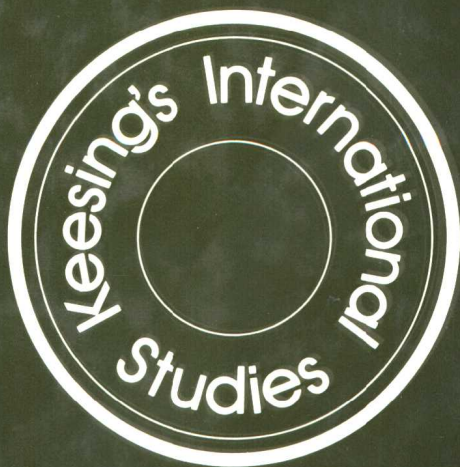


Privatization

**The UK Experience and
International Trends**



**PRIVATIZATION:
THE UK EXPERIENCE AND INTERNATIONAL
TRENDS**

KEESING'S INTERNATIONAL STUDIES

**Edited by
ROBERT FRASER**

**Written and compiled by
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Longman 

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INTRODUCTION

During the 1980s a major preoccupation of governments of a diversity of political persuasions, and in countries at a wide range of stages of development, has been the role of the state in the economy. Under severe pressures arising from the generally unsettled international monetary and trading situation and especially from growing indebtedness, governments have turned increasingly to the public sector to effect savings and to provide financial resources both for meeting their external obligations and for securing domestic recovery and expansion.

The involvement of the state in the productive, extractive and commercial spheres, and the stance of the political party or tendency in office, may be due to many different — indeed often contradictory — factors. Historical accident may be as important as ideological commitment both in the accretion and in the diminution of public-sector participation.

The present book examines the background and growth of nationalized industries and of other public-sector industrial, service and commercial activities in the United Kingdom, particularly since 1945, and the rapid process of sales which has taken place from the advent to office in June 1979 of the Conservative government and its re-election in 1983 and again in 1987.

The 1979 election marked a watershed in the post-war political development of the United Kingdom and led to increasingly polarized attitudes between the Conservative and Labour parties; moreover, a markedly decisive influence was exercised by Margaret Thatcher, who as Prime Minister has been widely seen as dominating her party in an unprecedented manner. Within weeks of the 1979 election a whole series of announcements was made on the role of different government undertakings, but over the following years the rationale of the privatization programme was explained variously as being to stimulate the economy; to submit government monopolies or near monopolies to the “discipline of competition”, within the framework of new regulatory mechanisms; to provide financial resources and so reduce the public-sector borrowing requirement; to encourage and make possible a greatly expanded share ownership; and to establish “the first post-socialist society”. Furthermore, as time went on increasing attention was paid to “hidden privatization” especially in the provision of services, with the local, health and other authorities being required to seek competitive tenders for — and frequently in practice as a result to contract out — services hitherto provided by in-house departments.

As far as concerns the Labour Party, as the principal parliamentary opposition, the processes of denationalization and privatization have been fiercely contested, but progressively there has emerged the view in some sections of the party that there cannot be a simple return to the pre-1979 situation; that the vastly increased number of individual shareholders not only in the privatized concerns but over a wide range of companies would not electorally support manifesto pledges simply to reacquire “hived-off” assets (on whatever basis of compensation); and that a fresh approach was needed to the public-sector or “socialized” economy. In mid-1988 the Labour Party was still engaged in a wide-ranging re-examination of policy, in which the interrelationship of ownership, control and industrial democracy formed a central theme.

After looking at the evolving policies and practices of the post-war United Kingdom governments, and at the privatizations already implemented or in prospect, the book turns to the situation elsewhere in the world. In a speech in the

House of Commons on July 2, 1987, shortly after the general election in which the Conservatives were returned for a third consecutive term of office, Nigel Lawson, who had just been reappointed to the post of Chancellor of the Exchequer which he had already held for four years, said: "The privatized companies are flourishing, recording higher profits, and providing a better service to their customers. Governments around the world are now following our example and injecting vigour into sluggish state-run industries by returning them to private ownership."

