Britain's Labor Party politicians had promoted state-owned enterprise, before and after World War II, as an almost altruistic undertaking. "The public corporation must be no mere capitalist business, the be-all and end-all of which is profits and dividends," Herbert Morrison, the Labor politician who had so much influence on the postwar nationalization program, had said. "Its board and its officers must regard themselves as the high custodians of the public interest."

But in practice, argued [Conservative Party Prime Minister Margaret Thatcher, along with Keith Joseph and the others who shared their views], that higher vision could not be attained. Was government going to be any better in figuring out the future than private business? It did not have access to a higher level of knowledge. Indeed the Thatcherites disbelieved in government knowledge. As Lawson put it, governments "enjoy no unique hot line to the future." The record suggested just the opposite—inflexibility in the face of change.

Whatever the vision, state companies had often proved in practice to be highly ill efficient, inflexible, poorly performing employment agencies, politically pressured to maintain and expand employment far beyond what was needed. They were also unable to resist the wage pressure from public-sector unions, thus becoming major generators of inflation. Because of their inefficiency, their weakness in the face of union pressure, and their insulation from competition in the marketplace, they piled up huge losses, which they solved by turning to the taxpayers or, as Lawson put it, by "recourse to the bottomless public purse." Every kind of decision ran the risk of becoming a political decision, driven not by the interests of the firm but by the desires of politicians in power, whether it was wage settlements or new investments in plant location, major projects, and equipment. What was missing was exactly what the Labor promoters of national industries had most disliked—the discipline of the market. "What public ownership does," Lawson declared in 1982, "is to eliminate the threat of takeover and ultimately of bankruptcy, and the need, which all private undertakings have from time to time, to raise money from the market." Public ownership British-style also meant that

output and products were not adapted to the marketplace and that the needs and desires of the consumer, the buyer, did not count for all that much.
For the Thatcherites, privatization became a cause.... Widening ownership and thus giving people a vested interest in private property would change the political culture of the nation. It would decisively limit the role of the state and make at least part of the Thatcher agenda virtually irreversible. It would also make the companies themselves more efficient and deliver more value to consumers. It would eliminate the industries' call on the "bottomless purse" and reduce government's share of the GNP. And, by the way, it would provide for a considerable inflow of money that would in turn, help finance tax cuts.

With all that said, there was never a sense that privatization had broad popular support. For their part, civil servants did nothing to hinder the process. Their experience with the state-owned companies in the 1970s had been so painful that even those intellectually attracted to the mixed economy had come in practice to despair of its proper functioning. Moreover, they did not have any good alternatives to offer. The traditional ideas were exhausted. "One of the real driving forces for privatization," recalled Thatcher Cabinet minister John Wakeham, "was the consensus among bureaucrats that they did not know how to determine anything anymore. Planning, nationalization, and so on—it had all failed. The state-owned industries were running massive deficits. There was willingness to try something new. You found that the response within the bureaucracy to the new conservative government was that it could not get any worse than it had already got."

Keith Joseph initiated privatization at the Department of Industry, and on the first day of the new government, he appointed David Young to be his special advisor on privatization. "The big risk was that we had to get companies into a fit state to be privatized, " said Young. "It turned out that it was not the commanding heights of the economy but rather clapped-out coal mines and other industries that were losing lots of money. We intended to sell off those that could be sold, and meanwhile work on the others to reduce losses, to do the necessary closures, to establish management."

In such circumstances, the initial steps toward privatization would be rather modest compared to what carne later. Cable & Wireless and British Aerospace were among the first. Also disposed of were gas stations along motorways, hotels belonging to the state-owned railway system, and a company that manufactured radioactive isotopes for medical treatment. As it turned out, the most significant form of privatization in the early years was the sale of "council" (i.e., public) housing units to the people who lived in them.

