

### Private health care

Private health care in Britain has also generated a concrete counter-group. The lobby is formed by the main provident associations who offer private health insurance and treatment, and have contributed greatly to the growth in health care in recent years.

The total membership of such schemes, including dependents, rose from 2.5 million in March 1979 to 4.2 million by the end of 1982. Many trade unionists are either members of the provident associations (some 350,000 are estimated to belong to the British United Provident Association), or of the Industrial Orthopaedic Society which runs its own hospital, Manor House, in London.

Already, the private sector cares for a number of National Health Service patients. In 1981-82, expenditure by health authorities on contractual arrangements with private hospitals and nursing homes for the care and treatment of National Health Service patients totalled £30.9 million, and 2,743 beds were occupied at the end of the year under such arrangements.

### METHOD TWELVE: DEREGULATION VIA VOLUNTARY ASSOCIATIONS

Regulation might be thought of as an inherently governmental activity, but there are instances in which it can be effectively contracted out to voluntary associations. When state regulation is superseded by the self-regulation of a voluntary body, it marks a further retreat from the dominance of the public sector.

The advantages are manifold. Regulation by the state is a costly activity. It consumes the resources of both public and private sectors. It has a tendency to be performed insensitively, without regard to the costs of compliance. The politicians who draw up the regulations rarely have any detailed knowledge of the industry or activity with which they are concerned. Official edicts can have catastrophic consequences, especially on small firms operating on narrow margins.

Transferring the regulatory function to the private sector immediately reduces government costs, and enables a reduction in the size of the public bureaucracy. While this is a bonus for taxpayers, the effect on the industry or activity concerned is more dramatic. A voluntary trade body or voluntary interest association consists of people who know the activity. They know how the costs of compliance fall upon those required to conform to the regulations, and can generally be counted upon to come forward with more sympathetic and less costly ways of achieving the same results.

The switch to self-regulation by voluntary associations consulting with government creates a supportive group within the industry or activity which is regulated. There is also a potentially hostile element, however, in the shape of lobby groups who

learned to use the government agency for their own ends and who fear that the voluntary body will not be as co-operative. The important task here is to ensure the visible effectiveness of the new private bodies, and to secure the industry's agreement to those powers over their constituent members. In this way, the general public can be satisfied that their interests are protected, and will not feel that industry is being allowed to pursue its interests at the expense of the public welfare.

Some areas of activity in Britain have long been subject to self-regulation. Bodies such as the Press Council have operated with a broad measure of public support and appreciation for their role. Case histories of a move away from governmental regulation towards the use of voluntary associations also are found in insurance and aviation. There has been a trend for government to phase out many of its quangos - the quasi-autonomous organizations of the state - and rely instead on the expertise and advice of voluntary bodies.

### Some examples

This device may be divided into two main areas: one involves shifting the burden of regulation from the state or state-appointed bodies towards private individuals or organizations. The other, being the more general of the two, involves measures taken to encourage the growth of voluntary effort.

**Insurance and aviation.** In the first instance, when closer regulation of the British insurance market was thought necessary following a series of scandals in 1982 with certain Lloyd's syndicates, the government passed the Lloyd's Act 1982 which set up a new ruling council to administer self-regulation.

Another example occurred after the passage of the Civil Aviation Act in 1980. It abolished the government's powers of guidance over the industry and instead passed on the responsibility to the Civil Aviation Authority, to promote competition while maintaining the necessary regulation. At the moment this may represent only a decentralization of regulatory powers, but in the longer term there is the strong possibility that the CAA may be sold. Then the effect may be of greater significance.

**Quangos.** The abolition of a number of quangos (the quasi-autonomous state regulatory and advisory bodies), makes it clear that the function previously performed by quangos can be adequately done by a voluntary association. In answer to a parliamentary question on 26 January 1982, the Prime Minister, Rt Hon Mrs Margaret Thatcher, referred to the abolition of quangos, three of which are of particular interest: The Advisory Committee on Bird Sanctuaries in the Royal Parks, The Advisory Committee on the Protection of Birds in England, and The Advisory Committee on the Protection of Birds in Scotland. No doubt a decision central to their abolition was the view that they merely duplicated the activities done privately by the Royal Society for

the Protection of Birds (RSPB), an independent voluntary association.

**Construction.** The Housing and Building Control Bill provides a classic example of the method. It will encourage greater self-regulation by the construction industry, and at the same time simplify the building control system. The Bill's basic intentions are the introduction of a less complicated and more flexible system of building regulations, the introduction of private certification, whereby inspectors approved by the Secretary of State (or a designated body) will be able to supervise building work instead of the local authority.

**Voluntary action.** In 1948, Lord Beveridge produced a report entitled *Voluntary Action: A Report on Methods of Social Advance*, stressing his belief in voluntary effort - and this was from a man whom many regard as the father of the British welfare state. Voluntary effort is morally superior to state coercion, and since 1979 the Thatcher government has provided certain tax benefits to promote voluntary action. The major changes are:

- (a) reducing the minimum periods for tax-benefitted gifts from seven to four years;
- (b) removing the maximum limit (previously £100,000) on gifts to charities to be exempt from Capital Transfer Tax; and
- (c) introducing tax relief for donors above the basic rate of tax.

#### METHOD THIRTEEN: ENCOURAGING ALTERNATIVE INSTITUTIONS

For a whole class of activities, the first step in the development of a trend towards private sector supply lies in demonstrating that there is a valid private alternative. Where public supply has dominated a field, informed opinion often questions the possibility of a valid private equivalent. This is hardly surprising. The informed opinion which makes its living in the public sector is securely entwined with the status quo and finds it difficult to conceive of alternatives.

It can be an important step in such cases to demonstrate that private operators can perform an equivalent service. The establishment of alternative institutions, which will serve to demonstrate that fact, is of prime importance. Since these are to be private bodies, the role of government in seeking movement towards the private sector should be one of encouragement.

Government can lend its goodwill toward private bodies set up in fields traditionally dominated by public supply. By doing so, it allows them to prove their worth, and bring choice for the first time to the general public. In this way, it fosters the growth of bodies which bring the merits of competition into the field. By encouraging alternative institutions to organize sup-

ply in a new way, government gives society access to innovative thinking and permits all kinds of new ideas to be tested, including ideas which may benefit the state sector of the activity.

The growth of institutions offering an alternative to the state supply not only offers a choice to consumers; it also takes away the state's role as sole employer in the field and brings forward the prospect of an alternative employer. The potential gain can be perceived not only by the general public as consumers, but also by the employees of public sector firms.

The problem with alternative, private institutions is that being private, they do not have the benefit of public finance or subsidy. Taxpayers who wish to acquire the services of these bodies will have to pay as consumers for a service they have already paid for as taxpayers. Despite this handicap, there are areas in which new private bodies can thrive in a field heavily dominated by the state. Government can assist them by encouragement. Instead of giving direct financial support, it can patronize them, consult them, and help to elevate their status and importance.

The success of new institutions of this nature lends powerful support to further moves towards privatization. Having seen that private alternatives can operate successfully, more experiments may be encouraged, with a gradually increasing role for private sector alternatives to state supply. When government wishes to make further moves towards private supply, the tried and tested alternatives point the way forward and, by this time, are accepted by the public as viable.

### The University of Buckingham

The case history of the University of Buckingham shows how encouragement by government has been able to help the development of a totally private alternative to the otherwise universal state university system.

British universities have long been organs of the state, supported by tax funds. However, the idea of an independent alternative grew until, in 1969, a signed declaration supporting the creation of an 'independent university' was published. In 1971, a site was found in Buckingham, and in 1976, the Rt Hon Mrs Margaret Thatcher formally opened the College. Then on 23 March 1983, only seven years after opening, the Queen in Council granted a Royal Charter, which established Buckingham as a university.