The role of the United Kingdom as a forerunner in a worldwide dash to privatization and as the setter of an example was perhaps slightly exaggerated by the Chancellor, but certainly the UK government was—with the exception of Chile—one of the first actually to implement on a substantial scale the policies which had increasingly been discussed and advocated in the early 1980s. However, as indicated above, the impetus and the motives for, and the practice of, privatization were rarely the same in any two countries.

One of the few major industrialized countries to carry out a programme on anything like the same scale as the United Kingdom was France, where the particular circumstances obtained in 1986-88 of a President and a Prime Minister from opposing political parties. In many other Western industrialized countries there was some progress along the path of privatization, but rarely with a comparable degree of urgency and determination. In the developing world one of the main factors leading to privatization—which often in fact took the form of a reform of public enterprise and the closure of inefficient undertakings rather than any actual change of ownership—was the influence of the International Monetary Fund and of the World Bank (and also, in some instances, of the US Agency for International Development), which frequently made such structural and institutional changes an implied or an explicit condition of financial assistance.

In a number of countries with Communist governments also, in the 1980s, there was a growing openness in economic life which manifested itself in part in a moderate liberalization in the field of the provision of certain services, together with a readiness to collaborate with foreign private companies or investors.

There is no uniform pattern, but a general trend can be discerned to the withdrawal of the state from the satisfaction of demands which can be met through other more market-related ways. While this book does not, therefore, seek to describe any grand overall design or to provide an exhaustive account of moves towards privatization in every country of the world, it does set out to enable the user to discern similarities and differences between developments in a range of countries and to place the UK experience in a global context.

Extensive use has been made of the resources of *Keesing's Record of World Events* (formerly *Keesing's Contemporary Archives*) and special thanks are due to the staff of *Keesing's* for the supply of information. Thanks are also particularly due to Nicola Greenwood for compiling the index.

Bath, 1988.

Robert Fraser

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instances of this were the aero-engine manufacturer Rolls-Royce, whose acquisition by the state took place under the 1970–74 Conservative government, and the motor manufacturer British Leyland, nationalized under the 1974–79 Labour government.

(8) Finally, a number of companies came into partial or total government ownership in other particular ways or for particular reasons. Thus, for example, the government acquired a major stake in British Petroleum as early as 1914, while the main air service companies were amalgamated as a state carrier in 1939.

As a result of the various strands of industrial policy outlined above, the state sector of industry accounted by 1979 for about 11½ per cent of Britain's gross domestic product and employed about 1,500,000 people.

Following the election in May 1979 of a Conservative government led by Margaret Thatcher as Prime Minister, there was a major reversal of this long-term trend towards greater industrial and economic centralization, which had been broken in the 1950s principally only by the denationalization of road haulage and of the iron and steel industry – the latter step being however largely reversed in the late 1960s.

The pattern described above can be explained in part by the following alternation since 1945 of Labour and Conservative governments, after a five-year period of Conservative-Labour-Liberal coalition in 1940–45 (and a brief caretaker Conservative administration in May–July 1945):

1945–50	Labour	1970–74	Conservative
1950–51	Labour	1974 (March to	
1951–55	Conservative	October)	Labour
1955–59	Conservative	1974–79	Labour*
1959–64	Conservative	1979–83	Conservative
1964–66	Labour	1983–87	Conservative
1966–70	Labour	1987–	Conservative

*In a minority from 1976 but supported by the Liberal Party in 1977–78.

1.2: LABOUR AND CONSERVATIVE PARTY POLICIES TOWARDS PUBLIC OWNERSHIP, 1945–79

1945–50. In its manifesto for the 1945 general election, the Labour Party stated that there were certain basic industries ripe for public ownership, some large industries which were not yet ripe for public ownership but which had to be supervised to prevent their prejudicing national interests by restrictive monopoly and cartel agreements, and some other smaller businesses rendering good service which could be left to go on with their useful work. In this situation the Labour Party proposed the public ownership of the fuel and power industries, of inland transport and of iron and steel, together with public supervision of monopolies and cartels.

