strengthen its balance sheet. This received a dismissive response from Professor Alan Walters, advising the PM, who felt that it amounted to another bail out of a nationalised industry; minute from Walters to Michael Scholar, ibid.
19 In the main redundancies were achieved on a voluntary basis and involved a severance package agreed with the trade unions. Within BA there were 17 different unions and it is a major achievement that the downsizing was realised without serious industrial action. To avoid pay disputes in the run-up to privatisation, two-year pay settlements were negotiated.
20 BA, *Annual Report and Accounts 1982/83*, p.9; Lord J. King (1987) "Lessons from Privatization", *Long Range Planning*, vol.20, no.6, pp.18–22; M. Batt (1990) "Putting a Brand on British Airways", *Marketing Business*, April, pp.14–15; A. Campbell, M. Devine and D. Young (1990) *A Sense of Mission,* London: Economist/Hutchinson.
21 Lord King (1987) "The Lessons of Privatisation", The Institute of Directors Annual Lecture, 18 June, in E(DL) part 16; A.Corke (1986) *British Airways: The Patch to Profitability*, London: Macmillan; K. Shibata (1994) *Privatisation of British Airways: Its management and politics 1982–1987,* Florence: European University Institute.
22 C(83)12th meeting conclusions, 14 April 1983.
23 Letter from Lawson to Ridley, 11 November 1983, in E(DL) Part 8.
24 Letter from Michael Scholar, PS No. 10, to John Rhodes, Department of Trade, 9 November 1982, in PM Papers The Future and Structure of British Airways, Part 1.
25 Note to Andrew Turnbull from David Barclay within No. 10, 11 November 1983, in E(DL) Part 8.
26 R.Eglin and B.Ritchie (1981) *Fly Me, I'm Freddie!*, London: Futura.
27 E(DL)(83)8, "Sale of British Airways. Note by the Secretary of State for Transport", 18 November 1983, in E(DL) Part 8. Correspondence including details of the legal actions in the US against BA and other airlines and the response of the British Government can be found in PM Papers, The Future and Structure of British Airways, Parts 3 and 4.
28 S(23A)(1), Civil Aviation Act 1980.
29 Letter from D.A. Nichols, PS, Department of Transport, to D. Barclay, PS to the PM, 13 December 1983, in PM Papers, The Future and Structure of British Airways, Part 1. Another proposal was for BCal to be allowed the use of Heathrow airport in London, something BA was certain to oppose.
30 HMSO (1969) *British Air Transport in the Seventies: Report of the Committee of Inquiry into Civil Air Transport* (Edwards Committee), Cmnd. 4018, London: HMSO.
31 Minute from the No. 10 Policy Unit to the PM, 21 February 1984, ibid. Letter from Andrew Turnbull to D.A. Nichols, Department of Transport, 18 November 1983, reporting the main conclusions of the PM's meeting with the Secretary of State, in E(DL) Part 8.
32 E(DL)(83) 1st meeting, 24 November 1983, in E(DL) Part 8.
33 Note from John Redwood to the PM, 28 November 1983, in E(DL) Part 8.
34 Memorandum from Andrew Turnbull to the PM with the PM's annotated comment, 28 November 1983 and letter from Andrew Turnbull to John Kerr, HM Treasury, 30 November 1983, both in E(DL) Part 8.
35 Letter from M. O'Mara, PS HM Treasury, to Andrew Turnbull, 2 December 1983.
36 Statement on British Airways Privatisation, 12 December 1983, in E(DL) Part 6.
37 M. Ashworth and P. Forsyth. (1984) *Civil Aviation Policy and the Privatisation of British Airways*, IFS Report 12, London: Institute for Fiscal Studies; Ashworth and Forsyth (1986) "British Airways: Privatization and airline regulatory procedure" in J. Kay, C. Mayer and D. Thompson (eds) *Privatisation and Regulation: The UK Experience*, Oxford: Clarendon Press.

38 Civil Aviation Authority (1984) *Airline Competition Policy, Final Report*, July, London: CAA. CAA Report "Summary of Main Conclusions and Recommendations" in C(84)27, 1 October 1984. Another important proposal was to cease regulating domestic air fares.
39 C(84)27, 1 October 1984, Annex A. Letter from D.A. Nichols to Andrew Turnbull, PS No. 10, 5 March 1984, in PM Papers, The Future and Structure of British Airways, Part 2.
40 E(A)(84) 19th meeting, 18 July 1984; E(A)(84)44, "Civil Aviation Review. Note by the Secretary of State for Transport", 13 July 1984.
41 C(84) 27th meeting conclusions, 19 July 1984.
42 C(84)28th meeting conclusions, 26 July 1984.
43 John Nott, *Hansard*, 19 November 1979, column 48. Letter from Lord King to all Members of Parliament, 17 July 1984, in PM Papers, The Future and Structure of British Airways, Part 2.
44 C(84)29th meeting conclusions, 2 August 1984; C(84)21, "Civil Aviation Review. Memorandum by the Secretary of State for Transport", 30 July 1984.
45 C(84)21, "Civil Aviation Authority Review. Memorandum by the Secretary of State for Transport", 30 July 1984.
46 Ibid.
47 Ibid.
48 C(84)29th meeting conclusions.
49 C(84)22, "Civil Aviation Authority's Review of Competition in Air Transport. Memorandum by the Secretary of State for Transport", 7 September 1984. C (84)32nd meeting conclusions, 4 October 1984.
50 Even during the preparation of the sale prospectus BA proved reluctant to reveal the precise profits made on different routes, arguing that this was commercially sensitive information. It therefore seems that the Government had to take BA's estimate of the profit and loss from the routes transfer at face value.
51 C(84)32nd meeting conclusions; C(84)27, "Airline Competition Policy. Note by the Secretary of State for Transport", 1 October 1984.
52 Sir C. Marshall (1986) "How British Airways was privatised", in Butler (ed.), pp.33–8. R. Bailey and R. Baldwin (1990) "Privatisation and Regulation: The Case of British Airways", in (ed.) J.J. Richardson, *Privatisation & Deregulation in Canada and Britain*, Aldershot: Institute for Research on Public Policy.
53 Tebbit (1988), p.215.
54 In July 1987 a friendly takeover bid for BCal by BA was announced, followed by a rival bid for BCal from Scandinavian Airlines Systems (SAS). SAS operated no routes in competition with BCal and the proposal seemed less objectionable on competition grounds than the bid by BA. However, the Government reacted with hostility to the idea of the airline becoming foreign-owned. After review by the MMC, the merger with BCal went ahead in November subject to concessions, including the loss of routes from Gatwick and the surrender of some licences operated by the merged airline; CC(87)24th meeting conclusions, 16 July 1987; Monopolies and Mergers Commission (1987) *British Airways PLC and British Caledonian Group PLC: A Report on the Proposed Merger*, Cm. 247, London: HMSO. C(87)36th meeting conclusions, 10 December 1987; L. Marriott (1997) *British Airways*, Shepperton: Ian Allan Ltd, p.14.
55 C(84)21, op cit.
56 Miscellaneous correspondence in PM Papers, The Future and Structure of British Airways, Part 3.
57 Ridley (1991) *My Style of Government*, p.45.
58 At this meeting Thatcher complained that the prospect of up to triple legal damages "put her government in great difficulty particularly with regard to plans to denationalize British Airways." *www.margaretthatcher.org/archive/displaydocument.asp?docid=109185*
59 Memorandum from Nicholas Ridley to the PM, 4 April 1985, in E(DL) Part 12; memorandum from Geoffrey Howe, Foreign Secretary, to Nicholas Ridley, 29 April 1985, in E(DL) Part 12.
60 C(86)31st meeting conclusions, 18 September 1986.
61 The Government retained some shares to fulfil the loyalty bonus arrangements. A pathfinder prospectus was issued on 8 January and the sale prospectus was issued on 30 January. The closing

date for the offer was 6 February. The share price was set on 27 January, but only after a protracted pricing meeting where there was some disagreement over the appropriate price. The price was set largely on a dividend yield basis using forecast dividends.

62 The costs of the sale to the Government were estimated to be £29m. In addition, the costs borne by BA were around £8m. As in other privatisations, the BA Board was reluctant to meet more costs of the sale on the ground that the decision to privatise was a Government one. Prior to the flotation, in September 1986 British Airways Helicopters had been divested and sold to SDR Helicopters for £13.5m. The sum was retained by BA.

63 Like other privatised companies, BA was keen to start life in the private sector with a strong balance sheet. There was disagreement between BA and the Government over debt write-offs. But fortunately this was resolved after BA found that it was able to arrange a large financing facility for its proposed capital programme.

64 Up to 20% of the shares were allocated to overseas markets. There were public offerings in the USA and Canada and private placings in Japan and Switzerland.

65 The intention to provide BA employees with shares had been announced by John Nott as early as July 1980, *Hansard*, 23 July 1980, column 542.

66 Letter from Ridley to the Chancellor of the Exchequer 7 June 1984 and reply from the Chancellor 15 June 1984, in PM Papers, The Future and Structure of British Airways, Part 2. The agreed scheme provided each eligible employee with 76 shares free of charge and a two for one matching offer up to 120 shares per employee. Also, BA employees (and BA pensioners) benefited from priority application and a 10% price discount if the shares were held until the final instalment was paid.

67 During the sale of BA Hill Samuel advised on the price. At the time the Treasury was concerned that the shares were being priced too cheaply.

68 As was becoming usual in privatisation issues, preference in the share allocation was given to smaller applications. All applications for over 100,000 shares were rejected.

69 National Audit Office (1987a) *Department of Transport: Sale of Government Shareholding in British Airways plc*, HC 37, Session 1987–88, London: HMSO.

70 However, the Department of Transport decided that it was not possible to use competition for sub-underwriting, a decision questioned in a subsequent National Audit Office report; National Audit Office (1988a) *Department of Transport – Sale of Government Shareholding in British Airways plc*, HC37, July 1988.

71 Prior to the BA sale the case for underwriting privatisation issues was already under scrutiny within the Treasury. Hill Samuel had advised the Government that the BA issue should be underwritten because if it was not this might be interpreted by investors as suggesting that there had been a lack of City interest in the offer.

72 The balance were commitment shares at a commission rate of 1.25%; Price Waterhouse (1987) *Privatisation: The Facts*, p.25. Of the 720.2m shares issued, 147.7m were allocated to the US, Canada, Japan and Swiss markets. These shares were underwritten at a rate of 1.575%.

73 The clawback occurred if the public offer was three or more times oversubscribed.

74 "Rolls-Royce – the Factual Background", in the PM's papers, The Future of Rolls Royce: Industrial Policy, Part 2.

75 Memorandum from Sir Geoffrey Howe to the PM, 13 July 1979; "Ministerial Group on Rolls Royce: Future Arrangements for Rolls Royce. Memorandum by the Secretary of State for Industry", 4 October 1979; and MISC2(79) 1st meeting minutes both in the PM's papers; all in The Future of Rolls Royce: Industrial Policy, Part 1. At this time an ad hoc Ministerial group, MISC 22, oversaw policy on the future of RR.

76 The reason seems to have involved concerns about the capacity of GEC management to takeover the running of RR, future plans for the nuclear industry in which GEC would have an important role, and fears that the takeover would be interpreted as a second collapse of RR; MISC 2(79), 2nd meeting minutes, 18 October 1979, in The Future of Rolls Royce: Industrial Policy, Part 2.

77 MISC2(79) 3rd meeting minutes, 5 November 1979, in The Future of Rolls Royce: Industrial Policy, Part 1.

78 "Privatisation Present Situation and Prospects. Report by the Secretary of State for Industry", paragraphs 15–16, 13 September 1982, in E(DL) Part 6.
79 E(A)(86)13, "Rolls Royce Privatisation. Memorandum by the Secretary of State for Trade and Industry", 10 March 1986.
80 Documents in the PM's papers, The Future of Rolls Royce: Industrial Policy, Part 2.
81 E(A)(83)3rd meeting, 27 July 1983; E(A)(83)5, "Rolls Royce RB211–535 Engine Programme. Memorandum by the Secretary of State for Trade and Industry", dated 20 July 1983.
82 E(A)(83)5.
83 *Hansard*, vol.44, columns 518–9. Parkinson (1992), p.252 suggests that a figure of £80m was agreed with the PM, but £70m was the figure subsequently announced.
84 BAe was competing with RR for launch aid relating to the A320 aircraft. The Treasury was understandably keen to keep down the total cost. In the end BAe received £150m.
85 E(A)(84) 3rd meeting, 2 February 1984; E(A)(84)6, "Rolls Royce: V2500 Project/GE Deal. Memorandum by the Secretary of State for Trade and Industry", dated 25 January 1984. Also, correspondence from Norman Tebbit and Peter Rees to the PM dated 31 January and 1 February 1984 respectively, in PM Papers, The Future of Rolls Royce: Industrial Policy, Part 3. The figure of £60m was announced in Parliament on 1 March 1984, *Hansard*, vol.55, columns 403–8.
86 Letter from Sir William Duncan to the PM, 26 March 1984, in The Future of Rolls Royce: Industrial Policy, Part 2.
87 Documents in the PM's papers, The Future of Rolls Royce: Industrial Policy, Part 3.
88 N.M. Rothschild & Sons acted as RR's financial advisers.
89 E(A)(86)13, "Rolls Royce Privatisation. Memorandum by the Secretary of State for Trade and Industry", 10 March 1986, para.2.
90 E(A)(86)19th meeting, 20 March 1986; E(A)(86)13.
91 Note from Peter Warry, No. 10 Policy Unit, to the PM, 19 March 1986, in The Future of Rolls Royce: Industrial Policy, Part 3.
92 A restriction was also placed on the disposal of more than 25% of the company's assets or of significant assets used in nuclear work. Such disposals would require permission of the special shareholder, i.e. the Government.
93 As in the case of BAe, the Government was of the opinion that in this case a special share did not infringe EC rules and was permitted under the defence exemption in Article 223 of the Treaty of Rome. The Articles of Association also required the consent of the Government, as holder of the special share, to any disposal of a material part of the business. This was defined as 25% or more of the net asset value or average profits attributed to the company of either the Group as a whole or its nuclear business; *Rolls-Royce plc. Offer for Sale document*, Samuel Montagu on behalf of HM Government, 1987.
94 E(A)(86)13, para.9. Also, note from J.B. Unwin to the PM, 19 March 1986, in "The Future of Rolls Royce: Industrial Policy", Part 3.
95 The capital injection was a slightly higher figure than the £220m that Samuel Montagu had earlier suggested, but this figure had been calculated before detailed discussion with the Chairman of RR. Following this privatisation the NAO concluded that in the future capital injections should be kept to a minimum, notwithstanding the Treasury's valid argument that injections were recovered through a higher sale price – capital injections should have a neutral effect on net proceeds unless investors think the management will waste the injected capital; National Audit Office (1988b) *Department of Trade and Industry – Sale of Government Shareholding in Rolls-Royce plc,* HC243 Session 1987–88, London: HMSO; National Audit Office (1988c) *Sale of Government shareholdings in British Gas plc, British Airways plc, Rolls-Royce plc and BAA,* HC211 Session, London: HMSO
96 Rolls-Royce plc Offer for Sale document, 1987.
97 *Hansard*, column 607, 18 December 1986.
98 The gross proceeds were £1.363bn.
99 Eligible employees (those with at least 12 months service) were offered a minimum of 41 shares free of charge and there was a two-for-one matching offer for up to 88 shares per employee. All such shares were placed in the Rolls-Royce Profit Sharing Scheme. Up to 5% of the issued share capital was reserved for priority applications from employees and RR pensioners of up to 5,882

shares per person. The first 1,176 shares per employee purchased under the priority arrangement were offered at a 10% discount if held until the last instalment was paid.

100 Also, priority applicants were invited to apply for shares and were allocated 50% of their application as firm placing shares at a commission of 0.25%, 10% as provisional placing shares subject to "clawback" at a commission of 1.25% and the balance as commitment shares at a commission of 1.25%; Price Waterhouse (1987) *Privatisation: The Facts,* p.69.

101 For example, applicants for 400–1,000 shares were awarded 150.

102 In "British Business", 8 July 1977, cited in the brief on nationalised industries and privatisation for the Debate on the Address, 9 November 1982, from the Conservative Research Department, in E(DL) Part 6.

103 Ibid.

104 As it was similarly dropped for British Aerospace, chapter 5, p.114.

105 E(DL)(79)4th meeting, 19 July 1979; E(DL)(79)11, "British Shipbuilders: Sale to the Private Sector, Memorandum by the Secretary of State for Industry", 16 July 1979.

106 E(A)(85)48, "British Shipbuilders: Corporate Plan 1985/86 – 1987/88. Memorandum by the Secretary of State for Trade and Industry", 16 July 1985.

107 Conservative Research Department (1979) *General Election 1979: Questions of Policy*, London, April, p.102.

108 C(80)31st meeting conclusions, 31 July 1980; C(80)49, "Compensation and Privatisation of Shipbuilding. Memorandum by the Secretary of State for Industry", dated 29 July 1980.

109 Miscellaneous correspondence in PM Papers, Nationalised Industries: Shipbuilding Policy, Part 2.

110 *Hansard* 23 July 1979, column 30.

111 NM Rothschild & Sons Ltd, "Memorandum for the Department of Industry on Possible Values Arising from Disposal of Interests in Certain Subsidiaries in British Shipbuilders", 30 June 1980.

112 C(80)49; C(80)31st meeting conclusions; C(80)32nd meeting conclusions, 7 August 1980; C(80)51, "Compensation and Privatisation of Shipbuilding. Memorandum by the Secretary of State for Industry", dated 5 August 1980; C(80)52, "Compensation and Privatisation of Shipbuilding. Memorandum by the Lord Chancellor", dated 5 August 1980; C(80)51; C(80)49. E(80)103, "British Shipbuilders Finances. Memorandum by the Secretary of State for Industry", 12 September 1980; E(80) 34th meeting 17 September 1980; E(80)112, "British Shipbuilders Strategy and Finance. Memorandum by the Secretary of State for Industry", 16 October 1980; E(80)38th meeting 22 October 1980.

113 E(A)(85)48, op.cit.

114 "Privatisation Present Situation and Prospects. Report by the Secretary of State for Industry", paragraphs 7–10, 13 September 1982, in E(DL) Part 6.

115 Conservative Research Department (1983) *Questions of Policy: General Election 1983*, London, p.71.

116 Note from Peter Warry, No. 10 Policy Unit, to Andrew Turnbull, 24 October 1984, in E(DL) Part 11.

117 Heseltine (2001), p.277.

118 Letter from the Secretary of State for Industry to the Financial Secretary, 22 April 1983, in E(DL) Part 7.

119 E(A)(84) 11th meeting, 10 May 1984; E(A)(84)23, "Warshipbuilding. Memorandum by the Secretary of State for Trade and Industry", 3 May 1984.

120 E(A)(84) 11th meeting; E(A)(84)24, "Cammell Laird Shipbuilders Limited. Memorandum by the Secretary of State for Defence", 3 May 1984.

121 E(A)(84) 11th meeting, 10 May 1984.

122 C(84)19, Annex A; C(84)27th meeting conclusions, 19 July 1984; C(84)19, "Warshipbuilding Privatisation. Memorandum by the Secretary of State for Trade and Industry", 16 July 1984.

123 C(84)27th meeting conclusions.

124 The impetus for this Heseltine says came from Tebbit, Heseltine (2001), p.278.

125 Letter from the Secretary of State for Defence to Norman Lamont, 27 November 1984, in E(DL) Part 11. Minute from P.Wary to A.Turnbull, 4 December 1984, and minute from Heseltine to the PM, 18 December 1984, both in PM Papers, Nationalised Industries: Shipbuilding Policy, Part 7.

126 *Hansard*, 28 January 1985, columns 21–2.
127 C(85)4th meeting conclusions, 31 January 1985; Heseltine (2001), p.278.
128 It has been claimed that Heseltine threatened to resign if Cammell Laird did not receive at least one Type 22 order; Crick (1997), pp.271–72.
129 "Order for Frigates. Note by the Secretary of the Cabinet", January 1984, in PM Papers, Nationalised Industries: Shipbuilding Policy, Part 2; C(85)3, "The Order for Type 22 Frigates 13 and 4. Note by the Secretary of State for Trade and Industry", 22 January 1985.
130 Letter from M.Gilbertson, PS/DTI, to T.Kuczys, PS/Chancellor of the Exchequer, 28 October 1985, in PM Papers, Nationalised Industries: Shipbuilding Policy, Part 8.
131 In addition, the buy-out team refused to offer the usual financial guarantees to the MoD should the yard close and orders not be fulfilled. Consequently, the MoD effectively took on a contingent liability.
132 Letter from Leon Brittan, Secretary of State for Trade and Industry, to the Chancellor of the Exchequer, 8 January 1986, in PM Papers, Nationalised Industries: Shipbuilding Policy, Part 8. Also, some smaller warship building facilities were successfully sold including Brooke Marine Ltd in Lowestoft, which was subject to a management buy-out for £100,000 in May 1985 – the book value of the net assets sold was around £1.9m reflecting the extent to which balance sheet values had departed from economic reality – and Hal Russell Ltd, in Aberdeen, which was sold to a company especially formed to buy the business, Aberdeen Shipbuilders Ltd, in March 1986 for £2.1m but with net costs of £3.1m. This sale occurred after BS received two other less attractive offers; letter from M.McHardy, DTI, to R.Broadbent, PS/Chief Secretary, 3 March 1986, in PM Papers, Nationalised Industries: Shipbuilding Policy, Part 9.
133 Miscellaneous correspondence in PM Papers, Nationalised Industries: Shipbuilding Policy, Part 9. Vickers was the monopoly supplier of nuclear submarines to the navy. Uncertainty concerned how many Trident submarines would eventually be ordered. This probably reduced interest from potential bidders.
134 E(A)(86)8th meeting, 7 March 1986. Miscellaneous correspondence in PM Papers, Nationalised Industries: Shipbuilding Policy, Part 9. *Hansard*, 7 March 1986, column 596.
135 In addition, Lloyds Merchant Bank and brokers Hoare Govett arranged for the underwriting and subscription of £28m of ordinary shares and £40m of loan stock. The Government acquired one special share.
136 Letter from R.C.G.Fortin, Executive Director Lloyds Merchant Bank, to the PM, 26 March 1985, in PM Papers, Nationalised Industries: Shipbuilding Policy, Part 9. Price Waterhouse (1987) *Privatisation: The Facts*, pp.72–74.
137 Reported in E(A)(86)18th meeting, 2 July 1986. Also, minute from J.O'Sullivan, No. 10 Policy Unit, to the PM, 18 November 1987.
138 E(A)(86)18th meeting, 2 July 1986; E(A)(86)32, "Type 23 Frigate Orders. Memorandum by the Secretary of State for Defence", 30 June 1986.
139 Minute from P.Warry to the PM, 19 July 1985, in PM Papers, Nationalised Industries: Shipbuilding Policy, Part 8.
140 Three ship repair yards were sold between February 1984 and September 1985, two through management buy-outs. The proceeds totalled £54m, which was retained by BS; HM Treasury (1992) *Her Majesty's Treasury Guide to the UK Privatisation Programme*, June, London: HM Treasury, p.12. The net cost of the Scott Lithgow sale was inflated by compensation paid to Trafalgar House relating to the completion of an oil rig contract for BP.
141 E(A)(85)48, "British Shipbuilders: Corporate Plan 1985/86–1987/88. Memorandum by the Secretary of State for Trade and Industry", 16 July 1985,Table 1. Closures included three small merchant shipbuilding yards at Goole, Leith and on Tyneside.
142 Letter from Norman Lamont, DTI, to the PM, 25 September 1984, in PM Papers, Nationalised Industries: Shipbuilding Policy, Part 7.
143 Ibid., Table 2.
144 Note in PM Papers, Nationalised Industries: Shipbuilding Policy, Part 7, 7 July 1984.
145 E(A)(85) 15th meeting, 23 July 1985; E(A)(85)48.
146 "Report of the Official Group on the Shipbuilding Industry", interdepartmental report, June 1986, in PM Papers, Nationalised Industries: Shipbuilding Policy, Part 10.

147 E(A)(85) 15th meeting.
148 E(A)(86)15th meeting, 8 May 1986.
149 E(A)(88)26, "British Shipbuilders. Memorandum by the Chancellor of the Duchy of Lancaster", 6 May 1988.
150 E(A)(86)31, "Future of the Shipbuilding Industry. Note by the Chairman of the Official Group on the Shipbuilding Industry", 24 June 1986.
151 E(A)(87)5th meeting, 19 March 1987; E(A)(87)12, "British Shipbuilders. Memorandum by the Secretary of State for Trade and Industry", 16 March 1987.
152 Minute from Kenneth Clarke, Chancellor of the Duchy of Lancaster, to the PM, 29 October 1987, and note by David Norgrove, PS No. 10, 27 October 1987, both in Nationalised Industries files, Part 15. Minute from Clarke to the PM, 9 November 1987, in PM Papers, Nationalised Industries: Shipbuilding Policy, Part 13. The Directive was the Sixth Directive. Clarke had spent some months trying to find buyers for the yards. At one point a Japanese company showed interest, but withdrew when it discovered the poor state of working practices in the yards and the state of the order books. This failure led him to conclude that closure of BS was inevitable.
153 Internal No. 10 memorandum from George Guise to the PM, 23 October 1987, in Nationalised Industries files, Part 15.
154 Note by David Norgrove, PS No. 10, in Nationalised Industries files, Part 15.
155 Minute from Malcolm Rifkind to the PM, November 1987, in PM Papers, Nationalised Industries: Shipbuilding Policy, Part 13. Also, Kenneth Clarke who had been pushing for the liquidation of BS was replaced by Tony Newton in July 1988. Newton was initially against a speedy closure of the industry. This delayed some of the shutdown of yards for a number of months.
156 E(A)(89)18, "North East Shipbuilders Limited (NSEL). Memorandum by the Chancellor of the Duchy of Lancaster", 2 June 1989. Letter from Tony Newton, Chancellor of the Duchy of Lancaster and Minister of Trade and Industry, to John Major, Chief Secretary, Treasury, 19 May 1989, and Major's reply, 22 May 1989, both with E(A)(89)18. Newton and Major met on 24 May 1989 but were unable to agree on the best approach to the future of North-East Shipbuilders, Major preferring not to reverse the closure decision, letter from Newton to Major 26 May 1989, with E(A)(89)18; E(A)(89)5th meeting, 6 June 1989.
157 E(A)(89)7th meeting, 12 July 1989; *Hansard*, 13 July 1989, columns 1148–57.
158 E(A)(87)11, "The Warshipbuilding Industry. Memorandum by the Secretary of State for Defence", 11 March 1987, Annex A.
159 E(A)(86)7th meeting, 6 March 1986; E(A)(86)10, "Harland and Wolff Plc. Memorandum by the Secretary of State for Northern Ireland", 14 February 1986.
160 E(A)(86)42, "Harland and Wolff Plc. Memorandum by the Secretary of State for Northern Ireland", 24 July 1986.
161 E(A)(87)10, "Harland and Wolff: Corporate Plan. Memorandum by the Secretary of State for Northern Ireland", 16 March 1987; E(A)(86)11th meeting, 17 September 1986; E(A)(87)30, "Harland and Wolff. Memorandum by the Secretary of State for Northern Ireland", 16 March 1987; E(A)(87)5th meeting, 19 March 1987.
162 E(A)(88) 7th meeting, 10 May 1988; E(A)(88)26, "British Shipbuilders. Memorandum by the Chancellor of the Duchy of Lancaster", 6 May 1988.
163 E(A)(88)10th meeting, 13 July 1988; E(A)(88)35, "Memorandum by the Secretary of State for Northern Ireland. Harland and Wolf Plc", 7 July 1988; letter from King to Moore at the Treasury, 29 June 1988, attached to E(A)(88)35.
164 E(A)(88)50, "James Mackie and Sons Ltd, Harland and Wolff, Short Brothers Plc. Memorandum by the Secretary of State for Northern Ireland", 25 November 1988.
165 E(A)(89) 4th meeting, 2 March 1989; "Harland and Wolff and James Mackie. Memorandum by the Secretary of State for Northern Ireland", 27 February 1989.
166 On announcing the sale, Tom King, Secretary of State for Northern Ireland, put the cost to the Exchequer around £100m, *Hansard,* 22 March 1989, columns 1089–90. But this does not appear to have included all of the debt write-offs.
167 *Hansard*, 14 November 1988, columns 745–6 and 7 December 1988, columns 315–16.

168 Letter from Malcolm Rifkind, Secretary of State for Defence, to Michael Heseltine, President of the Board of Trade, 4 December 1992, in PM Papers, Nationalised Industries: Shipbuilding Policy, Part 16.
169 M. Bellamy (2001) *The Shipbuilders: An Anthology of Scottish Shipyard Life*, Edinburgh: Birlinn, p.209 & 214.
170 Nott (2002) *Here Today, Gone Tomorrow*, p.237. Portsmouth was reduced to a stand-by facility.
171 Levene was Chairman of United Scientific Holdings (USH), a leading MoD contractor. He was appointed on secondment from USH and in 1985 was promoted to chief of Defence Procurement. The appointment was controversial given USH's role as a supplier to the MoD and because Levene was appointed on a salary twice that paid to the Permanent Secretary of the MoD, Sir Clive Whitmore; Crick (1997), pp.269–70.
172 Heseltine (2000) *Life in the Jungle*, p.271.
173 E(A)(85)1, "The Future of the Royal Dockyards. Memorandum by the Secretary of State for Defence", 7 January 1985.
174 E(A)(85)1; E(A)(85)3rd meeting, 30 January 1985; E(A)(85)7th meeting, 21 March 1985; E(A)(85)15, "The Royal Dockyards – Open Government Document. Memorandum by the Secretary of State for Defence", 14 March 1985, and briefing notes for the PM, 20 March 1985, in E(DL) Part 11.
175 E(A)(85)3rd meeting.
176 Internal No. 10 memorandum from Nicholas Owen, No. 10 Policy Unit, to Andrew Turnbull, 30 January 1985, in E(DL) Part 11.
177 C(85)19th meeting conclusions, 6 June 1985.
178 Public Accounts Committee (1986) *Control of dockyards operation and manpower, Twenty-first report from the Committee of Public Accounts*, Session 1985–86; Memorandum from the Secretary of State for Defence to the PM, 16 July 1985, in E(DL) Part 12.
179 *Hansard*, 23 July 1985, columns 867–88. Owen, who had been a founder of the Social Democrats that had split away from Labour, stood as an Alliance candidate in the 1983 General Election. He attempted, although unsuccessfully, to obtain an emergency debate on the Government's plan by moving an adjournment of the House.
180 "Commercial management of the dockyards", minute to the PM from George Younger with covering note, 22 July 1986, in E(DL) Part 14.
181 Letter from John MacGregor, HM Treasury, to George Younger, 5 August 1986, in E(DL) Part 14.
182 Ibid. Subsequently, the unions decided not to take part in consultation meetings with officials and went to court in an endeavour to disrupt the Government's plans, where they were defeated.
183 Minute from Younger to the PM, 18 September 1986, in E(DL) Part 14.
184 Minute from Younger to the PM, 24 November 1986, in E(DL) Part 15.
185 Minute from Younger to the PM, "Commercial Management in the Royal Dockyards", 1 December 1986, in E(DL) Part 15. With Treasury approval, only the Chairman of the Public Accounts Committee was informed. Correspondence between George Younger and John MacGregor, 9 and 20 January 1987, in E(DL) Part 15.
186 *Hansard*, 27 January 1987, column 183.
187 *Hansard*, 21 January 1987, columns 891–6.
188 Minute from George Younger to the PM, 19 January 1987, in E(DL) Part 15.
189 *Hansard*, 24 February 1987, column 139.
190 Heseltine (2000), p.271.
191 National Audit Office (1998) *Report by the Comptroller and Auditor General: Sales of the Royal Dockyards*, HC748 Session 1997–98, London: HMSO.

10 PRIVATISING BUS TRANSPORT AND THE ROYAL ORDNANCE FACTORIES

1 Memorandum by Robert Young, Policy Unit, to the PM, 26 April 1984, in E(DL) Part 9; J.A. Birks (1990) *National Bus Company, 1968–89: A Commemorative Volume*, Glossop: Transport Publishing; K. Lane (2004) *National Bus Company: The Early Years*, Shepperton: Ian Allan Ltd.

