

COMMANDING HEIGHTS

Lord Kenneth Baker

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Minister for industry and information technology in Margaret Thatcher's first Conservative government, Baker oversaw the privatization of British Telecom, the first example of the privatization of a public utility.

In this interview, Baker talks about the state of Britain in the 1970s and Thatcher's economic revolution.

The Road to Discontent: Britain in the '70s

INTERVIEWER: Can you describe to me the state Britain found itself in during the '60s and '70s?

LORD KENNETH BAKER: By the end of the 1970s Britain was in a mess. For the previous 20 years, in the 1960s and '70s, three prime ministers—Harold Wilson, Ted Heath, and Jim Callaghan—had tried to run the country on the basis of government bringing together unions, bringing together business, the government arbitrating between [the two], believing that government could control events, that the economy was best managed by demand management. You had prices and incomes policy, [which] was tried in America with Nixon, actually, in the mid-1960s, and we copied that in the early 1970s. I was a junior member of Ted Heath's government, and we brought in prices and incomes policy. We ended up controlling the amount that taxi drivers could charge for their fares and what a plumber would charge for repairing a tap, and we tried to control wages and rents and dividends, and it all came unstuck. Callaghan tried [the same thing] after Ted Heath lost the government in 1974, and one was beginning to realize that the way in which we're trying to run the economy did not work. It led, in fact, to the end of 1979, to the Winter of Discontent. The unions took on the Labor government, and we had people who couldn't be [buried as a result of the gravediggers' strike]. There was rubbish in the streets. That led to the defeat of the Callaghan government.

What was happening on the other side was the realization that their system didn't work. Most of the debate was focused upon money supply, and it became the great [topic] as to whether government should really be concerned with money supply. The thinker in the British political scene at the time was Enoch Powell. ... His powerful attacks on the futility of prices and incomes policy were very, very significant. He and Keith Joseph started to focus upon the

arguments put forward by [Milton] Friedman on the importance of the money supply. As the government did control the money supply, then the whole debate on which measure of money should you use went on and on and on and on. But basically the [argument went that] government should focus upon that as the main instrument in economic policy, and good would flow from it; i.e., inflation would be contained. Inflation in the '70s got totally out of hand. We were running at 18 to 20 percent inflation, and if you run that for very long, it's a disaster.

So all the system was running down and collapsing. Mrs. Thatcher became the leader of the Conservative Party in February 1975, and she clearly wanted to strike out and do something different. She was quite reluctant at the early stages to be so articulate about how different it was going to be, but certainly the planning that went on in the Conservative Party in opposition from 1975 to '79 was important. They were moving towards a monetarist approach. They were not particularly articulate about one of the great revolutions of the '80s, which was privatization. [Little was said about the] manifesto of 1979 apart from saying where we would sell a few of the state-owned companies like the government involvement in Jaguar cars, the government investment in BP [British Petroleum]. We did not foreshadow the tremendous revolution of the 1980s in privatization, which is very interesting in itself.

So that was the position in Britain in 1979. A fresh start was needed. And indeed the first two years of Margaret Thatcher's government were massively unpopular. The critical budget was the budget of 1981 when, in the depression, Margaret Thatcher and [Chancellor of the Exchequer] Geoffrey Howe in fact increased taxation. That was seen to be almost revolutionary. No government would have done that before. It took a very tough line. And really the beginning of Britain's economic recovery started from the 1981 budget. So it was very radical, and Margaret Thatcher was massively unpopular in 1979, 1980, 1981. People dismissed her as a one-term prime minister. She was a witch, she was a harridan, all of those things. And they were much more abusive than those kind words, and it looked as if she was going to be defeated. But you began to see the beginning of an economic recovery in 1982. Then there was the Falklands conflict, which crystallized the toughness of her. She was the Iron Lady, and she proved to be an Iron Lady over that particular episode, but she was also an Iron Lady in terms of the economic control of the country.

INTERVIEWER: I would like to ask you also about the 1981 budget. You were with Howe at the time, weren't you?

LORD KENNETH BAKER: I was a junior minister in a different department. No, I was a middle-ranking minister, actually. I was a minister of information technology. I joined the government absolutely at its most unpopular moment, January 1981. ...

