

PART III  
MICROPOLITICS

## 8 From Critique to Creativity

Public choice theory is a critique. It is an analytical tool which enables us to understand and to explain why it is that some things happen in the public sector in the way that they do. It enables us to trace the interests of the various groups involved in the formulation and practice of public policy, and through them to anticipate or to account for the responses evoked by it. Equipped with this approach, it becomes possible to see why it is that events take place which would be otherwise inexplicable or even irrational. It shows us immediately why it is that conservative programmes should labour under the difficulties they have met. The essence of the traditional conservative formula is that of curbing the role which government plays in economic life and the costs which it imposes upon its citizens. It seeks to reduce the size and scope of government operations, to decrease the regulatory burden which it places upon business, and to stop it pre-empting so large a share of the funds with which individuals and businesses would otherwise determine their own priorities.

All of these aims run counter to the interest of most groups involved in the process of public programmes. They might indeed be of benefit to society as a whole, to the wealth-creating process, and they might even leave



the overwhelming majority better off than they would otherwise be. None of this is sufficient to take them into the realm of practical politics. All of the aims singled out as part of a conservative approach to government oppose in some measure what the groups perceive to be in their vital interest. Each minority can be shown that its own benefit is under threat from the reduction of expenditure in general. While they might support in theory such a general cut in expenditure, they each fight to retain their own programme more strongly than others will fight to cut it.

The bureaucracy recognizes immediately that a conservative programme constitutes a real threat to its opportunities to move to higher salary scales by extending the area of responsibility and the size of the staff controlled. Their interest lies in there being more numerous public programmes and bigger ones. The prospect of a cut in activity and in spending is one which they will take action to limit, if not to thwart.

The source of a major conservative complaint can now be identified. Conservatives have often made the observation that state power and spending are extended rapidly under collectivist and centralist administrations, and more slowly under conservative ones. They speak of a 'socialist ratchet' by whose turns the size of the state moves in one direction only: it increases. If a government of conservative inclination managed to achieve a brief holding action, preventing an increase in state power while it held office, this was regarded as the best which could be hoped for.

To their supporters, as well as to those who participated in such administrations, this was a puzzling and an irritating phenomenon. Lacking the insights of public choice theory, they did not know wherein lay the explanation. With the help of that analysis, however, it is now possible to see why this should have come about. With opposition from each group which per-



ceived a state benefit coming to them, and with the workings of a bureaucracy directly opposed to the central planks of the conservative programme, the explanation emerges. It is not that the proposals are 'irrelevant to the modern world,' or even 'impractical in the real world.' It is that they are politically too difficult to push by the will of government against the entrenched pressures which act in the opposite direction.

It now becomes possible to interpret the comparative failure of the governments of Richard Nixon in the United States, and of Edward Heath in the United Kingdom. Neither of them had any kind of effective technique to set against the pressures which militate against a conservative programme. Although both went in with a climate of ideas favourable in theory to less government and less costly government, neither had any sense in advance of the practical difficulties involved in implementing such a programme, or of the tactics which might be needed to overcome them. Both subscribed to the notion that events followed ideas, and neither had the benefit of the public choice school of analysis. It was there, but it was in its early stages and had not yet attracted sufficient attention.

The failures which attracted such a variety of explanations are seen much more simply in the light of public choice theory. The programmes set out what government wanted to do on the one side, and were faced by the real forces inherent in the system on the other. The result was that under both the Nixon and the Heath administrations, both the regulatory power and the role played by government in the economy increased; as did, of course, its cost.

In the absence of a valid model to account for behaviour in the public sector, neither government had any idea of what it was up against. The senior advisers and experts on which it relied to implement policies were the very people whose interests those policies



threatened. Both governments found wages and prices were rising faster than it wished, without understanding the pressures which pushed them in that direction. Both brought in legislative controls on wages and prices, vastly extending bureaucratic authority, although not bureaucratic power. The strongest government in the world has never been able to do more than build temporary dams against the real events which wages and prices represent. When they burst through the flimsy barriers of government desire, they soon assume the natural level dictated by demand and scarcity.

In the final analysis, neither the Nixon government in the United States nor the Heath government in Britain really knew the constraints upon political action which are imposed by the self-seeking behaviour of those who are its participants. Had they realized how much opposition would be generated by interest groups who saw their perceived benefit threatened, or by the bureaucracy which saw its own career opportunities challenged, they might have attempted very different policies and achieved a different result. At the very least, the comparative failure of their declared programmes would have been attributed correctly to their failure to deal adequately with the political system.

The public choice approach explains both the remorseless rise of the state sector over the years, and the failure of attempts made at different times to reverse it. Indeed, it also explains the fatalism of those who regard it as evil, oppose it in principle, and yet think that nothing whatever can be done about it. This is all it does, however. The public choice school has provided a new method of analysis. It provides a critique; it shows us what is wrong. The question arises as to whether its findings can be built upon.

The new analysis at least teaches politicians their limits. It enables them to predict in advance the policies



which are unlikely to work. If no more than this were to be achieved it would be useful. It would save the disappointment of hopes and the raising of unreal expectations. By understanding how interest groups would react within the system, political leaders at least can avoid the policies doomed to fall foul of them. Thus public choice analysis, although only a critique, already offers the political process a means of winnowing out in advance the policies which will fail. It saves, thereby, the debilitating and divisive struggles, and enables politicians to lower their sights to more realistic goals. All of these are worthwhile achievements in themselves, but they all tell politicians what not to do. None of them tells governments how to implement the policies which they think are correct.

If public choice is a critique, there is a creative counterpart implicit in its findings. If the prevailing political system acts to thwart certain types of policy, perhaps others can be constructed which work with the pressures it imposes, instead of trying to override them. Given that those pressures are known of in advance, and given that the source of them can be identified, the possibility emerges that policies can be devised which either work with them, circumvent them or overcome them.

On the face of it this seems unlikely. The interest of the minority groups lies in receiving specific benefits funded from general taxation. The interest of the bureaucracy lies in an augmented and more costly state sector. It would seem to require remarkable policies to set those interests to work for a reduction in state subsidies and benefits, and for a decrease in the production of goods and services in the public sector. On the face of it, the policies would have to make people work directly against their own interest.

There are, however, several possible ways in which this apparent contradiction can be resolved. That is,



there are several routes by which people might be prevailed upon to acquiesce in or support policies even though the effect of those policies might lead to an overall reduction in the volume of benefits for privileged minorities, and to an overall reduction in state power and state spending.

One possibility is that people might surrender the benefit which they presently enjoy, if an alternative benefit is available to compensate them. People will fight to retain their benefit, other things being equal, because its worth to them is more than its perceived cost to others. They might, however, part with benefits as part of an exchange which they felt left them ahead. This means that the gains they receive for giving up the original benefit must be larger than it was, and be perceived to be so. It might well be that most people would gain if the benefit transfer system was ended; but this would not work because it is difficult to make this evident. They feel the gain strongly and the cost of funding the gains of others weakly.

If there is to be a policy which offers a trade-off, the new gain must not only be larger, but must seem obviously so to its target recipient. There will be no political gains from the trade unless people feel it leaves them better off. It should be possible in some cases to construct policies designed to replace benefits by alternative ones perceived to be larger. Although on the face of it this appears to tighten the ratchet one more turn by increasing the total amount of benefit transfer, this need not be true. The new benefit can be different in character.

It might be possible to construct policies under which people are ready to accept the loss of a state benefit because they perceive more advantage for themselves through the acquisition of a private benefit which seems larger. In this case the system of state benefits is eroded by the substitution of a private benefit in exchange.



Again, there could be cases in which people will give up a long-term and continuing gain from the state in return for a one-off gain which is larger, but which ends the system. It might be possible to create policies under which people are offered a substantial and immediate gain as an alternative to the continuing benefit. If they value the larger benefit now, and if its nearness in time outweighs the ultimate accumulated value of the continuing benefit, there is the basis for trade.

If people accept the loss of a state benefit because the policy places a perceptibly larger private benefit into their hands in return, then the policy can diminish the role of government. If people regard a one-off benefit now as an acceptable substitute for a continuing state benefit, then the policy which supplies it can gradually reduce the cost of government in the future, even if it has to increase in the immediate short term. Neither of these two approaches should be surprising. Once the public choice thinking is taken on board, and the political system is regarded as operating like a market, then normal market transactions such as these should be taken for granted.

In private economic markets people trade gains every day, giving up that which they value less in return for that which they value more. This provides the basis of free exchange. It is also a daily commonplace in the private economy that people trade off the long term against the short term. Some will give up spending power now in order to acquire regular income in the future. Others give up future income in exchange for a cash sum to be spent in the present. Such transactions are routine in economic markets; yet policies which embody them as part of a systematic approach seem novel in a political context.

All that the above policies do is to bring to the surface the principles of exchange which are already there and functioning in the political market. They start with the



recognition that there is such a market, and then enter it with intent to trade. Instead of trying to oppose the forces and pressures within that market by no more than the will of government, they use those very same forces to achieve more acceptable outcomes.

The two approaches considered so far form only the beginning of a battery of techniques derived from the same principles. With the acceptance that a political market is operating comes a range of different types of policy specifically designed for that market. The conflict of ideologies on the conventional model of political activity is now supplemented by the interplay of interest groups and the development of policies tailored for the market situation of each of them. Instead of facing head on the opposition of the various groups which perceive value in their state benefits, the new policies seek to trade in the market, offering where possible something of greater perceived value which nonetheless makes possible a reduction in the size and scope of government.

There may be cases, of course, in which a group is enjoying a position of such power that they can command a benefit greater than any which can reasonably be offered in return. This leads to an alternative range of possible policies. Perhaps a new group can be established and built up which will outweigh the first. It will then be a potential trading partner with a policy which does take on the original group. The loss of votes and support among that group will be more than offset in the political market by the gain of those from the new group. Legislators will then feel able to act to curb the benefits enjoyed by the original powerful group, in the knowledge that they are gaining more support from the new group.

It could be that policies might be constructed to circumvent and neutralize the power of the original group, before attempting to deal with the benefit they



enjoy at the expense of society. Once their power has been undermined, so has their capacity to command and retain so high a benefit. If their ability to cause trouble declines as their power diminishes, they have less to trade with and less need be given in exchange for it.

The common thread which links these new policy approaches is that they are the creative counterparts of public choice critique. If people do indeed trade in a political market, this limits what governments can hope to achieve by conventional means. But it opens up the prospect of a new style of policy formulation geared to the workings of that market, and which can succeed by using its mechanisms where others failed by opposing them.

Such a style of politics, if it could be achieved, would start from the base-line of public choice critique. Its origins would lie in an understanding of why previous policies had failed. By tracing through the analysis of the public choice school, the way in which the interest groups proved too great an obstacle for the conventional policies would provide the starting-point for a new series of policies. The new policies would contrive circumstances in which the interest groups would pursue new objectives made available to them, be outweighed by more powerful groups created to offset them, or find the power which sustained their benefits eroded. All of these could, in theory, lead to a reduction in the role of the state as the agent which rewarded some at the expense of others.

It is apparent immediately that there is a radical difference in the style of political activity which this implies. It involves a minute attention to detail. The benefits enjoyed by the various interest groups must be traced through by public choice analysis, as must be the influence and support traded. Only after the current position has been thoroughly understood can the task



begin of constructing policies which can use its forces to change it. This is a creative exercise. There are no ideological formulae which automatically produce the correct answers. There may, indeed, be no correct answers; only better solutions and worse ones.

The dramatically different feature of this type of policy generation is the scale on which it takes place. It has to go right down to the level at which individuals give expression to their preferences in the political market, and has to trade at that level. The difference is as great as that which separates macroeconomics from microeconomics. The former deals with the large aggregates and statistics which may, or may not, represent real events. The latter deals with the choices which are made by individuals seeking to fulfil their aims. It takes account of the incentives which are present, and considers the trade-offs which people make, and the circumstances under which they make them.

It is often a feature of economists that they might recognize the prime importance of microeconomic factors, but do not extend this to the political arena. It is not uncommon to hear economists whose analysis derives from microeconomic study calling for such things as 'the end of state industries' or 'the abolition of all subsidies.' They tell British Prime Ministers to 'abolish the National Health Service', and American Presidents to 'end the food stamp programme'. Political leaders know that they cannot achieve these things simply by wanting to do so, and regard such cavalier advice as out of touch with political reality. The ideas considered in public choice theory suggest that they are right to think so.

Just as many economists find that study at the micro-level is needed for a more accurate picture of economic reality, so it could be argued that the equivalent might be useful in the field of politics. If it is true that people bid and trade in political markets as

they do in economic ones, then study at the micro-scale might give a more meaningful picture, and might even lead to more practical solutions.

The suggestion is that there is a 'micropolitics' just as there is a microeconomics. Microeconomics considers the behaviour of individuals and groups in economic markets; micropolitics looks at it in political markets. Moreover, just as microeconomics is closer to the level where decisions and actions are taken in the economic markets, and is thus closer to real events, the same is true of micropolitics in political markets.