2 Four PTEs were established in England under the 1968 Transport Act – in Greater Manchester, Merseyside, Tyne and Wear and the Midlands. In 1973 a PTE was established for Greater Glasgow and the following year for West Yorkshire and South Yorkshire. Each PTE was accountable to a Passenger Transport Authority (PTA) made up of elected representatives from local authorities and Department of Transport nominees.
3 Draft Bus White Paper, 3 July 1984, in E(DL) Part 10.
4 "Introduction of Private Capital into the National Bus Company: Note by Officials", Department of Transport October 1983, in E(DL) Part 8. For a short summary of the history of bus service regulation and provision see J. Hibbs (2005) *The Dangers of Bus Re-regulation and Other Perspectives on Markets in Transport*, Occasional Paper 137, London: Institute of Economic Affairs, ch.2.
5 Conservative Party (1979) *Conservative Party General Election Manifesto*.
6 S.Jaffer and D.Thompson (1986) "Deregulating Express Coaches: A Reassessment", *Fiscal Studies*, vol.7, no.4, pp.45–68; Birks (1990), p.461, 493–6.
7 D.Thompson and A.Whitfield (1995) "Express Coaching: Privatization, Incumbent Advantage, and the Competitive Process", in M.Bishop, J.Kay and C.Mayer, *The Regulatory Challenge*, Oxford: Oxford UP. National Express also hit back with a new Rapide service including toilets, video and hostess services.
8 All local authorities were invited to consider trial areas but only three chose to do so. The other two areas were in Norfolk and rural Devon. Later a few local authorities, such as Cardiff, experimented with some competition in stage transport.
9 Letter from Fowler to Nigel Lawson at the Treasury, dated 21 June 1979, in E(DL).
10 Letter from Fowler to Sir Keith Joseph at the Department of Industry, 8 July 1981, in Nationalised Industries files, Part 4.
11 Ibid.
12 Handwritten note on the letter from Fowler to Joseph, 8 July 1981, ibid.
13 Letter from Lawson to Joseph, 13 July 1981, in Nationalised Industries files, Part 4.
14 Letter from Fowler to Lawson, 22 July 1981, in Nationalised Industries files, Part 4.
15 Letter from Lawson to Fowler, 27 July 1981, in Nationalised Industries files, Part 4. Lord Shepherd was an ex-Labour minister.
16 Birks (1990), p.130.
17 MMC (1982) *Bristol Omnibus Company Limited Cheltenham District Traction Company City of Cardiff District Council Trent Motor Traction Company Limited and West Midlands Passenger Transport Executive: A Report on Stage Carriage Services supplied by the Undertakings*, HC442, 1981–82, London: Monopolies and Mergers Commission.
18 Ridley replaced Tom King who had replaced David Howell as Transport Minister in June 1983. King became Secretary of State for Employment. Howell had become Transport Minister in September 1981 when Fowler moved to become Secretary of State for Health and Social Security. The October 1983 reshuffle was triggered by the resignation of Cecil Parkinson, chapter 7, p.170.
19 Ridley (1991), p.61. Professor Michael Beesley had presented the case for bus deregulation to the Department of Transport in December 1982; Beesley (1997), ch.10 "Bus Deregulation".
20 E(DL)(83)5, "National Bus Company: Privatisation. Memorandum by the Secretary of State for Transport", 11 October 1983, in E(DL) Part 8.
21 Note from Andrew Turnbull, Private Secretary (PS) No. 10, to John Kerr, HM Treasury, 18 October 1983, in E(DL) Part 8. In October 1983 John Moore in the Treasury stated that deregulation should come before privatisation of the NBC and favoured some restructuring, but serious plans had not been formulated; Minute from D.C.W. Revolta to J. H. Rickard, 20 October 1983, H M Treasury papers, Competition and Privatisation: PEAU Exercise, AD/1290/01 Part C. REV NIEA/53.
22 Note from Robert Young, No. 10 Policy Unit, to Turnbull, 17 October 1983, in E(DL) Part 8. C.D.Foster (2005) *British Government in Crisis or The Third English Revolution*, Oxford: Hart Publishing.
23 Note to Turnbull from David Barclay in No. 10, 11 November 1983, briefing note for the PM for her meeting with Ridley by Barclay, 17 November 1983, both in E(DL) Part 8.

24 Letter from Turnbull to Dinah Nichols, Department of Transport, 18 November 1983, reporting the main conclusions of the PM's meeting with the Secretary of State, in E(DL) Part 8.
25 C(84)8th meeting conclusions, 1 March 1984.
26 Draft White Paper, "A Better Way for Public Transport", and accompanying Note to the PM 14 June 1984, in E(DL) Part 10. Bus deregulation was not to apply to Northern Ireland, reflecting the particular political difficulties in the province at the time.
27 E(A)(84)21, "The Bus Industry. Memorandum by the Secretary of State for Transport", 27 April 1984, "Public Road Passenger Transport Report", Department of Transport, both in E(DL) Part 9.
28 Ridley would have ideally liked to have seen a phasing out of state subsidies, but this was never a serious practical proposition unless the Government was willing to endorse a significant contraction of services.
29 E(A)(84)21.
30 Memorandum by Robert Young, Policy Unit, to the PM, 26 April 1984, in E(DL) Part 9. Letter from Michael Jopling to the PM, 15 May 1984, in E(DL) Part 9.
31 E(A)(84)26, "The Bus Industry. Memorandum by the Secretary of State for the Environment", 9 May 1984.
32 E(A)(84)25, "The Bus Industry. Memorandum by the Secretary of State for Scotland", 9 May 1984.
33 Memorandum from Nicholas Edwards to the PM, 15 May 1984, E(DL) Part 9.
34 E(A)(84)12th meeting, 16 May 1984. The Secretary of State for Scotland was asked to prepare a separate draft White Paper setting out how the proposals might best be applied there, alongside a paper that the Secretary of State for Wales was already preparing. Following the meeting the Secretary of State for Scotland changed his mind about preparing a separate paper and on 31 May the PM agreed to there being one White Paper on bus deregulation; note from David Barclay, PS No. 10, to John Graham, Scottish Office, 31 May 1984, in E(DL) Part 9.
35 E(A)(84)16th meeting; also note from Ridley to members of E(A) Sub-Committee, 3 July 1984, in E(DL) Part 10.
36 In Hereford bus competition developed but services soon consolidated under one operator, an experience that would be repeated in a number of areas following national bus deregulation.
37 Memorandum from Chris Butler, Special Adviser, to the Private Secretaries, Secretary of State and Minister of State for Transport, 4 July 1984, in E(DL) Part 10.
38 Letter from H.C.D. Derwent, PS/Department of Transport, to Colin Jones, PS/Secretary of State for Wales, 9 July 1984, in E(DL) Part 10.
39 The idea that economies of scale were limited in bus transport was promoted by the Department of Transport's economic adviser, Professor Michael Beesley.
40 Draft Bus White Paper, 3 July 1984, in E(DL) Part 10.
41 It had also been endorsed in E(A) Committee on 28 June 1984; E(A) 16th meeting.
42 Letter from the Secretary of State for the Environment, 21 June 1984, and from the Secretary of State for Education, 22 June 1984, to the Secretary of State for Transport, in E(DL) Part 10.
43 Note from Robert Young, No. 10 Policy Unit, to Turnbull, 18 June 1984, in E(DL) Part 10; letter from Turnbull to Nichols, Department of Transport, 19 June 1984, in E(DL) Part 10.
44 Note to the PM from Ridley, 26 June 1984, in E(DL) Part 10.
45 *Hansard*, columns 1381–2, 12 July 1984; letter from Nicholas Edwards to Ridley, 11 July 1984, and the accompanying consultation paper, in E(DL) Part 10.
46 *Financing of Public Transport Services: The Buses White Paper. Second Report from the Transport Committee*, House of Commons, Session 1984–85. Report and Minutes of Proceedings (CHC-38-I), Cmnd 9300, HMSO, 1985.
47 Letter from Ridley to Lawson, 28 May 1985, and attached draft paper replying to the Select Committee to be issued before the Committee Stage in the House of Lords on the Transport Bill; also briefing note from John Wybrew to the PM, 7 June 1985; all in E(DL) Part 12.
48 "The Buses Proposal: Better Prospects for Passengers", December 1984, in E(DL) Part 11.
49 Correspondence 6 February 1985, in E(DL) Part 11.
50 Memorandum from John Wybrew, No. 10 Policy Unit, to the PM, 13 June 1986, in E(DL) Part 13.

51 Letter from John Moore, Department of Transport, to the PM with supporting briefing notes entitled “Deregulation of Local Bus Services”, in E(DL) Part 14.
52 Speech by John Moore to the Greater London Areas Conservative Political Centre at International House, Saturday 25 October 1986, in E(DL) Part 14.
53 Ridley (1991), p.56.
54 Birks (1990), p.270. In early 1986 the Board of NBC notified the Department of Transport that it could not recommend a disposal programme based on the sale of individual subsidiaries because of its statutory duties and asked the Secretary of State to give them a Direction to do so; letter from Ridley to Lawson, 13 March 1986, in E(DL) Part 13.
55 Letter from Brook to Ridley, 21 November 1985, in E(DL) Part 12.
56 Letter from Ridley to Lawson, 13 March 1986, in E(DL) Part 13.
57 Copy of draft letter to Bankers Trust Company, 13 December 1985, and Bankers Trust Press release, 18 December 1985, both in E(DL) Part 13.
58 National Bus Company (1986) *Disposals Programme*, London: NBC. Mulley and Wright (1986) “Buy-outs and the Privatisation of National Bus”, *Fiscal Studies*, vol.7, no.3, pp.1–24. The original intention had been for the NBC to produce a disposal programme by 6 April 1986. The deadline was extended and the programme was approved six weeks later, on 19 May.
59 Birks (1990), p.676–7.
60 Members of the pension scheme with fewer than five years of qualifying service were entitled to reclaim their contributions instead and many did so; NAO (1991), pp.24–5.
61 The small NBC Computer Services had been sold earlier; Birks (1990), p.676.
62 Ernst & Young (1994) *Privatization in the UK: The facts and figures*, p.29. In the majority of cases between 10% and 40% of the share capital was set aside for employee purchase, although there were at least two cases where complete sales were to employees, Birks (1990), p.683. In the case of outside purchases, the NBC encouraged the buyers to offer some shares to employees.
63 Birks (1990), p.270.
64 Birks (1990), p.151 & 680.
65 National Audit Office (1991) *Sale of the National Bus Company*, HC119 Session 1990–91, London: HMSO, paragraph 2(viii).
66 “Privatisation of the National Bus Company”, Department of Transport report, February 1987, E(DL) Part 15.
67 National Audit Office (1990a) *Department of Transport: Sale of the National Bus Company*, HC43 Session 1990–91, London: HMSO.
68 E(DL)(83)1, “Scottish Transport Group: Privatisation. Memorandum by the Secretary of State for Scotland”, 14 February 1983, in E(DL) Part 7.
69 Ibid.
70 Ibid.
71 Letter to the Secretary of State for Trade and Industry from Younger, 12 June 1984; letter from the Secretary of State for Trade and Industry to Younger, 5 July 1984; letter from Younger to the Secretary of State for Trade and Industry, 26 July 1984; all in E(DL) Part 10. Letter from Ridley to the Secretary of State for Trade and Industry, 2 August 1984, in E(DL) Part 11.
72 SBG’s behaviour in the Glasgow area was already causing particular concern.
73 Letter from Ridley to Rifkind, 29 October 1986, in E(DL) Part 14.
74 Letter from Rifkind to Ridley, 19 November 1986, in E(DL) Part 15; letters from Rifkind to Lawson, 21 October 1986, and with an accompanying objectives statement for SBG, 20 November 1986, in E(DL) Part 15 and PM Papers, Policy Towards the Nationalised Industries: Financial Control, Part 11.
75 Letter from Ridley to Rifkind, 24 November 1986, in E(DL) Part 14, emphasis in original.
76 Letter from Tebbit to Rifkind, 27 November 1986; Letter from John MacGregor, HM Treasury, to Malcolm Rifkind, 1 December 1986, letter from John Moore to Rifkind, 1 December 1986; all in E(DL) Part 15. Letter from Moore to Rifkind, 17 November 1986, in PM Papers, Policy Towards the Nationalised Industries: Financial Control, Part 11.
77 Letter from David Norgrove, PS No. 10, to Robert Gordon, Scottish Office, 16 March 1987.
78 Letter from Gordon to Norgrove, 24 April 1987, in E(DL) Part 16.
79 Minute from Rifkind to the PM, 14 January 1988, letter from Rifkind to Lamont, 31 October 1988, and letter from Lamont to Rifkind, 14 November 1988, all in E(DL) Part 16. The possible

privatisation of CalMac was reconsidered periodically in the Scottish Office over the following years, but on each occasion the idea was similarly rejected. Under the 1989 Act and the resulting winding up of the STG in 1994, CalMac became the responsibility of the Scottish Office. Letter from Ian Lang to Francis Maude, Financial Secretary to the Treasury, 20 December 1991 and letter from Maude to Lang, 8 January 1992, both in E(DL) Part 19.

80 Letter from Lamont to Rifkind, 18 January 1988, in E(DL) Part 16.

81 Letter from Paul Channon to Rifkind, 20 January 1988, in E(DL) Part 16.

82 Annotated note from the PM, 19 January 1988, on a note summarising the differences between Rifkind and the Treasury, in E(DL) Part 16.

83 Minute from Paul Gray to the PM, 13 May 1988, in E(DL) Part 16. One of the nine area companies was formed by the merger of two loss making businesses Kelvin with Central and Western and Clydeside. It was felt that neither would be easily sellable separately. Quayle Munro was the financial adviser to the Scottish Office and Coopers and Lybrand to the STG.

84 *Hansard,* 24 May 1988, column 201.

85 Letter from Rifkind to Lamont, 22 November 1988, in E(DL) Part 16.

86 *Hansard*, 14 December 1988, column 1003 et seq.

87 Letter from Rifkind to Lamont, 4 July 1989, with supporting paper from the Scottish Office, "Scottish Bus Group: Management Employee Buy-Outs", June 1989, in E(DL) Part 17.

88 Letter from Channon to Lamont, 11 July 1989, in E(DL) Part 17.

89 Letter from Peter Lilley, Financial Secretary to the Treasury, to Malcolm Rifkind, 26 July 1989, in E(DL) Part 17. Lilley replaced Lamont as Financial Secretary in July 1989.

90 PM's annotated comments on a briefing note from Paul Gray, 28 July 1989, in E(DL) Part 17.

91 Letter from Rifkind to Lilley, 28 July 1989, in E(DL) Part 17.

92 Reply from Richard Ryder in Lilley's absence, 4 August 1989, in E(DL) Part 17.

93 *Hansard*, 27 January 1989, columns 311–12.

94 These are National Audit Office estimated figures in July 1993 and are made up of pre-sale dividends less debt write-offs and capital injections of £56.4m; company sale proceeds of £39.8m; and profits from the separate disposal of bus company properties transferred into Group ownership in advance of the sales of £6.9m; National Audit Office (1993) *Sale of the Scottish Bus Group,* HC97 Session 1993–94, London: HMSO, p.3.

95 The clawback provisions applied for seven years at 50% of any gain from a property sale made within five years, 40% in the sixth year and 30% in the seventh year (in the case of one property considered very likely to be sold quickly, a rate of 75% applied for the first two years); ibid.

96 Letter from Malcolm Rifkind to Norman Lamont, Chancellor of the Exchequer, 14 March 1991, in E(DL) Part 17.

97 Letter from Francis Maude, Financial Secretary to the Treasury, to Malcolm Rifkind, Secretary of State for Transport, 4 April 1981, and reply by Rifkind 19 April 1991, both in E(A)(91) Part 18.

98 Ernst & Young (1994) *Privatization in the UK: The facts and figures*, p.29.

99 The Transport Act gave the Secretary of State powers to force each PTE to be broken up into smaller units. This power was used only once, in Greater Manchester, when the bus services were divided into two in December 1993 prior to their privatisation.

100 National Audit Office (1996) *Sale of London Transport's Bus Operating Companies*, HC251.

101 The number of minibuses run by former NBC subsidiaries rose from 1,000 to 4,000, Birks (1990), p.670.

102 C(86)33rd meeting conclusions, 16 October 1986.

103 P.J. White (1990) "Bus Deregulation: A Welfare Balance Sheet", *Journal of Transport Economics and Policy*, vol.24, no.3, pp.311–32; W.J. Tyson (1990) "The Effects of Deregulation on Service Co-ordination in the Metropolitan Areas", *Journal of Transport Economics and Policy,* vol.24, no.3, pp.283–95; P.J.Mackie, J.M.Preston and C.A.Nash (1995) "Bus Deregulation: Ten Years on", *Transport Reviews,* vol.15, no.3, pp.229–51; B. Colson (1996) "UK Bus Deregulation: a qualified success with much still to offer customers and society at large", *Transport Reviews,* vol.16, pp.301–11; D.Bayliss (1997) "Bus Privatization in Great Britain", *Proceedings of the Institution of Civil Engineers,* vol.123, May, pp.81–93.

104 P.M.Heseltine and C.Mulley (1993) *The Effects of Privatisation of the Scottish Bus Group and Bus Deregulation: A Consultants Report by the Transport Operations Research Group, University of Newcastle upon Tyne*, Edinburgh: The Scottish Office Central Research Unit Papers, November.

105 House of Commons Transport Committee (1995) *The Consequences of Bus Deregulation, First Report*, Session 1995/96, London: HMSO; W.P.Bradshaw (1996) "Ten Turbulent Years – the Effects on the Bus Industry of Deregulation and Privatisation", *Policy Studies*, vol.17, no.2, pp.125–36; P.White (1997) "What Conclusions Can Be Drawn about Bus Deregulation in Britain?" *Transport Reviews*, vol.17, no.1, pp.1–16; D.Bayliss (1999) "Buses in Great Britain: Privatisation, Deregulation and Competition", mimeo.

106 At the time of the privatisation of the NBC there were reputedly a number of officials in the Department of Transport and the Treasury who very much doubted whether the fragmented structure created was sustainable. They anticipated future consolidation.

107 For example, MMC (1995) *The Supply of Bus Services in the North East of England*, Cmnd.2933, London: HMSO; MMC (1996) *Stagecoach Holdings plc and Chesterfield Transport (1989) Ltd: a Report on the Merger Situation*, Cmnd.3086, London: HMSO.

108 House of Commons Public Accounts Committee (2006) *Delivery chain analysis for bus services in England, Forty-third Report of Session 2005–6*, HC851, London: HMSO.

109 D.Kennedy (1995) "London bus tendering: an overview", *Transport Reviews,* vol.15, pp.253–64.

110 J.R.Hibbs (2005) *The Danger of Bus Re-regulation*, London: Institute of Economic Affairs.

111 Conservative Research Department (1983) *Questions of Policy: General Election 1983*, p.154.

112 Similar concerns had surfaced within the Treasury, Royal Ordnance Factories, Annex to Minute from J. H. Rickard to G. Grimstone, HM Treasury papers, Competition and Privatisation: PEAU Exercise, AD/1790/01 Part C. REV NIEA/53.

113 D. Young (1990) *The Enterprise Years*, p.46. A committee within the MoD oversaw the planning of the privatisation. Young's frustration was directed at the slow pace of this committee's work and what he saw as deliberate obstruction by some MoD officials.

114 Letters from Sir David Plastow to George Younger, 24 January 1986, 4 March 1986 and 14 May 1986, all in E(DL) Part 13.

115 Letter from Plastow to Younger, 30 May 1986 in E(DL) Part 13.

116 Minute from Lord Trefgarne, Minister of State for Defence Procurement, to the PM, 10 June 1986, in E(DL) Part 13.

117 Minute from Peter Warry, No. 10 Policy Unit, 4 June 1986, in E(DL) Part 13.

118 Minute from Lord Trefgarne to the PM, 10 June 1989, in E(DL) Part 13.

119 Cabinet Office minute from J.B.Unwin, 9 June 1986, in E(DL) Part 10.

120 Letter from Gerald Boxhall, Chairman and Chief Executive Vickers Defence Systems, to Peter Levene, Chief of Defence Procurement MoD, 4 June 1986 and letter from Plastow to the PM, 9 June 1986, both in E(DL) Part 13.

121 Minute from David Norgrove to the PM, 10 June 1986, in E(DL) Part 13.

122 Briefing paper from J.B. Unwin to the PM, 10 June 1986, in E(DL) Part 13.

123 Two minutes by Peter Warry, No. 10 Policy Unit, to the PM, 11 June 1986, in E(DL) Part 13.

124 Minute from David Norgrove to the PM, 11 June 1986, in E(DL) Part 13.

125 Letters from Richard Hatfield, Acting PS/Secretary of State for Defence to David Norgrove in No. 10, 11 June 1986, in E(DL) Part 13.

126 Note from Norgrove to the PM, 11 June 1986, in E(DL) Part 13.

127 Minute from Warry to the PM, 13 June 1986, in E(DL) Part 13.

128 Press cuttings in E(DL) Part 13.

129 Minute from Tebbit to the PM, 16 June 1986, in E(DL) Part 13.

130 Memorandum to Lawson from P.J. Kitcatt, 16 June 1986, in E(DL) Part 13.

131 Letter from Norgrove to John Howe, Ministry of Defence, 17 June 1986, in E(DL) Part 13.

132 Letter from Trefgarne to Plastow, 20 June 1986, in E(DL) Part 13.

133 E(A)(86)20th meeting, 22 July 1986. The Secretary of State's proposals were set out in detail in E(A)(86)40, "Privatisation of Royal Ordnance Plc. Memorandum by the Secretary of State for Defence", 17 July 1986, circulated before the meeting.

134 C(86)29th meeting conclusions, 24 July 1986.

135 *Hansard*, 24 July 1986, columns 618–28.

136 Minute from Younger to the PM and briefing notes to the PM from J.B.Unwin and P. Warry, all 21 July 1986, in E(DL) Part 14; E(A)(86)20th meeting, 22 July 1986; E(A)(86)40.

137 *Hansard*, 2 April 1987, column 1238. Subsequently there was some criticism that the development value of the sites acquired by BAe might be well in excess of the price the company had paid for the assets. However, the National Audit Office gave the sale a clean bill of health concluding that the RO's assets had been sold competitively. The NAO did suggest that in the future where there was the potential for development gains, thought should be given to the use of clawback facilities under which government would receive a percentage of the gains when assets were later sold. This was applied during the sale of the bus corporations, NBC and SBC, as discussed above. National Audit Office (1987b) *Ministry of Defence – Sale of Royal Ordnance plc,* HC162 Session 1987–88, London: HMSO. National Audit Office (1989) *Ministry of Defence: Further Examination of the Sale of Royal Ordnance plc,* HC448 Session 1988–89, London: HMSO; National Audit Office (1990b) *Ministry of Defence: Further Examination of the Sale of Royal Ordnance plc,* HC352 Session 1988–89, London: HMSO.

138 "Royal Ordnance Factories: Guarantee for Pensions after Privatisation. Note by HM Treasury" and letter from the Secretary of State for Defence to the Chancellor of the Exchequer, 14 August 1984, both in E(DL) Part 11. During the early planning of the sale of the RO, Michael Heseltine did press the Treasury to agree to some form of commitment that the Government would stand behind the RO pension fund after privatisation. The Chancellor of the Exchequer resisted, as he did in other privatisations except BT. Giving such an assurance would have implied an on-going contingent liability for the Exchequer. Main Privatisation Candidates, Annex, Royal Ordnance Factories, January 1984, HM Treasury papers, Competition and Privatisation: PEAU Exercise, AD/1790/01. Part D. REV NIEA/53. Heseltine cited the BT case as a precedent for some level of continuing Government guarantee.

139 The lump sum transfer was intended to meet all future liabilities under the pension scheme. Only in the case of the privatisation of British Telecom did the Government effectively provide employees with an actual pension guarantee, see chapter 11.

140 National Audit Office (1987) *Ministry of Defence – Sale of Royal Ordnance plc,* HC162 Session 1987–88, London: HMSO.

11 PRIVATISING BRITISH TELECOM: THE DECISION TO PRIVATISE

1 HMSO (1977) *Report of the Post Office Review Committee*, Cmnd. 6850, London: HMSO.

2 E(TP)(82)2, "Future Telecommunications Policy. Note by the Chairman of the Official Committee on Telecommunications Policy", 16 April 1982. Letter from Lord Weinstock, GEC, to Joseph with a copy to the PM, 16 March 1981, PM Papers, Post and Telecommunications, Part 3.

3 Brief on nationalised industries and privatisation for the Debate on the Address, 9 November 1982, in E(DL) Part 6.

4 Letter from H.P.Brown, DOI, to J.K.Glynn, General Secretary Society of Post Office Executives, BT/A/18 Part 2.

5 BT Press Release, September 1982, PM Papers, Post and Telecommunications, Part 4.

6 E(80)65, "Investment and Financing Review: Telecommunications. Memorandum by the Secretary of State for Industry", 7 July 1980. For the buildup, letter from Joseph to John Biffen, Chief Secretary Treasury, 23 October 1979 and replies from Biffen to Joseph, 29 October 1979 and 7 November 1979, all in PM Papers, Post and Telecommunications, Part 1.

7 1981–82 External Financing Limit, n.d., BT/A/1 Part 3. British Telecommunications, undated note in HM Treasury papers JA/1760/01 Part A.

8 *Daily Telegraph*, "Phone Bill Pay Deal Rejected", 7 August 1979.

9 Letter from Joseph to John Biffen, Chief Secretary Treasury, with copy to PM and PM's annotated comments, 6 August 1979, and letter from Biffen to Joseph, 30 August 1979, all in PM Papers, Post and Telecommunications, Part 1.

10 Note from Joseph to the PM, 23 July 1980, PM Papers, Post and Telecommunications, Part 2. In response some Ministers pressed for telecommunications to be referred to the MMC for an efficiency study, but Joseph opposed this believing it would divert effort from the forthcoming separation from the Post Office and the liberalisation measures planned; various correspondence in ibid.
11 E(80)28th meeting, 28 July 1980; E(80)79, "Post Office: Pay Financing and Prices. Memorandum by the Secretary of State for Trade and Industry".
12 In 1983 the Inland division was split into two.
13 British Telecommunications Organisation, n.d., BT/C/17 Part 1. Letter from Jenkin to Ridley, Financial Secretary, 12 February 1982, BT/A/3 Part 1. British Telecom Performance Review 1977/78–1981/82, n.d., PM Papers, Post and Telecommunications, Part 5. E(NI)(82)22, "British Telecommunications Corporate Plan. Memorandum by the Secretary of State for Industry", 19 July 1982.
14 Memorandum from Joseph to the PM, 10 July 1981, and PM's annotated comments, PM Papers, Post and Telecommunications, Part 3.
15 "Buzby coins it in – and pips the world", *Sunday Times*, 25 July 1982.
16 Note by the PM, 20 August 1982, and reply from Department of Industry, 7 September 1982, both in PM Papers, Post and Telecommunications, Part 5.
17 The break up of AT&T went ahead on 1 January 1984.
18 A Private Automatic Branch Exchange (PABX) is a telephone exchange dedicated to a particular business or office, as opposed to one that a telephone company operates publicly.
19 Note of Press Conference 12 September 1979 and note from Joseph to Norman St. John-Stevas, Chancellor of the Duchy of Lancaster, 14 November 1979, both in PM Papers, Post and Telecommunications, Part 1. "British Telecommunications Bill", briefing document, Conservative Research Department, 28 November 1980, PM Papers, Post and Telecommunications, Part 2; British Telecommunications. Section 1: The History and Present Business of BT. Report to Kleinwort, Benson Ltd and S.G. Warburg Ltd, by Coopers and Lybrand, November 1983, BT/C/6 Part 4. VANS are lines leased from a common carrier (initially BT and later Mercury, see below) by an operator who adds special terminal equipment or "conditions" to the line to provide a specialised service. A VANS general licence potentially introduced a significant amount of competition in the use of private leased circuits provided by BT.
20 BT had inherited from the Post Office the duty to issue licences to private and public bodies which had telecommunication systems for their own use.
21 *Hansar*d, 2 December 1980, column 214. "British Telecommunications Bill", briefing note, Conservative Research Department, 27 March 1981, PM Papers, Post and Telecommunications, Part 3. The same Bill provided for the Treasury to dispose of its shares in Cable & Wireless and allowed the Secretary of State to license alternative letter services, L(80)64, "British Telecommunications Bill 1980. Memorandum by the Secretary of State for Industry, 12 November 1980, Cabinet Legislation Committee, in MT841 Post and Telecommunications papers Part 2. IT(81)23 "BT Bill: Implications for Information Technology. Note by the Department of Industry", 5 March 1981, and IT(81)24, "BT Bill: Powers of the Secretary of State. Note by the Department of Industry", 5 March 1980, IT(81)27, "Liberalisation of Telecommunications Subscriber Equipment. Note by the Department of Industry", all in MT841 Post and Telecommunications papers Part 3.
22 Letter from D.H.Pitcher, Managing Director, Plessey Telecommunications and Office Systems Ltd, to John Hoskyns, Policy Unit No. 10, 19 November 1980, and letter from Joseph to Hoskyns, 22 December 1980, both in PM Papers, Post and Telecommunications, Part 2.
23 *Hansard*, 30 July 1981, columns 1172–3.
24 *Hansard*, 21 July 1980, columns 29–30. M.E.Beesley and B.Laidlaw (1993) *International Review of Comparative Public Policy*, vol.5; reprinted in Beesley (1997), chapter 16, see especially p.331.
25 HMSO (1981) *Liberalisation of the use of British Telecommunications Network, Report to the Secretary of State for Industry*, London: HMSO, January; reprinted as chapter 14 in Beesley (1997). As a result of the report Beesley became an economic adviser to the Department of Industry during the privatisation of BT and by February 1984 had produced 24 working papers

for the Department on the future of the Corporation. BT would conclude that some of the suggestions made in these papers were unduly hostile to the Corporation and it is fair to say that relations between BT and Beesley became icy.

26 Note in BT/A/25 Part 1.

27 "Note by the Department of Industry", 5 March 1981, Memorandum from Joseph to the PM, 3 April 1981, all in PM Papers, Post and Telecommunications, Part 3.

28 Letter from J.F.Halliday, Home Office, to N.J.Sanders, DTI, 7 April 1981, and Memorandum from Whitelaw to Joseph, nd., both in PM Papers, Post and Telecommunications, Part 3. The Government's initial idea in response to Home Office concerns about maintaining the surveillance capability of the security forces was for BT to retain a monopoly of the maintenance of PABXs. However, it soon became clear that there was support in Parliament to liberalise this activity, if over time; letter from Joseph to the Home Secretary, William Whitelaw, 13 February 1981, PM Papers, Post and Telecommunications, Part 2; minute from Whitmore, Principal Private Secretary No. 10 to John Hallsday, Home Office, 19 March 1981, PM Papers, Post and Telecommunications, Part 3.

29 Minute from Home Secretary, William Whitelaw, to the PM, 7 July 1980, PM Papers, Post and Telecommunications, Part 2 and note to the PM from Whitelaw, 16 March 1981, PM Papers, Post and Telecommunications, Part 3.

30 Minute from Bruce Laidlaw, economist in the Department of Industry, to Private Secretary (PS)/Kenneth Baker, 31 March 1983, BT/A/20 Part 4.

31 C&W purchased BP's 50% interest in Mercury Communications on 14 August 1984.

32 While by early 1983 the Government had assured investors in Mercury that it would be the only licensed telecoms operator alongside BT for some time, the "duopoly policy" was not formally announced until November of that year to continue until at least 1989. IT(81)31, "Additional Networks. Note by the Department of Industry", 5 March 1981, and minute from Joseph to William Whitelaw, Home Secretary, 18 June 1981, both in PM Papers, Post and Telecommunications, Part 3. Note of a meeting with BT on international telecommunications, 20 July 1983, BT/A.21 Part 3. There was also a view within the Department of Industry that unlimited competition in telecommunications would be undesirable because it would prevent the continuing cross-subsidisation of rural services; note by I.K.C. Ellison for ministerial meeting with the Chancellor of the Exchequer on the Telecommunications Bill, 25 October 1982, BT/A/8 Part 2. E(TP)(82)5, "Scope for Further Liberalisation of Telecommunications. Memorandum by the Secretary of State for Industry", 4 June 1982, PM Papers, Post and Telecommunications, Part 4. Minute from J.H. Rickard, HM Treasury, to the Economic Secretary, 14 October 1983, BT/A/20 Part 4.

33 Mercury was also prevented from providing public call boxes lest this undermined BT's ability to provide a national call box service. From 1988 Mercury was permitted to install them, found them unprofitable, and later withdrew from the call box business.

34 Miscellaneous correspondence in PM Papers, Post and Telecommunications, Part 7. Letter from Lansley to Turnbull, 28 June 1984, PM Papers, Post and Telecommunications, Part 8.

35 The first licence was awarded to Cable and Wireless. An amended licence in the name of Mercury Communications was issued in 1984.

36 *Report of the Inquiry into Cable Expansion and Broadcasting Policy* (Hunt Report), PM Papers, Post and Telecommunications, Part 6. The Carter Committee in 1977 had foreseen the potential of cable for telecommunications as well as entertainment services. Cable was also already well established in the USA. Government policy towards cable in Britain was overseen by the Information Technology Advisory Panel situated in the Cabinet Office.

37 *Hansard*, 17 November 1983, columns 681–7.

38 The City of Hull with its own telephone service negotiated its own interconnection agreement separately.

39 M.E. Beesley and B. Laidlaw (1992) "The British Telecom/Mercury interconnect determination: An exposition and commentary" in Beesley (1997), chapter 15. I am also thankful to Adam Scott for help in the drafting of this discussion of interconnection.

40 Letter from R. de L. Holmes, Secretary, Mercury Communications, to I.K.C. Ellison, DTI, 6 October 1983, BT/A/23 Part 1. Minute from Andrew D. Lansley, PS/Secretary of State for Trade

and Industry, to PS/Baker, 22 May 1984, BT/A/26 Part 1. Letter from Jefferson to Sir Douglas Love, Chairman, Mercury Communications Ltd, 14 June 1985, BT/A/23 Part 2.