The University has grown steadily over the years since its creation. In 1976, it had 65 students compared to 470 by early 1983. It intends to increase this figure to over 600 by the late 1980s. Financially it has improved, with a declared surplus of £28,696 in 1982, which it expects to increase in the immediate future.

The University's finance had been totally independent of the state, and it charges tuition fees for undergraduates, amounting to £4,400 in the 1984 academic year. Students are eligible to receive mandatory awards from local authorities comprising a contribution to the above tuition fees and a maintenance grant.

Students can also obtain loans from the University's bankers towards the cost of tuition fees. Loans are repayable with interest over a maximum period of five years, commencing one month after completion of a student's course of studies. The bread and butter of the University is their law degree (LLB), but it gives degrees in Economics (BSc Econ), Arts, and Sciences.

The academic year comprises four ten-week terms, permitting students to complete an honours programme in two calendar years, instead of the three years required at state institutions. This saves costs to the student - tuition, accommodation, etc. - and makes greater use of the resources of the University.

#### METHOD FOURTEEN: MAKING SMALL-SCALE TRIALS

Opposition to the withdrawal of government from an entire sector will be more muted if the undertaking is a limited and small-scale trial. The entire group of producers and consumers might be alarmed over large, sweeping moves to introduce into their area the disciplines of the private economy. A small-scale experiment, however, is not necessarily seen as a threat to the entire operation.

The experiment itself, if successful, serves to allay initial fears and prepares people for a more widespread extension of the principle. Possible disadvantages can be seen in the trial, and either prevented in subsequent applications; or they may serve as warnings against extension of the trial.

The public sector is characterized by conformity and standardized supply. Variation and choice, which are permitted and catered to by the private economy, are rarely found in the public sector. Thus, experimentation, which is continual in private enterprise, is not nearly as evident in the public sector. The use of experiments as a test of decontrol or deregulation within the public sector can be of crucial importance. The contrast between performance within the experiment and the results achieved by the state suppliers allows us to make judgements about government activities which cannot be gained by other means.

The use of experiments as a test of greater private sector involvement can be particularly effective as a way of establishing a principle. It is easier for people to endure a small test of privatization than to cope with a larger, more complete dose all at once. Added weight for the trial comes from locations which seek to gain the advantages which the experiment brings. An area seeking to attract industry and jobs might hope that its

choice as an experimental site might encourage further development there.

When experimental trials are proposed, therefore, the opposition is divided by the potential gains and losses the trial will bring. National ideological opposition by one group can be balanced by enthusiastic lobbying for the venture by its local affiliates. A public sector union opposed to private inroads might find its own members eagerly seeking to be included in the pilot project.

The greatest merit of an experiment is that it minimizes the risk. If the project fails, the loss is confined to the test area. A success, on the other hand, can be extended area by area to other locations seeking similar benefits. In this way, the domain of the private sector can be extended both gradually and safely.

### Enterprise zones

The designation of enterprise zones in Britain as areas of selective deregulation serves as an example of the use of this technique. The pilot areas saw the removal of some of the impediments which restricted the development of new ventures.

Peter Hall, who originally conceived the idea of Enterprise Zones, had a view very different to that which was finally adopted. He saw them much more as what today would be regarded as a deregulated freeport, with them being free of UK taxation, social services, and industrial and other regulation. There would be no closed shop agreements, and the zones would be outside any exchange and customs controls. The British zones differ from this concept in three main ways. Environmental and safety regulations remain in force; they do not have freeport status; and there is no deliberate encouragement to outside entrepreneurs to come in and establish new businesses in the zones.

What they do offer is a package of local incentives, with emphasis on seven points:

- (a) exemption from local taxes on industrial and commercial property;
- (b) exemption from Development Land Tax;
- (c) 100% write-off for Corporation and Income Tax purposes of capital expenditure on industrial and commercial buildings;
- (d) simplification of planning procedures and speedier administration of zoning controls for building and alterations;
- (e) reduction to a minimum of government requests for statistical information.;

- (f) employers exempt from charges for industrial training, and from requirement to supply information to Industrial Training Boards; and
- (g) applications for customs facilities to be processed as a matter of priority.

British enterprise zones have in fact been used as yet another device for government assistance to economically depressed areas. Of the eleven zones originally designated, five were sited near areas where British Steel plants had closed, and seven were placed in economically assisted areas.

It is clear that the public sector was far from absent, and it cannot be therefore be said that enterprise zones represent free enterprise unhelpt by government. According to one estimate by *Public Money*, the 'local authorities and other government agencies spent an average of £7,000 per hectare on servicing and infrastructure' and that was in the first year alone. Areas designated as enterprise zones continue to be eligible for aid under the other overnment programmes, such as the urban programme and derelict land grant. It is also true, contrary to popular impressions, that local authorities and other public agencies retain a significant degree of control over the type and character of developments.

The monitoring report that covered the period to 31 May 1982 made it clear that the early effect of enterprise zone status was to increase significantly the level of economic activity in the zones. It was also clear that the cost of creating the estimated 2,900 jobs has not been cheap. There was an initial subsidy of £0.5 million to firms moving in and capital allowances amounting to £17.2 million - equal to £6,000 per new job. This does not include the cost of subsidizing those firms that were already there, amounting to tens of millions of pounds more.

This does illustrate the point that the end result was not unbridled capitalism. Exactly what the original eleven enterprise zones achieved and whether they were successful has been the subject of much debate. What is clear is that the enterprise zones in practice bear little comparison to Peter Hall's original idea. The benefits within the zones have been criticized for not going far enough and being still too restrictive on enterprise.

The government obviously believe that the enterprise zones were worth something, because after designating the first eleven between June 1981 and April 1982, the then Chancellor of the Exchequer, Sir Geoffrey Howe, outlined thirteen other sites on 27 July 1982.

### Freeports

In 1983, the Thatcher government announced that it intended to set up a limited number of experimental freeports. This followed

the recommendation of a working party, after an initiative from the Adam Smith Institute.

Rather like the US foreign trade zones, the freeports were intended to give certain advantages to firms which located within them:

- (a) simplification of customs procedures, leading to savings in costs for traders, and swifter turn-around of imported and exported goods;
- (b) a cash flow benefit to zone users by not paying duty until goods were brought into the country;
- (c) if freeports could attract manufacturers to assemble components, there would be additional employment and domestic value added;
- (d) a ring fence and customs control on freeports would offer to traders a secure environment which should be reflected in lower insurance costs;
- (e) freeport users and customs authorities could both achieve economies of scale from the physical concentration of facilities;
- (f) as locations dedicated to international trade, freeports would be likely to act as exhibition centres;
- (g) freeports could be marketed internationally as locations with particular appeal to overseas companies seeking an offshore bridgehead to the European market; and
- (h) the relative absence of customs formalities would be calculated to attract small firms which might be unaware of, or unable to cope with the formalities involved in existing facilities for goods designed for re-export.

Some of these benefits are already available under existing custom procedures.

Six freeports were designated on 2 February 1984, chosen from 41 applications. The successful ones were Belfast, Birmingham, Cardiff, Liverpool, Prestwick, and Southampton.

#### METHOD FIFTEEN: REPEALING MONOPOLIES TO LET COMPETITION GROW

A simple method of extending the reach of the private sector is to repeal the monopoly which shelters the state's domination of an activity. This alone creates an opportunity for entrepreneurs to survey the field and see where they can improve on the state's performance. Without the public monopoly to prevent their entry, they can plan to produce all kinds of new services to compete for public patronage.

When such moves are discussed, the talk is about the traditional 'cowboys' performing their equally traditional activity of 'creaming off'. The 'cowboys' are alleged to be sharp operators interested only in quick profits from easy markets - the cream at the top of the milk. The effect in practice, however, is to bring almost immediate improvement to the state services. Having to compete for customers encourages the public operation to seek out innovations and improvements, and to keep its prices competitive.