Following its election to office in July 1945, the Labour government set in train a major nationalization programme, outlined by Herbert Morrison, the Lord President of the Council, on Nov. 19 of that year. Over the next five years the coalmining, electricity, gas, railway, inland waterway and road haulage industries were all taken into public ownership together with, principally, the Bank of England and Cable and Wireless, while legislation was also passed for

the nationalization of the iron and steel industry. By 1950 the Labour Party's main nationalization measures had thus been implemented or were in prospect.

1950-51. In its 1950 general election manifesto the Labour Party stated its intention that beet-sugar manufacturing and sugar refining and also the cement industry should be brought into public ownership. Moreover, where private enterprise failed to meet the public interest a Labour government would be empowered to start new competitive enterprises in appropriate circumstances. The Conservative Party, on the other hand, stated in its manifesto that a Conservative government would bring nationalization to a full stop; would 'save those industries, such as cement, sugar, meat distribution, chemicals, water and insurance, now under threat by the socialists'; would repeal the Iron and Steel Act before it could come into force; would halt the nationalization of omnibuses and tramways, with those already nationalized being returned, wherever possible, to their former owners, whether private or municipal; and would be prepared to sell back to free enterprise those sections of the road haulage industry which had already been nationalized. No further major nationalization measures were taken by the 1950-51 Labour government (although iron and steel nationalization entered into force).

1951-55. The Labour Party in its 1951 general election manifesto confined itself to promising to take over concerns which failed the nation and to start new public enterprises wherever this would serve the national interest. The Conservative Party, for its part, undertook in its 1951 manifesto to stop all further nationalization and to repeal the Iron and Steel Act; publicly owned rail and road transport would be reorganized into regional groups of workable size; private road hauliers would be given the chance to return to business; and although coal would remain nationalized there would be more decentralization and stimulation of local initiative and loyalties. Between 1951 and 1955 legislation was accordingly passed by the new Conservative government for the denationalization of the iron and steel industry and of most road haulage.

1955-59. In 1955 the Conservative Party in its general election manifesto affirmed its belief in the system of free competitive enterprise and its opposition to any further measures of nationalization, while expressing itself equally anxious that private enterprise should be free from any reproach of harmful restrictive practices. The Labour Party, on the other hand, called public ownership of the steel and road haulage industries essential to the nation's needs and undertook to renationalize them, with sections of the chemical and machine tool industries also to be taken into public ownership; again it promised where necessary to start new public enterprises.

At the first Labour Party annual conference following the election (in October 1955), Hugh Gaitskell, the party leader, said during debate on resolutions on nationalization and the nationalized industries that it was and would remain the policy of the Labour Party when taking industries into public ownership to pay fair compensation, since if it ever departed from that policy 'I can think of no better gift to the Tories for the next election'; moreover, the party had to show the electorate that nationalization was related to the standard of living, to economic security and to greater equality, and that it was a means and not an end in itself.

1959-64. In its 1959 general election manifesto the Conservative Party expressed its utter opposition to any extension of nationalization by whatever means, and its commitment to do everything possible to ensure improved

commercial standards of operation and less centralization in those industries already nationalized. A new authority would be set up to bring a greater measure of freedom to nationally and privately owned airlines, and the Post Office's current finances would be separated from those of the Exchequer.

The Labour Party's 1959 general election manifesto contained the following section on the nationalized industries and nationalization policy:

'The nationalized industries have played a great part in Britain's post-war development. Pits have been modernized, atomic power stations built, a massive modernization of the railways started. But one crying need is to clear up the present muddle by an overall national fuel policy.

'The work of our nationalized industries has been made much more difficult by the Tories. Big business and the Tory Party itself have invested huge sums in propaganda campaigns, designed to discredit the idea of public ownership. Many of the government's policies have, indeed, been activated by prejudice – for example, the transference of work from publicly owned railway workshops to private firms and the favouritism they have shown to private air firms. Under a Labour government the nationalized industries will be given the opportunity once again to forge ahead.