41 BT's Approach to Mercury Interconnect, 30 May 1984, BT/A/9 Part 6. Note of Secretary of State's Meeting with Sir George Jefferson and other Representatives of BT, 11 October 1983, BT/A/23 Part 2.

42 Note of a meeting with BT to discuss privatisation and POEU action, 15 June 1983, BT/A/21 Part 3.

43 Note of a Meeting on Interconnect, Resale and Related Issues, 12 July 1983 and letter from Baker to Jefferson, 3 October 1983, both in BT/A/9 Part 4.

44 Interconnect position, BT paper, n.d., BT/A/9 Part 6.

45 Meeting with Mercury Shareholders on 2 April 1984, BT/A/9 Part 6. Note of a Meeting with Mercury and BT on Interconnect, 21 May 1984, BT/A/9 Part 6.

46 "British Telecom Licence Conditions: Chairman Responds", BT Press Release 25 October 1983, BT/A/23 Part 2.

47 Letter from Lowe to Baker, 21 May 1984, BT/A/9 Part 6.

48 BT retained the exclusive privilege to supply switched international services.

49 Minute from Jenkin to the PM, 6 June 1983, PM Papers, Post and Telecommunications, Part 7.

50 *Hansard*, 26 March 1981, column 385.

51 Minute from David Young, Special Adviser to PS/Secretary of State, 17 March 1981, and note from Hoskyns to the PM, 6 March 1981, both in PM Papers, Post and Telecommunications, Part 3.

52 Note from J.R.Ibbs, CPRS Cabinet Office, to the Chancellor of the Exchequer, 6 March 1981, and "Telecommunications in the UK: Investment and Financing. A Report by the CPRS", 19 June 1981, both in PM Papers, Post and Telecommunications, Part 3.

53 Note from T.P.Lankester, PS No. 10, to A.J. Wiggins, HM Treasury, 11 March 1981, MT841 Post and Telecommunications, Part 3.

54 Letter from Joseph to Howe, 5 March 1981, in PM Papers, Post and Telecommunications, Part 3.

55 Letters from Joseph to Howe, 8 May and 11 May 1981 and from Leon Brittan to Joseph, 21 May 1981, all in PM Papers, Post and Telecommunications, Part 3.

56 Minute from R.H.F.Croft, Deputy Secretary Department of Industry, to Young, Department of Industry, 18 March 1981, in MT841 Post and Telecommunications papers Part 3.

57 Letter from Howe to Joseph with copy to E Committee members including the PM, 10 April 1981, PM Papers, Post and Telecommunications, Part 3.

58 Letter from the Department of Industry to P. Jenkins, PS/Chancellor of the Exchequer, 28 January 1981, in Nationalised Industries files, Part 3.

59 Memorandum from J.S.Neilson, Department of Energy, to H.P.Brown, DTI, 15 September 1983, BT/A/31 Part 3. Advice to the Treasury from Warburgs suggested that the additional cost of the bond financing over gilts in the case of BT might be around 4%.

60 The formula was apparently devised by Andrew Smithers of Warburgs assisted by his colleague Michael Valentine, M. Valentine (2006) *Free Range Ego*, London: Valentine, p.131. Had the BT bond gone ahead there would have been a provision for BT to request the Secretary of State to allow a price rise outside of the RPI – X cap in exceptional circumstances.

61 Ibid., p.128.

62 Points arising from the meeting at the Department of Industry, 29 October 1981, BT/A/1 Part 2.

63 Issue of profit-related securities, S.G. Warburg & Co. Ltd, 4 November 1981, BT/A/1 Part 2.

64 Letter from Jefferson to Croft, 9 November 1981, BT/A/1 Part 2; note of a Meeting 25 November 1981, BT/A/1 Part 3.

65 Minute from Solomon to Sharp and minute from Brown to Solomon, 4 December 1981, both in BT/A/1 Part 3. Brief for possible meeting with the Chancellor of the Exchequer, 9 November on the BT bond, by T.Sharp, 6 November 1981, BT Bond: Department of Industry Price Assurances, n.d., and BT Bond: Formula for Price Rises, by H.P. Brown, all in BT/A/1 Part 2.

66 Letter from P.S.Jenkins, PS HM Treasury, to Ian Ellison, PS Department of Industry, 24 July 1981, MT841 Post and Telecommunications papers Part 3.

67 Letter from Patrick Jenkin to the Chancellor of the Exchequer, 28 January 1982, minute from T.U. Burgner to the Chancellor of the Exchequer, 4 February 1982, and letters from the Chancellor of the Exchequer to Patrick Jenkin, 9 and 19 February 1982, all in HM Treasury papers JA/1760/01 Part A.
68 Record of a meeting held in HM Treasury, 31 July 1981, and note of a meeting held in the Chief Secretary's office, 22 September 1981, both in BT/A/1 Part 1; minute from D.L.Willets, 8 February 1982, HM Treasury papers JA/1760/01 Part A.
69 Letters from Howe to Jenkin, 9 and 18 February 1982, BT/A/1 Part 3. *Hansard*, 9 March 1982, column 740.
70 Baker (1993), p.78.
71 Note of a meeting held in the Chancellor of the Exchequer's room, House of Commons 5.50pm on Tuesday 28 July 1981, HM Treasury papers JA/1760/01 Part A.
72 However, Jefferson was adamant that BT must not be broken up and sold off piecemeal.
73 E(82)23, "Future Policy on Telecommunications. Memorandum by the Secretary of State for Industry", 4 March 1982.
74 Note of the Secretary of State's meeting with the Chancellor, 24 February 1982, and note of a Meeting between Baker, Wakeham, Jefferson and their officials, 8 March 1982, both in BT/A/3 Part 1.
75 E(82)23.
76 E(A)(82)9th meeting, 16 March 1982.
77 Campbell (2003), p.166; minute from J.P.Spencer, PS/Secretary of State, to Solomon, 17 March 1982, BT/A/1 Part 4.
78 Letter from M.R.Valentine, S.G. Warburg, to F.D. Perryman, BT, 9 June 1982, BT/A/1 Part 4.
79 Letter from Jenkin to Leon Brittan, 12 March 1982, BT/A/3 Part 1.
80 Correspondence in BT/C/17 Part 1.
81 Letter from Bryan Stanley, General Secretary POEU, to Jenkin, 2 February 1982, BT/A/3 Part 1.
82 *Hansard*, 22 March 1982, columns 242, 679. John Wakeham was Parliamentary Under Secretary of State in the Department of Industry.
83 Lawson (1992), p.222.
84 Minute from J.M.M.Vereker to John Hoskyns, No. 10 Policy Unit, 8 March 1982, PM Papers, Post and Telecommunications, Part 3.
85 E(82)6, "Future Policy on Telecommunications. Memorandum by the Chief Secretary Treasury", 9 March 1982.
86 E(82)29, "Telecommunications Policy. Note by the Central Policy Review Staff", 11 March 1982.
87 Minute from P.L.Gregson to the PM, 15 March 1982, PM Papers, Post and Telecommunications, Part 3.
88 E(82)9th meeting, 16 March 1982. Minute from Solomon to PS/Secretary of State, 11 March 1982, draft memorandum to the Chief Secretary, 11 March 1982, minute from Solomon to Ellison and Sharp, 1 March 1982, minute from H.P.Brown to Sharp, 8 March 1982, and memorandum from I.K.C.Ellison to the Secretary of State, 12 July 1982, all in BT/A/3 Part 2.
89 E(TP)(82) 1st meeting, 22 April 1982, PM Papers, Post and Telecommunications, Part 4.
90 E(TP)(82)2, "Future Telecommunications Policy. Note by the Chairman of the Official Committee on Telecommunications Policy", 16 April 1982.
91 Memorandum from P.L.Gregson to the PM, 20 April 1982, PM Papers, Post and Telecommunications, Part 4.
92 Letter from Jenkin to the Chancellor of the Exchequer, 24 January 1982, HM Treasury papers JA/1760/01 Part A.
93 Letter from Howe to Jenkin, 9 February 1982, BT/A/3 Part 1.
94 Note of a Meeting between Baker, Wakeham, Jefferson and their officials, 8 March 1982, BT/A/3 Part 1.
95 A report by accountants Coopers & Lybrand to the Treasury in October 1982 confirmed this conclusion. It reported that there was no evidence that BT had so far been restricted from investing by Treasury controls; Coopers & Lybrand Report on British Telecommunications,

30 December 1982, HM Treasury papers, Privatisation: British Telecommunications, AQ/1760/01. The Treasury does not appear to have dwelt on the corollary that this weakened the case for privatisation of BT on financial grounds.

96 Letter from Howe to Jenkin, 20 April 1982, PM Papers, Post and Telecommunications, Part 4.

97 Letter from Jenkin to Howe, 28 June 1982, and reply from Howe, 2 July 1982, both in PM Papers, Post and Telecommunications, Part 4.

98 C(82)19th meeting conclusions, 22 April 1982.

99 TP(0)(82)5th meeting, 4 June 1982.

100 Minute from H.P.Brown, PT2, to Solomon, 11 January 1982, BT/A/3 Part 1.

101 TP(0)(82)10, "British Telecom Privatisation: The Length and Nature of the Interim Regime. Joint Note by the Department of Industry and Treasury", 1 June 1982, BT/A/5. A further possible complication was the prospect of a minority shareholder successfully challenging a Government decision on BT's borrowing on the grounds that it was not in the best interests of the company; minute from F.D. Perryman, Finance Director BT, to PS/Secretary of State for Industry, 25 October 1982, BT/A/17 Part 1.

102 Letter from Sharp to R.H.Wilson, HM Treasury, 25 November 1982, BT/A/8 Part 3.

103 Letter from D.C. Clementi, Kleinworts, to T. Sharp, Department of Industry, 13 September 1982, letters from Sharp to R.H. Wilson, HM Treasury, 13 and 28 September 1982, and letter from Jefferson to Jenkin, 6 October 1982, all in BT/A/8 Part 2. The control system would be set out in S.67 of the 1984 Telecommunications Act should BT remain majority state-controlled for some time. However, once the decision was taken to sell 51% of the shares, the Government's powers over BT plc until the share flotation were confirmed by the informal process of an exchange of letters between the Minister and BT.

104 Correspondence in BT/A/30. Minute from Solomon to PS/Baker, 21 April 1983, BT/A/9 Part 3. Letters from Jefferson to Jenkin, 6 and 20 October 1982, BT/B/54; minute from J.B.K.Rickford to Robson, Department of Industry, 28 October 1982 and other miscellaneous correspondence in BT/A/8 Part 2.

105 E(TP)(82)9, "Future Telecommunications Policy. Note by the Central Policy Review Staff", 28 June 1982, PM Papers, Post and Telecommunications, Part 4.

106 E(TP)(82)8, "Future Telecommunications Policy. Memorandum by the Secretary of State for Industry", 24 June 1982; E(TP)(82)2nd meeting, 30 June 1982, both in PM Papers, Post and Telecommunications, Part 4.

107 *Hansard*, 19 July 1982, columns 23–4.

108 Department of Industry, *The Future of Telecommunications in Britain*, July 1982, Cmnd. 8610.

109 Letter from Jill Rutter, HM Treasury, to David Saunders, PS/Secretary of State for Industry, 20 July 1982, BT/A/3 Part 3. Letter from Howe to Jenkin, 15 July 1982, PM Papers, Post and Telecommunications, Part 4.

110 BT Response to the Secretary of State's Announcement, n.d., BT/A/3 Part 2.

111 Letter from Lord Cockfield to Jenkin, 2 December 1982, PM Papers, Post and Telecommunications, Part 6.

112 E(NI)(82)33, "Monopolies and Mergers Commission Efficiency Investigation. Memorandum by the Secretary of State for Trade and Industry", 15 December 1982.

113 Note from Ferdinand Mount, No. 10 Policy Unit, to the PM, 17 December 1982, and her annotated comment, PM Papers, Post and Telecommunications, Part 6.

114 The Bill amended a number of earlier Acts including the Telegraph Acts of 1863 to 1916 and the Wireless Telegraphy Acts of 1949 and 1967. E(TP)(82)16th meeting, PM Papers, Post and Telecommunications, Part 6. L(82)93, "Telecommunications Bill 1992. Memorandum by the Secretary of State for Industry", 1 November 1982, PM Papers, Post and Telecommunications, Part 6. "Telecoms Bill will benefit all says Patrick Jenkin", DOI Press Release 19 November 1982, BT/A/18 Part 2.

115 Letter from Jenkin to Cockfield, 29 November 1982, PM Papers, Post and Telecommunications, Part 6.

116 Note of the Secretary of State's meeting with the Board of BT, 13 July 1982, and Telecoms Bill: Note of a Meeting at BT Headquarters, 14 July 1982, both in BT/A/3 Part 3. Letter from Jefferson

to Jenkin, 19 July 1982, BT/A/17 Part 1. Letter from Jenkin to Jefferson, 21 July 1982, and BT response to Secretary of State's announcement, both in BT/A/3 Part 3.

117 Minute from I.K.C.Ellison to Berry, n.d., BT/A/52 Part 1.

118 However, there were also some MPs who felt that the Bill did not go far enough in introducing competition and dismantling BT's market dominance.

119 Letter from Lord Cockfield to Jenkin, 11 November 1982, PM Papers, Post and Telecommunications, Part 6. Minute from Baker to Jenkin, 23 February 1983, BT/A/9 Part 3. Letter from Lord Cockfield to Jenkin, 3 December 1982, PM Papers, Post and Telecommunications, Part 6.

120 POEU Press Release 3 November 1982, BT/A/18 Part 2.

121 Baker (1993), pp.81–2.

122 Minute from Nicklen, PS/Secretary of State, to Solomon, BT/A/21 Part 3.

123 Correspondence in BT/C/17 Part 1. Government convention required that government publicity should be relevant to Government responsibilities, objective and explanatory, not tendentious or polemical and should not be liable to misrepresentation as being party political. Nor should Government publicity assume or anticipate Parliamentary approval of legislation. These and other principles were formerly set down later in a memorandum submitted to the Widdicombe Committee of Inquiry into Local Authority Business. The inquiry was held in 1985; PM Papers, Government Machinery: Presentation of Government Policies Part 2, C(P)87, December 1997.

124 C(83) 16th meeting conclusions, 9 May 1983.

125 *Conservative Party Election Manifesto 1983*.

126 Letter from Jefferson to all BT staff, June 1983, BT/A/21 Part 3.

127 Various correspondence in BT/A/18 Part 1.

128 Minute from Solomon to Croft, 24 October 1983, BT/A/21 Part 3.

129 Letter from Tebbit to Tom King, Secretary of State for Employment, 3 February 1984, BT/A/9 Part 5.

130 Miscellaneous correspondence, union publications and letter from Jefferson to all staff in BT, n.d, letter from Jefferson to Tebbit on the legal position, 24 October 1983, and reply by Tebbit, 14 November 1983, and reply from Jefferson, 17 November 1983; from Jefferson to Baker, 31 October 1984, on the unions' campaign; and from Len Murray to Tebbit, 25 November 1983, and reply by Tebbit, 4 January 1984; all in BT/C/12 Part 1.

131 Letter from Sir Richard Butler, President NFU, 17 January 1983, BT/A/18 Part 2.

132 The Post Office Users National Council. POUNC was to be abolished under the Telecommunications Bill.

133 Letter from Shanks to Jenkin, 22 December 1982, BT/A/18 Part 2. Note of a meeting between Department of Industry officials and POUNC, 4 October 1982, BT/A/18, Part 1.

134 Various letters in BT/A/18 Part 2. *Hansard*, 19 July 1982, column 24, and correspondence in BT/A/18 Parts 4, 5, 6 and 7.

135 The Post Office Pension Fund Pre-1969 Deficiency, BT/A/17 Part 1.

136 Letter from David Clementi, Kleinwort, Benson, to H.Brown, Department of Industry, 21 October 1982, BT/A/17 Part 1.

137 Note of a meeting between Howe and Jenkin, 25 October 1982, BT/A/17.

138 Letter from Leon Brittan to Jenkin, 20 October 1992, BT/A/17 Part 1.

139 Notes for Press Conference 19 November 1982, BT/A/18 Part 2.

140 Minute from R.C.Dobbie to PS/Baker, 17 January 1983, and minute from S.Nicklen, PS/Secretary of State, to Solomon, 17 June 1983, both in BT/A/21 Part 3.

141 Minute from P.L.Bunn to MacDonald, 19 October 1983, BT/A/9 Part 4.

142 Letter from D.E. Pitcher to Parkinson, 13 June 1983, along with a copy of Littlechild's report, *Preventing Abuse of a Dominant Position in the Telecommunications Terminal Equipment Market*, 2 June 1983, and note of an internal DTI meeting on the Littlechild report, all in BT/A/18 Part 3. Note from P.L.Gregson to the PM ahead of the E(NI) sub-committee meeting to discuss the BT's Corporate Plan, 23 July 1982, PM Papers, Post and Telecommunications, Part 5. E(NI)(82)6th meeting, 26 July 1982. Minute from J.H.M.Solomon, DTI, to PS/Ministers, 10 October 1983, BT/A/23 Part 1. It is interesting that Littlechild was now recommending a break-up of BT, something that did not feature in his January 1983 report to the Government on economic regulation (chapter 12, pp.276–7). The absence of a recommendation on break up in

this report no doubt reflected the terms of reference but also recognition that this was contrary to Government policy of maintaining a unitary BT.

143 Letter from Jefferson to Jenkin, 17 December 1982, PM Papers, Post and Telecommunications, Part 6. Letter from Jefferson to Jenkin, 28 January 1983; letter from Jenkin to Cockfield, 6 January 1983, reply from Cockfield, 11 January 1983, and a further letter from Jenkin to Cockfield, 4 February 1983; letter from Brittan to Jenkin, 12 January 1983; letter from Sparrow to Cockfield, 3 February 1983; letter from Brittan to Jenkin, 4 February 1983; letter from Cockfield to Jenkin, 4 February 1983; all in PM Papers, Post and Telecommunications, Part 6.

144 DTI Press Release, 15 October 1984, BT/A/12 Part 6. Letter from Sir Edwin Nixon, IBM UK, to the PM, 22 October 1984, BT/A/11 Part 5. Also, correspondence in PM Papers, Post and Telecommunications, Part 9.

145 Tebbit (1988), p.241.

146 "BT Bill: Position of UK Suppliers. Note by the Department of Industry", IT (81)25 Cabinet Official Committee on Information Technology, PM Papers, Post and Telecommunications, Part 3.

147 Speech by Jefferson to the Telecommunications Engineering and Manufacturing Association, 17 March 1983, BT/A/25 Part 2. J. Harper (1997) *Monopoly and Competition in British Telecommunications: The Past, the Present and the Future*, Pinter London, ch.12.

148 E(TP)(82)3, "System X and the UK Telecommunications Industry.Memorandum by the Minister of State for Trade and Industry", 16 April 1982; E(TP)(82) 1st meeting, 22 April 1982; note from Kenneth Baker to the PM 30 March 1982; and letter from BT to GEC, Plessey and STC, 18 May 1982, all in PM Papers, Post and Telecommunications, Part 4. Notes from Jenkin to the PM, 23 July 1982 and 15 September 1983; note from Baker to the PM, 29 September 1982; letter from Howe to Baker, 4 October 1982; all in PM Papers, Post and Telecommunications, Part 5.

149 Note of a meeting on 27 July 1983 with BT to discuss Licence issues, BT/A/23 Part 1. Secretary of State's meeting with Sir George Jefferson, 28 March 1984, BT/A/52 Part 2. DTI note 12 April 1984, BT/A/61 Part 2. How fast procurement of telecommunications equipment would become much more competitive after privatisation was a matter of some uncertainty during the planning of the BT sale.

150 BT's Procurement of Digital Exchanges: A Report by the Director General of Telecommunications and letter from Lansley to Turnbull, 25 July 1985, both in MT Part 9. Correspondence in BT/C/4 Part 4 especially letter from Jefferson to Cecil Parkinson, Secretary of State for Trade and Industry, 7 October 1983. Miscellaneous correspondence in PM Papers, Post and Telecommunications, Part 7.

151 "Objectives" document, 21 July 1983, T1, BT/A/12 Part 3. Letter from R.H. Wilson, HM Treasury, to H.P.Brown, DTI, 18 July 1983, BT/A/12 Part 3.

152 Various correspondence in BT/A/25 Part 2. The parliamentary guillotine places a limit on the length of a debate.

153 Correspondence in BT/A/62 Part 1.

154 CC(84)4th meeting conclusions, 2 February 1984.

155 CC(84)8th meeting conclusions, 1 March 1984.

156 Letters from Howe to Tebbit, 4 November 1983 and 14 November 1983, and Tebbit to Howe, 9 November 1983 and 21 November 1983, all in BT/B/155.

157 Note of a Meeting with BT on 1 October 1984, BT/A/38 Part 1. Letter from Kenneth Baker to Andrew Rowe, MP, 15 November 1983, in E(DL) Part 8.

158 "Privatisation: Present Situation and Prospects. Report by the Secretary of State for Industry", 13 September 1982, E(DL) Part 6.

159 Note from Walters to Scholar, 14 October 1982, PM Papers, Post and Telecommunications, Part 5.

160 Young (1990), p.51. Later Young conceded that the accounting systems in BT were such that it would take many years for his preferred restructuring to be achieved; ibid., p.52.

161 Minute from E.E.R.Butler, Principal Private Secretary No. 10, to Sparrow, CPRS, 1 September 1982, PM Papers, Post and Telecommunications, Part 5.

162 Minute from S. Nicklen, PS/Secretary of State, to Solomon, 21 June 1983, BT/A/21 Part 3.

163 Note from Michael Scholar to John Sparrow, 8 September 1982, PM Papers, Post and Telecommunications, Part 4. Minute from Croft to PS/Jenkin, 8 November 1982, and minute from Ellison to PS/Jenkin, November 1982, both in BT/A/21 Part 1. Note from Sparrow, CPRS, to Scholar, 18 October 1982, PM Papers, Post and Telecommunications, Part 5. Baker (1993), p.81.

164 Letter from J.P.Spencer, PS/Secretary of State for Industry to Michael Scholar, PS to the PM, 13 October 1982, and Department of Industry paper, The Scope for Breaking in British Telecommunications in the Light of American Experience, 11 October 1982, both in PM Papers, Post and Telecommunications, Part 5.

165 Minute from M.C.Scholar, PS No. 10, to Jonathan Spencer, DOI, 9 November 1982, PM Papers, Post and Telecommunications, Part 5. Note from Scholar to Jonathan Spencer, DOI, 9 September 1982, MT841 Post and Telecommunications papers Part 4. Given the importance of the privatisation of BT, it takes up surprisingly little space in Margaret Thatcher's memoirs (Thatcher, 1993, p.680) – one page. In particular there is only the briefest of comments on the controversy over whether BT should be broken up at or before privatisation: "But if we wanted to go further and break up BT into separate businesses, which would have been better on competition grounds, we would have had to wait many years before privatization could take place. This was because its accounting and management systems were, by modern standards, almost nonexistent. There was no way in which the sort of figures which investors would want to see could have been speedily or reliably produced." There is no discussion of the other controversies that surrounded the sale.

166 Minute from Ellison to PS/Baker, 26 July 1983, BT/A/9 Part 4.

167 Minute from J.H.M.Solmon, HD/T, DTI, to PS/Ministers, 10 October 1983 and Minute from I.K.C.Ellison to PS/Kenneth Baker, both in BT/A/23 Part 1. Note of Secretary of State's meeting with Sir George Jefferson and other representatives of BT, 11 October 1983; Ministerial Group on BT Flotation: Policy Issues Concerning the BT Licence. Note by Department of Trade and Industry Officials, 14 October 1983; both in BT/A/23 Part 2. Note of a meeting on 27 July with BT to discuss Licence issues, 3 August 1983, BT/A/23 Part 1. Note in BT/A/23 Part 1.

168 Note of the Secretary of State's meeting with Jefferson, 17 July 1983, BT/A/21 Part 3. The new Secretary of State for Trade and Industry after the Election, Cecil Parkinson, was very keen in principle on breaking up BT to foster competition. He notes in his autobiography that he had been "unhappy about the original bill" that had fallen at the General Election, preferring to see more competition introduced (Parkinson, 1992, *Right at the Centre: an autobiography*, p.241). However, in his brief period in office there were no noticeable changes in policy towards the privatisation of BT. It appears that he recognised that it was too late or too difficult to achieve a break-up. Parkinson did make some changes to the Bill, but these were matters of detail relating, for example, to the Secretary of State's and the DGT's statutory duties and BT's public service obligations.

169 BT Flotation Joint Steering Group, agenda for meeting on 1 August 1983, BT/A/51. Draft letter to John Moore, Financial Secretary to the Treasury, from Kenneth Baker, 9 November 1983, BT/A/20 Part 5.

170 Access Fees, by Bruce Laidlaw, DOI, 31 March 1983, BT/A/20 Part 4.

171 Minute from M.C.McCarthy, PS/Secretary of State for Trade and Industry, to Ellison, 26 October 1983, BT/A/9 Part 4. Note of meeting with Eric Sharp 25 October 1983, BT/A/18 Part 3.

172 Note from Jonathan Phillips, DTI, 8 September 1983, BT/A/23 Part 1.

173 Letter from Jenkin to Cockfield, Department of Trade, 29 November 1982, PM Papers, Post and Telecommunications, Part 6. Note from I.K.C. Ellison to Bradbury, 26 January 1983, BT/A/20 Part 3. Minute from J.H.Rickard, HM Treasury, to the Economic Secretary, 14 October 1983, BT/A/9 Part 4. Minute from Ellison to PS/Jenkin, 9 November 1982, BT/A/21 Part 1.

174 Note of a meeting held on 5 October 1983 with BT on the Licence, BT/A/23 Part 1.

175 Minute from R.H.Wilson to J.H.Rickard, 23 December 1982, HM Treasury papers N/1368/1399/01 Part B.

176 Letters from Moore to Tebbit, 8 November 1983, and from Moore to Baker, 10 November 1983, both in PM Papers, Post and Telecommunications, Part 7.

177 Resale: BT Position Paper, 10 October 1983, BT/A/9 Part 4.
178 Minute from MacDonald to Croft, 12 March 1984, and minute from McMillan to Macdonald, 21 May 1984, both in BT/A/9 Part 6.
179 Letter from Andrew Turnbull, PS No. 10, to M.C.McCarthy, 7 November 1983, BT/A/9 Part 4. Mercury was not in favour of unrestricted resale of BT circuits, which it saw as a possible threat to its business. Later Mercury would change its mind.
180 Note of a Meeting on Interconnect, Resale and Related Issues, 12 July 1983, and letter from Baker to Jefferson, 3 October 1983, both in BT/A/9 Part 4. Letter from John Moore, Financial Secretary to the Treasury, to Kenneth Baker, 24 November 1983, BT/A/20 Part 5.
181 Letter from Jefferson to Baker, 13 April 1984, BT/A/9 Part 6.
182 Minute from MacDonald to PS/Secretary of State, 28 February 1984, minute from McMillan to Croft, 2 March 1984, letter from Baker to Lord Cockfield, 2 March 1984, all in BT/A/9 Part 5.
183 Note by Andrew Lansley, PS/Secretary of State for Trade and Industry, 12 April 1984, BT/A/26 Part 3.
184 BT Prospectus, p.17, BT/A/18 Part 6. Mercury's licence was broadly equivalent but without the universal service obligations placed on BT.
185 Telecommunications Act: British Telecom's Licence, draft press notice, n.d., BT/A/23 Part 2.
186 Note by MacDonald, Head T Division, 15 June 1984, BT/A/26 Part 4.

12 PRIVATISING BRITISH TELECOM: OFTEL AND REGULATING PROFITS OR PRICES

1 Note from J.H.M.Solomon, HD/PT, to Croft, 1 April 1982, BT/A/5.
2 E(T)(82)6, "Regulation of Telecommunications. Note by the Chairman of the Official Committee on Telecommunications Policy", 18 June 1982, PM Papers, Post and Telecommunications, Part 4.
3 E(TP)(82)5, "Scope for Further Liberalisation of Telecommunications. Memorandum by the Secretary of State for Industry", 4 June 1982, PM Papers, Post and Telecommunications, Part 4. BT also started out by claiming that telecommunications was a natural monopoly on grounds of economies of scale, as evidenced in Professor Beesley's report to the Secretary of State on telecommunications liberalisation in January 1981; HMSO (1981), Appendix 2.
4 E.g. "Telecommunications Regulation: The Options for the Regulatory Instrument", September 1982, paragraph 2, BT/A/20 Part 1.
5 Minute from T.U.Burgner to W.S.Ryrie, 3 July 1981, HM Treasury papers JA/1760/01 Part A.
6 Minute from A.N.Ridley to the Chancellor of the Exchequer, 16 November 1982, HM Treasury papers N/1368/1399/01 Part A.
7 Report of the Inter-Departmental Group on Rate of Return Regulation in Telecommunications – Reply by DOI to Comments Thereon by Professor Walters, October 1982, BT/A/20 Part 1.
8 Draft reply from PM to Richard Shepherd, MP, 16 May 1983, BT/A/9 Part 4.
9 Associated with the Averch-Johnson effect, see below.
10 Note of a Meeting 26 August 1982 to discuss the proposed Regulatory Authority under the Telecommunications Act, BT/A/9 Part 1. Letter from N.E.D.Burton, Secretary to the MMC, to Ian Ellison, 23 September 1982, BT/A/9 Part 2. Within the Department of Industry, Ellison was the official primarily involved with regulation issues.
11 Regulation of Telecommunications: The Competition Aspects, March 1982, BT/A/9 Part 1; letter from L. Lightman, OFT, to S.G.Linstead, Department of Trade, 3 August 1982, BT/A/9 Part 1; Telecoms Regulations: Note of a Meeting, 30 September 1982, BT/A/9 Part 3.
12 Minute from E.A.Riley, Assistant Private Secretary (APS)/Baker, to Ellison, 7 June 1982, BT/A/0 Part 1.
13 Minute from Ellison to Private Secretary (PS)/Secretary of State, 27 September 1982, BT/A/9 Part 2.
14 Minute from G.M.A. Lambert, T Division, to Gunner, 15 August 1983, BT/A/21 Part 3.

15 Draft for Telecommunications Bill Part 4, July 1982., BT/A/9 Part 1. Minute from C.J.A. Chivers, 5 August 1983, and letter from Kenneth Baker to Barney Hayhoe, Minister of State HM Treasury, 22 September 1983, both in HM Treasury papers N/12/1399/01 Part C.
16 Letter from Ellison to S.Linstead, Department of Trade, 21 September 1982, BT/A/9 Part 2.
17 Minute from Croft to Solomon, n.d.; minute from Ellison to PS/Jenkin, n.d., and letter from Cockfield to Jenkin, 3 December 1982, both in BT/A/21 Part 2.
18 Letter from D.C.Clementi, Kleinwort Benson, to Dr R. Dobbie, Department of Industry, 21 September 1982, BT/A/1 Part 2.
19 Minute from M.S.Bradbury to Solomon, 18 June 1982, BT/A/84 Part 1.
20 Minute from Robert Armstrong, Cabinet Secretary, to the PM, 30 June 1982, PM Papers, Post and Telecommunications, Part 4.
21 The exception would be for specialist technical posts where different terms and conditions of employment might need to apply.
22 Letter from J.B.Stuttard, CPRS, to Ellison, 23 September 1982, BT/A/9 Part 2.
23 E(TP)(82)6, "Regulation of Telecommunications. Note by the Chairman of the Official Committee on Telecommunications Policy", 18 June 1982, PM Papers, Post and Telecommunications, Part 12. Letter from T.R.M.Simon, Management and Personnel Office, to Ellison, 6 September 1982, BT/A/9 Part 2.
24 Minute from C.J.A. Chivers, 21 July 1983, HM Treasury papers British Telecommunications Privatisation – Regulation of BT (OFTEL) N/12/1399/01 Part C.
25 Minute from A.M.White to Chivers, 3 August 1983, HM Treasury papers N/12/1399/01 Part C.
26 BT Response to Secretary of State's Announcement, n.d., BT/A/3 Part 2.
27 Aide-memoire, 10 November 1982, BT/A/9 Part 3. Minute from B.Murray to Solomon, Department of Industry, 10 March 1983, BT/A/8 Part 3.
28 Minute from R.H.Wilson, 2 March 1983, HM Treasury papers N/12/1399/01 Part C.
29 BT Press Notice 19 November 1982, BT/A/21, Part 1.
30 Carsberg was also an adviser on the issuing of a second cellular phone licence, to Racal/Vodafone.
31 Minute from Joyce Blow, MSM Division DTI, to Baker, 27 July 1983, BT/A/9 Part 4.
32 Letter from Baker to Rees, 29 July 1983, BT/A/9 Part 4.
33 Minute from Solomon to PS/Secretary of State, 31 January 1983, BT/A/9 Part 3, and minute from S.Nicklen to Croft, 17 November 1983, BT/A/9 Part 4. The Treasury all along suspected that the reason why the DTI favoured a second permanent secretary grading was that this normally automatically led to a knighthood, Minute from Chivers, 5 August 1983, HM Treasury papers N/12/1399/01 Part C.
34 Letter from Barney Hayhoe to Baker, 1 November 1983, HM Treasury papers N/12/1399/01 Part C. The Treasury was unconvinced that the post was necessary and argued that if appointed the person should be at assistant secretary level only.
35 Letter from Brian Hayes, Permanent Secretary DTI, to Sir Peter Middleton, HM Treasury, 2 February 1984, BT/A/9 Part 5. There was also difficulty over the pension arrangements.
36 Tebbit (1988), p.219.
37 It seems that Carsberg first became aware that he might be appointed when *The Times* newspaper tipped him for the post. Before leaving for the USA Carsberg wrote to Baker saying that he wanted to take the job, but could not do so on the terms set out. In his memoirs Baker says that the phone call was made in 1983, Baker (1993), p.83. This appears to be a mistake. Government records show that Carsberg was offered the job in March 1984.
38 Minute from Tebbit to the PM, 28 March 1984 and from Lawson to the PM, 28 March 1984, both in BT/A/9 Part 6.
39 By this time a "shadow" OFTEL had been established within the DTI consisting of around 30 civil servants.
40 Note from Kenneth Baker to named officials and other ministers in the Department of Industry, 5 October 1982, in BT/A/20 Part 1.
41 Working Group on BTL's Rate of Return on Capital, Note by the Chairman, 3 September 1982, in BT/A/20 Part 1.