After the Falklands War, the government had the muscle to begin to privatize what were truly the commanding heights of the economy. But one of the biggest difficulties, Lawson recalled, "was the fact that, to all intents and purposes, it had never been done before.... [T]here was no departmental dossier to dust down." There were many questions to decide. Should shares in the companies be distributed free to all citizens? Emphatically not, said Chancellor Lawson, citing the American revolutionary patriot Tom Paine: "What we obtain too cheap, we esteem too lightly." How to price the shares so that they were not too high (discouraging investors) and not too low (meaning that the government would give up too much value) but still—of critical importance—low enough to ensure that the prices would go up, not down, after the initial offering? How to foster incentives for employees and small investors to buy into the "float"? To facilitate that desire, they created a series of television commercials that urged a fictional modern Everyman named Sid not to miss this chance to become a shareholder.

One of the most urgent challenges, it turned out, was to create meaningful and accurate financial histories for the companies that corresponded to conventional and intelligible accounting standards. "When we first examined the nationalized British Telecom," said Lawson, "we discovered that, in true East European style, the corporation had not the faintest idea which of its activities were profitable and which were not, let alone any finer points of management accounting." Added David Young, "British Telecom was a total mess...."

This pointed to a larger challenge. Companies could not be privatized until they had been "fixed"—loss-making activities reduced, organization restructured, and the basis for profitability established. Otherwise, why would anybody buy stock in the enterprise? British Steel would prove to be an excellent case study. The company lost over $10 billion from the mid-1970s through the mid-1980s. Restructuring was first undertaken to stem the draw on public funds. Only in the 1980s did privatization become a goal. By the time the company was finally sold to the public, its labor force had already been drastically reduced and its productivity dramatically increased, its facilities rationalized. And it was profitable—and internationally competitive.

But there were also special cases with issues that went beyond the "bottom line." How, for instance, when it came to "strategic" assets like oil, to ensure that they did not fall into foreign hands? After all, privatization was following only a few years after the oil crises of the 1970s, which had, in the first place, precipitated the partial nationalization of North Sea oil. On this subject Lawson proved to be very creative. He recalled "the curious voting structures" he had encountered a decade earlier, when working as a stock market columnist for the <i>Financial Times,</i> that enabled someone with a "very small slice of equity to exercise quite disproportionate power." As a journalist he had been disapproving. But as a politician he found it a godsend. Thus he came up with the "golden share"—"a special share which would be retained by government after privatization, and which would enable the government to prevent control of the company from falling into unsuitable hands." The term "unsuitable" was a euphemism for "foreign." However euphemistic, it did the political trick.

Ultimately, the Thatcher government was able to carry out a privatization program far bigger than anyone would have expected at the start, and one that pushed back the frontiers of the state. In 1982 and 1984, the government's ownership share in North Sea oil and gas was privatized, creating among other things Enterprise Oil, today one of the world's largest independent oil companies. The government disposed of its share in British Petroleum—acquired by Winston Churchill on the eve of the first world war. Ports and airports were privatized. Heathrow and other airports are now owned and operated by a private company, BAA, which also operates airports in the United States.

The first truly massive privatization was the hiving off of the state telephone system into British Telecom.... The telephone system, part of the post office until separated by Keith Joseph, embodied many of the worst traits of state-owned companies. Bureaucratic state control repressed innovation. The customer did not count. It took months to get a new telephone. There were only two choices—the design offered or nothing. The only way to get a phone fixed in any reasonable time was to pay a repairman, who freelanced after hours, under the table. The red call boxes were relatively rare, sometimes malodorous, and often out of order.

"When we went into the telephone offices to talk to the staff," David Young recalled, "they talked about office conditions, pensions, and many other things. No one ever mentioned the customers. If British Telecom wanted to move a group out of a run-down office building into a new building, unions extorted compensation—a few hundred pounds for each employee for the 'disturbance' of giving them better working conditions. And when it came to installing new phones, they came along when they were damn well ready."