In 1980 and '81 the new Conservative government had become massively unpopular, and although there was not a great deal of industrial unrest, which there was in the Winter of Discontent, unemployment was rising. ... In 1981 Geoffrey Howe introduced a budget which was a very tough budget indeed. Chancellors in the '60s and '70s, given the state of the economy, were just suddenly going on a spending spree. Geoffrey Howe did not. The taxes were increased. VAT was increased and was explosive, literally explosive. Three hundred and sixty-four economists wrote a letter to the prime minister saying she was totally wrong, that Geoffrey Howe should be sacked. And I remember in number 11 Downing Street, the home of the chancellor, when that particular missive was received late at night, Geoffrey Howe's comment was, "I'm surprised they only found 364 economists to sign this letter." So the government was in trench, it was embattled. But the government stuck to its course, and we began to see recovery late in 1981 going into 1982. It was the beginning of an economic recovery.

[There was another] thing that Margaret Thatcher did that was very important. During the 1960s and '70s it was always felt that the government of the day had to share the government of the country with the Trade Union Congress and the trade unions. The trade unions took the view that it didn't matter who was in Number 10, they would come and do deals with the incumbent. And Margaret Thatcher said, "I'm not going to have them in for beer and sandwiches at Number 10. They have a role to do—to protect the interest of their members—but I have a role to do: I have a role to run the country. I will listen to them, but I have to listen to other people as well." That was a sea change. Then [she] set about changing the industrial-relations legislation in Britain, reducing the power of the unions to disrupt services. What is very interesting [is that] in the recent months you've seen the unions in France take on the government over petrol prices by disruption, by picketing, by inflicting damage on people who are not involved in disputes. We changed all that [with] legislation in

Britain in the early 1980s. That was one of the most important things in the earlier period in the Thatcher years, and Europe is now beginning to catch up realize they have to change their union legislation in that way. ... The three big unions, such as the steel union, the transport union, and the mining union, could hold the country to ransom, and Margaret Thatcher decided that was not going to be the case.

The Iron Lady vs. the Coal Miners

INTERVIEWER: Can you relate [Thatcher's] attitude to having seen the Heath government being brought down by a few mining strikes, and also the kind of character that [Arthur] Scargill was?

LORD KENNETH BAKER: Margaret Thatcher, you must never forget, had been a member of Ted Heath's government, and Ted Heath's government in 1974 was brought down by the unions. In fact, she had seen the unions take on Harold Wilson and win. She had seen the unions take on Ted Heath and bring down an elected government through two miners' strikes, and Callaghan [was] brought down again by the unions in 1979. And the unions were preparing another head to put on their mounting of different prime ministers they'd brought down, as it were, like a stuffed animal's head. And Margaret Thatcher was convinced she was not going to be the fourth in line, so she introduced changes, and the government introduced changes to change the industrial-relations scene in Britain by reducing the collective pile of unions, by making them responsible for their strike action and making them financially liable for the damage that they inflicted on people who were not involved in the strike, and it all came to a head in the miners' strike, the long miners' strike when the government was taken on by Scargill, who was an extreme left-wing leader of the miners' union, a highly articulate man, a very committed man, but really well to the left of center. I don't think he recognized the center at all—he was right off of the left coast of Britain, as it were. And he decided to take on the government. Again, of all the prime ministers I have known since the war, from Churchill onwards, I think all of them would have done a deal of one sort or another with the miners. We withstood the miners' strike for a whole year. It was very bitter. There were tremendous battles on the picket lines. Physical damage was done. There was tremendous intimidation. Very vicious bullying tactics were used. But we saw that strike out, and that really broke the force of old-fashioned labor industrial domination. That was a very important aspect, one of the building blocks of Thatcherism.

INTERVIEWER: Margaret Thatcher said of Arthur Scargill, or of his type, [that] he's "the enemy within." Can you describe how she saw him and what kind of opponent he was? You've described him very well, but how deadly was he as a possible [opponent]?