It is easy to talk on the macro-scale about ending state industries or abolishing all subsidies, but governments are not going to follow this advice because they cannot. Governments might know all of the defects of the National Health Service or the food stamp programme without being able to do a thing about them. Macropolitics proposes the broad sweeping remedies which are not implemented, and which fail when they are tried. They fail because they take insufficient account of political reality, of the decisions made by individuals and groups which trade for advantage in the political market.

Micropolitics, on the other hand, involves the formulation of policies which acknowledge the findings of the public choice theorists, and which use them to redirect the behaviour of the individuals and groups involved. Instead of trying to act on the large scale against the benefits which groups enjoy at the general expense, micropolitics sets about creating policies which alter the choices people make by altering the circumstances.

Even though consideration thus far has taken place at the level of theory, several characteristics have already emerged marking the approach to policy formulation as quite different in both style and content from the conventional approach. In the first place there is the



implicit assumption that politics is not only concerned with a battle of ideas. Taking its lead from the public choice findings, micropolitics takes as its starting-point the assumption that self-interest plays a large part in the attitudes which people take towards public policy.

Given that people trade in a political market, they will regard policy in the light of its possible effect on the value of what they trade. Thus it is quite possible to have general support for a particular ideology from a group, only to find them thwarting in practice any attempt to apply it to their own circumstances. People who work in the public sector might think government is too big; but few think their own section of it should be reduced.

A second major difference lies in the attitude which is taken by micropolitics towards the various benefits which minority groups receive from the state. The conventional free market attitude is to regard them as illegitimate, and to seek their removal. Given that people defend benefits, and that there is little trade to be had in return from those who fund them, this always arouses both resentment and hostility from the groups whose advantage is under threat, and usually fails.

The attitude of micropolitics is to accept that the benefit is there, and that it will be defended, whether or not it has any claim to legitimacy. If people are to acquiesce in its removal, they must be offered something of greater advantage in exchange, or their power to sustain that advantage must first be eroded. The point missed on conventional analysis is that the status quo itself is regarded as a source of legitimacy. If something has long been enjoyed, the recipients regard it as an entrenched value, and a part of established society. They will fight to defend it, feel aggrieved at the innovation which threatens it, and find a suitable ideology to justify their stance. This is, in broad outline, the situation behind the struggle for American in-



dependence; they were fighting to preserve advantages already enjoyed against new encroachments upon them, rather than to claim new and untried benefits.

There may be a valid case for argument about the legitimacy of certain benefits. Such arguments may be important at the theoretical level, but there is no reason to expect them to result in the removal of those benefits. A change in circumstances is more likely to be effected by policies which lead to those benefits being traded, than by a direct confrontation seeking to abolish them. It is not that micropolitics ignores the moral issues, rather that it is more sympathetic to the point of view of those who receive benefits from the state. By getting down to the level at which decisions are made by individuals and groups, and by examining the incentives, it studies the way in which they see their situation. It recognizes their claim, without conceding it, that tradition is itself a source of legitimacy, and seeks to construct policies which offer something in return for the loss.

Not only is it less confrontational than conventional policy, it is less holistic. It does not seek to implement the vision of a market economy right across the board in the shortest possible time. Rather does it seek to find policies here and there which can make inroads. It seeks to create a situation in which state benefits and transfers are gradually traded off for things which are perceived to offer greater value. In place of the broad sweeps it offers the fine detail. It involves close study of each situation, and the formulation of policy designed to achieve success in that area. It is thus more piecemeal and more gradual.

In order to succeed it tends to work with the grain of entrenched interest groups, instead of against them. Sometimes it will contemplate an increase of state expenditure in the short term in order to set it on a downward path in the future. Sometimes it will make



available what seems like an unfair benefit to a select group in order to encourage it to trade in an even more unfair and more long-term advantage.

Not only is it less holistic, it is less coherent. It does not seek to apply everywhere and at once the simple principles of markets free from subsidy or government interference. These are more in the realm of long-term goals than indicators for policy formulation. Micropolitics produces different policies in almost every area, because it starts with the view that every area presents different problems. The interest groups, the character of their benefit, and its past operation vary from one section of society to another. There is no simple formula for dealing with them. On the contrary, the detail will be different for each case. If the problems are different in each area, then so must be the solutions.

Micropolitics does have coherence, but it is that of consistency of approach. The policies and recommendations change between one field and another, but the method by which they are produced is the same. It begins with a detailed analysis of the status quo, of the various advantages and benefits enjoyed, of the nature of the interest groups involved, and of the power and the pressures which they are able to deploy. From there it proceeds to the construction of policies which will offer trade-offs in benefit, alter the structure of power between different groups, and set up incentives to lead individuals and groups to accept circumstances which lead to the long-term diminution of transfer gains and to a reduction in the proportion of goods and services supplied from the state sector.

The micropolitical approach is more conservative than conventional free market policies precisely because it is more piecemeal and more gradual. It rarely produces policies designed to achieve sudden change and immediate impact. Rather does it attempt to set in motion chains of events which lead ultimately to the



desired goals. These chains of events are the trades and exchanges which are made in the political marketplace. Instead of ignoring these trades or seeking to end them, it works with them, making offers available which seek to influence the outcome which results from them. Traditional or long-standing benefits are not attacked, but bid for on the basis of more attractive offers. Individual groups are invited to exchange a continuing state transfer benefit for a short-term gain or an equivalent private sector advantage.

The process takes time. It takes society as it is, and introduces policies here and there to change it gradually but remorselessly in the direction of less subsidy and less government direction of the economy. The cumulative result of this political approach is to increase the degree of spontaneity within society, to expand the area of decision left outside of the ambit of government and within the realm of choices made by individuals and groups. While not a revolutionary programme by any means, it does seek steady and consistent movement in one direction.

It is one thing to have a picture of what an improved society might be like. It is another to analyse the workings of society as it already is. The role of micropolitics lies in the territory in between the two, in the area in which policies are formulated to change the world as it is into what it might become. The world might be improved if there were less government involvement in the economic processes, less regulation, and less pre-emption of the funds which people can allocate to their preferences. Wanting it so does not make it so; nor does persuading others of the merits of it. Policies can make it so, however, if they can be crafted in such a way as to persuade people to relinquish their state benefits for alternative gains, or to remove the leverage which some groups have over society in a way which attracts support rather than



hostility for the government which does it.

There is a clear distinction to be drawn between this approach and simple gradualism. Gradualism involves moving in small steps and slow ones. The small steps might be taken against the grain of society, with the supposition being that if they are small enough, they will not evoke opposition large enough to prevent their success. Fabianism is an example of this, in that the idea was to achieve socialism, then an unacceptable goal, by a series of stages each of which would be small enough to pass without the opposition that the final goal would arouse.

Micropolitics is not the same as gradualism. The policies created within its framework are not designed to be tolerated, but to be preferred to the prevailing state of society. Some of its changes might be large if groups and individuals in large numbers opt for the alternative advantages offered. It has no concept of a final form to society, only of a process moving in the direction of less subsidy and government involvement in the economy. Whatever society emerges as a result of that process will be one resulting spontaneously from the interplay of different decisions and actions, not one decided by planners to be superior. Furthermore, it is basic to its approach that it uses the existing pressures in society, creating the circumstances needed to redirect them.

Its changes may come about gradually, but it is not gradualist. It does not seek to do the same things as conventional policies, only more slowly. It seeks to create new policies to do different things. Even more to the point, it seeks to do them in different ways. It does not start out with a list of things to be done, and then proceed to do them slowly. It starts out not knowing what is to be done, but armed with a technique for creating policies in response to the various situations which it encounters. It is an approach, not a set of



priorities. In place of a list of policies to be implemented is a means of generating policies.

All of this is at the theoretical level. We understand from the work of the public choice school why it is that the response to conventional policies comes as it does. We appreciate that it is because they fail to recognize the political market in operation, or to accommodate themselves to it. It emerges that there might be the possibility of a system of policy generation starting from the base line of that analysis and not subject to those objections because it does take account of the political market and operate within its framework. Such a system would, it seems, enable policies to be created piecemeal, each in response to a different situation. Its unity would be that of method, rather than of content.

The question arises as to whether theory translates into practice to produce such a system. Is there, in fact, a micropolitical approach capable of achieving what theory claims to be possible? The short answer is yes. There is such an approach, already working in practice. It emerges from the critique of conventional policy by the public choice school, and seeks to make good the deficiencies which that analysis points to. The appearance of micropolitics has led to the formulation of policies to achieve successfully what previous attempts have failed to bring about. It has led to the ability of conservative governments to achieve at least a partial success for their declared programmes. It has set in motion a worldwide chain of events as the results of its policies have become apparent.

The difference sought between the governments of Nixon and Heath in the 1970s, and Reagan and Thatcher in the 1980s, can now be explained. There was not, as seen, any intervening victory in the battle for ideas, nor sufficient character differences on the part of the principal actors. There were no changes in the world to make policies impractical at one time suddenly



practical at the other. The change was in policy. The later governments were equipped with a range of policy proposals created from the micropolitical approach. They knew what they wanted, like the earlier governments, but unlike them they were equipped with some of the policies which might bring it about. The emergence during the 1970s of a radical new method of policy formulation led to the later governments having available to them a range of detailed applications. Instead of running headlong into the opposition of interest groups under threat, they were able to introduce policies which offered such groups the opportunity to trade for greater advantage.

The conservative programmes of the early 1970s met with failure. Those of the early 1980s met with some successes. The difference between the two was policy technique. It was the entry of ideas concerning political markets into the activity of policy formulation.



## 9 Problems, Non-Solutions and Solutions

It is instructive to compare the differences between conventional policy suggestions and those which emerge from a treatment of the political process as a market. The divergent approach is easily illustrated by looking at the measures with which both political styles propose to treat long-standing problems.

There are many parts of society and the economy which are regarded as real problem areas by those who advocate conservative or free market solutions. The provision of local government services presents one such area. The basic problem is that the gradual accumulation of services by local government authority has led to an extension of the state into economic processes, and all of the problems attendant on public sector supply.

Local government services are typically provided by the elected government of the authority, administered by its bureaucracy, and manned by a labour force employed directly by the council. The services are financed out of local authority revenue, which has been made up from the business rate and the domestic rate, both of which are effectively property taxes, and from a central government grant making up about two-thirds



of the total. Both the finance and the production of local services are thus provided in the public sector of the economy.

As the analysis of public operations has shown, this has involved the public in paying for services without having the ability to control the level of supply or the quality of service. The long-term tendency has been towards oversupply of quantity, decline in cost effectiveness, overmanning, depletion of capital, capture of the service by its producers, and lack of any inputs of consumer preference. The high costs have provided a real handicap to local business enterprise, and the high property taxes have fallen very unfairly on certain classes of home-owners who in many cases were only a small minority of the electorate.

The patterns within the political market can be traced. The small proportion who paid rates counted less in number than those who perceived themselves as beneficiaries at their expense. The local businesses had no votes to trade, and the system failed to impose penalties on authorities which reduced their own tax base because it made up the shortfall from central funds. Candidates for local office had an interest in offering the highest possible number of services perceived of as free at point of consumption.

Two solutions were put forward on the conventional paradigm. One, which merits brief consideration, was for a reorganization of the whole system of local government. The hope was that amalgamation into larger units would make possible economies of scale and new peaks of business efficiency in the provision of services. This was implemented in the early 1970s and achieved exactly opposite results. The new areas were too large and remote to sustain any influence at all by electors. On the contrary, such interest there had been was diminished. The new giantism left voters with the feeling that the new authorities were too large, too



powerful and too remote to influence. Inefficiency and wastage increased, and abuse quickly became endemic. Under the new arrangement, some local authorities found they had funds to spare to bid openly and with cash for the votes of minority groups within their area, and proceeded to make grants and subsidies available for a variety of causes whose main linking thread seemed to be their dependence on the politicians who had done this for them.

An alternative suggestion was put forward many times. It proposed to counter the lack of consumer pressure by introducing user charges for local services. Under user charges, the service would continue to be provided by the local government authority, but would be paid for by the customer directly at the point of consumption, instead of being funded from general revenues. This aimed to make customers feel the cost of each service in a way they never did when funding was provided out of taxes. By having to part with actual cash, the citizenry would be aware of how much each service was costing, and would put pressure on the area authority to provide value for money in each case.

The added advantage offered by user charges was the possibility which would exist for customers to limit the quantity of service to what they were prepared to pay for. It was taken for granted that user charges would have to meet most of the costs of the service, and that provision would be gradually geared to what people were prepared to pay. For example, if the costs of garbage collection were assigned to user charges, it might well be found that when people had to pay for the service directly, they would choose to pay for only one collection a week instead of two, or perhaps even for one every second week. The supply would then be adjusted accordingly.

On the face of it, user charges offered a considerable degree of consumer input where none had existed



before. By having them pay directly, they would appreciate the cost of each service in a way which central funding never achieves, and could control their own consumption. At an economic level, this offers advantages. People would exert the pressure of the purse upon the system. They would not have a choice between suppliers, but they would at least be able to decide how much was supplied.

On the level of political markets, user charges are considerably less attractive. In the first place, they leave the production of the service entirely within the state sector, taking only the finance of it into private hands. This means that all of the consequences of public supply continue unabated. The comparative inefficiency, over-manning, capital depletion, lack of choices and producer capture are all features of production within the state sector. To take the finance into the private sector does not necessarily mitigate their effects.

