

# **BARRIERS TO**

# **PRIVATISATION**

**MICHAEL  
FORSYTH  
MP**

## **AIMS OF INDUSTRY**

### **Council**

*President*

Sir John Reiss, BEM

*Chairman*

Nigel Mobbs

*Vice-President*

Lord Taylor of Hadfield, DSc(Hon), FCIQB

*Chairman (Scotland)*

Adam Bergius, DSC

Sir Gordon Booth, KCMG, CVO

J. G. Cluff

R. W. Dean, CBE

Sir Charles Fletcher-Cooke, QC

W. R. B. Foster

E. J. Gordon Henry

J. P. Hourston, CA

Justin Kornberg

Kenneth McAlpine

Lawrence W. Orchard, CBE, TD

Lord Renwick

Raymond Seymour

Sir Neil Shields, MC

Mrs. Norah Tew, IDDA

Colin Tickner

Brian Trafford

Thomas Tudor

Michael Wates

### *Scottish Committee*

Adam Bergius, DSC (Chairman) Peter Clarke C. H. K. Finlayson

J. H. Forrest E. J. Gordon Henry John E. Milne John B. Park

H. L. I. Runciman R. B. Weatherstone H. A. Whitson, CBE

*Director*

Michael Ivens, CBE

*Aims of Industry is supported by 1,200 companies and 10 federations and associations (representing more than 35,000 companies)*

# **BARRIERS TO PRIVATISATION**

**MICHAEL FORSYTH**  
MP

**An Aims of Industry publication**

## **MICHAEL FORSYTH MP**

*Michael Forsyth has been a Member of Parliament for Stirling since 1983. He is a former Westminster City Councillor.*

*Mr. Forsyth is Vice-Chairman of the Conservative Parliamentary Environment Committee, and has written numerous pamphlets on local government, rating, the NHS and privatisation.*

*He was educated at Arbroath High School and St. Andrew's University (MA). He was Chairman of the Federation of Conservative Students 1976-1977.*

*He is Director of a City of London consultancy firm.*

# **BARRIERS TO PRIVATISATION**

**by Michael Forsyth MP**

---

Privatisation isn't easy. The point has been proved a thousand times over since contracting out by local authorities began on a serious scale in 1980 and since I first proposed contracting out of ancillary health services in *Reservicing Health* in 1982<sup>1</sup>. Even those of us who had studied the subject and were aware of the difficulties perhaps underestimated just how much local politicians and health authorities could be cowed by well-organised union campaigns, how many outright fiddles would be engineered to make sure that in-house labour would be retained even if contractors were cheaper, and how far the opponents of privatisation would go in the use of dirty tricks and criminal violence against contractors.

One of the troubles of too much government involvement in the provision of services is that it creates vested interests. The proponents of any reform—no matter how just and sensible it may be—find themselves under the remorseless assault of those who owe their lives and fortunes to the status quo. Beneficiaries of the government's largesse, and those who administer it, both have a powerful interest in resisting the proposed changes. The taxpayers and ratepayers who support the services, however, have a much less direct interest. An individual service is just one of many that they have to pay for: they would like to see general reductions in taxes and rates, but have little incentive to campaign strongly on any particular part of the budget.

The result is the classic 'public choice' problem identified by Professor James Buchanan and Professor Gordon Tullock<sup>2</sup>: politicians are bombarded with propaganda by those with a strong personal interest in keeping public spending high, but hear only weak and diffused complaints from those whose interests in keeping

---

<sup>1</sup> Michael Forsyth, *Reservicing Health* (London: Adam Smith Institute, 1982).

<sup>2</sup> James Buchanan and Gordon Tullock, *The Calculus of Consent* (1962).

down taxes are equally strong (or stronger) but less easy to identify. Naturally, the politicians opt for the quiet life and give in to the organised pressure. The public gets more government-run services than it really wants.

The vested interest groups who live off this corrupt system have grown adept at using it to their continuing advantage. The unions have forged effective alliances with beneficiaries' groups and have dominated the propaganda war. It is hardly surprising that local and national politicians have hidden behind the barricades rather than make themselves targets for organised opposition and abuse.

Does this 'public choice' problem mean that privatisation is doomed to be a promising idea with no hope of ever being applied? On the contrary. Once we have identified the obstacles it faces, it is easier to overcome them. So let us look in more detail at those obstacles, before turning to suggest how they can be removed.

## The barriers to privatisation

The barriers to privatisation can be split into two groups: natural problems in the political process and the organised barriers raised by opponents of the idea.