'As part of our planned expansion, it will be necessary to extend the area of public ownership. The private steel monopoly will be restored to public ownership, in order to ensure its expansion and give the taxpayer value for the large sums of public money still invested in it. Commercial long-distance road haulage will be renationalized and built into an integrated transport system.

'With half a million new cars coming on the roads each year, the government's road programme is entirely inadequate. But to solve the problem, road building must be related to a national plan which covers all the transport needs of an expanding economy. It must also deal with the appalling problem of road casualties.

'We have no other plans for nationalization. But where an industry is shown, after thorough inquiry, to be failing the nation we reserve the right to take all or any part of it into public ownership if this is necessary. We shall also ensure that the community enjoys some of the profits and capital now going to private industry by arranging for the purchase of shares by public investment agencies such as the Superannuation Fund Trustees.'

After losing its third successive general election, the Labour Party underwent a period of intense debate on policy particularly towards nationalization. At its conference in November 1959 Hugh Gaitskell concluded his address in follows in respect of public ownership and nationalization: 'We should make two things clear. First that we have no intention of abandoning public ownership and accepting for all time the present frontiers of the public sector. Secondly, that we regard public ownership not as an end but as a means – not necessarily the only or the most important one – to certain ends: full employment, greater equality, higher productivity. We do not aim to nationalize every private firm or create an endless series of state monopolies. While we shall certainly wish to extend social ownership in particular directions as circumstances warrant, our goal is not 100 per cent state ownership. Our goal is a society in which socialist ideals are realized. Our job is to move towards this as fast as we can. The pace at which we can go depends on how quickly we can persuade our fellow citizens to back us. We should try to express in the most simple and comprehensive fashion our ultimate ideals. The only official document which

now attempts to do this is the party constitution, written over 40 years ago [in 1918]. It seems to me that this needs to be brought up to date. For instance, can we really be satisfied today with a statement of fundamentals which makes no reference to colonial freedom, race relations, disarmament, full employment or planning? Then of course there is the famous phrase: 'To secure for the workers by hand or brain the full fruits of their industry and the most equitable distribution thereof that may be possible upon the basis of the common ownership of the means of production, distribution and exchange, and the best obtainable system of popular administration and control of each industry or service.' [This wording of Clause IV (4) of the Labour Party constitution remained unchanged in 1988.] Standing as it does on its own, I think this is misleading. It implies that we propose to nationalize everything, but do we? Everything? The whole of light industry, the whole of agriculture, all the shops, every little pub and garage? Of course not. We have long ago come to accept a mixed economy.'

At its annual conference in October 1960 the Labour Party approved a revised statement of party objectives which reaffirmed the first full declaration of such objectives in 1918, including an unchanged Clause IV, but which in addition recognized that both public and private enterprise had a place in the economy.

1964-66. The Labour Party was returned to government at the 1964 general election after a 13-year period out of office. In its manifesto the party referred specifically only to replacing the private monopoly in steel by public ownership and control, and to the reorganization under full public ownership of the water supply industry which was already owned by the community; at the same time it undertook to set up a Ministry of Economic Affairs with the duty of formulating, with both sides of industry, a national economic plan, and also to go beyond research and development and establish new industries, either by public enterprise or in partnership with private industry. The Conservatives, on the other hand, described the Labour Party's policy of extending state ownership and centralized control 'economically disastrous and incompatible with the opportunities and responsibilities of a free society' and (as in 1959) expressed its utter opposition to any extension of nationalization, whether outright or piecemeal, and its intention to complete the denationalization of steel; industries in public ownership would continue to be developed as modern businesses.

1966-70. Having been elected with a very small overall parliamentary majority in 1964, the Labour Party sought the support of the electorate in a further general election in March 1966, when it was returned with an overall majority of 97. In its manifesto for this latter election it said that the proposed Industrial Reorganization Corporation (IRC) would stimulate rationalization, modernization and expansion in those fields where British industry at present seemed unable to compete with the great firms of the United States and Europe, while in those cases which presented special problems too serious to be overcome from their own resources, government must be ready to help. To this end, apart from vigorous action by the IRC, it was proposed (i) to continue and develop policies introduced by the new Ministry of Technology for providing purposive financial assistance to key industries such as computers and machine tools; (ii) to use the various publicly financed research councils and the enlarged National Research Development Corporation to sponsor and develop new

science-based industries; (iii) to transfer the private steel monopoly into public ownership and to rationalize its structure; and (iv) to rationalize the aircraft industry on the basis of public participation.