The public benefits straight away by the addition of the new, private services they can choose from, as well as by the improvement in services supplied by the public sector. The private companies and their employees become an industrial interest group supportive of the private sector. The power of public sector unions diminishes somewhat, as they lose the ability to completely shutdown the service.

Extending the private sector by repeal of monopoly is particularly suited to those public services for which consumers are charged prices. Public utilities are a good example. With the choice offered by a private alternative, the customer can decide where to put his money, and public and private suppliers will compete to help him make that decision.

Where public supply is tax-funded, however, the consumer already has his money taken for the service. Private competition here involves competing with an organization whose services are free at the point of consumption, and which does not need sales to secure its funds. Obviously, there is a very limited scope for private entry into such fields.

An attractive feature of this type of privatization, where it is possible, is that it permits the gradual change from public to private, without the need for a bruising battle to privatize the whole service. By permitting competition, it allows the public to determine the rate of privatization. It is likely that as private firms market their services and take an increasing share of the business, the public sector will be reduced accordingly. As far as the general public is concerned, they vote with their feet for the rate at which they wish the private services to expand.

This achieves a type of privatization in which the state service is not moved across to the private sector, but rather one in which an alternative supply is spawned in the private sector to take the place of a gradually shrinking public supply.

### Bus and coach services

The opening up of bus and coach services to much more competition from private operators gives a case history of the method of repealing public monopolies. Prices plunged downwards and service quality shot up immediately.

Moves towards the deregulation of buses and coaches in Britain had been in the air for some years.

The Transport Act of 1980 relaxed the traffic licensing system in Britain. It removed licensing restrictions from new long-distance express services, excursion and tours. With the basic proviso of minimum safety regulation, it became possible for anyone to run a long distance service. Moreover, the onus of proof was shifted to those who opposed the new service, and the presumption was now in favour of the applicant.

The same Act also scrapped restrictions on car-sharing. It allowed local authorities the right to use school buses to provide passenger services. It allowed local authorities to apply for 'trial area' status in which no licences (other than safety ones) would be needed.

The result of the legislation was a rapid development of express coach services and a reduction in fares on many routes. A leading state bus operator pointed out that with a £2 fare from London to Birmingham it is now arguably cheaper than hitch-hiking.

The state-run National Bus Company has remained the largest unit in the market, owing to its established network and the presence of big city terminals, especially in London. Generally speaking, the competition to National Bus appears to be from small and localized independents, rather than larger nationwide firms. On the London-Scotland routes the independents have 25% of the business based on high-quality in-coach services, with toilets, airline quality meals, and video films.

Deregulation has had a nastier side with local authority buses sometimes deliberately using subsidies to undercut, when faced with private competition. In Cardiff, for example, the corporation buses introduced off-peak cuts in its fares but only in selective areas when faced with competition from a private firm running second-hand London double-deckers on only two routes.

### Further measures

A recent British government proposal outlined plans to extend the benefits of deregulation even further. At the moment, only 8% of local bus services are run by private operators, and it is expected that a relaxation of the regulations will increase this and improve service.

The government white paper introduces the idea of the shared cab, and a vehicle intermediate between the cab and the bus, as well as other proposals, including the end of road service licensing and the use of outside contractors for services which are to be subsidized.

The National Bus Company itself is to be reorganized into

smaller free-standing parts which will then be transferred to the private sector. The government will welcome bids from the employees. The state passenger transport executives will be required to break down their operations into smaller units, which will become independent companies. Municipal bus operations will be incorporated into companies still owned by their district councils. After a suitable transitional period, all of these companies will stand on their own feet. They will compete with other operators for passengers and for contracts to run subsidized services.

### British Telecom (BT)

The repeal of monopolies has also opened up telecommunications in Britain. The 1981 British Telecommunications Act affected British Telecom by permitting competition in three areas: the licensing of an additional telecommunications network, Mercury, to compete with British Telecom; the licensing of private firms to provide services using BT's networks; and competition in the supply of connecting equipment.

In February 1982, the Secretary of State for Industry announced the granting of a 25-year licence to Mercury permitting it to establish and operate an independent network in competition with British Telecom. In 1990, other licences will be granted.

In the second area, other network services which compete with BT, but which use the BT network, have also been licenced, including what are called mailbox, and store and forward facilities. In the near future, The Department of Trade and Industry has asked British Telecom to submit bids for new radio-telephone net-works.

As to the supply of connecting equipment, it is here that the most apparent effects have been seen. Prior to the legislation, the number and variety of telephones and other telecommunication apparatus was very small indeed. A telephone in Britain until the 1980s meant the traditional black receiver with rotary dial. A recent daring innovation had introduced it in other colours. After the Act, there has been an enormous surge in the variety of telephones available. There are now stores in the main street solely in the business of supplying telecommunications apparatus.

### The Post Office

It was the same 1981 British Telecommunications Act that deprived British Telecom of its monopoly, which also chipped away at the traditional postal monopoly. So far, the Post Office has lost its monopoly status in express mail services, and private concerns are now allowed to operate centres where businesses can go to exchange documents. On top of this, registered charities are now allowed to deliver Christmas cards.

Just as with British Telecom, the relaxation of regulations has had a marked effect. The growth of express parcel services in the last two years has been highly significant, with strong competition being the result.

### The electricity industry

Britain's state monopoly electricity industry has seen its monopoly weakened. Since the state takeover in 1947, there has been no provision for any significant competition in the generation or the distribution of electricity. This was all changed with the passing of the 1983 Energy Bill.

Before the passing of the Act, it was permissible to sell electricity to the local state areas boards if it were produced as a surplus to one's own needs. After the Act, it became legal for a firm to be directly in the business of electricity generation, rather than as just a small side-line. The private firms would be allowed to use the national electricity grid for transmission to their customers, including the local area boards.

The government hopes that the private involvements will act as a costing yardstick to the state sector, and thereby improve efficiency and value for money. It is also intended that the record of private innovation may bring some rewards in promoting the development of fuel sources for the future, such as wind and solar power. At the moment, such innovations have not arrived, and since private generation accounts for only 6% overall and around 15% of industry's supply, the development of private electricity is only in its infancy. As regards the effect of the Energy Act 1983, while there are no companies taking up the opportunities as yet, preliminary discussions are under way.

### British Gas Corporation

Gas is yet another utility to have its monopoly breached. The 1948 Gas Act established the gas industry under state ownership. In 1982, the Oil and Gas (Enterprise) Act, not only allowed the disposal of assets, but also removed British Gas's monopoly as the sole buyer of North Sea gas. Private companies are now free to supply gas to users of over 2 million therms, using the existing pipeline network as a common carrier.

The breaking of the monopoly has caused an enormous growth of interest in the exploration and development of gas reserves, to such an extent that gas exploration and appraisal wells drilled increased from zero between 1978 and 1980, to seventeen by 1982.

### METHOD SIXTEEN: ENCOURAGING EXIT FROM STATE PROVISION

State services funded out of general taxation pose special problems. Many of them do not need to be protected by a legal

monopoly since their pre-emption of funding is sufficient to give them an effective monopoly. In some cases there are already private alternatives to be found, but they are alternatives available only to those who are rich enough or prepared to sacrifice enough to use them.

Compulsory tax-funding of the state sector limits the private alternative to those who can afford to pay twice. Payment for the public sector is compulsory, whether or not it is used. To turn instead to a private supply involves rejecting the one already paid for in favour of one which must be paid for again. In such circumstances, the private sector remains only as a luxury supply for the small proportion of the population who can afford it. It is of little advantage to the public in general, and often finds itself on the defensive against charges of privilege and diversion of resources needed for the public service.