### Natural barriers

**1** The first problem we must overcome is the politicians' **native conservatism**. Politicians want to win elections. They don't want to do new things that might turn out to be costly mistakes or public relations disasters. They would prefer to preside over things as they are, possibly trimming a little here and spending a bit more there, rather than to institute any visionary reform. Conservative politicians are often the worst: some believe their job is to slow down the advance of socialism rather than to promote the ideal of a genuinely free society. And that is a complacency we cannot afford today: we *must* show that privatisation works while we have the chance. Conservative authorities which do not give privatisation an experimental test are derelict in their duty.

How can this native conservatism be overcome? It needs more information and more experimentation. Contractors must do more to show politicians that contracting *does* work; the think-tanks must do more to show *practical* examples of how privately produced services *are* operating in Britain and abroad. An ounce of practice is worth a pound of theory in the privatisation debate: many local authorities simply did not believe that contractors could empty a city's dustbins until Southend did it.

**2 Ideological opposition** will continue to be a chronic barrier to privatisation unless more experimentation takes place. Once contractors have proved their worth, ideological arguments will evaporate.

But often, contractors are not given the opportunity to show what they can do in a fair test. There are a number of ploys used by authorities to put ideology above the public interest.

- (a) Often, authorities accept in-house tenders even if they are higher than those offered by contractors. For example, Norwich and Norfolk Health Authority rejected tenders £200,000 below the in-house cost—requiring the Minister to intervene. Kettering Health Authority decided not to privatise hospital ancillary services because it would mean a reduction in manpower—a fine example of where an existing empire is retained no matter what the cost to taxpayers.
- (b) Sometimes, contract terms are unduly complex or restrictive, and new requirements are occasionally raised at short notice. After an initial round of submissions—when contractors had declared their hands—Hillingdon Health Authority imposed a new condition of longer hours than were presently covered, a condition which would make every tender more expensive. Other authorities have used the ploy of gathering in all the tenders, then changing the conditions to favour their in-house workforce.
- (c) Performance bonds are a good idea, allowing penalties to be imposed if a contractor fails to deliver 100% service. But they can be set at unrealistically high levels. For example, Norwich demanded a bond of a quarter of a million pounds, while South Pembrokeshire Health Authority demanded 50% of the first year

value of any contract. These absurd levels obviously deter tenders.

- (d) Other obstacles that can be raised include absurdly short timetables for tenders to be submitted, unsuitable contract durations (some have been for only one year), and obstructions to efficient performance once a contract has been awarded. Nursing staff in Orpington Hospital, for instance, refused contract cleaners admittance to the wards for enough time to do their job.

**3 Media pressure** is a strong influence on politicians, but its natural tendency is again to support ever-increasing public spending. If a local authority closes the most antiquated Victorian steam laundry, outraged workers will queue to tell the cameras how they have been 'thrown on the scrap heap' after decades of loyal service: it's gripping television. Local radio will delight in reporting the angry screams from the council gallery. Newspapers will report the scare that other public-sector unions will strike in support. Media-hungry pressure groups will explain how people will dress more dirtily, how disease will spread, and how the poor and the elderly will be worst affected.

The fact that privatisation might make local services more efficient is not visual. The savings are hard to show in a sensational way: they are spread thinly across large numbers of people who are difficult to identify and will not shout into microphones about it. Privatisation might produce better services and generate savings that stimulate local businesses and jobs—but that is much less sensational than the demonstrations, the strikes, and the stand-up fights.

### Organised barriers

The noise that can be generated by the big-spending lobby convinces politicians that that's where the votes lie. The ratchet moves ever more in the direction of the big spenders. Members of the public do not have the special interest or the stamina to fight an exhausting battle over each individual service: so in the end they lose out.

This system has been used to advantage by the opponents of privatisation. In the last few years we have seen very professional

campaigns from service beneficiaries, officials, and unions. We can identify the following sources.

**4 The users of existing services** form a readily identifiable body and can thus organise themselves (or be organised) very easily. Even if the global effects of privatisation are a paean of reason, there will always be those who do very nicely out of the present service structure and who will not hesitate in combining to stop any change. In addition, the prospect of privatisation inevitably casts doubt on the future shape of services, so there is no shortage of those who are deeply apprehensive—even if their services would not be affected or would in fact be improved—and who prefer to campaign for the status quo rather than accept an uncertain future.

Professional groups have taken full advantage of this. There is no shortage of self-appointed 'representatives' of service beneficiaries who are ready to oppose any change, no matter what. Only *more* public spending is acceptable to them, even though this is usually 'miserly' by their standards. And they are adroit at whipping up fears that privatisation might bring service cuts, poorer standards, or less public accountability—even though the record shows the precise opposite—because their goal is not efficiency but bigger budgets.

**5 Government officials** are drawn into this empire-building vortex. To them, large budgets mean more status and importance. So at local and national level, they rigidly protect their departments. The idea that their job can be done by outsiders is unbearable to them—even though contracting would mean that they were more free from political pressures to actually manage the delivery of the service more efficiently than they can do at present with in-house labour.

