

# Liberty in Great Britain: The Present and the Future

by Nick Elliott

In Great Britain, liberty is making a strong run in the competition of ideas. Margaret Thatcher's Conservative government has given a public face to a body of ideas which preceded, and will outlast, her administration.

The most notable changes since 1979, when Thatcher was first elected, have been in economic policy. "Privatization" is the popular term for three classes of policy: the sale of state-owned industries to private shareholders, the contracting out of state services to private firms, and deregulation of private markets.

Stock offerings in state industries and public utilities are now a regular event. The public offering of British Telecom shares in 1982 pioneered the policy, and quelled popular suspicions by yielding easy profits for the small investor. Public offerings since then have included British Gas, British Airports Authorities, Rolls Royce, British Airways, and Jaguar. Those lined up for dispatch at the moment include water authorities, electricity, and coal mines. So far, the policy has entailed a transfer of asset ownership from state to private. The public utilities, however, remain statutory monopolies, with rival producers being excluded.

Debates are raging in economics journals over whether privatization has brought improvements in efficiency. One problem is that the government is concerned with other things besides efficiency. Privatization is often used as a means of filling Treasury coffers, and the

asset value of any newly privatized company would tend to be reduced if competition were permitted. It also seems prudent to make changes gradually, to evade the organized hostility of public sector unions and other interest groups, so that private sector monopoly may appear to be a necessary step on the road to free capitalism.

The second method of privatization involves competitive bidding by suppliers for the provision of public sector services such as refuse collection and hospital cleaning. This policy has saved local authorities much money, but as John Blundell of the Institute for Humane Studies has contended, money saved may not be returned to citizens in the form of lower local taxes.<sup>1</sup> The policy is not an unambiguous improvement. Despite these reservations, the policy has at least been discussed and—most importantly—accepted by the public, as an advance of market forces.

Most praise should go to the third policy of privatization, the deregulation of private markets. Two examples are worthy of note. The introduction of private sector competition into local passenger transport has worked quite well, and has become an accepted part of life for many people.

The other example is the "Big Bang" deregulation of financial services, which allowed for the combination of the roles of broker and jobber, and abolished the requirement of fixed commissions for jobbers. This has ensured that London will remain a major center of financial activity, and employment will continue to move into the financial sector. Significantly,

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many more workers in financial services have a share stake in the continued prosperity of capitalism. In addition, the market remains relatively unregulated, characterized by continual change. In this environment, workers are far less likely to endorse welfare state attitudes.

Regrettably, the deregulation of the financial sector has been tempered by two policies. The first of these, in 1985, made "insider dealing" a criminal offense; the law was rushed through Parliament in an attempt to conciliate Members of Parliament ruffled by trading scandals. The second, a greatly ominous piece of legislation, established a "self-regulatory" organization, the Securities and Investments Board. Effectively this has established a system of licensing for investment firms, and the probable danger is that established operators will use these new powers to exclude competitive beginners.

But these policies have not been nearly as significant as the shift in popular ideas that has taken place since 1979. Partly as cause, and partly in consequence of Thatcherite economic policy, there has been a favorable movement in popular opinion. The unspoken presuppositions which define the limits of debate have moved distinctly in favor of the market. Competition and efficiency are now regarded by most people as necessary and desirable; people no longer believe that the welfare state is faultless; all politicians now clamor to be defined as "libertarian."

## Why the Ascent?

It is instructive to look at the reasons for this shift in thinking and for the economic policies outlined above. Circumstances and an independent change of ideas are responsible.

Margaret Thatcher was elected in 1979 following a decade in which socialism demonstrably failed. Support for Thatcher was a rejection of what had gone before. The 1970s were a period of turmoil when the inability of government to control events was exposed in sharpest detail. These years were characterized by a lack of realism in which consequences seemed to belong to the distant future. Trade unions were at their strongest because government courted them. Union leaders were regularly welcomed at Downing Street for discus-



*Prime Minister Thatcher*

sions on economic planning. At the same time, with a Labour government, unions could afford to be militant. In 1979, however, people remembered strikes and electrical power cuts, and voted against them.

