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# **THE ETHICS OF PRIVATISATION**

by Charles Yeats

## **Abstract**

The main aim of the thesis is to provide an ethical evaluation of privatisation.

We begin by sketching a history of privatisation in order to give an initial impression of how it has dramatically re-drawn the economic borders of the state in Britain and in many other countries across the world. We also show how privatisation has come to challenge the post-war Christian consensus which was supportive of the mixed economy.

We then explain why we find a qualified Aristotelian-Thomist tradition offers us the best moral resource for our enquiry. To this end we set out Alasdair MacIntyre's project which seeks to respond to the interminable disagreement in ethics and to reinstate the classical and medieval tradition of the virtues. Then, while engaging with some of his interlocutors, we show why we are in basic agreement with the three main coordinates of his method: human wisdom, the Christian revelation, and rival moral traditions.

Next, as the basis for our evaluation, we assemble as many diverse perspectives as the scope of this study allows by pursuing three main lines of enquiry. The first explores the political, economic and moral justification for the nationalisation programme of 1945-51, in order to identify the principal arguments used at the time for and against public ownership. The second explores the experience of public ownership from 1951-79, in order to test the negative case for privatisation which claims that the nationalised industries failed and therefore there was no practical alternative to privatisation. The third explores the abandonment of public ownership from 1979 in order to explore the positive case for privatisation in economic liberalism.

Having indicated why we are not persuaded by either of these cases for privatisation, as the final part of our evaluation we look at privatisation from the perspective of a broad Christian vision of the common good. In the light of this moral tradition, we argue that privatisation fails our two basic tests of social justice, freedom and social equality. On the understanding that in the context of the modern global market it is no longer practicable to restore public ownership, we end by outlining, as a postscript, a new project which looks to build on the strengths of both nationalisation and privatisation while avoiding their weaknesses.

# **THE ETHICS OF PRIVATISATION**

**Charles Yeats**

**1998**

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the Requirements for the Degree of  
Doctor of Philosophy  
in  
the University of Durham  
the Department of Theology**

**September 1998**



**24 AUG 1999**

**Declaration**

I confirm that no part of the material offered has previously been submitted by me for a degree in this or any other university.

Signed.....*Charles Yeats.*.....

.. Date .....*30.1X.1998.*.....

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## **PART I INTRODUCTION AND METHOD**

Chapter 1  
**'A MAJOR WORLD REVOLUTION'**

Not a bad record for something we were constantly told was "just not on".

(Margaret Thatcher)<sup>1</sup>

From the Bolshevik revolution of 1917 until the collapse of Soviet communism in 1989, the world was witness to a great social experiment. It sought to turn society on its head by forcing the state to serve the interests of the working class. A crucial part of the experiment was nationalisation: the taking into public ownership of economic enterprise. This was the means of wresting economic power from the former rulers and of consolidating the political power of the new. So radical was the experiment that it led to a state of continuous but undeclared war between East and West: the Cold War.

In post-war Britain another experiment with similar objectives was tried. It was less radical than communism, drawing its inspiration mainly from nineteenth century romanticism, the Fabian idea of incremental social change, democratic socialism, and Christianity. Nevertheless, it too entailed an ambitious programme of nationalisation. A great list of major industries were taken into public ownership on the public corporation model. The result was a mixed economy, a hybrid of state socialism and capitalism. This compromise avoided the glaring moral failures of both communism and fascism by holding on to a commitment to parliamentary democracy. It also enabled the British working class movement to sustain their political challenge for over three decades and to improve working conditions in the nationalised industries.

The early successes of these social experiments caught the imagination of the developing countries. In those struggling to emancipate themselves from colonialism or the legacy of colonialism, nationalisation came to be widely espoused by the liberation movements as a means of ending control of their economies by foreigners. It was also widely adopted as a means of promoting development through the public corporation. Indeed so popular was the public corporation, with its impressive social and moral purpose, that John Redwood described it as one

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<sup>1</sup>Thatcher, M. *The Downing Street Years* (Harper Collins: London, 1993), p.687.

'of the most remarkable intellectual exports of all time'.<sup>2</sup>

By the 1970s, however, the world had moved on. The great socialist experiments were everywhere deeply in trouble as, in response to economic decline, an emphasis on wealth creation took over from that of distributive justice. Then, in 1983, Britain's first big privatisation, that of British Telecom, was to prove a startling success. It provided a means for the impecunious state to lay its hands on a new source of "ready cash". It also provided governments beleaguered by militant trade unions the hope that they could buy off the workers by offering them the bribe of popular capitalism: a shareholder democracy. Soon Margaret Thatcher's political, economic and social revolution was to be emulated and envied throughout the world. And it was not long before the great Berlin Wall was to come tumbling down in 1989, bringing with it the full revelation of the economic failure of public ownership in the former Soviet Union.

In this radically new world privatisation, understood as an ideology which provides a justification of the sale of public enterprises on wider grounds than the selective and mainly microeconomic approach called denationalisation, has swept everything before it.<sup>3</sup> It has launched what Redwood has called 'a major world revolution', and any politician who has resisted has been thrust aside.<sup>4</sup> In what follows, in order to give a fuller impression of the scale of this revolution, we shall begin by describing how privatisation has not only dramatically redrawn the economic boundaries of the British state, but has also commanded the support of all three main political parties, and how from Britain, privatisation has been exported to the rest of the world.

We shall then review the confused state of Christian social ethics in the wake of

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<sup>2</sup> Redwood, J. *Popular Capitalism* (Routledge: London, 1988), p.48 ff.

<sup>3</sup>This definition of privatisation draws on Christopher Foster, *Privatization, Public Ownership and the Regulation of Natural Monopoly* (Blackwell: Oxford, 1992), p. 108, who tentatively dates the change in outlook of the Conservative party leadership under Margaret Thatcher from denationalisation to privatisation to 1977. He writes:

To detect the change in official Conservative policy one needs a nose for ambiguity worthy of a nineteenth-century biblical scholar or civil servant. The key difference, perhaps between denationalization and privatization, lies between: 'In some cases [my underlining] it may also be appropriate to sell back to private enterprise assets or activities where willing buyers may be found' (1976), and the long-term aim must be to reduce the preponderance of state ownership and widen the basis of ownership in our community. Ownership by the state is not the same as ownership by the people.

<sup>4</sup> Redwood, J. *Popular Capitalism*, p.157.

privatisation. This is in order to show the extent to which privatisation has not only overturned the post-war Christian consensus for the mixed economy, but has also succeeded in winning Christian approval for itself. We shall then give an outline of our enquiry into the ethics of privatisation. Finally, we shall end the chapter with a survey of the literature which has been especially useful for our interdisciplinary study.

## A BRIEF HISTORY OF PRIVATISATION

Privatisation is an amalgam of ideas old and new. It draws on Adam Smith and George Orwell, as well as more recent liberal theorists, such as Friedrich Hayek, Milton Friedman, Robert Nozick, James Buchanan and Gordon Tullock.<sup>5</sup> It presented itself as a radical alternative to the Wilsonist socialism of the Labour Party, which appeared to have shut the Conservative party out of power in the 1970s. With the help of right wing think tanks, such as the Institute of Economic Affairs (IEA) and the Centre for Policy Studies (CPS), it 'captured' the Conservative Party, under the leadership of Keith Joseph and Margaret Thatcher, in a rolling programme of massive asset sales. The programme built up an unstoppable momentum and succeeded in privatising not only potentially competitive industries, such as British Telecom, but also some of the major natural monopolies, such as British Gas.<sup>6</sup> By the time Margaret Thatcher left office, on the 28<sup>th</sup>. November, 1990, privatisation had reduced the state-owned sector of British industry by some sixty percent. As she described the achievements of privatisation in her memoirs, 'it constituted the greatest shift of ownership and power away from the state to individuals and their families in any country outside the communist bloc'.<sup>7</sup> 'Not a bad record', as she boasted, 'for something we were constantly told was "just not on"'.<sup>8</sup>

Margaret Thatcher can well boast because, in addition to redrawing the economic boundaries of the state, she changed the political landscape through privatisation. One consequence is that it is easy to forget how many of those in her own party she called 'wets' opposed her on privatisation and just how strong was the Conservative party's commitment to

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<sup>5</sup> Representatives of the four distinct schools of the New Right; see further Helm, D. ed., *The Economic Borders of the State* (Oxford University Press: Oxford, 1989), p. 4 ff.

<sup>6</sup> For the list of principal asset sales for the period 1979-1987, see Vickers, J. and Yarrow, G. 'Privatization in Britain', in MacAvoy, P., Stanbury, W., Yarrow, G., and Zeckhauser, R., *Privatization and State-Owned Enterprises* (University of Rochester: New York, 1989), p.211.

<sup>7</sup> Thatcher, M., *op. cit.*, p.687.

<sup>8</sup> *Ibid.*, p.687.

the mixed economy in the post-war period. Until her revolution, the dominant party political philosophy was the *One Nation* Toryism of R.A. Butler and the *Middle Way* of Harold Macmillan. This was forged in the years of depression and shaped by the experience and sacrifices of wartime. It accepted the necessity of steering between the extremes of communism, which looked to be the direction history was pushing Britain before 1945,<sup>9</sup> and capitalism.

The contrast with the modern Conservative party could not be greater, for now privatisation is an ongoing policy commitment. Even potential privatisations, such as the Royal Mail, which Margaret Thatcher held back from, evidently only because of the connection with Royalty, cannot be ruled out should the Tories be returned to power. Indeed, much of Norman Macrae's *A Future History of Privatisation 1992 - 2022*,<sup>10</sup> in which he predicts the almost total withering away of the state - including the end of politicians - had already come to pass by the time the Conservatives were ousted from power in the 1997 general election. All of which represents a firm repudiation of Macmillan's famous plea to Mrs. Thatcher not to sell the family silver.

Privatisation has of course changed the Labour Party almost beyond recognition. Accepting that the Party's commitment to the social ownership of enterprise, enshrined in Clause IV of its constitution in 1918 by the Fabians, Sidney and Beatrice Webb, has been the subject of revision at least since Anthony Crosland advocated control in place of ownership,<sup>11</sup> the ethical socialism of the new party leadership now accepts that privatisation should not be reversed. Moreover, in a symbolic and decisive break with what Tony Blair calls the 'socialism of Marx and state control'<sup>12</sup>, the party has now redrafted its constitution to exclude the controversial commitment to nationalisation. With Clause IV the only section of the constitution to be printed on the party's membership cards until the recent change, it is perhaps not surprising that some party stalwarts have had to found a new party, Old Labour, in order to keep their political integrity.

And not to be left behind, the third main political party in Britain, the Liberal Democratic

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<sup>9</sup> Porter, P. *Britannia's Burden, The Political Evolution of Modern Britain 1851-1990* (Edward Arnold: London, 1994), p.349; see also p.269.

<sup>10</sup> Macrae, M. 'A Future History of Privatisation', 1922-2022 in *The Economist*, 21 December, 1991, p.17

<sup>11</sup> Crosland, A. *The Future of Socialism* (Redwood Burn: Trowbridge, 1956), p.64 ff

<sup>12</sup> Quoted in White, M. 'Delegates Warm to '90's Socialism' in *The Guardian*, 5 October 1994.

Party, has also responded to the challenge of privatisation. In a policy paper in May 1986, it proposed to give away shares in privatised companies so that all adults would have an equal share in them. There would also be tax incentives for employee shareholding and profit sharing schemes.<sup>13</sup> This was another dramatic break with the past, for in 1945 the Liberals had campaigned on a similar programme to Labour's: 'full implementation of the Beveridge Report, and government takeovers of national monopolies.'<sup>14</sup>

Reflecting on these changes, Gillian Peele concluded her review of contemporary conservatism at the end of the 1980s with the telling remark:

The last decade has seen an intellectual shift which has caused a redrawing of the borders of the British State. Whether the new borders are permanent or temporary only time will tell. It would be surprising, however, if they were ever again drawn in the same place as in 1979.<sup>15</sup>

Looking beyond our borders to the global impact of privatisation, Margaret Thatcher can also justifiably claim privatisation as one of Britain's most successful exports.<sup>16</sup> In the former Soviet Union, in Russia, for example, the end of communism has been greeted with a rush to privatise. In Western Europe, governments have been slower in following the British example. However, prompted by a mix of motives and pressures, including that of reducing public expenditure ahead of planned European Monetary Union, some seventeen years after the launch of the Thatcher revolution, governments across continental Europe have started what has been described as a mega sell-off of state assets.<sup>17</sup>

The developing world has also become a major new mission field for privatisation. John Redwood writes that in 'February 1986 Secretary of State George Schultz announced that US AID would encourage the idea of privatisation in each of its missions in developing countries with the hope of encouraging two privatisations in each mission territory every year. This was one of the most important decisions in spreading the message throughout the Third World.'<sup>18</sup> Many governments have seized the opportunity of raising much needed funds and have

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<sup>13</sup> Wiltshire, K. *Privatisation, The British Experience* (Longman Cheshire: Melbourne, 1987), p.120.

<sup>14</sup> Porter, *op.cit.*, p.260.

<sup>15</sup> Peele, G. 'Contemporary Conservatism and the Economic Borders of the State', in Helm, D. ed., *The Economic Borders of the State* (Clarendon: Oxford, 1989), p. 179.

<sup>16</sup> Thatcher *op.cit.*, p.687.

<sup>17</sup> Rowe, M. 'Europe's Mega Sell-off' in *MBA*, Vol.1 No.2. January 1998, p.11.

<sup>18</sup> Redwood, J. *op.cit.*, p.73.

voluntarily embarked on their own privatisation programmes. For instance, the government of the new South Africa has shelved the extensive programme of nationalisation promised in the African National Congress' foundation document, the *Freedom Charter*.<sup>19</sup>

Seen in this light, privatisation has to be judged a huge political success. In its global outreach it dwarfs the communist revolutions in the first part of this century. And like those earlier revolutions, privatisation already has had and still will have enormous consequences for ordinary human lives because it radically alters the political, economic, and social structures of society.

### THE IMPACT OF PRIVATISATION ON CHRISTIAN SOCIAL ETHICS

In bringing about this global revolution, privatisation has also had a major impact on Christian social ethics. In order more fully to appreciate the extent of the challenge, it will be helpful to begin with an outline of the Christian support for the mixed economy in the main traditions of Christian social ethics in the post-war period. Then, against this background, we shall explore the confusion which privatisation has left in its wake.

In English Christianity, the nature of the support for the mixed economy was always more complex and its extent more difficult to measure than that suggested by the popular description of the Anglican clergy as having 'pinkish' tendencies. Here the dominant tradition of social Christianity, represented by William Temple and Ronald Preston, has always been cautious in lending its support to any particular economic model. In contrast, the radical tradition, represented by Richard Tawney and Kenneth Leech, has been more forthright in its advocacy of government intervention in the economy. Nevertheless, while it must be acknowledged that there has never been uncritical support for public ownership from the leadership of the British churches, the leadership of the Church of England in the post-war period has generally represented a social Christianity which has relied on a dialogue with secular expertise that has been sympathetic to the mixed economy. As a consequence, and not forgetting the goading of the radical tradition, English Christianity was generally supportive or at least accepting of the mixed economy. There was undoubtedly substance, therefore, to the description by Giles Ecclestone, for many years General Secretary of the Church of England's Board for

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<sup>19</sup> See further the report of an interview with South Africa's Minister of Posts, Telecommunications and Broadcasting: Naidoo, J. 'Restructuring for Success', in Anderson Consultings' *Outlook*, Vol. 8, 1997, pp. 12-14.

Social Responsibility (BSR), that 'the typical ecclesiastical leader is a mixed economy man'.<sup>20</sup>

In the United States, the prospect of public ownership has never been very likely. Nevertheless, even there it may be possible to claim a strong following for democratic socialism among leading Christian social ethicists. There the roots of a Protestant opposition to capitalism can also be traced to the influences of a radical tradition, represented by the Social Gospel Movement, with its reaction to the individualism and the economic realities of the Industrial Revolution, and a tradition which is more appreciative of the ambiguities of capitalism, as represented by the Christian realism of Reinhold Niebuhr. The American Protestant social ethicist, J. Philip Wogaman, who has written extensively on economic issues, and whose thinking draws on both the radical and realist traditions mentioned above,<sup>21</sup> provides a good example. After acknowledging that it is possible that social market capitalism, democratic socialism, and economic conservatism may all be compatible with a Christian social ethic,<sup>22</sup> he expressed a clear preference for democratic socialism. As he put this in his book, *The Great Economic Debate* (1977):

My own inclination, over the long run, is more toward democratic socialism than toward the other two. I would at least agree with John Bennett that we live at a time when the socialist question needs to be pressed. I take it this means that, up to a point, other alternatives are forced to bear the burden of proof. For example, why should not the oil companies be nationalized or, at least, placed under very tight supervision in an overall energy policy? And why should there not be a comprehensive public health and medical care programme in countries like the United States as there is in countries like Great Britain?<sup>23</sup>

Turning next to Roman Catholicism, like English social Christianity, this tradition has never come out unequivocally for a particular economic model. Nevertheless, the claim may also be made for the development of this tradition until the present Pope, John Paul II, started something of a reaction, that, in its championing of a hypothetical middle or third way between economic liberalism and socialism, it was also supportive of the mixed economy in practice, for there was no other real alternative to either socialism or capitalism. It certainly accepted a

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<sup>20</sup> Quoted in Clark, H. *The Church Under Thatcher* (SPCK: London, 1993), p.34.

<sup>21</sup> Wogaman, J.P. *The Great Economic Debate: An Ethical Analysis* (SCM: London, 1977), p.134.

<sup>22</sup> *Ibid.*, p. 156.

<sup>23</sup> *Ibid.*, p.158.

measure of nationalisation in the interests of promoting social justice, although it must be admitted that this was very cautiously given. Thus Donal Dorr can write of catholic teaching on public ownership that 'the state should not intrude unduly in the economic sphere; therefore nationalisation of industry or of the economic services such as banking should never go beyond what was proved to be strictly necessary.'<sup>24</sup>

This cautious note, however, does not adequately capture the radicalism of catholic social teaching, which in places can be highly critical of free market capitalism. In this connection, Dorr maintains by the choice of title for his book, *Option For The Poor, A Hundred Years of Vatican Social Teaching*, that whatever the motives underlying the teaching of a particular encyclical, the contents of Roman Catholic teaching on economic life in encyclicals such as *Quadragesimo Anno* (1931), *Mater et Magistra* (1961), the Conciliar teaching in *Gaudium et Spes*, and the encyclical, *Populorum Progressio* (1967) are supportive, with a few interruptions, of a progressive option for the poor in the hundred years since *Rerum Novarum* (1891). While this may be something of a revisionist account of papal social teaching, such is the strong criticism of capitalism in some of the encyclicals that there is considerable justification for Alistair Kee's thesis that the stimulus for the inclusion of Marxist themes in what was to become Liberation Theology can be traced to the post-Conciliar movement and, in particular, to *Populorum Progressio*, with its radical call for the replacement of the present international structures of capitalism.<sup>25</sup> As Kee provocatively put this: 'The stimulus to use Marx's critical philosophy in the service of God's demand for justice and peace came to Latin America from the pope himself.'<sup>26</sup>

A similar highly critical stance against capitalism marks the radical element within the Ecumenical Movement, represented by some officials of the World Council of Churches (WCC). This tradition was influenced by the political theology of the 1960s, such as Jurgen Moltmann's *Theology of Hope* (1965), which sought to recapture Christian eschatology from its secular version in Marxism, and then, through its involvement with its member churches in the developing countries, was exposed to Latin American Liberation Theology, which built on the

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<sup>24</sup> Dorr, D. *Option For The Poor, A hundred years of Vatican Social Teaching* (Orbis: New York, 1983), p.109 - 110.

<sup>25</sup> *Ibid.*, p.257 ff. for a discussion of the encyclical.

<sup>26</sup> Kee, A. *Marx And The Failure of Liberation Theology* (SCM: London, 1990), p.162.

earlier political theology in its own context. In addition, the WCC had become heavily engaged in the development debate of the 1960s and 1970s. This had witnessed a growing disillusionment with the kind of optimistic capitalistic development theory, which suggested that, provided Third World countries followed the development pattern of the industrialised countries, their economic development was assured. In the face of little or no economic growth, and, in some cases, negative growth, building on themes from earlier conferences, such as the Oxford Conference (1937), officials of the WCC chose to champion a prophetic theology. This went beyond earlier criticisms of capitalism to repudiate *laissez faire* capitalism in its entirety.