42 E(TP)(82)6, "Regulation of Telecommunications. Note by the Chairman of the Official Committee on Telecommunications Policy", 18 June 1982, PM Papers, Post and Telecommunications, Part 12; E(TP)(82) 2nd meeting, June 1982.
43 Working Group on BTL's Rate of Return on Capital. Note of First Meeting, 7 September 1982, BT/A/20 Part 1.
44 Letter from M.S.Bradbury, Economics Branch 1A, Department of Industry, to H. Brown in T division, Department of Industry, 1 September 1982, in BT/A/20, Part 1.
45 Minute from G.M.A. Lambert to Dr Dobbie, Department of Industry, 18 August 1982, BT/A/9 Part 1.
46 Littlechild (2003a), p.5, footnote 13.
47 Working Group on BTL's Rate of Return on Capital. Note of Fourth Meeting, 21 September 1982, BT/A/20 Part 1
48 Proposals for Controlling Monopoly Profits Earned by British Telecommunications PLC and for Promoting Greater Efficiency in its Operations, Telecommunications Division, Department of Industry internal document, 14 October 1982, and Rate of Return Regulation in Telecommunications, report of the Working Group on BTL's Rate of Return on Capital, both in BT/A/20 Part 1.
49 H. Averch and L. Johnson (1962) "Behavior of the firm under regulatory constraint", *American Economic Review*, vol.52, pp.1052–69.
50 Note from Jim Shine, EC1A Department of Industry to Members of the Working Group on Return on Capital, 7 September 1982, in BT/A/20 Part 1. The failure of rate of return regulation and tariff setting in US telecommunications is discussed in detail in "Rate of Return Regulation in Telecommunications", report of the Working Group on BTL's Rate of Return on Capital, Annex II, BT/A/20 Part 1
51 Note on the Report of the Department of Industry Group on Rate of Return Regulation in Telecommunications; also, memorandum from R.H.F.Croft, Deputy Secretary DOI, to J.P.Spencer, the PS/Secretary of State for Industry, 15 October 1982; both in BT/A/20 Part 1
52 Note of a Meeting 25 September 1982, BT/A/9 Part 3. Minute from R.H.Wilson, HM Treasury papers N/1368/1399/01 Part A.
53 Minute from R.H.Wilson to T.U.Burgner, 19 November 1982, HM Treasury papers N/1368/1399/01 Part A; minute from T.U.Burgner to R.H.F.Croft, Department of Industry, 6 December 1982, HM Treasury papers N/1368/1399/01 Part B. Nevertheless, the Treasury continued to press for there to be regular MMC inquiries into BT's efficiency.
54 Walters to Scholar, 23 June 1982, MT841 Post and Telecommunications papers Part 4. Letter from Walters to Bradbury, 1 October 1982, PM Papers, Post and Telecommunications, Part 5. Letter from Walters to Baker, 11 January 1983, BT/A/18 Part 2.
55 Working Group on BTL's Rate of Return on Capital. Note of Third Meeting, 17 September 1982, BT/A/20 Part 1.
56 Internal memorandum from Bradbury to Ellison in the Department of Industry along with a summary of the Working Group's conclusions, September 1982, in BT/A/20 Part 1.
57 Ibid., paragraph 8. Note from Walters to Scholar, 21 October 1982, PM Papers, Post and Telecommunications, Part 5.
58 Report of the Inter-Departmental Group on Rate of Return Regulation in Telecommunications – Reply by the Department of Industry to Comments Thereon by Professor Walters, October 1982, BT/A/20 Part 1.
59 Ibid., Annex 3 reporting Professor Beesley's views.
60 Ibid., main report.
61 Telecoms Regulation: Note of a Meeting held in the Department of Industry on Monday 6 October to Discuss Rate of Return, in BT/A/20 Part 1.
62 Note of a Meeting with Professor Walters on 20 October 1982, note dated 28 October, BT/A/20 Part 1. Letter from Jenkin to Lord Cockfield, Department of Trade, 29 November 1982. PM Papers, Post and Telecommunications, Part 6 Littlechild's terms of reference included to "prepare a practical scheme for an output related profits levy", "evaluate the strengths and weaknesses of an output related profits levy and of the controls on BT's profitability proposed by the

inter-departmental working group", and "consider relevant variants of [these] schemes", Regulation of BT's Profitability: Terms of Reference", HM Treasury papers N/1368/1399/01 Part B. Memorandum from J.P. Spencer, PS/Secretary of State for Industry, to R.H.F.Croft, Deputy Secretary DOI, 18 October 1982, in BT/A/20 Part 1.

63 Memorandum from Jenkin to the PM, 8 November 1982; also note from Walters to Scholar, 8 November 1982, both in PM Papers, Post and Telecommunications, Part 6.

64 Letters from Malcolm Argent, BT, to Ian Ellison, Department of Industry, 2 December 1982, BT/A/20 Part 2.

65 Littlechild later talked to them about the RPI – X idea proposed for the aborted Buzby bond. His final report states: "In preparing this Report, I have benefited from discussions with a large number of people especially at DoI, HM Treasury, CPRS, Prime Minister's Office, BT, Kleinwort Benson and Warburgs." S.C. Littlechild (1983) *Regulation of British Telecommunications' Profitability, Report to the Secretary of State*, London: Department of Industry, February.

66 Letter from John Sparrow, CPRS, to Jenkin, 15 November 1982, BT/A/21 Part 1. Letter from J.B.Stuttard, CPRS, to I.Ellison, Department of Industry, 8 October 1982, BT/A/20 Part 1.

67 Note of Mr Baker's meeting with Sir William Barlow on 30 November 1982, note dated 7 December, BT/A/20 Part 2.

68 Letter from G.T.Boon, MMC, to J.B.Stuttard, CPRS, 19 October 1982, BT/A/20 Part 1.

69 "An Output Related Profits Tax" S.C. Littlechild, 24 November 1982, BT/A/20 Part 1.

70 Memorandum from Bruce Laidlaw, Ecla, DOI, to I. Ellison, 1 December 1982.

71 "Variants of Rate of Return Regulation" by S.C. Littlechild, 29 November 1982, BT/A/20 Part 2.

72 S.C. Littlechild (2003a) "The birth of RPI – X and other observations", in I. Bartle (ed.), *The UK Model of Utility Regulation: a 20th anniversary collection to market the 'Littlechild Report' – retrospect and prospect*, Bath: Centre for the study of Regulated Industries, University of Bath, p.32.

73 "Regulation of BT's Profitability. First Draft of Report", S.C. Littlechild, December 1982, BT/A/20 Part 2.

74 Comment on Professor Littlechild's draft report, unsigned and undated, BT/A/20 Part 2.

75 Minute from Bruce Laidlaw to Ian Ellison, 20 December 1982, BT/A/20 Part 2.

76 He also favoured allowing "resale à la Beesley"; minute from E.A.Riley, APS Kenneth Baker, to Solomon and quoting Baker, 6 January 1983, BT/A/20 Part 2.

77 Minute from David Saunders to Solomon, 10 January 1983, BT/A/20 Part 2.

78 Note of a Meeting to Discuss Professor Littlechild's Draft Report on the Regulation of BT, 5 January 1983, BT/A/20 Part 2.

79 Minute from J.H.Rickard to R.H.Wilson, 20 December 1982, and reply from Wilson, 23 December 1982, HM Treasury papers N/1368/1399/01 Part B.

80 Minute from M.S. Bradbury to Croft, 7 January 1983, BT/A/20 Part 2.

81 Minute from B.H. Laidlaw, Ec 1a, to Solomon, 12 January 1983, in BT/A/20 Part 2.

82 Littlechild (1983).

83 Littlechild (2003a), p.35.

84 Valentine (2006), p.131 & p.165. Littlechild (1983, para. 13.15) briefly acknowledges the similarity of his proposal to that put forward earlier for the Buzby bond. He also draws attention in his report to a recent proposal by the MMC to control profits in the supply of contraceptive sheaths, involving price rises adjusted by less than inflation (para. 14.5). However, there is no evidence in Government papers that this report had a material influence on the decision to adopt a price cap for BT.

85 "Regulation of BT's Profitability", note from the economics section, Department of Industry, 22 December 1982, BT/A/20 Part 2.

86 Littlechild (1983), para.1.5a. The same point is repeated in paras. 4.7 and 4.8. In para.6.17 he also commented reflecting his position in the earlier draft report: "To summarise, there would be a number of significant advantages in imposing no explicit constraints on BT's profits. Efficiency and innovation would not be discouraged, the burden of regulation would be negligible, and BT's prospects would be good."

87 Regulation of BT's Profitability. Report by Professor S.C. Littlechild, note from the economics section, Department of Industry, January 1983, BT/A/20 Part 3.
88 Letter from Walters to Bradbury in the Department of Industry, 18 January 1983, BT/A/20 Part 2. In his report, Littlechild (1983, Appendix 2, para. 5) also recommended "further study . . . as there could well be other situations more favourable to the adoption of the ORPL."
89 Minute from Solomon to Croft, 24 January 1983, BT/A/20 Part 3.
90 Regulation of BT's Profitability. Note by the Department of Industry, nd (January 1983), BT/A/20 Part 3.
91 Letter from John Sparrow, CPRS, to Patrick Jenkin, 28 January 1983, BT/A/20 Part 3.
92 Minute from T.Sharp, Ti, Department of Industry, to Croft, 19 January 1983, BT/A/20 Part 2.
93 Minute from J.R.Shepherd to Croft, Department of Industry, 26 January 1983, BT/A/20 Part 3.
94 Littlechild (2003a), p.33.
95 Internal minute to Solomon, undated (January 1983), BT/A/20 Part 3.
96 Minute from N.M.McMillan, PS/Kenneth Baker, to Croft, 25 January 1983, BT/A/20 Part 3.
97 Notes of Meetings held to discuss the Government's proposed response to the Littlechild report, 1,2 and 3 February 1984, BT/A/21 Part 2. Note of a Meeting with BT to discuss Littlechild's report, 1 February 1982, BT/A/20 Part 3.
98 Tariff Reduction Scheme for British Telecommunications, economics section paper, Department of Industry, 28 January 1983, BT/A/20 Part 3.
99 Regulation of BT's Profitability. Note by the Department of Industry, January 1983, BT/A/20 Part 3.
100 Note of a Meeting held at the Treasury on 21 January 1983 to discuss British Telecommunications Privatisation, HM Treasury papers N/1368/1399/01 Part C.
101 Note 3 February 1983, PM Papers, Post and Telecommunications, Part 6 *Hansard,* 7 February 1983, columns 633–4: "Telecommunications Regulation" DOI Press Notice, 7 February 1983, BT/A/20 Part 3.
102 "Telecommunications Regulation", DOI Press Release, 7 February 1983, BT/A/9 Part 3.
103 Telecom Bond, draft Department of Industry document, 4 November 1981, BT/A/1 Part 2.
104 Coopers & Lybrands, BT's auditors, were commissioned by BT to undertake a study of the Corporation's cost structure but it seems that the Treasury wanted to see an alternative study undertaken.
105 Under the Department of Industry's maximum and minimum rate of return proposal there was provision for the MMC to undertake five yearly reviews of BT's performance, but with the rejection of the scheme this was shelved; minutes from R.H.Wilson, 19 January 1983 and 21 February 1983, HM Treasury papers N/12/1399/01 Part C.
106 Work by Consultants on Real Price Objectives for British Telecommunications, n.d. (February) and letter from A.G. Mayo, MMC, to Bradbury, Department of Industry, 17 February 1983, minute from Bradbury to Solomon, 18 February 1983, minute from Solomon to PS/Baker, 18 February 1983, all BT/A/20 Part 3.
107 Note from H.P.Brown to Sharp, Department of Industry, 11 February 1983, BT/A/20 Part 3.
108 Minute from B. Murray to Laidlaw, Department of Industry, 2 March 1983, BT/A/20 Part 3. In an early draft of BT's licence the RPI – X formula was to be set by reference to a forecast of inflation. Later this was changed on the grounds that it would be difficult to forecast inflation accurately. The price cap finally set would be based on the RPI in the previous year. If inflation was to change sharply from one year to the next this could have a serious effect (positive or negative) on BT's finances. In such circumstances the company would be able to apply to the DGT for the cap to be amended or the DGT could chose to amend the cap, subject to referral to the MMC in cases of disagreement; RPI – X License Issues, 17 April 1984, BT/A.48 Part 2.
109 Letter from Jefferson to Jenkin, 18 March 1983; minute from Croft to Solomon, 10 March 1983, letter from Croft to A.M. Bailey, HM Treasury, 25 March 1983, all BT/A/20 Part 3.
110 At this time Carsberg was being considered for the post of DG OFTEL and Baker was keen to include him in the Study Team to test him out.
111 Letter from Jenkin to Jefferson, 31 March 1983, BT/A/20 Part 3. Minute from Bradbury to Sharp, 21 April 1983, BT/A/20 Part 4.

112 Letter from R.H. Wilson, HM Treasury, to T.Sharp, 22 April 1983, BT/A/20 Part 4.
113 Letter from R.H. Wilson, HM Treasury, to Solomon, 27 April 1983, BT/A/20 Part 4.
114 Letter to Professor Carsberg, 25 April 1983, BT/A/20 Part 4.
115 Letter from Sharp to F.D.Perryman, Board Member for Finance, BT, 26 May 1983, BT/A/20 Part 4.
116 Minute from J.H. Rickard, HM Treasury, to the Economic Secretary, 14 October 1983, BT/A/20 Part 4. Minute from J.H.Rickard to R.H.Wilson, 7 January 1983, HM Treasury papers N/1368/1399/01 Part C.
117 Minute from A.J. Macdonald to Croft, 7 February 1984, BT/A/12 Part 3.
118 Valentine (2006), p.159.
119 Terms of Reference of the RPI – X Study Group, n.d.; minutes of the First Meeting of the Group, 27 June 1983; memorandum from A.J.Vardy, BT, 10 August 1983; all in BT/A/48 Part 1. Letter from John Moore, Financial Secretary to the Treasury, to Baker, 24 November 1983, BT/A/20 Part 5.
120 Interim Report of the RPI – X Study Group, 19 September 1983, BT/A/48 Part 1.
121 "RPI – X: Meeting between Mr Baker and Sir George Jefferson on 6 October 1983, BT/A/20 Part 4.
122 Minute from J.H. Rickard, HM Treasury, to the Economic Secretary, 14 October 1983, BT/A/20 Part 4.
123 Note of Secretary of State's Meeting with Sir George Jefferson and other Representatives of BT, 6 October 1983, BT/A/23 Part 2. Minutes of meeting of RPI – X Steering Group 31 October 1983, BT/A/48 Part 1.
124 The decision to include the RPI – X formula in BT's licence was confirmed at the committee stage of the Telecommunications Bill, on 22 November 1983, although a number of details were still to be settled.
125 Minute from Rickard to Wilson, 2 February 1984, BT/A/48 Part 1.
126 Minute from R.H.F.Croft, Deputy Secretary, to PS/Kenneth Baker, 13 January 1984, BT/A/20 Part 5.
127 Minutes of the Study Group meeting 16 January 1984 and meeting with DTI/Treasury on the BT Licence, 17 January 1984, both in BT/A/48 Part 1.
128 Letter from R.H. Wilson, HM Treasury, to T.Sharp, 10 January 1983, in BT/A/20 Part 5.
129 Minute from M.S. Bradbury to Laidlaw, 18 January 1984, BT/A/20 Part 5.
130 RPI – X. Note for Discussion between Financial Secretary Treasury and Minister of State DTI by Bradbury, 9 February 1984, BT/A/20 Part 5.
131 Draft DTI Paper for High Level Meeting with BT on RPI – X, 6 January 1984, minute from Bradbury to Laidlaw, 18 January 1984, both in BT/A/48 Part 1.
132 RPI – X: The Effect of Varying X, BT/A/48 Part 1.
133 Draft note by R.H.F.Croft, 17 January 1984, BT/A/20 Part 5.
134 DTI Paper for High Level Meeting with BT on RPI – X, 6 January 1984, BT/A/20 Part 5.
135 Minute from Bradbury to Croft, 2 February 1984, BT/A/48 Part 1.
136 RPI – X. Note for Discussion between Financial Secretary Treasury and Minister of State DTI by Bradbury, 9 February 1984, BT/A/20 Part 5.
137 Note for discussion between Financial Secretary Treasury and Minister of State DTI, 9 February 1984; letter from Baker to Jefferson, 13 February 1984; minute from McMillan, PS/Baker, to MacDonald, 15 February 1984; all in BT/A/48 Part 1.
138 R.O'B Davis, *Report to Minister of State for Industry and Information Technology*, draft, March 1984, BT/A/48 Part 2. The first draft of the report was more favourable to BT than the final report, suggesting that X should be no more than 1% or 2%. This was altered after discussion with the DTI and Treasury officials. The draft report was judged by DTI officials to be disappointing; Note of a meeting on 7 March 1984 to Discuss a Draft Report on RPI – X by Mr Davis; minute by M.S.Bradbury, RPI – X: Draft report by Mr Davis, March 1984; Ministerial Group on BT Flotation, RPI – X: Note by the Department of Trade and Industry, n.d.; all in BT/A/48 Part 2. In his draft report Davis repeated that "simple though the concept [RPI – X] was as envisaged, it has proved to be fraught with difficulty to decide how it should apply in practice . . . I conclude that RPI – X is going to be very imperfect and cannot substitute for competition in improving

BT's efficiency" (draft report paras. 1.9 and 10.1). It is also the case that Davis doubted whether any price cap set could survive a five year period without an interim price review (para. 10.1).

139 Minute from Andrew Lansley, PS/Secretary of State for Trade & Industry, to Croft, 23 March 1984, BT/A/26 Part 3.

140 DTI paper, The Implications of Varying 'X', n.d.; minute from B.Laidlaw to PS/Baker, 4 April 1981; both in BT/A/48 Part 2.

141 Secretary of State's meeting with Sir George Jefferson, 28 March 1984, BT/A/52 Part 2. BT objected to the suggestion from the DTI that £500m of debt be substituted by new preference shares and preferred that this debt be converted entirely into normal equity. This would have left BT with a gearing of around 35%. The DTI had started out with a target gearing of up to 80% but had now reduced this to 50%, as a concession to BT; Notes of meetings with BT on RPI – X and Capital Structure, 19 March and 6 April 1984; letter from Tebbit to Lawson, 2 April 1984; both in BT/A/48 Part 2.

142 Minute from the Financial Secretary to the Chancellor of the Exchequer, 27 February 1984, HM Treasury papers N/1368/1399/01 Part C.

143 Note of a meeting with BT on capital structure and RPI – X, 12 April 1984, BT/A/52 Part 2.

144 Notes of the meetings, BT/A/48 Part 2.

145 Letter from Leon Brittan, Chief Secretary, Treasury, to Jenkin, 29 November 1982 and reply by Jenkin, 6 December 1982, both in PM Papers, Post and Telecommunications, Part 6. Jenkin acknowledged that BT's forecasting "has contained too much fat". Letter from Jenkin to Howe, 22 March 1983, MT841 Post and Telecommunications papers Part 6. Minute from Sharp to PS/Baker, 15 July 1983, BT/A/11 Part 5.

146 Note of a meeting in No. 11 Downing Street, 10 April 1984, BT/Z/52 Part 2. Letter from Lansley, PS DTI, to Turnbull, PS to the PM, 19 April 1984, PM Papers, Post and Telecommunications, Part 8. Some of the debt was assigned to meet deed of covenant obligations under BT's pension schemes, DTI Press Release, 2 May 1984, BT/C/30 Part 2.

147 Minute from N.M. McMillan, PS/Baker, 19 April 1984; meeting on 18 April with BT to discuss RPI – X; both in BT/A/48 Part 2.

148 Brief for the Secretary of State's meeting with the PM, 25 April 1984, BT/A/48 Part 3.

149 Various correspondence, 24–25 April 1984, in BT/A/52 Part 2.

150 Minutes from Lansley, PS/Secretary of State for Trade and Industry, to Sharp, 25 April 1984, BT/A/48 Part 3.

151 Minute from McCarthy, PS/Secretary of State for Trade and Industry, to Croft, 3 May 1984, BT/A/48 Part 3.

152 Letter from Jefferson to Baker, 24 April 1984, BT/A/48 Part 2. Letter from Jefferson to Tebbit, 25 April 1984, PM Papers, Post and Telecommunications, Part 8.

153 Minute from McMillan, PS/Baker, to Croft, 25 April 1984, BT/A./48 Part 3.

154 Letter from Tebbit to Lawson, 30 April 1984, PM Papers, Post and Telecommunications, Part 8. In his memoirs, Nigel Lawson states, "In the case of British Telecom, there was a major argument as to how big the x-factor should be, with the company (supported by Norman Tebbit) arguing for 2%, while I wanted 4%. Inevitably, we eventually compromised on 3%." Lawson (1992), p.223. This is a very brief summary of the controversy.

155 *Hansard*, 2 May 1984, column 353.

156 BT News release, 2 May 1984, BT/A/48 Part 3.

157 Letter from F.P.Bogan, HM Treasury, to T.Flescher, PS to the PM, 25 April 1984, PM Papers, Post and Telecommunications, Part 8.

158 Note in BT/A/25 Part 2.

159 Tariff Reduction Scheme for British Telecommunications, Department of Industry, 28 January 1983, BT/A/20 Part 3.

160 In fact, the DGT did have power to pursue a change to the price cap before 1989 but chose not to exercise it.

161 Minute from Bradbury to Sharp, 8 October 1984, BT/A/20 Part 5.

162 Cited in K. Newman (1986) *The Selling of British Telecom*, London: Holt, Rinehart and Winston, p.12.

163 Letter from Vander Weyer to Valentine, Warburgs, 25 May 1984, BT/C/15 Part 5.

13 PRIVATISING BRITISH TELECOM: THE FLOTATION AND REPERCUSSIONS

1 British Telecom – Methods of Achieving Broadly Based Ownership, n.d., BT/A/31 Part 1.
2 The Kleinworts team on the privatisation of BT was James Rockley, Martin Jacomb and David Clementi. In charge in the Department of Industry was Roy Croft, a Deputy Secretary. Sir William Ryrie led the Treasury team. Andrew Smither, Michael Valentine and Nick Fry represented Warburgs. In BT the Directors most involved with the privatisation were Sir George Jefferson (Chairman), Deryk VanderWeyer (Deputy Chairman) and Douglas Perryman (Finance Director).
3 Undated draft note in BT/A/3 Part 1.
4 The recalculation was provoked by a back of the envelope calculation in the Treasury and was understood to be a very rough estimate. Undated note (probably July 1983) in BT/A/12 Part 3.
5 Prior to BT, the largest equity share offer anywhere in the world had been a secondary offering by AT&T in America, valued at just over US$1bn.
6 Report by Technology Group Research, de Zoete & Bevan, September 1983, BT/A/56, Part 1.
7 *Hansard*, 29 November and 14 December 1983.
8 Lawson (1992), p.222.
9 E(TP)(82)7, "Privatisation of British Telecommunications: Interim Regime. Note by the Chairman of the Official Committee on Telecommunications Policy" and the attached Official Report, PM Papers, Post and Telecommunications, Part 4. Campbell (2003), p.237 notes that John Redwood, at the time head of the No.10 Policy Unit, has claimed credit for persuading the PM of the case for selling shares directly to the public through a wide marketing campaign. The idea was also developed within the Department of Industry in conjunction with its financial adviser, Kleinworts.
10 Minutes from W.S.Ryrie, 29 and 30 June 1981 and supporting correspondence and memoranda, HM Treasury papers JA/1760/01 Part A.
11 Minute from T.U.Burgner, 3 July 1981, and minute from W.S.Ryrie, 22 July 1981, ibid.
12 Minute from Solomon to Winkett, R356 Ash, 30 July 1982, BT/A/21 Part 1.
13 Minute from R.G.Ward, Cabinet Office Central Statistical Office, to HM Treasury, 15 September 1982, HM Treasury papers JA/1760/01 Part B.
14 Letter from D.C. Clementi to Solomon, 15 October 1982, BT/A/12 Part 3. Minute from Laidlaw to Solomon, 18 October 1982, BT/A/12 Part 1.
15 Note by Ellison for meeting with the Chancellor on the Telecommunications Bill, 25 October 1982, BT/A/8 Part 2.
16 Correspondence in BT/A/12 Part 1. Note by H.P.Brown, DTI, 2 June 1983, BT/A/26 Part 4.
17 British Telecom – a Tap Issue, n.d., BT/A/91 Part 1. Methods of Sale, n.d., BT/A/91 Part 4. However, the idea won some support outside Government; e.g. Buckland and Davis (1984), p.51.
18 Kleinwort Benson paper, British Telecommunications: Preference Shares, 25 October 1983, BT/A/31 Part 3. Letter from R.H. Wilson, HM Treasury, to H.P.Brown, DTI, 18 July 1983, BT/A/12 Part 3.
19 Secretary of State's Meeting with Sir George Jefferson and BT Board, 16 March 1983, BT/A/21 Part 2; letter from D.C. Clementi to Solomon, 15 October 1982, BT/A/12 Part 3; letter from BT to J.Cazalet, Cazenove & Co., 13 September 1984, BT/A/31 Part 8. Wider share ownership and customer shareholding: the BT view, April 1983, BT/A/12 Part 3.
20 Kleinwort, Benson Ltd, British Telecommunications: Methods of Achieving Broadly Based Ownership, 17 February 1983, BT/A/12 Part 3; Share ownership by telephone subscribers, note by G.F.Heath, DTI, 8 July 1983, and letter from T.G.Barker, Kleinwort Benson, to J.B.K.Rickford, solicitor DTI, 24 June 1983; both in BT/A/31, Part 1; minute from H.P.Brown, T Division, DOI, to Solomon, 14 January 1983, BT/A/31 Part 1; letter from R.H.Wilson, HM Treasury, to Solomon, 2 November 1983, BT/A/31 Part 3.
21 British Telecom – Broadly Based Ownership. The Co-operative Scheme, n.d., BT/A/31, Part 1; letter from D.P.Savill, BT, to R.H.F.Croft, DTI, 30 November 1983, BT/A/31 Part 9.
22 Minutes of Meeting of the Joint Steering Group, 12 January 1984, BT/A/51.
23 Ministerial Group on the BT Flotation, note of the First Meeting, 22 July 1983, BT/A/52 Part 1.

24 Minute from R.H.Wilson to the Chancellor of the Exchequer, 22 October 1982, HM Treasury papers N/1368/1399/01 Part A.
25 Note by Bruce Laidlaw, Department of Industry, 17 September 1982, BT/A/12 Part 1. The Merits of an Introductory Issue of BT Shares, DTI paper, 21 July 1983, BT/A/31 Part 2. British Telecom – Methods of Achieving Broadly Based Ownership, n.d., BT/A/31 Part 1. Kleinwort Benson, British Telecommunications, Market Capacity and Related Matters, 18 April 1983, BT/A/12 Part 3. Note of a meeting at the DTI 7 November 1983 and "The British Telecom Trust: a Paper by Kleinwort Benson", November 1983, both in BT/A/31 Part 3. Letter from John Moore to Baker, 17 April 1984, BT/A/38 Part 1.
26 BT/A/12 Part 3.
27 Ministerial Group on BT Flotation. Note of the First Meeting held on 22 July 1983, BT/A/12 Part 3.
28 Letter from M.W.Jacomb, Kleinwort, Benson Ltd, to Nick Monck, HM Treasury, 27 March 1984, BT/A/12 Part 4.
29 Working Group on Methods of Flotation: Draft Report, 14 July 1983, BT/A/12 Part 3.
30 Timetable for the Telecommunications Bill, Department of Industry, 21 July 1983, BT/A/12 Part 3.
31 Minute from Laidlaw to Sharp, DTI, 23 February 1983, BT/A/31 Part 1.
32 Meeting of Interdepartmental Working Group, 6 September 1983, BT/A/31 Part 2. At the time Shell plc had the largest shareholder base with around 350,000 investors. It was clear that BT would have a much larger number. At first a figure of about 500,000 was suggested as the target but this was quickly raised to over 1m.
33 Minute from S.Nicklen, PS/Secretary of State for Industry, to Solomon, 8 April 1983; minute from H.P.Brown to Croft, 22 April 1983, both in BT/A/26 Part 2. Minute from Sharp to Solomon, 16 March 1983 and from Solomon to PS/Jenkin, 23 February 1983, both in BT/A/21 Part 2.
34 Sale of Shares in BT: Method of Sale, April 1983, BT/A/12 Part 3.
35 Various correspondence in BT/A/12 Part 3.
36 Correspondence in BT/A/21 Part 4.
37 BT's Accounts and the Flotation: Background Note, BT/A/62 Part 2.
38 Parkinson (1992), p.242. There were also other specialised skills, which had to be bought in. For example, in spite of having a huge property portfolio in 1981 BT employed only one qualified Chartered Surveyor.
39 Note of a Meeting with Coopers & Lybrand, 13 December 1983 and minute from B. Heatley to Croft, 15 December 1983, both in BT/A/11 Part 5. The Reports by the Auditors of BT Accounts 1979–80 to 1983–84, n.d., BT/A/91 Part 1
40 One former member of the Coopers & Lybrand auditing team recalls: "we could have either qualification or privatisation, but not both. We were asked whether we would like to go home and think about it. We thought about it and did not qualify after that. It was perfectly straightforward." Private information.
41 Note by T.Sharp, 12 September 1983, BT/A/31 Part 3. For a very detailed discussion of the marketing of the issue see K. Newman (1986) *The Selling of British Telecom*, London: Holt, Rinehart and Winston.
42 Letter to K.Newman from M.J.Cole, DTI, 23 August 1985, BT/A/56 Part 2.
43 Lawyers Linklater and Paines were appointed in September 1983 by the DTI. Slaughter and May acted as BT's solicitors.
44 Joint Steering Group 2nd meeting Minutes, 19 July 1983, BT/A/51. Correspondence in BT/C/17 Part 1. The Flotation Marketing Sub-Committee of the Prospectus Committee was initially chaired by Peter Young, BT's Director of Corporate Relations, and from mid-1984 by John King, newly appointed to BT's Board and responsible for marketing and corporate strategy. It met fortnightly from November 1983.
45 BT/C/17 Part 2.
46 BT flotation: note of a meeting at HM Treasury, 24 January 1984, BT/A/26 Part 3.
47 Minute from S. Nicklen, Private Secretary (PS)/Secretary of State for Trade and Industry, to Solomon, 19 December 1983, and minute from Sharp to Croft, 9 January 1984, BT/A/26 Part 3.