Until 1976, monetary policy was highly inflationary. Prices rose from the late 1960s onwards, peaking at a 33 per cent annual rate in the first quarter of 1975. The culmination was the balance of payments crisis in 1976. To avoid a plummeting pound, the government applied to the International Monetary Fund for a loan; this was popularly perceived as a national disgrace. From that time onwards, printing money was discarded as a policy solution. From 1976 to 1979 the Labour government maintained tight monetary control. Profligate spending was no longer a viable policy. This fact was recognized, most significantly, by Prime Minister James Callaghan speaking at the Labour Party conference of 1976:

We used to think that you could just spend your way out of a recession and increase employment by cutting taxes and boosting government spending. I tell you, in all candor, that that option no longer exists; and that insofar as it ever did exist, it only worked by

injecting bigger doses of inflation into the economy followed by higher levels of unemployment as the next step. That is the history of the last twenty years.

Public choice theory, at its simplest, gives gloomy predictions about what voters will vote for: the most attractive party will be the one offering the most handouts. Fortunately for Britain, voters in 1979 did not decide based on their immediate pecuniary self-interest. They recognized that, while their long-term interests would be advanced by the Conservatives, austerity would have to be endured in the short run.

These were the events which brought to prominence a revived system of classical liberal ideas. The intellectual tradition of liberalism was kept afloat in the interwar years by a handful of intellectuals like Edwin Cannan, Ludwig von Mises, and Wilhelm Röpke. The genesis of a new intellectual movement began after the Second World War. Under the auspices of the Mont Pelerin Society, politicians met with academic proponents of the free economy to compare notes. At the very time when policy, more than ever before, was conceived amidst the misapprehensions of state planning, libertarian ideas were reviving in academia. Milton Friedman began his notable efforts to bring the market to the masses with the publication of *Capitalism and Freedom* in 1962. At the same time, F. A. Hayek was working on an analysis of the economy of knowledge in markets and, reciprocally, a destruction of the conceptual foundations of central planning. Both these economists have been a major inspiration to the British Conservative government.

In the same period, the Institute of Economic Affairs was founded in Britain to promote the work of liberal economists. IEA papers have covered every imaginable topic of economics, they have been read by politicians, and are an acceptable component of university courses. In some cases, such as passenger transport and exchange controls, a direct influence on policy has been evident, but their more important function has been to alter the general limits of academic debate within which policy is conceived.

Public choice theory has been fundamentally important in explaining why societies fall prey to creeping collectivism, and why this trend is difficult to reverse. However, if this were the only application of the theory, then free-marketeters would be only helpless onlookers in the relentless extinction of liberty. Fortunately, there is more to it than this.

The Adam Smith Institute was conceived as an antidote, as an organ for the other side of public choice—the theory of micropolitics. Public choice theory tells us that radical reforms will be resisted by organized interest groups. The micropolitical solution is to make small, gradual changes, “death by a thousand cuts,” so that even if opponents realize what is planned, individual changes do not justify the commitment of resistance. Just as public choice theory explains that concentrated benefits accrue to organized lobbyists, micropolitics looks for groups with an interest in the maintenance of markets.

This approach has proved to be a stroke of genius. The first Thatcherite policy contrived with this in mind was the sale of public housing to private dwellers. At the start, the policy was denounced by opposition parties. Now the program has proved to be popular, and no party will risk alienating the thousands of voters who have benefited from it by threatening to repossess houses for the state.

The other policy formulated from the insights of micropolitics is the sale of state industries and public utilities. When the sale of British Telecom was first announced, telecommunications unions pledged obstinate resistance. The response was to give shares in the company to the workforce; consequently there was very little resistance. Whenever a sell-off occurs, preference in share allocations is given to small investors. This ensures that shares are widely distributed (the total number of individual shareholders has increased from 3 million to 8 million since 1979). Again, the Labour Party at first pledged to reclaim Telecom, but since then, realizing that this would not be welcomed by the 1½ million voters who hold shares, they have dropped the pledge.

In summary, the Thatcher government has its intellectual origins in the postwar revival of liberal economics. Policies have been successfully

implemented through a political strategy which circumvents opposition and gives visible benefits to new interest groups.

## Signs of Progress

In the past I saw it as a limitation of micro-politics that the strategy relied upon a receptive government ear; I feared that a change in power could end the gains of eight years. Following developments in discussion among the Left, I now have fewer reservations. The fact is that the shift in ideological boundaries is not confined to the Conservative Party, but is in progress in all parties.