One of the first clear signs of the radicalisation of the Ecumenical movement was the Geneva Conference (1966), whose stance was broadly endorsed by the official Assembly of the WCC meeting at Uppsala two years later. Writing of the Geneva conference, Charles West describes it as a watershed for, amongst other reasons, its role as a marker for the ensuing bifurcation in ecumenical social ethics, with one group continuing the dialogical method championed by William Temple, and a new group embracing a liberationist analysis, which called for a new social ethics derived from a participation with the poor in confrontation with their oppressors.<sup>27</sup> One of the best known exponents of this new method is Ulrich Duchrow, who became a consultant to the WCC following the Vancouver Assembly (1983). He believes that capitalism is heretical and, therefore, is a credal issue for the churches which calls for a confessing church movement. As he put this:

If it is correct that '*laissez faire*' capitalism and monetarist capitalism of national security are, in principle, the worship of idols and lead to an increase of wealth and power for the few at the cost of the lives of many, the church is presented not only with an ethical question but a question of faith. This is even more so when attempts are made at a theological justification of these death dealing mechanisms. Confronted by a totalitarian fascist state Dietrich Bonhoeffer established two criteria for a church confronted by a question of faith, a 'status confessionis' where a church must give a clear answer, 'yes' or 'no', and when she must become a confessing church (*eine bekennende Kirche*):

1. When a socio-political institution notoriously fails to fulfil its God-given duty,
2. When it tries 'too much' to be and to do, ie. when it becomes absolute.

The first argument against the capitalist economic order is that the economy

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<sup>27</sup> West, C. 'Ethics in the Ecumenical Movement', in *A New Dictionary of Christian Ethics* (SCM: London, 1986), p.181 ff.

systematically fails to fulfill its mandate, which is the satisfying of the basic needs of all its people. The second argument is that the economy aimed solely at the increase of money and which destroys people and the environment describes itself as autonomous and seeks its own theological justification. The consequence is that each church must, according to its own tradition, examine the economic structures and in the case of results similar to those related here, must repudiate them in the strongest possible form at its disposal, both theoretically and in practice.<sup>28</sup>

Duchrow's call from the WCC for capitalism to be made an issue of the '*status confessionis*' for the churches marks a kind of high-water mark in the Christian opposition to capitalism. Although his was an extreme position, in the light of the review of the main traditions above, it should be clear that all shared, along a spectrum, deep misgivings about the capitalist model. And, because they were all also critical of Marxist totalitarianism, they tended, if not always in theory, then in practice, to opt for the middle ground of the mixed economy. It is against this background, that we need to view the confusion which privatisation has helped bring about in Christian social ethics by encouraging a Christian justification for capitalism.

For this new project, we need to turn to the revival of Christian conservatism. This tradition, represented in the Nineteenth Century by Archbishop John Bird Sumner<sup>29</sup> and in the first part of this century by Bishop Hensley Henson of Durham, was in the shadow of the dominant social Christianity of Temple and Preston since the war, so much so that it could be described as having been subject to an eclipse. Of the diverse group of writers who have contributed to the tradition's renewal, three are deserving of particular mention because of the extensive academic recognition and general publicity they received in the late 1970s and 1980s: Edward Norman, Brian Griffiths, and Michael Novak.

The first of these to mount a challenge to social Christianity was the Cambridge historian, Edward Norman. His massive history of *Church and Society in England 1770-1970* (1976), with its sharp criticism of the leadership of the Church of England for accommodating its teaching to the secular attitudes of society, established his academic reputation. And there it might have remained were it not for the even-handedness of the BBC, which chose him to follow

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<sup>28</sup> Duchrow, U. 'The Witness of the Church in contrast to the Prevailing Ideologies of the Market Economy', in Atherton, J. *Social Christianity, A Reader* (SPCK: London, 1994), p.296.

<sup>29</sup> The early stage of Christian conservatism has been rightly called Christian political economy. See further Atherton, J. ed. *Social Christianity, A Reader*, p.334.

the left-wing sociologist A.H. Halsey as the BBC's Reith lecturer for 1978. It was these lectures which propelled him into the vanguard of public debate, which was then just beginning to turn on the post-war settlement under the pressure of continuing relative economic decline, high inflation, mounting unemployment, and industrial unrest. The lectures were published under the title, *Christianity and the World Order* (1979). This was provocative because, while repudiating much of his legacy, the title called to mind Archbishop William Temple's great tract for the reconstruction of the post-war social order with the title, *Christianity and Social Order* (1942). The theme of the lectures addressed Norman's claim that the ecumenical movement had politicized Christianity, and, in the process, had uncritically accepted Marxist assumptions. As he explained this charge:

By the politicization of religion is meant the internal transformation of the faith itself, so that it comes to be defined in terms of political values - it becomes essentially concerned with social morality, rather than with the ethereal qualities of immortality. Christianity today is, in this sense, being reinterpreted as a scheme of social and political action, dependent it is true, upon supernatural authority for its ultimate claims to attention, but rendered in categories that are derived from the political theories and practices of contemporary society. There are several versions of this tendency, and there are varying degrees of coherence in the extent to which it is accomplished; but all start from a rejection of preceding Christian attitudes, from a belief that Christians in the past have been too concerned with spirituality. Religious engagement with the world was seen to be an affair of charitable palliatives. In its place, contemporary Christians seek a corporate reaction to what are increasingly regarded as collective sins: racism, economic or cultural exploitation, class division, the denial of Human Rights, and so forth. This concept is itself a clue to what has happened. Christians are responding sympathetically to the creation of collectivist state structures, and to the secular moral assumptions which sustain their authority. The attitudes of Christians are, therefore, like those of society in general.<sup>30</sup>

If Norman helped initiate a process of undermining social Christianity in Britain, then it is Brian Griffiths who succeeded in re-establishing the tradition of Christian conservatism, with its Christian advocacy of the market economy. As a distinguished academic economist and an evangelical Anglican, Griffiths was invited to give the 1980 London Lectures in Contemporary Christianity, later published as *Morality And The Market Place* (1982). In these

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<sup>30</sup> Norman, E. *Christianity and World Order* (Oxford University Press: Oxford, 1979), p.2-3.

lectures, Griffiths was careful to provide a biblical critique of both socialism and the secular free market thinking of Friedrich Hayek and Milton Friedman, before advocating a conservative Christian political economy which is opposed to the mixed economy on the basis of principles deduced from the bible. These principles include the biblical mandate to create wealth, private property, and the relief of poverty. Although he stopped short of advocating privatisation in these lectures, his call for a more vigorous competition policy to include public sector monopolies, taken with his general opposition to the corporatist welfare state, can be interpreted as preparing the way for privatisation.<sup>31</sup> As he expressed his opposition to this model, he argued that it reflected a mistaken 'humanist philosophy in which the creation of wealth is of less concern and morally inferior than its distribution, in which the pursuit of equality has become the dominant economic philosophy and in which the state rather than the individual has come to be held responsible for solving our problems'.<sup>32</sup> Griffiths' pro-market approach attracted the attention of Mrs. Thatcher, who appointed him to head her Policy Unit in 1985. From this position, from his evangelical constituency, which by the 1980s had come to dominate the Church of England, and from his place on the Church's Industrial and Economic Affairs Committee, Griffiths established himself as 'the leading Christian moralist of the market-place in Britain'.<sup>33</sup>

Across the Atlantic, the Roman Catholic, Michael Novak, came to epitomise the spirit of the reaction against democratic socialism. So influential was his brand of Christian liberalism, that he is widely held partly responsible for the shift in the political economy of John Paul II. Novak dedicated his book, *The Catholic Ethic and the Spirit of Democratic Socialism* (1993), to the Polish Pope, and in it interpreted the encyclical *Centesimus Annus* (1991) as expressing a clear appreciation of the free market.<sup>34</sup> Although born in America, Novak's family ties with Eastern Slovakia may have helped him form his deeply hostile view of socialism and, like many emigres from Central and Eastern Europe, helped sharpen his awareness of what he believes is the Christian spirit of democratic capitalism. After a varied academic career, he joined the neo-conservative American Enterprise Institute in 1978. There he wrote possibly the most widely

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<sup>31</sup> Griffiths, B. *Morality And The Market Place, Christian alternatives to capitalism and socialism* (Hodder and Stoughton: London, 1982), p.121.

<sup>32</sup> See further *Ibid.*, p.124.

<sup>33</sup> Atherton, J. ed., *Social Christianity, A Reader* (SPCK: London, 1994), p.354.

<sup>34</sup> Novak, M. *The Catholic Ethic and the Spirit of Democratic Capitalism* (The Free Press: New York, 1993), p.114 ff.

read Christian polemic on political economy in modern times, *The Spirit of Democratic Capitalism* (1982). It appears to have done for American Christianity what Griffiths' London Lectures did for British Christianity, provide a Christian apologetic for the market at a time when the general climate of Christian opinion had for a long time been deeply suspicious if not hostile. As Irving Kristol commented: 'Incredible as it may seem, this is the first book to provide us with a critical appreciation of democratic capitalism from a theological point of view. It is undoubtedly a major work of our times.'<sup>35</sup>

At the heart of the Novak's advocacy of democratic capitalism is the idea of political, economic, and cultural pluralism. The state, for instance, is held to exercise a legitimate political role when it legislates for the economy. However, when, as in the mixed economy, the state becomes a 'player' in the economy by owning economic enterprise, then it is held to be abusing its power. He claims that it is this respect for pluralism which explains why it is that democratic capitalism protects individual freedoms and promotes wealth creation better than any other system. As he extols what he calls its genius:

Democratic capitalism is neither the Kingdom of God nor without sin. Yet all other known systems of political economy are worse. Such hope as we have of alleviating poverty and for removing oppressive tyranny - perhaps our last, best hope - lies in this much despised system. A never-ending stream of immigrants and refugees seeks out this system. Peoples who imitate this system in faraway places seem to do better than peoples who don't. Why can't we put into words what attracts and what works?<sup>36</sup>

Novak's project certainly looked superficially persuasive in the late 1970s and 1980s. In contrast with the state-sponsored capitalist economies in the developing world, such as the so-called 'Asian Tigers', with their then impressive rates of economic growth, the growth rates of the Western European mixed economies looked lack-lustre indeed. Then, later, when the 'supply-side' structural changes of Reagonomics in the United States and Thatcherism in Britain, of which privatisation was a major part, were seen to be succeeding in controlling the rate of inflation and in bringing unemployment down, the superiority of a market approach looked even more secure. As a result it looked as if Novak at least had pragmatism on his side in the great economic debate of the eighties.

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<sup>35</sup> Novak, M. *The Spirit of Democratic Capitalism* (IEA: London, 1982), quoted on the dustcover.

<sup>36</sup> *Ibid.*, p.28.

Then came the fall of the Berlin Wall in 1989, and with that the full disclosure of the political, economic and moral bankruptcy of the great communist experiment as it had been conducted behind the Iron Curtain. Although the two socialist experiments, the one in the East and the one in the West were as different as chalk from cheese in their commitment to democratic freedoms, the tendency to elide the two following the militant labour unrest in the sixties and seventies in the West, has added the weight of principle to pragmatism by supplying the other half of what David Jenkins calls the mantra of the market: it not only works but it also promotes freedom.<sup>37</sup> This apparent vindication of Novak's project has combined with the remarkable political success of privatisation with the result that those who continue to defend the mixed economy tend to be dismissed as either having been plainly wrong or as being unable to concede that the world has moved on.

In this connection, John Atherton deserves to be mentioned as one of those who has accepted the need for a new theological-ethical method in the light of the fall of the Berlin Wall and the challenges brought about by privatisation. His new pluralistic method both reflects and engages with the present state of confusion in Christian social ethics.<sup>38</sup> He is an important English scholar because, as a disciple of Ronald Preston and as a distinguished social ethicist in his own right, it has been widely regarded as significant that he should accept the need to change his method.<sup>39</sup> Certainly his admission that he had changed his mind, after engaging in a dialogue on the economy between the established Church and the Conservative Party, has served only to underline the picture of a very confused discipline, which no longer trusts its former ways of conducting theological-ethical enquiry.<sup>40</sup>

In the light of all the above, it should be clear that privatisation is not a subject on which Christian social ethics can remain silent. Not only has it radically redrawn the economic borders of the state in Britain, but it has also commanded the political support of all three main British

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<sup>37</sup> Jenkins, D. *The Economic Context: The Market As Providence, Fate Or Just The Way Of The World* (a lecture delivered in the University of Durham on 19<sup>th</sup> February 1998).

<sup>38</sup> Atherton, J. *Christianity and the Market, Christian social thought for our times* (SPCK: London, 1992), p.3 ff.

<sup>39</sup> *Ibid.*, pp.284-5 for a fuller account of his personal quest.

<sup>40</sup> Brown, M. 'Some Thoughts On Theological Method' in *Unemployment and the Future of Work, An Enquiry for the Churches* (CCBI: London, 1997), p.293, writes of 'That generalised sense of unease - that the theological methodology which had served the churches well enough through the years of the post-war consensus could not seamlessly accommodate the ideological upheavals and uncertainties of the Thatcher years.'

political parties. It has also been exported world-wide, posing enormous consequences for humankind. And not content with leaving a state of confusion in Christian social ethics in its wake, where the former ways of conducting theological-ethical enquiry are no longer trusted, it has encouraged a Christian justification of itself.

## OUTLINE OF ENQUIRY

In the next chapter, given the confusion we have referred to above, it is important that we should begin our enquiry into the ethics of privatisation by setting out our method. This is also necessary because of the wider confusion resulting from the challenges of modernity and post-modernity to Christian ethics. Here we encounter not only the now standard questions, such as how the Bible can be authoritative for Christian ethics, but also the more recent insistence that, as everything is a matter of perspective, there is no way we can stand outside a particular moral tradition from which we can judge it to be right and all others to be wrong. In this postmodern light, for instance, provided they can argue consistently from some moral tradition, there may be no way of judging between Margaret Thatcher's view of privatisation as a triumph for the forces of freedom<sup>41</sup> and that of Tony Benn, who judges privatisation to be 'a plunder of national assets'.<sup>42</sup> Clearly, in this confused new world, if we are to maintain any kind of integrity for our moral enquiry, it is essential that we should come clean and show who 'we' are and what is 'our working'.<sup>43</sup>

Then, in Part II of our thesis, because everything in this new world is understood to be a matter of perspective, in the hope of getting as close to what really happened as is possible, we shall tell the story of the great experiment of public ownership, as it was conducted in Britain, as a narrative history by drawing on the diverse perspectives of as many of the main characters as the scope of this study allows. In the course of assembling these perspectives, we shall pursue three main lines of enquiry:

In chapter 3, *The nationalisation programme (1945-51)*, we shall explore the political, economic and moral justification for the programme in order to identify the principal arguments used at the time for and against public ownership. As part of this study, we shall pay particular

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<sup>41</sup> Thatcher, M. op.cit., p.676.

<sup>42</sup> Plender, J. *The Big Selloff* (BBC, 26 January 1997).

<sup>43</sup> Brown, M. op.cit., p.298.

attention to the diverse Christian thinking of the time in the Social Christianity of William Temple, the Radical Christianity of Richard Tawney, and the Christian Conservatism of Hensley Henson.

In chapter 4, *The experience of nationalisation (1951-79)*, we shall explore the negative case for privatisation, which claims that because the nationalised industries failed there was no practical alternative to privatisation. Here we shall be looking to determine how public ownership worked in practice along two main subsidiary lines of enquiry: The first is an economic and social evaluation of the performance of the nationalised industries. The second involves the public policy approach which attempts to discover to what extent it was possible to effectively regulate public enterprise.

In chapter 5, *The abandonment of nationalisation (1979-89)*, we shall explore the positive case for privatisation in the dominant intellectual framework of our time, economic liberalism. Here we shall show how economic liberalism came to 'capture' the Conservative party and to provide a justification for ending public ownership. In this connection, we shall explore the influence of Right Wing think-tanks on the leadership of the party and also the part played by Selston Man, Edward Heath's proto-Thatcherism, which appeared to present the only hope of defeating the Labour Party's pragmatic socialism under Harold Wilson and James Callaghan. In the course of this exploration, we shall identify the important economic liberal arguments used to justify privatisation as the basis for an evaluation of this case in the light of its own standards.

In Part III, *The Ethics of Privatisation*, having at this stage indicated why we are not persuaded by either the negative case for privatisation, which claims public ownership failed, or the positive case for privatisation in economic liberalism, we shall evaluate privatisation in the light of a broad Christian vision of the common good. Hence the title of this chapter, *Privatisation and the Common Good*. As the basis for the evaluation, we shall first justify our choice of the two principles of social order and social justice. We shall also set out the traditional Christian understanding of property, which will inform the evaluation. We shall then apply these principles in dialogue with the relevant political, economic, and social circumstances in order to support our conclusion that privatisation is a morally flawed programme.

Finally, as a postscript, in the brief space left us, on the understanding that in the context of the modern global market it is no longer practicable or necessarily desirable to restore public ownership, we shall outline *A new Project*. This looks to foster the common good by building

on the strengths of both nationalisation and privatisation while avoiding their weaknesses.

## LITERATURE SURVEY

The literature on privatisation was something of a growth industry in the 1980s. The ferment in moral theology has also spawned a voluminous literature attempting to shed light on the subject. As a consequence we have had to be selective and engage with the main books. The ones we have found especially helpful for the different parts of this inter-disciplinary enquiry are the following:

### PART I. INTRODUCTION AND METHOD.

Margaret Thatcher's *The Downing Street Years* (1993) is of course indispensable reading for the background to the 'major world revolution' which she led by her support for privatisation. A short, accessible introduction to privatisation is Kenneth Wiltshire's *Privatisation, The British Experience* (1987). For the impact of privatisation on British politics, Dieter Helm's *The Economic Borders of the State* (1989) is a useful text. Henry Clark's *The Church Under Thatcher* (1993) provides a general account of the somewhat confused response of the Church of England to Thatcherism. As we have indicated above, for the revival of Christian conservatism, which has greatly added to present state of confusion in Christian social ethics by its challenges to the previously dominant Social Christianity of William Temple's *Christianity and Social Order* (1942) and the Radical Christianity of Richard Tawney's classic, *Religion and the rise of Capitalism* (1926), the important texts are Edward Norman's *Church and Society in England 1770 - 1970*, Brian Griffiths' *Morality and the Market Place* (1982), and Michael Novak's *The Spirit of Democratic Capitalism* (1982).

For our chapter on method we have found Alisdair MacIntyre's corpus indispensable. His *After Virtue* (1981), with its communitarian critique of the Enlightenment project, presents a focal point in recent scholarship and has had a major impact on Christian Ethics. His development of a response to the problem of interminable disagreement in modern liberal society and his reinstatement of the Aristotelian-Thomist tradition in the sequels: *Whose Justice? Which Rationality?* (1988) and *Three Rival Versions of Rationality* (1990) have provided the foundation for our approach. Of his many interlocutors, we have found Jeffrey Stout's *Ethics After Babel* (1988), with its more pluralistic and eclectic approach the most helpful. Our method

can be summarised as positioning itself between MacIntyre and Stout.

We have also drawn on a number of theological sources. The post-Conciliar moral theology of John Mahoney, Richard McCormick's emphasis of experience, and Bernard Häring's emphasis of responsibility, have provided a helpful balance to MacIntyre's conservatism. Our main source here has been Mahoney's *The Making of Moral Theology* (1987). Mahoney's inaugural lecture, *The Ways of Wisdom* (1987), with its strong defence of a natural theology, has also been valuable for our response to John Milbank's *Theology and Social Theory, Beyond Secular Reason* (1990), and Michael Banner's dogmatic Christian ethics in his inaugural lecture *Turning the world upside down (and some other tasks for dogmatic Christian ethics)* (1996).

The main Anglican contributors to the dialogical method of Social Christianity have also informed our approach. Of these Alan Suggate's exposition of Temple's method in his *William Temple and Christian Social Ethics Today* (1987) has provided a major resource. John Atherton's *Christianity and the Market, Christian social thought for our times* (1992) has been helpful in its Christian encouragement to "live" provisionally in rival ethical traditions in order to learn their idiom and critique them from within.

## PART II. A NARRATIVE HISTORY OF NATIONALISATION.

For the background to the post-war nationalisation programme, Norman Chester's *The Nationalisation of British Industry 1945-51* (1975) is indispensable. Bernard Porter's *Britannia's Burden, The Political Evolution of Modern Britain 1851-1990* (1994) provides a helpful recent history. For the particular background to the Labour Party's adoption of Clause IV, Gareth Stedman Jones' article *Labour can learn from Victorian values* (1995) is useful for the way it sheds light on the electoral appeal of nationalisation, which, at least in this respect, makes it not that dissimilar to privatisation. Herbert Morrison's *Socialisation and Transport* (1933), with its penetrating economic analysis provides the classic defence of nationalisation. For the diverse Christian social thought of the time, we have drawn on William Temple's Social Christianity, particularly his famous appendix in *Christianity and Social Order* (1942), R.H. Tawney's Radical Christianity, particularly his *Religion and the Rise of Capitalism* (1926), and Hensley Henson's Christian Conservatism, in his Gifford lectures, *Christian Morality* (1936).