LORD KENNETH BAKER: Scargill came from a long line of militant leaders who were frankly communist or Marxist or Leninist, or whatever you'd like to call them. There was a succession of them, in particular in the miners' union, and they believed that they could go in and demand terms from the government of the day, whoever was in at Number 10. He was the last emblem of that, the last significant leader of that tradition. There were others in the motor industry. Our motor industry had been brought to its knees by a man called Red Robbo [Derek Robinson], who virtually broke management after management at British Leyland. And successive governments had, at the end of the day, given in. They had appeased them. And you all know what happens to appeasers: The more you give in, the more they ask, the longer the queue of demands grows. At some stage you had to say, "No. Enough is enough." And that's what Margaret Thatcher did.

INTERVIEWER: And she called him "the enemy within"?

LORD KENNETH BAKER: There were various trade union leaders in Britain at the time who Margaret Thatcher designated as the enemy within. One was Scargill in the National Union of Mineworkers, and the other was Red Robbo in the motor industry. She looked upon them as people who were sapping the economic strength of the country because they were not letting managers manage, and they always felt that if they put enough pressure on the jugular of the prime minister, if they could threaten a strike, threaten the closure of the railways, threaten the closure of the steel works, threaten the closure of the mines, the government would have to give in to their demands. Huge wage demands were granted—10 percent, 15 percent, 17 percent. They were prepared to put the country to ransom. We were not prepared to go on on that basis, and so the legislation was brought in to change all that.

INTERVIEWER: I just wanted to talk about some of the battle lines of that strike, because we are covering it, and the footages are quite horrific.

LORD KENNETH BAKER: The miners' strike, in terms of the economic management of Britain, was an utterly critically important event. First, it lasted for a year, and it became a very bitter dispute because the miners had had tremendous success both in 1972 and in 1974—in fact breaking Ted Heath's government. In 1972 they secured a wage settlement of 18 percent, after a very violent strike. In 1974 they did it again, and they actually brought the government down. They thought they could do it again. There was tremendous element of "We will get Thatcher." The Labor Party in the House of Commons was poorly led by Michael Foot, and they could not see the way of bringing down the government, and so the unions, particularly Arthur Scargill, had the opportunity and felt they could do it.

It was a complete conflict, and it was a very bitter conflict, and a very nasty conflict. There was violence on the picket lines, growing much worse [than] in 1972 and '74. The miners were intimidated; some wanted to go and work. They were intimidated; their homes were attacked; pressure [was] put on their families and wives. And there was definite fighting, confrontation. The police had to be brought in. The police were knocked about and were trampled down, and the country realized through that conflict that Thatcher was right; you could not have this happening. Lots of people came to me, Labor members of Parliament saying—because I was a member of the government, a middle-ranking minister—saying: "Can't you persuade her to do a deal? We can't go on like this. This is tearing the country apart." It actually wasn't tearing the country apart. It was tearing the movement apart. And it was tearing the trade union movement apart. In fact, the country was appalled by what was happening, and the country was very sympathetic to the line the government was taking.

The Thatcher Revolution and British Privatization

INTERVIEWER: Back to the early days of the Thatcher government, which was quite revolutionary. Having all this opposition, was there a sense of excitement that something was in the air, [that] something was going to happen? Or was it a slower process?

LORD KENNETH BAKER: Well, there were people in Margaret Thatcher's first Cabinet who were not enthusiastic about her at all. They came from the old ... side of the Conservative Party and believed basically you should keep quiet, do a deal with the unions, and give in; don't reduce taxation very much—a cozy sort of life. And in the course of the first two or three shuffles of her government Margaret sacked them and appointed people who were more minded her way.

She promoted people who were more minded her way, like Nigel Lawson, for example, who became chancellor of the Exchequer after Geoffrey Howe. He was first given the job as the oil minister. [These were] very exciting times to be around, because change was in the air, and I was involved in that, particularly in privatizing British Telecom.

INTERVIEWER: Go ahead and talk about the privatization.

LORD KENNETH BAKER: The interesting thing about privatization, which was one of the most important things that occurred in the [Thatcher] years, [was] the selling off of state assets. In our history it was as important as Henry VIII dissolving the monasteries in 1539. When the Church of England was founded by Henry VIII, he had huge power blocks, the monasteries, very powerful, very rich organizations, and he decided in 1539 to dissolve and literally close them down, and spread the wealth around. The privatization of the great state assets was of that significance and importance.