It might be theoretically possible to effect a sudden transformation from a tax-funded system of public supply into a system where private suppliers charged market prices, but it is not practical politics. Too many of the interest groups involved, including the general consumers, would resist such a complete step into the unknown. Consumer's fears - that the service might be eliminated altogether, or that the privately provided services would be beyond their means or hopelessly inconvenient - would be reinforced by the fears of the labour force, uncertain of its own future in the private sector, and by the hostility of unions unwilling to relinquish their hold on the public supply. In such cases, privatization must be brought on slowly to be successful.

A more plausible approach is to extend gradually the facilities and services offered by private suppliers, with their prices becoming more and more attractive to potential customers. As more customers choose the private alternatives, the public service becomes progressively less able to resist the extension of those same choice and opportunities more widely across the board. The private sector will rise in importance as more and more make the decision to join it and appreciate its value. The newly satisfied consumers form an effective group in support of the private market, acting as an impediment to anyone seeking to undermine or reverse its progress.

Government can take positive steps to encourage exit from the public sector. The most useful step of all is to lower the cost of exit making the option more widely available. Since the public sector still has to be funded, it is not possible to allow those who opt out of public supply to opt totally out of the finance of it. But it is undoubtedly possible to give some concession to those who make no more claims on the public supply. Tax rebates to those who purchase private supply is one option; allowing private payments or private insurance premiums to be tax deductible is another.

In both of these cases, the state lowers the taxes required from individuals who seek private supply. The state no longer

has to make provision for them, and can return part of their total tax payment accordingly. Skillfully calculated, the rebate can be at such a level that the public services that remain are progressively better funded. The return to the individuals who opt out of the public sector can be less than the savings made possible by their departure. Thus, as the public sector contracts, it can become financially better able to supply the service to those who need its services most.

Meanwhile, of course, the offering of tax concessions or rebates lowers the cost of exit. More and more people find the private supply within their price range. What started out as the prerogative of the rich gradually becomes a normal option for the bulk of the population. Extra funding is brought into the service as a whole, public and private together, and the general quality of both types of service improves.

This is one of the varieties of privatization which does not involve the transfer of resources and personnel from the public to the private sector. Instead, new and alternative resources are encouraged to develop in the private sector, and the demand for the public service gradually declines. The end result achieved is the cumulative effect of the millions of independent decisions freely taken by the population, rather than the sudden imposition upon them of a preconceived pattern.

### Health insurance concessions

The granting of tax relief in Britain for some classes of private health insurance generates a good example of the method of promoting private sector growth by encouraging exit from the public supply. The 1979 Conservative manifesto outlined the party's commitment to restoring income tax relief on employer-funded medical insurance schemes. This was done in 1981. As a result, tax relief now applies to all those earning less than £8,500 who are placed on a health scheme by their employers.

The net benefit that this has permitted is impossible to calculate accurately. The problem arises over assessment, since no records are kept, and because no direct correlation can be made between the tax relief and the number of people registering with private health firms. Nevertheless, the two main private health firms in Britain both indicate a big rise in current membership. It seems that the tax relief has been a factor in bringing the advantages of private health care to more people on lower incomes.

### Social security

Britain has had a system of contracting out of social security (on and off) since 1960. In 1978, Britain launched the most comprehensive contracting-out scheme to date, with the endorsement of both the Conservative and Labour parties.

Essentially, Britain has two types of social security benefit programmes. One requires mandatory participation, the other is voluntary. The first tier, the mandatory scheme, pays a benefit that is like a minimum income. All workers must pay in, and above a certain earnings level, they receive the same benefits regardless of their earnings and regardless of the amount of taxes they contributed.

The second-tier pension scheme, however, is based on earnings. The more you earn, the greater your pension. Thus, the second tier is comparable to a private pension plan. Private companies are granted the option of contracting their employees out of the second-tier benefit programme and into a private pension plan. They are allowed to do so only if they provide their workers with a plan that provides benefits as good as or better than the workers would have received had they remained in the state system.

The incentive to opt out of the government's second-tier social security scheme is a tax reduction. The amount of tax reduction is chosen so that on the average, workers will find it to their financial advantage to contract out of the system. In 1983, for example, contracted-out workers received a seven percentage point payroll tax reduction. For a worker earning the average wage, this tax reduction amounted to £227.50 per year. In return for each year's tax reduction, workers forego the right to draw an annual pension of approximately £40.63.

April 1983 marked the five-year anniversary of the two-tier system, and to date it has been highly successful. Since 1978, more than forty-five per cent of all British workers have contracted out of the second-tier pension scheme. Moreover, by allowing the option of contracting out, the British government has effectively cut its second-tier pension liability in half. Overall the government has reduced its entire social security liability by more than thirty per cent by adopting the contracting-out system.

#### METHOD SEVENTEEN: USING VOUCHERS

The voucher, often proposed as a way of introducing private sector benefits and choices into education, is a specialized form of tax rebate. Rather than offering members of the public the 'free' services which tax contributions have paid for, they are offered instead a voucher which is good for the purchase of those services. The use of vouchers rather than cash is designed to ensure that the money is spent on the service, rather than 'frittered away' at the recipient's discretion.

The basic idea behind the voucher is that it gives *choice* to the consumer. Instead of receiving the usual take-it-or-leave-it service from the state, the voucher-holder can shop around before deciding where to spend it. State institutions would have to become consumer-responsive if they hoped to get in enough

vouchers to finance themselves. By making the voucher also usable in the private market, and possibly by allowing consumers who are prepared to do so to spend more, an even greater range of choices would be provided, including the choice of how much to spend.

Faced with the need to attract vouchers, state institutions would be subject to private sector pressures. They would become more cost-effective and more consumer-oriented. Innovative services would be thought of and produced by the private sector, with competition bringing even more beneficial effects. Thus, the voucher holds out the prospect of private sector benefits within a state system. More to the point, it promises virtual privatization without the name. Since the voucher is effectively a form of money, the state institutions which go over to voucher finance are in effect already in the private sector. The voucher holds out the prospect of immediate and dramatic inroads into universal state services.

The political record of the voucher is not good. In education the idea has been around for at least half a century, and has been looked at favourably by several administrations. Despite this, it has not been given a serious trial in Britain. The reason might lie in its propensity to introduce total change. In place of the customary 'free' state service from a public institution, the voucher system allows choices in obtaining the service. Because public institutions become independently financed overnight, there is the prospect of some of them closing down.

Labour and management have joined forces to prevent even experimental voucher schemes, perhaps fearing a successful outcome. A dubious public has been worried by horror stories which provoke an image of a new service that is all right for those with money to add, but which becomes a residual public sector rubbish dump for those without financial means. Like other privatization proposals, the voucher will be helped when it has one favourable trial to its record.

There is one form of voucher which does have a record, and is susceptible to much wider application. This is the voucher which is used to make the needy into effective bidders in a private market. The plight of the sick, the disabled, the elderly, and the poor is often used to justify the imposition or maintenance of a universal state-funded service. Otherwise, it is claimed, only the well-off are able to cope. The deprived groups simply are not able to afford the service.

The obvious fallacy is that of restructuring a supply to meet a deficiency in effective demand. Clearly, it is the demand which should be restructured. The result of the fallacy is often a public service justified only for those in need, yet governed by the drive to provide for all. All of the drawbacks of public supply thus extended to the entire consuming public because of the needs of a few.

Vouchers enter into the picture as a means of directing a subsidy to the needy themselves, rather than to the producers of the service. Vouchers are aimed at the demand instead of the supply. By giving out tokens, the state can guarantee effective buying power to individuals who warrant support, while leaving private enterprise to provide the service. Indeed, the presence of the tokens acts as an incentive for private business to produce services catering to the voucher holders.