For our exploration of the experience of nationalisation (1951-79), in addition to the relevant reports of the Parliamentary Select Committee on the Nationalised Industries and the

Government White Papers, we have substantially drawn on the studies of Richard Pryke and Christopher Foster. Pryke's two studies of the economic performance of the nationalised industries: *Public Enterprise in Practice* (1971) and *The Nationalised Industries, Policies and Performance since 1968* (1981) are important because Pryke revises his earlier optimistic view in the later book. Foster's public policy approach provides a helpful insider view of the complexity of public ownership, from the perspective of a senior civil servant. His *Politics, Finance and the Role of Economics* (1971) is useful as a balance to the Select Committee's criticism of Government Ministers, whose interference they blame for the poor performance of nationalised industry. His later book, *Privatization, Public Ownership and the Regulation of Natural Monopoly* (1992), written from the perspective of a post-privatisation world is important for its defence of the view that public ownership was reformable without a change of ownership.

For the political and economic background to our chapter on the abandonment of nationalisation (1979-89), we have drawn extensively on the biography of Harold Wilson by Ben Pimlott and that of Edward Heath by John Campbell. Richard Cockett's study, *Thinking the Unthinkable, Think-tanks and the Economic Counter-Revolution 1931-1983* (1994), provides an invaluable resource for tracing the revival of economic liberalism and its influence on the Conservative Party. John Gray's *corpus* is another valuable resource for understanding economic liberalism. We have drawn in particular on his critique in *Beyond the New Right, Markets, Government and the Common Environment* (1993). Of the many exponents of the economic liberal case for privatisation, we have found John Redwood's *Popular Capitalism* (1988) the most enlightened and challenging. John Vickers and George Yarrow's *Privatization, An Economic Analysis* (1989) is indispensable as a critical economic analysis.

### PART III. THE ETHICS OF PRIVATISATION.

For the evaluative framework of our penultimate chapter, *Privatisation and the Common Good*, we have drawn substantially on John Finnis' exposition of the theory of the common good in his *Natural Law and Natural Rights* (1980). The teaching of the Catholic Bishops' Conference of England and Wales in their document, *The Common Good* (1996), provides a helpful supplementary source. L.T. Hobhouse, 'The Historical Evolution of Property in Fact and Idea' (first published in 1913), in Charles Gore ed., *Property, Its Duties and Rights* (1922) is still an indispensable text for the Christian understanding of property.

For the dialogue we set up between our broad Christian vision of the common good and the political, economic and social circumstances surrounding privatisation, we have found the discussion of globalization and the emergence of a new underclass in John Gray's *False Dawn, the delusions of global capitalism* (1998) an invaluable source. Stein Ringen's response to the current debate about class in his review article, *The Great British Myth, Why the claims of continuing class inequality fail to take account of social change* (1998) provides an important critical perspective on social inequality. We have also found Christopher Rowland's *Radical Christianity* (1988), Duncan Forrester's *Theology and Politics* (1988), and Oliver O'Donovan's *The Desire of the Nations, Rediscovering the roots of political theology* (1996), valuable theological sources for our critique of privatisation.

For the new project we sketch in our postscript, we have found David Held's *Democracy and the Global Order* (1995), Anthony Giddens' *The Third Way* (1998), and John De Gruchy's *Christianity and Democracy* (1995) important for our discussion of the renewal of civil society. For the debate over the Stakeholder Capitalism advocated by Will Hutton in his *The State We're In* (1995), Gavin Kelly, Dominic Kelly, and Andrew Gamble ed., *Stakeholder Capitalism* (1997) is a basic text. Lastly, for the section on regional and global governance, in addition to John Gray's *False Dawn*, which we have already mentioned, we have found Nicholas Boyle's *Who Are We Know?, Christian Humanism and the Global Market from Hegel to Heaney* (1998), an important resource.

## Chapter 2

### ETHICS AS A PATCHWORK QUILT

The tower of Babel, for all its antiquity, continues to exert its power over the imagination. Whenever we desire to penetrate the strangeness of alien speech or dispel the confusion of tongues, the image of the ruined tower recurs.

(Jeffrey Stout)

As we mentioned in the previous chapter, in the light of the confusion in Christian social ethics, it is important that we should 'come clean' by revealing who 'we' are and what is 'our working'. However, immediately we attempt to set out our method, we encounter all the challenges of modernity and post-modernity which defy us to give a rational account of our choice of an ethic and to defend our moral judgements against other perspectives. As we also mentioned, these challenges are especially highlighted by the issue of privatisation because privatisation is defended and attacked in terms of rival, incommensurable ethical traditions. Indeed, the rival ethical pronouncements people make about privatisation makes it an especially apposite example of this problematic. Despite the heat of the public debate, there appears to be no compelling reason why one side should give way to the other, for both appear to ground their case in seemingly impregnable moral argument.

This crisis in ethics, which is at least as old as the Sophists of classical Greece, has been highlighted in recent years by a number of scholars, of which Alasdair MacIntyre is a leading figure. In his *A Short History of Ethics* (1967), he explains the present crisis as the outcome of the individualism unleashed by the Reformation and the Enlightenment search for a secular basis for ethics in a universal reason. He claims these have combined to replace the unitary moral tradition of medieval Catholicism by a 'number of well integrated moralities'. As he describes the 'fundamental moral situation of our society':

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<sup>1</sup> Stout, J. *Ethics After Babel, The Languages of Morals and Their Discontents* (James Clark: Cambridge, 1988), p. 1.

Between the adherents of rival moralities and between the adherents of one morality and the adherents of none there exists no court of appeal, no impersonal neutral standard. For those who speak from within a given morality, the connection between fact and valuation is established in terms of the meaning of the words they use. To those who speak from without, those who speak from within appear to be merely uttering imperatives which express their own liking and their private choices.<sup>2</sup>

This, some would say, very pessimistic view of our moral situation was further defended in MacIntyre's *After Virtue* (1981). In this widely acclaimed book he went on to reveal that his disenchantment with modern liberal society is matched by his disillusionment with its arch rival, Marxism. This posed for him a dilemma for the reason that Stalinism, which he had come to understand as the inevitable outworking of Marxism, seemed only capable of being rebutted by the arguments of liberal individualism, which Marx had already discredited. This *impasse*, together with his understanding of the moral predicament of liberal society, forced him to draw the radical conclusion that the only way forward and out of the confusion in Ethics required the rejection of the 'ethos of the distinctively modern and modernizing world',<sup>3</sup> of which Marxism and liberalism are by-products, and the recovery of the classical and medieval tradition of the virtues which the Enlightenment project had sought to replace.

The sequels to *After Virtue*, namely, *Whose Justice? Which Rationality?* (1988) and *Three Rival Versions Of Moral Enquiry* (1990) provide elaboration and development of MacIntyre's thinking. In what follows, drawing for the most part from his latest book, we shall first set out what for our purposes are the main lines of his seminal and hugely influential project.<sup>4</sup> Secondly, we shall consider some of the main criticisms of this project, and a number of alternative projects, which we think need to be brought alongside of it. Then, with this background, we shall give the reasons why we think MacIntyre's defence of the Thomist ethical tradition, with some qualifications, offers the best resource we have for our enquiry into the ethics of privatisation.

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<sup>2</sup> MacIntyre, A. *A Short History of Ethics* (Routledge and Kegan Paul: London, 1967), p.266.

<sup>3</sup> MacIntyre, A. *After Virtue, a study in moral theory* (Duckworth: London, 1981/1990), p.x.

<sup>4</sup> For MacIntyre's influence on Christian ethics see further Hauerwas, S. *Community of Character, toward a constructive Christian social ethic* (Notre Dame: Indiana, 1981). And see also Bayer, O. and Suggate, A. ed., *Worship and Ethics, Lutherans and Anglicans in Dialogue* (Walter de Gruyter: Berlin, 1996). p.24-25.

## MACINTYRE'S PROJECT

MacIntyre begins his project of reinstating the pre-modern tradition of the virtues by drawing on a life-time of study and teaching of the history of moral philosophy to show that the Enlightenment project has failed. For him the 'crucial historical event' was the proclamation of what G.E. Moore, in his *Principia Ethica* (1903), called the 'naturalistic fallacy': the 'No "ought" conclusion from "is" premises' principle. This is usually linked with Hume, who certainly expressed it as a doubt in his *Treatise*:

In every system of morality, which I have hitherto met with, I have always remark'd, that the author proceeds for some time in the ordinary way of reasoning.....when of a sudden I am surpris'd to find, that instead of the usual copulations of propositions, *is*, and *is not*, I meet with no proposition that is not connected with an *ought* or an *ought not*. This change is imperceptible, but is, however, of the last consequence. For as this *ought* or *ought not*, expresses some new relation or affirmation, 'tis necessary that it should be observ'd and explain'd; and at the same time that a reason should be given, for what seems altogether inconceivable, how this relation can be a deduction from others, which are entirely different from it.<sup>5</sup>

What the enunciation of this principle and its general acceptance signalled for MacIntyre was not only a 'final break with the classical tradition',<sup>6</sup> but also the 'epitaph to the Enlightenment project.'<sup>7</sup> As he explains its destructive impact with respect to the classical tradition, this worked with a functionalist understanding of *man* as having a meaning and a purpose which was crucially defined in relation to a set of socially established roles: 'member of a family, citizen, soldier, philosopher, servant of God'.<sup>8</sup> This teleology gave a rational basis for statements of value based on statements of fact because the good man was accepted to be one who fulfilled the roles he was called on to perform. It followed that within 'this tradition moral and evaluative statements can be called true or false in precisely the way in which all factual statements can be so called. But once the notion of essentially human purposes or functions disappears from morality, it begins to appear implausible to treat moral judgements as factual statements.'<sup>9</sup>

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<sup>5</sup> Quoted in Flew A. ed., *A Dictionary of Philosophy* (Pan: London, 1979; this ed. 1984), p.240.

<sup>6</sup> *After Virtue*, p.59.

<sup>7</sup> *Ibid.*, p.56.

<sup>8</sup> *Ibid.*, p.59.

<sup>9</sup> *Ibid.*, p.59.

With respect to the Enlightenment project, MacIntyre maintains that the progress of analytic philosophy has confirmed the failure of what the *is - ought* distinction made implausible by establishing that 'there are *no* grounds for belief in universal necessary principles - outside purely formal enquiries - except relative to some set of assumptions. Cartesian first principles, Kantian *a priori* truths and even the ghosts of these notions that haunted empiricism for so long have all been expelled from philosophy.'<sup>10</sup> There is not the space here to report this progress in relation to his detailed critique of the Enlightenment thinkers he calls *encyclopaedists*, who attempted to found ethics on universal rational first principles after Descartes, 'for whom the essence of rationality was that it should be universal.'<sup>11</sup> In any case, repeating his detailed critique of each of these thinkers may not be necessary in so far as the disagreements amongst them, which has resulted in the emergence of liberalism as a moral tradition, provides a powerful argument in support of his claim that the Enlightenment project has failed. As he makes this supporting argument:

Yet the thinkers of the Enlightenment and their successors proved unable to agree as to what precisely those principles were which would be found undeniable by all rational persons. One kind of answer was given by the authors of the *Encyclopedie*, a second by Rousseau, a third by Bentham, a fourth by Kant, a fifth by the Scottish philosophers of common sense and their French and American disciples. Nor has subsequent history diminished such disagreement. It has rather enlarged it. Consequently the legacy of the Enlightenment has been the provision of an ideal of rational justification which it has proved impossible to attain.<sup>12</sup>

Having rejected the Enlightenment project, MacIntyre then advances his alternative project of the virtues. He explains that this mode of moral enquiry was initiated by Plato in the tradition of Socratic dialectic in the *Georgias* and the *Republic*. Its recovery in modern times he traces to the encouragement of the Aristotelian-Thomist tradition in the encyclical letter of Pope Leo XIII, *Aeterni Patris* (1879). He also acknowledges a massive personal debt to John Henry Newman's account of tradition in his *An Essay on the Development of Christian Doctrine* (1878). What, in essence, his reconstruction of these sources does is to conceive ethics as a

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<sup>10</sup> *Ibid.*, p.266.

<sup>11</sup> MacIntyre, A. *Three Rival Versions of Rationality* (Duckworth: London, 1990), p.59.

<sup>12</sup> MacIntyre, A. *Whose Justice? Which Rationality* (Duckworth: London, 1988), p.6.

craft-tradition, which, in contrast with the 'exclusive and exhaustive alternatives'<sup>13</sup> posed by *encyclopaedia* and its critics, who he calls *genealogists*, initially accepts the authority of a moral community and learns from the experience of the past in order to 'progress towards a genuinely universal and impersonal reason'.<sup>14</sup>

The concept of a craft or a practice is crucial to the success of this project. By a practice he means: 'any coherent and complex form of socially established cooperative human activity through which goods internal to that form of activity are realized in the course of trying to achieve those standards of excellence which are appropriate to, and partially definitive of, that form of activity, with the result that human powers to achieve excellence, and human conceptions of the ends and goods involved, are systematically extended'.<sup>15</sup> In the light of this definition, MacIntyre would include as examples such complex social activities as a game of chess, a school, the *polis* or city-state, which was the historical context for Aristotle's ethics, and of course moral philosophy. This concept enables MacIntyre to escape the criticism that the Aristotelian tradition, which he champions, is grounded in the ethics of the Athenian city state, a project which cannot conceivably be revived today. Furthermore, by employing the concept of a craft, he distances his reconstruction from any proto-scientific theory of the human *telos*, such as Aristotle's metaphysical biology, the abuse of which in the natural law tradition he acknowledges partly led to the Enlightenment reaction against the tradition of the virtues.<sup>16</sup>

The virtues then follow from this definition of a craft. Drawing on Aristotle, for whom the virtues were defined socially and teleologically as those attributes, such as courage, friendship, and practical reason, which allow a citizen to contribute to the flourishing of the *polis*, MacIntyre's virtues are those human qualities which allow a person to contribute to the ends of a craft. In his own words, they are those human qualities 'the possession and exercise of which tends to enable us to achieve those goods which are internal to practices and the lack of which effectively prevents us from achieving any such goods'.<sup>17</sup> For example, strategic thinking in a chess player counts as a virtue because it is required to achieve excellence in the game of chess. Self-promotion, on the other hand, does not count as a virtue, even though this quality may succeed in making the player a millionaire, because a million pounds is not a good

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<sup>13</sup> *Three Rival Versions*, p.59

<sup>14</sup> *Ibid.*, p.60.

<sup>15</sup> *After Virtue*, p.187.

<sup>16</sup> See further Mulhall, S. and Swift, A. *Liberals and Communitarians* (Blackwell: Oxford, 1992), p.80 ff.

<sup>17</sup> *After Virtue.*, p.178.

internal to chess but one that is external to it.

Accordingly, with ethics conceived as a craft, just as any chess player has to begin by accepting the established rules of chess, so it is expected of participants that they will begin by accepting the rules of moral enquiry of a particular moral community. This entails the recognition, or at least initial recognition, of a rational teaching authority. As MacIntyre puts it, we have 'to learn from that teacher and initially accept on the basis of his or her authority within the community of a craft precisely what intellectual and moral habits it is which we must cultivate and acquire if we are to become effective self-moved participants in such enquiry.'<sup>18</sup> Consequently, the master teacher, who has acquired the virtues and the expertise, the *techné* to instruct others how to take the tradition further, plays a fundamental role in this form of moral enquiry; no valid claim to progress can be made without first engaging as a participant with his or her teaching.

MacIntyre justifies this positive view of authority, which is out of step with the anti-authoritarian outlook of modernity and post-modernity,<sup>19</sup> on account of his understanding of human nature. Here he follows Plato who taught that 'it is a precondition of engaging in rational enquiry through the method of dialectic that one should already possess and recognize certain moral virtues without which the cooperative process of dialectic would be impossible'.<sup>20</sup> As MacIntyre explains, 'A prior commitment is required and the conclusions which emerge as enquiry progresses will of course have been partially and crucially predetermined by the nature of this initial commitment.'<sup>21</sup> Furthermore, and this is crucial for understanding MacIntyre's anthropology, he points out that 'the enquirer has to learn how to make him or herself into a particular kind of person if he or she is to move towards a knowledge of the truth about his or her good and about the human good. What kind of transformation is required? It is that which is involved in making oneself into an apprentice to a craft, the craft in this case of philosophical enquiry.'<sup>22</sup> In other words, only those persons who are prepared to make a prior commitment to

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<sup>18</sup> *Three Rival Versions*, p.63.

<sup>19</sup> *Ibid.*, p. 64, MacIntyre describes *genealogy* as having 'no way of understanding such authority except as one more form of domination imperfectly disguised by its mask of rationality, a mask necessarily worn with a self-distorting lack of self-knowledge.' (p.66) His deferential attitude towards authority also contrasts with *encyclopaedia*, which he points out is similarly opposed to recognising the role of a teaching authority because it has 'learned from Kant that to be rational is to think for oneself, to emancipate oneself from the tutelage of authority.'

<sup>20</sup> *Ibid.*, p.60.

<sup>21</sup> *Ibid.*, p.60

<sup>22</sup> *Ibid.*, pp.60 -61.

a particular moral community and who are willing to submit to a teaching authority in order to gain the necessary virtues qualify to engage in moral enquiry.

MacIntyre's second main line of defence against the charge of conservatism is his theory of a moral tradition. Essentially what he claims here is that a moral tradition can be developed in a rational way by the progressive development and correction of both the virtues it recognises and the standards of rational justification it employs to judge virtue. By way of illustration he explains that a moral tradition can be developed in a rational way that corresponds with how progress is made in modern science, arguably the most powerful of our modern systems of rationality, where it is always theoretically possible to correct or build on existing knowledge. Consequently, while acknowledging that such an ethics must be historically contingent, he does not allow that the standards of rational justification and the virtues thus set are fixed in the past or decided arbitrarily, because, while they are always decided in relation to previous theory, just as in modern science, they are always open to correction in the light of new moral insights. As he explains:

the standards of achievement within any craft are justified historically... They have emerged from the criticism of their predecessors and they are justified because and in so far as they have remedied the defects and transcended the limitations of those predecessors as guides to excellent achievement within that particular craft. Every craft is informed by some conception of a finally perfected work which serves as the shared *telos* of that craft. And what are actually produced as the best judgements or actions or objects so far are judged so because they stand in some determinate relationship to that *telos* which furnishes them with their final cause.<sup>23</sup>

It follows from this understanding of a moral tradition that, while MacIntyre expects of participants that they begin as apprentices, he hopes they will progress to the level of a master craftsman when they will have gained the *techne* or expertise to take their craft further if either its standards of rationality or the virtues it recognises stand in need of correction. For example, he refers to the way Aristotle disregarded women and slaves in his ethics for the reason that they were not in a position to contribute to decisions affecting the *polis*. He comments that while this omission was understandable it was not morally justifiable, and that in this respect it was necessary for the Aristotelian tradition to be corrected and developed in the light of the

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<sup>23</sup> Ibid., p. 64.

universalism of the Christian tradition.<sup>24</sup>

MacIntyre's project would further claim to escape the charge of conservatism on account of its understanding of what makes for a moral tradition that is in good order. This is a tradition which is not in epistemological crisis. He again illustrates what he means in relation to the natural sciences. There Newton's physics exposed the limitations of the physics of Galileo, forcing the latter to give way, as more recently Newton's physics has had to give way to more recent advances, such as relativity theory. It follows that a moral tradition in good order is one which is fully open to the challenges of rival traditions and either has the resources to dismiss rivals or integrate them within its own enlarged story. MacIntyre would maintain that the adherents of such a moral tradition are perfectly rationally entitled to stay with it until they are presented with a better.