48 Lawson (1992), p.223.
49 Letter from Anthony Carlisle, Dewe Rogerson, to Solomon, 20 December 1983, and minute from Steve Mummery, Assistant Private Secretary (APS)/Baker, to Solomon, 13 January 1984, both in BT/C/17 Part 2.
50 British Telecom Offer for Sale, retrospective from Kleinwort Benson, 19 February 1985, BT/A/91 Part 1.
51 Memorandum from Market & Opinion Research International Ltd to Anthony Carlisle, Dewe Rogerson, 23 January 1984, BT/C/17 Part 2.
52 Given the low share purchase threshold, the benefit did not apply to large institutional investors. For the BT sale no similar share purchase limit was imposed and therefore institutional investors could benefit from the bonus issue (as could overseas investors – in the Britoil sale there was no overseas issue). Another difference between the Britoil and BT bonus schemes involved the allocation of the bonus shares. Under the terms of the Britoil sale investors eligible for bonus shares had to apply for them at the end of the three year qualifying period. In the case of BT the shares would be allocated automatically.
53 Letter from D.C.Clementi, Kleinwort, Benson Ltd to J.Solomon, DTI, 15 October 1982, BT/A/12 Part 1.
54 British Telecom/DTI Joint Steering Group on Flotation – Shareholder Concessions, report by W.P.Kember, Chief Accountant BT, January 1984, BT/A/31 Part 5. Proposals for the Issue of Shares by British Telecom: A New Strategy for Widening Share Ownership in the United Kingdom, Barclays Merchant Bank Ltd. 2 February 1984, quotation from p.11, in E(DL) Part 9.
55 Odyssey: Size and Structure of the Flotation, report by Kleinwort Benson, 6 February 1984, BT/A/26 Part 3. British Telecom – Methods of Achieving Broadly Based Ownership, n.d., BT/A/31 Part 1. Letter from R.H.Wilson. HM Treasury, to A.J.Macdonald, DTI, 15 February 1984, BT/A/12 Part 4.
56 *Hansard*, column 599, 25 May 1984. DTI Press Release, 25 May 1984, BT/A/71 Part 3.
57 *Hansard*, column 298, 1 August 1984.
58 Ministerial Group on BT Flotation. Note of the First Meeting held on 22 July 1983, BT/A/12 Part 3.
59 Correspondence in BT/A/71 Part 1.
60 Letter from J.B.Webb, Head of LCS Billing Administration BT, to J.C.W.Kent, T Division DTI, 6 July 1984, BT/A/71 Part 2. Later BT revised down the cost to 26p per voucher.
61 Bill Voucher Scheme: Mechanics, n.d., BT/A/71 Part 2; Shareholder Incentives: Summary of Administrative Costs, BT/A/71 Part 3.
62 Minute from MacDonald to PS/Baker, 21 February 1984, BT/A/52 Part 1.
63 Ministerial Group on BT Flotation, note of meeting held on 6 March 1984, BT/A/66 Part 2. Minute from A.J. Macdonald to PS/Secretary of State, 9 April 1984, BT/A/26 Part 3.
64 Letter from Baker to Moore, 12 July 1984, BT/A/71 Part 3.
65 Letter from Sharp to J.Williams, HM Treasury, 30 May 1984, BT/A/12 Part 4.
66 BT *Offer for Sale*, Part V1, A.
67 Letters from Baker to Moore, 12 July 1984 and 20 July 1984, and from Moore to Baker, 17 July 1984 and 30 July 1984, in BT/B/261.
68 Three videos were produced relating to the train tour and a video was produced to be used in the clearing banks handling the offer.
69 Paper by the Director Corporate Relations BT for the Flotation Sub-Committee meeting 23 January 1984, BT/C/17 Part 2. Briefing meetings were also arranged with MPs. A. Carlisle (1988) "Marketing privatization", in E.Butler (ed.) *The Mechanics of Privatization*, London: Adam Smith Institute. Anthony Carlisle was the director of Dewe Rogerson most closely involved in the BT sale.
70 C(84)29th meeting conclusions, 2 August 1984.
71 Dewe Rogerson, BT Case History, BT/C/17 Part 15.
72 Correspondence in BT/C/17 Part 5.
73 Correspondence in BT/A/31 Part 8.

74 BT/C/17 Part 7. The leaflet was stuffed into an envelope with the telephone bill, hence the name. Consideration was given to having in addition a separate direct mailing to customers, but the idea was dropped mainly it seems because of fears that the postal union might direct its members to refuse to handle the mailing. The union was opposed to the privatisation. During the later sale of British Gas there was an additional separate mailing to customers, chapter 15, p.372.
75 Note from C.Bridge, DTI, 29 March 1984 and note from N.M. McMillan, PS/Baker, 30 March 1984, BT/A/12 Part 4.
76 Correspondence in BT/C/17 Part 5.
77 Letter from Anthony Carlisle to Bridge, DTI, BT/C/17 Part 5.
78 Notes in BT/C/17 Part 8.
79 Miscellaneous correspondence in BT/C/8. There was poster, TV, radio and newspaper advertising.
80 Prospectuses were also published for overseas investors.
81 Telecoms Bill: Lords Briefing and Proceedings, n.d., BT/A/62. The amendment exempted the BT issue from restrictions laid down in the Companies Act 1948 and the Prevention of Fraud (Investments) Act 1958.
82 Letter from Bruce Laidlaw to David Clementi, Kleinwort Benson, 19 May 1983, BT/A/31 Part 1; British Telecom – Methods of Achieving Broadly Based Ownership, n.d., BT/A/31 Part 1. Following the success of the mini prospectus during the BT sale, New Listing Particulars came into force on 1 January 1985 under the Financial Services Act that gave the Stock Exchange the power to approve mini prospectuses for future share issues in the City, thereby removing complaint of special treatment for Government sponsored issues.
83 Note in BT/A/18 Part 7. The editor of *The Sun* newspaper, a staunch supporter of the Conservatives at the two previous General Elections, objected vociferously when he discovered that his newspaper had not been selected to carry the Prospectus.
84 In the case of Jaguar, a document had to be sent to all British Leyland's shareholders. Although BL was almost entirely state-owned, it did have a residue of private sector investors.
85 BT Flotation: Enquiry Handling, 10 May 1984, BT/C/17 Part 5.
86 There was also an office in London to co-ordinate the activity and deal with any particularly difficult enquiries.
87 Note from John Williams, HM Treasury, to Sharp, 12 June 1984, BT/C/17 Part 7.
88 Letter from J.F.Williams, HM Treasury, to Brian Heatley, 9 August 1984, DTI, BT/C/17 Part 10.
89 Dorland, BT Flotation Media Buying Report as at 13 September 1984, BT/C/17 Part 12.
90 Miscellaneous correspondence, BT/C/15 Part 5.
91 This included the cost of meeting the different legal requirements for the flotation in each of the countries in which BT shares were to be sold.
92 Shares were also marketed in Switzerland by the Swiss Bank Corporation but through the London stock market.
93 Record of a meeting held in the PM's room in the House of Commons, Monday 30 July 1984, BT/A/26 Part 4.
94 *BT, Annual Report and Accounts 1983/84*, report to the accounts paragraph 6. Full details of the changes are provided in British Telecommunications: Form of Accounts, Finance Department BT, BT/A/66 Part 1. Also, Defensive Briefing for BT Interim Accounts, n.d., BT/A/62 Part 2.
95 Note by N.M.McMillan, PS/Kenneth Baker, BT/A/66 Part 1; notes by G.F.Heath, 13 December 1983, and Laidlaw, 14 December 1983, BT/A/66 Part 1.
96 Other changes included ceasing a practice of charging supplementary depreciation to take account of the replacement cost of fixed assets and ending the capitalisation of certain assets such as telephone instruments, which would now be charged to the profit and loss account in the year of acquisition. Letter from D.C.Clementi, Kleinwort Benson, 27 February 1984 and meeting with BT on 21 February 1984 to Discuss Shortening of Asset Lives and Accounting Treatment Thereof, minutes, and "The Auditors' Assessment and BT Flotation: Accounting Treatment Proposed by BT for Asset Lives", all in BT/A/66 Part 1. Letter from Coopers & Lybrand to Baker, 29 March 1984, BT/A/66 Part 2 and in HM Treasury papers H/1760/01 Part G.

97 Letter from F.D.Perrryman, BT Board Member for Finance, to Croft, 4 November 1982, BT/A/17 Part 1.
98 Letter from D.C.Clementi, Kleinwort Benson, to H.P.Brown, DOI, 29 September 1982, BT/A/18 Part 1.
99 Minute from H.P.Brown, to Croft, 19 July 1983, BT/A/51.
100 Memorandum from A.J.Macdonald, Head T division, to PS/Secretary of State, 23 February 1984, BT/A/12 Part 4.
101 Letter from H.P.Brown, DOI, to Clementi, Kleinwort Benson, 12 October 1982, BT/A/18 Part 2.
102 Minute from R.H.Wilson to the Financial Secretary, 22 December 1983, HM Treasury papers H/1760/01 Part F.
103 The idea of issuing preference shares convertible into equity was dropped after it was pointed out that this might create a back door for future renationalisation.
104 In the longer-term the judgement was that BT might benefit, but up to 1988/89 BT reckoned that there would be an annual reduction of after tax profits of between £60m and £235m and in its cash position of between £21m and £262m a year; letter from F.D.Perryman, BT, to R.H.Croft, DTI, 21 March 1984 and minute from R.H.Wilson, 21 March 1984, HM Treasury papers H/1760/01 Part G.
105 Capital structure, briefing, n.d., BT/A/91 Part 3.
106 National Audit Office (1985) *Report by the Comptroller and Auditor General, Department of Trade and Industry: Sale of Government Shareholding in British Telecommunications plc*, London: HMSO, July, para. 19.
107 To compensate investors the final dividend was declared early, in August 1985.
108 Valentine (2006, p.163) of Warburgs during the sale of BT states that at the time the bank calculated that a higher gearing would have been acceptable to the City. The higher gearing might have raised the overall net proceeds to the Government by some £815m.Warburgs were advisers to BT and BT was in favour of lower gearing. It seems that the Government was not aware of Warburg's calculation. The level of gearing to maximise the sale proceeds would be a matter of much debate in later privatisations too; for example, see the discussions on British Gas's balance sheet in chapter 15.
109 £550m of this related to pensions for postal workers which had been arbitrarily allocated by the Post Office to the telecommunications side of the business because it was the more profitable and therefore deemed more able to bear the cost.
110 Note in BT/A/25, Part 1.
111 Minute from R.H.Wilson, 12 November 1982 and other correspondence in HM Treasury papers JA/1760/01 Part B.
112 Internal Department of Industry minute by V.A. Novarra, 2 November 1982, BT/A/18 Part 2.
113 *Hansard*, 2 May 1984, columns 353–4.
114 Miscellaneous correspondence in BT/C/17 Part 4. Letter from Ian Wrigglesworth, MP, to Geoffrey Pattie, Minister for State for Industry and Information Technology, 22 November 1984, BT/A/31 Part 9. Minute from J.B.K.Rickford to B.Hilton, DTI, BT/C/17 Part 4.
115 Fortunately the US markets regulator, the Securities and Exchange Commission, also showed a degree of flexibility when interpreting its rules on the marketing of BT shares before the issue of the Prospectus.
116 Minute from M.K. O'Shea to Sharp, 29 June 1984, BT/C/14.
117 BT Flotation, Executive Group Meeting 14 February 1984, BT/A/71 Part 1; letter from D.W.Miller, National Accounts Manager PO Counters, to J.C.W.Kent, DTI, 5 July 1984, BT/A/71 Part 2.
118 E.g. Lloyds Bank estimated the cost at £13.50 per 1,000 items for vouchers that avoided clearing bank costs and 15p per item for quasi-cheques, letter from M.Young, Manager Lloyds Bank, to J.C.W.Kent, DTI, 5 July 1984, BT/A/71 Part 2.
119 Minute from B.A.Heatley, DTI, to Sharp and PS/Baker, 13 July 1984, BT/A/12 Part 4. Letter from Baker to John Moore, Financial Secretary, 16 July 1984, and other miscellaneous correspondence in BT/C/14 Parts 2, 3 and 4. Letter from K.F.Murphy, Treasury Chambers, to B. Heatley, DTI, 3 August 1984; letter from C.J.Bailey, Bank of England, to Sharp, DTI, 9 August 1984; both in BT/C/14 Part 2.

120 Letter from Baker to Moore, 9 August 1984, BT/A/12 Part 5.
121 Minute from N.M.McMillan, PS/Baker, to Sharp, 30 May 1984, letter from Baker to John Moore, Financial Secretary, 26 June 1983 and reply by Moore, 11 July 1984; all in BT/A/12 Part 4.
122 Letter from Deryk Vander Weyer, Deputy Chairman BT, to Baker, 7 August 1984; memorandum from B.A.Heatley, T1, to Sharp and Croft, 10 September 1984; minute from Sharp to A.J.P.Macdonald, 21 September 1984; all in BT/A/12 Part 5.
123 Minute from N.M.McMillan, PS/Baker, 12 January 1984, BT/A/21 Part 3.
124 Minute from Macdonald to PS/Sir Brian Hayes, 31 October 1984, BT/A/84 Part 1.
125 BT Method of Sale; Notes of meetings held on 21 June and 17 July 1984 at HM Treasury, BT/A/84 Part 1.
126 As usual in privatisations at this time, the Government's financial adviser, in this case Kleinworts, acted as the issuing house and lead underwriter.
127 BT: Use of the Issue Department, BT/A/84 Part 2.
128 In Britain underwriting typically occurred some 12 days or so before applications from the public. In the USA, and a number of other markets, the share offer process involved "building a book" in the shares before the share was priced. During the sale of BT, Morgan Stanley insisted on being able to buy the shares at a discount of 3.25% to 3.75% below the London offer for sale price and only at least 10 days after the London underwriting agreement. This meant that the US shares would be allocated to purchasers when the London market price was known.
129 Correspondence in BT/A/84 Part 2.
130 Even with the Autumn Statement coming after the underwriting was completed, there was a fear that the underwriters might take legal action for release from their contractual obligations should there be anything in the Statement prejudicial to the offer, Lawson (1992), p.225.
131 Note by A.J. MacDonald, 6 September 1984, BT/C/17 Part 12.
132 Minute from Sharp to PS/Baker, 7 September 1984, BT/C/17 Part 12.
133 Correspondence in BT/A/18 Part 5. An example is a letter from a rector in Essex who wrote: "I am sorry that I do not have to(sic) money to purchase shares in the new privatised company, and am sorry that legislation has been passed to sell my shares of this magnificent and most successful company. I say farewell with regret", BT/A/18 Part 5.
134 Correspondence in BT/A/18 Parts 5 and 6.
135 Note of a meeting at HM Treasury, 2 November 1984, BT/A/84 Part 2.
136 de Zoete & Bevan: British Telecom, internal DTI note, 29 June 1984, BT/A/56 Part 1. Minute by T.Sharp, 5 July 1984, BT/A/66 Part 2.
137 Letter from Jefferson to Stuart Young, Chairman of the BBC Board of Governors, 31 October 1984, BT/C/30 Part 2.
138 However, this was offset by a sharp drop in capital issues by firms during the second half of 1984, probably because of the forthcoming BT issue.
139 British Telecom Valuation – a Discussion Paper, Kleinwort, Benson Ltd., 5 October 1984, BT/A/91 Part 1.
140 Minute from Bradbury to Sharp, 17 October 1984, BT/A/12 Part 6.
141 McLeod Young Weir were the advisers in Canada and Nomura Securities in Japan. Like Morgan Grenfell, they were appointed using "beauty contests".
142 Minute from A.J. Macdonald to PS/Secretary of State, 30 May 1984, BT/A/26 Part 1. The Method of Sale of BT, Its Pricing and Valuation, BT/A/84 Part 1.
143 Note of a meeting held on 23 October 1984 at HM Treasury, BT/A/84 Part 1.
144 Minute from Macdonald to PS/Pattie, 23 October 1984, BT/A/84 Part 1.
145 British Telecom, report by Phillips & Drew, 23 October 1984, BT/A/84 Part 1.
146 Pricing, n.d., BT/A/91 Part 3.
147 Circular in BT/A/84 Part 2.
148 British Telecom Report by Phillips & Drew, 2 November 1984, BT/A/91 Part 1. Phillips & Drewe note to investors, "British Telecom – It's for you", 1 November 1984, BT/A/56 Part 1.
149 Letter from D.C.Clementi, Kleinwort Benson, to Sharp, 25 February 1984, BT/A/84 Part 2.
150 Note by Macdonald, 21 November 1984, BT/C/46 Part 1.
151 Minutes of the Meeting of the Flotation Committee, 8 November 1984, BT/C/17 Part 15.
152 Note in BT/A/18 Part 6.

153 Correspondence from Phillips & Drew, 2, 9 and 14 November 1984, BT/A/84 Part 2 and The Pricing of BT: The DTI Perspective, 2 November 1984, BT/A/26 Part 4.
154 Arrangements for sale, n.d., BT/A/91 Part 1.
155 Note of a meeting at HM Treasury, 9 November 1984, BT/A/84 Part 2. Letter from T.Sharp to J.Williams, HM Treasury, 30 May 1984, BT/A/71 Part 2.
156 Minute from Edward Blades, PS/Secretary of State for Trade and Industry, to PS/Sir Brian Hayes, 15 November 1984, BT/A/26 Part 4.
157 At the time a three day application period was more normal for flotations in London.
158 Initial Public Offer.
159 British Telecom, review of the press coverage, 19 February 1985, BT/A/91 Part 1.
160 Around this time there was also growing confidence that the Government would defeat the miners' strike that had begun the previous March, as miners began to return to work in bigger numbers.
161 *Financial Times*, 26 November 1984; *The Sun*, 21 November 1984.
162 To be raised again to 14% in the face of an exchange rate crisis in January 1985.
163 File memo by B.Heatley, 4 November 1984, BT/C/46 Part 1. Note of a meeting held in the Chancellor's room, HM Treasury, 14 November 1984, BT/A/84 Part 2.
164 Note of a meeting on 29 November 1984 to discuss the possible basis of allocation of BT shares, BT/C/46 Part 1.
165 Minute from Sharp to PS/Pattie, 8 November 1984, BT/C/17 Part 14.
166 *Hansard*, 3 December 1984, column 19.
167 Ministerial Group on the BT Flotation, note of meeting 27 November 1984 and note of a meeting 30 November 1984 on the allocation of BT Shares, both in BT/A/52 Part 3.
168 Note in BT/A/38 Part 2. However, amongst BT subscribers it appears that a majority favoured the vouchers over the bonus shares. Of course, bill vouchers had no attraction for investors who were not BT subscribers and for institutional investors.
169 Briefing for PM's Question Time, November 1987, BT/A/104.
170 Letter from Neil McMillan, DTI, to Chris Morris, Department of Energy, 14 May 1986, BT/A/71 Part 12.
171 Letter from Tebbit to Jefferson, 16 November 1984, BT/A/38 Part 1.
172 See chapter 5, endnote 10, for the terms of Article 223.
173 DTI Press Release, "British Telecom Appointments", September 1984, BT/A/38 Part 1. Minute from J,.C.W.Kent, 12 August 1985, BT/A/38 Part 2.
174 The Department of Industry in late 1982 employed consultants, Copeman Paterson Ltd, to report on possible arrangements for employees. However, BT preferred to develop its own plans. The arrangements that resulted were therefore the result of BT's suggestions, as toned down by the DTI in response to Treasury concern about the costs.
175 Note of a meeting with BT on flotation – 15 September 1983, BT/A/31 Part 3. Letter from R.H.Wilson to the Financial Secretary, John Moore, 20 January 1984, and letter from John Moore to Kenneth Baker, 31 January 1984, HM Treasury papers British Telecommunications Flotation: Employee Share Holding Scheme, N/1693/1510/01 Part C.
176 Baker had initially pressed for a 15% discount but had agreed to 10% as part of the compromise deal with the Treasury. BT pensioners also benefited from the priority application scheme but without the price discount. Employee applications occurred using a "pink form". The BT sale involved different coloured application forms for different groups of investors, a method of distinguishing the applications to assist the processing of the forms adopted in other privatisations.
177 The discounted price offer was an innovation encouraged by a change in tax law in the 1984 Finance Act. This involved an amendment to Section 79 of the Finance Act 1972 and relieved BT employees of an Income Tax charge which otherwise would have arisen on the price discounted shares; minute from S.P.Ayling, Inland Revenue Policy Division, to HM Treasury, 17 February and 21 June 1984, HM Treasury papers N/1693/1510/01 Part D. As in previous privatisations, shares allotted to employees under both the free scheme and matching scheme were to be held by trustees of the Company's Employee Share Scheme for a minimum of two years to take advantage of a tax concession.

178 *Hansard*, 21 January 1985, column 504.

179 Internal note from B.A. Heatley, DTI, 11 October 1984, BT/A/18 Part 7. Minute from H.C.Goodman, 19 October 1984, HM Treasury papers N/1693/1510/01 Part D. Nicholas Ridley, the Secretary of State for Transport, was particularly opposed to accepting the BT proposal on the grounds that it would almost certainly mean that he would have to concede something similar during the privatisation of BA; letter to the PM, 22 October 1984, PM Papers, Post and Telecommunications, Part 9.

180 Letter from Norman Tebbit, Secretary of State for Trade and Industry, to Nigel Lawson, Chancellor of the Exchequer, 28 June 1984, BT/A/22 Part 7. Memorandum from Geoffrey Pattie to the PM, 22 October 1984; letter from Pattie to John Moore, Financial Secretary, 16 October 1984; letter from Ridley to Moore, 22 October 1984, note from Nigel Lawson, Chancellor of the Exchequer, to the PM, 22 October 1984; all in BT/A/18 Part 7. Geoffrey Pattie replaced Kenneth Baker as Minister of State for Industry and Information Technology in September 1984.

181 Minute from Pattie to the PM, 22 October 1984, and minute from the Chancellor of the Exchequer to the PM, 22 October 1984, both in PM Papers, Post and Telecommunications, Part 9.

182 Letter from Pattie to the Financial Secretary, 16 October 1984, HM Treasury papers N/1693/1510/01 Part D; letter from the Chancellor of the Exchequer to the PM, 22 October 1984, HM Treasury papers Executive Share Option Schemes, L/1821/01 Part K.

183 Pricing, summary notes, BT/A/84 Part 2.

184 The Behaviour of NBT's Share Price – a comment by Phillips & Drew, 23 January 1985, BT/A/91 Part 1.

185 Overseas shareholders in BT: Background Note, T Division, 23 January 1985, BT/A/84 Part 2. Another difficulty arose with regards to the US issue. A "grey market" in trading in the shares developed. The shares in the US were not firmly allocated until the Allotment Day, which was 1 December, but trading in the shares occurred earlier. US underwriters and dealers were restricted under the underwriting agreement and selling arrangements from disposing of stock until the allotment. It seems that the grey market resulted from a leakage of shares on to the market sold "firm" to British institutions on 16 November through certain non-syndicate dealers; memorandum from Goldman Sachs & Co, 17 July 1986, in Department of Energy British Gas privatisation file G800/49/14 Part 27.

186 Note of a meeting between the DTI and Phillips & Drew, BT/A/84 Part 2.

187 The British Telecom Issue – Dealing Patterns during the First Two Weeks, 24 January 1985, BT/C/46 Part 1.

188 Note by J.C.W.Kent, 12 March 1985, BT/A/31 Part 9.

189 Swiss institutions purchased their shares through the UK stock market.

190 7.5m shares or 0.2% of the offer was retained by the DTI in the short term, for reasons explained earlier.

191 MORI survey for BT, note by J.C.W.Kent, 18 June 1985, BT/A/31 Part 10.

192 Ibid.

193 Minute from M. Dowling, DTI, 24 April 1991, BT/A/104.

194 A later estimate, in April 1991, put the total costs somewhat higher at £158.5m plus an additional £59.6m for the employee share scheme and up to £110m for the bill voucher and bonus share incentives; details in BT/A/61 Part 3 and note dated 24 April 1991, in BT/A/104.

195 The costs exclude £51m worth of shares given to employees under the employee share offers and the bonus shares for shareholders due in November 1987.

196 National Audit Office (1985) *Report by the Comptroller and Auditor General, Department of Trade and Industry: Sale of Government Shareholding in British Telecommunications plc*, London: HMSO, July, paras. 33 – 42.

197 PAC Hearing 22 July: BT Privatisation, Annex B, BT/A/91 Part 3.

198 CC(84)37th meeting conclusions, 15 November 1984; CC(84)28th meeting conclusions, 29 November 1984. Minute from Sharp to PS/Pattie, 10 December 1984, BT/A/52 Part 3.

199 Correspondence in BT/A/56 Part 2 and BT/A/84 Part 2.

200 Brief on Wider Share Ownership, July 1985, BT/A/91 Part 3.

201 Letter from Coopers & Lybrand to Kent, DTI, 11 November 1985, BT/A/71 Part 11.

202 E.g. "The £18 phone vouchers that turn out to be worthless", *Daily Mail*, 12 August 1985.

203 Correspondence in BT/A/71 Parts 10 and 11.
204 Background Note: BT Bill Voucher Scheme, DTI, 20 October 1986, BT/A/71 Part 11.
205 Following a briefing from the DTI, the Department of Energy which was planning the sale of British Gas decided upon a gas voucher scheme with no validity periods. A separate communication from the DTI stressed that the Department of Energy should expect no one to have read the Prospectus, to blame the Government for any mistakes investors might make because they had not read terms carefully, and to expect large numbers of irate calls from aggrieved investors! Letter from Neil McMillan, DTI, to Chris Morris, Department of Energy, 14 May 1986, BT/A/71 Part 12. During the sale of British Gas the voucher terms were made more liberal to reduce complaints, see chapter 15 pp.374–5.
206 Answer to question in the House of Lords, *Hansard,* columns 269–70, 22 October 1986; Background Note: BT Bill Voucher Scheme, BT/A/104.
207 Minute from J.W.C.Kent, T, to PS/Pattie, 21 January 1985, BT/C/46 Part 1. Correspondence in BT/A/18 Parts 8, 9, 10 and 11.
208 Flotation Group Meeting Minutes, 22 November 1984, BT/A/52 Part 3.
209 Miscellaneous correspondence in BT/A/91 Part 5. Background note, 21 November 1986, BT/A/104.
210 Minute from David Norgrove to the PM, 1 April 1987, PM Papers, Post and Telecommunications, Part 10.
211 Lawson (1992), p.224.
212 Baker (1993), p.84.
213 Thatcher (1993), p.681.
214 National Audit Office (1985); National Audit Office, Press Notice, 11 July 1985.
215 Public Accounts Committee (1985) *Third Report 1985–86: Sale of Government Shareholding in British Telecommunications plc*, London: HMSO, paragraph 29.
216 Sale of Government Shareholding in British Telecommunications plc, HM Treasury/DTI, n.d., BT/A/91 Part 5. Also, HM Treasury (1986) *Treasury Minute on the First to Fourth Reports from the Committee of Public Accounts,* Session 1985–86, Cmnd. 9755, London: HMSO.
217 *Third Report from the Public Accounts Committee*, London: HMSO.
218 M.E.Beesley and B.Laidlaw (1992) "The British Telecom/Mercury interconnect determination: An exposition and commentary" in Beesley (1997), chapter 15.
219 However, in 1994 another legal battle, this time between Mercury and OFTEL, broke out over interconnection costs as Mercury sought even more favourable terms.
220 Harper (1997), p.203.
221 In total Cable & Wireless through its subsidiary Mercury committed around £2bn to building a new domestic fixed-line network that proved to be a commercial disappointment.
222 For a more detailed discussion of the development of competition in British telecommunications into the 1990s, see P. Curwen (1997) *Restructuring Telecommunications: A Study of Europe in a Global Context*, Houndsmill: Macmillan, ch.11.
223 E(A)(90) 3rd meeting, 21 June 1990; E(A)(90)8, "Telecommunications Duopoly Review. Memorandum by the Secretary of State for Trade and Industry", 14 June 1990.
224 Ibid., paragraph 25. Memorandum from Nicholas Ridley to the PM, 2 May 1990, PM Papers, Post and Telecommunications, Part 12.
225 Memorandum from P.F.Owen, Cabinet Office, to the PM on Ridley's memorandum, 20 June 1990, and other miscellaneous correspondence in MT841 Post and Telecommunications papers Part 12.
226 HMSO (1991) *Competition and Choice: Telecommunications Policy for the 1990s*, Cmnd.1461, London: HMSO. Peter Lilley was Secretary of State for Trade and Industry and worked closely with the regulator, Bryan Carsberg, on the duopoly review. Lilley wanted to complete the review and sell another tranche of BT shares before a general election. A difficult issue during the review was what to do about the continuing imbalance in BT's charges. BT had not so far made much progress on rebalancing because digitalisation had raised the fixed costs of local calls. The rise in local call prices since 1984 was largely offset by this rise in fixed costs. Meanwhile, the continuing imbalance had helped Mercury build up its trunk and international businesses (incidentally, Mercury lobbied hard during the review to retain the duopoly to protect its market share). The solution brokered was an Access Deficit contribution taking the form of

a payment from Mercury to BT, based on the volume of business. At a late stage in the negotiations Carsberg decided that the terms of the payment were too favourable to BT. This led to a series of difficult meetings with Lilley, who feared that BT would object to a change in the terms of the scheme, triggering a MMC referral, which Lilley was determined to avoid. However, after conferring with the PM and the Chancellor of the Exchequer, Lilley confirmed that the Government remained committed to having independent regulation and that Carsberg should do what he considered best. After a meeting with BT that went on long into the night, Carsberg was able to convince the management of BT to accept the new terms. A referral to the MMC was avoided; private information; CM(91)26th meeting conclusions, 23 July 1991.

227 Competition and Choice: Telecommunications Policy for the 1990s, PM Papers, Post and Telecommunications, Part 13.

228 E(A)(90)8, "Telecommunications Duopoly Review. Memorandum by the Secretary of State for Trade and Industry", 14 June 1990, paragraphs 11 and 12. The DGT would be able to review the matter after seven years if circumstances had changed sufficiently to warrant it.

229 Littlechild (1983), para.13.20.

230 Letter from Alan Walters to Paul Grey, PM Papers, Post and Telecommunications, Part 11. Also, Littlechild (2003b).

231 Director General of Telecommunications (1988a) *The Regulation of British Telecom's Prices: A Consultative Document*, London: Office of Telecommunications. Director General of Telecommunications (1988b) *The Control of British Telecom's Price*, London: Office of Telecommunications. Also, see M.E. Beesley and S.C. Littlechild (1987) "The regulation of privatized monopolies in the United Kingdom", *RAND Journal of Economics*, vol.20, no.3, pp.454–72; reprinted in Beesley (1997), chapter 4

232 Beesley and Littlechild (1989); D. Parker, T. Dassler and D. Saal (2006) "Performance benchmarking in utility regulation: principles and the UK's experience", in M. Crew and D. Parker (eds.) *International Handbook on Economic Regulation*, Cheltenham: Edward Elgar.

233 Unpublished speaking notes by Sir George Jefferson, n.d. When the monopoly policy was ended in 1991, the interconnection question on what terms rivals could access BT's local network became an even greater focus of controversy. The tension would later ease as firstly BT's tariffs were rebalanced to reflect costs and secondly entry barriers, such as the lack of number portability, were tackled by the regulator. However, the arrival of broadband would later bring renewed interest in the interconnection question. In 2005 BT agreed to operational separation of its local areas infrastructure to address the problem.

234 The matter led to Sir George Jefferson's resignation as Chairman of BT. The BT Board appointed as his successor Iain Vallance, who had spent his career in the Post Office and then in BT, and who had been unenthusiastic about privatisation. The decision irritated the Government, but the Government decided that it was unable to intervene in the decision of the Board of what was now a private sector company.

235 Some of the service failure in 1987 could be put down to a strike by BT engineers early in the year, but there were also more systemic service failures which those in favour of privatisation put down to the legacy of state ownership. But part of the failure at least resulted from restructuring within BT, which was a product of privatisation.

236 Harper (1997), p.54.

237 Letter from D.J. Brown, DTI, to R.J. Goundry (a member of the public), 28 September 1984, BT/A/18 Part 5.

238 Note from S.G.Warburg to Kleinwort Benson, 20 July 1983, BT/C/17 Part 1.

239 Harper (1997), p.133–45.

240 Martin and Parker (1997), ch.9.

241 DTI Privatisation Brief: Update, 7 October 1991, BT/A/104.

242 Harper (1997), p.159.

243 OFTEL Press Notice, 6/85, 22 March 1985, BT/A/61 Part 3.

244 Note of a lunch meeting between the Secretary of State and Sir George Jefferson, 4 February 1985, BT/A/61 Part 3.

245 Another early international acquisition was ITT Dialcom, a US-based electronic mail business.

246 Minute from Lansley to Turnbull, 10 May 1985, PM Papers, Post and Telecommunications, Part 9. BT proposal to take over MITEL, background note and other correspondence in BT/A/61 Parts 3 and 4.

247 Harper (1997), p.92.
248 Martin and Parker (1997), ch.5.
249 There was similar continuity in the trend of total factor productivity which includes all inputs and not just labour; ibid.
250 Harper (1997), p.vii.
251 What are the public expenditure implications of the flotation of BT?, attached to minute from A.J.MacDonald, Head of T Division, 21 January 1985, BT/A/38 Part 2.
252 Performance of a Privatised BT, n.d. (probably 1987), BT/A/107.
253 *Hansard*, 26 July 1990, also in BT/A/104. This sale involved a novel international tender. The Government retained its special share but following the 1991 sale decided not to exercise its right to appoint a second director to the BT Board; minute from B.H.Potter to M.Stanley, DTI, 30 July 1991, E(DL) Part 19.
254 Letter from John Major, Chancellor of the Exchequer, to Nicholas Ridley, Secretary of State for Trade and Industry, 29 November 1989, PM Papers, Post and Telecommunications, Part 12.
255 Parkinson (1992), p.242.