One attractive feature of this scheme is that it permits a near-normal market to operate, with all of the advantages that the disciplines of the marketplace creates. At the same time, it ensures that those in special need are not left without the service. The use of tokens in this way undercuts one of the most frequent objections to the spread of private enterprise into what are deemed essential services. By guaranteeing dependent individuals access to those services, it removes the objections, and paves the way for privatization of the service.

### Transport tokens

The use of transport tokens by some British local authorities for issue to dependent groups illustrates a case history in which they can be given consumer power within the domain of private services. In January 1973 a consortium of large governmental transport operators in Britain, including passenger transport executives, the National Bus Company, the Scottish Bus Group, and British Rail set up National Transport Tokens. It was an attempt to form a national transport token subsidy scheme aimed at replacing the numerous local schemes which existed at that time. The system of transport tokens transfers the subsidy from the supply side to the demand side, i.e., to the transport user. In effect, the tokens represent basic denominations of monetary value which can be used to buy transport services.

National Transport Tokens provide tokens in 5p, 10p, and 20p denominations. Originally there was a 2p token, but it has not been sold in any quantity since 1976, and the 3p has hardly sold since 1981. Approximately 96.8% of all 2p tokens sold have been redeemed and the 3p token has been redeemed at the 96.3% level. Expectations of 97.25% redemption for the higher denomination is being attempted and seems likely.

The tokens, which can only be used for travel on public service transport are bought by the local authority at a discount and are issued to the eligible persons. Then, after being spent on transport services within the area (including local British Rail services), they are redeemed through National Transport Tokens, who provide a modest handling premium to the operators. National Transport Tokens is, at the moment, managed by Greater Manchester Passenger Transport Executive as a non-profit organization, which means that they return any operating surpluses to participate in the scheme through discounts and premiums.

National Transport Tokens has expanded quite considerably in its ten years of operation. From a turnover of approximately £2.3 million in 1973 and only 156 operators with 15 branches, it has grown to over a £9.3 million turnover with 432 operators and 24 branches. By 31 December 1982, 99 authorities in the UK were using National Transport Tokens.

There have been other, more local transport token schemes, especially in the South East of England, but they have been only moderately successful and are not on the same scale as National Transport Tokens.

#### METHOD EIGHTEEN: CURBING STATE POWERS

In a small number of cases, the movement towards privatization can be accelerated simply by restricting some of the state powers which oppose the movement. These may be powers exercised by particular state enterprises, or ones retained by agencies of the government. They include authority granted under previous governments with the expressed aim of increasing public sector activity at the expense of private enterprise.

A government agency with the authority to take over private business operations is an obvious candidate. If the agency is prevented from future takeovers and compelled to relinquish its current holdings, a significant withdrawal of state sector activity can ensue. In other cases it is not a direct state takeover, but encroaching state involvement which has to be dealt with by these methods.

During times of recession there is a standing temptation for politicians to attempt to 'rescue' ailing firms whose failure would bring even more unemployment. If these are in sensitive areas already hard-hit, the temptation is to make government involvement in the enterprise a prerequisite for government aid. The performance of such operations has been poor, and they invariably tempt the state into further intervention to protect its investment. In this way, the power to curb competition or to give selective advantage to state-involved enterprises grows over the years, wreaking considerable distortion by preventing the operation of an effective market.

The simple removal of these powers, or a phasing out of them, is comparatively straightforward to accomplish. The areas involved rarely affect the general public, and are more likely to have localized impact. The knowledge that the state is relinquishing its power to 'rescue' private failures is unlikely to set a specific interest group against it. Instead, there will be isolated occasions in the future in which unions and workers who would have pleaded for state funds to save a company going under will find less receptive ears.

There will be, on the other hand, competitive businesses in the private sector which stand to gain from a retreat by the state.

As potential purchasers of former government assets, they represent a group which will encourage the process and keep it secure.

The method of curbing state powers can be used quite deliberately to exempt various groups from the burdens and costs of dubious regulations. The power enjoyed by agencies of the government to enforce certain types of behaviour on the private sector undoubtedly raises the costs of business, contributes to the failure of existing concerns, and discourages the success of new ones.

Since compliance costs fall especially hard on small businesses, specific withdrawal of state powers can be made in their case. Powers relating to business premises, to employment, and to taxation could all be curbed in the interest of promoting the easier and more rapid growth of the private sector.

### Government officials

Among the case histories of curbing state powers in Britain is the reduction in powers of entry into private property, and seizure by government inspectors.

It has been accepted for a long time in Britain that the police should have the right of entry to private premises in certain circumstances, and most people, if pressed, would probably recognize that bailiffs or sheriffs ought to have certain limited powers. What is not so well known is that numerous other inspectors in the course of their duties can demand entry, keep an individual under surveillance, seize documents, take samples of produce, inspect and copy books, accounts, and employees' worksheets, and exercise a host of other powers too numerous and detailed to record.

Before 1979, no up-to-date central record existed which listed the numbers of people empowered to enter private property and gave the additional powers of seizure and search. In October 1979, a complete survey was published by the Adam Smith Institute. It showed that there were no less than 252 separate powers of access to private property. However, even that was only claimed to be a partial list. The Thatcher government appointed a minister, David Mitchell, to review each department (with the exception of the Treasury). The result was that a much larger figure emerged. For example, the Ministry for Agriculture, Fisheries and Food had rights of entry for at least 219 officials for seed and crop inspection alone.

On 4 February 1981 it was announced in *Hansard* that:

'The review of statutory powers to enter business premises which the Prime Minister announced on 7 December 1979 has now been completed by all Departments. As a result, ministers have recommended that thirty powers should be revoked and up to sixty-three modified. Most of these recommendations will

be carried out in the normal course of departmental legislative programmes. I am satisfied that the remaining powers are necessary, are sufficiently circumscribed and contain adequate safeguards to ensure that they do not cause unwarranted intrusion into business premises'.

For the future, it was pointed out that arrangements were being made to scrutinize centrally all future legislation containing powers of entry to ensure they did not impose any undue burden.

#### METHOD NINETEEN: DIVESTMENT

Divestment means disposing by sale of state assets. In addition to passing control to the private sector by partial or total sale, or by separating off distinct entities, there are cases in which the state may sell assets which do not give it any meaningful control. When government has nationalized firms with part-holdings in other firms, or received shares of stock in return for financial subsidies, or in other ways acquired a minority holding in a private business, it has acquired new assets. These form a part of the public sector.

The state does not behave as a normal investor, and cannot be expected to. It has interests other than profitability and rates of return to think of. To some extent, a state holding is like a piece of a company removed from market influences. Consequently, the state may well find it advantageous to divest itself of these minority holdings. It might have better uses for the funds than retaining a holding in commercial activities or playing the role of investor in private markets.

Government's financial accounting can make divestment a worthwhile operation for legislators. If the accounting system allows funds from divestment to be spent directly, instead of being used to reduce the deficit, government is able to take off some of the squeeze on spending without extending its red ink. The proceeds of asset sales, in other words, may be used on current spending or on new capital spending. This policy has been described as 'selling the family silver to pay the butler'. If it involved only the sale of capital assets to finance excessive levels of current spending, the characterization might have merit. If, however, government takes the view that private growth has been held back by public borrowing and taxation, divestment permits it to relieve those pressures.

Divestment of minority holdings does not normally encounter entrenched opposition. Since the operations are not directly controlled by the government, opposition from the workforce is not usually a factor. There is no self-conscious class of beneficiaries who are affected by the sale. Only the few administrators who oversee government holdings in the private sector are potential adversaries to a divestment programme, and they are outweighed by the potential buyers who stand to benefit from the acquisition.

### British Technology Group

The British Technology Group, representing the re-organization of the National Enterprise Board and the National Research and Development Corporation, was one of the principal vehicles for government holdings in private industry.