It is on this understanding of moral enquiry conceived as a craft tradition that MacIntyre advances his solution to the problem posed by incommensurable moral traditions, thereby providing a way out of the interminable disagreement in ethics. Just as it is possible to demonstrate the rational superiority of Newton's physics over that of Galileo, so, he argues, it may be possible to demonstrate the rational superiority of a particular moral tradition by subjecting rival and incommensurable traditions to the test of whether they contain a systematic and coherent development of their foundational ideas such that, judged by their own standards, they offer a better resolution of their difficulties than do their rivals.<sup>25</sup>

MacIntyre's exemplar here is Aquinas, who at the University of Paris in the thirteenth century was himself presented by the dilemma of incommensurable ethical traditions posed by the University Augustinian tradition, with its derivation of ethics from divine wisdom, and the recent re-discovery of Aristotelianism, with its derivation of ethics from human wisdom. As MacIntyre explains, what Aquinas was faced with was not merely two rival arguments but rather two rival traditions; each one shared the characteristics that it had a particular historical point of departure, had come to be developed in the face of challenges brought about by some theoretical or practical questioning, it looked back and justified itself in terms of its development out of earlier stages, and it had come to be preserved in a distinct institutional form.<sup>26</sup> Aquinas' signal achievement, according to MacIntyre, is that he, alone among the students of Albertus

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<sup>24</sup> *After Virtue*, p.7.

<sup>25</sup> *Ibid.*, p.5.

<sup>26</sup> *Three Rival Versions.*, p.116.

Magnus who had made the new Aristotelian corpus available to his students, was able to live within both traditions, thoroughly master their idiom, and to overcome each of their difficulties in a new synthesis. In defence of his theory against the argument that rival incommensurable traditions, on account of the problem of recognising them to be such, must perforce be an illusion, he writes of a person such as Aquinas:

It can only be recognized and characterized by someone who inhabits both alternative conceptual schemes, who knows and is able to utter the idiom of each from within, who has become, so to speak, a native speaker of two first languages, each with its own distinctive conceptual idiom. Such a person does not need to perform the tasks of translation in order to understand. Rather it is on the basis of his or her understanding of both conceptual idioms that the respects in which untranslatability presents barriers around or over which no way can be discovered can be acknowledged. Such persons are rarely numerous. They are the inhabitants of boundary situations, generally incurring the suspicion and misunderstanding of members of both of the contending parties.<sup>27</sup>

How Aquinas achieved his complex reconciliation can only be sketched here. According to MacIntyre it involved firstly, the interplay of retrospective and prospective reasoning, which he explains 'cannot but be dialectical, exploratory, inventive, and provisional, formulating hypotheses as it moves towards a new set of first principles and fundamental conceptions'.<sup>28</sup> Secondly, it involved the power of imagination, a reminder that any ethics worth anything is always also a work of art in which a broad vision shapes and is shaped by the artist's engagement with the detail of his work. In this connection, he comments that, 'It is by such uses of the imagination that one can come as if to inhabit another alien culture and in so doing recognize how significant features of one's own culture to which one has hitherto been, and could not but have been, blind can be discovered and characterized from that other culture's point of view'.<sup>29</sup> Finally, MacIntyre maintains that crucial to the whole reconciliation was the fact that the Aristotelian and Augustinian traditions shared a fallibilist conception of moral enquiry within a larger metaphysics. This understood truth, not as 'warranted assertability', which would prevent the imaginative leap into a rival tradition to explore the possibility of truth lying between two positions, but rather as a metaphysical reality from which all other derivative truths flow and that

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<sup>27</sup> *Ibid.*, p.114.

<sup>28</sup> *Ibid.*, p.120.

<sup>29</sup> *Ibid.*, p.120.

'it is from the derivative that we have to begin'.<sup>30</sup> As he describes this achievement:

an Aristotelian account of nature, both theoretical and practical, was not merely harmonized with an Augustinian supernatural theology but shown to require it for its completion, if the universe is to be intelligible in the way in which parts relate to wholes. And Augustine's account of the relationship of the human being, as natural intelligence and agent, to the objects of enquiry, both theoretical and practical, was rendered in terms of distinctions unfamiliar to the tradition of Augustinian textual interpretation, so that Aristotle's account of the rational world became recognizably the prologue required for an Augustinian theology.<sup>31</sup>

Despite his conversion to Thomism, MacIntyre holds back from making any triumphant claim that Thomism has defeated its rivals in *encyclopaedia* and *genealogy*. He regards the disagreements between them as still 'struggles in progress'. As he puts this conclusion himself, 'It is therefore the case that in the tripartite hostilities between the heirs of *encyclopaedia*, post-Nietzschean *genealogy*, and Thomistic tradition neither argument nor conflict is yet terminated. These are struggles in progress, defining in key part the contemporary cultural milieu by the progress of their dissensions'.<sup>32</sup> In this reserve, he follows Aquinas by never asserting more for his position than that it is the best position yet; there is always the possibility that it can be bettered, and therefore there is every incentive not to foreclose debate, and to remain in dialogue with other traditions.

Nevertheless, despite his acknowledgement of the inconclusive nature of the present debates within Ethics, he is clearly firmly of the opinion that it is possible for the Aristotelian-Thomist tradition to include its rivals within its unified narrative history in such a way that it avoids having to give way to them. As he sees it, this narrative includes *encyclopaedia* by describing it as having been founded on an understandable reaction to the abuse of the natural law and the mistake that it is possible to discover a universal reason. It then includes *genealogy* as a reaction to the rational pretensions of *encyclopaedia*. In this connection he contrasts the narrative structure of *encyclopaedia*, which 'is one dictated by the progress of reason'<sup>33</sup> and that of *genealogy* whose 'narrative is designed to disclose what its authors take the encyclopaedists

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<sup>30</sup> Ibid., p. 122.

<sup>31</sup> Ibid., p. 123.

<sup>32</sup> Ibid., p. 215.

<sup>33</sup> Ibid., p. 78.

narrative to conceal'<sup>34</sup> with what he would clearly see as the superior narrative of the craft-tradition. This he explains: 'treats the past neither as mere prologue nor as something to be struggled against, but as that from which we have to learn if we are to identify and move towards our *telos* more adequately and that which we have to put to the question if we are to know which questions we ourselves should next formulate and attempt to answer, both theoretically and practically'.<sup>35</sup>

Emerging out of this response to the present crisis in Ethics, what MacIntyre's Thomism offers our modern world as a practical ethical programme has variously been labelled as communitarian. This derives from the essentially social interpretation of the virtues embodied in the definition of a craft or practice as a social activity and in the understanding of the self as supported in its self-identity by the social inheritance preserved in a tradition.<sup>36</sup> Doubtless, were it possible, MacIntyre would want to resurrect the project of the Athenian city state, suitably modified to include the Christian virtues, or Christendom. It is not surprising therefore that he is deeply pessimistic about the role of the modern liberal state, with what he claims to be its encouragement of an asocial and emotivist self, which lacks any rational criteria for choosing between conflicting moral positions, and, despite its professed moral neutrality, its far from neutral conception of the human good. In *After Virtue*, this social pessimism led him to advocate, in the stark apocalyptic terms which must account for part of the impact of the book, that in the light of the exhaustion of Marxism and every other political tradition in our culture, there is now no alternative but to turn our backs on the state and to begin the task of constructing 'local forms of community within which civility and the intellectual and moral life can be sustained through the new dark ages which are already upon us'.<sup>37</sup>

Not surprisingly, the apocalyptic message of *After Virtue*, was to provoke a vigorous response. After the initial widespread acclaim, MacIntyre's moral philosophy has been subjected to searching criticisms which have left his approach to the problem of interminable disagreement in ethics looking more vulnerable than it first appeared; certainly his sequels have been less favourably received. At the more superficial level he has been accused of improper exegesis of his texts and historical inaccuracy.<sup>38</sup> At the more serious level, he has been criticised for

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<sup>34</sup> Ibid., p. 79.

<sup>35</sup> Ibid., p. 79.

<sup>36</sup> See further Mulhall, S. and Swift, A. op.cit., p. 89 ff.

<sup>37</sup> *After Virtue*, p. 263.

<sup>38</sup> See further Song, R. 'Alasdair MacIntyre and the Gifford Lectures' in *Edinburgh Review*: 85, 1991.

exaggerating the level of moral disagreement in Western society and, as a consequence, of painting a too pessimistic picture of the new 'dark ages'. As we have mentioned above, for pursuing the question of whether there is a good for man and claiming to find the answer in an authoritative tradition, he is also criticised for encouraging a communitarianism which threatens the repression of many of the hard-won individual freedoms of modern liberal society, which wants to keep open the question. This criticism becomes the more serious to the extent that his theory of traditions is vulnerable to the criticism that it collapses into the liberalism he reacts against. David Fergusson, for one, has shown the considerable convergence between MacIntyre's communitarianism and liberalism in the extent to which his theory of traditions relies on the values of tolerance and reasoned disagreement that occupy so central a place in liberalism.<sup>39</sup> In a similar vein, John Milbank has argued that MacIntyre represents no better than a mild version of the Enlightenment project, because his theory of traditions relies on the dialectical method of reasoning and is therefore a form of liberalism with its roots in and beyond Aristotle in Socrates.<sup>40</sup>

In addition to these criticisms there is the explicit or implied criticism of those who are not ready to concede to MacIntyre that the Enlightenment project has failed. The supporters of John Rawls' celebrated *A Theory of Justice* (1972) present one such set. Soon after its publication this book was hailed as having broken the chains of analytical philosophy that had prevented philosophers from making any substantial contribution to political philosophy in this century.<sup>41</sup> Since then it has come to be regarded as 'the paradigm statement of contemporary liberal theory'.<sup>42</sup> One reason for this acclaim is that it presents an alternative to one of the most enduring eighteenth and nineteenth century moral theories, that of utilitarianism.<sup>43</sup> Another reason for Rawls' following is that his theory appears to offer a credible liberal response to aspects of the Marxist critique of liberal capitalist society, which many, including MacIntyre,

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<sup>39</sup> See further Fergusson, D. *Communitarianism and Liberalism: Towards a Convergence*, in *Studies in Christian Ethics*, Vol. 10, No. 1. (T&T. Clark: Edinburgh, 1997).

<sup>40</sup> See further Milbank, J. *Theology and Social Theory, Beyond Secular Reason* (Blackwell: Oxford, 1990), p.329. ff.

<sup>41</sup> See further Mahoney, J. *Teaching Business Ethics in the UK, Europe and the USA, A Comparative Study*, (Athlone: London, 1990), p.7.

<sup>42</sup> See further Mulhall, S. and Swift, A. op.cit., p. vii.

<sup>43</sup> Rawls, J. *A Theory of Justice* (Oxford University Press: Oxford, 1972), p.3. Utilitarianism has been discredited on account of the way it can be used to justify the suppression of the rights of minorities in the interests of maximising total welfare, or as Rawls puts this criticism, 'justice denies that the loss of freedom for some is made right by a greater good shared by others'

would still want to affirm.<sup>44</sup>

Another celebrated book, following close on the heels of *A Theory of Justice* was Robert Nozick's *Anarchy, State and Utopia* (1974). This libertarian critique of Rawls is regarded by Nozick's supporters as the classical defence of liberalism. Against Rawls, in opposition to the idea that fairness or equality is intrinsically linked with the idea of justice, he asserts an entitlement theory of justice in which individual rights are foundational. As we shall explore later in chapter 5, this procedural view of justice, which excludes the traditional notion of justice as desert, which we also find, amongst others, in Friedrich Hayek and Milton Friedman, has provided a libertarian defence of the New Right. Although perhaps less widely acclaimed than Rawls's egalitarianism, there is no denying the persistence of this kind of liberalism, the importance of its emphasis of individual freedom and personal responsibility, and the way it tends to be resorted to at times of economic decline.

More critical of the Enlightenment project but still not ready to reject liberalism *per se* is Charles Taylor's *Sources of the Self* (1989). Commenting on the polarised positions taken up in recent debates, he writes:

Some are upbeat, and see us as having climbed to a higher plateau; others show a picture of decline, of loss, of forgetfulness. Neither sort seems to me right; both ignore massively important features of our situation. We have yet to capture, I think, the unique combination of greatness and danger, of *grandeur et misere*, which characterize the modern age.<sup>45</sup>

Despite this more conciliatory view of modernism, there is considerable convergence between Taylor's project and that of MacIntyre. Indeed, Taylor is clearly indebted to MacIntyre as he takes up many of his central ideas to produce what can be read as a communitarian critique of liberalism. This begins with a notion of the self which, in agreeing with Jurgen Habermas' idea of the self being 'constituted through exchange in language',<sup>46</sup> and therefore as crucially dependent on a particular linguistic community, is close to MacIntyre's understanding of the self in relation to a tradition. Taylor also employs MacIntyre's notion of a person's self-identity as being worked out in relation to a substantive theory of the good and a narrative quest. He also shares the goal of practical reasoning as providing us with the best or most plausible account

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<sup>44</sup> See further *After Virtue*, p.262.

<sup>45</sup> Taylor, C. *Sources of the Self* (Cambridge University Press: Cambridge, 1989), p. ix-x.

<sup>46</sup> *Ibid.*, p.509.

of moral reasoning and accepts MacIntyre's theory of the development of a moral tradition. He also repeats much of MacIntyre's critique of *genealogy*, principally its incoherent view of the self, of which we shall have more to say later.

However, there are a number of major differences. The chief one has to do with naturalism, with its foundations built on the arguments against the 'naturalistic fallacy'. This theory, which is at the heart of all the subjectivist or non-realist ethical projects, makes all moral values to be the mere projection of our preferences into a morally neutral world. As we have noted above, MacIntyre accepted the arguments against the 'naturalistic fallacy' as marking not only the final break with the classical tradition but also the epitaph to the Enlightenment project. For Taylor, this is false move. In order to circumvent the hold naturalism has on modern life, which he puts down to the illusion and error whereby natural science models have gained an ascendancy over other models of reality, he advances a theory of morality which is founded on instinctual spiritual and moral intuitions, such as respect for human life. These intuitions, he claims, are as real a part of the natural world as any other part of it; they are as objective as the reaction of, say, nausea to an unpleasant meal. In defence of this view, he points to the way they invariably elicit a moral theory or an ontology and, as such, stand in some objective sense over against the individual. Furthermore, against the idea of an autonomous self, which is held to have the power to choose its moral orientation independently of a particular community and whose choices can be held to be the mere expression of subjective preference, Taylor argues that to conceive of the self as separate from an independently existing moral and social space, which provides an essential part of a person's identity or capacity for self-interpretation, is as unrealistic as denying the extent to which a person's identity is affected by physical space, in the sense that without a clearly worked out idea of up and down, right and left, the individual would be without essential bearings with which to negotiate life. With this view of the status of spiritual and moral intuitions and of the self as crucially dependent on a moral map, Taylor can claim that the articulation of these intuitions in a moral theory or ontology does not amount to a mere fiction, as the naturalists would have it, but rather provides the basis for a rational discussion of truth claims from which, in opposition to procedural theories of the right, it is perfectly plausible to defend a substantive theory of the good. Linking this foundationalism with his critique of *genealogy*, he would doubtless claim for his project, with its three axes of respect for human life, what makes for the good life, and what constitutes human dignity, the most plausible or the best account of morality yet.

The second crucial difference between Taylor and MacIntyre, as we have noted above, is that while the latter despairs of the claims of modernity, the former is more hopeful that modernity can be redeemed, provided its central claims 'can be detached from various erroneous or incoherent ways of elucidating or defending them.'<sup>47</sup> In support of this view of what he calls the 'cramped' or 'spiritually lobotomised' theories of modernity, Taylor argues that all liberal theories have implicit or suppressed strong moral ideals, such as freedom, altruism, and universalism, which provide the motivation for their moral theory. However, the very nature of these 'hypergoods' or 'strong evaluation', by which he means those foundational values which allow for a relative ranking of a range of other goods or the denial of other hypergoods, drives the theorist to attempt to keep them out of the way on account of all the criticism of substantive theories of the good. As a result he claims that:

They are caught in a strange pragmatic contradiction, whereby the very goods which move them push them to deny or denature all such goods. They are constitutionally incapable of coming clean about the deeper sources of their own thinking. Their thought is inescapably cramped.<sup>48</sup>

The point of Taylor's criticism of liberal theories is best elucidated in relation to two prominent theories, utilitarianism and Rawls' theory of justice. In the case of utilitarianism, Taylor argues that its implicit or suppressed hypergood is the affirmation of ordinary life; this he claims modernity has rightly asserted against the hypergoods of past ages, such as the celebration of the hero in the Homeric age or the primacy of philosophy in Aristotelianism and the spiritual in Christianity, over other more ordinary human pursuits, such as the family. In Rawls' case, Taylor points out that, although Rawls claims they are not necessary for the development of his theory, he acknowledges the importance of intuitions by agreeing that we recognize his two principles of justice 'are indeed acceptable principles of justice because they fit with our intuitions.'<sup>49</sup> He then draws on Michael Sandel's critique of Rawls to argue that were we to articulate what lies behind these basic intuitions, 'we would start spelling out a very thick theory of the good...The theory of justice which starts from a thin theory of the good turns out to be a theory which keeps its most basic insights inarticulate'.<sup>50</sup>

Taylor, therefore, both in his own moral theory and in his response to other liberal

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<sup>47</sup> Mulhall, S. and Swift, A. op.cit., p.101.

<sup>48</sup> *Sources of the Self*, p.88.

<sup>49</sup> *Ibid.*, p.89.

<sup>50</sup> *Ibid.*, p.89.

projects, is still hopeful that through a process of retrieval and rearticulation of the moral goods suppressed, it may be possible to rejuvenate the Enlightenment quest, which, mired in the present state of confusion, has lost its power to inspire the moral life. Significantly, however, he ends his book by linking his hope to Judeo-Christian theism, with its 'central promise of a divine affirmation of the human, more total than humans can ever attain unaided.'<sup>51</sup>

Mention should also be made of those who continue to defend a universal basis for the natural law in the first principles of practical reasoning. John Finnis, for instance, claims for his impressive reconstruction of the natural law tradition that his arguments do not appeal to the 'authority of any person or body' but 'stand or fall by their own reasonableness or otherwise.'<sup>52</sup> In this confidence he insists that scepticism about a basic form of the human good knowledge is indefensible, and he proceeds to deduce seven basic forms of good in all. Another noteworthy reconstruction of the natural law is that of Keith Ward. He bases his ethics in an argument derived from the Kantian notion of value. From this foundation he asserts that there is a universal value system overlaid by diverse cultural forms, which can be unearthed by inspecting all existing sets of values and seeing what they have in common. And, not unlike Finnis, Ward would argue that it is indefensible to be sceptical about the notion of value because all people have desires and, because some are felt to be stronger than others, values emerge as soon as choices have to be made.<sup>53</sup>

In addition to these recent leading theorists, all of whom can be described as foundationalists, on account of their claim to have founded their ethics on a universal reason, those who have accepted that this project is no longer possible and yet who proceed to defend a political or pragmatic form of liberalism also deserve mention. Jeffrey Stout is a good example because he engages directly with MacIntyre. While sharing many of MacIntyre's criticisms of the Enlightenment project, he nevertheless claims that MacIntyre has exaggerated the level of moral disagreement in modern liberal society. He further denies that Aquinas achieved anything more than moral *bricolage* or the 'selective retrieval and reconfiguration of available moral languages.'<sup>54</sup> This he claims any good modern ethicist must resort to, given our 'babel' of moral languages, which reflect the multiple social practices and institutions of the modern, pluralistic

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<sup>51</sup> Ibid., p.521.

<sup>52</sup> Finnis, J. *Natural Law and Natural Rights* (Oxford University Press: Oxford, 1980), p.vi.

<sup>53</sup> See further, Ward, K. *A Vision to Pursue, Beyond the Crisis in Christianity* (SCM: London, 1991), p.181 ff.

<sup>54</sup> Stout, J. *Ethics After Babel, the languages of morals and their discontents* (James Clark: Cambridge, 1988), p.76.

society.

Using MacIntyre's categories, Stout defends this alternative understanding of our current moral situation on similar lines to that of Michael Walzer,<sup>55</sup> by claiming that each of our moral languages has evolved in response to the need to express the distinctive virtues of the social practice to which it relates. As a consequence, he argues that the diversity of moral languages is necessary and does not mean that there is no moral consensus in modern liberal society. On the contrary, this he believes is united in opposition to a religious vision of the human good on account of the religious wars that seem inevitably to follow. As he points out, 'Where MacIntyre sees the social embodiment of emotivism, I see implicit commitment to a provisional, self-limiting conception of the good. This commitment helps explain, as MacIntyre's view does not, why people of various philosophical and religious persuasions are so reluctant to discard the arrangements, institutions, and vocabularies we have'.<sup>56</sup> Stout concludes by opting for a form of pragmatic liberalism, derived from John Dewey and Henry James and championed today by, among others, Richard Rorty. As he summarises this eclectic project, with which we are in considerable sympathy:

Our task, like Thomas Aquinas's, Thomas Jefferson's, or Martin Luther King's, is to take the many parts of a complicated social and conceptual inheritance and stitch them together into a pattern that meets the needs of the moment. It has never been otherwise. The creative intellectual task of every generation, in other words, involves moral *bricolage*. It is no accident that Aquinas, Jefferson, and King were as eclectic as they were in using moral languages - and no shame either.<sup>57</sup>

There is therefore a substantial body of ethicists who disagree fundamentally with MacIntyre's project and whose criticisms and alternative projects deserve to be brought and held alongside that of MacIntyre. Nevertheless, along with many others, we recognise MacIntyre as the teacher with whom every new scholar must engage if he or she is to master the craft of moral theology and hope to take it further; he has certainly had an immense impact on Christian ethics and, with his conversion to Thomism, his project has provided a bridge between philosophy and theology which has opened up the possibility for modern Christians to rediscover their past. For this reason we find him a much more fruitful philosopher to engage with than, for example, a

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<sup>55</sup> See further his *Spheres of Justice: A defence of Pluralism and Equality* (Blackwell: Oxford, 1983).