The actual privatization of British Telecom took place in November 1984. The first tranche, just over 50 percent, was sold to the public for $6 billion. A huge popular market for privatization had been created. Curiously enough, the public's complaints about service rose after the privatization, but with good reason. "In the good old days before privatization, no one complained because there was no point," Young said. "No one was listening." Now there was someone to complain to. British Gas, British Airways, and British Steel followed. Later came British Coal and British Rail. The state-owned water system was privatized in the form of a series of regional water companies. Most massive of all was the breakup of the state-owned electric power monopoly into 12 regional distribution companies, three generating companies, and one open-access grid company.

The process of privatization encountered many criticisms over a decade and a half. With the larger transactions, there always seemed to be a refrain that the capital markets would not be able to absorb the deal. In practice, that never proved to be a constraint. The pricing of stock was generally criticized for being either too low or too high. Former Prime Minister Harold Macmillan, the Tory proponent of the mixed economy and the middle way, weighed in to voice the complaints of many when he declared that the "family silver"—the state companies, all of whose names began with British—was being sold off. The obvious reply was that the "family" could not afford to maintain the silver anymore.

Some pointed out that a number of the state-owned companies had become more efficient and raised their productivity prior to privatization Here the reply was that those improvements were driven by necessity, by the discipline and pressure of impending privatization. After the fact, the growth in compensation—salary and options—of senior managers and board members in the newly privatized companies became a hot staple on front pages, made all the more vivid by the sharp downsizing in employment levels in what had formerly been the woefully overmanned state companies. The recipients of these benefits became immortalized as the "fat cats" and the target of popular rage. Employment in many privatized companies was often slashed by 20 to 40 percent. Beyond question, the quality of service improved and operations became more efficient. But it would be difficult for many of those who lost their jobs—often late in their careers—to find new opportunities. The rationalization that privatization brought about fed for a time a growing tide of unemployment in the new "lean" Britain. Yet the growth in unemployment proved temporary. By the late l990s unemployment was much lower than on the European continent.

Privatization also introduced the new challenge of regulation. The nationalized industries had operated under the control—often ineffective, to be sure—of the government ministries. Now the provision of basic public services—gas, electricity, water—was being entrusted to private enterprises guided by profitability, not universal service at any cost. To work, this new system required a regulatory body that could ensure competition and protect the consumer. The establishment of such regulation was essential to public acceptance of the new arrangements. Sure that they could improve on the American experience, the Tories sought a solution that would keep regulation as "lite" as possible while still being effective. After all, excessively burdensome or interventionist structures would run counter to the goal of making government smaller. So they appointed for each industry a single individual—known as "The Regulator"—with the mandate to monitor industry practice and set pricing rules with as lean a staff as possible.

But what started out as "regulatory lite" soon grew into much larger regulatory establishments. There had been an underestimation of the regulatory needs posed by the movement from state monopoly to private firms. The risks of private monopolies or "duopolies" forming were great; and on the technical side, the sophisticated pricing mechanisms for industries such as electric power proved complex to run and monitor. For all these reasons, the original conception of "The Regulator" came under fire, and a drift began instead toward full-fledged regulatory agencies, some staffed by hundreds of people....

By 1992, some two-thirds of state-owned industries had moved into the private sector. Altogether, 46 major businesses, with 900,000 employees, had been privatized, and the government's take was well over $30 billion. What was once a massive drain on the public purse had turned into a major source of tax revenue. The number of people owning shares tripled to nine million—20 percent of the adult population—although many of those nine million owned only a few shares. But the most important consequence of privatization was that, together with labor union reform, it changed the basic institutional relationships that had defined Britain since 1945—and that had brought the country to a standstill by 1979. In that year, 1,274 working days were lost to strikes for every thousand people working. By 1990, that figure was down to 108—less than one-tenth. The political and economic culture in Britain had been permanently altered; Keith Joseph's intellectual revolution had, in good measure and despite all the controversies, worked. David Young, the would-be emigrant of 1975, was four years later Keith Joseph's special advisor and then, under Margaret Thatcher, a member of the Cabinet. Looking back from today's perspective, he said, "The Thatcher years turned the United Kingdom from being a producer-led into a consumer-led economy, and it was becoming a competitive economy. Conviction drove the process."