Introduction

Privatisation entails the transfer of an activity from the public to the private realm – from the state to private agents. It therefore needs to be seen as part of an attempt to reverse the long-term increase in the role of the state in the economy. The proportion of public spending as a percentage of GDP among the advanced capitalist economies has risen from an average of less than 10 per cent in 1900 to around 45 per cent in the late 1990s. Britain, with public spending running at around 40 per cent of GDP, stands approximately mid-way between the EU average of around 50 per cent and the USA at 30 per cent (Economist, 20.9.97). Privatisation also raises the question of whether the transfer of assets from state to private hands involves a reduction in state power or simply a change in the way in which the state exercises power.

Privatisation has been defined by one of its advocates (Stuart Butler, co-founder of the Adam Smith Institute) as ‘the shifting of a function, either in whole or in part, from the public sector to the private sector’ (cited Feigenbaum et al., 1998: 1). One of its main promoters, Nigel Lawson, described it as ‘almost the same thing as de-nationalisation ... essentially the transfer of control of a whole industry or firm from the State to the private sector’ (Lawson, 1992: 198). Madsen Pirie, another leading proponent of the policy, as co-founder and President of the Adam Smith Institute, argued that privatisation went beyond the mere return of previously nationalised industries to private hands; sometimes it involved establishing ‘a
complex web of arrangements to create new owners, and in some cases new forms of ownership’ (Pirie, 1988: 9).

This chapter concentrates on the privatisation of the nationalised industries and the regulation of the privatised utilities such as British Telecom but also looks at other related developments under the broad rubric of privatisation. It begins by looking at the growth of state ownership of major industries and the problems that had developed by the 1970s. It then looks at the origins and developments of privatisation under the Conservative Government after 1979 and the distinctive British approach to the regulation of privately-owned utilities which involved a significant departure from practice in the USA, hitherto the main model for regulating privately-owned utilities. Then it looks at other aspects of privatisation, broadly defined, before concluding with a brief assessment of developments under Labour and the implications of this process for the nature of the state.

The growth of nationalised industry

Nationalisation in Britain has never formed part of some grand plan for transforming the economy. The Post Office – the last important nationalised industry – has operated within the public sector since it was established as the General Post Office in the early Victorian heyday of laissez-faire capitalism. It remained a government department until the late 1960s, headed by a ministerial Postmaster General (Tony Benn was the last). During the late nineteenth century local authorities practised what was then described as ‘municipal socialism’ by developing gas and electricity supply industries, as well as looking after sewerage and supplying three-quarters of the nation’s drinking water. The government rapidly assumed responsibility for regulating the privately-owned railways. Gladstone as President of the Board of Trade under Peel in the 1840s insisted on ‘the competency and right of Parliament’ to interfere in setting fares, by introducing the so-called Parliamentary train providing third-class carriages at one (old) penny a mile. The same legislation contained powers for the government to purchase railways 21 years after they had been built (Shannon, 1999: 146).

The first state acquisition of private industry was associated with impending war. Winston Churchill as First Lord of the Admiralty in