<sup>56</sup> *Ibid.*, p.238.

<sup>57</sup> *Ibid.*, p.292.

philosopher such as Habermas, who may well have a theology lurking in his thought, but for whom theology is now deemed marginal.<sup>58</sup> Furthermore, without necessarily accepting the whole of MacIntyre's thesis, because of its vulnerability to some of the criticisms and rival projects mentioned above, we are in broad agreement with his analysis of the moral predicament of modern liberal society and the method he sets out for the resolution of the problem posed by incommensurable ethical traditions.<sup>59</sup> With some qualifications, we are also in agreement with his defence of the Aristotelian-Thomist tradition as the 'best example we possess of a tradition whose adherents are rationally entitled to a high measure of confidence in its epistemological and moral resources'.<sup>60</sup> We shall now give the main reasons for this agreement as we comment on the three coordinates of MacIntyre's method: human wisdom, the Christian revelation, and rival moral traditions:

### HUMAN WISDOM

Rightly, to our mind, MacIntyre locates the point of departure for ethics in the historical situatedness of a craft-tradition, rather than in abstract first principles of reason. Here we follow him in his acceptance of the force of the naturalist arguments, which make it implausible to treat statements of value as if they were derived from statements of fact for the reason that there always has to be another layer of justification.<sup>61</sup> As another moral philosopher of distinction, Bernard Williams, supports this finding of analytic philosophy: 'There is one clear truth to be found in the *is - ought* distinction, ...the conclusion of a piece of practical reasoning cannot be logically deduced from the premises that support it...there is still a step beyond the input.'<sup>62</sup> Furthermore, in support of MacIntyre's contention that the progress of analytic philosophy has established that 'there are *no* grounds for belief in universal necessary principles - outside purely formal enquiries - except relevant to some set of assumptions',<sup>63</sup> there is also the linguistic turn of Ludwig Wittgenstein. As Anthony Kenny explains the significance of his philosophy of

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<sup>58</sup> See further Forrester, D. *Christian Justice And Public Policy* (Cambridge University Press: Cambridge, 1997), p.191 for a helpful discussion of Habermas and theology.

<sup>59</sup> This is put most starkly in the debate over abortion.

<sup>60</sup> *After Virtue*, p.277.

<sup>61</sup> Flew, A. *A Dictionary of Philosophy* (Pan: London, 1979), p. 240, concedes that the naturalistic fallacy is not universally agreed is always a mistake.

<sup>62</sup> Williams, B. *Ethics and the Limits of Philosophy* (Fontana: London, 1985/1993), p.126.

<sup>63</sup> *After Virtue*, p.266.

language, 'Wittgenstein showed that the descriptions of private experience which the Cartesian epistemologist takes as a datum are much more problematic than the public, communal disciplines and institutions which he attempts to justify and set on sound foundations. If Wittgenstein was right, philosophy had been on a wrong track since the time of Descartes and should alter course in a way which would make it more sympathetic to medieval preoccupations.'<sup>64</sup> Indeed, in the light of this philosophy and all the criticisms of the *genealogists*, such as Karl Marx and, more recently, Michel Foucault, although Descartes's suspicion of all inherited ideas may be highly commendable, his idea that the individual can somehow 'peel off' all extraneous influences on the self leaving only a 'thinking thing' now looks highly implausible.<sup>65</sup>

In addition to the force of naturalistic philosophy and the philosophy of language, there is MacIntyre's supporting argument against the Enlightenment project that 'the thinkers of the Enlightenment and their successors proved unable to agree as to what precisely those principles were which would be found undeniable by all rational persons.'<sup>66</sup> Here one need only point to the disagreements between widely acclaimed recent thinkers, such as Rawls and Nozick, to demonstrate the continuing, and seemingly futile, quest for a set of universally acknowledged rational first principles. Indeed, the way these two authors begin from different premises, respectively, the original position and the inalienable rights of the individual, from which they derive incompatible principles of justice, one which makes the past irrelevant to a judgement of a particular distribution in the present, the other which makes the past a crucial determinant in so far as justice is held to be a matter of how goods have been acquired, well demonstrates the fundamental importance of the initial choice of a premise, and the extent to which a serious choice seemingly cannot be made outside one or other moral tradition.

In the light of all the above, and given the present state of disagreement in Ethics, which, as we have noted, MacIntyre has described as consisting in the 'struggles in progress' or 'the tripartite hostilities between the heirs of encyclopaedia, post-Nietzschean genealogy, and Thomistic tradition', where 'neither argument nor conflict is yet terminated',<sup>67</sup> it would appear too much to claim to hold an Archimedean point outside a moral tradition from which we can

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<sup>64</sup> Kenny, A. *Aquinas* (Oxford University Press: Oxford, 1980), p.28.

<sup>65</sup> See further Kerr, F. *Theology after Wittgenstein* (SPCK: London, 1986), p.3 ff.

<sup>66</sup> *Whose Justice? Which Rationality?*, p.6.

<sup>67</sup> *Three Rival Versions*, p. 215.

either stand and judge ours to be right and all others to be wrong or to claim to be sceptical of moral knowledge altogether.<sup>68</sup> Therefore there is good reason for opting for MacIntyre's alternative of a craft-tradition in preference to the foundationalism of those who, in their different projects, may be described as labouring to keep alive the Enlightenment project. In any case, few liberal theorists today continue to see themselves as somehow tradition free. As Stephen Mulhall and Adam Swift have pointed out, 'Even if past liberal theorists have explicitly thought of themselves in Archimedean ways, and even if contemporary theorists needed a little prodding in order explicitly to disown such self-images, there can be no reason for thinking that there is any fundamental contradiction between the content of a liberal theory of justice and an explicit acknowledgement of the elementary truth that this theory (like any other product of human intellectual endeavour) emerged from a tradition of enquiry.'<sup>69</sup>

Before giving further reasons for supporting MacIntyre's point of departure for ethics, we ought briefly to comment on Taylor's alternative project, which, in contrast with MacIntyre's recourse to a craft-tradition as a way out of the present state of disagreement in ethics, attempts to circumvent the naturalist challenge and the resulting post-modernist claim that everything is merely a matter of perspective, by calling into play the role of spiritual and moral intuitions. We cannot but find this project appealing for its realist understanding of the spiritual and the moral. However, we cannot entirely go along with the reliance Taylor places on fundamental spiritual and moral intuitions as distinct from 'other moral reactions which seem very much the consequence of upbringing and education',<sup>70</sup> because we are not convinced that this distinction between instinctual and learnt moral reactions can so easily be upheld. Moreover, the instinctual and fundamental intuitions, such as respect for human life, on which his theory rests, are too widely disregarded, not only in pre-modern societies but also in modern societies such as our own, with its high incidence of abortion, poverty, and tolerance of long-term unemployment, to name some of the more glaring abuses of our fellow human beings, to support the plausibility of his theory. Indeed, in the light of the evils which modern liberal society so easily tolerates, we find Taylor's claim, that 'We are all universalists now about respect for life and integrity',<sup>71</sup> not only misleading, for the way it obscures the very wide disagreements which exist between

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<sup>68</sup> For a discussion of ethical skepticism, such as that of John Mackie, see further Dworkin, R. 'Objectivity and Truth: You'd Better Believe It', in *Philosophy and Public Affairs*, Vol.25 No.2, Spring 1996.

<sup>69</sup> Mulhall, S. and Swift, A. op.cit., p. 291-292.

<sup>70</sup> *Sources of the Self*, p.5.

<sup>71</sup> *Ibid.*, p.6.

those who would claim to subscribe to a universalist ontology, but also complacent, for its seeming lack of awareness of the depths of this disagreement. We therefore think it best to accept the force of the arguments against the 'naturalist fallacy' and to stick with MacIntyre's project, which does not have to rely on the rather shaky ground of intuitions and instead circumvents the problem posed by naturalism on the stronger ground of a craft or practice, which has been refined over a course of time in a moral tradition.

We also think MacIntyre right to found his ethics on the historical situatedness of a craft-tradition because it respects the sense in which a craft and a tradition can embody the hard-won wisdom of a community, which it has acquired by experience and on which it can rely for its very survival.<sup>72</sup> As such it can avoid the danger of imposing an alien and ill-fitting ethical system, with all the disastrous consequences that can follow. Here John Mahoney's history of business ethics is worth mentioning for its account of the way philosophers in the United States, when they first started to take an interest in business ethics in the 1970s, tended to impose on business their alien and ill-fitting ethical systems;<sup>73</sup> the result was not only that they failed to convince but they also brought the new discipline into disrepute by laying it open to the charge that they were merely repeating the mistakes made by those who had attempted to foist Marxism on business.

In reaction to this early business ethics, Mahoney has developed a method which starts from reflection on actual business practice. As he describes it: 'a good way forward for business ethics is to start from inside various typical business situations in which certain moral values characteristically come into play and compete for ethical attention'.<sup>74</sup> From this point of departure, Mahoney sees the work of the ethicist in the perspective of a Christian humanist who seeks 'to find and bring to light and show in their full moral beauty the values which are latent in God's creation and of human endeavour'.<sup>75</sup> He calls this 'value prospecting'. To assist this project he spells out a model whereby the collective wisdom of the business community, represented by the values operating within the multiple relationships in the modern business corporation, can be systematically identified, and only then used alongside the more traditional

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<sup>72</sup> See further Williams, B. *op. cit.*, p. 168 ff. for his comments on the value of traditional knowledge which allows us to make our way about our social world.

<sup>73</sup> Mahoney, J. *op. cit.*, p. 6 ff.

<sup>74</sup> Mahoney, J. 'Christian Perspectives on Business Ethics', in *Studies in Christian Ethics*, Vol. 2, No. 1 (T&T. Clark: Edinburgh, 1989), p. 28.

<sup>75</sup> *Ibid.*, p. 38.

Christian values in a conflict of values approach to the resolution of ethical disagreements in business.

In addition to the support it receives from Mahoney's business ethics method, the craft-tradition mode of moral enquiry is more widely supported by the increasing ecumenical emphasis on the value of experience in Christian ethics. Commenting on the Roman Catholic tradition, Richard McCormick writes of 'the new age of experience' in moral theology. This he compares with a Catholic moral theology which 'proceeded as if its responsibility was to form and shape experience, but hardly ever to be shaped by it.'<sup>76</sup> He claims the "new broom" of Vatican II for this development for the way it promoted the role of lay experts in the formulation of the Church's moral policies. As he quotes from the Council: "She [the Church] must rely on those who live in the world, are versed in different institutions and specialities, and grasp their innermost significance in the eyes of both believers and unbelievers."

The Anglican tradition of Christian social ethics, exemplified by Ronald Preston, has consciously been working with these insights since at least the time of Temple. As Alan Suggate has pointed out, there is an ambivalence or incoherence in Temple's ethics between an allegiance to a Christian method, which works from the top-down by seeking to apply universal Christian principles to the particulars of a situation, and his use of the method of dialectic, which works in the opposite direction by beginning with the particulars of experience.<sup>77</sup> In the refinement of the Anglican tradition in Preston, we find the tension in Temple's thought between the role of Christian values and human experience developed into his reciprocal method, which seeks to hold together the human wisdom of lived experience with the divine wisdom of the Bible and Christian tradition. This essentially Thomist method, which we earlier described using the analogy of a work of art, in which the artist's vision gives shape and is shaped, in a reciprocal relationship, by the detail of his work, insists that the Christian ethicist has to work at both levels and to treat them equally seriously by allowing that even the level of moral principle should be open to revision in the light of experience. As Preston describes and justifies this approach:

The further question is how we relate the two elements needed in ethical decision-making: the Bible and the doctrinal tradition on the one hand, and the data of the contemporary world on the other. How much detail can we derive

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<sup>76</sup> McCormick, R. 'Moral Theology 1940 - 1989: An Overview', in *Theological Studies*, Vol. 50, 1989, p.21.

<sup>77</sup> See further See further Suggate, A. *William Temple and Christian Social Ethics Today* (T&T Clark, Edinburgh, 1987), p.207 ff.

from them? Certainly the former give us an understanding of human life and destiny (or, put another way, of nature, humanity and God), which then has to be brought alongside our analysis of 'what is going on' in our contemporary situation.

I suggest that there is a reciprocal relationship between the two. The Christian sources give us the criteria which are important in selecting and interpreting from the mass of contemporary data. These criteria are not necessarily peculiar to Christianity, but may overlap at times with those of other faiths, religious and humanist. But the data may also reflect back on our understanding of the Christian sources and lead us to reflect on them anew, instead of inheriting them as a fixed and unchangeable deposit from the past.<sup>78</sup>

By way of caution, however, it needs to be said that the exploration of experience is fraught with pitfalls. It is unavoidably subjective, and is always mediated through an ideology. Here, ideology is used in its neutral sense as an amalgam of ideas: moral, economic, political and philosophical, that allow the observer to make sense of experience and help in making decisions. It follows that documented experience is always an interplay between the bed-rock of experience and ideology because both are always involved in the interpretation of reality. Separating the one from the other is always difficult, especially over an issue such as public ownership, where competing ideologies, in their striving for hegemony, attempt not merely to colour but make impossible their opponents' version of reality. But while the approach is bound to be messy, disregarding the lessons human experience has for moral theory is, as McCormick warns, to disregard 'one of the richest and most indispensable sources of moral knowledge'.<sup>79</sup>

Needless to say, however, it is of course precisely this human wisdom which the Augustinian tradition in Christian ethics, on account of its understanding of human sinfulness, will not recognise as true wisdom. And it is here that we encounter the dividing line between catholic and evangelical Christian ethics which has taken on the status of a confession,<sup>80</sup> which even the most responsible and restrained evangelical treatises on Christian ethics seems incapable of bridging. For instance, Oliver O'Donovan's ethics, which seeks to base the point of departure for Christian ethics exclusively on divine law, which he interprets as the creation

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<sup>78</sup> Preston, R. *Religion and the Ambiguities of Capitalism* (SCM: London, 1991), p. 96.

<sup>79</sup> McCormick, *op.cit.*, p.21.

<sup>80</sup> See further Gustafson, J.M. *Protestant and Roman Catholic Ethics, Prospects for Rapprochement* (University of Chicago: 1978; this edition SCM: London, 1979), p.6ff. for his account of the shift in paradigm from the Roman Catholic understanding of sin as a moral problem to the Protestant understanding of sin as a religious problem and the 'consequent difference in the significance and function of ethics within theology'.

order vindicated by the resurrection of Jesus Christ, and which therefore goes some considerable way to bringing closer together the traditional catholic emphasis on creation and the traditional Protestant emphasis on redemption, still appears to deny that wisdom can be found outside the Christian tradition.<sup>81</sup> The same, but even more so, is the case with the recently emergent triumphalist Christian Ethics, such as that of John Milbank, which appears to preen itself on having survived the Enlightenment challenge and to dismiss virtually all ancient wisdom and modern ethical and social theory at variance with its distinctively Christian point of departure as either crypto-theologies or paganism.

Here, rather than respond directly to Milbank's hugely complicated and provocative thesis, we shall briefly consider the dogmatic ethics of Michael Banner, Mahoney's successor in the F.D.Maurice Chair of Moral and Social Theology at Kings College, London, because we suspect he is something of a disciple of Milbank and his criticism of the Church of England Board of Social Responsibility (BSR) report on the family, *Something to Celebrate*, is perceived to be an attack on the whole post-war Anglican tradition of public theology, with which we are sympathetic. In his critique of the report, Banner reveals the aggressively Christian focus of his ethics by denouncing the authors for what he takes to be their 'betrayal' of Christian theology. He also writes that, 'The voice that has been lost is the voice of the Church which sees the world in the light of what it knows to be the decisive Word of God, Jesus Christ'.<sup>82</sup>

In responding to this dogmatic ethics, we cannot help but envy its strong sense of Christian identity. As Banner argues in his inaugural lecture, this gives it the advantage of a strong base from which to negotiate in a pluralistic society on issues of public policy.<sup>83</sup> However, we find this advantage is gained at too great a cost. Not only does it alienate those who view such a dogmatic ethics as sectarian, but also it would appear only to be able to defend itself against the charge of sectarianism by capitulating to *genealogy* and accepting to play by its rules, as if this tradition has defeated its rivals in *encyclopaedia* and in a craft-tradition such as Thomism. Thus Banner ends a section of his lecture devoted to fending off the charge of sectarianism by going on the offensive and declaring that 'dogmatic ethics is truly sectarian - that is, that it can and does speak to the world.....of the 'genealogists', to use MacIntyre's label

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<sup>81</sup> See further O'Donovan, O. *Resurrection and Moral Order, An Outline for Evangelical Ethics* (IVP: Leicester, 1986), p. 82 ff.

<sup>82</sup> Banner, M. *Nothing to declare* (Church Times, 16 June 1995) p.7.

<sup>83</sup> Banner, M. *Turning the world upside down (and some other tasks for dogmatic Christian ethics)* (Kings College, London, inaugural lecture, 1996), p.59.

for them, the world which has shaped irrevocably the modern mind...' <sup>84</sup>

In this connection, it is helpful to be reminded that this dogmatic ethics can be understood as originating in the attempt by Karl Barth to insulate Christian theology and ethics from the challenges of both *encyclopaedia* and *genealogy* by the formulation of a free-standing theological system founded exclusively on the unique revelation of God in Jesus Christ. We cannot however accept that Barth succeeded. To our mind, his project is an impressively disguised literalism, which, as Stout describes it 'rigorously avoids making a systematic apology for its acceptance of biblical authority.' <sup>85</sup> As such it has no satisfactory defence of its own canon within the Biblical canon and therefore no satisfactory answer to give to the kind of criticism made by David Hart, who writes from the non-realist perspective of the *Sea of Faith* movement:

Once the documents of any faith are understood and reviewed as human creations, no single idea to be found within them can be accorded the type of unique status that Barth still attempted to afford the doctrine of the incarnation. It is within the text as a dogmatic idea, but cannot be read as critically determinative of the whole text. Thus Barth's attempt to discover a biblical view was really a *cul-de-sac*, since its basic premise, the decisive action of God in Christ, is a pre-critical dogmatic position, rendered suspicious by the detailed work of the biblical critics. <sup>86</sup>

Here it is instructive to compare Barth's ethics with the post-modernist ethics of Don Cupitt. Where Barth refuses to justify revelation, on account of his rejection of the Enlightenment assumption that divine wisdom can be questioned, Cupitt refuses to justify reason, on account of his rejection of the realist assumption that 'knowledge copies an objective world'. <sup>87</sup> To our mind, both these positions betray a similar dogmatism which denies, on the one hand, human experience of moral truth which can at least to some extent be discerned in the created order, and, on the other, human experience of moral truth which is encountered as coming from without and which seizes and compels the believer. The admission of both facets of human experience undoubtedly complicates ethics, but the denial of either one is simply not true to the reality we and others have experienced for most of Christian history.

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<sup>84</sup> Ibid., p.59-60.

<sup>85</sup> Stout, J. op.cit., p.185.

<sup>86</sup> Hart, D. 'Non-realism and the universe of faiths', in Crowder, C. ed. *God and Reality, Essays on Christian Non-Realism* (Mowbray: London, 1997), pp.43-44.

<sup>87</sup> In Crowder, C. ed., *God and Reality, Essays on Christian Non-Realism* (Mowbray: London, 1997), p. 17.