No less critical is the objection that most people perceive the benefits of service more than they perceive the burdens of cost. While the laudable aim is to make them feel the burdens of cost, there is no reason why they should want this. Many people think that 'other people' pay most for the services they receive, and do not appreciate that they are paying themselves through direct and indirect taxation. The estimated charges which would have to be levied for fully-costed services might well attract their angry opposition to any such scheme.

Of course, the corollary of user charges is that the taxation which currently pays for the services from local and national sources should be remitted. People would then have it to spend for themselves on the services, or not, if they saw fit. Giving people their money back instead of the free services runs counter to the findings of public choice analysis, that each group values its services more highly than others resent paying for



them. In other words, user charges work against the grain of the political marketplace instead of along with it.

There is a further point to be made concerning its political impact. User charges require the price of services to be set by the local authority. The price may indeed be set on a full cost basis at the outset, but it must be subject to annual review by the local legislature to keep abreast of cost increases at least. This means that legislators have to consider price increases for services, and decide on them. At this point they come under great pressure from every minority group which thinks it has a deserving case, or whose lobbyists and spokesmen do so. They are asked to exempt the unemployed from the increases, and perhaps senior citizens or those on social security. They are called hard-hearted if they fail to do so.

Minority groups at this point can be bid for in the political market by candidates who pledge to offer them the service at special subsidized rates, and the pressure is felt to reduce the full impact of cost increases. Over a period of time it is quite possible for what started as a full-cost user charge to finish up as an ever more nominal charge, with the balance borne by subsidy to support target groups of the population. In this way political pressures can make user charges self-reversing, by exposing those legislators who would impose real costs to the brunt of electoral unpopularity.

To prevent this might require an Act of Parliament to remove discretionary power on user charges. This would attract in its turn a storm of political opposition from councils which saw their powers taken away, and minority groups which saw their benefits threatened. For their failure to recognize the strength of political markets, user charges are probably a non-starter, and have not, in fact, started.

As an alternative to the introduction of user charges,



the exponents of micropolitics developed the idea of inviting private businesses to bid for the provision of public services. This is known as 'contracting out' services into the private sector. The process involves the local authority retaining responsibility for the services, and continuing to pay for them out of public funds received from local and national sources. The difference is that instead of providing its own staff and labour force, the local government authority pays private firms to perform the services, having them bid against each other to secure the contracts.

Just as user charges proposed to take the finance into the private sector and leave production in public hands, the use of contractors involves transfer of the production to the private sector, while leaving the funding still public. It does not give members of the public individual control over consumption, as user charges are designed to do, nor does it give them any more choice between suppliers than either user charges or the municipal system. What it does do is generate competition between would-be suppliers.

Under contracting out, firms have to bid against each other for local service contracts. Thus competition is introduced, and the suppliers have to keep down the cost of the service and keep up its quality. Failure to do these will result in the contract going to other firms. Typically, the contracts are for a small number of years, perhaps three, depending on the type of service. The businesses which submit tenders have to keep efficient, and remain abreast of up-to-date technology and service techniques. Any which fail to do so will find the contracts going to firms which do keep competitive.

The result is that most of the features of public sector supply are removed. The inefficiency, the overmanning, and the capital shortage are all far less common in the private sector, for the very simple reason that firms which permit such practices lose business to those

which do not. Producer capture is very much more difficult in the private sector because of the possibility of business being won by firms which satisfy the consumers instead, and because of the consequent risk of bankruptcy.

The result is a service for the community provided at less cost. The savings achieved by contracting out local services are found normally to lie in the range between 20 and 40 per cent, depending on the service and the country. In Britain the early savings were calculated by the Institute for Fiscal Studies to have averaged 22 per cent. This is probably an underestimate because savings are not usually as high in the first year of contracting out. The figures represent the difference between the cost of the municipal supply and the price of a private replacement for it which includes the profit of the firm and the taxes it has to pay.

There is thus a gain to be had by legislators short of the funds to do all they would like to do, and a public which does not like to pay more than necessary. Contracting out has the potential to offer a benefit if it can be implemented in a way which meets the requirements of the political market. This is by no means an easy task, and requires policies to achieve it to be constructed on the base of public choice analysis. The different interest groups must all be taken into consideration.

The public is concerned about the quality of the service which it receives. Any move towards the use of contractors must therefore aim to achieve at least as high a service quality. This can be accomplished by means of a tightly-drawn contract with penalty clauses specified and performance bonds posted. There is also public concern to have its wants considered, and many firms take care to initiate market research when they win local authority contracts, in order to keep apprised of public demand.



The local bureaucracy is at risk of losing position and reward if its responsibilities move out to the private sector. This makes it especially important for councils which contract out to move their managerial staff up to the work of contract monitoring and enforcement. This creates opportunities for higher grade work to replace the responsibilities lost.

The labour force employed by the council is most at risk, and can offer fierce opposition to the introduction of contracting out of work. This is why councils often specify that their own displaced workforce shall have the first opportunity to apply for the new jobs created in the private sector. Many councils also neutralize potential opposition from their direct labour force by a policy of no forced job losses. They make it a policy to reabsorb their displaced workers elsewhere within their establishment, letting them take up vacancies which would otherwise be filled from the outside. Yet another policy is to offer voluntary redundancy at terms sufficiently generous to induce enough workers to take them up on a voluntary basis.

The union leaders are the most difficult to deal with because there is little the council can offer them to compare with the power they enjoyed over a producer-dominated service. In general the offers and conditions to the employees must be sufficiently attractive to go over the heads of the union leadership and seek support directly from their members.

The practical experience of using contractors for local services in Britain is that they will provide the service with perhaps 10–15 per cent less manpower. Those who are displaced can be reabsorbed and sometimes retrained. Workers who take jobs with the new firm find the jobs upgraded in skill, and more opportunities for promotion. Job security is lower in the private sector, and pension benefits are not as high, largely because no private firm can afford the index-linked pensions

provided in the state sector. On the other hand, take-home pay is as good, and so are other fringe benefits. The workforce is not worked harder, but used more productively, and many have spoken well of the transition.

While the saving in costs might be very important to hard-pressed legislators, too much should not be made of its appeal to the public. Other things being equal, they prefer the lower costs and taxes which contracting out brings, but they perceive the service more directly than they appreciate the costs it imposes. This is why quality control is essential to successful contracting out. If a new and attentive service can be introduced, consumers will prefer it to the often shoddy and arrogant service which resulted from producer capture in the public sector.

This, in turn, requires the application of several detailed techniques. Many councils use pre-qualification of tenders, going through the list of bids to winnow out those incapable of attaining the required standards. The final selection is made from the list of those who are deemed sufficiently competent and experienced. Many seek professional help in drawing up contracts, and nearly all require performance bonds to be posted so that if the firm defaults or goes bankrupt, the service is safeguarded. A further device uses cash fines in the event of work not meeting the required standard, something which no council has achieved from its in-house services. The possibility for corruption in the award of contracts exists, of course, but to a far lesser extent when the bidding process takes place publicly than existed before with a municipal service largely hidden from public scrutiny.

The methods of micropolitics show clearly through the process. An analysis identifies all of the groups in the political market in question, and traces the perceived benefit they receive. A policy is then constructed to offer



as many of them as possible a bigger gain from the new method than they enjoyed before. All possible objections are anticipated, and the policy is structured so that most of them can be dealt with in advance. The result is a policy which succeeds, and whose success promotes the confidence in it to have it applied elsewhere.

Contracting out of local services is not the free market solution. It is a success, in that it brings better services at less cost. It achieves some free market goals in that it removes production from the public sector and replaces it by private sector activity and enterprise. It introduces competition in both service quality and price, and encourages innovation and efficiency. Advocates of a macropolitical approach would, and do, criticize it on the grounds that it does not go far enough. They point out that a true free market situation would have the individuals within a local government area making the decisions about which business to employ for their services, and how much service they wanted. This is a just criticism, in that the use of private contractors does not achieve a totally free market. The finance is still provided collectively, without the possibility for individual choice. The problem is that public choice analysis suggests that the attempt to achieve a totally free market will fail because of the pressures of the interest groups involved, whereas the attempt to introduce contractors can succeed. While the advocates of a total solution were still attempting to win the battle for ideas, the micropoliticians meanwhile managed to take the use of private contractors to such a stage of success that the British government felt confident of enough support to mandate local authorities to seek outside bids.

The contrast between the solution developed by micropolitics and the alternatives supplied from the conventional paradigm, notably the introduction of user charges, shows how very much the former is involved in the practical world. Its concern with bringing the idea to

reality through the political market shows itself in the detail which it devotes to the development of techniques which can circumvent possible obstacles. It does not seek to apply a blanket solution, but to tailor-make a policy for each situation it encounters. It often succeeds because the policies fit better when they are tailor-made.

The field of public education in Britain affords yet another area in which public sector supply has induced serious problems. Some 93 per cent of British children depend on the state sector and none other for their primary and secondary education. There is a theoretical alternative in the shape of the fee-paying schools, but since all have to pay through taxes for the state system, only the minority who can afford to pay twice over have effective access to private schools. The fee-paying schools are regarded as expensive, though their fees correspond roughly with the costs of state education, by the time that administrative overheads at national and local level have been included.

Most parents have had no effective choice within the state sector of education. Their child is allocated a place at the nearest state comprehensive school, and while there was added a possible alternative choice of schools, this could be prevented by a local authority citing 'the interests of education' as its reason. Many of the problems of public supply made themselves evident. Parents were dissatisfied with the quality of education, and saw decline in standards met not by a determination to improve, but by the attempt to prevent measurement.

Many of the characteristics of producer capture were evident. The quality of the service was judged by inputs, rather than outputs. Thus the attainment of the children did not count, but class size and ostensible level of teacher qualification did count. The cost and size of the administrative establishment grew huge as a share of the total supply. Attempted cost savings did not hit wastage,



but bit instead into capital and equipment, and into essential services.

Parents were forced to pay through taxation a sum they could not control for an education in which they had no choice and no opportunity to exercise their preferences. For a high cost they received a poor service. Uniformity prevailed instead of variety and choice, and the educational priorities were decided by the producers rather than the consumers. These priorities included what many parents saw as political indoctrination rather than education.

To restore market pressures to education and give space for input by consumers presented a problem for policy-makers. People were used to the system of education free at point of consumption, yet were dissatisfied with its product. One set of solutions turned to the private schools, and sought ways of making it easier for ordinary parents to have access to them, and for an increase in the numbers of children they taught.

Among suggested policies was the idea of making school fees deductible against tax, thereby lowering the in real terms, and giving more people access to fee-paying schools. A similar variant proposed giving a rebate on taxation to those who opted out of state education by choosing a private school. The theory behind this was that such parents were saving the state the cost of educating their child, so perhaps a small incentive would encourage more to do so. If the rebates were finely judged, the state could save more by not having to educate the children than the cost of the rebates from taxation.

All of the proposals which centred on the private sector of education suffered from the fundamental weakness that the numbers who stood to gain from its expansion were too small. The evidence suggests that there is a lobby from the middle classes which would

like access to private schooling to be easier financially. Polls indicate no strong resentment from the majority of parents; they seem to favour allowing choice to those who can afford it. Thus it might be politically possible to increase access to private schools. The trouble is that even if private school places were to double, this unlikely event would still leave 86 per cent of parents trapped in the state sector. Reform, for most parents, must mean improvement of the state sector.

Advocates of free market solutions have long supported the idea of education vouchers. Instead of giving parents a free place at a state school, under a voucher system they would instead receive a voucher equal to the value of that place, and would be free to spend it at the school of their choice. The voucher takes the place of cash. Instead of receiving money back from the state and having to spend it on schooling, the parents receive a piece of paper which works like cash with the important proviso that it cannot be diverted for other uses. The voucher scheme thus deals with the possible objection that if parents had to pay the cash themselves, they might spend it on gambling or drink instead.

The voucher scheme is by no means designed to bring about a full free market situation. There are still subsidies and transfers, in that taxpayers who are not parents continue to pay taxes and do not receive vouchers; so non parents support parents. Moreover the amount of the voucher specifies a minimum sum to be spent on education, denying parents the choice of going below that sum. It is possible that a black market might develop in vouchers, with illegal trade for cash taking place, so that parents would have such a choice in practice; but this would be in defiance of the voucher law, not a result of it.

The aim of the voucher scheme is to introduce market pressure. By choosing where to spend their vouchers, parents would be choosing the types of school they



wished to proliferate. Unpopular schools would not receive enough voucher income to pay their way, and would face contraction and possible closure. Popular schools, by attracting extra demand, would gain additional voucher income to enable them to expand. They would, moreover, serve as a model to the other schools. Gradually, education would take the form which parents wanted for their children. It would slip out of the hands of the producers, and under the control of consumers expressed by their choices.

There are several variants of the voucher scheme, but most allow parents to add to the value of the voucher in order to purchase a place at a more expensive school. This implies that parents can choose private schools if they wish, making up any difference between their fees and the value of the voucher. It also implies that some state schools will choose to offer an education which is more expensive than that offered by others. The net effect is to bring more money into education, and to bring its output ever more into line with what parents want and are prepared to spend vouchers and cash upon.