1970–74. In 1970 the Labour Party unsuccessfully sought re-election to government on a platform which included additional finance for the IRC and the bringing together of the nation's ports under a National Ports Authority to which new local port authorities would be responsible. The Conservative Party in its 1970 general election manifesto once again expressed its total opposition to further nationalization of British industry and committed itself to repeal the Industrial Expansion Act of 1968 which, it said, 'gives the government power to use taxpayers' money to buy its way into private industry'; specific projects approved by parliament, on the other hand, would continue to be given government support. A Conservative government would drastically modify the IRC and would prevent the waste of £76,000,000 on the nationalization of the ports. (The IRC was wound up in 1971.)

At each of the 1970–73 Labour Party annual conferences (i.e. those held during the life of the 1970–74 Conservative government) resolutions were approved on the subject of public industries and public ownership, including reference on two occasions to renationalization without compensation. Relevant passages from these resolutions included the following.

1970. 'Conference...declares its intention to oppose any proposal the government may make to pass into private hands the more profitable sectors of our public industries, such as telecommunications within the Post Office and the shipping and hotel interests of the British Railways Board. Conference now calls upon the national executive committee and the Parliamentary Labour Party to use all their influence and energies to ensure that our nationalized industries are developed to the full of their potential, and not used simply to carry the unprofitable operations that private enterprise will not shoulder.'

1971. (1) 'This conference opposes and strongly condemns the hiving off by the government of parts of the public sector and declares that Labour Party policy towards any assets denationalized is complete renationalization, without compensation, immediately upon the return of the next Labour government.'

(2) 'Conference calls upon the national executive committee to prepare a policy of public ownership based upon Clause IV [i.e. of the party's constitution] and to report to the next conference, together with proposals for a programme of public education.'

1972. (1) 'This conference instructs the next Labour government to implement Clause IV in full. Such a programme should bring into public ownership any industry which is essential to the national interests and initiate state industries at growth points of the economy.'

(2) 'Conference calls upon the national executive committee to formulate a socialist plan of production, based on the public ownership, with minimum compensation, of the commanding heights of the economy; such a programme to include the following measures: (i) the renationalization of all hived off sectors of publicly owned industries, without compensation; (ii) an enabling bill to secure the public ownership of major monopolies; (iii) public ownership of land, building industry and finance houses; (iv) setting up of industrial enterprises in areas of high unemployment.'

1973. (1) 'This conference considers that industry will best serve the people of the country when they control it. To this end conference supports proposals

by the national executive committee for early nationalization of important parts of the British economy.'

(2) 'This conference, recognizing the need to change the balance of public and private power, expresses its belief that the next Labour government should extend public ownership and that the national executive committee, when drawing up the election manifesto, should commit the party to a programme which is capable of being carried out in the term of office of the next Labour government....Conference accordingly supports the establishment of the National Enterprise Board, the proposed Co-operative Development Agency and the principle of public investment in private firms and full national participation in the growth sectors of the economy. Conference rejects the concept of shopping lists of industries and companies for social ownership.'

Although all the above resolutions were approved by the respective conferences, only the last – (2) of 1973 – was adopted by a majority of more than two-thirds on a card vote and so qualified for consideration as of right for inclusion in the next general election manifesto.