Now, what is interesting about this is that it was not explicitly stated in our manifesto in 1979, the election which Margaret Thatcher won, what we were going to do with this. It was not said. And in fact, I think if it had been said we might even have won the 1979 election. I don't think it was very prominent in the ideas of Margaret Thatcher at the moment. She realized she had to run the economy in a different way and deal with the unions. Privatization came on slowly. When something very big happens, like privatization, historians and economists like to think you must have had very big causes. That is not how it happened. Apart from making pledges to sell off the state [interests] in small investments like Jaguar cars and BP and things like that, there was not any clear design to sell off the assets of BT and the telecoms, water, gas, electricity, and railways, all of which were completed in the Conservative years.

So how did it come about? [While] I was the minister for information technology, I inherited a bill from Keith Joseph in 1981 which ended the monopoly of British Telecom and the Post Office to provide their services. That was a very important thing. Keith conceptually was very clear about that. He said in order to bring in competition we must end their monopoly. That bill was being contested very strongly when I joined the government. For example, British Telecom, if you wanted a telephone, what you could have was a black one. ... And there was a quarter of a million people waiting for their telephone. You were jolly lucky to get one—you

waited, waited, and waited. This is ordinary telephones. But obviously in America, with the competition between the telephone companies, telephone supply was much easier, and [the public] were treated, basically, as customers, not as lucky people to get a few things ... from time to time. So the provision of an ordinary telephone became quite an important issue.

That first bill allowed us to open up competition. To give you an idea of how difficult it was ... I was told by British Telecom that their engineers would be killed if the wrong sort of telephones were attached to the telephone system. [I was told to imagine a] telephone engineer sitting in a hole on a cold February night, rain coming down, trying to fix two wires. His feet would be in water in the puddle in the hole, and if the wires weren't right, he'd be electrocuted. These were the sort of arguments that were being used by the old monopoly saying you can't do it.

Well, we told [them] that it could be done. We had to set up bodies to verify the equipment. We had to persuade people to make the equipment to sell it, and that was the beginning of privatization. It started with liberalization, liberalizing the supply. And of course the producer companies didn't like it. Producer companies like a monopoly. There were three people who supplied British Telecom, and they were very happy with the arrangement, thank you, so I didn't have much support from them, I may say. There was very little support for all of this. But we pursued [it]. As we were taking this bill through, I started working on much more radical ideas, because 12 years earlier, in 1969, as a very young backbencher, I'd introduced a measure to try and bring private money into BT. It was then called the General Post Office. ... I put down amendments as a backbencher. The Conservative Party in those days said: "Oh, well, he's a young chap; let him have his head. We're not going to do anything about this, but let him have a bit of a run." So those ideas of bringing money into telecoms go back really to the 1960s. ... But it lay fallow for 12 years.

In 1981 I realized that we could really move ahead in this area. I went to see Keith Joseph in the summer of 1981, and I said to him: "We have liberalized now. People are getting their telephones. We're letting companies provide value-added services over the network's answering services and these sorts of things. Let's take it to the next stage and see if we can actually privatize BT." And in the summer of 1981 Keith Joseph agreed. We went to see Margaret Thatcher and she said all right, prepare plans and proposals, and we then set about trying to do this. We had privatized one bit of the telephone system in 1981, Cable and

Wireless. Cable and Wireless was the old wireless telegraphy company of the British Empire. [In the old] British empire you'd find a radio mast and a chap wearing long khaki shorts tapping away underneath it, keeping the communications of the empire together, and Cable and Wireless was very largely that sort of company in 1981. [That] was the second operation, and we did actually float that in 1981. We decided to make an independent company and sell shares in it, and it provided communications in Jamaica and all around the empire. We also said that they would have the right to create another network in Britain for competition, called Mercury. BT had 100 percent of the [existing] network, so a consortium of the bank and BP and Mercury formed to create an alternative network. I gave them a license which allowed them to operate [this new] network and to make an enormous investment of laying down the main lines between the cities in Britain, different [lines] from BT. That was the beginning of real competition between BT and Mercury. We let Mercury be the only company doing that for seven years so we had a chance to get established.