The voucher scheme has many attractive features and would, if it could be achieved, be a vast improvement on the effective state monopoly of education. Unfortunately, the evidence suggests that the voucher scheme cannot be introduced. Despite its undoubted economic strengths it has political weaknesses which tell heavily against it. In its modern form it has been discussed at various times for over sixty years. It has been seriously investigated by Conservative governments in Britain, but never introduced. Even the combination which saw strong supporters as Secretary of State and junior minister at the Education Department was insufficient to bring it into practice.

In the first place, there is very strong opposition from those engaged as producers of education. Teachers'

organizations resist it, not wishing their members to be exposed to market forces. Ministry bureaucrats are fanatical in their opposition, recognizing correctly that it would transfer power over education to parents. The parents themselves are easily alarmed at the prospect of losing the free place at the local school. They fear that they would have to pay large extra amounts to secure a decent education.

The voucher system cannot really be introduced gradually. Despite talk of experimental schemes, it would have to cover all of the schools within a very large area to be effective and to allow for real variety and choice. It would be prone to sabotage by those determined not to lose control over education. It is a holistic scheme, which makes its changes all at once. Parents would find pieces of paper arriving through the mail in place of their free school place. Schools, as well as the parents, would suddenly face uncertainty. It is easy to characterize it as some theoretical scheme, never properly tested, which would put the education of children at risk. Governments have tried to push voucher schemes through, but always have had to retreat in the face of political pressures exerted by interest groups.

An alternative proposal, owing a great deal to micropolitics and its style of policy formulation, proposes three separate reforms, each of which can be justified independently, but which together constitute a new system. Firstly it suggests that parents should have an effective choice, and proposes complete open entry within the state system, so that a child can be sent to any school which will accept it.

This policy is calculated to be popular with parents. Many of them are trapped by location into the catchment area of a bad school. Choice of school would enable them to escape. This choice in the absence of open entry is limited to those who can afford to move house into



the catchment area of a good school. Indeed, it is not unknown to have a premium of several thousand pounds for houses on the side of the street in the good school area, compared with identical ones opposite them. The policy of open entry still leaves parents to cope with problems of transport to and from school, and would see good schools heavily over-subscribed and unable to accept many of their applicants. However, it represents an improvement, and is a popular one.

The second leg of the reform is a policy of making schools much more independent in operation. The board of each school, strongly representing parents by means of a ballot, would acquire control over school policy. It would have power to hire the headteacher, and to give the headteacher powers to hire and fire staff with the board's approval. The school would determine its own policy towards discipline and academic emphasis, subject to inspection of the achievement of its students in a core curriculum.

With such a reform, schools would show much more variety, putting alternative approaches to education into practice. This, in turn, would give reality to the choice between schools. This policy is popular with parents, who like the idea of being able to influence the school's approach. It gets a mixed response from teachers, with headteachers broadly in favour because of the increased status and responsibility it gives them, and other teachers being more divided. Some recognize opportunities for advancement and increased earning, others see job security threatened. Guarantees over terms of employment and grounds for dismissal might do much to assuage such uncertainties.

The third part of the change calls for direct funding of schools on the basis of the number of children enrolled. The present system funds them out of taxation through the administration of the local authority education committee. The reform would cut the local bureaucracy

out of the picture, permitting schools to opt out of local authority control, and allowing schools funds direct from the centre according to enrolment. Of course, this incurs the hostility of the local education committees, but these are very small, and have little to trade in the political market. There is more support from the central bureaucracy, which perhaps sees more openings for its members in the administration of such a scheme, and sees no potential job losses or drop in status for them.

It is proposed that the funding by numbers should be based on the cost of the education for each age group, and might have exceptions to allow a higher rate for inner city schools with language problems, and for isolated village schools with less economies of scale. Two groups who might have felt threatened by the move over to direct funding are thus taken care of. Parents as a whole have nothing to lose by direct funding of schools, and gain the saving which results by eliminating an entire layer of administration, leaving more available to be spent on actual education.

Once all three legs of the proposed reform are in place, it will be evident that their combined effect is to establish a market in education. Because schools are then controlled by their governing boards, they pursue a variety of different educational priorities and vary in quality and type of education. Because parents have open entry, they choose for their children the type of education they prefer. Because schools are directly funded according to the numbers enrolled, schools which attract extra demand gain extra funding. The schools which are unpopular with parents either make changes or face closure.

One great advantage of this micropolitical reform is that each of its steps can be supported independently by different groups, yet the combined effect of them produces the change. No sudden change is forced upon parents against their will, in that for those who want



nothing more than the free place at the local school, this is still available. Choice is there for those who want it; no one is forced into it. Of course, as the system developed, increasing numbers of parents would take advantage of what it offered. Extra techniques have to be incorporated into the new system to allow for the establishment of new state schools where there is demand for them, and to attract additional sources of finance from the private sector.

This policy does not produce a total market situation. Indeed, it does so less than the voucher scheme, in that it is concerned only with the state schools. It leaves the fee-paying schools as they are, unaltered by the new system, and not participating in it. It is aimed straight at the state system on which 93 per cent depend, and aims to improve it by transferring power from producers to consumers. The schools are still state schools, still funded out of tax revenues for the most part. New schools founded by parents and teachers are also still state schools, attracting the direct funds from the centre.

Despite these shortcomings, the new system offers major changes. The state schools become independently run, even though they stay in the public sector. Parents have choices which determine where the funds should go to pay for their child's education. Schools must respond to demand in order to attract the enrolment on which their budgets depend. The clear boundary which exists under the old system between the state sector and the private schools blurs a little under the new system. Forces and pressures are set in motion whose effect is to bring gradual improvement in standards of education achieved within the state sector. They are brought in by means of reforms calculated to command the support of some of the groups which have a direct interest in state education.

There are key differences between the voucher

scheme and the new approach. One of them is that the new policy does not involve the use of vouchers. The money follows the child as its parents make choices between a variety of schools. Another difference is that the alternative proposal represents practical politics, working with the grain of the political market. It is capable of being brought in by stages, and of developing gradually into a system of education which shows more flexibility, more variety, and more responsiveness to the wants and needs of parents. It may not be perfect, but it is a viable solution to the problem. And it is significant that, whereas the voucher system was rejected for years, the new system was in the Conservative election manifesto of 1987, its elements introduced in the Queen's Speech following the Conservative win, and similar proposals outlined for Scotland a few months later.



# 10 Practical Details

Although the programmes of the Conservative governments of 1970 and 1979 in Britain were very similar, the practical details of their policies were very different. It could be claimed that the later government has knowledge of the failures of the earlier one; but this would only have told it what not to do. The cause of failure could easily have been attributed to lack of will, to inappropriate times, or to lack of relevance to the modern world.

A major feature of the intervening years between the two governments was the rise to prominence of the public choice school and its description of how political markets operate. That analysis formed the starting-point for several organizations committed to innovative policy research. They developed new ideas which were not available to the first government, but which were beginning to circulate by the time the second one took office.

The change in thinking is best exemplified by a comparison of the approach to several key issues, showing how drastically it moved over the period from the late 1960s to the late 1970s. The early attitude was one of determination to put the slide to socialism into reverse by imposing conservative alternatives, even though this meant incurring major hostility from the

groups which stood to lose. By the end of the period it had changed to a search for new techniques which could be implemented in practice by giving people more gain from them than they had enjoyed previously.

The attitude to state housing illustrates the point. Some 35 per cent of the population lived in publicly-owned homes, usually at highly subsidized rents, and in places with maintenance costs which were higher than revenues. The average income of the council tenants, as most of them were, was higher than that of people living in privately rented accommodation. There seemed to Conservatives to be an obvious unfairness in requiring those who were buying their homes to pay higher rates and taxes so that others could be given cheap rents.

Conservative candidates in local as well as in national elections had advocated bringing rents up to economic levels, but found the average council tenant on the whole seemed to prefer subsidized rents to economic ones. The result was that the council estates formed a vast block of opposition to reform of the housing system despite its constricting effect on the supply of houses and the very adverse effect it had upon mobility. People were reluctant to move for fear of losing their coveted position on the waiting-list for a subsidized public rental property.

As with so many other cases of minority benefit, those in receipt of it valued it more highly than the others resented paying for it. The bureaucracy of local government had built empires on the administration of council housing. Local councillors had carefully built majorities out of it over the years. The vested interests were locked into the prevailing system, and proposed reform would always arouse their hostility.

The new policy did not abandon the idea of economic rent, but it placed its emphasis on giving



council tenants the right to buy their homes. While council tenants liked subsidies, many of them liked even more the idea of becoming home-owners. To foster their support, the policy provided for sale below market valuation. If they had lived in the house for two years, then a 20 per cent discount was given off the market value. This rose to a maximum of 50 per cent off to those who had lived there for twenty years. Attractive though subsidized rents were, the prospect of owning their own home and collecting a capital gain of several thousand pounds proved more attractive to many council tenants.

A new offer had appeared in the political market, and support of some groups shifted accordingly. The new offer was worth more to some than the subsidies had been. Pressure was now felt by local councils to sell homes to tenants. Some resisted and deliberately tried to obstruct the policy, but support was sufficiently high for the government to introduce a 'right to buy' which compelled local authorities to sell if tenants asked. The discounts were increased first to 60 per cent then to 70 per cent maximum off market price.

By September 1986, over one million of the five million tenants had already bought their homes, and legislation was underway to encourage those who rented council flats to do likewise. The new group of home-owners already formed a powerful new force in the political market. The Labour Party, which had all along been opposed to the sales, acknowledged this fact by doing an about-turn. It not only rejected the idea of taking back the homes into state ownership, it pledged itself to continue with the policy of discounted sales.

Council officials saw their empires crumble, while elected local councillors saw their captives slipping away. The pressure of the interest group was too large. The government was working with the political market this time, by offering them more. The transfer of power

and property which this accomplished was huge. The value of the houses sold was in excess of £10 billion, after discounts had been given. Between 1979 and 1986, one-fifth of all tenants of the state had chosen to buy their homes. Meanwhile, the policy research had turned to finding new ways of increasing the number who could be persuaded to buy in the future.

The difference between the two approaches illustrates starkly the distinction between trying to impose an economic market by an act of will, and attempting to introduce more market characteristics by means of policies which recognize and work within a political marketplace. The old approach tried to override the interests of the council tenants by removing the subsidy advantage which they had long enjoyed. The new method sought to offer an exchange with something of greater value. The result was that the opposition to the first approach turned into enthusiastic support for the newer one. Not only were large numbers of homes brought into the private sector and subjected there to real prices and maintenance costs, but substantial political support was gained in addition.

The private rental sector in Britain has been reduced to only a few per cent of the total number of homes. The reason, quite apart from the competition of subsidized council houses, has been the twin policies of rent control and security of tenure. There is an active market in high prices business rentals, where neither of the policies operates because the lessee is a corporate entity and not a person. Individuals and families in private rented property have proved to be an effective interest group, more numerous than the landlords, and more suitable material for the activities of the charitable organizations and lobbyists.

The result has been that benefits have been awarded to tenants at the expense not only of landlords, but of future tenants as well. The effect of the policies has



been to dry up almost completely the supply of new rental properties. Future tenants form no more an effective interest group than do landlords. Just as landlords are few in number, so future tenants do not perceive their loss.

Rents have been fixed by law below the market value, and owners have been denied the ability to reclaim their property, even when they wished to live in it, or in cases of major payment default. Since tenants are allowed to take possession of someone else's home, and live in it at less than its economic worth, sometimes at less than it costs to maintain it, it is difficult to see how this differs from theft, except for the obvious difference that it is not against the law. People who perhaps inherited an extra home from their parents are unable to let it out for fear that it might be lost to its 'tenants.'

Given the need for a healthy private rental sector, Conservative governments have tried to make headway with the repeal of rent controls and security of tenure. The mere mention of the idea has always brought outraged reaction not only from tenants, but more effectively from those whose livelihood derives from representing them, or whose ideology opposes private property. It has always provided the cue for demonstrations and media stories about the hardship it will cause to tenants. The hardship of landlords does not feature because they are typecast into the role of the rich who exploit the homeless desperation of the poor. If there were to be a patron saint of landlords, Ebenezer Scrooge would be a good candidate in the eyes of the media. The proposals have never managed to proceed very far in consequence.

A free market in private rentals would bring more property onto the market, and probably lead to the stabilization of prices and a greatly increased supply of property. Unfortunately, as with so many other cases, the ideal and fair solution is unobtainable by con-



ventional means because of political obstacles. The groups who have advantages will fight more hard to keep them than the others will to remove them.

The solutions suggested by micropolitics are certainly not fair. They centre on protecting the advantage of the current generation of tenants, but permitting new leases to be offered outside the scope of rent control and security of tenure. The thinking is that the current tenants will have no reason to oppose the move, since their own advantage is not threatened. On the other hand, a situation will have been created in which all new tenancies would be free from the restrictions. As the current tenants moved out or died, the properties they occupied would be relet with market leases. Some might even be bought out with cash sums. The numbers in protected tenancies would diminish over time until all rentals were in the free market.