The National Enterprise Board had originally succeeded in advancing public ownership to the healthy and profitable areas of the private sector without drawing the accusation of 'nationalization'. It was allowed to give aid to certain firms and to encourage the implementation of voluntary planning agreements between private concerns and the government. (The latter objective was a complete failure, with only one such agreement being reached, with Chrysler, in 1979.)

Upon its creation the National Enterprise Board was given the state's share holdings in the following eight companies: British Leyland; Cambridge Instruments; Roll-Royce; Brown-Bovery-Kent; Herbert; Dunford and Elliot; Ferranti; and International Computing Laboratories (ICL). By 1978, it had acquired interests in a further twenty-eight companies.

Its power to actually sell off investments without the Secretary of State's permission was granted in February 1978, provided the sale involved assets under £1 million. It was only after May 1979 that the first moves were made towards disposing of assets rather than acquiring them. In August 1980, new guidelines were set out obliging the NEB to sell off its profitable investments as soon as possible.

The National Enterprise Board and the National Research Development Corporation, while remaining accountable under their separate statutes, were reorganized under the banner of the British Technology Group in 1981.

In 1979 it began its extensive list of asset sales (see Table 5).

**Table 5**  
**State divestment since 1979**

	Company	Receipts (£ million)
1979	Hird Brown Ltd	0.4
	ICL Ltd	37.2
1980	Brown Boveri Kent (Holdings) Ltd	2.6
	Barrow Hepburn Ltd	0.27
	Computer and Systems Engineering Ltd	2.14
	Fairey Holdings Ltd	21.8
	Ferranti Ltd	55.2
	Middle East Building Services Ltd	Nominal £1 only
	New Town Securities (Northern) Ltd	0.13

Table 5 continued

Company		Receipts (£ million)
1981	R R Chapman (Sub-Sea Surveys) Ltd	0.35
	Automation and Technical Services (Holdings) Ltd	0.9
	Megretti and Zambra Ltd	0.5
	System Designers International Ltd	1.19
	Energy Equipment Ltd	0.08
	CIC Investment Holdings Ltd	Nominal £1 only
	Ferranti Ltd	4.28
1982	George P Brown Ltd	1.1
	Consine Ltd	Proceeds to arise from levy arrangements linked to sales in 1985
	Insac Products Ltd	Assets sold to Britton Lee in exchange for minority shares in that company
	Burndept Electronics Ltd	}
	Doyce Electronics Ltd	}
	F W Elliott (Holdings) Ltd	}
	Hydraroll Ltd	}
	Powerdrive PSR Ltd	}
	Sonicaid Ltd	}
	Thandar Ltd	}
	Nexos Office Systems Ltd	}
1983	United Medical Enterprises	15.85
	Celltech (part disposal)	1.353
	Rigby Electronics	0.002
(1983 Sales up to 30 September 1983)		

In addition to these sales, it was announced on 12 July 1984 that the company Thorn-EMI had agreed in principle to pay £95 million for the British Technology Group's shareholding in Inmos, the largest UK-owned volume manufacturer of memory and micro-processor products. Inmos has the very strong prospect of a healthy future. This year, its sales are expected to double again, to some £100m, giving it its first pre-tax profit, probably over £5m, since it started in 1978.

### British Gas

British Gas reached an agreement over its 50% stake in Wytch Farm oilfield. A consortium referred to as the 'Dorset Five' agreed to pay a total of £215 million, in installments for the 50% share. The new owners - Tricentrol (with 17.5%), Premier Con-

solidated (12.5%), Carless Capel (7.5%), Clyde Petroleum (7.5%), and Goal Petroleum (5%) - will make an initial payment of £85 million, followed by a second installment when production reaches 20,000 barrels a day or a million tonnes a year. On top of this, British Gas will get a 40% share of the profits once production has passed the 25 million barrels mark.

#### METHOD TWENTY: APPLYING LIQUIDATION PROCEDURES

It is conventionally assumed that the government will not allow its own enterprises to go bankrupt. Indeed, this assumption is part of the problem. The threat of bankruptcy might restrain the demands of private sector workers and their propensity to undertake industrial actions. No such compunction holds back workers in the public sector. Convinced that the enterprise cannot go broke, the battle for higher wages and better working conditions is pursued even further, with the object being to garner enough public pressure to make the government yield. If necessary, this involves pressure for a greater claim on tax revenues.

Despite the assumption that public enterprises cannot go bankrupt, there clearly are cases in which the application of bankruptcy procedures would be beneficial. The threat of winding down an industry and calling in professional liquidators to dismember it is not only a threat to restrain the demands of a powerful union: it is a valid reorganization procedure.

When liquidators are called in to pick up the debris of a private collapse, they use their skills to put as much of it as possible into packages which can be set functioning as rapidly as possible at their maximum value. The effect of their work is a repackaging of the productive elements, both capital and labour, into viable entities. Thus, the most productive and useful parts of a failed enterprise are preserved and placed elsewhere in the economy.

Parts of the public sector may also merit this treatment. It is, in essence, a speeded-up version of preparing a state enterprise with a poor record for eventual transfer. Instead of closing down the least profitable sections and streamlining production techniques in the others, a liquidation operation performs the same task abruptly in more urgent circumstances.

In a bankruptcy operation, debts are paid off in strict proportion to the proceeds of asset sales, and they are taken to be finally settled when this has been done. There clearly are public institutions to which the principle could be extended, to the benefit of the general public. Instead of being a drain forever, a settlement would be made and the useful parts put to work in the competitive marketplace. As a result, there would be less dislocation of resources in the future.

## Examples

Liquidation is a drastic, 'cut your losses' type of expedient reserved for cases in which it is apparent that the present organization is relatively worthless, compared to the value of having its constituents dispersed and re-allocated elsewhere. There are no 'pure' case histories in the British experience which involve the application of bankruptcy procedures to close public sector operations. There are, however, examples of closing state institutions such as hospitals and teacher training colleges which followed a procedure not very different. This type of treatment has been suggested for some of the poorer quality universities and colleges.

**Hospitals.** Considerable closures have involved hospitals. In this case, the intention was to close many of the hospitals that were uneconomic, or whose work could be equally done at a nearby hospital. Some of the less cost-effective hospitals were closed, and their patients transferred to be treated at alternative hospitals in the locality.

All in all, a total of twenty-seven complete hospital closures were implemented since May 1979.

In addition, this move towards greater efficiency was continued within hospitals, as well as between them, and there were 15 partial closures. Particular units or wards were closed within certain hospitals, and as in the previous example, the patients are sent elsewhere.

**Teacher training.** Several of the state-run teacher-training colleges have similarly been closed or amalgamated as they became surplus to needs, partly because of falling school rolls. The decision involved the ending of teacher training completely in some institutions. In addition, certain teacher training facilities are being moved to nearby alternative institutions. This has happened in Manchester, where the College of Higher Education will give way to the polytechnic; and the training at Matlock and Derby Lonsdale Colleges of Higher Education will be merged. Liverpool College of Higher Education will transfer much of its training to the polytechnic; and Leicester Polytechnic will cease to provide initial teacher training, while maintaining its postgraduate courses.

None of it is, strictly speaking, liquidation, although it does embark on a similar procedure of cutting out some operations and making the remainder more cost-effective thereby.

## METHOD TWENTY-ONE: WITHDRAWAL FROM THE ACTIVITY

In a very small number of cases, it is possible for government to reduce the size of the public sector by withdrawing altogether from an activity no longer deemed necessary or desirable. As the demand and need for private sector activities declines, the

reduction in sales is taken as a signal to producers. Fewer and fewer remain in production, and the supply tapers off with the fall in demand.