14 THE PRIVATISATION OF BRITISH GAS: THE DECISION TO PRIVATISE AND DESIGNING AN APPROPRIATE REGULATORY REGIME

1 Regulation of the Gas Industry in Britain Annex 1, Memorandum by the Department of Energy to the Select Committee on Energy, 2 October 1985, G800/49/14 Part 1.
2 Section 9, Continental Shelf Act 1964.
3 Memorandum from D.R.Davis, Annex B, Department of Energy, 14 February 1986, G800/49/14 Part 11. The other significant source of offshore gas was the Morecambe Bay field in the Irish Sea.
4 Strictly, BGC had a monopsony (single buyer) privilege for gas supplies from the North Sea.
5 E(A)(85)52, "Gas Industry Privatisation: Legislation and Price Regulation. Memorandum by the Secretary of State for Energy", 26 July 1985, Annex 2, para.1.
6 Section 13, Energy Act 1976, as later strengthened by the Gas Act 1980.
7 Those receiving interruptible supplies were known as "non-premium industrial users". The chemical industry was collectively the largest business customer accounting for around 40% of industrial sales, followed by the engineering industry. There was one particularly large contract with the chemical firm ICI.
8 Lawson (1992), pp.246–7. Peter Walker, the Secretary of State for Energy, argues that the reason for his vetoing the Sleipner contract was that its financial terms meant too high a price for the gas; P. Walker (1991) *Staying Power: An Autobiography*, London: Bloomsbury, pp.192–3. But favouring UKCS fields so as to promote their development was certainly an important consideration; Gas Imports and Exports document, n.d., in HM Treasury papers, British Gas Corporation Privatisation Proposals, L/1821/01. Immediately after privatisation, British Gas announced its intention to re-open talks with the Norwegian Government for the purchase of gas.
9 E(A)(85)24, "Gas Industry Privatisation. Memorandum by the Secretary of State for Energy", 22 April 1984, Annex 3.
10 "Gas, coal and electricity are Government-owned already. We cannot, of course, make sweeping changes in the short term affecting their monopoly position. But some modification is possible in the public interest, and we shall examine the position closely." Conservative Research Department (1979) *Ministerial Dossier: Energy*, London, p.6.
11 NIP (79) 43, British Gas Corporation, 21 December 1979, in HM Treasury, Government Policies towards the Nationalised Industries. Report by the Official Committee on Nationalised Industry Policy, Filefolder 11271559.
12 E(79)51, "Gas Pricing Policy and the Financial Target for the British Gas Corporation. Memorandum by the Secretary of State for Energy", 12 October 1979. E(79)57, "Energy Pricing: Note by the Secretary of State for Energy", 15 October 1979.

13 E(79)61, “Gas and Electricity Prices and Public Expenditure 1981/82–1983/84. Memorandum by the Secretary of State for Energy”, October 1979; E(79)64 “Gas Pricing Policy and the Financial Target for the British Gas Corporation. Memorandum by the Secretary of State for Energy”, 9 November 1979.
14 E(79)65, “Gas Revenues. Memorandum by the Chancellor of the Exchequer”, 16 November 1979.
15 It also had the effect of supporting the upward movement in gas prices. E(80)8th meeting, 26 February 1980. PRT was chargeable on a field-by-field basis on profits from the production of petroleum in UK and UKCS fields, after royalties where applicable and certain other expenses. The Gas Levy was payable by BGC on all UK gas supplies exempt from PRT, i.e. those contracts entered into before 1 July 1975 (the southern sector fields and the UK Frigg and Brent fields). At privatisation the Levy was 4p per therm and it raised for the Exchequer between £231m and £383m net annually in the 1980s. Its importance declined with the reduction of supplies from the older fields and on 1 April 1998 the Levy was reduced to a zero rate.
16 Most gas from the North Sea was a by-product of oil extraction.
17 “Prices for North Sea Gas, Memorandum from the Permanent Under-Secretary”, 8 November 1983, G63/112/1. Prices for North Sea Gas, Department of Energy draft minute, 10 November 1983, G63/112/1.
18 E(81)80, “British Gas Corporation’s Monopoly. Memorandum by the Secretary of State for Energy”, 22 July 1981.
19 E(81)102, “Gas Legislation. Memorandum by the Secretary of State for Energy”, 19 October 1981.
20 E(81)80, Annex 1, para.3i.
21 Howell estimated that the Department of Energy would need an additional eight to ten staff in the early days, plus possibly one or two consultants in the first year, rising perhaps to 40 to 50 as the regulatory work expanded, “but at this stage we would transfer the work to a separate agency”. E(81)80.
22 CC(81), 32nd meeting.
23 Only one direct producer-consumer deal was agreed and involved a very small quantity of gas supplied by the Taylor Woodrow Group from an onshore field at Hatfield to Belton Brickworks.
24 E(81)69, “The Future of BGC’s Appliance Retailing Activity. Memorandum by the Secretary of State for Energy”, 18 June 1981.
25 MMC (1980b) *Domestic Gas Appliances: A Report on the Supply of Certain Domestic Gas Appliances in the United Kingdom*, HC703, Session 1979–80, London: HMSO.
26 Lawson (1992), p.213,
27 Minute from the Secretary of State for Industry to the Prime Minister reporting discussions in E(DL), in E(81)68, “British Gas Corporation: Retailing of Gas Appliances. Note by the Secretaries”, dated 17 June 1981. The Secretaries were Robert Armstrong, P. Le Cheminant and D.J.L.Moore.
28 Regarding appliance installation, the 1972 Gas Safety Regulations governed the installation of all gas appliances and required that only a competent person should install appliances (though the word “competent” was not defined). Transferring this work largely or entirely to the private sector would require a strengthening of controls. The Gas Safety (Rights of Entry) Regulations 1976 gave BGC power to disconnect a dangerous appliance. Private installers would not have power to disconnect unsafe appliances unless it were specifically given to them. BGC claimed that a large number of unsafe appliances were discovered during their normal servicing work. An independent and strengthened CORGI gas safety registration scheme was considered the best way forward. The CORGI (Corporation of Registered Gas Installers) scheme of voluntary registration for independent installers was at this time largely run and funded by BGC. A full discussion of gas safety issues can be found in the Annex to E(81)69.
29 E(81)21st meeting, 23 June 1981; E(81)69.
30 E(81)69. E(DL) had considered the option of issuing a British Standard under the Consumer Safety Act 1978, but by the time the matter came to E Committee the decision had been taken that this would not adequately address all of the problems, E(81)69.
31 E(81)21st meeting.

32 The Government was advised that there was a reasonable chance that the powers under the 1972 Gas Act were adequate to allow the Secretary of State for Energy to direct the BGC Board to divest the gas appliance retailing business without further legislation. But the decision was taken that it was unlikely a firm view could be reached on this until the arguments deployed by BGC against a Directive were known. Howell judged that it was probable that BGC Board would argue that an enforced withdrawal from gas appliance retailing would impede its statutory duties and the Corporation might well challenge the Secretary of State in the courts; E(81)68; E(81)69.
33 Lawson (1992), p.213.
34 CC(82)26th meeting conclusions, 13 May 1982.
35 E(83)1 "Gas Appliance Retailing. Memorandum by the Secretary of State for Energy", 24 January 1983.
36 E(83)1st meeting, 10 February 1983; E(83)1.
37 "Private Finance: Progress Report. Note by the Treasury", paragraph 8, 19 August 1982, in E(DL) Part 6.
38 Conservative Party (1983).
39 Lawson (1992), p.226.
40 In electricity the Bulk Supply Tariff was a statutory tariff set by the Central Electricity Generating Board, which determined the charge to the electricity Area Boards for electricity supplies. The Area Boards then distributed and sold the electricity to the ultimate consumer.
41 Competition and Privatisation, paper by the Public Enterprises Analytical Unit, HM Treasury, 1 July 1983, in E(DL) Part 7.
42 Correspondence in G63/112/1 Part 2.
43 Walker (1991), p.189.
44 Lawson (1992), pp.215–16.
45 Thatcher (1993), p.681.
46 Walker (1991), p.190, discusses how an official from the Treasury spent weeks talking to Department of Energy officials and BGC and concludes, "I can only presume he went back to Nigel Lawson and said 'Dammit, Walker's right'. I was suddenly phoned up by Nigel and went round to No. 11 to be told he wanted to get on with the privatization and agreed to do it by my method." However, it is clear that Lawson remained unhappy and Treasury Ministers on a number of later occasions resurrected the case for restructuring BGC before a sale.
47 Letter from Nicholas Ridley, Secretary of State for Transport, to Peter Walker, 19 November 1985, and memorandum from Ridley to the PM, 27 November 1985, both in G800/49/14 Part 5. At the time Ridley was contemplating privatising BAA's airports by setting up separate companies for each airport or groups of airports. He felt that that something similar could be devised for BGC's different businesses.
48 Minute from Walker to the PM, December 1985, G800/49/14 Part 6.
49 Draft memorandum from the Secretary of State for Energy to the PM, 26 November 1985, G800/49/14 Part 5.
50 Rooke was appointed Chairman of BGC in 1976 and had worked in the gas industry since 1949. On 1 July 1986 he was appointed Chairman for a further three years – there was no question of sacking Rooke, despite some Ministerial instincts, a few months before the flotation. For Lawson's unflattering opinion of Rooke, see Lawson (1992), p.213. Rooke was sceptical of the case for privatisation of the gas industry in the national interest and remains so to this day. Another example of a Board member known to be lukewarm to privatisation of BGC was W.G. Jewers, who was Managing Director Finance. Aged 65 he retired at the end of 1986, just after BGC was floated. On the BGC Board in 1984 only Martin Jacomb from merchant banking and Leslie Smith from BOC plc were outsiders or not long-term BGC officers. In an attempt to address this, the Treasury pressed for a strengthening of the Board through the appointment of additional non-executive directors with private sector experience and more sympathetic to privatisation; minute from S.A.Robson, HM Treasury, to John Moore, Financial Secretary, 30 January 1986, in HM Treasury papers, British Gas Privatisation Proposals, L/1921/01 Part J.
51 Minute from Robson to Moore, 30 January 1986, op cit.
52 Walker, (1991), pp.189–91.
53 Walker (1991), p.188.

54 Minute from Robson to Moore, 30 January, op.cit.
55 Also, the Public Enterprises Analytical Unit in the Treasury raised concerns over gas storage, controlled by BGC. "Competition and Privatisation: Energy Industries", minute from S.A. Robson to the Financial Secretary, 22 February 1984, HM Treasury Paper, Competition and Privatisation: PEAU Exercise, AD/1790/01, part D. However, the implication of access to gas storage facilities for competition did not feature more widely as an important subject for discussion ahead of privatisation. Storage would become a major issue during the 1990s when competing gas supplies developed.
56 Correspondence in G63/602/14 Part 1.
57 British Gas Corporation, February 1984, HM Treasury papers, Competition and Privatisation: PEAU Exercise, AD/1790/01, Part D.
58 Department of Energy paper, Implications of Gas Privatisation: Imports Exports and UKCS Developments, n.d., G63/602/14.
59 E(A)(85)17th meeting.
60 E(A)(85)23rd meeting, 9 December 1985; E(A)(85)71, "Gas Industry Privatisation: Gas Imports and Exports. Memorandum by the Secretary of State for Energy", 5 December 1985.
61 Letter from John Moore to Peter Walker, 21 November 1985, and memorandum from John Moore to the PM, 25 November 1985, both in G800/49/14 Part 5.
62 Letter from C.J.V.Robson, Slaughter and May, to M.Reidy, Department of Energy, 1 October 1986, G800/49/14 Part 37.
63 See chapter 4.
64 Alongside this small amount, 25% of BGC's gas came from Norwegian gasfields in the North Sea and the remainder from oil companies operating on the UKCS. The BGC Offer for Sale document would note that the company still had interests in 10 petroleum discoveries where drilling had demonstrated the existence of potentially commercial reserves, seven on the UKCS and three onshore; *British Gas: Offer for Sale by NM Rothschild & Sons Limited on behalf of the Secretary of State for Energy*, November 1986, p.56.
65 Letter from D.R.Atkinson, Director of Finance, BG Group, to H.P.Hodges, Securities and Exchange Commission, Washington DC, 13 June 1986, G800/49/14 Part 21. As in other privatisations, Rothschilds was appointed financial adviser to the Department of Energy after a "beauty contest." Kleinwort, Benson was appointed similarly as financial adviser to British Gas.
66 The Rothschild team was led by Michael Richardson.
67 Letter from N.M.Rothschild & Sons Ltd, 2 July 1983, and other correspondence in G63/602/14 Part 1.
68 Note from John Redwood to Andrew Turnbull, 21 December 1983, in E(DL) Part 8.
69 With the agreement of the PM, Andrew Turnbull wrote to his opposite number at the Department of Energy, Michael Reidy, on 22 December confirming that the PM "was grateful for the progress he [the Secretary of State] has made in defining the programme for privatisation in the energy industries", noting the provisional bid for legislative time in 1984/5, and stressing that "While it is obviously difficult to introduce competition into the gas industry, the Prime Minister hopes that every effort will be made to do so in order to reduce the reliance that has to be placed on regulation." Letter from Andrew Turnbull to Michael Reidy, Department of Energy, 22 December 1983, in E(DL) Part 8.
70 Memorandum from John Moore, Financial Secretary, Treasury to the PM, 23 December 1983, in E(DL) Part 8.
71 Memorandum from Peter Walker to the PM, 20 December 1983, in E(DL) Part 8.
72 Note from Andrew Turnbull to the PM, 27 February 1985, in E(DL) Part 11.
73 "Five year plan for £10bn of state sales", *Financial Times*, Saturday 28 January 1984; "More state sell-offs planned", *Daily Telegraph*, 28 January 1984.
74 Note from Peter Walker to the PM, 30 January 1984, in E(DL) Part 9.
75 Memorandum from Andrew Turnbull to the PM, 30 January 1984, in E(DL) Part 9.
76 Thatcher (1993), p.681.
77 E(A)(85)9th meeting, 25 April 1985; E(A)(85)24, "Gas Industry Privatisation. Memorandum by the Secretary of State for Energy", 22 April 1985.

78 Within the Department of Energy the Bill team was headed by Dr David Evans, an Assistant Secretary. The team already had the well-drafted 1972 Gas Bill to build upon.
79 CC(85)15th meeting conclusions, 2 May 1985; C(85)10, "Gas Industry Privatisation. Memorandum by the Secretary of State for Energy", 30 April 1985.
80 C(85)10.
81 C(85)11, "Legislative Programme 1985–86: Consequences of the Inclusion of a Gas Bill. Memorandum by the Lord President of the Council", 30 April 1985. The Northern Ireland Bill was designed to help the police in Northern Ireland combat terrorism. Dropping the Nationalised Industries Bill was not a problem because E(NI) Committee decided against proceeding with the Bill on policy grounds; see chapter 8, p.174.
82 *Hansard*, 17 May 1985.
83 E(A)(85)17th meeting, 31 July 1985; E(A)(85)52.
84 E(A)(85)20th meeting, 14 November 1985; E(A)(85)65, "Memorandum by the Secretary of State for Energy", 12 November 1985.
85 *Hansard,* column 1043.
86 Briefing for the Leader of the House, n.d., G800/49/14 Part 13.
87 E.g. letter from Richard Ottawa, MP, to Walker, 4 December 1985, G800/49/14 Part 6.
88 Walker (1991), p.190: "When it came to the legislation, I insisted there should be no shoddy drafting. I did not want the bill to attract hundreds of amendments in Parliament . . . When the bill actually came to Parliament it suffered fewer government amendments than any other piece of legislation I can remember . . ."
89 E(A)(85)11th meeting, 11 June 1985; E(A)(85)30, "Gas Industry Privatisation Regulation. Memorandum by the Secretary of State for Energy", 24 May 1985.
90 Draft E(A) paper, n.d. (autumn 1985), G800/49/14 Part 4.
91 E(A)(85)17th meeting, 31 July 1985.
92 The final wording in the Gas Act was "appointment . . . shall not be for a term exceeding five years; but previous appointment to that office shall not affect eligibility for re-appointment." S(1)(2).
93 E(A)(85)52, Annex 1, para.4.
94 E(A)(85)17th meeting, 31 July 1985.
95 Minute from J.G. Wright to J.R.S. Guinness, Department of Energy, 8 November 1985, G800/49/14 Part 6.
96 Minute by J.G. Wright, Gas Division, 6 December 1985, G800/49/14 Part 6.
97 Minute from J.I.Britton, Gas Division, 26 June 1986, and minute from D.R.Davis to PS/Secretary of State, 26 June 1986, both in G800/49/14 Part 24.
98 Proposed changes to BGC's authorisation by the regulator that could not be agreed, like amendments to BT's licence, would be referred to the Monopolies and Mergers Commission for review, see below. The cost of any authorisation modification references to the MMC would also be financed by annual fees levied on companies holding authorisations to supply gas, initially BGC alone.
99 Letter from D.J.Trevelyan, Civil Service Commission, 18 January 1985, G800/49/14 Part 6. Correspondence in G800/49/14 Part 7.
100 E(A)(85)30, para.7.
101 Letter from S.P.Black, Chairman National Gas Consumers' Council, to Alick Buchanan-Smith, Minister of State for Energy, 13 December 1985, G800/49/14 Part 8. Letter from Black to Peter Walker, 13 March 1986, and related correspondence in G800/49/14 Part 13.
102 Letter from Lord Lucas of Chilworth, DTI, to D.Hunt, Parliamentary Under Secretary Department of Energy, 25 November 1985, and related correspondence, G800/49/14 Part 10.
103 Minute by W.D.Evans, Gas Division, 14 November 1985, G800/49/14 Part 5. Letter from Leon Brittan, Secretary of State for Trade and Industry, to Walker, 18 December 1985 and minute from J.I.Britton, Gas Division, 3 January 1986, both in G800/49/14 Part 8.
104 Minute by W.D.Evans, Gas Division, 1 October 1985, G800/49/14 Part 1. Letter from David Hunt, Department of Energy, to Lord Lucas of Chilworth, Parliamentary Under Secretary of State, DTI, 18 October 1985, G800/49/14 Part 5.

105 Department of Energy (1986) Authorisation granted and Directions given by the Secretary of State for Energy to British Gas Corporation under the Gas Act 1986, London: Department of Energy.
106 Ibid., Gas Bill: Summary, para.6.
107 Offer for Sale document, p.34.
108 Memorandum by Alick Buchanan-Smith, 10 October 1985, G800/49/14 Part 1.
109 Briefing paper from M.F.Reidy to the PS/Secretary of State, 14 November 1985, ahead of E(A) discussion, G800/49/14 Part 5.
110 Minute from S.Killen, PS/Minister of State, 13 March 1986, G800/49/14 Part 13.
111 Letter from N.R.Thornton, DTI, to D.Davis, Gas Division, 1 November 1985, G800/49/14 Part 4.
112 Minute from J.G.Wright, Gas Division, to PS/Secretary of State, n.d., G800/49/14 Part 12.
113 The 1980 Competition Act powers were felt to be less likely to be helpful as preference or discrimination towards gas producers might fall outside the powers under this Act.
114 Letter from Leon Brittan to Peter Walker, 20 November 1985, G800/49/14 Part 5.
115 E(A)(85)65, para.10.
116 E(A)(85)17th meeting.
117 Memorandum from John Moore to the PM, 13 November 1985, G800/49/14 Part 5.
118 Minute by M.F.Reidy, Gas Division, 21 November 1985, and memorandum from the Secretary of State to the PM, 22 November 1985, both in G800/49/14 Part 5.
119 Letter from Peter Walker to Eric Hammond, General Secretary, Electrical Electronics Telecommunications and Plumbing Union, 10 June 1986, G800/49/14 Part 20.
120 Letter from John Moore, Treasury, to Peter Walker, 25 November 1985, G800/49/14 Part 5. The clause became S(4)(2d) *The Gas Act 1986*, Chapter 44, London: HMSO. Its introduction owed much to the efforts of the Conservative MP Michael Portillo and is sometimes referred to as the Portillo amendment.
121 Minute from S.A Robson to John Moore, 30 January 1986, op cit.
122 Brief for the Secretary of State's Meeting with Sir Terence Beckett, n.d., G800/49/14 Part 13. This also applied to quality of service issues, where officials pointed out the BGC would have an incentive after privatisation to boost profits by reducing service quality.
123 Minute by M.A.Higson, Gas Division, 25 October 1985.
124 Letter from Norman Lamont, Treasury, to Peter Walker, 26 June 1986, G800/49/14 Part 27.
125 Speech: Sixth Form Conference for Economics Students on the Privatisation of British Gas, n.d. (autumn 1986), G800/49/14 Part 45.
126 Minute from W.D.Evans, Gas Division, to PS/Secretary of State, 25 October 1985, G800/49/14 Part 4.
127 Minute by W.D.Evans, Gas Division, 18 November 1985, G800/49/14 Part 5.
128 British Gas Corporation, "The Commercial Implications of Common Carriage", n.d. (March, 1986), G800/49/14 Part 14.
129 Letter from John Moore, Financial Secretary, HM Treasury, to Peter Walker, 25 November 1985, G800/49/14 Part 4.
130 Minute from J.R.S.Guinness, Department of Energy, to the Secretary of State, 27 November 1985, G800/49/14 Part 5.
131 Memorandum from British Gas to Rothschilds and the Department of Energy, 14 October 1986, G800/49/14 Part 39.
132 BGC had entered into gas contracts averaging around 25 years under which BGC agreed to pay for the gas even if it was not required. This encouraged North Sea gas development and the Corporation was able to enter into such contracts because before privatisation the risk of not needing the gas was exceptionally low given its effective monopoly position in gas supplies. Also, any costs could be passed through to captive customers.
133 E(A)(85)20th meeting, 14 November 1985; E(A)(85)65, "Memorandum by the Secretary of State for Energy", 12 November 1985.
134 Letter from BGC to D.R.Davis, Gas Division, 14 November 1985, G800/49/14 Part 5.
135 Minute by D.R.Davis, Gas Division, 13 August 1986, G800/9/14 Part 30.

136 Minute by D.R.Davis, Gas Division, 27 November 1985, G800/49/14 Part 5.
137 Memorandum from David Norgrove, PS/ No. 10, to W.G.Dart, Department of Energy, 27 November 1985, G800/49/14 Part 5.
138 Letter from John Moore to Walker, 22 November 1985, G800/49/14 Part 4.
139 Minute from W.D.Evans, Department of Energy, 13 October 1986, G800/49/14 Part 39.
140 Letters from Roland Shaw, Premier Oil plc and J.B.Healey, Saxon Oil plc, to Alick Buchanan-Smith, Minister of State for Energy, 1 and 8 August 1985 and related correspondence in G800/49/14 Part 1. Letter from R.C.Shaw, Honorary Secretary, BRINDEX, to Peter Walker, 30 October 1985, G800/49/14 Part 2. Letter from Roland C.Shaw, Secretary, BRINDEX, to the Select Committee on Energy, November 1985, in G800/49/14 Part 4.
141 Minute summarising a meeting with BP plc by J.R.S.Guinness, 29 November 1985, G800/49/14 Part 5. Letter from R.Bexon, Deputy Chairman BP plc, to Alick Buchanan-Smith, 7 January 1986, G800/49/14 Part 8.
142 Minute from J.R.S.Guinness, 6 October 1986, and attached letter from Shell dated 3 October 1986, G800/49/14 Part 37.
143 Letter from R.W.Sinden, Director SBGI, to Peter Morrison, Minister of State for Industry, 18 April 1986, G800/49/14 Part 17.
144 Briefing note for the Secretary of State's meeting on 3 October 1985, G800/49/14 Part 1.
145 Minute from D.FR.Davis, Gas Division, to PS/Secretary of State, 29 November 1985, G63/602/14 Part 1.
146 Minute from R.Woolman, Department of Trade and Industry, to D.Long, Department of Energy, 4 February 1986, G800/49/14 Part 11.
147 HM Treasury papers, L/1821/01 Part J. The Select Committee on Energy in its seventh report, Session 1984–85 (HC76–1) recommended that gas exports should be permitted when the ratio of gas reserves to production exceeded an appropriate security margin.
148 Letter 22 October 1985, in G63/602/14 Part 1.
149 *Financial Times*, "Ministers differ over privatised British Gas", 25 November 1985, p.1.
150 Minute from Walker to the PM, 9 December 1985, G800/49/14 Part 7. The articles appeared in the *Financial Times* on 25 and 26 November and 9 December.
151 Letter from Moore to Walker, 10 March 1986, in HM Treasury papers, L/1821/01 Part J.
152 Note of the Secretary of State's Meeting with T.P. Jones, 1 December 1985, G800/49/14 Part 7.
153 Minute from G.S.Dart to PS/Secretary of State, 14 October 1985, G800/49/14 Part 1. Minute from J.H.Pownall, Department of Energy, 12 February 1986, G800/49/14 Part 11.
154 Letter from Sir Denis Rooke to Peter Walker, 15 July 1986, G800/49/14 Part 27.
155 Letter from Walker to Hammond, General Secretary Electrical Electronics Telecommunications and Plumbing Union, 10 June 1986, G800/49/14 Part 20.
156 Minute from the Secretary of State for Industry to the Prime Minister reporting discussions in E(DL), in E(81)68, "British Gas Corporation: Retailing of Gas Appliances. Note by the Secretaries", dated 17 June 1981.
157 Price Regulation, Annex 2, RPI – X + Y Price Control, para.5, G800/49/14 Part 15.
158 The "allowable gas costs" or Y term would be deducted from the total price and the RPI – X applied to the remainder of the price only. Therefore, while loosely describable as RPI – X + Y, more correctly, in mathematical terms the price formula was:

$$M_t = (1 + (RPI_t - 2)/100) \times P_{t-1} + Y_t - K_t$$

Maximum average price = non-gas component + gas costs – positive or negative correction factor

where non-gas component is calculated from: (factor to adjust the previous year's non-gas component by the change in the Retail Price Index less two percentage points) × (previous year's non-gas component)

and where

M_t = the maximum average price per therm in year t;

RPI_t = the percentage change in the Retail Price Index between that for October in year t and that for the preceding October;
P_{t-1} = the non-gas component of the price per therm in the prior financial year t–1;
Y_t = the gas cost per therm in year t;
K_t = the correction factor per therm to be made in year t (the correction factor will be positive if in year t–1 the actual price charged exceeded the maximum determined by the formula, negative if the actual price was lower than the maximum); and
t represents the relevant financial year.

159 Ibid., para. 7.
160 Price Regulation: Key Issues. Annex 2. Nature of the Price Control Formula, October 1985, G800/49/14 Part 2.
161 Note by M.F.Reidy, Gas Division, 1 April 1986, G800/49/14 Part 15.
162 More precisely, BGC could request the disapplication of the price control with effect from a date not earlier than 1 April 1992. The price control would then cease to apply unless a reference was made by the DGGS to the MMC and the MMC concluded that cessation of the condition, in whole or in part, would or might be expected to operate against the public interest.
163 Minute from J.I.Britton, Gas Division, 26 June 1986, G800/49/14 Part 24.
164 E(A)(85)11th meeting, 11 June 1985; E(A)(85)30, "Gas Industry Privatisation Regulation. Memorandum by the Secretary of State for Energy, 24 May 1985.
165 Minute by D.R.Davis, Gas Division, 23 October 1985.
166 Letter from A.J. Alt, Rothschilds, to D.Davis, Gas Division, 11 October 1985; document "Parameters for a successful privatisation of BG plc", October 1985; and Minute by J.S. Neilson, Gas Division, 23 October 1985; all in G800/49/14 Part 2.
167 Letter with draft terms of reference from J.S.Neilson, Gas Division, to Brian Pomeroy, Touche Ross & Co, 3 December 1986, G800/49/14 Part 6. Letter from J.R.S.Guinness to C.W.Brierley, Managing Director, British Gas Corporation, 20 March 1986, G800/49/14 Part 14.
168 Letter from B.W.Pomeroy, Touche Ross Management Consultants, to M.F.Reidy, Department of Energy, 16 April 1986, G800/49/14 Part 15. Letter from Pomeroy to Reidy, 8 May 1986 and accompanying documentation, G800/49/14 Part 17.
169 Minute from D.R.Davis, Gas Division, 12 June 1986, G800/49/14 Part 21.
170 E(A)(85)17th meeting, 31 July 1985. Initially, the wording would have required BGC to use its "best endeavours" to ensure that standing charges did not rise faster than inflation. This was criticised as inadequate during the passage of the Bill and the Government agreed to frame a more clearly worded obligation during the Committee Stage in the House of Lords.
171 *Hansard*, 18 June 1986.
172 This was on the eve of the second reading of the Gas Bill.
173 Minute from J.I.Britton, Gas Division, 26 June 1986, and minute from D.R.Davis to PS/Secretary of State, 26 June 1986, both in G800/49/14 Part 24.
174 Minute from W.D.Evans, Gas Division, to PS/Secretary of State, 7 January 1986, G800/49/14 Part 8.
175 *Conservative Party Election Manifesto 1983*.
176 Minute from P.H.Agrell, EP2, 11 October 1985, G800/49/14 Part 2.
177 Minute from J.R.S.Guinness to the Secretary of State, 17 January 1986, G800/49/14 Part 9.
178 Summary of Evidence Taken Before the Select Committee on Energy, November/December 1985, Third Hearing on British Gas 10 December 1985, G800/49/14 Part 9.
179 Offer for Sale document, p.30.
180 Letter from N.R.Thornton, DTI, to M.F.Reidy, Gas Division, 4 July 1986 and minute by Reidy, 7 July 1986, both in G800/49/14 Part 26.
181 Cited in I. Stelzer (1996), "Price rip-off ahead for gas customers", *The Sunday Times*, 2 February 1986, G800/49/14 Part 11.
182 Ibid.
183 *First Report from the Energy Committee Regulation of the Gas Industry*, January 1986, HC 15, London: HMSO.

184 Privately, as was the Government's financial adviser, Rothschilds.
185 It also drew on the Gas Act 1972 regarding safety and certain other issues.

15 THE PRIVATISATION OF BRITISH GAS: THE FLOTATION AND AFTERMATH

1 Minute by D.J.W.Lumley, Gas Division, 22 November 1985, G800/49/14 Part 5.
2 Minute from J.R.S.Guinness to the Secretary of State, 14 January 1986, G800/49/14 Part 8. Minute from M.F.Reidy, Department of Energy, 5 February 1986, G800/49/14 Part 11.
3 Minute from M.F.Reidy to PS/Secretary of State, G800/49/14 Part 35. Letter from M.Richardson, Rothschilds, to J.R.S.Guinnesss, 16 May 1986, G800/49/14 Part 19.
4 Minute from J.R.S.Guinness to M.F.Reidy, 12 May 1986, G800/49/14 Part 18. Letter from Nigel Lawson to Peter Walker, 6 October 1986, G800/49/14 Part 37. On 20 May Walker wrote to the Financial Secretary requesting that the TSB issue be prevented; minute from S.A.Robson to the Chancellor of the Exchequer, 22 May 1986, in HM Treasury papers, British Gas Corporation Privatisation Proposals, L/1821/01 Part K. The extent to which the Government had any ownership rights over the TSB was so uncertain that it is very doubtful whether the Chancellor could have prevented the sale should he have so wished.
5 Secretary of State's Meeting to Discuss Timing of BGC Flotation, 16 January 1986, G800/49/14 Part 9. The large sale of BT shares had tested the stock market's dealing arrangements with the result that many deals were left un-reconciled and trading positions had been left open. With the new market arrangements largely untested, there was a fear of something similar happening again but with perhaps even more disruptive results.
6 Minute from J.L.Wheldon to J.M.Bird, HM Treasury, 14 May 1986, HM Treasury papers, British Gas Corporation Privatisation Proposals, JA/162/01 Part B.
7 Letter from Lawson to Walker, 4 March 1986, G800/49/14 Part 13.
8 Letter from A.Carlisle, Dewe Rogerson Ltd, to A.Alt, N.M.Rothschild & Sons Ltd, 17 January 1986, G800/49/14 Part 9.
9 Letter from Nigel Lawson to Peter Walker, 18 February 1986, and letter from Rothschilds, 7 February 1986, both in G800/49/14 Part 11.
10 Letter from Michael Richardson to J.R.S.Guinness, Department of Energy, 2 December 1985, G800/49/14 Part 7.
11 Department of Energy Draft Discussion Paper, British Gas Offer for Sale. The Percentage to be Sold: 100% or less, 27 February 1986, G800/49/14 Part 12.
12 And following the usual "beauty contest" (competitive bidding) for the role of financial adviser based on price and competence. The Secretary of State, Peter Walker, had been unhappy with Rothschilds' role in the Enterprise Oil sale, when the bank had bought shares on behalf of RTZ (see chapter 4, pp.108–9). However, the bank performed well in the "beauty contest" and this overcame Walker's reservations about appointing the bank.
13 Again, the appointments were made after competition.
14 Minute by L.B.Davies, Gas Division, 17 October 1985, G800/49/14 Part 1. Cazenoves were appointed on 17 July 1985.
15 The team was 14 strong and consisted of Davis, Reidy, Faiz, Nelson, Lumley, Steele, Collett, Higson, Davies, Morris and Dr Wright and Mrs Dickson, Mrs Galloway and Miss Jackson; note in G800/49/14 Part 38.
16 Structure to organise and implement the privatisation of the company, 3 February 1986, G800/49/14 Part 11.
17 Note of the First Meeting of the Offer for Sale Co-ordinating Group held at the Department of Energy on 14 January 1986, G800/49/14 Part 9.
18 Papers in G800/49/14 Part 8.
19 Correspondence in G800/49/14 Part 8.
20 However, when later the electricity industry was privatised by the Department of Energy, a number of officials involved in the gas privatisation were called upon to work on electricity.

