

MEETING WITH NATIONALISED INDUSTRY CHAIRMEN

You may like some bull points to encourage these doughty guardians of public assets:

- Privatisation can be good for them. Several Chairmen now see the benefits of freedom from Treasury control, freedom from negotiation with departments, freedom to set their own salary levels, freedom to buy shares in the business, freedom to move into new business areas or out of old ones without political intervention. More need to be persuaded.
- The Nationalised Industries Bill has been dropped. They will see this as a victory for their well-run (and unpleasant) campaign against it.
- Capital spending has been good - £7,309 million in 1983-84; £6,244 million in 1984-85. (NCB fell short because of strike, and British Telecom stopped counting following privatisation in November 1984.)
- Certain major projects like rail electrification, the fourth London airport, and the refurbishment of the tube system, have been approved or are continuing.

- There have been noticeable improvements in performance at BSC, British Airways and several others.
- Graham Day, who has done a splendid job at British Shipbuilders, shows that you can privatise loss-makers and tackle a declining industry vigorously.

However, you may like to remember just how disappointing the overall financial results of the public industries have been. In March 1980, the new Government set out its hope for a big reduction in losses and more self-financing:

Total external finance for Nationalised Industries:

	1979-80	1980-81	1981-82	1982-83	1983-84
					£m
<u>Forecast</u>	2,300	1,450	700	200	-400
(1979 prices)					
<u>Out-turn</u>	2,999	3,221	3,553	2,143	
(cash)					

Even allowing for the inclusion of Water, inflation, and for privatisation not envisaged in 1979-80, there are big overruns in these figures.

In March 1982, large upward revisions were made in the forecasts. The White Paper said this was "largely because of reductions in revenue resulting from lower demand".

These changes brought the figures for 1982-83 and 1983-84

much more into line with reality, but were deeply disappointing. The idea that it was all due to "reductions in demand" was suspect. The economy grew steadily from early 1981. The problem lay in cost increases and a slowness to adapt to new market conditions, particularly at Coal, Rail and Steel.

By February 1984, the Government had returned to optimistic budgeting:

Total external finance for Nationalised Industries:

	1983-84	1984-85	1985-86	1986-87
<u>Forecast (cash)</u>	2,500	1,881	1,145	91
<u>Estimated Out-turn</u> (cash)	2,285	3,211	2,250	

Despite regular efforts to put the industries overall on a self-financing basis, the Government has never succeeded in getting total external finance below £2,000 million per annum.

I believe it would be a mistake to quote inflammatory figures like these. The real picture is more complicated.

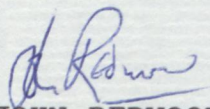
Between April 1979 and March 1986, total external finance will be a little under £20 billion. This compares with the initial plan in March 1980 of just over £4 billion in total from April 1979 to March 1984, with no extra money thereafter. I have not corrected for changes in the industries included in the numbers, which would improve the

picture a little. It excludes £1.5 billion of money for BL, with almost as much again as government guarantees of other borrowings.

The main villains of the piece have been Coal, Rail, Cars and Steel. The evidence to date seems to show that large public conglomerates rarely work as a whole. Jobs have been lost at an alarming rate. Only by splitting them up and setting up more dynamic businesses under separate management - and preferably with private capital - can you make real progress. The stark choice presented of total closure or soldiering on as we are is never the true business choice. Keeping all in the public sector guarantees political involvement in the redundancies and closures that all too often follow.

To deliver on these targets, the separate sale of British Rail Engineering; Open-Cast Coalmining; Truck, Bus, 4-Wheel Drive at BL; and the "long legs" of British Steel, are important. They will bring money into the remaining businesses, and free talent and capital for the ones being sold. Without such a process, the Nationalised Industries programme may continue to let you down.

Do you wish to have to cut pensioner benefits or put up prescription charges because nationalised industries have failed to deliver again? For that will be the real choice.


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