To illustrate, consider two recent articles. Colin Ward, writing in *The Guardian*, a soft socialist newspaper, called for the Left to abandon reflexive endorsement of state action:

How sad that in Britain—birthplace of friendly societies, trade unionism and the co-operative movement—socialists should have been so intoxicated with power and bureaucracy and the mystique of the state, that they should dismiss their own inheritance as a path not worth taking. It's their own fault of course, for rejecting their history and origins for the sake of a version of socialism which is governmental, authoritarian, paternalistic and unloved.<sup>2</sup>

Similarly, David Selbourne, writing in the socialist journal, the *New Statesman*, argues that the Left should rediscover individualist roots:

It was, in essence, a libertarian politics of working-class and community self-reliance, underpinned by a strong moral sense of citizenship, justice and individual entitlement. It is a legacy which the left and Labourism have squandered; much of its surviving impulse has been co-opted and rearticulated by the Toryism which is now in power.<sup>3</sup>

## The Future

Acceptance of the market is now widespread. Within a decade the place of free enterprise no longer will be a matter of debate; its acceptance will be an unspoken presupposition upon which all debate proceeds.

Next the arguments must be won on social services—education, health care, and welfare payments. At the moment, a micropolitical plan is in progress to introduce, in stages, competition among schools. The aim is to avoid the organized hostility which meets education vouchers. The state National Health Service is yet to be tackled. Nor has a reform scheme been advanced for Social Security benefits and pensions. Reform has sufficient intellectual support; what is needed is a politically feasible method of introduction. These are the debates which will dominate the politics of the next ten years.

The last eight years have been a gain for economic freedom, but in the sphere of civil liberty, policy has followed a course of despotism. Britain has the strictest censorship of pornography in Western Europe. Following a scare campaign in the tabloid press, a law was passed in 1984 making the sale of “video nasties” a criminal offense. This scare ensued from the report of a Parliamentary Group Video Enquiry. Survey methods used in the enquiry were highly dubious, and the presentation of the report was partially selective and misleading.

To give one illustration, the popular press seized on the finding that 45.5 per cent of 7–16 year-olds had viewed at least one pornographic film. This figure includes, as the most widely seen film, “The Evil Dead,” a film passed for viewing by the British Board of Film Censors and therefore, under the stated terms of the report, not illicit. It is hard to avoid the conclusion that the whole enquiry was conceived and staffed with the aim of making a case for legislation.

In common with the United States, the Conservative government has pursued an anti-drug campaign. In 1986 a Drug Traffic Act was passed which, in an abandonment of the principles of common law, provides that the assets of the accused may be seized, and thus makes a preliminary assumption of guilt. Evidence indicates that this whole policy has failed. The street value of heroin is largely untouched by customs seizures, suggesting that narcotics importers have no difficulty in eluding law enforcers. A significant source of illness among addicts is the use of contaminated syringes; the

purchase of sterile syringes is illegal so that users often share them, or use them more than once. Fears over the spread of AIDS brought home the discomfiting truth that government policy has been responsible for one problem which it was supposed to solve. In Scotland, where spread of the disease has been particularly rapid, addicts are now permitted to trade in used syringes for fresh ones.

The most recent target of criminal policy has been the use of offensive weapons. Talk of new restrictions on firearms was already in progress when a multiple murder occurred at Hungerford. A chorus of demands for tighter controls followed. Greater limitations have now been introduced on the possession of semi-automatic rifles, and it seems highly likely that new laws will follow relating to other weapons. This will not be an effective policy against crime, since crimes which yearly proliferate do not entail the employment of guns (and least of all machine guns). Knives have also now been the subject of stricter legislation. Again with disregard for the common law principle of demonstrated guilt, an intention of malicious use is now assumed.

The policies of the Conservative government originate in the ideological inclinations of groups within the Conservative Party. To simplify greatly, there are three factions: wets, old right, and libertarians. Wets are paternalists, in the tradition of Disraeli, who advocate a pragmatic, as opposed to ideological, approach to policy. They seek a return to the mixed economy consensus of postwar governments. Members of the old right are supportive of draconian law and order policies, advocate the imposition of reactionary moral standards, oppose immigration, and are quite enthusiastic about the free market.

The Thatcher government is founded upon the support of the old right and libertarians. This explains the need for the government to maintain support among the old right in matters of criminal policy.