1974. The Labour Party was returned to office in 1974 as a minority government on a February manifesto which included the following passage on the extension of public ownership: 'In addition to our plans...for taking into common ownership land required for development, we shall substantially extend public enterprise by taking mineral rights. We shall also take ship-building, shiprepairing and marine engineering, ports, and the manufacture of airframes and aero-engines into public ownership and control. But we shall not confine the extension of the public sector to loss-making and subsidized industries. We shall also take over profitable sections or individual firms in those industries where a public holding is essential to enable the government to control prices, stimulate investment, encourage exports, create employment, protect workers and consumers from the activities of irresponsible multinational companies, and to plan the national economy in the national interest. We shall, therefore, include in this operation sections of pharmaceuticals, road haulage, construction, machine tools, in addition to our proposals for North Sea and Celtic Sea oil and gas. Our decision in the field of banking, insurance and building societies is still under consideration. We shall return to public ownership assets and licences hived off by the present government, and we shall create a powerful National Enterprise Board....Wherever we give direct aid to a company out of public funds we shall in return reserve the right to take a share of the ownership of the company.'

1974–79. In October of 1974 the Labour Party was re-elected with a narrow overall majority. In its manifesto for the second election the Labour Party set out as follows its industrial policies (involving in many respects a restatement of the undertakings included in the February manifesto). 'A new and urgent Industry Act will provide for a system of planning agreements between the government and key companies to ensure that the plans of those companies are in harmony with national needs and objectives and that government financial assistance is deployed where it will be most effectively used. Wherever we give direct aid to a company out of public funds, we shall reserve the right to take a proportionate share of the ownership of that company; and wherever possible this public support will be channelled through the planning agreements system. In addition to our plans for taking into common ownership the land required for development, we shall substantially extend public enterprise by

taking over mineral rights. We shall also take ports, shipbuilding, shiprepairing and marine engineering, and the aircraft industries into public ownership and control. We shall not confine the extension of the public sector to loss-making and unprofitable industries. We shall set up a National Enterprise Board to administer publicly owned shareholdings; to extend public ownership into profitable manufacturing industry by acquisitions, partly or wholly, of individual firms; to stimulate investment; to create employment in areas of high unemployment; to encourage industrial democracy; to promote industrial efficiency; to increase exports and reduce our dependence on imports; to combat private monopoly; and to prevent British industries from passing into unacceptable foreign control. We do not accept the negative policies adopted by the previous Tory government towards the nationalized industries. We shall restore to our public enterprises the assets and licences which the Tory government took away from them, and we shall encourage and help them diversify into new industries. We shall bring forward early proposals to ensure that banking and insurance make a better contribution to the national economy.'

The Conservative Party in its manifesto for the October election stated: 'In the last few months investment and industrial confidence have received a terrible and deliberate battering. Taxation has clawed back much of the cash which industry needs. Threats of nationalization have destroyed confidence. It is time to call a halt to these immensely damaging policies. Above all, we must recognize that in a mixed economy like ours economic success depends very largely on private enterprise. One of the most valuable things we could do for industry would be to assure it that for several years ahead there would be no threat of new nationalization or more state direction.'

During the life of the 1974-79 Labour governments the aircraft and shipbuilding industries were taken into public ownership and the National Enterprise Board was set up. However, despite the enactment of the Community Land Act in 1975 no real progress was achieved in the taking of development land into public ownership, and no legislation was enacted on the ports industry.

1979 election. The Labour Party's manifesto at the next general election, held in May 1979, said that a re-elected Labour government would expand the work and finance of the National Enterprise Board, 'using public ownership to sustain and create new jobs and ensure that we get an adequate return on our investment'. It would continue its strong policy of regional incentives, and it would expand the work of the Welsh and Scottish Development Agencies and create similar development agencies in the English regions suffering similar problems. Planning agreements would be concluded with the major industrial companies, with the necessary statutory back-up powers. The party reaffirmed the policy which the Labour government had pursued that wherever direct aid had been given to a company out of public funds the government would reserve the right to take a proportionate share of the ownership of the company, and that wherever possible this public support would be channelled through the planning agreements system.

The Conservative Party's 1979 manifesto said that the British people strongly opposed Labour's plans to nationalize 'yet more firms and industries such as building, banking, insurance, pharmaceuticals, and road haulage', and that further nationalization 'would further impoverish us and further undermine our freedom'. It went on to give a firm pledge that if elected a Conservative government would offer to sell back to private ownership the recently national-