The result would not be fair to current landlords, any more than the present system is fair, but it would at least diminish the unfairness steadily over time. It has the hallmark of practical politics because it is tailor-made to neutralize the opposition of the group whose opposition might thwart it. The lobbyists would still oppose it, but they are small in number, like landlords. In the absence of troops of tenants to march behind their banners and feature in television horror stories, they are ineffective.

A further suggestion emerging from this type of approach has been that there should be separate classes of landlords, each subject to different degrees of control. For example, the small landlord who lets one or two properties for a time is in a very different class from the professional landlord who commands many properties to draw income from. Similarly, the institutional landlord, such as the Church of England or a large property agency, is not in the same league as the individual who lets out a few homes. Once more the aim of such



subdivision is to introduce some elements of free market renting, even if it cannot be applied to private rentals as a whole.

The analysis is that some of the groups command more influence than others do. This is not necessarily related only to numbers; it might be the visibility or the capacity to cause trouble which makes them influential. In this context eviction has an emotional pull difficult to deal with. The sight of people being put out of homes they cannot afford to rent is a distressing one. Few people in politics would want it blamed on them, and business agencies which might otherwise go into property rentals to individuals do not do so because of the damage which evictions might do to their reputation and standing.

One answer might be found in short-term leases, where the owner is guaranteed to receive vacant possession after they expire. New leases can then be negotiated. The short-term lease does not lead to the same images of a family being evicted from its lifelong home, with the rapacity of a greedy landlord to blame. Variants of some of these ideas have been tried, and more being evaluated. The idea which underlies them is very different from that which sought to introduce a full free market, ride the storm to push the idea through, and assure the legislators that the fuss would die down eventually. It seeks instead to circumvent the hostility of the groups involved by ensuring that the policies are such as will not place them under threat.

The changes in policy style which the micropolitical approach has brought are evident when it comes to the methods used with those parts of state industries which make losses. When mounting losses turn the attention of government towards individual factories or plants which account for a disproportionate share of the deficit, the threat of closure provokes a predictable response. The workforce demonstrates volubly, perhaps



threatening strike action. In extreme cases it might occupy the threatened plant. The elected representatives of the area put pressure on the government, which feels by this time much opposition and few supporters. As always, those with the benefit fight hardest.

Governments in the past have often retreated under fire, withdrawing the threatened closure, taking less political damage by continuing the subsidy than by going through with the policy of ending it. More recently there has been a change in approach. Now the effort is made to secure the acquiescence of the workforce. The union leaders and shop stewards still resist, but by making very generous redundancy offers, or providing relocation grants, the government makes the proposal more acceptable to the workers.

In place of the subsidized job is offered a cash sum sufficient to enable some to start up in business; for older workers it might provide the basis for an early retirement, using a combination of state benefits and capital to live off. The threat to the benefit of the job in one location is balanced sometimes by the offer of an alternative job in another. Every effort is made to minimize the number of actual job losses, the reckoning being that this is the most sensitive area of the political market, the one where trade-offs have to be made.

The combination of generous redundancy terms, relocation offers sometimes combined with retraining, and the offer of alternative jobs elsewhere in the company, all defuse the resistance which is encountered. The result is that the closure of some parts of loss-making activities is now possible. The exercise might cost more in the short term than forcing through simple closure, but when it has been achieved successfully there is a long-term saving not available where closure is thwarted by the potential losers.

The reform of the laws governing the trade union movement and its activities provide a classic case



illustrating the difference of approach which separates the two styles. It had been appreciated by previous governments, both Labour and Conservative, that laws which might have been intended to protect trade unions had given them too many powers and immunities. Fears that this power would destroy the economy and society if left unchecked led Harold Wilson when Labour Prime Minister, and Edward Heath when Conservative Prime Minister, to attempt legal reforms to bring them within the law. Both failed. The Labour proposal had to be withdrawn ignominiously, and the Conservative law was rendered inoperable by mass resistance, and was immediately repealed by the next government.

The Thatcher administration brought in a series of labour reforms which transformed the climate of industrial relations and trade union activities in Britain. It apparently succeeded in achieving what its predecessors had failed to bring about. In fact what it did do was to achieve something different.

The two attempts which failed both tried, for the most part, to take away the powers enjoyed by trade unions and their members. A feature of both of them was to have been new curbs on activities and new restrictions, both backed by the sanction of law. Certain classes of industrial action, previously permitted, were now to be made illegal. Union leaders and members who defied the new law were to face heavy fines, failure to pay which could lead to them being imprisoned. In each case the reform was to be brought about by a major Act of Parliament.

The Wilson proposal was withdrawn in cabinet, after it became apparent that hostility from unions, their cabinet supporters and union-sponsored MPs would be too great. The Heath proposal became law but was defied successfully, with the government backing down from major confrontation by not implementing it. The



two proposed reforms both united the trade union movement against them. The union leaders urged resistance, and the members rallied behind them to defend what they perceived to be their rights. The unions in Britain had increasingly enjoyed the advantage of legal protection and immunity unique in law. Things could be done in the course of industrial disputes which would be regarded outside them as illegal, even criminal. Naturally enough, the threatened group defended its benefit, and did so successfully.

The Thatcher reforms were very different. In the first place they came in a series of Acts of Parliament. The first one, introduced by James Prior, the Employment Secretary, was believed by many to be all there would be. Indeed, even he may have believed it until Conservative backbench opinion forced a further one. Each measure seemed very limited, perhaps calculated to fall short of anything which would arouse a major outcry. Each seemed relatively mild; it was the cumulative effect which added up to real reform. Thus, with no individual Act to focus all of the resistance, the notion was accepted that there would be a continuing series of reforms until sufficient had been achieved.

The second major point of difference is that most of the Thatcher reforms did not take away the power of the unions. In the place of giving government powers over the unions, the reforms for the most part gave the members power over their leaders. Rather than taking away the powers, most of the measures redistributed them so that the members had to be consulted. Ordinary members, long used to seeing militant leadership take action, and later seek backing at works meetings by the intimidatory show of hands vote, now found that the new laws brought in their opinion much earlier by secret ballot. They acquired the right to elect their leaders in a similar fashion. In other words, the very forces that worked previously for the militants



were now used to give power to the ordinary members.

Yet another central difference is that the most significant of the Thatcher reforms were features of civil rather than criminal law. That is, if certain provisions were not complied with, those engaged in the activity were not subject to criminal prosecution, but to civil action. If the premises of firms other than those in the dispute were picketed, the firms so abused could sue in civil courts, seeking injunctions and perhaps damages. If strikes were called without a ballot of members, the action was excluded from the legal immunities which applied to trade disputes.

These were three crucial differences: the reforms came little by little, they devolved power down from the leaders to the members, and none of the major reforms exposed union leaders or members to criminal prosecution. In these three significant differences lie the reasons for the success of the Thatcher reforms, as opposed to the failure of the previous attempts.

It is not the case that the Thatcher reforms succeeded because they faced a union movement weakened by unemployment. No way has been suggested in which this alleged effect might have worked. If industrial action had led to workers being dismissed, or replaced by unemployed persons, there might be a case for the idea; but it was just as unthinkable then as earlier that any firm would have been allowed to get away with such tactics.

The Thatcher reforms succeeded because they took account of the interest groups affected, and took pains to avoid the very kind of direct confrontation which had defeated the earlier proposals. It was difficult for the militant leaders to rally their members in opposition because each measure was relatively mild. Each one was a small increment on the previous ones, not quite enough to generate outraged hostility. Furthermore, the members were hardly likely to rally against measures



which gave them more powers. The union leaders might object to being obliged to submit to a ballot by the members, but the membership was not likely to take the same attitude. The powers were not generally taken away by government, they were devolved downwards from the leaders to the members. Finally, there was no confrontation with criminal law, no spectre of union leaders or militants being led off as martyrs to prison cells. There were none of the opportunities by which union leaders might have evoked the familiar loyalties of their members in mass defiance of the new laws.

The reforms succeeded where others had failed because they were the products of a new style of politics, of a new approach to the formulation of policy. They took account of the realities of the forces which operate in political life, instead of treating it as an empty slate waiting to be written upon. The previous attempts had committed the fundamental mistake of macro-politics: they had looked at the prevailing situation and at the desired situation, and had taken no account of the ground in between. The new method picked out a careful pathway across that ground; it is one of its main characteristics that it does so.

The methods of dealing with the closure of loss-making operations in the state sector, and of introducing reforms into the field of labour relations both played a part in the 1984-85 strike in the coal mining industry. A strike by the miners' union had defeated the Heath government, after plunging the country into power cuts and a three-day work week. The strike which took place under the Thatcher government was a failure. The differences are revealing.

The second strike, although led by the president of the National Union of Mineworkers, was only a strike by part of that union. If it had taken place a few months later than it did, the new law would have required a ballot, and the union had twice voted down strike



action in pithead ballots. Because it was called without a ballot, sections of the union, particularly the Nottinghamshire miners, felt justified in not joining it. The new laws which covered the picketing of secondary firms made it more difficult for the other unions to be forced to help. Firms were able to go to court for injunctions, and the miners' union was found guilty of contempt of court for disobeying them. Its funds were seized for non payment of fines, not to be released until the leaders undertook to comply.

The new climate of industrial relations which the reforms brought in made it difficult at every turn, even for the union with the reputation as the strongest and the most militant. Even the fight itself was blurred as to the central issues. It was claimed by the leaders as a battle to save jobs, and to prevent pit closures by the Coal Board. Yet the proposals guaranteed that not a single miner would be forced out of a job. All men displaced from pits due for closure were promised jobs in other pits, with generous relocation grants. The most generous voluntary redundancy payment in British history was offered to miners who chose to retire. As there were no forced job losses, and huge cash sums for miners who chose to quit instead of taking a job at another pit, there was some confusion as to the issue at stake. It boiled down to a fight over the future size of the industry, a factor of interest to the union, but hardly a crucial issue for the present workers.

The strike was a failure, unlike its predecessor, and resulted in the break-up of the miners' union. A major factor which enabled the strike to be defeated was the new approach to job losses, and the new way in which labour reforms had been brought in. Whereas the government of Edward Heath had used the head-on confrontation approach on both issues and had lost, the government in power a decade later used policies which assuaged the interest groups and offered trade-offs to



compensate them for any benefits threatened by the changes.

The experience of the trade unions under the Thatcher government brings out a very important point about micropolitics. It is that the leaders of interest groups and minorities do not necessarily represent the views of their members. This can be true even when they are democratically elected by a fair ballot. When political activity is confrontational, with groups fighting to secure their advantage, it is in their interest to select leaders who are good at this type of activity. They will often tend to choose leaders who are more militant and more aggressive than the membership as a whole; that is why they are good leaders. Society will find its groups strident, demanding and ready to use force at the start of a dispute. This is a reflection of the type of leaders chosen in such a climate; the trade union leadership has provided a good illustration of this effect.

When policy is formulated to take account of political markets it becomes less confrontational. Benefits are not taken away without anything being offered in return; instead they are traded. There is less need for aggressive leadership. Indeed, the members of an interest group may often perceive a clear conflict between their own benefit and that of their leaders. The latter may have risen to prominence by their ability to fight, and may seek to justify their position by fighting, but their members may gain more by trading benefits than by militant action.

A repeated pattern under the Thatcher administration has seen the management make an offer which was rejected out of hand by union leaders. When the required ballot to decide on industrial action has been conducted, the members of the union have rebuffed their leaders by voting against a strike. The experience with the trade unions illustrates the general point that



leaders of minorities and interest groups do not necessarily represent them. This means that policies must be tailored to the members, rather than to the leaders. Militant leaders always howl for more benefit and rarely admit that any offer is more than a pittance; that is their job. Their members, on the other hand, might be quite happy to trade what is offered. In practice this can produce situations in which the leaders of minority groups can be hurling angry rhetoric and abuse, while the minorities themselves are quietly accepting the status quo of the new political market. The events are more important than the words which accompany them.

# 11 Privatization

The word as well as the idea of privatization were comparatively latecomers to the Thatcher administration. The 1979 manifesto on which the election was fought had made reference to the sale of the aerospace and shipbuilding industries, as well as the National Freight Corporation, but with no indication that this was to be more than the 'denationalization' long advocated as a goal of Conservative policy, but rarely achieved. The 1976 publication by the Conservative Party, *The Right Approach*, had stated that 'in some cases it may also be appropriate to sell back to private enterprise assets or activities where willing buyers can be found.' The key word is 'back', indicating an intent to undo some of what years of nationalization had done, even if only a small amount.

Privatization as achieved in practice has been vastly different from the token sales of a small brewery and a travel agency which took place in the 1970-74 administration, or even the return of parts of the steel industry to the private sector in the 1951-55 administration. Both of these were cases of denationalization, a term which implies the undoing of something done previously. The word privatization has gained currency since the 1979 government took office because of a general recognition that it is something new. It does not revert to previous



circumstances, but achieves a new state of affairs instead.