In addition to these criticisms of Banner's dogmatic ethics, we cannot go along with the extremely pessimistic view of the ethical resources of humanity in Neo-orthodox theology on the grounds of the now standard theological argument reported by Alan Suggate in his defence of the ethics of William Temple. This points out that the denial of a natural morality would suggest that the image of God in man was totally extinguished in the *Fall*; it logically follows from such an interpretation that man would have no consciousness of sin, yet, as John Macquarrie argues, 'unless he had some such idea it is hard to see how Christ could ever become Christ for him'<sup>88</sup> Suggate goes on to report that much the same point was made by N.H.G. Robinson, who after conducting a very thorough investigation of neo-Protestantism concluded that the idea of a natural morality cannot be dispensed with: 'The doctrine of the image of God implies that man always stands in the presence of his Creator, and the symptom of this is the elusive challenge of his moral consciousness. Even though the Christian is in some sense a new creature, he is basically a man transformed or renewed, and that presupposes an understanding of his existence independent of that renewal. Redemption is not just a second instalment of creation'.<sup>89</sup> On the strength of these scholars' arguments and his own study of William Temple, whose theological investigations brought him back to the natural law towards the end of his life, Alan Suggate concludes:

Temple, Macquarrie and Robinson all agree that natural morality can form a bridge between Christian and non-Christian, enabling them to make moral contact with each other, to communicate and co-operate. This conviction that it is possible, if at times hard, to find common ground on the basis of rational discussion, is of vital importance, both in a pluralistic world where hard-line ideologists deny it, and in a Church tempted to fall back on unreflective appeals to the authority of Scripture.<sup>90</sup>

Furthermore, in our judgement, the denial of a natural morality also exaggerates the level of our human *fallenness* in a way which would appear to ignore the enormous cooperative achievement of human society. This cannot be adequately explained as the product of some imposed order but is more plausibly understood as undergirded by a shared natural morality.<sup>91</sup> It would also appear to deny the many examples of selflessness and of human association which

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<sup>88</sup> In Alan Suggate, *op.cit.*, p.108.

<sup>89</sup> *Ibid.*, p.109.

<sup>90</sup> *Ibid.*, p.109.

<sup>91</sup> See further Ridley, M. *The Origins of Virtue* (Viking: 1996; this edition the Softback Preview, 1997.), p.4 ff.

we observe in persons who now largely inhabit a post-Christian culture. Indeed it can be very humbling for the Christian to discover the depth of human commitment in such secular associations as sports clubs, literary societies and the like, when he or she ventures beyond the confines of the divided Christian churches with their often fissile local fellowships.

Coming at the end of a century of unprecedented human conflict, and at a time when, according to MacIntyre, we have entered a new dark ages, these sentiments will not persuade everyone. Nevertheless they are worth mentioning as a balance to the extremely pessimistic theological view of the total fallenness of humanity in Neo-Orthodoxy. Furthermore, while on the subject of dark times, it is also worth pointing out that the Neo-orthodox view, with its correspondingly exclusive ethical focus on the grace and command given in Jesus Christ, has tended to receive emphasis in a theology of crisis when times are abnormal, as in Augustine, when the Roman Empire was disintegrating, or as in Luther, when Christendom was collapsing, or as in Barth, when the end of Western European civilisation appeared imminent, and again now, at *The End of History*,<sup>92</sup> when the Enlightenment project appears to have come to an end.

Ironically for a Protestant approach to Christian ethics, Neo-orthodoxy also appears to deny much of the witness of Holy Scripture itself.<sup>93</sup> In his inaugural lecture with the title, *The Ways of Wisdom*, John Mahoney pointed this out in his criticism of O'Donovan for having a far too narrow understanding of the working of God's grace:

There is then, a continuity to be recognised from the beginning in God's wise dealings with his creatures. As Aristotle perceived, wisdom is a godlike attribute; but God is not jealous. Or as Karl Rahner writes in a similar vein, there is a "tacit assumption that grace would no longer be grace if God became too free with it". And if there is a cumulative continuity in the imparting of God's wisdom to his human creatures, then we cannot conclude with Professor O'Donovan, that "knowledge of the moral order is a grasp of the total shape in which, if anything is lacking, everything is lacking". For this appears to ignore the canonical status and the significance of the Wisdom literature. It also incurs the risk of moral Arianism, by considering that it is only the Word-made-flesh

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<sup>92</sup> From the title of Fukuyama, F. *The End Of History And The Last Man* (Penguin: London, 1992).

<sup>93</sup> See further Barr, J. *Biblical Faith and Natural Theology* (Clarendon: Oxford, 1993), p. 200 for his view that the rejection of natural theology for a revealed theology leads theology to 'stand rather aloof from the Bible.' See also Barton, J. *Ethics And The Old Testament* (SCM: London, 1998) for his defence of a natural law ethic which he argues is to be found alongside the dominant divine command ethic of the Old Testament in, for example, the Wisdom literature.

who addresses a word of wisdom to humankind.<sup>94</sup>

There is also the further irony that when the attempt is made to follow this alternative approach in applied ethics and to read Christian social ethics directly off from the Bible or from Christian doctrine, the attempt often seems to arrive at the conclusions that a wise Christian social theorist might be expected to arrive at. Donald Hay's *Economics Today* (1989),<sup>95</sup> which he offers as an alternative to the Prestonian dialectical approach, is a good example. As Preston points out, after laboriously identifying eight Biblical principles for use in a distinctively Christian analysis of economic issues, Hay's analysis then fails to make much direct use of them (possibly because of the difficulty of relating the historical context from which they were derived to our modern industrial world).<sup>96</sup> Nevertheless, he still manages to end up supporting the respectable but fairly predictable conclusions of a middle class academic economist; it would seem the method confronts the impossible task of having to unlearn what one already knows of ethical and social theory and consequently often ends up merely re-inventing the wheel.

It follows from all these arguments that, despite the valiant but, in our view, misguided effort to vindicate a distinctively Christian Ethics,<sup>97</sup> we cannot accept that it is enough simply to preach at the world in an attempt at 'out narrating' other rival narratives, as Banner and Milbank would have us do. As Malcolm Brown points out, the approach of Milbank and Banner is essentially aggressive, and therefore is not very promising in a multi-cultural and non-consensual world.<sup>98</sup> Furthermore, to fail to listen to what the world has to say is to run the risk of missing what God may be saying through the world. As Rahner puts this: 'Who is to say that the voice heard in earthly philosophy, even non-Christian and pre-Christian philosophy, is the voice of nature alone (and perhaps of nature's guilt) and not also the groaning of the creature, who is already moved in secret by the Holy Spirit of grace, and longs without realizing it for the glory of God?'<sup>99</sup> We must therefore insist that the task of Christian ethics has to treat human wisdom seriously, in the way MacIntyre does, and, therefore, has to include apologetics if it is

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<sup>94</sup> Mahoney, J. *The Ways of Wisdom* (Kings College: London, 1987), p.14.

<sup>95</sup> Hay, D. *Economics Today, A Christian Critique* (Apollos: Leicester, 1989).

<sup>96</sup> See further Preston, R. *op.cit.*, p.100 - 101.

<sup>97</sup> See here the comment by Nietzsche, F. *Daybreak, Thoughts on the prejudices of morality*, translated by R.J. Hollingdale (CUP: Cambridge, 1982), p.69, para.70 on the eclectic background of Christian thought.

<sup>98</sup> Brown, M. 'Some Thoughts on Moral Method' in *Unemployment and the Future of Work, An Enquiry for the Churches* (CCBI: London, 1997), p.294.

<sup>99</sup> Quoted in Mahoney, J. *The Making of Moral Theology, A Study of the Roman Catholic Tradition* (Oxford University Press/Clarendon: Oxford, 1987/1989), p.115.

not to be left aggressively punching thin air. As Mahoney wisely urges in a passage which deserves to be quoted in full:

At least part of the response, then, of Gospel or Christian wisdom to human wisdom should not be, if I may so put it, of the "yes but" variety, but more of the "yes and" variety. To a Christian ethics of radical opposition, then, I should prefer a Christian ethics of the a fortiori type. For this was the approach of Paul to the Greeks at the Areopagus, which despite his disappointment won some response (Acts 17:22-34), and which appears as evangelical as the prophetic proclamation of Peter to the Jews at Pentecost (2:16-18). It is the ethical approach which seeks common ground, on which God's transcendental Wisdom may continue to build. And as we near the end of a century in which post-Enlightenment confidence may be faltering or wearing thin in some respects (though Churchmen are ever prone to wishful thinking), the Christian ethical approach dare not be one of condemnation or pent-up recrimination at what Reinhold Niebuhr termed the modern "pride of knowledge". This sounds too much like advocating a return to Kant's pre-Enlightenment nursery, and the cautionary couplet of Hilaire Belloc:

And always keep a hold of Nurse

For fear of finding worse.

Perhaps what we need most today is not an admonitory theology of pride or sin, but a prophetic theology of consolation, less dependent on Augustine, and more akin to Julian of Norwich as it seeks to penetrate Christ-like through disillusion or desolation to a richer and wiser discernment of what God is about.<sup>100</sup>

## THE CHRISTIAN REVELATION

But for all our insistence that human wisdom has its rightful place in moral enquiry, as we have already indicated above, we cannot support an exclusively Aristotelian ethics which ignores the contribution of an Augustinian epistemology. Here we believe MacIntyre is right to defend the Thomist synthesis of the Aristotelian and Augustinian traditions as the best alternative we have for moral theology, although we suspect Aquinas' real achievement was more of the nature of the moral *bricolage* Stout describes rather than the reconciliation of two

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<sup>100</sup> *The Ways of Wisdom*, p.14-15. It is also worth briefly reporting here Peter Sedwick's defence of the method underlying the BSR report on the family for its eloquent affirmation of our understanding of the task of Christian ethics. Echoing Mahoney, he commended the report for the way it 'seeks to gather the fragments of human wisdom back to their source in God, and to find a unity which is elusive but not to be ignored: the work of the Holy Spirit.' Taken from his defence of *Something to Celebrate*, *Church Times*, 23 June, 1996.

incommensurable traditions which MacIntyre claims for Aquinas. We value in particular the fallibilist character of this synthesis (if it can be called such) and the sense in which it can be described using the analogy of a work of art in which divine wisdom provides the overall vision of the artist and human wisdom the detail of the artist's materials. In this light, the final work can be understood as the product of the creative tension between them - vision shaping detail - detail shaping vision - as the human artist struggles to capture the vision by filling in the detail.

We believe it necessary for Christian ethics to work with these two moral traditions because, in addition to what we have argued above about the need to take human wisdom seriously, we need also to take account of human experience of revealed truth and the reality of moral error. Here we acknowledge that, while the Socratic method of dialectical reasoning accords with our experience of how it is through conflict and debate that we are mainly led to grasp and to test truths hitherto unknown to us, what it does not sufficiently account for is the experience of illumination, of truth seeming to come from the 'outside', and also the problem of moral error or bad faith, which prevents our perceiving the truth, no matter how hard it might be staring us in the face. These too are an undeniable part of human experience; they are left unaccounted for without the recognition of our need for the help of a divine grace, not to abolish human nature but, as Aquinas put it, to perfect it.<sup>101</sup>

For this reason we cannot go the whole way with the post-modernist *New Christian Ethics* of Don Cupitt. His approach rightly draws on Nietzsche's harsh criticism of Christianity to bemoan the debasement of the Christian's sense of the self in so much of the tradition deriving from Augustine. He accordingly sees as one of his main tasks that of curing people of the 'the old masochistic.....sense of sin, restoring their self-esteem and vindicating Christian action.'<sup>102</sup> To this end he urges that we should not think of ourselves as a soldier under authority, 'but as an artist who has chosen to work within a particular tradition.'<sup>103</sup> However, given our understanding of the way human sinfulness clouds moral judgement, we cannot accept that we have the same freedom of choice in the matter of morals as we have in choosing a particular tradition of art to work within. For this reason we recognise the virtue of obedience to a received tradition of wisdom which has supported (albeit imperfectly) the moral life up till now,

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<sup>101</sup> Thomas Aquinas wrote, 'Grace does not abolish Nature but perfects it'. Quoted in d'Entreves, *Natural Law* (Hutchinson, London, 1951), p. 44.

<sup>102</sup> Cupitt, D. *The New Christian Ethics* (SCM: London, 1988), p.23.

<sup>103</sup> In Crowder, C. ed., op.cit., p. 15.

provided, as we will explore further later, that this is joined with a critical sense, an acceptance of responsibility and respect for the primacy of individual conscience. Something of what we are labouring to say is better said by John Robinson where he qualifies his support for the situation ethics of Joseph Fletcher by insisting that 'Such an ethic cannot but rely, in deep humility, upon guiding rules, upon the cumulative experience of one's own and other people's obedience. It is this bank of experience which gives us our working rules of 'right' and 'wrong', and without them we could not but flounder.'<sup>104</sup>

The *genealogist* will of course deride this concession to authority as weakness, as deriving from the "grovelling" virtues of Christianity which merely mask the will to power or prevent one from thinking through things for oneself. As Nietzsche put this, 'most of us are our whole lives long the fools of the way we acquired in childhood of judging our neighbours (their minds, rank, morality, whether they are exemplary or reprehensible) and of finding it necessary to pay homage to their evaluations.'<sup>105</sup> He might also point out that such a recourse to authority cannot escape a Christian version of the paradox of Plato's *Meno* : if it is only by submission to the authority of a particular text that one can come to recognise the authority of its particular conception of the virtues how can one recognise its authority in the first place. He might also ask how such an ethic can guard against ethical complacency, and specifically point to how Thomism, for all its claim to be informed by both a human and divine wisdom, nevertheless sanctioned the evil of slavery. Against this kind of subversive reasoning there may be no finally conclusive intellectual defence as to why we should choose to derive an ethic from this social practice and not that, these particular texts and not those, and, therefore, why the Aristotelian-Thomist conception of the virtues rather than the heroic virtues of Frederick II.

That conceded, as MacIntyre has argued, the notion of accountability, understood in terms of Socratic dialectic or Augustinian rhetoric,<sup>106</sup> presents problems for genealogy; in order to discredit its rivals from its own position, it has inescapably to claim an authority for genealogy which must come from somewhere. But this it cannot do because, with its notion of the fissured self which lacks an identity, unity and continuity, there is no means of holding an individual accountable for their earlier actions. As Nicholas Boyle explains in his commentary on MacIntyre's critique, 'all *genealogy*, all unmasking of intellectual and moral perspectives as

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<sup>104</sup> Robinson, J. *Honest to God* (SCM: London, 1963), p.119-120.

<sup>105</sup> Nietzsche, F. *op.cit.*, p.106.

<sup>106</sup> *Three Rival Versions*, p.205 ff.

derivative from the will to power, involves a disowning of past illusion. But you cannot tell the story of your emancipation from deception and self-deception unless there is an "identity and continuity of the self that was deceived and the self that is and is to be".<sup>107</sup> The *genealogical* project therefore ends by being foisted on its own petard. As MacIntyre puts it, 'Behind the genealogical narrative there is always a shadow self-congratulatory narrative.'<sup>108</sup>

On the strength of this critique of *genealogy*, and in the light of human experience of a revealed moral truth which comes, so to speak, from 'outside' to challenge our inclination to bad faith, we cannot see a better alternative than to follow MacIntyre when, in the second of the two sequels, *Three Rival Versions of Moral Enquiry*, his once atheistic moral philosophy takes an Augustinian turn:

The self-revelation of God in the events of the scriptural history and the gratuitous grace through which that revelation is appropriated, so that an individual can come to recognize his or her place within that same history, enable such individuals to recognize also that prudence, justice, temperateness, and courage are genuine virtues, that the apprehension of the natural law was not illusory, and that the moral life up this point requires to be corrected in order to be completed but not displaced. So a Pauline and Augustinian account retrospectively vindicates that in Aristotle which had provided a first understanding of the core of the moral life.<sup>109</sup>

It does not follow from the above, however, that we accept without qualification MacIntyre's claim that Thomism offers the 'most adequate tradition available for resolving the moral problems of modernity'<sup>110</sup> for, while Nietzsche's assault on Christianity as the enemy of freedom and authentic life may not have succeeded in sinking Thomism, at least not that of Thomas the moral theologian, the genealogy of Feurbach, Nietzsche, Marx, Darwin, Freud and Foucault<sup>111</sup> has caused permanent damage by showing up the potentially repressive tendencies of this tradition. In recognition of this side to Thomism, some post-Vatican II moral theology has expressed a measured unease at its revival in recent decades. Mahoney, for example, adapts Gilson's remark that some people appear to be born Augustinian in order to make the point that

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<sup>107</sup> Boyle, N. *Who Are We Now, Christian Humanism and the Global Market from Hegel to Heaney* (University of Notre Dame Press: Notre Dame, 1988; this ed. by T&T Clark), p.150.

<sup>108</sup> *Three Rival Versions.*, p.209.

<sup>109</sup> *Ibid.*, p.140.

<sup>110</sup> Fergusson, D. *op.cit.*, p.38, comments that this claim 'has left even his most sympathetic commentators awaiting further clarification'.

<sup>111</sup> Banner's world of *genealogists*; see further his inaugural lecture p.60.

'for most of this century it would not be inappropriate to conflate Gilson with Shakespeare's Malvolio and conclude that some theologians are born Thomists, others acquire a love for Thomism, and some had Aquinas thrust upon them.'<sup>112</sup>

In the light of this Roman Catholic experience and the challenge not only of *genealogy* but also of *encyclopaedia*, we are persuaded of the need to qualify our support for MacIntyre's Thomism, with its total assault on modernity, in favour of the new emphasis on the freedom of the human person under God in the post-conciliar renewal of the Roman Catholic tradition. This renewal reflects a serious engagement with both *genealogy* and *encyclopaedia* and has consciously or unconsciously attempted to draw some of their valid insights into moral theology by a process of rearticulation, much as we described Taylor as attempting to do in his conciliatory project. In his magisterial account of this Roman Catholic renewal, Mahoney identifies three elements in particular: a drive towards totality, an attempt to recognise diversity, and, for their completion and understanding, a recovery of mystery. As each element is important for our method, we shall briefly comment on them and explain how we shall incorporate them into our method:

The drive to totality needs to be viewed in the context of the crisis for moral theology posed by *Humanae Vitae* (1968), the papal encyclical on contraception; in line with pre-conciliar teaching, with its rigid understanding of the natural law, and disregarding the majority opinion of a papal commission on contraception, the encyclical condemned the use of artificial means of contraception as being intrinsically evil. In responding to this crisis, Mahoney explains that what the drive to totality attempts to do is to widen the focus of ethical enquiry from an exclusive concentration on the act to take into account both the circumstances in which an act is committed and the consequences of the act, and to place the whole in the context of God's divine purpose for his creation in which human beings are understood in their totality as persons endowed with a sacrosanct freedom. As justification for what he calls this necessary 'assault on the theory of moral absolutes', he claims that it 'may be seen as an unconscious move towards the recovery of the Augustinian and Thomist idea of divine *ordo* in creation, which for those founding fathers of moral theology constituted the very basis and context of all moral theology.'<sup>113</sup> But whatever the justification in traditional Roman Catholic sources of authority,

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<sup>112</sup> *The Making of Moral Theology*, p.331.

<sup>113</sup> *Ibid.*, p.342.

it is difficult not to see the influence of that enduring ethical legacy of eighteenth century liberalism, utilitarianism, at work and, in more recent years, the force of general consequentialist and contextual ethical theories in shaping this post-conciliar moral theology.

The recognition and respect for diversity that Mahoney observes in post-conciliar moral theology at first sight appears to conflict with the drive to totality. However, as he takes pains to explain 'diversity in this context does not have to do with viewing the several parts of the whole, but refers to viewing the whole, or the totality, in a diversity of different ways'.<sup>114</sup> In other words, what is envisaged is a pluralistic moral theology which allows for different methodological frameworks, each of which is held equally validly to view the whole through different lenses and from different angles. Mahoney justifies this development not only in terms of the pluralism found in theology's normative sources, including the Bible, and by the mistaken view that Christian teaching, employing as it does analogical concepts, can deliver detailed and unquestionable conclusions, but also by the way the diversity of modern languages and human experience can lead to different cultures perceiving the relationships between things in subtly different ways. As an illustration, he refers to way Eskimos have many terms to differentiate the phenomenon which we call snow.

Mahoney also offers the further justification for respecting diversity that moral theology must accommodate the phenomenon of change. In the context of a discussion on contraception, which many women in particular would perceive to have ushered in a whole new world, he refers to Rahner's view that within the Church there is an unavoidable 'process of interaction between changeable and unchangeable factors which cannot fully be distinguished', and consequently, 'if there is a historical shift, through improvement in scholarship or knowledge, or through an entry of society into a significantly different age, then what that same fidelity requires of the Church is that it respond to the historical shift, such that it might be not only mistaken but also unfaithful in declining to do so'.<sup>115</sup> All of this suggests a much more evolutionary view of human nature and consequently a more dynamic view of natural law than that traditionally associated with Thomism. It also suggests the need for a greater recognition of freedom of conscience as a means of bridging 'the gap between 'objective' and 'subjective' moralities and thereby respecting legitimate personal diversities.'<sup>116</sup>

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<sup>114</sup> Ibid., p.321.