So what was happening? Liberalization, competition, and then the ultimate stage is privatizing BT. Now, I only explained it that way to show you how an idea grows. It didn't have a great ideological foundation. It grew by removing step by step. If we had had a great ideological confrontation at the beginning of the Thatcher years, [if we said] we want to privatize all these industries, none of them would have been privatized. Now, I'm speaking very much as a practical politician in these matters.

INTERVIEWER: Can you talk specifically about what it was like for a customer in the late '70s, early '80s, when they had something wrong and they wanted to make a complaint?

LORD KENNETH BAKER: In telecommunications the whole industry was dominated by the supplier, British Telecom. There is only one. Right up to 1979 there was only one company you could buy a telephone from, BT. So you had to apply to them, [and] they had a waiting list of 250,000 people. [If] you had a complaint, you rang up, and you were passed around from company to company. It was essentially a producer-dominated operation, very much unlike America, which was a consumer-dominated operation.

People got very frustrated with this. They wanted something different. They saw the things happening in America, and they thought [they were] rather good ideas. The customer was not

receiving proper service. That's where it started from. That allowed us to liberalize the supply of equipment. That was the first step. When that had happened, we liberalized the supply of services, so little companies sprung up all over Britain, offering services over the telephony network, which only BT had done. BT tried to stop them. They unplugged them; they said they were disrupting the network. "If we have all these services you won't be able to get through," and all this sort of thing. Exactly the same thing France Telecom was doing 12 years later. We have a house in France, [and] I tried to buy [from] France Telecom four years ago an ordinary fax machine—you know, a fax machine, an ordinary fax machine. So I went down to the office of the French telecom company in Macou and I said, "I want to buy a fax machine attached to my telephone." They gave me a ticket to wait in a queue, to sit in a room. A concierge gave me a ticket to wait so I could be interviewed, and an hour later they said, "Well, why do you want a fax machine? We have one; we could supply one in about two months time if you're lucky." Now that was rather similar to how BT operated—not quite so dramatically as that, because the French will always be more bureaucratic than we are, but it was that sort of atmosphere. We wanted to change all that because technology was beginning to happen at such a pace that one supplier could not cope with this, however good his technology was. And so competition, liberalization was the first important stage.

INTERVIEWER: I'm just imagining what it was like. You phone up BT saying, "I've got a problem, I need a repair, I want a phone" or something. What was the response?

LORD KENNETH BAKER: If you rang up BT you might be put on a call waiting for quite some time, and then you would be greeted by someone who said, "Now, what's the trouble? What is the complaint? What do you want?" And you go into an administrative nightmare. As a result there were hundreds of thousands of people waiting for an ordinary telephone connection because only one company could do it. They would send out their employees when it suited them, rather than when it suited you. You say, "Well, I'm in on Tuesday morning." "Oh, sorry, we can't come out on Tuesday morning. We can only come round Friday afternoon." "Oh, I can't." "Then we'll add another week, another week, and another week." It was the monopolist supplier, and whenever there is a monopoly supplier there is inefficiency.

The "Mad Monk": The Radical Views of Keith Joseph

INTERVIEWER: [Tell us something about Keith Joseph.]

LORD KENNETH BAKER: Now, Keith Joseph was a most remarkable figure. He was a minister in Ted Heath's government and a minister of social security. In fact, he was quite a big spender in that particular role, but he became increasingly uncomfortable in that government because [it] turned its face against monetarism and followed a highly interventionist policy. Prices and incomes were controlled by the government, and it was clearly not working; it was collapsing. I was a junior minister in Ted Heath's government, and I remember having to attend meetings on Friday afternoon with three or four other ministers, where we would actually decide the level of charges plumbers would charge next week to repair taps, and how much taxi drivers could charge for fares, and how much hairdressers should get—their wages. It was absolutely unbelievable that this was all happening, and it all came to a very sticky end, a complete collapse.