No such effect occurs when the supply is publicly provided and financed out of general revenues. In some cases, there is no real way of assessing demand at all. Output is produced with no estimate of its usefulness, or of whether the public, given a choice, would spend their money on it. What this means in practice is the survival of public services for which genuine demand has long disappeared.

It is very difficult to identify these areas. The producers, naturally enough, never acknowledge that their work is of no value. Consumers do not make decisions in such cases. One possible guide for government is the example of foreign countries. It sometimes turns out that other countries get by very well without something we have never thought of doing without.

For areas of public supply which involve a product or service, there are crude measures of demand. A state bus service which has carried only one person a day for the last ten years is clearly unnecessary, since it can be withdrawn, and some other transportation subsidy can be provided to the riders if necessary. But in fields such as regulation, the public demand for an activity is not expressed even through the political process. In some cases, not even government knows exactly what services continue to be produced long after any need for them has departed.

By mounting a campaign to identify and eliminate public services which are no longer needed, government will undoubtedly antagonize the bureaucracy whose jobs are threatened. This is the sort of campaign which the media, on the other hand, can be enlisted to support. They tend to enjoy exposing misuse of public funds and taking a stance as public watchdogs. Thus, there may be small areas of unnecessary public sector activity where the balance of interests permits government to withdraw altogether.

### Public bodies

The government elected in Britain in 1979 embarked on a systematic and sustained campaign to identify and eliminate some of the para-governmental 'quango' bureaucracy. The abolition of hundreds of these bodies provides some instances of a total withdrawal from activities. The key factor which makes this process possible is that a service which is no longer necessary finds little interest group support to sustain it. What is required, however, is a very public campaign to highlight the useless and expensive nature of such activities.

Quangos, more formally known as the Quasi-Autonomous National

Governmental Organizations, are a prime example of the slow but sure growth of government in recent times. The problems with quangos and rule by quangos are sixfold. First, there is the shift of power away from the control and scrutiny of Parliament. Second, quangos provide excessive patronage for politicians. Third, they have been used as a means of by-passing Parliament, and allowing party political objectives to be achieved without the prolonged debate which accompanies the legislative process. Fourth, quangos crowd out private effort. Fifth, they can constitute taxation without representation, quangos such as the Industrial Training Boards levy a tax on those companies which carry the burden of their decisions, yet they are not elected. Finally, quangos represent the decline of democracy. Decision-making is being passed away from the legislature and towards the bureaucrats. Similar effects are visible in the operation of some of America's regulatory agencies.

Attempts to curb and even dispose of quangos were bedeviled by the most basic of problems: lack of knowledge. In 1979, extensive research work gave the first real glimpse at the numbers involved. *Quango, Quango, Quango*, produced by the Adam Smith Institute, identified a total of 3,068 individual bodies, representing 947 different types of quango, with the total fees and salaries paid to the main category of 838 quangos amounting to £3,320,000 plus expenses in 1977/78. Figures indicated large expenses amounting to millions of pounds for other quangos.

At the end of August 1979, a civil servant, Sir Leo Pliatzky was appointed by Mrs Thatcher to undertake a full review. In January 1980, the White Paper on Non-Departmental Public Bodies listed 2,117 quangos, although it excluded the nationalized industry boards, the National Health Service, and the broadcasting authorities, to name but a few. It was suggested that of the 2,117 organizations examined, 246 should disappear, and that 3,700 ministerial appointments and 250 permanent posts should be terminated, achieving a total saving of £11.6 million. By the end of the year, the government had improved on that expectation; it announced the demise of 290 of the report's quangos, and a reduction in the number of appointees by nearly 4,000. Furthermore, reduction in the planned programmes of the larger quangos such as the National Enterprise Board, the British National Oil Corporation, and the Manpower Services Commission meant further savings of £350 million during 1980-81.

In December 1980, the government announced projected savings of nearly £23 million by the abolition of a further 436 quangos by 1983. The Prime Minister had said that the decision in January to abolish 246 bodies saving £11.6 million had been supplemented by the winding up of another 28 executive bodies and 164 advisory and judicial bodies.

#### METHOD TWENTY-TWO: THE RIGHT TO PRIVATE SUBSTITUTION

There are areas of the public sector for which the general public

could be given the right to select private alternatives. Given the characteristics of public monopoly, there are several state services about which the public frequently complain of delays in service and quality of work. By giving the public the right to turn to private businesses for the same products, and to bill the state for the cost of the job, competition is given a major foothold.

Obviously, if government is footing the bills, it has to have a degree of control over costs. The price limit it can accept will bear close relation to what the job would have cost had it been undertaken by the public sector. This is a practical problem which can be solved by recourse to some independent body such as an auditor. Broadly speaking, for the policy to succeed, there must be a readily available method of determining in advance the price government can reasonably be expected to pay for public services performed by a private company.

Once the practical problem is solved, a range of opportunities presents itself. In Britain, repairs and maintenance of public housing, roads, utilities, and other public infrastructures are all potential candidates for this treatment. If the citizens concerned obtain estimates from private sector companies which are within the acceptable cost limits, they can call in the contractors to get the job done.

The public at large gains visibly if this policy is adopted. As a large interest group, they perceive its benefit and can be counted on to support the extension of choice and opportunity for faster and better services. Private businesses form another interest group on the plus side, as they see the profit potential for themselves.

The managers and workers who provide the public service are on the negative side, but the effect on them is a gradual one. With more frequent use of private alternatives, the need for a large public establishment diminishes. The public operation will shrink gradually as the demand shifts, with displaced employees being taken up in many cases by growing private companies.

The implementation of a right to substitute private supply is one of the newer weapons in the arsenal of privatization. It is also one of the most promising, in that it increases the choice available to the general public. Opposition to it has to be based on the claim that there should be no such opportunity for choice, and that people should be forced to depend only on the public sector and on the quality and speed of service which it produces. This is a weak position politically, with most interest groups heavily on the side of extending choice.

### Water supply and housing

During an industrial dispute involving the water authorities in Britain, the recently-retired Master of the Rolls, Lord Denning,

expressed the opinion that householders had the right in law to bring in private contractors to repair damaged water pipes, and to bill the water authority for the work. Although the dispute ended before anyone could launch a test case, this illustrates the substitution method of privatization.

Measures to allow tenants of public housing in Britain 'right to repair' and to bill the local government provides a case history of private substitution.

The Housing and Building Control Act of 1984 is concerned with tenants' rights and the disposal of state-owned houses. Under Section 28, it amends the 1980 Housing Act to allow the Secretary of State to introduce by regulation a scheme to allow council, new town and housing association tenants a right to carry out their own repairs and to obtain reimbursement from their landlords for doing so. This right to repair will allow a tenant to recoup a percentage of the costs from the local authority.

In theory, the idea has great potential. One would expect an increase in the general level of repairs to council houses, and perhaps in the long run decline in the average cost per house for repairs, because they would be performed privately and at lower cost. Ultimately, the technique offers a new form of choice to break the state monopoly. It would be very effective in the event of a withdrawal of the state service during an industrial dispute.

## 6. FUTURE PRIVATIZATION IN BRITAIN

### British Steel Corporation

On 21 December 1983, the basis for a new company, United Ring, was created. British Steel and two private sector companies, Woodhouse and Rixcon (Holdings), and Inco Alloy Products, announced on that date that they were intending to merge their ring-rolled products businesses. Larzard Brothers, the merchant bank which put the proposals together, will receive 12.5% of United Ring shares, while British Steel will take 25% of the shares in the company valued at £10.5 million with a turnover of around £30 million. The remainder of the shares will be split equally between the two private firms who will pay £910,000 each.

It is unlikely, however, that the firm will be fully privatized for some time.

### British Airways

Hopes are high for the sale of a proportion of the shares in British Airways by spring 1985. This comes over four years since the passing of the Civil Aviation Act of 1980 which changed its status from a public corporation into a limited liability company with the Secretary of State for Trade and Industry holding the shares.