**6 Elected representatives** often fall into the same trap. They think that a large local authority, with large in-house service departments occupying large town hall offices, must be somehow more important than one whose work is done by outside contractors. They like the apparent responsibility that a large service department brings them. But in reality, the political power of in-house departments means that their managerial responsibility is actually less.

**7 Service providers** are frequently apprehensive about privatisation. It means that many existing practices must be changed; a contractor will want to cut out a lot of waste and inefficiency that has been taken for granted over the years. And even though contractors usually take on the majority of the existing workforce when they win a public-service job, workers will still be worried when the debate is going on. So they naturally tend to oppose any change and combine with others to stop it.

**8 Union bosses** are the strongest opponents of privatisation. They are against it on principle, because they have built large memberships on the back of big public-sector budgets. A contractor might bring in non-union employees to do the job; or he might be such a good manager that militant unions just do not have a place in his firm. That means falling union membership.

And union bosses have the power to mount major campaigns. They have vast incomes, often in the millions, with which to produce propaganda and organise campaigns locally—sending flying pickets to any council or health authority contemplating privatisation.

Look at the NUPE and NALGO pamphlets, posters, and other materials opposing privatisation—produced in their thousands at a cost of tens of thousands of pounds. Among other things, these union campaigns urge public-sector employees to:

- refuse to co-operate with any contractors
- hold strikes and sit-ins when privatisation is proposed
- use the media to resist privatisation
- keep up a barrage of complaints against contractors
- distribute leaflets door-to-door, opposing privatisation.

**9 The Labour Party** has, unfortunately, been drawn into this campaign, even though it should not be a partisan one. Union propaganda urges members to put pressure on Labour councillors and MPs.

**10** The use of dirty tricks, including outright violence against contractors and their property, is one of the most unsavoury aspects of the privatisation issue. This can take many forms:

- (a) Frequently, councillors who support privatisation find themselves the target of vicious campaigns, including threatening telephone calls and damage to their homes and property.

(b) Tactics against contractors' workers have been ugly. At Barking Hospital, the contractors had to hire buses to bring staff to work, and windows were broken by stones and bricks thrown by jeering pickets. The first transport firm had their yard broken into at night and several vehicles wrecked. A second bus operator was also the target of personal attacks and police are prosecuting over one of the numerous assaults on staff.

(c) Making life harder for contractors is a routine strategy. At Barking once again, pigswill was emptied into areas of the hospital that were cleaned by contractors. The Administrator of Cambridge Health Authority has claimed that union members have scattered rubbish and blocked taps in Addenbrookes Hospital, where contractors now operate.

(d) Propaganda lies are equally common, and NUPE has urged its members to keep up a stream of complaints against contractors. The NUPE General Secretary told MPs that £1,000-worth of crockery had been stolen by contractor's staff at Addenbrookes. This accusation turned out to be groundless. A COHSE claim that an operation was cancelled because of insanitary conditions was also false. But in such smear campaigns, the damage to contractors is often done before the truth emerges: and everywhere, the previous in-house shortcomings are quietly forgotten.

(e) Damage to property can be severe. Refuse-collection and street cleaning contractors in Wandsworth found their machinery vandalised, lorries burnt out, sugar and sand put into the fuel tanks of vehicles, tyres slashed, and hydraulic systems severed. Depots and offices were burgled and papers and work rotas stolen. In the Wirral, contractors found machinery damaged and the roads covered in broken glass.

## Removing the barriers

The barriers to privatisation are by no means impenetrable. With care and effort, they can be overcome.

The **natural conservatism** of decision-makers can be overcome by examples of privatisation working well elsewhere. This is why it is

doubly important to have more privatisation now: firstly, to improve services and save costs, and secondly to encourage others to do the same.

The **ideological obstruction** found in many authorities needs firm action by central government. The rules must be clear, straightforward, and enforced. Authorities should be obliged to invite tenders according to standard accounting rules, and to justify their decision publicly—or be forced to accept the best tender.

Think-tanks and politicians need to understand the worries of **vested interest groups** and to make sure they understand the rationale of privatisation. Service users must be reassured that privatisation is not a cuts exercise; officials must be shown that it offers them a *better* opportunity to exercise their management skills than the unresponsive in-house alternative; representatives must be reminded constantly of their obligations to provide the best services at lowest costs, not to build personal empires.

Faced with these barriers, contractors have proved themselves remarkably resilient. They have been determined to show what they can do in a new market where both sides are learning as they go along. It would be disappointing in the extreme if a weak and vacillating central government did not push the privatisation experiments into their next phase. The gains from further privatisation could be enormous; the losers from its being thwarted would be not only the public but the government itself.