In no cases since 1979 have parts of the state sector been handed back to previous owners. In every case of privatization they have found their way into new hands in the private sector, new hands which have in many cases differed a great deal from those of the previous owners. The policy of privatization is a new one, owing much to the type of policy analysis which took place during the period when the Conservatives were out of office.

Although it is commonly thought of as no more than the sale of state assets, it is in reality a more complex series of policies designed to have performed in the private sector activities which have hitherto been done in the state sector of the economy. There is no simple formula or recipe for doing this. On the contrary, a great variety of different techniques has been developed, each of which has been designed to deal with a particular state operation or activity.

A considerable degree of the expertise which is now possessed in methods of privatization has been learned in practice. Government has learned in office which methods work and which do not. It has learned how to handle the various interest groups involved, and to secure support, or at least acquiescence, from powerful groups which could have thwarted the attempt. While the general outlines of this approach were understood in theory by the policy research organizations which started out from the public choice critique of conventional politics, the details were filled in gradually by experience.

This learning process is illustrated vividly by the contrast seen in the failure to sell the gas showrooms in 1981-82, and the huge success gained with the privatization of British Gas in 1986. The differences in technique show the increased sophistication of the



approach used five years later. The first venture had involved an attempt to separate the profitable gas showrooms from the rest of the industry, and sell it to private buyers. It seemed reasonable on the face of it, since the showrooms were not an integral part of the production and sale of gas, but merely high street stores from which gas appliances were sold and maintained.

It incurred the immediate wrath of the industry's management. Sir Dennis Rookes, chairman of the state industry, led a determined lobby to keep his empire in one piece, with the support of the entire management team. The workforce threatened strike action, rather than see the gas showrooms taken out of the industry and sold off to private business. Scare stories were spread about the 'cowboys' who would come into the market for quick profits, with insufficient regard for safety. The general public showed concern at the prospect of losing its gas showrooms and having dangerous appliances fitted. Legislators felt the mounting pressure of the opposition, and the government sensed the support of backbenchers wilting under the campaign. The proposal was withdrawn, having managed to alienate the bureaucracy and management, the workers, the public gas users and the legislators.

The contrast between this débâcle and the 1986 public flotation of British Gas could hardly be more marked. The privatization of 1986 enjoyed the support of all major groups involved, and was a major success for the government. The difference was to be found in the realm of policy: much had been learned during the five years which separated the two attempts.

The management had objected strongly to the break-up which the first proposal had involved. The second version kept the industry in one piece, and secured the support of the management. Even the dour Sir Dennis made public relations appearances to promote the privatization, albeit without actually smiling. The



support of an industry's privatization by its management board is an important element in success. The board has the capacity to do a great deal of damage, and to lower expectation about future performance, and hence the price obtained by the sale. It also has effective lobby power in public debate, especially among those who are opposed to the private sector. The earlier attempt to break off and sell the gas showrooms had seen a vociferous and effective lobby conducted against it in Parliament. Keeping the industry intact offered a trade-off. The board liked the power and authority as heads of a major public enterprise, but liked even more the prospect of becoming the directors of a powerful, profitable and private corporation.

The workforce, which had threatened strike action and staged a token stoppage when the first proposal was made, supported the second one. Of the share issue, a substantial number was set aside for the gas workers. Everyone received a small free issue, and then had the right to reserve a larger number without having to ballot for them. With expectation about the sale and the subsequent value running high, over 90 per cent of the workforce bought shares in the new company. In this way they achieved two important objectives: they became part-owners of the company, with a personal stake in its future performance; and in addition they made a substantial capital gain on the sale, a gain which totalled several thousand pounds in some cases. Potential buyers are attracted to a company whose own workers buy shares in it; it is a sign that they will work with the company in future, rather than hold an antagonistic relationship with it.

The general gas using public, put in fear the first time by ideas about unqualified personnel and perhaps dangerous corner cutting in the private sector, took to the sale of British Gas in a big way. Gas users received a preferential share allocation if they chose to apply,



obtaining favourable treatment in any ballot for shares which an oversubscribed issue might necessitate. They were offered the alternative of vouchers toward gas bills, or a bonus share allocation, if they held on to their shares.

To encourage the maximum participation by the general public, the shares were offered on easy terms, with only 50 pence required to secure each share, and additional payments coming in later years. Finally, there was a complete media blitz of advertising for the public flotation, with sums counted in hundreds of millions going to pay for the promotion of the sale. The success was measured by the very large participation by first-time share-buyers, most of whom chose to hold on to the shares despite an initial premium of over 30 per cent.

The government and its supporters gained because the other groups did. A policy success reflected on them. In more detail, they now had more share-owners than ever before, over five million owners of British Gas shares to oppose subsequent nationalization by a hostile government, and the fruits of an advertising campaign which had advertised privatization and capitalism as well as gas shares. It was, as some observers remarked, 'the most expensive party political broadcast in history'.

There was an added bonus to government, in that the £5 billion of revenue it received from the sale became available for it to use in its current budget to relieve the pressure on spending, or to reduce taxation. Although this practice has been criticized, and still is, there are arguments to support it. There is no capital account in Britain, nor proper depreciation of it. Funds used to purchase from the private sector have to come from current spending; by the same token, funds obtained from sales can go there. A view of privatization as the squandering of 'precious national assets', is inaccurate.



They are no less national assets by being in the private sector; in fact privatization improves them.

The difference between the two privatization attempts can now be summarized. The first alienated the interest groups and failed, whereas the second offered them all trade-offs and succeeded. The lessons of the years which separated the two had been learned by experience. Policy required more than good intentions to make it a success. It needed in addition the technical accomplishment to let it satisfy the various groups involved in public enterprises, and to offer them trade-offs for their benefits which they would willingly accept.

Many of the lessons which were applied to the public flotation of British Gas were tried out on the sale two years earlier in 1984 of Telecom, the former public sector telephone and telecommunications industry. In no sense was this denationalization, since it had been in the public sector virtually from its inception, and had been part of the post office for most of that time. Telecom was the first major utility, as opposed to a state industry, to be privatized, and thus broke new ground.

Telecom was, when it was privatized, the largest company ever to be floated on the stock market, just as British Gas was to be two years later. At a valuation in excess of £3 billion, it doubled the rate at which British state sector industries were being sold into private hands. The pattern of making trade-offs to interest groups, familiar now since the sale of British Gas, was carried through with remorseless precision in the case of Telecom.

The management were allowed to take it complete into the private sector. Advocates of pure free market policies fought a rearguard action to have Telecom split up into competing companies, or at least broken into regional companies whose performance could then be compared. It did not seem to occur to them that while



this might be the ideal solution, it was not one which was possible. A fight to privatize Telecom in pieces was a fight for a policy that would fail. Telecom's management supported the privatization of the industry in the way it was proposed.

The workforce was instructed by the union leadership to oppose the move, and a campaign was mounted. Its logo showed a telephone cord being cut by shears, presumably the fate which awaited the service under capitalism. Against this, the management offered shares set aside for the Telecom workers, making them part-owners of the new firm, and giving them potential for capital gains if the value went up. In the event, some 96 per cent of the workforce took up their offered shares. Thus the labour force, which might have opposed the move, became part of the team.

The general public was allowed to buy the shares in instalments, with only 50 pence per share required as initial payment. People who became shareholders were offered the choice of a bonus share issue, or of reductions on their telephone bills. At flotation time, some two million people bought the shares, after a heavy oversubscription, and two-thirds of buyers chose to retain them, even though there was an immediate premium of nearly 100 per cent. Advertising on a very heavy scale was pioneered for the Telecom sale, and did bring the required response from the public.

Telecom was thus a test bed for the techniques to privatize a big public utility. Every single possible objection by any group was anticipated and dealt with wherever it was appropriate. Concern was raised that this vital strategic utility might pass into the hands of foreigners, so one golden share was built into the sale, to be retained by the British government, and to confer voting control in the event of attempted foreign takeover. It was argued that a private Telecom would not find it profitable to operate and maintain the rural



pay telephones, so a requirement to keep a set number was built into the law which privatized Telecom. It became a legal obligation upon the new company, and was a known liability, albeit a small one, to potential buyers.

Considerable doubt was raised about the effective monopoly which Telecom enjoyed, and fears were raised that it would abuse its position. The monopoly enjoyed in the public sector and the abuse of it were not raised in comparison. Two methods were used, in addition to the building in of preconditions into the act of Parliament. One of them used 'peripheral competition', under which Telecom, although not faced by a competitor of anything like its size and power, did have to meet smaller competitors in each of its markets. Thus it faced the Mercury link for business telecommunications. It faced Racal/Vodaphone for cellular radio. It faced competitors for the supply of equipment, for transmission of computer data, and for most of its activity. Each of them was small, but together they meant that Telecom risked losing its customers in many of its markets.

Also used was the device of an agency to oversee the industry and promote competition. Rather than follow the US path of regulatory agencies setting rules which limited entry, OFTEL was specifically charged with promoting competition. When Mercury applied to extend its services to private customers, OFTEL agreed, this falling within its brief.

The combination used to limit the abuse of monopoly power mixes legislative preconditions, peripheral competition and an agency to promote competition. It was tailor-made for Telecom, and would not necessarily be applied in the same form to other industries. There is a strong empirical streak in it, and a determination to use experience as a learning process. Fortunately, Parliament can always come back in the future if it does



not get it right at the first attempt. Discontent with the standard of service achieved by Telecom after privatization became pronounced in 1987, and led to proposals for change from OFTEL. Following criticism by both shareholders and customers, the chairman resigned in September 1987, and there was talk of new controls perhaps being needed if Telecom failed to perform better. The events illustrated the point that Parliament can always return to the task if it fails to get it right the first time. If the sale of Telecom had had to wait until a perfect system was devised, it would be waiting still.

There were charges over the Telecom sale that the government had sold it too cheaply. After all, a premium of 100 per cent made it look as though it could have fetched double. This is almost certainly incorrect. It was important to make the first utility flotation a success, and to have the shares taken up. It was also important to involve the general public, and to attract as many of them as possible as share buyers. This would spread the base of ownership and make nationalization by a subsequent government harder to do. All of this meant that a premium on the sale price was required. The offer price was difficult because no one knew what it might be worth. Many of the nationalized industries, including Telecom, had for years used accounts which would have brought laughter, if not criminal prosecution in the private sector.

It should be noted that the government did not try to ascertain the correct price for itself. It used financial experts from the City of London to do that, if it was wrong, part of the blame lay at their door. But it did not have to be right the first time. By selling just over 50 per cent of the company, the government retained the option of disposing of its residual shares at higher prices later on. It is usually the case that firms become more profitable and more efficient in the private sector, so the tactic of starting with just over 50 per cent and



unloading the rest in later tranches gives the government more for its later sales. This is the case with Telecom, as it has been with other sales.

A notable feature of the Telecom sale was the heavy involvement of private expertise. Over the privatization programme, a fact to emerge early on was that the process can itself be privatized. As more and more has been done, greater use has been made of firms from the City. They have supplied analysts, merchant banking, and the promotional skills required. Government has not bothered to learn how to sell companies; it has bought in the services of those who already know. These firms have themselves developed into an interest group which gains from privatization, and have instigated new proposals for it, both in Britain and abroad.

A small but important gain comes from the use of private firms to steer through the privatization package. It is that government and Parliament are thereby able to keep some distance back from the process. Once it is in the hands of the experts, it becomes their responsibility. This is not simply an excuse for government to pass the blame elsewhere if things go wrong; by appointing the firms concerned government takes overall responsibility. What the use of private expertise does is to keep legislators away from the fine details. It would not be desirable to have Parliament set the flotation date, the issue price and the number of shares. Nor would it be helpful if individual legislators felt pressure from their electors to seek special advantages for them when the details were being determined.

A look at the record on the pricing of public flotations shows how fraught with difficulties is the whole field. At the sale of Amersham International, a small radionics firm which was one of the early public flotations, there was a big premium on the issue price. Lengthy charges followed from opponents of privatization that the government had sold a national asset off too cheaply, to



the gain of its monied friends in the City of London. This charge is raised whenever there is a premium.

The tactic of securing wide participation in the sale by ordinary members of the public blunts the charge, but does not eliminate it. To be accused of selling national assets too cheaply, to the gain of ordinary members of the public, is easier to take than a charge involving 'monied friends in the City', but there is still a mistake implied. When the share price is set too high, and not enough applications come in, the shares open at a discount. This is also called a failure by opponents. Too much demand is failure and too little demand is failure. Only a narrow band apparently counts as success. It should be noted that when the demand is low and the shares open at a discount, the government and the public still get their money. The practice of underwriting with merchant banks and financial institutions means that there is a guarantee in advance that the shares will be sold. The sale is only called a failure in the sense that it fails to attract popular interest from investors.

Even the sale of BP shares still in government hands, interrupted as it was by the sudden fall in share values on 19 October 1987, brought in the money. The underwriters, accused for years of 'easy pickings', found themselves caught by a commitment to pick up part-paid unsold shares at 120p when the market had taken them down to 70-80p level. The outcome was that they paid. Panic was calmed by Chancellor Lawson's offer of a buyback base price of 70p per share, but in the event only 2 per cent of the issue was returned. The government argued, correctly, that risks such as this were why underwriters earned money. Sometimes the price would be wrong.