21 Minute from M.F. Reidy, Gas Division, 29 April 1986, G800/49/14 Part 16. Walker wrote to the Chancellor of the Exchequer on 13 May noting that the Government was on course to achieve a yield at the top end of this range, of £7bn to £9n; letter in HM Treasury papers, British Gas Privatisation and Prospects, L/182101 Part K.
22 G800/49/14 Part 11.
23 Draft discussion paper, British Gas – Partial Tender, 20 March 1986, G800/49/14 Part 14. Minute from S.A.Robson to G. Grimstone, in HM Treasury papers, L/1821/01 Part J.
24 Summary and Conclusions of the Key Issues Group's Report, 4 August 1986, G800/49/14 Part 45.
25 Method of Privatisation, Rothschild, n.d., G800/49/14 Part 11.
26 Memorandum from Cazenove & Co, 19 May 1986, G800/49/14 Part 19.
27 Minute from J.R.S. Guinness to M.F.Reidy, n.d. August 1986; Premium Pricing: A Balanced Viewpoint, N.M.Rothschild & Sons Ltd, 10 September 1986; and minute from J.R.S.Guinness to Secretary of State, 26 September 1986; all in G800/49/14 Part 36. Note of the Twenty First Meeting of the Offer for Sale Co-ordinating Group held at the Department of Energy on 1 October 1986, in HM Treasury papers, N/1329/01.
28 Minute from S.Linnett, 17 November 1986, G800/49/14 Part 48. Price Waterhouse (1987), p.30.
29 British Gas Underwriting, briefing note, 13 November 1986, G800/49/14 Part 49.
30 Minute by L.B.Davies, Gas Division, 21 October 1985, G800/49/14 Part 1.
31 Letter from Goldman Sachs New York to N.M. Rothschild & Sons, 13 June 1986, G800/49/14 Part 20.
32 Letter from D.R.Atkinson, Director of Finance, BGC, 12 August 1986, G800/49/14 Part 30. Minute by L.B.Davies, Gas Division, 17 September 1986, G800/49/14 Part 35.
33 Minute from G.S.Dart, PPS/Secretary of State, 22 September 1986, and letter from Norman Lamont, Treasury, to Walker, 24 September 1986, both in G800/49/14 Part 35.
34 Letter from Peter Walker to Norman Lamont, Financial Secretary, 30 September 1986, G800/49/14 Part 36.
35 N.M.Rothschild & Sons Ltd, British Gas Corporation. Structuring the Offer: Discussion Paper for the Co-ordinating Group, 11 July 1986, G800/49/14 Part 26.
36 Secretary of State's Meeting with Goldman Sachs, 19 November 1986, G800/49/14 Part 49.
37 Minute by L.B.Davies, Gas Division, 11 August 1986, G800/49/14 Part 30.
38 Minute by C.J.Morris, Gas Division, 11 July 1986, G800/49/14 Part 26.
39 Related to this, in the US and a number of other overseas markets underwriting commitments were entered into only in the closing stages of the offer, whereas in the UK the commitment was made earlier. In London typically underwriters and sub-underwriters carried the risk of the flotation flopping for up to two weeks from agreeing to underwrite until flotation. In the US underwriters were exposed to risk for a much shorter time. During the gas privatisation US underwriters were persuaded to change their normal procedures and commit to underwriting earlier. However, as a consequence they then suffered a year later during the fourth BP share sale, which was massively under-subscribed.
40 Minute from J.R.S.Guinness to the Secretary of State, 15 August 1986, G800/49/14 Part 31.
41 Minute from J.R.S.Guinness to the Secretary of State, 22 September 1986, G800/49 14 Part 35.
42 Ibid.
43 Minute from J.S.Neilson, Gas Division, 6 November 1986, G800/49/14 Part 45.
44 Letter from C.W.Brierley to W.D.Evans, Department of Energy, 4 September 1985, G800/49/14 Part 2. Letter from Leon Brittan, Secretary of State for Trade and Industry, to Walker, 10 December 1985, G800/49/14 Part 7. Letter from Peter Walker to John Moore, 17 February 1986, and minute from M.F.Reidy, Department of Energy, both in G800/49/14 Part 11.
45 Minute by W.D.Evans, Gas Division, 6 August 1986, and letter from Walker to BGC, 8 August 1986, both in G800/49/14 Part 30.
46 Letter from Moore to Walker, 16 December 1985, and minute from D.J.W.Lumley, Gas Division, January 1986, both in G800/49/14 Part 8.
47 Minute by M.F.Reidy, Gas Division, 23 October 1985, G800/49/14 Part 2. Letter from Sir Denis Rooke to Peter Walker, 26 June 1986, G800/49/14 Part 24. Technically, the 15% applied to the

total votes attaching to the share capital. Anyone breaching the limit would be ordered to reduce their holding to less than 15% within 21 days.

48 Minute from M.F.Reidy, 28 January 1986, G800/49/14 Part 10. Minute from S.A.Robson to John Moore, 18 July 1986, in HM Treasury papers, British Gas Privatisation Proposals, L/1821/01 Part K.

49 Letter from Walker to Rooke, 26 February 1986, and reply by Rooke, 27 February 1986, G800/49/14 Part 12.

50 Letter from G.S.Dart, Private Secretary Department of Energy, to V.Life, Private Secretary to the Financial Secretary, Treasury, 28 February 1986, G800/49/14 Part 12.

51 Minute by W.D.Evans, Gas Division, to PS/Secretary of State, 11 August 1986, G800/49/14 Part 30.

52 Note by J.R.S.Guinness, Department of Energy, 10 April 1986, G800/49/14 Part 15.

53 Dewe Rogerson, The Privatisation of the British Gas Corporation: General Public Research Findings and Implications, G800/49/14 Part 6.

54 Minute by D.J.W.Lumley, Gas Division, 29 November 1985, G800/49/14 Part 5.

55 Minute from M.F.Reidy, Gas Division, 30 June 1986, G800/49/14 Part 24.

56 Notes by M.F.Reidy, Gas Division, 18 July 1986 and 20 May 1986, G800/49/14 Parts 19 and 27.

57 Minute by L.B.Davies, Department of Energy, 17 February 1986, G800/49/14 Part 11.

58 Minute from M.F.Reidy to PS /Secretary of State, 11 July 1986, G800/49/14 Part 26. Letter from Walker to P.K.Rooke, Managing Director, Burrup Mathieson & Co Ltd, 10 November 1986, G800/49/14 Part 46.

59 Minute by R.P.Steele, Department of Energy, 24 November 1986, G800/49/14 Part 49. At the time Barrup Mathieson was seen as being the only City printer with the capacity to handle printing for large privatisations.

60 Minute from L.B.Davies, Department of Energy, 12 February 1986, G800/49/14 Part 11. The Gas Bill received the royal assent on 25 July 1986.

61 Note by C.C.Wilcox, Director of Resources Department of Energy, to M.F.Reidy, 25 September 1986, G800/49/14 Part 36.

62 Minute by R.P.Steele, Gas Division, 31 July 1986, G800/49/14 Part 29.

63 Letter to D.Lumley, Gas Division, from Dewe Rogerson, 21 May 1986, G800/49/14 Part 19.

64 Minute by D.J.W.Lumley, Gas Division, 30 November 1985, G800/49/14 Part 6. N.M.Rothschild & Sons Ltd, Draft briefing note for the Secretary of State's Meeting with the Chairman of BGC, G800/49/14 Part 7.

65 Minute from S.A.Robson to the Chancellor of the Exchequer, 20 May 1986, in HM Treasury papers, British Gas Privatisation and Prospects, L/1821/01 Part K. Minute from J.R.S.Guinness to D.R.Davis, 9 January 1986, G800/49/14 Part 8. Letter from Moore to Walker, 16 May 1986, and M.Richardson, NM Rothschild & Sons Ltd, to J.R.S.Guinness, 16 May 1986, and related correspondence, all in G800/49/14 Part 18. Note by D.R.Davis, Gas Division, 28 May 1986, G800/49/14 Part 19. Minute from J.R.S.Guinness to the Secretary of State, 4 August 1986, G800/49/14 Part 45.

66 Letter from Rooke to Walker, 16 January 1986, G800/49/14 Part 9.

67 Letter from David Norgrove, Private Secretary (PS) No. 10, to G. Dart, Department of Energy, 29 May 1986, G800/49/14 Part 30.

68 Letter from J.Cartwright MP, 30 October 1986, and related correspondence, G800/49/14 Part 50.

69 Minute by A.J.Meyrick, Department of Energy, 10 November 1983, G63/112/1. As in previous privatisations, the different categories of applicants were distinguished by the use of different coloured application forms. BGC customers would apply using a green form.

70 Minute from J.R.S.Guinness to Secretary of State, 8 August 1986, G800/49/14 Part 30. As with earlier privatisations using partly subscribed shares, the shares would be tradeable in partly subscribed form.

71 "Summary and Conclusions of the Key Issues Group's Report", draft, 4 August 1986, G800/49/14 Part 29.

72 Minute from J.S.Neilson, Gas Division, 30 July 1986, G800/49/14 Part 29. The Treasury's preference was for the second instalment to be payable in August 1987 so as not to conflict with other privatisation offers during the first half of the year. Rothschilds were recommending June or July. One of the instalment payments for BT shares had been on 9 April and some investors had sent in their payments before 31 March putting the funds into a different financial year. This had caused some irritation in the Treasury because it affected the planning of annual privatisation receipts. It was to be avoided in the case of BGC by dating the instalments more carefully and not advertising for the instalment payments to be made until the "correct" financial year. Letter from S.A Robson, Treasury, to R.Steele, Gas Division, 22 September 1986, G800/623/7 Part 3. Minute from J.P.McIntyre, 15 September 1986, in HM Treasury papers, British Gas Privatisation Proposals, JA/162/01 Part B.
73 Gas Privatisation: Co-ordinating Group. Paper 1. Fixing the Minimum Application Level, G800/49/14 Part 30.
74 Dealing Arrangements for Individual Investors, note by Cazenove & Co, 7 August 1986, G800/49/14 Part 30. Letter from S.Linnett, N.M.Rothschild & Sons Ltd, to the major UK commercial banks, 23 September 1986, G800/623/7 Part 3. The brokers to the offer and the regional co-ordinators agreed to buy and sell BGC shares at preferential rates until 31 December 1988.
75 Customer Share Scheme: Guaranteed Allotment, n.d., G800/49/14 Part 13. Letter from J.R.S.Guinness to C.W.Brierley, British Gas, 4 April 1986, G800/49/14 Part 15.
76 Minute by R.P.Steele, Gas Division, February 1986, G800/49/14 Part 12. As with previous privatisations, the cost of bill vouchers and bonus shares was met by the Government.
77 Customer Share Scheme, Annex A, May 1986, G800/49/14 Part 30. One official in the Treasury commented on the proposal: "Frankly, the whole idea looks rather silly and would, I am sure, attract critical comment." Minute from T.F.Mathews to S.A.Robson, 20 May 1986, in HM Treasury papers, British Gas Corporation Privatisation Proposals, G/162/404/01 Part C.
78 Discussion Paper – Co-ordinating Group: Incentives for Small Shareholders, 29 July 1986, G800/49/14 Part 28.
79 Larger purchases took the following form: 5,000 to 10,000 in multiples of 1000; 10,000 to 50,000 in multiples of 5,000; 50,000 to 100,000 in multiples of 10,000; and over 100,000 in multiples of 50,000 shares. Different application levels applied to an employee share scheme.
80 Minute from M.F.Reidy, Gas Division, 6 August 1986, G800/49/14 Part 30.
81 Letter from S.A.Robson, Treasury, to J.R.S.Guinness, Department of Energy, G800/49/14 Part 27.
82 British Gas Privatisation: Co-ordinating Group. The Customer Share Scheme, Department of Energy, 5 August 1986, G800/49/14 Part 30.
83 They would also be preferred by residents of Northern Ireland who were not served by BGC.
84 "British Gas Share Price 135p: Company Valued at £5.6bn", Press Release, N.M. Rothschild & Sons Ltd, 21 November 1986, G800/49/14 Part 49. There were special arrangements to enable investors in the overseas offerings to obtain an equivalent to the domestic share bonus.
85 Note of the Minister of State's Meeting with Sir Denis Rooke, 4 September 1986, G800/49/14 Part 33.
86 Discussion Paper, Incentives for Small Shareholders, May 1986, G800/49/14 Part 20.
87 Minute from J.S.Neilson, Gas Division, 13 October 1986, G800/49/14 Part 39.
88 Minute from D.J.W.Lumley to D.R.Davis, Gas Division, 24 January 1986, G800/49/14 Part 9.
89 Minute from J.R.S.Guinness to M.F.Reidy, 10 July 1986, G800/49/14 Part 26.
90 Letter from Peter Walker to Peter Rees, Chief Secretary, 11 June 1985, and minute from D.J.W.Lumley, Department of Energy, 10 February 1986, both in G800/49/14 Part 11.
91 Minute by D.J.W. Lumby, 30 November 1986, G800/49/14 Part 5.
92 Minutes by C.J.R.Morris, 22 April 1986, and M.F.Reidy, 17 April 1986, Gas Division, G800/49/14 Part 15.
93 Minute from J.G.Wright, Gas Division, 15 October 1986, G800/49/14 Part 39. Minutes by J.G.Wright and C.F. Henderson, 17 October 1986, G800/49/14 Part 40. Minute from J.R.S.Guinness and letter from S.Linnett, NM Rothschild & Sons Ltd, both 22 October 1986, G800/49/14 Part 42.

94 Minute from D.J.W.Lumley, 21 March 1986, G800/49/14 Part 14.
95 The limits of the free offer per employee ranged from £49.50 during the sale of British Aerospace in February 1981 to £70.20 in the case of BT in November 1984. There was also a formal upper limit on the total value of the entire employee share scheme of 5% of the expected sales receipts from the privatisation. In practice, a much lower limit had generally applied: Privatisation: Employer Shareholdings, Note by HM Treasury, 4 February 1985, in HM Treasury Papers, British Gas Corporation Privatisation Proposals, L/1821/01, Part K.
96 Minute by J.S.Neilson, Gas Division, 8 November 1985, G800/49/14 Part 4.
97 Minute from S.A.Robson to John Moore, 30 January 1986, and letter from G.S.Dart Private Secretary, Department of Energy, to V.Life, Private Secretary to the Financial Secretary, both in HM Treasury Papers, British Gas Corporation Privatisation Proposals, L/1821/01, Part J. Minute from S.A.Robson to the Chancellor of the Exchequer, 20 May 1986 and letter from Walker to the Chancellor of the Exchequer, 13 May 1986, both in L/1821/01, Part K.
98 Minute from J.S.Neilson, Gas Division, 22 October 1985, G800/49/14 Part 1.
99 Brief for Secretary of State's meeting with the Financial Secretary, 12 February 1986; letter from G.S Dart, PS Department of Energy, to V.Life, PS to the Financial Secretary, 6 February 1986; minute from M.F.Reidy, Department of Energy, 7 February 1986; all in G800/49/14 Part 11.
100 Also, at first the Treasury indicated that it would prefer that the 10% price discount offer to BT employees was not repeated in the BGC offer for sale. It had not proved particularly attractive to employees. However, it was reinstated after Treasury officials reflected that because many employees would have sold their shares before the payment for the final instalment, when the discount applied, it would not be unduly expensive.
101 Briefing for meeting between the Secretary of State and the PM, 29 May 1986, G800/49/14 Part 19.
102 The proposal for pensioners also involved some shares based on length of service.
103 Minute from J.S.Neilson, Gas Division, 21 January 1986, G800/49/14 Part 9. Annex B, Employee Share Scheme, May 1986, G800/49/14 Part 30.
104 Letter from Walker to the PM, 19 May 1986, G800/49/14 Part 30. John Moore had indicated that the Treasury might be willing to accept this figure; minute from S.A.Robson to the Chancellor of the Exchequer, 20 May 1986, in HM Treasury Papers, British Gas Corporation Privatisation Proposals, L/1821/01, Part K.
105 Letter from David Norgrove, PS No. 10, to G. Dart, Department of Energy, 29 May 1986, G800/49/14 Part 30. Letters between J.R.S. Guinness, Department of Energy, and C.W.Brierley, BGC, 26 and 28 November 1986, G800/49/14 Part 49. Each employee could apply for up 20,000 additional shares and each BGC pensioner 18,519 shares. However, the decision was taken not to have a share offer for BGC pensioners living overseas. Legal difficulties in some countries were identified.
106 British Gas Corporation – Proposed Profit Sharing Scheme, in HM Treasury, Nationalised Industries Policy (86). Circulated Papers, Minutes etc, April 1986, A/07. Statement by Peter Walker, *Hansard*, 16 June 1986. At the time the Inland Revenue was reviewing its policy on the tax treatment of shares for employees under the 1978 Finance Act. The result was to tighten the terms to reflect the increase in the share price between the offer for sale price and the price when dealing started. The price for calculating tax on capital gains would now normally be the market value at the date of appropriation or grant if made before the commencement of dealing, which would usually be higher than the offer price.
107 Letter from Moore to Walker, 16 May 1986, G800/49/14 Part 18. Per employee the free shares were worth a minimum of £70.20, the matching offer up to £300, and the discounted shares up to £200.
108 In the case of all privatisations, it was necessary to allow employees to opt out of the preferential employee share scheme if the shares offered to employees were not to be treated as a separate share offer to the main flotation, with the associated additional costs that would have been incurred.
109 Pathfinder Roadshows – UK/Europe. Draft Script on Finance, 21 October 1986, G800/49/14 Part 42.

110 BGC's financial year was to 31 March.
111 The Treasury had encouraged Walker to press for higher increases so that a larger negative EFL could be imposed on the Corporation, but Walker had resisted; Walker (1991), p.191.
112 Briefing note from D.R.Davis, Gas Division, to the PS/Secretary of State, 4 November 1985, G800/49/14 Part 4.
113 The target rate of return was on a CCA valuation and was set in 1983 to run until the end of March 1987. There was also a target to achieve a 12% reduction in net trading costs per therm over the same period, which BGC was also on target to achieve.
114 The Privatisation of BGC, Department of Energy briefing note, March 1986, G800/49/14 Part 13.
115 Ibid.
116 During the negotiations with BGC over the provision of HCA information, the Byatt group in the Treasury published its report favouring the use of CCA. In the Department of Energy this was judged to be very bad timing and most unhelpful. As to be expected, BGC used the report to support its case for not using HCA. Letter from Walker to John MacGregor, Chief Secretary, HM Treasury, HM Treasury papers, British Gas Corporation Privatisation Proposals, L/1821/01 Part J. The Byatt report was published: HM Treasury (1986b) *Accounting for Economic Costs and Changing Prices: A Report to HM Treasury by an Advisory Group*, London: HMSO.
117 The BGC Board was also resistant to a revaluation of land and buildings in BGC's balance sheet and this did not occur.
118 The fact that there may be circumstances, depending upon the relation of interest rates to the price earnings multiple the profits will be capitalised at, when introducing debt into a company's balance sheet increases the sale proceeds, had come to the attention of the Treasury too late to alter the terms of the BT privatisation, which was in the form of equity only including preference shares.
119 Letter from V.Life, Treasury, to G.Dart, PS/Secretary of State for Energy, 27 November 1985, G800/49/14 Part 5.
120 The debt finally agreed took the form of an unsecured debenture repayable in tranches from 1987 to 1992.
121 On a HCA basis. On a CCA basis the gearing would be something over 10%.
122 Minute from J.R.S.Guinness, Deputy Secretary, to the Secretary of State ahead of a meeting with the Financial Secretary, 25 October 1985, G800/49/14 Part 2.
123 The stock would be transferred to the National Loans Fund and the Treasury demanded that BGC should compensate the Fund by handing over cash of an equivalent value, some £120–130m. Minute from S.A.Robson to the Chancellor of the Exchequer, 14 May 1986, in HM Treasury papers, British Gas Corporation Privatisation Proposals, L/1821/01 Part K. However, BGC argued that the Government should take over the stock without compensation. Later it would get the Department of Energy to agree to this in return for accepting the imposition of £2.5bn of debt. The Treasury was not in favour of this compromise, but Walker maintained that it was the best deal he could negotiate. The Gas Bill, therefore, included the necessary powers for the Government to transfer to the NLF the 3% stock with the cost met from the Consolidated Fund; minute from S.A.Robson, 16 May 1986, in HM Treasury papers, British Gas Corporation: Privatisation – Debts, G/162/404/01 Part C; minute from S.A.Robson to Sir Peter Middleton, 19 May 1986, in HM Treasury papers, British Gas Corporation Privatisation Proposals, L/1821/01 Part K; statement by Walker to the House, *Hansard*, 18 June 1986. But as one Treasury official complained on returning from leave, "There is no escaping the thought that the Treasury was well and truly conned by Energy." Minute from L.Walters, 25 June 1986, in HM Treasury papers, British Gas Corporation Privatisation Proposals, G/162/404/01 Part C.
124 Minute from G.S.Dart, PS/Secretary of State, 22 November 1985, G800/49/14 Part 4.
125 Brief for the Secretary of State's meeting with Sir Denis Rooke, Thursday 28 November 1985, G800/49/14 Part 5.
126 Minute from M.F.Reidy to PS/Secretary of State, 27 November 1986, G800/49/14 Part 5. Minute by D.R.Davis, Gas Division, 23 October 1985. The Privatisation of BGC, Department of Energy briefing note, March 1986, G800/49/14 Part 13.
127 Letter from S.Linnett, Rothschilds, 4 February 1986, G800/49/14 Part 11.

128 Minute from M.F.Reidy to PS/Secretary of State, 12 November 1985, G800/49/14 Part 4. However, at the time the Treasury was predicting pre-tax interest rates of 10% and a net dividend yield of 5% post-privatisation; minute from S.A.Robson to John Moore, 18 November 1985, in HM Treasury papers, British Gas Corporation Privatisation Proposals, L/1821/01 Part F. Equally, the Treasury preferred that any decision on the appropriate level of dividends be postponed until nearer the flotation when a better forecast could be made; minute from S.A.Robson to the Chancellor of the Exchequer, 28 April 1986, in HM Treasury papers, British Gas Corporation Privatisation Proposals, L/1821/01 Part J.
129 Letter from Walker to Rooke, 2 December 1985, G800/49/14 Part 6. Summary of reply from Rooke, in draft letter to Rooke from Walker, n.d., G800/49/14 Part 7.
130 Letter from A.J.Alt, N.M. Rothschild and Sons Ltd, to D.Davis, Gas Division, 11 October 1985; document "Parameters for a successful privatisation of BG plc", October 1985; and Minute by J.S.Neilson, Gas Division, 23 October 1985; all in G800/49/14 Part 2. Steering Brief, 28 April 1986, G800/49/14 Part 16.
131 Note by J.R.S.Guinness, 9 April 1986, G800/49/14 Part 15.
132 Minute from M.F.Reidy, Department of Energy, 7 February 1986, G800/49/14 Part 11.
133 Letter from Price Waterhouse to Touche Ross & Co, 27 February 1986, G800/49/14 Part 12. BGC also maintained that capitalising replacement expenditure would have adverse tax consequences; an argument that the Treasury discounted as unsubstantiated; BGC Privatisation, note in HM Treasury papers, British Gas Corporation Privatisation Proposals, L/1821/01 Part K. As part of the discussions on financial restructuring BGC was permitted to extend asset lives and there was a resulting release of deferred tax.
134 Minute from S.A.Robson to John Moore, 30 January 1986, in HM Treasury papers, British Gas Corporation Privatisation Proposals, L/1821/01 Part J.
135 Minute from M.F.Reidy to J.R.S Guinness, Department of Energy, 29 January 1986, G800/49/14 Part 10.
136 Prices for gas had peaked in 1981/82.
137 Minute from G.S.Dart, Department of Energy, G800/49/14 Part 11.
138 Letter from A.J.Alt, N.M. Rothschild & Sons Ltd, to M.F.Reidy, 31 January 1986, G800/49/14 Part 10. BGC's annual contribution to two pension funds was expected to fall by around £100m p.a. from April 1986 as a result of a revaluation of the fund's assets. Although the new company was to take over BGC's obligations under the schemes, the funds did not have any formal index-linking provisions similar to those that had caused problems in the BT privatisation and there would be no need to guarantee the BGC pension fund, as occurred during the BT sale; E(A(85)30, "Gas Industry Privatisation: Regulation. Memorandum by the Secretary of State for Energy", 24 May 1985. A full valuation of the BGC's pension schemes for staff and manual workers was carried out at 1 April 1985. An unfunded past service liability was revealed, which was made good by additional employer's contributions in the years ending 31 March 1986 and 31 March 1987; BGC Offer for Sale document, p.48.
139 Minutes from J.R.S. Guinness, Deputy Secretary and M.F. Reidy, Department of Energy, 3 & 7 February 2006, G800/49/14 Part 11.
140 Minute from D.R. Davis, Department of Energy, to PS/Secretary of State, 14 March 1986, G800/49/14 Part 13.
141 Capital Structure Paper 1: Cash and Profit Prospects for the Company, M.F.Reidy, G800/49/14 Part 2.
142 Letter from Nigel Lawson to Peter Walker, 24 March 1986, G800/49/14 Part 14.
143 Letter from Lawson to Walker, 17 April 1986, G800/49/14 Part 16. The threat to postpone the sale was intended to put pressure on Rooke and may not have been entirely serious, although an alternative sale of BA, BAA, Rolls-Royce or further BP shares was discussed within the Treasury.
144 Minute by J.R.S.Guinness, 25 April 1986, G800/49/14 Part 16.
145 Letter from A.J.Alt, N.M.Rothschild & Sons Ltd, to J.R.S.Guinness, 25 September 1986, G800/49/14 Part 36.
146 Note of the Seventh Meeting of the Offer for Sale Co-ordinating Group held at the Department of Energy on 8 April 1986, in HM Treasury papers, British Gas Corporation Privatisation Proposals, N/1329/01.

147 Minute from J.R.S.Guinness, 13 June 1986, G800/49/14 Part 21.
148 Minute by J.R.S. Guinness, 24 September 1986, G800/49/14 Part 35. Minute from J.G.Wright to J.R.S. Guinness, 25 September 1986, G800/49/14 Part 36.
149 Minute from J.R.S.Guinness to Secretary of State, 29 September 1986; minute from D.R.Davis, Gas Division, to PS/Secretary of State, 30 September 1986; and minute from S.Linnett, 30 September 1986, all in G800/49/14 Part 36
150 This was one month after royal assent to the Gas Act. There was usually a two month period between royal assent and an Act coming into effect, but a dispensation was obtained in this case.
151 Letter from Cazenove & Co., 10 September 1986, G800/49/14 Part 34.
152 Minute from M.F.Reidy, 25 September 1986, G800/49/14 Part 36.
153 Minute from J.R.S.Guinness, Deputy Secretary, to the Secretary of State, 13 October 1986, G800/49/14 Part 39.
154 Letter from D.M.Gray, James Capel & Co., to S. Linnett, N.M.Rothschild & Sons, 23 September 1986, G800/49/14 Part 35.
155 Letter from Rooke to Walker, 10 October 1986, G800/49/14 Part 38.
156 Minute from D.R.Davis, Head Gas Division, to PS/Secretary of State, 10 October 1986, G800/49/14 Part 38.
157 Draft letter to Rooke, n.d., G800/49/14 Part 37.
158 Brief on Profits and Dividends for the Secretary of State's meeting with Sir Denis Rooke, 3 October 1986, G800/49/14 Part 37.
159 Secretary of State's Meeting with BGC, Monday 6 October 1986, G800/49/14 Part 38.
160 Letter from Walker to Rooke, 7 October 1986, G800/49/14 Part 38.
161 In January 1986 manual employees of BGC had received a 6% increase in basic wage rates plus improvements to other terms and conditions of work and by the time of the flotation the unions had lodged another claim for the following year. The Treasury believed that BGC was not doing enough to hold down its manpower costs.
162 Note of a Meeting on the Profit Forecast held at the Department of Energy on 22 October 1986, G800/49/14 Part 42.
163 Note of a telephone conversation between C. Brierley, BGC, and G.Dart, Department of Energy, and letter from Dart to Brierley, both 24 October 1986. Also, letter from Brierley to Peter Walker, 27 October 1986; all in G800/49/14 Part 43.
164 Letter from Walker to Brierley, MD Economic Planning BGC, 27 October 1986, G800/49/14 Part 43.
165 Letter from Brierley to Walker, 28 October 1986, G800/49/14 Part 43.
166 Letter from Walker to Brierley, 29 October 1986, G800/49/14 Part 44.
167 Minute by G.S.Dart, PPS/Secretary of State, 29 October 1986, and minute from J.R.S.Guinness, Deputy Secretary, 29 October 1986, both in G800/49/14 Part 44.
168 Memorandum from the Permanent Under-Secretary, 29 October 2006, G800/49/14 Part 44.
169 Commentary on Sir Denis Rooke's letter, October 1986, G800/49/14 Part 39.
170 Letter from Lawson to Walker, 20 October 1986 and reply by Walker, 21 October 1986, both in G800/49/14 Part 42.
171 "NALGO goes to court over Thames Water sell-off", *Financial Times*, 18 June 1986.
172 If the ultra vires claim was upheld, the BGC directors might be at risk on a personal basis. Note of a Meeting held on 9 July 1986 at the Department of Energy, G800/49/14 Part 26. Minute from S.A.Robson to John Moore, 18 July 1986, in HM Treasury papers, British Gas Corporation Privatisation Proposals, L/1821/01 Part K.
173 ADRs are American Depository Receipts and represent ownership in the shares of a foreign company trading on US financial markets. They tend to be favoured in the US because they enable Americans to buy shares in foreign companies without undertaking cross-border transactions. ADRs are denominated in dollars and issued by US depository banks. Holders of an ADR have the right to obtain the foreign stock it represents should they wish.
174 Implications of the Budget for the British Gas Offer for Sale, draft letter from the Secretary of State to John Moore, March 1986, and letter from M.Richardson, Rothschild & Sons Ltd to J.R.S.Guinness, Department of Energy, 4 April 1986, both in G800/49/14 Part 15. Letter from

Peter Walker to Nigel Lawson, 3 July 1986, and Lawson's reply, 7 July 1986, in G800/49/14 Parts 25 and 26, respectively.

175 Letters from Walker to John MacGregor, Chief Secretary, 7 February 1986 and 12 June 1986 in G800/49/14 Parts 11 and 21, respectively. Letter from John Moore, Financial Secretary, to Walker, 26 February 1986, G800/49/14 Part 12. Minute from J.G.Wright, Gas Division, 8 July 1986, G800/49/14 Part 26. Letter from MacGregor to Walker, 30 July 1986, G800/49/14 Part 29. Letter from Kenneth Baker, Department of the Environment, to John Moore, Treasury, 14 March 1986, G800/49/14 Part 13. Letter from Walker to MacGregor, 18 July 1986, G800/49/14 Part 27. It seems that the Treasury favoured adopting the same strategy for BGC as had applied to BT since its privatisation of refusing to forward any more applications for grants from the company to the European Commission; minute by J.M.Bird, HM Treasury, 12 February 1986, in HM Treasury papers, British Gas Corporation Privatisation, JA/162/01 Part B.

176 Attitude of Opposition Parties to Public Ownership, G800/49/14 Part 42.

177 Minute by G.S. Dart, PPS/Secretary of State, 24 June 1986, G800/49/14 Part 24 and miscellaneous correspondence in G800/49/14 Part 47. Following a legal challenge from Lithgow, the European Court handed down a judgement in July 1986 favourable to the Government but this did not end his objections. Lithgow's grievances related to inadequate compensation when his company's assets were nationalised and inadequate prior government consultation, which he considered contrary to the European Convention on Human Rights; letter from Lithgow to Slaughter & May, 22 October 1986, G800/49/14 Part 48; letter from Lithgow to the PM 4 August 1986, in HM Treasury papers, British Gas Privatisation Prospects, L/1821/01.

178 Letter from Walker to the PM, 19 May 1986, G800/49/14 Part 30.

179 Note by G.W.S Lumley, Gas Division, 14 April 1986, G800/49/14 Part 15. Minute by D.R.David, Gas Division, 20 May 1986, G800/49/14 Part 19.

180 Minute by G.S.Part, PPS/Secretary of State, summary of BG Privatisation Progress Meeting on 8 July 1986, G800/49/14 Part 26. Carsberg faced public criticism of BT's policy on tariff rebalancing and had responded by signalling that he would be looking into BT's activities. This caused some alarm in the City that he might be intending to intervene to reduce BT's profits. In fact, this proved not to be the case. Carsberg continued to operate a price cap regulation.

181 Minute from W.D.Evans, Department of Energy, to PS/Secretary of State, 18 February 1986, G800/49/14 Part 11.

182 Letter from John Moore to J.R.S.Guinness, Department of Energy, in HM Treasury papers, L/1821/01, Part K. Letter from S.A.Robson, HM Treasury, to J.R.S.Guinness, Department of Energy, 4 July 1986, G800/49/14 Part 25. In the event, Rooke was persuaded to sign the letter.

183 Dewe Rogerson, Memo on Gas City Survey, 2 May 1986, G800/49/14 Part 17.

184 Letter from Dewe Rogerson Ltd to D.Heslop, British Gas, 9 July 1986, G800/49/14 Part 26.

185 Letter from Peter Walker to R.Evans, Chief Executive Officer, BGC, 28 October 1986, G800/49/14 Part 43.

186 Minute by G.S.Dart, PPS/Secretary of State, 29 October 1986, G800/49/14 Part 44. Statement on Directors' Salaries, n.d., G800/49/14 Part 47.