## SOME OTHER **AIM** PUBLICATIONS

Local Government at the Crossroads <i>A. R. Illersic</i>	25p	Public Attitudes to Labour's Policies on Nationalization <i>A report on a survey by NOP</i> <i>Market Research Limited</i>	
The Image of Britain Abroad Evidence to the Committee on Aid to Political Parties	25p	The Law of the Sea Convention Need we think before we sign? <i>Donald Denman</i>	
Glasgow Belongs to . . . Whom? <i>Malcolm Hoppé</i>	30p	The Challenge of Soviet Shipping	£3.50
Galloping Bureaucracy and Taxation: The Radicalism the Case Requires <i>H. S. Ferns</i>	25p	The National Health Service: Facts and Solutions <i>Ralph Howell M.P.</i>	£1.20
A Practical Guide to Denationalization <i>Ian Gow M.P.</i>	30p	The Certification Officer? <i>NOP Survey</i>	15p
The Communist Party of Great Britain—Freedom's Foremost Enemy <i>Graham Mather</i>	45p	Politics—Companies and Unions <i>Michael Ivens</i>	60p
The Age of the Gulag Dealing with the Marxist Threat to Industry <i>Roger Rosewell</i>	70p	Aims Briefing—Trade Union Bill is Ballot Rigger's Charter <i>Ken Daly</i>	40p
Attitudes of Scottish Industry towards a Scottish Assembly: Survey of 300 companies	15p	How to get money from the GLC and other left-wing authorities <i>Alfred Sherman and Michael Ivens</i>	80p
Direct Labour: How Councils Waste Our Money <i>Malcolm Hoppé</i>	45p	Privatisation of Local Government Activities—Lessons from Japan <i>John Tepper Marlin</i>	£1.20
Getting Britain Moving	£1.50	The Technology of Ballistic Missile Defence <i>Air Vice-Marshal Stewart Menaul</i>	£3.00
The Crisis call for . . . A Minister for Denationalization <i>Alfred Sherman</i>	60p	Fair Play for Parcels	50p
The Woodward Case <i>Banned for life—the price of union participation</i>	12p	Political Violence—The Guilty Men <i>Michael Ivens</i>	80p
Building Nationalization and Our Balance of Payments	50p	Aims Briefing: Privatisation—a Threat to its future	20p
The American Telephone System: a blueprint for denationalization <i>Stuart Butler</i>	50p	Public Attitudes to overthrowing governments by force <i>NOP Survey</i>	20p
Pension Time Bomb (The Scott Report) <i>Alfred Sherman</i>	60p	Twenty seven miners at work tell their story: Results of a survey carried out for Aims of Industry's campaign against revolutionary violence	80p
Marxism and Managers <i>Dr. K. W. Watkins</i>	60p	What brought about these 10,732 criminal charges? <i>Ian Orr-Ewing</i>	40p
New Life for Old Cities <i>Anthony Steen, M.P.</i>	£3.25	Political Violence in Britain <i>A Symposium edited by Sir Alfred Sherman</i>	80p
The Individual, the State and the Trade Unions		London's schools—when even the Communist Party gives up! <i>John Marks</i>	30p
Economic Arguments	10p	Towards a New Philosophy of Employment <i>Ian Weston Smith (and others)</i>	£3.00
Industrial Concentration The Pleasant Face of Capitalism Local Government Corruption: Cancer and Cure		The Truth on the Smear Campaign against contract cleaning	60p
Who's Afraid of Multinational Corporations? The Industry Act: Should Industry Help The Executioner?			
Londoners and the Rates <i>Patricia Kirwan</i>	£1.30		
Views of Pension Funds and Insurance Companies on Labour's proposals on Pension Fund Investment <i>A report on a survey by Aims of Industry</i>			

## AIMS OF INDUSTRY

- was established in 1942 by leaders of free enterprise industry.
- is the only organisation founded—and actively working—to promote a free market economy and to defend freedom and enterprise.
- places emphasis on the responsibility as well as the efficiency of capitalism.
- believes there is a direct relationship between freedom for enterprise and the freedom of the individual.
- emphasises the importance of freedom of choice.
- provides important services for thousands of companies, federations, associations and individuals.
- has a Council which includes leaders of industry and the professions, who decide policy.
- believes that excellent results can be achieved by genuine working together between managers and other workers, and trade unions.
- is entirely independent of any political party, both ideologically and financially.
- ensures that the press and other means of mass communication, members of both Houses of Parliament, universities, schools and the public are adequately informed of the facts regarding freedom and enterprise.



## AIMS OF INDUSTRY

The free enterprise organisation

40 Doughty Street, London WC1N 2LF