<sup>115</sup> Ibid., p.327.

<sup>116</sup> Ibid., p.330.

It is the recovery of mystery in moral theology, according to Mahoney, which completes and makes understandable the drive to totality and the recognition and respect for diversity. As he warns his fellow moral theologians in the context of moral theology's dialogue with philosophical ethics, where it is concerned to demonstrate its rationality, and, on the other hand, with non-catholic Christian Ethics, where it is concerned to show that it is not simply authoritarian:

much modern writing in moral theology is in danger of forgetting that it is a branch of theology. As such it is concerned primarily with mystery: the mystery of a loving God and his dealings with, and destiny for, his creation. The artistic medium in which God is fashioning and crafting his human creatures is the medium of their personal freedom; and the stuff, or material, of moral theology is the sheer wonder of man's being as it responds in freedom to the design of God.<sup>117</sup>

The recovery of this understanding of moral theology as a branch of theology, and therefore of it being unavoidably tied up with the mystery of God, has clearly helped post-conciliar moral theology break out of the too narrow rationalism of traditional natural law into a far more impressionistic mode. Supporting this break with legal categories, and demonstrating the new seriousness with which post-conciliar moral theology treats the biblical resources, Mahoney links the drive to totality and respect for diversity with mystery by the doctrine of creation. Here he uses the Old Testament idea of the *imago dei* to assert that human beings share in the mystery of God by virtue of our creation in the image of God; we thus share in both the unity and diversity of the trinitarian God and as such have within us a yearning both for community and for freedom.

Mahoney goes on to deepen the link between moral theology and mystery by bringing into discussion the role of the Church with the use of the important New Testament Pauline idea of *koinonia* or 'the fellowship of the Holy Spirit.'<sup>118</sup> This idea denotes not only the community Christians share with each other, because of the distinctive gifts the Spirit bestows on each member for the good of the whole, but also the community Christians share 'with the Father and his Son',<sup>119</sup> in which they 'become partakers (*koinonoi*) of the divine nature'<sup>120</sup> itself. On the basis

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<sup>117</sup> Ibid., p.339.

<sup>118</sup> 2 Corinthians 13:14.

<sup>119</sup> I John 1:13.

<sup>120</sup> 2 Peter 1:4.

of this mystery he teaches that a renewed Church, one that in its totality includes all who share in the fellowship of the Spirit: the saints of old, ordained and lay, catholic and non-catholic Christian, and all anonymous Christians, is properly the *locus* and agent of moral theology. And, furthermore, on account of the comprehensiveness of such a Church, he explains that the 'first and overriding, or architectonic, task of moral theology', to further the *koinonia* of all humanity, is not 'an introspective or colonialist programme for the Church' because 'the concept of *koinonia* is not simply a Christian addition to human destiny, but responds to the deepest aspirations of God's human creatures, who are made in his image.'<sup>121</sup>

The implications of this post-conciliar renewal of moral theology for our method are several:

In keeping with the attempt to use a "wide-open lens" as part of the drive to totality, our method will strive to take into account all relevant circumstances and consequences in our evaluation of privatisation. Of course we are not unaware of the dangers associated with this kind of ethical reasoning; and as Bernard Williams, in his criticisms of consequentialist theories has pointed out, we are never in a position to consider all the possible consequences of an action.<sup>122</sup> However, in our view, a failure to attempt to take consequences into account, would be a failure to build the concept of responsibility into our ethics, and so to repeat the mistake of Pope John Paul II in his encyclical on moral theology, *Veritatis Splendor* (1993), which Peter Hebblethwaite described as a return to the 'timeless' ethics of pre-war Thomism.<sup>123</sup> We are supported here by the doyen of Roman Catholic moral theologians, Bernard Häring, who writes movingly of his conversion from a rigid interpretation of the natural law by his experience as a chaplain in the German army in the Second World War:

Unfortunately I also experienced the most absurd obedience by Christians - God have mercy - toward a criminal regime. And that too radically affected my thinking and acting as a moral theologian. After the war I returned to moral theology with the firm decision to teach it so that its core concept would not be obedience but responsibility, the courage to be responsible. I believe that I have remained true to this decision - of course not to the damage to genuine obedience, that is to an obedience that is responsible and joined to openness and

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<sup>121</sup> *The Making of Moral Theology*, p.345.

<sup>122</sup> Williams, B. *op.cit.*, p.77.

<sup>123</sup> *The Tablet*, 9 October 1993, p.1286 ff.

a critical sense.<sup>124</sup>

In keeping with the new recognition and respect for diversity, which encourages the use of a diversity of methodological frameworks, we shall bring alongside our Thomist framework, with its synthesis of reason and revelation and its social theory, central to which is the idea of the common good, a number of other relevant theological-ethical frameworks in the kind of *bricolage* which Stout explains no good modern ethicist can entirely do without in our plural society. Liberation Theology, with its undeniable synthesis of Christian and Marxist elements, but which Mahoney nevertheless describes as 'a particularly cogent and articulate choice of moral method as an illustration of moral pluralism',<sup>125</sup> presents one example of a framework which cannot responsibly be ignored. Nor can we afford to ignore the resurgence of the tradition of Christian conservatism in the 1980s, with its strong emphasis of personal freedom and the rationality of the market.

Linked with this respect for a diversity of inputs to our ethical analysis, and in keeping with the greater emphasis of freedom of conscience in this post-Conciliar moral theology, we recognise that our method needs to accept that persons working in the same ethical tradition can arrive at legitimately different conclusions about the ethics of privatisation. This is for the reason that, in the absence of an unquestionable teaching authority, such as that vested in the notion of papal infallibility, our application of general moral principles combined with our reliance on the disputable theories and data of the social sciences, means that there is no alternative but to view a particular ethical evaluation as no more but no less than one contribution to an ongoing conversation. Fortunately, unlike the case of incommensurable ethical traditions where there is no shared basis on which to build agreement, at least in this case there is the basis for constructive debate and therefore the potential for a resolution of disagreement.

The recovery of mystery is difficult to programme into our method in any practical way because it enjoins more an over-all attitude. However it does practically warn against an 'exhaustive systematisation', which Mahoney judges to be 'just too neat to be true to reality.'<sup>126</sup>

The element of mystery in post-conciliar moral theology also serves to remind us not only of human finitude, of the limits of human language and human intelligence, and the complexity of

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<sup>124</sup> Häring, B. *My Witness for the Church* (Paulist: New York, 1992), p.23. See further Yeats, C. ed., *Veritatis Splendor: A Response* (The Canterbury Press: Norwich, 1994) for a response to the encyclical from various Anglican contributors.

<sup>125</sup> *The Making of Moral Theology*, p.335.

<sup>126</sup> *Ibid.*, p.342.

human life but also of the fathomlessness of God. Accordingly, we are also practically enjoined to observe a due humility in our conclusions.

### RIVAL ETHICAL TRADITIONS

This call to humility, which reminds us that though we are the fortunate recipients of a revelation of the good in Jesus Christ, we still hold this treasure in earthen vessels, helpfully leads on to a discussion of what we have identified as the third coordinate in MacIntyre's ethical system, rival ethical traditions.

The contribution MacIntyre's approach makes here is that, if we are to have any confidence that our moral tradition is in good working order and can deliver sound moral judgements, it insists rival ethical traditions be taken seriously. Otherwise we stand to miss what John Habgood calls those new truths which 'emerge from new facts, a new interpretation of old facts, or a new willingness to face old facts that have hitherto been ignored.'<sup>127</sup> Here we recognise that there is more than a germ of truth in what his critics find of MacIntyre's inability fully to shed his liberal clothes, for, as Fergusson has pointed out, rival ethical traditions are an integral part of MacIntyre's theory of moral traditions; without them it would not be possible adequately to judge whether a moral tradition is in good health. Consequently, we would agree that in this aspect of his thinking there is a convergence between MacIntyre's communitarianism and liberalism in their mutual reliance on the great liberal virtues of tolerance and reasoned disagreement.

In this connection, on account of its respect for the liberal virtues, the interactive model of the Anglican social ethicist, John Atherton, has much to commend it. Atherton urges a radical openness to rival secular ethical traditions as a way of avoiding the danger of failing to recognise a legitimate challenge to a traditional Christian ethical tradition. He claims to draw inspiration from the heirs of the social gospel movement, of whom he writes that they were prepared 'to undertake the investigation even if it led them beyond the recognised boundaries of Christian truth and even if it called into question their own virtues and the virtues of the people they sought to help'.<sup>128</sup> In keeping with their approach, he calls for a 'living' within 'provisional

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<sup>127</sup> Habgood, J. *Making Sense* (Clarendon: Oxford, 1993), p.206.

<sup>128</sup> Atherton, J. *Christianity and the Market, Christian Social Thought For Our Times* (SPCK: London, 1992), p.271.

frameworks and dynamics', even if it leads beyond our 'traditional enclosures'.<sup>129</sup> And in a similar way to Mahoney's conflict of values model, Atherton insists that it is only when one is in a position to describe a rival tradition from the inside that one is in a position to bring into play what he calls the 'challenges' of the more traditional Christian ethical frameworks.

Atherton further justifies his approach on a reading of the "signs of the times". These signs, or what he also calls "disclosure points", include the end of the post-war consensus in the 1970s and the exposure of the myth of soviet central planning in the collapse of communism in the "*annus mirabilis*" of 1989. Although he does not address the issue of privatisation in his book, in conversation with ourselves he includes privatisation as one more "disclosure point". He sees these signs as heralding a distinctly new age for Christian social ethics, much as the advent of modern methods of contraception appears to have ushered in a wholly new world for Christian sexual ethics. More specifically, he sees them as demanding the 'recognition of the importance for human living of market economics as well as liberal democracies.'<sup>130</sup> They also lead him to advocate a degree of autonomy for the secular discipline of Economics which probably goes far beyond even the most sympathetic traditional Christian framework.<sup>131</sup>

In the light of this reading of recent political and economic history, which suggests that privatisation may place before us a challenge which cannot be looked at only through the lenses of the traditional Christian ethical frameworks, and the encouragement both MacIntyre and Atherton's thinking gives us to take rival ethical traditions seriously, we shall attempt to "live" within the rival ethical framework of economic liberalism in order to learn its idiom and, as Macintyre would have us do, judge it according to its own standards. This is important for, as we shall show, economic liberalism presents us with what may be the strongest justification for privatisation. It also deserves to be taken seriously as the dominant intellectual framework of the modern world. Furthermore, although we find it inadequate, there is no denying that liberalism, as Michael Novak has argued, works with its own procedural conception of the common good and mounts a challenging case for not relying on the unified conception of the common good associated with the catholic tradition, which it criticises for not taking fully into account the diversity of human goods in the modern world.<sup>132</sup>

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<sup>129</sup> Ibid., p.262.

<sup>130</sup> Ibid., p.95.

<sup>131</sup> Ibid., p.279.

<sup>132</sup> See further here the critique of Michael Novak in Harries, R. *Is There A Gospel For The Rich?* (Mowbray: London, 1992), pp. 96-97.

SUMMARY OF OUR *BRICOLAGE* METHOD

In the light of all the above, while it is clear that our choice of a moral framework, with its recourse to both reason and revelation, is a broadly Thomist one, we are not conservatives merely seeking to defend the catholic moral tradition without qualification, as if this tradition can remain untouched by the challenges of modernity and post-modernity, and as if we do not need to look at privatisation through other frameworks as well. In any case, as we have mentioned, we suspect MacIntyre's theory of moral traditions is too refined to fit reality and that, as Stout maintains, the task of the ethicist unavoidably involves a measure of moral *bricolage*, the weaving together of multiple and diverse ethical resources, in the way Aquinas did in his 'synthesis' of Christianity and Aristotelianism, and therefore the catholic moral tradition has always been a broad tradition. As a result our ethics is bound to look more like a patchwork quilt than the fine weave of MacIntyre's Thomism. Furthermore, if we are to be called Thomists, then we would wish to be associated with those who stand for a renewal of catholic moral theology, such as McCormick, who emphasises the importance of taking account of experience, Häring with his emphasis on responsibility, and Mahoney, who wants to move away from an absolutist and timeless ethics by looking at the act in its totality, including the surrounding circumstances and consequences, from a diversity of moral perspectives, and by leaving room for mystery, because we think these emphases essential for the integrity of moral theology in the modern world. Accordingly, 'we' might best be described as liberal catholics, whose method is best summarised, using the analogy of a work of art, as involving a broad Christian vision which shapes and is shaped by the detail and complexity of human life.

With this summary of our *bricolage* method, we can now fruitfully return to the outline of our enquiry, presented in the previous chapter, and briefly elaborate on why we have chosen to conduct our enquiry in the way we have set out:

We shall begin in the following chapter, *The Nationalisation Programme (1945 -51)*, in order to explore the diverse political, economic, and moral arguments for public ownership which were made at the time. Although many of these have been superseded by subsequent history, we expect there is still much to gain for our enquiry from taking cognisance of the different frameworks used by leading politicians and economists, such as Herbert Morrison, and Christian social ethicists of the time, such as Richard Tawney, William Temple, and Hensley Henson.

In Chapter 4, *The Experience of Nationalisation (1951 - 1979)*, as its title suggests, we

shall explore the British experience of public ownership in order to take account of the factor of experience as a source of moral knowledge. Although, as we have discussed, experience always involves an interpretation of reality, and therefore needs to be treated with caution, were it possible to show convincingly that the nationalised industries had failed by the end of the seventies and could not be reformed, we would be forced to acknowledge that there is little point in taking the evaluation further because, on the basis of experience, there was no moral alternative to privatisation.

After exploring this essentially negative case for privatisation, in Chapter 5, *The Abandonment of Nationalisation (1979-1989)*, we shall turn to an examination of the positive case for privatisation in economic liberalism. Here, lest we overlook them, we shall explore the challenges to our more traditional Christian framework in the dominant ideology of our time.

Keeping these challenges and the earlier enquiries in mind, in our final chapter, *Privatisation and the Common Good*, we shall then evaluate privatisation in terms of our liberal catholic moral tradition. Here our *bricolage* method will lead us to interpret catholic social teaching, with its central idea of the common good, together with the insights of other Christian traditions, such as Christian conservatism and Liberation Theology. The results of this enquiry, together with the conclusions to the enquiries conducted in previous chapters, will then form the basis for an overall judgement of the ethics of privatisation.

Finally, as a postscript in the brief space we have left, in the hope that we might be able to take the debate over nationalisation and privatisation a step forward, we shall outline a new project which looks to promote the common good by building on the strengths of both nationalisation and privatisation, while avoiding their weaknesses.

Before proceeding, as the concluding note to our method, we ought perhaps to declare in advance that our findings can only be provisional and exploratory for several reasons:

Firstly, our narrative history of nationalisation in a thesis of this length is unavoidably selective. Although we have assembled a great many authoritative perspectives, our findings would be better supported by more detailed research into the performance of each of the former nationalised industries.

Secondly, our experience of privatisation is relatively recent. Although a fuller picture is beginning to emerge of the post-privatisation world, it is still too early to rely too much on this experience. A later study would not be at such a disadvantage.

Thirdly, this study claims to be neither more nor less than an essay in discernment. We

make no greater claim for the outcome of our enquiry than that it represents one person's supervised contribution to an ongoing conversation about the ethics of privatisation. A more authoritative understanding of privatisation is likely only to emerge as the Church, the principle locus of moral theology, engages with the ethics of privatisation from its multiple and diverse perspectives.

Finally, and related to the previous point, an inter-disciplinary study of this kind would be better done by a group of researchers. As Ronald Preston advises on the methodology of Christian social ethics, 'progress is best made by working in groups, in which relevant but differing experiences are checked against one another and expert opinion evaluated. No one is wise enough on his or her own to arrive at a cogent conclusion.'<sup>133</sup>

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<sup>133</sup> See further *The Future of Christian Ethics* p. 2.

**PART II A NARRATIVE HISTORY OF NATIONALISATION**

## Chapter 3

## THE NATIONALISATION PROGRAMME (1945-1951)

*They shall not grow old as we that are left shall grow old:*

*Age shall not weary them, nor the years condemn them.*

*At the going down of the sun and in the morning*

*We will remember them.*<sup>1</sup>

The annual Remembrance Sunday service is a good place to begin a narrative history of nationalisation. Like no other, the service is a reminder of the reality of human sacrifice in two world wars which marked virtually every community in the United Kingdom. After the Second World War the united sense of grief, the experience of having successfully "pulled together" against a common enemy, and the challenge of reconstruction created the conditions for a less divided society which was more sympathetic to the idea of public ownership. Bernard Porter writes here of an 'ethical transformation' which weaned 'people away from the politics of selfishness and on to what Clement Attlee called 'a higher conception of social obligation'.<sup>2</sup>

But war was not the only factor making for a society more receptive to the idea of public ownership. Another was the failure or perceived failure of free market capitalism. The instability of this economic system had created the world-wide depression of the early 1930s. The great slump also provided fertile ground for the rise of Nazism, and therefore free market capitalism could partly be blamed for the war. In this connection, commenting on the immediate and immense popular support for the Beveridge report's plan for what came to be called the 'welfare state', Porter writes: 'The reason for this was partly the war, but only because the war had come at a particular time. It followed continuous failure - or perceived failure - for the freer forms of capitalism in Britain, especially with regard to employment; and another 50 years of decline before that. *Laissez-faire* had had its day.'<sup>3</sup>

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<sup>1</sup> From the service for Remembrance Sunday: 'Act of Remembrance' (SPCK: London, 1968/1984).

<sup>2</sup> Porter, B. *Britannia's Burden, The Political Evolution of Modern Britain 1851-1990* (Edward Arnold: London, 1994), p.261.

<sup>3</sup> *Ibid.*, p.248.

However, despite its poor record, there was no clear blueprint for replacing capitalism at the end of the war. In contrast to the implementation of the plans for a welfare state, which had been completed and published in the coalition "white paper chase" between 1942 - 1945, Peter Hennessy describes the immediate post-war nationalisations as an 'almost entirely unplanned scramble'.<sup>4</sup> He explains that 'Public ownership of this kind was outside the Coalition consensus, so the civil service had not worked on it during the war. Nor, give or take the odd pamphlet, had Labour's own research staff.'<sup>5</sup> The programme was therefore not fully thought out and, as we shall show, did not have the complete backing of the then Labour party leadership. Nevertheless, despite the lack of planning, in the space of only five years, the Labour Party took into public ownership a great list of enterprises:

Table 1. The main UK state-owned industries nationalised in the period 1945-51, with their dates of nationalisation.<sup>6</sup>

<u>Industry/Firm</u>	<u>Date of Nationalisation</u>
Airlines	1946
Bank of England	1946
Coal	1947
Cable and Wireless	1947
Railways	1947
British Waterways	1948
Electricity Generation	1948
Scottish Electricity	1948
Electricity Distribution	1948
Road Haulage	1948
Buses	1948
Ports	1948
Gas	1949
Steel	1951

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<sup>4</sup> Hennessy, P. 'It won't be all right on the night unless Blair prepares now', *The Guardian*, 11 August 1994.

<sup>5</sup> Ibid.

<sup>6</sup> In Floud, R. and McCloskey, D. ed., *The Economic History of Britain Since 1700*, 2<sup>nd</sup> ed. (Cambridge University Press: Cambridge, 1994), p. 171.

As is clear from the table, the nature of the industries nationalised varied enormously. They included a major financial institution in the Bank of England, a complex manufacturing industry in British Steel, all the politically sensitive public utilities, such as British Gas, and also all the crucial transport networks, such as British Rail. By any account the programme was a remarkable legislative feat. Despite the lack of planning and the differences in the Labour party over public ownership, it appeared to have succeeded in making the newly nationalised industries such a permanent feature of the British economy that any reversal of public ownership looked to be virtually impossible.

However, it would be a mistake to leave the impression that the success of the nationalisation programme can be explained merely as a rather unthought out, gut reaction to the war and to the failures of pre-war free market capitalism. Indeed, what may be surprising for those of us who live in a post-privatisation world, is just how justifiable the programme was in terms of the political, economic and moral arguments voiced in its favour. In what follows, we shall explore these arguments with a view to laying some of the groundwork for our later evaluation of privatisation. We shall also show how the origins of privatisation can be traced to the reaction against the ideological excesses of nationalisation, which was as dominant an ideology after the war as privatisation is in our day.