In fact, the record of pricing has been quite good, especially in the light of the novelty of the activity. Lack of proper accounts and lack of experience in selling off



parts of the state made the selection of a price difficult. Despite this, there have been few real mistakes. The policy has been that it is a good thing to have the shares open at a premium, to encourage future investment and to gain political support from those who benefited from it. Of all of the privatizations by public share issue, only those related to oil opened at a discount. Given international concern about the future of the industry, its vulnerability to overseas events, and the wild fluctuations in the price of crude, this is understandable.

In other cases not only has there been a premium on the first day of trading, but there has been a consistent pattern of the shares of privatized companies outperforming the stock market average. Both of these are desirable objectives in the early stages of the privatization drive. They bring major satisfaction to several of the interest groups involved, including the new ones. Management and workforce are obvious beneficiaries from a rise in the value of the shares they hold, and a rise in the profitability of their company. It is important that they make more gains from the new arrangement than they enjoyed under the old. This will provide an incentive for the employees of other state companies to embrace privatization when it is proposed.

The new class of shareholders, many of whom are firsttime buyers or small shareholders, should see visible capital gains. By being owners of part of the nation's business, they acquire a stake in seeing a climate favourable to economic enterprise. If they see themselves becoming personally better off as a result of policies which favour free enterprise, they will be more inclined to back it themselves. Not only that, but the larger the wealth they hold in shares of former state corporations, the harder will it be for a future government to plan for its confiscation. Already those who oppose privatization and want to reverse it have stopped talk of taking away the shares of the small



investor. They now talk of bringing the firm back into the state sector while leaving the shares in private hands. It remains to be seen whether the firms would perform as well under government management as they do with private directors, and, more importantly, how voters with shares would estimate that outcome at the time of an election. Given a choice in 1987, they rejected the option.

There is a clear difference in attitude to privatization between those who advocate full free market solutions and those who start from the analysis of the public choice school and devise policies to work within the political markets. The former group constantly criticize government for its failure to create a pure free market situation, and regard measures to trade benefits with interest groups as a sign of weakness and lack of commitment. They show no sign of understanding that it is these trade-offs which make the exercise possible in the first place. Nor do they see that in the absence of such measures the reform would not emerge successfully through the political process.

Some supporters of market economics seem to suppose that the only purpose of privatization is to expose state enterprises to all of the competitive pressures of the marketplace. Unless there is a completely free competitive situation at the end of it, they call it failure. This is a misconception: the purpose of privatization is not principally to make state industry competitive, it is to make it private. While competition is certainly desirable and is to be sought wherever possible, there are still advantages to be gained even when the competition secured is imperfect.

Public choice analysis leads to the conclusion that state sector activities lie within the political domain. Instead of commercial and competitive pressures, they face political pressures. Because their operations fall within the ambit of direct legislative input, they are



subjected to the pressures which impinge upon the legislators. Public sector operations lie within a political, not an economic market.

A few everyday examples illustrate the effects of this. If funds are sought for expansion or capital investment by state firms, this counts as government borrowing and is part of the public sector borrowing requirement. It must fit into targets set for the PSBR, and must thus compete with other government priorities instead of standing on its own. If government is squeezing total borrowing, the cash will not be there, however worthy the need. A private sector firm, by contrast, attracts investment on the basis of its ability to use it to good advantage and make a good return to those providing it. The public sector cannot be funded on a commercial basis.

Decisions made in public sector firms are subject to political involvement, even down to the fine details. The decision to build a new factory in the private sector is made on a commercial basis depending on such factors as costs and proximity to markets. The public sector firm faces political inputs on a similar decision, with elected representatives attempting to secure the factory for their district by political pressure. The convolutions required in the event of closure of a plant in a public sector operation have already been referred to. The point is that a state firm is a political football, to be kicked around by the interest groups and those who apply political pressure on their behalf. It does not make commercial decisions any more than it raises finance on a commercial basis.

To these factors can be added the fact that public operations are often characterized by state monopolies with all that follows in terms of producer capture, over-manning and unresponsiveness to consumer needs. If privatization can wipe this entire state clean for a fresh start in the private sector, then it makes obvious gains.



If it can wipe part of the slate clean, then it is still worth doing. If, by wiping part of the slate clean, it exposes an operation to pressures which will ultimately wipe the rest of it, it is even more worth doing.

Some observers see a public monopoly as harmful because it is a monopoly. The point is that a public monopoly is subject to twin evils: the fact that it is public, and that it is a monopoly. Of the two, the fact that it is public constitutes the greater evil. It is a greater source of distortion and misallocation. If there are occasions on which a monopoly is privatized as a monopoly, at least it can be said that a private monopoly is better than a public one. A private monopoly is more vulnerable to technological innovation. It is further from the political domain than are the state monopolies, and it lacks the political clout which they wield. Whereas private monopolies are eroded over time, public ones are sustained by new laws brought in to protect them from new threats.

It was not possible to make Telecom properly competitive within the private sector. Micropolitical analysis suggests that if this had been attempted, the privatization itself would not have gone through. Telecom is, however, subject to more commercial pressure than it was, and faces much more competition than ever it did in the state sector. These are both important gains achieved by a workable solution, and not ones to be discarded in favour of more perfectly competitive solutions which would not work.

Time is an element in this. As new technologies develop, Telecom will not have the power of law to exclude them as it did before. It is even conceivable that legislative action might eventually be contemplated to produce a more competitive situation. In that event, privatized companies will find that they are without the friends in high places that their status in the public sector gave them. As private enterprise firms, they will



be expected to survive competitive pressures without legislative assistance.

At the minimum, privatization exposes state firms to commercial pressures. At its best it turns them into viable and competitive entities, capable of making their way successfully and of holding their own in the open market. Many cases of privatization lie in the area between these two; what is important is that events must be set in train which will lead progressively towards the second scenario. If the climate cannot be made fully competitive at the outset, then the policy has to be structured so that it becomes more so in the future, instead of being allowed to slip back.

It has been the case in several industries that preparation for privatization has itself brought about major reform, in advance of the actual move. The knowledge that a state operation is to be sold, like the knowledge that a man is to be hanged in a fortnight, concentrates the mind wonderfully. Efficiency is improved, economies are made. By the time the firm reaches the target date, it becomes a much more saleable commodity than it was before the process started. This policy of preparation has seen firms which were grossly overmanned and producer-oriented within the public sector become lean, efficient and profitable by the time they reached the market place.

British Airways provides a classic example. When the decision was first made in 1983 it was making huge losses, sustained by state subsidies. It was overmanned, and with a great deal of slack in its operations. By the time of its sale in February 1987, it was both popular and profitable. Its workforce had slimmed down from 59,000 to 39,000. It cared visibly about customers, and took care to ascertain and respond to their needs. It was regularly voted to be the best international airline by important groups of air passengers. A complete new look accompanied a new approach. The company was



turned from an ailing and flabby giant into a healthy and very competitive company. When the public flotation finally came, British Airways was a good commercial investment. It was not life within the private sector which did this, but rather the preparation for that life.

How was it possible to do this, given its status as part of the state sector, subject to all the pressures there? The answer is that it was possible because of the techniques used and the prize at the end. Employees were not fired; they were offered generous terms for voluntary redundancy. The index-linked pensions were *not* cancelled; they were bought out for cash sums. It *cost* money at the front end to turn British Airways *around* but this was more than made up by the new *profitability*, and the valuation this put on the sale. Morale in *the* company was sufficiently high that when *impending* lawsuits repeatedly delayed the date of sale, *the* employees threatened strike action if it were not *hurried* forward and completed.

The workers were, as so often in other *companies* taken aboard as partners on the privatization. *It is* doubtful to say the least if any of these reforms *could* have taken place in a public sector operation *without* the prospect of privatization at the end of the *day*. Without the need to be competitive and *profitable* within the private sector, the interests of the *involved* groups would have lain elsewhere, and *management* could not have succeeded in its drive for efficiency.

The lesson drawn from the experience of *British Airways* is that a loss-making operation can still be *sold*. It could, of course, be sold anyway, in that loss-makers are bought and sold every day on the stock *markets*. What the British Airways experience proved is that a loss-making concern can be turned around and sold as a viable operation. The preparation for *privatization* can itself be a sufficient incentive to turn a loss-making



into a profitable and competitive outfit.

The market holds it to be a general truth that once a reputation for quality is gone, it can never easily be recovered. Whether it was easy or not, British Airways did recover very rapidly from a very low reputation for quality of service. In a very few years it rose from a very low rank in the ranking of quality to contest the top spot itself. It was not an isolated case. Jaguar cars had lost their former reputation for quality after a sojourn in the state sector. They lost out in America because they were regarded correctly as unreliable. Quality control had given way to public sector practices in which political goals won out over any market considerations. After privatization, Jaguar regained their former reputation for high quality and reliability at an unbelievable speed. The shares which their workers took out at the time rose in consequence by 2,000 per cent, in which circumstance lies no small part of the story.



## 12 What About the Workers?

An important element in the success of privatization has been the support of the workforce. The offer made to them must be such as to equal at least the perceived benefit they already receive. It may be, of course that their current benefit will be discounted. If the future of the state sector operation is in doubt, the work force might not attach much value to the job security which state sector employment normally carries. They might, in a situation such as this, accept privatization of the operation even where an ostensible reduction of their benefit was involved. The definite job in the private sector is worth more than the possibility of continued employment with the state.

In circumstances such as these, a workforce has accepted the sale of a state-owned enterprise even where this has meant a drop in manning levels. The perceived alternative was complete closure of the operation. A major factor in the success of moves such as this has been the treatment offered to displaced workers. If no forced redundancies are involved, then the potential group of those who might be unwillingly displaced has zero members. This effectively limits opposition to those such as union activists who do have an interest in total numbers.

The offer made to miners whose pits were scheduled



for closure is a good indication of how benefits are traded. Relocation to other pits was offered, complete with a moving allowance. Retraining was made available. Terms for voluntary redundancy were totally unprecedented in the amount offered. If the closure plan went ahead, a miner stood to lose the job in the place he lived; but the certainty of a job in another pit and help in moving seemed a reasonable alternative, given the impossibility of keeping all of the pits open.

The usual way of securing the support of the workforce for the move to the private sector has been by share allocation. A block of shares is set aside for the workers in the industry to take up if they wish. Sometimes, as in the case of British Gas, a number of shares are offered free. Sometimes the workers can purchase a higher number than are available to the general public. This was the case with both British Gas and Telecom. Sometimes those who work for the company are allowed to buy shares out of their wage packets on extended credit, usually interest-free. This happened with the Jaguar car company, and has been done in some of the shipyard sales.

The aim of management is to maximize worker participation in the sale of the company. This secures their support for the move, and neutralizes what could present serious opposition to it. It does more than that, though. When workers have a direct stake in the firm, they identify its future with their own. It shakes away the old attitude of 'us and them', and has workers identifying with the company, instead of seeing it as adversary. This makes for better industrial relations and less disputes. It also makes for a higher share price, other things being equal, as potential buyers weigh up the company's likely performance in the future. There is a further bonus to government, in that a society which has ordinary workers owning shares in their companies is likely to oppose state takeovers and all of the



trappings of centralism which other political parties might propose. There is a built in bias towards private property and capitalism if its benefits are visible and widespread, and if ordinary working people see them selves as part of that system, and see the advantages they derive from it.

Not all privatization takes place by public flotation, however. A small but significant fraction is achieved by private sale. Here, as in cases where private contractors are brought in, it is very important to ensure that the workers are taken into account in the transfer. It must be done in such a way that the benefits they had as state sector employees are traded for alternative benefits which are no less acceptable. Sometimes the closure of the state operation has been announced first, with the private sale coming in the form of a rescue package which can keep open the activity. Sometimes the private buyer is able to offer a visibly better future by integrating the operation into a wider base, by putting in the expertise in management and marketing needed to make a go of it, or by supplying the investment needed to modernize and re-equip. Some of the warship yards and Channel ferries serve as examples of these techniques.

At the other end of the scale are the cases in which no outside buyer at all is involved, but in which privatization takes place instead by a buyout involving the management, the workforce, or both. These cases show how carefully constructed policies can be used to transform both the industrial climate and the commercial viability of state enterprises. The exercise redirects the source of benefit to the two groups, management and workers, and thus redirects the trades they make in the political market. Whatever their interests as state employees, they become vastly different as owners, worker or management, of their own enterprise. Their whole priorities shift, and they demand



very different types of outcome from the political process. Some of these buyouts feature among privatization's biggest successes.

One of the first management-worker buyouts was of the National Freight Corporation, which handles the transport of goods by road in Britain. The buyout came at the instigation of management, an initiative repeated many times subsequently in other industries. Very often it is management's idea, and the management team which makes an offer. In the case of National Freight, although most of the shares were taken up by management with bank support, great efforts were made to involve the workforce. They were successful in setting a classic precedent.

The workers of National Freight, including drivers and loaders, checkers and sorters, bought into the new company. Some mortgaged their homes to buy shares. Others pooled their life savings. They estimated that the new company would be profitable, and were prepared to back it. Several of them were interviewed and made television appearances talking about how it felt to own their own company. It was made a condition of the buyout that the shares could not be resold until after two years.