The delay in privatization has been put down to the financial problems which really began with BA's enormous losses in 1980, and the final decision to decide the timing of privatization will depend on the airline's financial performance in the meantime, on the state of the stock-market, and on the general prospects for the airline industry. However, BA made a net profit in the 1983-84 financial year of £181 million.

### Other prospects

(1) **British Gas Corporation.** Consideration is being given to the idea of selling off the corporation's 500 showrooms and a positive decision is expected soon. There are expectations that BGC's gas interests will be separated off and then sold.

(2) **Heavy goods vehicle testing stations.** Negotiations are proceeding between the Secretary of State for Transport and Lloyd's Register of Shipping. A transfer to Lloyd's Testing Ltd is imminent.

(3) **Royal Ordnance Factories.** Considerable investigation and debate delayed the privatization of the Royal Ordnance (Ammunition) Factories. However, this is now resolved and a public limited company will be registered and will become the sole owner of four limited companies - Royal Ordnance Ammunition Limited,

Royal Ordnance Explosives Limited, Royal Ordnance Small Arms Limited, and Royal Ordnance Weapons and Fighting Vehicles Limited. However, the organization's incorporation under the Companies Act is not expected until the autumn of 1985.

(4) **Cable broadcasting.** The vast majority of investment in cable broadcasting will be from the private sector - despite a general assumption by opposition political parties that the state should be heavily involved.

(5) **British Waterways Board.** The British Waterways Board will make attempts to increase opportunities for the private sector by direct investment, contracting out, joint ventures, and selling off separate sections.

(6) **British Telecom.** Following the successful sale of British Telecom, the government is under pressure to sell more of its 49% holding. Telecom has also been requested to provide separate accounting and reporting arrangements for its equipment supply business by 1987, so some further breaking down of the business seems possible for the future.

(7) **British Leyland.** Before the end of the current term of office, the government hopes to sell some of British Leyland's subsidiaries including Rolls Royce, Land-Rover, and Unipart (its components division).

(8) **British Shipbuilders.** British Shipbuilders' warshipbuilding interests are to be privatized by March 1986. In the meantime, the corporation has also been instructed to continue to dispose of its other sizeable assets.

(9) **Inland Revenue sorting offices.** The use of private contractors to take on Revenue work has been proposed.

(10) **British Airports Authority.** Privatization is being considered but the method is not yet agreed upon. Four out of the seven airports the authority owns are making a loss even if BAA as a whole is profitable, and a suitable set of saleable packages has yet to be devised. Legislation is unlikely before late 1985.

(11) **Gibraltar dockyard.** The Royal Navy dockyard in Gibraltar closed on 31 December 1984, but re-opened immediately as the Gibraltar Ship Repair Company which will be a commercially managed enterprise by A & P Appledore International Ltd.

(12) **Electricity Generating Board.** The Central Electricity Generating Board held negotiations with the company Taylor Woodrow, whose subsidiary, Taylor Woodrow Energy, is interested in buying a 180-megawatt oil-fired power station in the centre of Plymouth. Interest has also been expressed in the coal-fired Carmarthen Bay station and the Rogerstone power station in South Wales. Other projects may well be discussed in the future.

(13) **British Rail.** British Rail has been directed by the

government to put forward proposals for more private sector finance and participation in the development of railway services. Already there are firm proposals for a private freight haulage company to operate its own rolling stock on BR lines.

**(14) The National Film and Television School.** The government has reached an agreement with the cinemas, the independent television companies, and the BBC to fund the National Film and Television School to the level of £600,000 a year. This will replace the funding from the Eady Levy (a tax on cinema receipts) used solely to fund the NFTS and other film projects.

**(15) The National Film Finance Corporation.** As well as having made arrangements with certain organizations in the film, television, and video sectors to provide private funding for the future, the National Film Finance Corporation is to be formed into a new company in the near future.

**(16) National Health Service housing.** The recent Rayner report on National Health Service residential accommodation showed that up to £750 million could be released at a stroke by the sale of surplus NHS property. A suggestion the British Government appears attracted to involves selling the property to sitting tenants - similar to the way in which council house sales have proceeded.

**(17) Crown Agents.** Proposals for the reorganization of the Board of Crown Agents, who manage state property overseas, had been broadly accepted by the government with a view to their privatization. It is expected that this may occur in 1986.

**(18) Britoil.** An offering of some, if not most, of the government's remaining shareholding in Britoil has been suggested, especially in the light of its better than expected profit announcement in March 1984.

**(19) Short Brothers.** Short Brothers aircraft factory based in Northern Ireland is due for privatization

**(20) British Steel Corporation.** Even though it has been clear government policy since 1979 to seek the transfer of British Steel's assets and activities to the private sector, only a little has been achieved in this respect. Nevertheless, there have been discussions with a serious view to making progress.

**(21) British Aerospace.** The British government no longer considers sacrosanct the 25% minimum shareholding it said it would retain in British Aerospace. At present, it still possesses 48.4% of the issued shares in BAe and appears willing to reduce that.

## 7. CONCLUSION

From the variety of techniques of privatization, and from the case histories of progress made under each, it is obvious that privatization is a complex and subtle process.

It is not a panacea or a formula. Instead, it is an approach which can generate and focus creative policy ideas. Overwhelmingly, the impression emerges that each case is unique and requires a different remedy. Even so simple an objective as selling a public corporation on the stock market can be accomplished by many possible methods. Several of these have been put into practice.

Politicians are not short of critics telling them to cut public spending. What they are short of is people telling them how to do it with advantage. If choice and opportunity are to be introduced into government programmes, so that innovative alternatives will be offered to consumers and so that preferences can be satisfied and the burden of public spending be reduced, creative policies will be needed to give people the opportunity to turn to private equivalents. By such means, it is possible to build up private sector supply through the exercise of the free choices of individuals, without threatening the generally perceived benefits of the public supply.

All too often, the critics of public spending behave like a poor ski instructor, pushing a reluctant government down the slopes toward the goal of a reduced public sector at the bottom. Of course, with such a clumsy, direct approach, the hapless legislators come to grief on the first interest group, and end up in a shower of broken limbs. More thoughtful preparation would have devised a slalom course, steering the skier around the interest groups in the way, and down a safer pathway which enables the objective to be achieved.

It is in this spirit that the creative work on privatization has to be performed. Each part of the public sector requires a different path; each part has different interest groups entrenched along the way. The best that can be hoped for is that each can be dealt with one by one, and that the skier's skill and confidence will improve with each success.

There is a further impression created by the experience of privatization in Britain. It is that large though the progress has been, and successful though the techniques have proved, the process is still in its very early stages. As attention moves from the industries to the utilities, and from there to state services and regulatory functions, the sheer size of the task which looms ahead is daunting.

On the other hand, there are hopeful signs. Those addicted to folk wisdom might note that a good beginning is halfway through, and the first half is always the hardest. It might be difficult

to set the boulder rolling downhill, but it certainly becomes easier after that. The very success of what has been done already is the biggest factor contributing to further success. Reassured by the results of what already has been done, people are ready for more. Meanwhile, opponents grow weaker as their predictions of calamity are disproved time after time. The process may be only beginning, but it is gathering speed and momentum.

There is no shortage of people committed to freedom and determined to win back for individuals some of the choices taken from them by the state. There is no lack of will and creativity either, as witnessed by the continued vitality of the private economy despite all of the burdens imposed upon it. Privatization offers a process which can turn that entrepreneurial talent to work on the political system, bringing creative inputs to bear on public problems. If the public sector is big, then so are the opportunities it offers to diminish it. If it is daunting, then so much more challenge it offers to the creative and adventurous temperament. The state can be conquered by human care and effort.