Keith Joseph was clearly convinced that the government should not intervene in this way and that the government should be more concerned [with] money supplies. ... When we lost the election, when the Conservatives were defeated in February 1974, he persuaded Ted Heath to set up the Center for Policy Studies separate from Central Office because Central Office was not only the body of the Conservative Party that ran the party, it also had a research department. The Conservative Research Department had been an important body in shaping the Conservatives in the 1960s, in the 1950s, people like Iain Macleod ... and [Enoch] Powell were members of it, but it had become very much a sort of Conservative establishment body. Keith wanted a separate body to think the unthinkable, and Ted Heath always very much regretted that he allowed him to do this, because the Center for Policy Studies started to think the unthinkable and to put forward ideas that were totally against the collectivist views of the Conservative general policy until then. Keith Joseph did that in the summer of 1974, and he had made some speeches in that summer and autumn which were very controversial.

INTERVIEWER: What about the tabloid reaction to Keith Joseph?

LORD KENNETH BAKER: Yes, right, "Mad Monk." ... Keith, in between the two elections of '74, ... beat his breast and said we were to blame, we've got it wrong, we didn't make inflation our priority, we tried to do deals with the unions, do deals with business, we tried corporatism, and it didn't work. He did beat his breast. He was called a Mad Monk, and when he appeared on television he had a vein in his head which kept throbbing, and people said, "Oh, this is a

very strange figure indeed, this man." Nonetheless, he started to rethink the Conservative policy between those two elections.

INTERVIEWER: Can you talk to us about the tabloid reaction to the Birmingham speech? Tell us how that speech actually ruined [Joseph's] chances of ever being leader, and why the tabloid reaction actually created that situation.

LORD KENNETH BAKER: Keith Joseph, in the summer of 1984, made a very incautious speech in Birmingham in which he talked about the socioeconomic groups A, B, C, and D, and one interpretation of his speech was that the socioeconomic groups of C and D were not very bright people, and if they bred too much, [we] would have a lot of chunks about. The tabloids fixed upon this and they misinterpreted this, and they said that what Keith Joseph was saying is if the lower classes bred, they'd produce more lower classes, and so he was called Sir Sheath. I'm afraid that particular speech ditched Keith's chances of being leader of the Conservative Party. I think he probably regretted making it in those terms.

INTERVIEWER: Could you talk perhaps about what actually drove Keith Joseph's manner? Give us a bit more of a sense of the actual person, not so much what he did, but who he was.

LORD KENNETH BAKER: Keith was an unusual politician because he was intellectual, and intellectuals very rarely become practicing politicians. It was always said that the big distinction between the French and the English is that the English are intelligent and the French are intellectual. The British public have always been very cheery intellectuals, and Keith was an intellectual. He liked to challenge the received idea, and he believed that people liked to have debates like that on television. In fact, the British public don't like debates like that on television, whereas the French public loved debates like that on television. You could tune into the French television any night and you will find on one of the programs an intellectual debate, fascinating arguments of ideas. Keith loved those arguments of ideas, but the British public on the whole, they wanted their politicians to be more down to earth, and Keith always gave the impression that he's rather detached from reality. He was a charming man personally, immensely courteous. I was his junior minister when he was the minister for trade and industry, and he would always, whoever was at a meeting with him, he would accompany them not to his door but to the lift, down in the lift, and to the entrance of the

building. I've known no other politician in my life ever do that with the most humble people who come into his office.

"Selling the Family Silver": Privatization Takes Root

INTERVIEWER: Let's move on to the impact of privatization on popular capitalism.

LORD KENNETH BAKER: Privatization was probably the most important thing that happened in the 1980s. You must first remember that after the war in 1945, to win that war Churchill created the great government machine of socialism, when the government of the day controlled everything. The prime minister, after the war, continued and enhanced that so nationalization was the natural way in which things were done. There were natural monopolies—there was a natural monopoly in the railways, a natural monopoly ... of steel and of water and of gas and of electricity and telecommunications. That attitude and philosophy survived the 1950s, the 1960s, the 1970s. So by privatization, Margaret Thatcher was changing the architecture of Britain, the physical architecture of Britain, [which had been fundamentally the same] since 1945, and you can see that in the privatization programs.

When we came into office, there were about three million people who owned shares in Britain. By the end of the Thatcher years, there were 12 to 15 million shareholders, and this had largely been achieved by the privatization of the great monopolies. They were like great armies, the monopolies, great armies that had their territories, that had their turf, that had their own areas, who did things in their own way. It was the producer economy. ... That was all changed, and a fundamental change, the beginning was British Telecom. It was important that telecom was first. I was fortunate to be the minister who did that over a period of three years, because British Telecom showed to the rest of Britain it could be done.

