*[An Assessment of Privatization in the U.K.: Mistakes, Successes, and Future Prospects](http://www.carnegiecouncil.org/publications/archive/privatization_project/0004.html/_res/id%3Dsa_File1/4_Brian_W_Pomeroy.pdf) was written in 1991, not long after Margaret Thatcher’s time as Prime Minister of U.K., in which there was a major wave of privatization of state-owned enterprises. The excerpt below has been modified for the classroom.*

**Why did the U.K. privatize state-owned industries during the 1980s?**

Fundamentally, the U.K. government was trying to improve the efficiency of large enterprises which were in the public sector. Since the war [WWII], with both Labour and Conservative governments, it was acceptable for the public sector to be large; it was part of what we call a mixed economy. But in the '70s, when of course we had quite a severe recession in the U.K., there was growing and very intense criticism of the public sector. It was said to be inefficient: it overcharged its customers, there was a lack of competition--and so the prime objective of the government was to improve efficiency, lower prices, give better service, and introduce competition in industries which were state-owned. The criticism of the public sector wasn't entirely fair of course, but by most objective standards the economic performance of our nationalised industries, trading institutions, utilities and other state-owned companies was poor.

**How did the U.K. try to change the performance of state-owned industries?**

Now, clearly it isn't enough simply to say, "Well, in that case we'll privatize and it will all be ok". One has to have some idea, some model of what actually is going to change when you privatize. Clearly simply changing ownership *per se* does not change performance. And I think in the U.K. there were two prime ingredients which were expected to change the performance of our state-owned industries. The first was an improvement in the quality of management and the second was a widening of management's freedom to manage without government interference. Since these are very fundamental to the success or failure of the privatization program, I'd like to dwell on each in a little more detail.

First, in management: certainly in the U.K.--and I believe this is true in many other parts of the world--it was hard to attract good management into the nationalised industries. There are various reasons for that. One is that the public sector tends not to pay very well and in particular tends to find it difficult to provide incentive schemes, bonus schemes, share options, and so forth, and it is also cultural, because the culture of public service is that, in many parts of the world, you work for the sake of service rather than for financial gain. Secondly, quite apart from economic factors, in the U.K. there was something of a stigma attached to being a public servant. It's a stigma which I think has grown in the 1980's, partly as a reaction to what is perceived as poor performance, lack of motivation, and lack of incentive in the public sector. What we have found in the U.K. is that privatization has made it possible to attract good senior managers into what were once state-owned industries. Indeed, even the prospect of privatization has enabled companies to hire good senior managers before the privatization takes place. A very good example is British Telecom. Two years before British Telecom was privatized, it was possible to attract a high level chairman from the private sector, and a number of other senior executives from the private sector who may not have joined had they not known that the company would be privatized. So changes in management performance are the single most important ingredient of privatization and a privatization program which doesn't achieve that is unlikely to succeed. I said before, however, that one can't automatically transplant the U.K. experience elsewhere. It's not true in all parts of the world that the best management usually resides in the private sector. There are many Third World countries where the best management is actually in the public sector; the best educated and indeed, in some cases, those with degrees from Western business schools, will very often be in the public sector. So one can't automatically assume that in all places privatizing will suddenly tum on a tap of management talent which wasn't previously available.

The second major change which the British government sought to make in privatizing these industries was to reduce government interference. In theory our industries, even when state-owned, were run at arms' length from the government; in theory they were separate corporations, they had separate financial objectives and targets; and in theory they were independent. But in practice, ministers found it hard to resist intervening. For example, you would find domestic consumers of electricity or telecommunications subsidized by business consumers, so you had important economic distortions created by government's intervention in pricing. Also, these companies were not able to make investment decisions unfettered by government. For example, because funds came from government, all our nationalized industries had to get approval for capital projects over a certain size. And what they used to find was that their project-let's say a power station-was on a long list of government priorities which would include hospitals and tanks for the army and aircraft and all sorts of things that have absolutely nothing to do with their industry and what to them might have been a very good decision might not have been made simply because another government priority took precedence.