In future years this alignment will change. Many of tomorrow's Conservative Party leaders will rise from the Federation of Conservative Students. This body became dominated by libertarians in the late 1970s, and was disbanded by the party in 1986 because its uncon-

servative behavior had become an embarrassment to the government. By the time this ascendancy has come about, a large portion of the intellectual community will have been won over to the libertarian position on civil liberties, and public discussion will be under way. Those in the Conservative Party with an earlier libertarian background then will feel free to take openly the libertarian side in these debates. This shift in the focus of discussion will change the alignment of factions. In debates on drugs, pornography, and immigration the old right will line up with the wets to oppose libertarians. However, this does not mean that libertarians will lose because the sizes of factions will change also.

I noted above the growing acceptance of libertarian ideas across the political spectrum. If this continues, then fewer and fewer will hark back to the mythical golden age of the postwar consensus. In other words, there will be fewer Conservative wets. For those centrists who remain, the center will have moved, so that going along with the consensus will involve being more libertarian than it does at the moment.

On the left there has always been a current of libertarian thought. This stream is rarely manifested today because the focus of political discussion is on economic policy and on social services. The Left (other than a few dissidents) is not libertarian on economic policy, and rarely so on social services. The Left remains tethered to a command state outlook, and will continue to miss the political initiative for some time to come.

Optimism is justified. Hopeful predictions for the future of liberty cannot be dismissed as wishful thinking, because of the momentum behind the modern libertarian movement. While not denying the significance of our forebears, I regard our movement, in ideological consistency and in determination, as unique. My optimism is based on the sincere belief that the future is ours. □

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1. John Blundell, "Privatisation—by Political Process or Consumer Preference?" *Economic Affairs*, Volume 7, No. 1.
  2. *The Guardian*, October 12, 1987.
  3. *New Statesman*, October 16, 1987.

# Privatization

by John Chamberlain

Privatization goes slowly in America, but it is undeniably a world issue. E. S. Savas sums the story up ably in his *Privatization: The Key to Better Government* (Chatham House Publishers, Chatham, New Jersey, 308 pp., \$14.95 paper, \$25.00 cloth). Britain's Prime Minister Margaret Thatcher has led the way by her divestiture of either all or parts of state-owned enterprises including the aerospace industry, automobiles, radio, telecommunications, chemicals, oil, ferries, and hotels, involving a transfer of 400,000 jobs to the private sector. After privatization, the total profits in the first seven British enterprises to be denationalized rose by 49 per cent.

Practicality more than ideology has sparked the world divestiture movement. The dominant political party in Mexico would prefer to keep the state-owned services going if only to provide jobs for the faithful, but it is now selling off its hotel and automobile businesses. Both Argentina and Canada have appointed Ministers of Privatization. The Japanese have taken the first steps toward getting the telephone, tobacco, railroad, and airline enterprises out of government hands. In Brazil they are either selling or closing some of the 20,000 government-owned companies. Spain has chosen to turn textile, travel, tourist, truck, and automobile businesses over to the private sector, and Italy has sold shares in its largest bank and its pipeline-laying companies. In the Philippines, government-owned resort hotels, cement plants, soybean processing plants, pulp and paper mills, a shoe factory, and a copper mine have been put up for sale.

The most dramatic thing, says Savas, is what happened in China after the death of Mao Tse-tung. Here a billion people living in a totally collectivized state have been exposed to a form of privatization. "Farming communities," says Savas, "were disbanded and most farmland was returned to private ownership, with the result that food production skyrocketed." The Soviet Union's Mikhail Gorbachev has been following developments in China with an envious eye.

Savas, who sticks largely to generalized abstraction, is sparing with his individual anecdotes. But they crop up occasionally in interesting parentheses. In Britain there were no buyers for the state-owned cross-channel hovercraft ferry service. So the Thatcher government gave the company to the workers, who forthwith turned it into a profitable private enterprise.

Margaret Thatcher's prize exhibit is her sell-off of public housing to individual families. "In the first six years after being granted 'the right to buy,' " says Savas, "13 per cent of public housing tenants purchased their units, at discounts of up to 50 per cent. . . ."

The British experience with housing divestiture has excited some American legislators. But it would be impossible to replicate the British story in the United States. Fewer than 2 per cent of Americans live in public housing. Savas suggests that tenant management might solve some of the problems of this 2 per cent. He is also high on voucherization. The value of a housing voucher would be equal to the current annual subsidy per unit. Individual families