When I started preaching privatization in 1981 and I went around Europe to talk to my counterparts in France and Germany and Holland, they looked upon me, bemused by a madman. They were very polite to me—well, they weren't polite to me in Holland. I addressed a large audience in Holland, and the Dutch minister got up and said, "This is all rubbish"—it's an unusual thing to do to a visitor—and he said, "We're not going to go that way at all." The Dutch [privatization of the] telecommunications business is one of the most aggressive in Europe now. It's also aggressive in Britain by being competitive, but that was the atmosphere

and attitude. People believed it couldn't be done. We showed that it could be done, and British Telecom was a great success. It was important to do it with a company at the cutting edge of technology because so much was happening. It was important to create direct competition to it, which we did with Mercury, and having done that, then other ministers looked at what could be done with gas and electricity. I went on to become the environment secretary and I agreed upon the privatization of the water companies, and then there was gas and electricity. Harold Macmillan, the old-style former prime minister, said this was like selling the family silver, and it seemed to be always a step too far, but it wasn't. We showed it could be done. We showed to the world it could be done, and we set an example ... to the world. Every other country [that] had a state monopoly in telecoms decided to privatize it—there's hardly one left now.

INTERVIEWER: Can you just sum up the success of the privatization of British Telecom?

LORD KENNETH BAKER: In the old days, the biggest companies in Britain were the oil companies, like Shell—it's actually a Dutch company—like BP. The oil companies are the big companies, and the nationalized industry is very big, but they were not companies that were bought and sold on the stock exchange. BT now has become one of the major significant telecom companies in the world, and because of the competition which I had actually set up in mobile telephony in Britain, Vodafone has become the biggest mobile telephone company in the world—all from Britain. That could not have happened unless we had all those changes in the 1980s.

A Cartoon Break, and Then Back to Business

INTERVIEWER: [Would you like to tell us about your office and the cartoons you've decorated it with?]

LORD KENNETH BAKER: As you can see from my office here, I collect all sorts of cartoons. The colored ones behind you are Britain's greatest cartoonists. The caricature is [by] James Gillray, who drew in the 1780s and 1790s, and he was absolutely a brilliant artist. ... The one in the center is David Lowe. There's also some very good American cartoonists. One that is particular to the things that interest you is this one that appeared in 1980 in the left-wing magazine *The New Statesman*. Now, this was the first budget of Geoffrey Howe, and Geoffrey

Howe is in the boat, looking out to the wrong end of the telescope. He just introduced a budget in which he increased VAT, which is our sales and purchase tax, to 15 percent from a very low level. This was revolutionary and very unpopular. It was the beginning of a monetaristic economic policy in Britain, and, as you can see, Keith Joseph, who was the author of this, is at the front of the boat, [and he] is also peering down the wrong end of the telescope. Margaret Thatcher is steering the boat into a whirlpool, and over here Milton Friedman is jumping ship, because he thinks that this whole boat—at least the cartoonist thinks—is going to go into the whirlpool. This was the time when [John Kenneth] Galbraith said that the Thatcher experiment is taking place, [and he encouraged us to] all sit back in our chairs and see the chaos. This was when the Thatcher government was deeply unpopular and beginning [to] move in on the policy based upon the control of inflation. That is how the left-wing cartoonists saw it. Even Milton Friedman was jumping ship, [but] the ship went on; it sailed very well. We won two elections after this, and we changed the shape not only of the economy, but the whole political world of Britain was changed. Tony Blair is the successor of Thatcher, [and] he hasn't actually changed Thatcherism very much.

INTERVIEWER: What do you think about Blair's party?

LORD KENNETH BAKER: Margaret Thatcher in effect ended the socialist way of looking at things, and in a way, one of her heirs is Tony Blair. He realized that the old-style Labor politics of state intervention, state control, high taxes, lots of social spending, is no longer acceptable. In fact, he hasn't followed a socialist policy; he is still a bit of interventionist—not a very successful interventionist, but Margaret Thatcher would give him credit for changing the Labor Party fundamentally.