The company was an immediate success. It proved highly profitable in the private sector, and marketed its services in a way which implied that it knew and cared about what customers wanted. The share-owning workers saw the value of their shares increase first four-fold, then eight-fold, then ten-fold, then 54-fold. All of the worker and management owners made several thousand per cent capital gain on their initial investment.

At one stage National Freight Corporation had to shed some of its workforce. It did so quietly, if sadly, on a commercial basis. What would have generated a storm in a public sector company, and been the pretext



for strikes and perhaps factory occupations, was taken in its stride. The company remains profitable. It hired a concert hall for its first annual shareholders meeting, having no idea how many of the many thousands who worked for the company and owned its shares would appear. Several thousand did, and its annual shareholder meetings are still reckoned to provide one of the most knowledgeable company audiences in Britain, since they all work for the company as well.

If National Freight was a model, there have been many copies of it. Management buyouts have been more numerous, but ones which involve a significant worker input make more news. Neither of the two types of buyout receives anything like the publicity attached to a public flotation; they represent some of the lesser-known successes of privatization.

There are direct management buyouts, such as those of Leyland Bus and of the Unipart subsidiary of Leyland. Many of the sections of the former National Bus Company are going to management buyouts. Even in cases where management alone makes the running, efforts are made to bring in the workers in some way with a collective stake. In many cases finance has been provided by Unity Trust who invest on behalf of the trade unions. While not the same as share ownership by individual employees, it does provide for a stake in the company on a collective basis, and thus neutralizes some of the political opposition they might stage.

In cases where workers are a significant part of the consortium, novel methods are used to maximize their possible holding. Those who suppose privatization to be no more than the selling-off of state assets to the private sector should study the extraordinary and creative techniques used to achieve full worker participation in these deals. Workers are allowed to buy on credit, paying for the shares by monthly payment from wage packets. Sometimes shares are locked in a fund



for the workers, and released a few at a time as they are paid for. Sometimes local banks are brought in on the deal, with special terms for worker-buyers being part of their contribution. In many examples, bearing in mind that much of the workforce is unsophisticated financially, programmes are conducted to educate them in the operations of the stock market, the role of investment, and the importance of profits. Observers might suggest that this is a major social good in itself, and comes not before time.

All of this shows how very much privatization is a political, and not just an economic, activity. Privatization has its effect at a level which includes political markets as well as economic ones. Involvement of the workforce in share purchase is one method of altering the patterns of political trade. It is notable that when the sale of a state company has involved a special allocation set aside for employees, the take up rate has every time exceeded 90 per cent of employees.

The buyout of the Vickers shipyard by the Vickers Shipbuilding Engineering Ltd Employee Consortium in 1986 saw many of the tried and tested techniques used alongside some new ones. It serves to illustrate the extraordinary lengths to which the policies will go to promote the desired ends. In this case novel credit terms combined with an intensive education programme to enable most of the shipyard workers to participate. This was a group without substantial savings or financial knowledge, so everything had to be aimed at making participation easy. In addition to the workforce, the management, the banks and other investors, a novel feature of the Vickers sale was that favourable rates for shares were offered not just to workers, but to members of the local community in Barrow and Birkenhead where the two yards concerned were located.

The most dramatic feature of the Vickers privatization is that the sale was made to the second highest bidder.



The top bid was that of Trafalgar House, a giant conglomerate. The consortium of management, employees and community participants was successful, even though its offer was less. With so much involvement, it was thought to stand a better chance of making a go of it. There may well have been some commentators criticizing the fact that this was a political, rather than a purely economic, decision. It does show, however, what privatization is about.

The management-worker buyout has been very fruitful as a method of privatizing fairly small entities: small, this is, compared with giants such as Telecom and British Gas. When the outfit is small enough for a real sense of community to be possible, there is a potential candidate for a buyout. Management will be likely to know both the potential and the problems, and to have observed over many years the performance within the state sector. They are in a position to know what improvements could be made by changes in operating methods, and by changes in the attitude of the work force. This is why it is crucial to involve them, no matter how creative the accounting has to be to achieve it.

It is significant that a large number of buyouts have been on the small scale. The first group included some of the British Rail hotels which were sold early in the exercise; and the last group includes many of the bus companies making up the National Bus network. The wheels of policy have certainly turned when it is a Conservative government actively involved in the establishment of small co-operatives. Yet the management-worker buyout has been one of the most successful of the privatization techniques.

There is an obvious question concerning the role and position of the unions as the ostensible representatives of the workforce. The privatization programme has shown that while the unions could be regarded as representing the interests of the members on such



things as pay and conditions within the existing structure, this did not apply when the structure itself was under discussion. In some, if not most, cases of privatization there has been a fairly clear distinction between the interests of the union leadership and those of its members.

Union leaders have had a vested interest in the public sector as such. State sector union membership has been highest in both blue-collar and white-collar jobs, with the latter being very much higher than in private industry. Unions in the public sector have usually been able to establish cosy working relationships with their equally public sector management and administration. Each had to take more account of each other than of consumers or the general public. Pension arrangements far in excess of private sector schemes and closed shops characterized some of the public sector benefits which unions had been able to accrue.

Unions have usually opposed privatization, recognizing that they would find life much less easy in the private market. The notable exceptions have been cases in which government or management made absolutely clear its intention to close down a plant or activity, and where privatization appeared as an agent of rescue. The union response has been to oppose privatization except where the only alternative was immediate closure. The question arises as to why that response has been so ineffective, given the enormous powers the unions were perceived to have in 1979.

An immediate possible answer is that those enormous powers were derived in part from the perception of them. While government and trade union leaders met at Downing Street twice a week to discuss matters of state, union power seemed institutionalized. When a new prime minister ceased to consult them on non-labour matters, the power evaporated because it was never a real power in the first place. A second



possibility is that the union leaders' power was so eroded by legislative action by the new government that it could not be used successfully against privatization. The first alternative may have merit, but timing does not permit the second explanation, in that unions resisted in vain long before the new measures began to bite into the power of their leaders.

The most plausible account is that the policies which implemented the privatization programme were carefully designed to circumvent union opposition, and succeeded in doing so. An examination of the tactics used by union leaders shows the difficulties which they found themselves up against.

Some of them conducted expensive public relations campaigns. This was the case for the unions opposing the use of contractors for local government services, who spent over £1 million in one year, and for the Post Office Engineering Union (later to be called the National Telecommunications Union), which spent £1.5 million on a one and a half year campaign. In each case this involved the message being put to their own members and to the general public by means of information packs, leaflets, stickers and video films shown at meetings. Active members were given the line to take for media appearances, trained in presentation, and media coverage was arranged for them. Special attention was devoted to marginal constituencies, and to groups such as the old, the disabled and the isolated, who might have been worried about the telephone service which they depended upon.

This made little impact, since one of the tactics used by the government was a vast advertising campaign to promote the flotations. Even a £1 million public relations drive is swallowed up like a minnow by the campaigns around it costed in hundreds of millions of pounds. Those highly professional and slick campaigns might have been designed to sell the shares, but they



also sold privatization. Part of their message was a reassurance about the future of the service.

On a practical level, the policy specifically undermined one by one every possible source of objection. If rural dwellers were concerned, then there would be a requirement to maintain the pay telephones in country areas. If consumers were worried about the level of charges, these would be tied to the rate of inflation for several years. If foreign takeover was a threat, the golden share would deal with it. The ground of opposition on which the unions might stand was chipped away, square inch by square inch.

A more promising initial tactic of the unions was to secure a united front with management. If both management and unions of an industry opposed privatization, it would be difficult to achieve. They gained some success, with Lord Kearton of BNOC, the British National Oil Corporation, opposing the sale of oil and gas holdings, and Robert Atkinson of British Shipbuilders opposing the sale of the warship yards. There were a few others from the Nationalized Industries' Chairman's Group, but the government undercut this in two ways. First, as vacancies occurred, it put supporters of privatization onto the management boards. Secondly, it secured its own united front with management by taking them in as partners on the privatization.

Industrial action itself has rarely been used. There were token strikes in the gas industry to oppose the showroom sale, in the Channel ferry services to oppose the sale of Sealink, and in the Royal Ordnance factories. A year before Telecom was brought to market, there was union action against Mercury, the competitor in business communication which would be licensed after the sale. It was stopped by legal action after failing to have the required impact to influence the decision to privatize.



This kind of industrial action has not been effective, and has been limited to small-scale action by militants partly because the union leaders could not necessarily count on the backing of their members for more widespread or long-term action. It was the opposition of management which stopped the sale of the gas show rooms; that same management put through the 1986 British Gas sale.

The failure of industrial action to influence events shows to some extent the position in which union leaders were placed by government policy. The detailed proposals for privatization which were finally presented did not give public expression to the view that public sector workers were overpaid, pampered and powerful. Instead they sought to secure the interests of those workers in the new arrangement. They had the effect of dividing the interest of the members from that of the union leaders. Those leaders thus found uncertainty in the ranks behind them; they could not claim the automatic loyalty which direct confrontation produced. In the case of the National Freight Corporation, for example, it was clearly to the advantage of their members to support privatization and to participate in it.

The policy of management and government has been to achieve this effect in as many cases as possible. Not only have attractive offers been made to involve the workers, but education campaigns and promotions have sought to persuade them to participate. When the employees have weighed up the advantages offered on the one side against the likely future in the state sector on the other, the overwhelming choice has been to disregard any opposition from union leaders, and to take part in the process of change. It says much for the standing of nationalized industries that the workers have in several cases been enthusiastic for privatization, taking a visible pride and excitement in the new venture.



Meanwhile the union leaders, whose first response was to pass motions at annual conferences calling for nationalization without compensation, and pledging a campaign within the Labour Party to reverse all that has been done, now come to terms by accepting that much of what has happened is irreversible. The new interest groups, drawn from the employees as well as the general public, are already too powerful to take on.

A sign of the times has been the speed with which some unions, so reputedly slow to change their position on other issues, have met the challenge by shifting their stance on privatization. Of the four unions involved in the National Freight Corporation, three eventually backed the consortium of management and workers which took the operation into the private sector. The National Union of Railwaymen became a shareholder in Gleneagles Hotels, one of the companies running some of the hotels formerly owned by the state through British Rail. Other unions did not fail to note the popularity among their own members for the employee allocation of shares in British Aerospace, Amersham International and Cable and Wireless. The government certainly did not fail to note it; it used the observed support of union members in these early examples of privatization to establish the precedent for a policy approach which led to widespread employee backing for the sales of Telecom and British Gas.

It remains to be seen if workers gain from privatization in their role as employees. That they gain as shareholders is beyond doubt as a general case. Part of the micropolitical strategy has been to give the workers a new role as shareholders with the intention of showing them visible gains in that role to balance against any misgivings they might hold about the effect on the other role.

The early results are positive on that other role, despite the dire forecasts of union leaders, but the



timespan has been short for a final assessment to be made. Wages have not declined on a comparative basis. Indeed, as companies have taken advantage of their private sector freedom to expand markets and increase their profitability, workers have gained from wage increases as well as from the capital growth of their shares.

Industrial relations have not deteriorated. It is a striking fact that most of the large labour disputes since the advent of the 1979 government have taken place in the public sector. The firms which have been privatized have not been characterized by any huge increase in industrial action. There have been disputes in newly privatized companies, including Jaguar and Telecom. They tend to be brief, and calculated not to damage the company's viability. In general, there are less disputes in the private sector, and the new firms fall into that pattern.

Union leaders have expressed concern over job losses after moving to the private sector. Associated British Ports, for example, use contractors now for some services they used to perform by direct labour. Cable and Wireless shed jobs, so did British Aerospace. On the other hand Amersham International and Britoil took on more workers. The effect of privatization on job levels seems to vary from company to company, with market position being the factor most responsible. The job losses in British Aerospace and Cable and Wireless were attributed to the competitive position, perhaps indicating that job levels in privatized industries are exposed to market forces and determined accordingly.

One possible effect relates to a phenomenon of the public sector, where union power often results in a lower differential between the skilled and unskilled than exists in private industry. Unions in state industries, in other words, bid up the pay of the more numerous unskilled at the expense of the smaller



numbers who have professional or other qualifications and skills. One would expect that in the private sector this would be corrected. Firms have to increase their reward for top personnel and skilled workers, or risk losing them to rivals who outbid them. Therefore, once they are in the private sector, firms initially have to make awards which give more to the highly qualified. This has happened just as predicted. After the distribution which characterizes the private sector has been reached, however, one would expect pay settlements to respond to the market.

Looking over the range of benefits which accrue to workers, the conclusion is that policies can be carefully constructed which bring them immediately perceived benefits in their capacity as shareholders of the firm, without loss of their perceived longer-term benefits as employees. Indeed, their future prospects from the standpoint of opportunities for advancement can be improved in addition. Given this, and with evidence of it available in profusion from the numerous examples of privatization so far, it is hardly surprising that employees of state firms have perceived their potential gains from privatization and have cooperated with it more often than not. The policy details have secured what they were designed to achieve.