187 BGC Offer for Sale document, p.62.

188 James Capel & Co, "British Gas", Fourth Draft 30 June 1986. The quotation is from the Draft Press Release 26 June 1986, G800/49/14 Part 24.

189 British Gas Privatisation: Co-ordinating Group. The Customer Share Scheme, Department of Energy, 5 August 1986, G800/49/14 Part 30.

190 Minute by J.G.Wright, Gas Division, 18 September 1986, G800/49/14 Part 35.

191 "British Gas – The Major Factors", Morgan Grenfell Securities, October? 1986, G800/49/14 Part 33.

192 Minute by M.A.Higson, Gas Division, 1 September 1986, G800/49/14 Part 33.

193 The indemnity applied except in cases where the Corporation was negligent or there was wilful default. BGC wanted this financial exposure to be capped in cases of negligence. Letter from C.W.Brierley, BGC, to M.F.Reidy, Department of Energy, G800/49/14 Part 38. Minutes from M.F.Reidy, Gas Division, to PS/Secretary of State, 24 and 27 October 1986, G800/49/14 Part 43.

194 Minute by C.J.R.Morris, Gas Division, 9 September 1986, G800/49/14 Part 33. Also, a smaller office in London acted as a control centre dealing with the press, financial intermediaries and with particularly difficult enquiries.
195 Note of the Nineteenth Meeting of the Offer for Sale Co-ordinating Group held at the Department of Energy on 18 September 1986, in HM Treasury Papers, British Gas Corporation: Offer for Sale Co-ordinating Group, N/1329/01. Minute by C.J.R.Morris, Gas Division, 24 September 1986, G800/49/14 Part 35.
196 CC(86)31st meeting, conclusions, 18 September 1986.
197 Draft press release from Dewe Rogerson, 2 September 1986, G800/49/14 Part 34.
198 Letter from R.Howell, Young & Rubicam Ltd., to M. Reidy, Department of Energy, 20 November 1986, G800/49/14 Part 49. In his autobiography Walker (1991), p.193, comments that the first promotional material presented to him by Young and Rubicam was "terrible . . . I said we were trying to interest millions of people who had never bought a share in their lives before. They could not understand any of the 'guff' which was being presented . . . They went away and came back with 'Sid' . . . I thought it was a good name and decided not to tell anyone my brother was called Syd."
199 Draft press release, 26 September 1986, G800/49/14 Part 36.
200 Letter from Anthony Carlisle, Dewe Rogerson Ltd, to M.F.Reidy, Department of Energy, 16 October 1986, G800/49/14 Part 39.
201 Dewe Rogerson Trading Survey Report, 16 October 1986, G800/49/14 Part 40.
202 Note of the Twenty First Meeting of the Offer for Sale Co-ordinating Group held at the Department of Energy on 5 November 1986, in HM Treasury Papers, British Gas Corporation: Offer for Sale Co-ordinating Group, N/1329/01.
203 Letter from S.A.Robson, Treasury, to J.R.S.Guinness, Department of Energy, 16 October 1986, G800/49/14 Part 39.
204 Minute from R.P.Steele, Gas Division, October 1986, G800/49/14 Part 42. Letter from Norman Lamont, Treasury, to Peter Walker, 27 October 1986, G800/49/14 Part 43. Letter from National Westminster Bank to BGC, 28 October 1986, G800/49/14 Part 44.
205 The National Westminster had been the only major bank willing to be considered as both lead receiving bank and registrar, and originally suggested that it would only be able to process 3m allotments. Letter from M. Richardson to the Secretary of State for Energy, 21 October 1985, G800/49/14 Part 1. Competition for the role of the receiving bank had come only from Barclays and for registrar only from Ravensbourne. This led to a claim in the Department of Energy that "There is effectively a City cartel in this area." Minute from L.B.Davis, Gas Division, 19 November 1985, G800/49/14 Part 4. NatWest proposed charges of £4.265m to establish the register and between £1.80 and £2.50 per shareholder in running costs per year. These charges were considered excessive by the Government and after Walker met with Lord Boardman, Chairman of the National Westminster, the bank revised up its expectation as to the number of shareholders it could register and reduced its price. The receiving bank capacity was raised through the introduction of computer processing of personalised application forms to replace manual sorting. Letter from Lord Boardman to Walker, 11 December 1985, G800/49/14 Part 7. Later this was increased again, to 6.5m.
206 Minute from J.R.S.Guinness, 4 June 1986, G800/49/14 Part 20.
207 Draft letter to the National Westminster, Lloyds and Midland Banks, n.d. (November 1986), G800/49/14 Part 49.
208 Minute by G.S.Dart, 30 October 1986, G800/49/14 Part 44.
209 Note on the Pathfinder conference and BGC Press Release, 30 and 31 October 1986, both in G800/49/14 Part 44.
210 Letter from M.Richardson, N.M.Rothschild & Sons Ltd, to J.R.S. Guinness, Department of Energy, 9 September 1986, G800/49/14 Part 33. The profit trend using HCA accounting was less favourable (£1,100m in 1985/6 and £1,071m in 1986/7). However, the pro-forma accounts, reflecting balance sheet restructuring, did show a slight upward trend for profit before taxation on both HCA and CCA bases; Offer for Sale document, p.5.
211 Minute by J.G.Wright, PS/Secretary of State, 30 October 1986, G800/49/14 Part 44. Minute from J.G. Wright, Department of Energy, to PS/Secretary of State, 26 November 1986, G800/49/14 Part 49.

212 Note in G800/49/14 Part 47. Note of the Twenty First Meeting of the Offer for Sale Co-ordinating Group held at the Department of Energy on 5 November 1986, in HM Treasury Papers, British Gas Corporation: Offer for Sale Co-ordinating Group, N/1329/01.
213 Draft Press Release, Department of Energy, 6 November 1986, G800/623/7 Part 3.
214 Minute from S.B.Dickinson, Gas Division, 10 November 1986, G800/49/14 Part 46.
215 Minute from D.R.Davis, Head/Gas, 20 October 1986, G800/49/14 Part 41.
216 Letter from M.Richardson, N.M.Rothschild & Sons Ltd, to J.R.S. Guinness, Department of Energy, 9 September 1986, G800/49/14 Part 33. Minute by J.R.S.Guinness to the Secretary of State, 3 October 1986, G800/49/14 Part 37.
217 Memorandum from Cazenove & Co to the Actuarial Classification Committee, 8 October 1986, G800/623/7 Part 3. Note for file by L.B.Davies, Gas Division, 11 September 1986, G800/49/14 Part 34.
218 Letter from A.D.Forbes, Cazenove & Co, to J.R.S.Guinness, 7 November 1986, G800/49/14 Part 46.
219 British Gas Valuation Matrix, 17 November 1986, G800/49/14 Part 48.
220 Minute from L.B.Davies, Gas Division, 10 June 1986, G800/49/14 Part 26.
221 Minute from J.R.S.Guinness to the Secretary of State, 18 November 1986, G800/49/14 Part 48.
222 Memorandum from the Permanent Under-Secretary to the Secretary of State, 4 August 1986, G800/49/14 Part 29. Minute by M.F.Reidy, Gas Division, 15 October 1986, G800/49/14 Part 47. The Pricing of British Gas plc, note by J.R.S.Guinness, 11 November 1986 and letter of appointment of G.Chandler, 7 November 1986, both in G800/49/14 Part 46. However, as one official in the Department of Energy commented on the appointment of an independent adviser from the City, 'it is stretching a point to call any one of their breed "independent" '; note by M.F.Reidy, Gas Division, 2 April 1986, G800/49/14 Part 15.
223 A couple of other people were considered but rejected.
224 Letter from J.R.S.Guinness to G.Chandler, 11 November 1986, G800/49/14 Part 47.
225 Various press cuttings in G800/49/14 Part 49. Blair also questioned the need to sell shares to foreigners, pointing out that when the Japanese Government had sold shares in the telecommunications company NTT the previous month, they had excluded foreign participation.
226 Minute from S.Linnett, 17 November 1986, G800/49/14 Part 48.
227 Letter from G.J.Chandler to Walker, 19 November 1986, G800/49/14 Part 48.
228 This is perhaps an unfortunate reflection on the competence of the general British public.
229 It has also been suggested that John Guinness was very influential in determining the share price of 135p. Some other officials in the Department of Energy, including Michael Reidy, thought this was at the top end of what could be achieved.
230 Minute from J.R.S.Guinness to the Secretary of State, 18 November 1986, G800/49/14 Part 48. Minute from J.R.S.Guinness, 3 December 1986, G800/49/14 Part 50.
231 Secretary of State's Meeting with Advisers to Discuss Pricing of the British Gas Share Issue, 19 November 1986, G800/49/14 Part 49.
232 Minute by M.Higson, Gas Division, 14 November 1986, G800/49/14 Part 47.
233 The use of a mini prospectus to reduce costs drew on the experience of the successful BT flotation.
234 Letter from C.W.Brierley to J.R.S.Guinness, 4 November 1986, G800/49/14 Part 45. Minute from D.J.W.Lumley, Gas Division, 1 December 1986, G800/49/14 Part 50.
235 Minute from D.J.W.Lumley to PS/Secretary of State, 24 November 1986, G800/49/14 Part 49. Minutes from D.J.W. Lumley and R.P.Steele, Department of Energy, to PS/Secretary of State, 28 November 1986, both in G800/49/14 Part 49.
236 Minute from R.P.Steele, to PS/Secretary of State, 4 December 1986, G800/49/14 Part 50.
237 See pp.391–2.
238 CC(86)41st meeting conclusions, 11 December 1986.
239 Minute from R.Steele and S.Linnett to the Co-ordinating Group Meeting, 12 November 1986, in HM Treasury Papers, British Gas Corporation: Offer for Sale Co-ordinating Group, N/1329/01.
240 Department of Energy Press Release 233, 5 December 1986, G800/49/14 Part 50.

241 Minute from S.Collett, Gas Division, to PS/Secretary of State, 4 December 1986, G800/49/14 Part 50.
242 British Gas Share Allocation, minute from S.Collett, Gas Division to PS/ Secretary of State, 4 December 1986, G800/49/14 Part 50.
243 Minute from E.Dobkin, Goldman Sachs, to J.R.S. Guinness, 22 December 1986, G800/49/14 Part 50.
244 Note for the record by L.B.Davies, Gas Division, in G800/49/14 Part 50
245 To ensure that the applications were processed in time some overseas facilities for processing and registration of the share issue were used. On one occasion a civil servant taking a suitcase of applications for shares to Germany for processing found that he could obtain only a standby air ticket. Colin Marshall at British Airways was telephoned to ensure that the civil servant obtained a seat on the flight even if this meant off-loading another passenger. Apparently there were still advantages to be gained from the state owning an airline after all!
246 Thatcher (1993), p.682.
247 Privatisation Briefing for use on 25 November 1987, BT/A/104.
248 Minute by R.P.Steele and letter from M.F.Reidy to Ravensbourne, both 16 December 1986, in G800/40/14 Part 49.
249 Minute from R.P.Steele to PS/Secretary of State, 8 December 1986, G800/49/14 Part 50.
250 Letter from the Plain English Campaign to Walker, 4 December 1986, and minute from M.F.Reidy, 5 December 1986, both in G800/49/14 Part 50.
251 Campbell (2003), p.238.
252 These are the figures reported by the NAO. Price Waterhouse (1987), p.28, puts the cost of sale lower at £164m with costs borne by the company at around £18m.
253 National Audit Office (1987c) *Department of Energy – Sale of Government Shareholding in British Gas plc*, 30 June, HC 22 Session 1986–87, London: HMSO.
254 Martin and Parker (1997), Tables 5.1, 6.1 and 8.1. However, labour productivity growth had also been healthy in the years preceding privatisation. For example, the number of therms sold per employee increased by nearly 32% over the five years ending 31 March 1986; N.M.Rothschild & Sons Ltd on behalf of HM Government through the British Gas Share Information Office, *British Gas Share Offer: A Background Briefing*, 6 November 1986, p.11.
255 There was also criticism when Peter Walker was appointed to the Board of British Gas as a non-executive director in June 1990, having only very recently stepped down as a Minister; *http://www.spinwatch.org/content/view/248/8/*. Walker defends his actions on the grounds that he had been approached by a number of oil companies to join their boards and chose BGC for other than financial reward; Walker (1991), pp.226–7. Walker served on the BGC Board until 1996.
256 The requirement for British Gas plc to publish its prices, which its competitors were not required to do, would eventually be lifted by OFGAS in mid-1995. By then there was extensive competition in the contract market.
257 MMC (1988) *Gas: a Report on the Matter of the Existence or Possible Existence of a Monopoly Situation in Relation to the Supply of Gas through Pipes to Persons other than Tariff Customers*, Cmnd.500, London: HMSO. Helm (2004), ch.13, provides an excellent review of the changes in the gas industry during the 1990s.
258 OFT (1991) *The Gas Review*, London: Office of Fair Trading.
259 Neither OFGAS nor the MMC could change the threshold defining the tariff market because this was set down in the Gas Act. Therefore, new legislation was needed, the Competition and Service (Utilities) Act 1992. This Act also gave OFGAS the power to make a reference to the MMC in relation to the conveyance and storage of gas.
260 MMC (1993a) *Gas and British Gas plc*, London: HMSO; MMC (1993b) *Gas: Volume 1 of Reports under the Fair Trading Act 1973 on the Supply Within Great Britain of the Conveyance or Storage of Gas by Public Gas Suppliers*, Cmnd.2314, London: HMSO.
261 In return for these changes BGC was compensated for the resulting loss in revenues by a reduction in the X term in the price cap from the 5% set in 1991 to 4%, to begin in 1994.
262 S(1)(4)(c) *The Gas Act 1995*, Chapter 45, London: HMSO. The 1995 Gas Act also put OFGAS on the same footing as OFTEL regarding the power to make Fair Trading Act monopoly references to the MMC.

263 For example, Vickers and Yarrow (1988), pp.267–8, conclude: "British Gas has been transferred to the private sector with its monopoly and monopsony powers intact . . . major opportunities to improve incentives in the industry have been missed." In a similar vein, Foster (1992), p.131 comments that, "Arguably a high price was paid for securing the Corporation's agreement to privatisation".
264 Helm (2004), p.116 argues that only one academic paper, of which he was a co-author, argued at the time for a major restructuring of BGC. This suggested restructuring on regional lines but with no separation of the supply function.
265 Excluding the Morecambe Bay fields which were placed in Centrica.
266 Helm (2004), p.7.

16 NATIONALISATION AND PRIVATISATION 1970 – 87: AN OVERVIEW AND CONCLUSIONS

1 Letwin (1992), p.89.
2 J.Moore (1992) "British Privatisation – Taking Capitalism to the People", *Harvard Business Review*, January-February, reprinted in HM Treasury (1992) *Her Majesty's Treasury Guide to the UK Privatisation Programme*, June, London: HM Treasury.
3 Cited in M.Balen (1994) *Kenneth Clarke*, London: Fourth Estate, p.113. The reference to Nick Ridley is probably to Ridley's report on nationalised industries in 1978, which was quietly suppressed at the time by the shadow Cabinet.
4 M. Thatcher (1995) *The Path to Power*, p.574.
5 The main partial exception to this was the National Freight Corporation, which was not highly profitable. However, it was sold in February 1982 to its management and employees not external investors.
6 Statement by the Key Issue Group reported in Premium Pricing: A Balanced Viewpoint, report by N.M.Rothschild & Sons Ltd, 10 September 1986, in British Gas privatisation files, Department of Energy, G800/49/14 Part 36.
7 Veljanovski (1987), p.93.
8 Ibid., pp.7–8.
9 Foster (1992), p.116.
10 M. Bishop and J. Kay (1988) *Does Privatisation Work?* London: London Business School, p.10. R. Green and J. Haskel (2001) "Seeking a Premier League Economy: The Role of Privatization", in R.Blundell, D.Card and R.B.Freeman (eds.) *Seeking a Premier League Economy,* Chicago: University of Chicago Press, p.64, have more recently repeated the same claim: "Privatization, at least on a large scale, was in fact something of an accident."
11 Kay and Thompson (1986).
12 Grimstone (1988), p.20.
13 Even though in financial terms much more important were the tax receipts from North Sea oil.
14 The figures in Table 16.1 below are to March 1987 and show total privatisation receipts of just under £12bn. Between April and June 1987 additional receipts were obtained from the sale of the remainder of the Royal Ordnance Factories to BAe, the sale of British Leyland Trucks and the flotation of Rolls-Royce.
15 There is one important issue not specifically mentioned in the flow chart: the need prior to the finalisation of the sale prospectus for a formal trawl across government departments seeking information on anything that might need to be disclosed in the prospectus. There was usually a section in the prospectus on Government policy that might impact on the business.
16 The Office of Telecommunications and the Office of Gas Supply.
17 There were occasionally other issues to sort out too; for example, during the sale of Sealink ferries, a subsidiary of British Rail, the right of employees to travel at concessional rates on the railways had to be bought out and there were a number of contingent liability matters to address prior to the sale of British Airways.
18 J.Redwood (1986) *Equity for Everyman: new ways to widen ownership,* Policy Study no.74, London: Centre for Policy Studies.

19 The privatisations typically contained a requirement that Treasury consent was required before the Government's shareholding was sold. In practice, this was a formality because Treasury officials were consulted and some actively involved during the sale process.
20 The Bank of England might have played a more prominent role in each of the privatisations of the 1980s had it not taken the decision to reduce its role during the sale of BAe; see chapter 5, p.116.
21 J. Moore (1992), p.59.
22 Official Committee on Nationalised Industry Policy, HM Treasury papers NIP(83)10, "Arrangements for Appointing Advisers to Work on the Privatisation Programme. Note by HM Treasury", 4 November 1983, REV NIP/414, H/1579/1000/05. The arrangements were refined later, NIP(84)11, "Arrangements for Appointing Advisers to Work on the Privatisation Programme. Note by HM Treasury", 16 October 1984, REV NIP/809, H/1759/1000/05.
23 The listing was known as the "Appointment of Advisers in the Privatisation Programme" and set out the names of all those firms that could be considered for government appointments.
24 NIP(83)5th meeting, 18 November 1983, REV NIP/414, H/1579/1000/05. Where advisers were appointed by departments to provide some initial advice on a disposal, there was now to be no presumption that they would obtain the final work on the sale. However, given satisfactory performance and Treasury agreement they could be reappointed without further interview.
25 "Arrangements for Appointing Advisers to Work on the Privatisation Programme. Note by HM Treasury", 23 February 1984.
26 NIP(85)2, "Privatisation Fees. Note by HM Treasury", 8 February 1985, A/06.
27 In the case of legal fees the advice of the Treasury Solicitor was to be sought. Fees to solicitors were regulated by the Solicitors Remuneration Order 1972. In cases where nationalised industries were responsible for the sale of a subsidiary business, departments were expected to impress upon the industries the desirability of conforming to the Treasury's guidance.
28 NIP(85)2.
29 Where a placing of shares occurred generally investors would receive a commission of 0.5% .
30 After competition was introduced, essentially the primary underwriters would meet and be told the share price and the number of shares to be underwritten. They would then separately indicate how many shares they would underwrite and at what commission rate. The lead underwriter would then on the basis of these submissions determine the lowest level of commission that would clear the market.
31 Privatisation Fees. Note by HM Treasury, 4 February 1985, Official Committee on Nationalised Industry Policy files, NIP(85)2.
32 DTI Privatisation Brief August 1991, in British Telecom privatisation files, BT/A/104.
33 Using these figures in relation to the sales receipts produces different percentage figures to those just given. This probably results from the inclusion and exclusion of different costs. Vickers and Yarrow (1988), Table 7.3, p.181 also provide slightly different figures. But in all cases what is revealed is a wide variation in costs in relation to receipts.
34 NBC faced a Minister, Nicholas Ridley, who was determined to introduce competition into bus travel come what may.
35 Sometimes the chairman not the government department then dominated the sale process, as was the case during the sale of shipyards by British Shipbuilders under Graham Day.
36 NIP(79)23, "Financial Aspects of Disposals", 13 September 1979, HM Treasury papers filefolder 11271558.
37 Today book building is a process used by companies raising capital through a public share offer. During the period in which the "book" for the offer is open, generally five days, bids are collected from investors for shares at various prices, but within a price band specified by the issuer of the shares. The issue price is determined based on the demand for the shares at the various price levels. Allocation of shares is then made to the successful bidders. The process is led by a merchant bank that acts as the "book runner", nominated by the issuer of the shares.
38 City institutions, probably rightly, felt that their reputation would be more damaged by an under-subscription than an over-subscription.
39 Price Waterhouse (1987), p.33.

40 National Audit Office (1988c) *Sale of Government shareholdings in British Gas plc, British Airways plc, Rolls-Royce plc and BAA*, HC211 Session, London: HMSO.
41 R. Buckland (1987) “The costs and returns of the privatisation of nationalised industries”, *Public Administration*, vol.65, no.3, pp.241–57. A number of studies around the time suggested a 10% to 12% target discount for private sector IPOs.
42 Buying shares at flotation intentionally to sell quickly at a profit.
43 NIP(82)3rd meeting, 19 October 1982, HM Treasury papers filefolder H/1579/1000/01 Rev NIP/413.
44 Cited in R.Buckland and E.W.Davis (1984) “Privatisation Techniques and the PSBR”, *Fiscal Studies*, vol.5, no.3, p.47.
45 Buckland (1987), p.245.
46 Lawson (1992), p.220.
47 Mayer and Meadowcroft (1986) “Selling public assets: Techniques and financial implications”, in J. Kay, C. Mayer and D. Thompson (eds.) *Privatisation and Regulation: The UK Experience*, Oxford: Clarendon Press.
48 House of Commons, Session 1981–82, *Tenth Report from the Committee of Public Accounts*, London: HMSO.
49 “Arrangements for Share Sales: Summary of City Reactions” and letter from Ridley to Geoffrey Howe, 6 August 1982, in British Telecom privatisation files, DTI, BT/A/12 Part 1.
50 Underwriting Share Sales, Note by HM Treasury, 6 February 1985.
51 National Audit Office (1988c) *Sale of Government shareholdings in British Gas plc, British Airways plc, Rolls-Royce plc and BAA*, HC211 Session, London: HMSO.
52 Technically, clawback could involve “super-clawback”, under which a whole tranche of shares could be clawed back if public demand exceeded a set threshold, and simple clawback, where shares could be clawed back one-by-one to satisfy excess demand in the public offer.
53 Buckland (1987), footnote 6, p.256.
54 National Audit Office (1988c) op cit.
55 The chief objection to a tap issue was understandable concern that knowledge that shares were to be sold into the market over time might well depress the share price.
56 To be specific, for Britoil the figure was 51%, BAe 51.6% and ABP 51.5% .
57 The first “privatisation” involving partly paid shares was the sale of shares in BP in June 1977, which were issued at 845p per share with 300p payable on application and the remainder on 6 December 1977. When the new Conservative Government in November 1979 sold further BP shares, it also permitted payment in two instalments.
58 The main prospectus had to comply with increasingly burdensome disclosure requirements. The mini-prospectus was abbreviated and more user friendly. It did rely on cross-links with the main prospectus which almost certainly few small investors read.
59 Op cit., p.52.
60 N. Ridley (1991) *‘My Style of Government’*, p.59.
61 The 15% limit did not apply to Government or its nominee or a trustee of an employee share scheme.
62 Under company law, rights conferred by the articles of a particular class of share can be altered if 75% of the holders of those shares agree. The special share constituted a class of shares on its own and the rights conferred by the share at flotation could not be varied in the future without the Government’s consent.
63 Special Share Rights, 12 June 1984, HM Treasury Papers, NIP(84)5; Graham and Prosser (1991), pp.141–50.
64 There were restrictions on asset disposals of over 25% imposed for the sales of Amersham International, Cable & Wireless, Jaguar and Rolls-Royce.
65 Letter from Lilley to Kenneth Baker, Home Secretary, 26 July 1991, E(DL)Part 19.
66 Much later, in landmark decisions in 2002 and 2003 against the UK and four other Member States, the European Court would establish that special rights mechanisms restricted the freedom under the EC Treaty on capital movements and establishment. This meant that special shares ceased to be a reliable policy instrument.

67 *Hansard*, 23 February 1988, columns 149–50.
68 Minute from the Chancellor of the Exchequer to the PM, 12 May 1988, E(DL) Part 16.
69 The introduction of a special share for BAA was judged to be less easy to defend, but given that this privatisation had just occurred it was agreed that no changes should be made for the present time.
70 Minute from Norman Lamont, HM Treasury, to Cecil Parkinson, Secretary of State for Energy, 26 July 1988, in E(DL)Part 16.
71 Special Rights Shares, 12 June 1984, NIP(84)5, HM Treasury Papers A/301/01.
72 Harris (1988), p.189.
73 Lamont (1988), p.4. Conservative Research Department, *The Campaign Guide 1987,* p.96. The Government also promoted share ownership by halving stamp duty on share transactions in October 1986, to 0.5% .
74 National Audit Office (1988c).
75 Buckland (1987), p.255.
76 Ibid., Table 4, p.253.
77 TUC (1985a) *Stripping Our Assets: The City's Privatisation Killing*, London: Trades Union Congress.
78 P.R.Saunders and C.N.Harris (1994) *Privatization and Popular Capitalism*, Oxford: Oxford University Press.
79 C.P. Mayer and S.A. Meadowcroft (1985) "Selling Public Assets: Techniques and Financial Implications", *Fiscal Studies,*vol.6, no.4, pp.42–55.
80 Labour Research (1985), "Who Got the Lion's Share of Jaguar?", September, p.239, cited in Buckland (1987), p.254.
81 Privatisation Briefing, 25 November 1987, in British Telecom privatisation files, DTI, BT/A/104. Also, D. Marsh (1991) "Privatization Under Mrs Thatcher: A Review of the Literature", *Public Administration*, vol.69, p.474.
82 Letwin (1992), p.101.
83 National Audit Office (1988c) op cit., paragraph 60.
84 Aims of Industry (1983) *Privatisation: A Threat to Its Future*, London: Aims of Industry.
85 In 1975 the number had fallen to 2,723 but had risen again to 30,045 in 1978; R. Sillars (2007) "The Development of the Right to Buy and the Sale of Council Houses", *Economic Affairs*, vol.27, no.1, pp.52–7.
86 R. Berthoud (1989) "Social security and the economics of housing", in A. Dilnot and I. Walker (eds.) *The Economics of Social Security*, Oxford: Oxford University Press; Peden (1991), pp.235–6.
87 NIP(79)2nd meeting, HM Treasury papers filefolder 11271561.
88 NIP(85)1, Privatisations: Employee Shareholdings. Note by HM Treasury, 8 February 1985, Nationalised Industries and Policy, Circulated Papers and Minutes 1985, A/06.
89 Privatisation: Employee Participation, paper by J.Whaley, Department of Energy, in British Gas privatisation files, G63/112/1.
90 NIP(80)2nd meeting, 22 July 1980, HM Treasury papers filefolder 11271674.
91 NIP(80)9, Nationalised Industry Pension Schemes: Index Linking and Privatisation, 29 October 1980, HM Treasury papers filefolder 11271676.
92 This and other annual percentage pension increases were subject to the pension fund being "in payment". The details of each of the pension entitlements here come from Annex B: Guarantees Given in Privatisation and Contracting Out, n.d. in E(DL) Part 11.
93 Foreword by John Redwood to O. Letwin (1988) *Privatising the World: A Study of International Privatisation in Theory and Practice*, London: Cassell, p.xv.
94 N.Tebbit (1991) *Unfinished Business*, London: Weidenfeld & Nicolson, p.88.
95 HM Treasury (1992) *Her Majesty's Treasury Guide to the UK Privatisation Programme*, London: HM Treasury, p.19.
96 The Office of Communications.
97 The Office of Gas and Electricity Markets.

98 This is because the regulators took account of costs of production including the cost of capital when setting price caps. However, regulators were always keen to ensure that this should not become rate of return regulation by default and experimented with various other ways of setting the price caps, including performance benchmarking; D. Parker, T. Dassler, and D.S. Saal (2006) "Performance benchmarking in utility regulation: principles and the UK's experience", in M. Crew and D. Parker (eds.) *International Handbook on Economic Regulation*, Cheltenham: Edward Elgar.

99 This would change later with the privatisation of the British Airports Authority and the water and sewerage industry, as discussed in Volume 2 of this *Official History*.

100 Other noteworthy regulation research units in British Universities could be found at the London Business School and Hertford College Oxford.

101 The initial intervention came from the Office of Fair Trading instead; see chapter 15, p.396.

102 *Hansard,* 10 February 1986, column 311.

103 "Privatisation Achievement", speech at the Eccleston Supper Club, Eccleston Square, London, 18 July 1984, London: HM Treasury Press Office. Moore made a number of speeches in the mid-1980s, with drafting assisted by Gerry Grimstone in the Treasury, detailing the achievements of privatisation and the failure of nationalisation; for example, "Why Privatise?" 1 November 1983. I would like to thank John Moore for providing me with copies of these speeches.

104 S. Domberger, S.Meadowcroft and D. Thompson (1986) "Competitive Tendering and Efficiency: the case of refuse collection", *Fiscal Studies,* vol.7, no.4, pp.69–87; S. Domberger, S. Meadowcroft and D. Thompson (1987) "The Impact of Competitive Tendering on the Costs of Hospital Domestic Services", *Fiscal Studies,* vol.8, no.4, pp.39–54.

105 P. Walters (1990) *Privatisation: Implications for Cultural Change*, London: United Research.

106 Lord Ezra (1987) "Privatisation: A Middle Course", in J. Neuberger (ed.) *Privatisation . . . Fair Shares for All or Selling the Family Silver?*, London: Macmillan, p.47.

107 Similarly, a rising stock market was generally favourable in the 1980s and 1990s to floating off state enterprises.

108 Martin and Parker (1997). The author of this *Official History* was one of the authors of this earlier study.

109 At the same time, explicit Government agreement was still needed for large or what were considered to be contentious investments.

110 P.Riddell (1989) *The Thatcher Decade: How Britain has changed during the 1980s*, Oxford: Blackwell, p.95.

111 Sir C.Marshall (1988) "How British Airways was privatized", in E.Butler (ed.) *The Mechanics of Privatization*, London: Adam Smith Institute, p.35.

112 The results of one study of the effect of privatising BT on the PSBR in 1985/86 underlines the difficulty of making sweeping judgements about the effects of privatisation on the public finances; C.P.Mayer and S.A.Meadowcroft (1985) "Selling Public Assets: Techniques and Financial Implications", *Fiscal Studies*, vol.6, no.1, pp.42–56.

113 Campbell (2004), p.240.

114 Buckland (1987), pp.247–8.

115 Ascher (1987), pp.104–8; Martin and Parker (1997), ch.8.

116 Martin and Parker (1997), pp.186–90.

117 P. Johnson and G. Stark (1989) *Taxation and Social Security 1979–1989: The Impact on Household Incomes*, London: Institute for Fiscal Studies.

118 N. Lamont (1988) "The benefits of privatization: an overview", in E.Butler (ed.) *The Mechanics of Privatization*, London: Adam Smith Institute, p.2.

119 Moore (1992).

120 Ibid.

121 Howe (1981), p.5, and quoted in the brief on nationalised industries and privatisation for the Debate on the Address, 9 November 1982, E(DL) Part 6.

122 Cited in Conservative Research Department *The Campaign Guide 1987,* London: Conservative Research Department, p.93.

123 G.Grimstone (1988) “Organizing a privatization programme”, in E. Butler (ed.) *The Mechanics of Privatization*, London: Adam Smith Institute, p.18.

124 Ibid., p.18.

125 *Daily Telegraph*, 30 December 1985, cited in Conservative Research Department *The Campaign Guide 1987*, p.97.

126 Cited in Parkinson (1992), p.302.

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Prefix BT: Department of Industry/Department of Trade and Industry papers on the privatisation of British Telecom.

Prefix C: Cabinet Committee Minutes and Memoranda.

Prefix E or E(A): E Committee (Ministerial Committee on Economic Affairs) after May 1983 E(A) Committee (Ministerial Committee on Economic Affairs. Subcommittee on Economic Affairs).

Prefix E(DL): Ministerial Sub-Committee on Disposals of E later E(A) Committee.

Prefix E(NI): Policy Towards the Nationalised Industries. Financial Control. Privatisation. Subcommittee of E Committee (later E(A) Committee) on Nationalised Industries. Also referred to as "the Nationalised Industries files".

Margaret Thatcher's Prime Ministerial files (PM papers) have been sometimes used when accessing E/E(A) Committee, E(DL) Sub-committee proceedings and E(NI) papers (see below). These files include the usual minutes and memoranda but also associated correspondence and the PM's comments. The PM files containing E(DL) minutes and memoranda are filed as Policy Towards Privatisation. Disposal of Public Assets. In the Notes to the book the abbreviation E(DL) followed by the part number is used when referring to these files.

Prefix G: Department of Energy papers on the privatisation of British Gas.

HM Treasury papers (various prefixes).

PM papers: the Prime Minister's files dealing with particular economic matters including the nationalised industries.

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