## THE POLITICS OF NATIONALISATION

Beginning with the political factors that influenced the public reception of nationalisation, the historian Eric Hobsbawm would have us begin with 'the steamroller of collectivism' which had been set in place by Bismark's welfare reforms in 1870.<sup>7</sup> The adoption of these reforms, which were intended to 'cut the ground from under socialist agitation',<sup>8</sup> led to the abandonment in Britain of the liberal ideal of state non-intervention and to the rapid increase in Government employment that followed. The recent experience of two world wars then added to this 'steamroller' by so conditioning the whole of British society to extensive state intervention in the economy that extending public ownership was not the radical step one might be led to think it was, given Britain's strong liberal tradition and deep social and economic divisions.

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<sup>7</sup> Quoted in Hennessy, P. *Whitehall* (Fontana: London, 1989), p. 55-56.

<sup>8</sup> *Ibid.*, p.55.

The average upper class Tory was not in any case greatly interested in industry.<sup>9</sup> The debt of gratitude he owed the patriotic British working class who, under his command, had willingly sacrificed all for king and country in the two wars may have helped mute his objections to the nationalisation of industry. But the more likely explanation for his acceptance of the post-war settlement was that it was a lot better than the soviet style communism which he feared would nationalise his land. The commitment of Labour leaders to parliamentary democracy also left open the possibility that the programme might be reversed at a later date. And their acceptance of the principle of paying compensation helped. It showed some respect for the right of private property and allayed fears that nationalisation was to be used to effect a radical redistribution of income and wealth.

In the case of the working class, the trade union movement had been won over from their traditional hostility to the state by the corporatism of the First World War. This had given them a respected partnership alongside industrialists and civil servants in the state direction of industry. As Stedman Jones, in his reconstruction of the background to the Labour Party's adoption of Clause IV, makes this point, the wartime experience of the labour movement was both

formative and seductive. It removed much of their traditional hostility to the state, and thenceforth shaped what they meant both by "common ownership" and by "the best obtainable system of popular administration and control of each industry or service". In other words, the union conception of Clause IV was collectivist and corporatist. It was to be a peacetime version of the wartime control of industry established under emergency regulations.<sup>10</sup>

This understanding of public ownership did not however apply to all the politicians representing the labour movement. Some of them had the foresight that they would ultimately be called to account for the performance of nationalised industry. And suspecting that some of the industries were not good candidates for nationalisation, they preferred greater control over these industries than state ownership. Accordingly, their understanding of Clause IV could be more corporatist than collectivist, depending on the industry in question. Indeed the evidence suggests that some in the Labour leadership were pushed into adopting a more radical

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<sup>9</sup> See further Weiner, M. *English Culture and the Decline of the Industrial Spirit 1850-1980* (Cambridge University Press: Cambridge, 1981).

<sup>10</sup> Stedman Jones, G. 'Labour can learn from Victorian values', *The Independent*, 24 April 1995.

programme of nationalisation than they might otherwise have chosen.

This historical judgement is supported by the historian of nationalisation, Sir Norman Chester. He points out that after the Labour Party's adoption of Clause IV in 1918 had appeared to foreclose the Party's internal debate, considerable disagreement continued between those who favoured extending public ownership and those who merely wanted more state control of industry. For instance, he commented that in the policy statement, *For Socialism and Peace*, adopted at the annual conference of 1934: 'though the wording seemed very forthright, it appeared from other parts of the statement that public control was seen as an alternative to public ownership. It was therefore not clear which industries were envisaged for nationalisation.'<sup>11</sup> Then in the particular debate over whether Iron and Steel should be nationalised, Chester noted that disagreement was especially strong. In this connection he reported that whereas in Labour's *Immediate Programme* of 1937, in which it was claimed that the steel unions had lost interest in nationalisation, the industry was left out of the 'shopping list'. However, despite the influential opposition of both Emmanuel Shinwell, who chaired Labour's Central Committee on Reconstruction Problems, set up in 1941, and Herbert Morrison, who was chosen to head up the policy committee in advance of the 1945 election, by the time of the adoption of *Let us Face the Future*, the basis of the Party's election campaign in 1945, pressure from the annual party conference had forced its inclusion. On the basis of these disagreements, Chester concluded:

Undoubtedly there were deep differences of opinion among the leaders of the Labour Party as to the wisdom of pledging the Party to nationalise the industry. The doubters ranged from those who believed in nationalisation but thought a pledge might be an electoral handicap to those who would probably have preferred some form of public control short of complete nationalisation.<sup>12</sup>

The understanding of Clause IV was therefore not as strongly collectivist amongst all Labour politicians as their radical legislative programme might have suggested. Nevertheless, the more pragmatic ones were clearly in a minority that was overwhelmed by the extent of the support for nationalisation in both the Cabinet and in the rank and file of the Labour Party. This majority understood nationalisation, in the fully socialist sense used by Sidney and Beatrice Webb, as a means of taking 'the commanding heights' of the British economy into the control

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<sup>11</sup> Chester, N. *The Nationalisation of British Industry 1945-51* (HMSO: London, 1975), p.4.

<sup>12</sup> *Ibid.*, p.8.

of the labour movement in order to 'secure for the producers by hand and brain the full fruits of their industry, and the most equitable distribution thereof that may be possible'.<sup>13</sup> In this light, public ownership was viewed as an essential adjunct to the welfare state proposed by Beveridge to combat what he called the five giant evils of 'Want, Disease, Ignorance, Squalor and Idleness'.<sup>14</sup>

For a political explanation for the middle class support for nationalisation, there was the Fabian belief that the professional and salaried middle class possessed a "class interest" in public ownership (much as they were held to have a class interest in privatisation in the 1980s). This became more credible after the massive victory won by Labour in the 1945 election. It is supported by Stedman Jones who claims that, after the extension of the franchise in 1918 to all men and women over 28, the reason for the inclusion of the Webb's more comprehensive clause in preference to the more restrictive one of the Party Secretary, Aurther Henderson, was electoral.<sup>15</sup> As Stedman Jones points out, 'It was, after all, the middle class who would provide the salaried professionals to manage the state.'<sup>16</sup>

## THE ECONOMICS OF NATIONALISATION

The politics of nationalisation, however, gives us only a part explanation for the widespread public support for the post-war programme. For another part of the background we must turn to the economics of nationalisation. This offered a further level of justification for public ownership which won over many non-Socialists and many of the key operators in or close to the industries themselves. As Foster makes this point:

Nationalization is widely considered to be a Socialist policy, and its advocacy has been in the constitution of the British Labour Party since 1918. Much of the opposition to public ownership from the Right has indeed been that it was Socialism or would lead to it. But during the inter-war period especially, many non-Socialists, Liberals and even Conservatives, came to support it, particularly among those in, or close to, the industries that were the prime candidates,

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<sup>13</sup> In Pelling, H. *A Short History of the Labour Party* (Macmillan: London, 1993), p.44.

<sup>14</sup> Quoted in Floud, R. and McCloskey, D. *op.cit.*, p.287.

<sup>15</sup> Henderson's formulation referred only to 'the common ownership of all monopolies and essential raw materials'. In the Webb's alternative this became 'the common ownership of the means of production'.

<sup>16</sup> 'Labour can learn from Victorian values'.

mainly the public utilities, many of which were municipal.<sup>17</sup>

### Wasteful Competition

At the time, much of this cross-party support for nationalisation rested on the belief in the wastefulness of competition and the gains to be had from consolidation. In this connection it is worth recalling that the pre-nationalisation state of many of the industries was the result of many local, regional, private, municipal and Government initiatives exploiting the technologies of the late nineteenth and early twentieth century.<sup>18</sup> In the energy sector, there were 369 municipal and 200 private electricity undertakings; there were 300 power stations, operated by 130 separate generating authorities. In coal, there were 1,500 collieries, owned by 746 colliery undertakings, of which 640 were limited companies and the rest were in the hands of partnerships or individuals. Gas was the most complicated of all. There were 269 municipal operations, 5 joint boards, 264 non-statutory organizations which in total supplied less than 2 percent of the market, and 509 public utilities. Such was the complexity, if not outright confusion, of the patterns of ownership and control that all the impartial investigatory commissions, such as those of the Heyworth Committee for gas (1945), the Reid Committee for coal (1945), and the McGowan Committee for energy (1936), all reported that some form of Government intervention was needed in the interests of promoting greater efficiency.<sup>19</sup> As Foster comments: Whatever one's view of nationalisation now, it then seemed impossible for the 'free' market - which was in fact subject to many legislative and other regulatory restrictions - to bring about needful concentrations in many industries.<sup>20</sup>

The failure of market competition was also highlighted at the time by the massive challenge of reconstruction. This called for extensive new investment to repair air-raid damage and to make up for the running down of maintenance and the putting off of major replacements and repairs during the war. Although a matter of dispute between the Labour Government and some of the companies marked down for nationalisation, it was widely feared that the required level of investment would not be forthcoming from what Will Hutton has recently called the

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<sup>17</sup> Foster, C. *Privatization, Public Ownership and the Regulation of Natural Monopoly* (Blackwell: Oxford, 1992), p. 70.

<sup>18</sup> This description of the state of pre-nationalisation industry draws on Foster, *op. cit.*, p. 73 ff.

<sup>19</sup> See further Chester, N. *op. cit.*, p. 19 ff.

<sup>20</sup> Foster, C. *op. cit.*, p. 73.

"gentlemanly capitalism" of the City.<sup>21</sup> This concern suggests that already by then it was known that the City was reluctant to invest in British industry and manufacturing when it stood to gain far better returns from investing in the vast resources that had opened up for investment abroad. In the light of this perceived failure of competition, by taking over Britain's strategic industries and backing them with state finance, nationalisation presented an opportunity to provide the controls over investment needed for reconstruction. In these straightened circumstances it was understandable that many came to regard competition as unimportant or wasteful or demonstrably wrong, a relic of the past.<sup>22</sup>

### Natural Monopoly

A second major argument for nationalisation arose in the special case of natural monopoly. The need for some form of government regulation of this type of industry was relatively free from political controversy on the understanding that without regulation a natural monopolist could exploit barriers to entry to make excessive profits and provide an inferior level of service.<sup>23</sup> For example, the owner of a local electricity grid, or railway line, or gas pipe-line, which constituted the sole means of supply in that region, could deter any potential competitors by temporarily exploiting this advantage; for instance, he could lower prices below cost, knowing that the loss could be made up at a later date. In order to prevent this type of antisocial activity and to provide adequate public services, many public utilities had been brought under municipal control or ownership by the end of the nineteenth century. In this case, on the grounds of the economies of scale thought to obtain from unifying local and regional units under a national management structure, nationalisation presented itself as a logical rationalisation or extension of municipal ownership.

### Regulatory Failure

A third main economic justification for nationalisation, closely linked with natural monopoly and the complex patterns of ownership and control existing at the time but helpfully kept as a separate argument, was the cost of regulatory failure. This was pervasive throughout

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<sup>21</sup> Hutton, W. *The State We're In* (Jonathon Cape: London, 1995), pxi.

<sup>22</sup> Morrison, H. *Socialisation and Transport* (Constable: London, 1933).

<sup>23</sup> See further the National Economic Development Office, *A Study of UK Nationalised Industries* (HMSO: London, 1976), Appendix p.75.

the British economy. Drawing on his extensive theoretical and practical knowledge of regulation, and in particular railway regulation, Foster claims that such was the regulatory tangle that it was threatening to suffocate the economy.<sup>24</sup> In the case of the railways, for example, he estimated that 'If British railway and capital costs and other overheads could have been kept down to European levels ....it does not seem extreme to suppose that British transport fares and charges might have been from a third to a half of what they were, quite enough on its own to have enhanced the competitiveness of British exports to the point where Germany, Belgium and France may not have been able to establish an effective international rivalry'.<sup>25</sup>

As an explanation for this regulatory failure, Foster pointed out that the attempt to regulate by Act of Parliament had resulted in extensive regulatory capture, and that, in the case of the railways, so powerful was the railway lobby that this early form of regulation had to be abandoned in the 1870s and replaced by more regular and interventionist regulation by Commission. However, by 1945, even this more 'hands on' form of regulation had largely been defeated. Interestingly, he notes that regulation by commission had experimented with a sliding rate of return regulation - prefiguring the modern RPI-X formula - as early as before the First World War.<sup>26</sup> In the light of this brief history of regulation, nationalisation presented itself as an opportunity to sort out the regulatory tangle and introduce a more effective model of regulation than had been tried before.

### Economic Planning

A fourth major justification for nationalisation on economic grounds was found in the belief in economic planning along the lines advocated by John Maynard Keynes shortly before the war in his celebrated *General Theory*.<sup>27</sup> In the immediate post-war context it was widely feared that the First World War pattern of a short boom and then a slump would be repeated. With this fear dominating the White Paper on Employment Policy of 1944, agreed to by both Labour and Conservative members of the Coalition Government, and with the nation facing the challenge of demobilisation and converting a wartime economy back to civilian use, Chester

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<sup>24</sup> Foster, C. op.cit., p.73.

<sup>25</sup> Ibid., p.64.

<sup>26</sup> Ibid., p.17-64 for a fuller discussion of early railway regulation.

<sup>27</sup> Keynes, J.M. *The General Theory of Employment Interest and Money* (Harcourt, Brace: New York, 1936).

explains that nationalisation of the major capital using industries with ministerial control of borrowing was seen as a means of controlling the level of investment and therefore of employment, and also of prices.<sup>28</sup>

### Industrial Relations

As a fifth economic reason for nationalisation, the hope that public ownership would bring about improved working conditions and better industrial relations in some of the industries, especially coal, deserves a mention. It was of course not expected, except by the most naive, that industrial unrest would be eliminated. It was always recognised by the Labour leadership, for instance, that the workers in a nationalised industry must retain the right to strike. Nevertheless, it was not unreasonable to hope that the wartime corporatist experience, which had proved the economic potential of a close working relationship between labour, civil servants and management, could be continued in the nationalised industries in peace time and, even if not perfect, that this would be an improvement on the pre-war industrial relations record.

### The Arms' Length Model

In connection with the economic arguments for nationalisation, the conciliatory organisational model chosen for nationalisation deserves to be mentioned because it may have helped win over those who may not have been entirely persuaded by offering a form of public ownership that was less threatening than alternative models. According to Foster, Morrison 'deliberately chose it as the model most likely to appeal to non-Socialists'.<sup>29</sup>

In order to appreciate just how conciliatory Morrison's model was it is helpful to set out the radical socialist alternatives.<sup>30</sup> There were two main contenders reflecting the old debate in the Labour Movement between those who favoured state ownership and those who were opposed to extending the power of the state. The former tended to support the Fabian model, which involved the full integration of state enterprises into government departments, along the lines of the Post Office. The latter, whose main objective was direct worker's control of industry, favoured a form of Guild Socialism or Syndicalism whose object was to transfer ownership of

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<sup>28</sup> Chester, N. *op.cit.*, p.23.

<sup>29</sup> Foster, C. *op.cit.*, p.77.

<sup>30</sup> *Ibid.*, p.76 ff. for a fuller discussion of the Morrisonian model and its alternatives.

an enterprise to a worker's union.

In contrast with these statist and syndicalist models, the Morrisonian model of nationalised industry presented a distinctively pragmatic third way. It was a model he had taken over from the Central Electricity Board (CEB), set up in 1926, and which he had used as the blueprint for the London Passenger Transport Board (LPTB), set up in 1933. What it amounted to was a public corporation, "at arms length" from government, responsible for managing the assets of the corporation in the interests of the common good, while ensuring that it paid its way taking one year with the next. In this way it sought to appeal to both those who wished the resources of industry to be used for social ends and those who needed reassuring that the nationalised industries would not be a drain on the public purse.

As it turned out, nationalisation on the lines of this model was relatively uncontroversial. For the true conservative, it had in its favour that it had evolved out of the experience of the past and that all the pre-war nationalisations (by Conservative governments) had employed the same model. On account of this familiarity, Morrison was able to tease the Conservative Opposition by saying that, 'despite their being the Party of privilege, they really should not claim the exclusive privilege of being permitted to introduce Socialist legislation, and that they might permit this particular piece of Socialist work to be undertaken by a Socialist Government.'<sup>31</sup> For liberals, like Keynes, the arms' length public corporation was consistent with his belief that social progress lay in the growth and recognition of semi-autonomous bodies within the state - 'bodies whose criterion for action within their field is solely in the public good as they understand it'.<sup>32</sup> For the strict socialist, its most controversial aspects were that it accepted that the profit motive was a necessary economic discipline and that the corporation, to use the words of Lord Denning in his definitive judgement on the legal status of public corporations, was "its own master".<sup>33</sup> Although this meant that they were not altogether happy with the model, in the light of the disastrous experience of direct worker control of industry in Russia immediately after the Bolshevik revolution, which Morrison used to defend himself against the Syndicalists in the Labour Party, their criticism could not be too strident.

It is also worth pointing out that Morrison commanded a great deal of personal authority

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<sup>31</sup> Morrison, H. *op.cit.*, p.213.

<sup>32</sup> See Foster, C. *op.cit.*, p.77, footnote 36 for the Liberal support for a public trust model.

<sup>33</sup> Quoted in Foster, C. *op.cit.*, p.77.

on the subject of public ownership. This he had acquired, in the first instance, from many years working on the problems of London Transport as Secretary of the London Labour Party. There the vexed problem of the capital's transport offered plaudits to any politician who could solve it. Later, as Minister of Transport in the Labour Administration of 1929-31, it was he who had pioneered the bill for the London Passenger Transport Board. The achievement of having his bill, admittedly with amendments, passed by a Conservative Government, attests both to his personal authority and also to the persuasiveness of his advocacy of the bill in his *Socialisation and Transport*. This book presents the classical defence of nationalisation and is worth reviewing for its shredding of the arguments of those who at the time liked to chime the merits of free competition.

*Socialisation and Transport.*

In the chapter with the title, *The Case for Competition Examined*, Morrison began his examination of competition by exploring the impact of competition on workers. From his links with the trade unions in the transport industry, he was able to show that where there was genuine competition leading to lower fares, the owners tended 'to take it out on the men'.<sup>34</sup> For example, he cited the conditions of employment of coach drivers that were so bad that they presented a danger to the travelling public. Indeed, such was this danger that the government passed the Road Traffic Act of 1930, which limited the hours coach drivers could work.

Then he turned his attention to customers. From his municipal experience, he could authoritatively pronounce on the impact of competition on the quality of service. He argued that the threat of competition driving down profits simply scared investment away, leading either to failures to improve and expand services or to a deterioration in service. In the case of the planned new tube railway network, for example, he pointed out that the threat of competition from other forms of transport meant that the Government had had either to guarantee or to provide some of the finance needed for the project; in his own words 'competition has not kept London transport out of public funds: it has pushed it on to public funds'.<sup>35</sup> Similarly, in the case of the desperately needed electrification of the metropolitan lines, he was able to support his case against competition on the ground of the owner's disclaimer that 'if electrification is to

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<sup>34</sup> Morrison, H. *op.cit.*, p.60.

<sup>35</sup> *Ibid.*, p.61.

be achieved it must either be subsidised or protected against competition'.<sup>36</sup> Then, on the related issue of the provision of a universal service, Morrison pointed out that it would only be possible to cross-subsidise socially deserving services if there were sufficient profits. It was this last argument that the railway Combine used to defend its private monopoly. He conceded their case for a monopoly, but then turned on their record of excessive profits to argue that this supported his case for a public monopoly.

On the basis of the detailed evidence for extensive market failure he had assembled, Morrison concluded that 'the whole economic and political history of London transport constitutes a striking repudiation of competition by its theoretical advocates'.<sup>37</sup> But not content with a purely negative argument, Morrison then proceeded, in the following chapter, to build a case for consolidation. He began with the needs of consumers. He argued that in their interests there is clearly a case for a central agreement on inter-connections, through-booking and the pooling of receipts, and that agreement could not be forthcoming from so many independent operators.

He then turned his attention to the right of management to manage. His contention here was that anything less than total consolidation of both management and ownership would not give management sufficient "elbow room"; management would be for ever involved in negotiating agreements between the owners and the inevitable compromises arrived at, apart from the waste of time and energy, would prove inefficient. As he bluntly put it: 'The management of one undertaking which owns the lot can say, "This is ours, and we will do with it what we will in the interests of efficiency, public service, and the well-being of the workpeople in our employment"'.<sup>38</sup>

He raised the issue of finance next. Interestingly, this received brief treatment, perhaps because he had not sufficiently worked it through or because he was not totally convinced. Whatever the reason, the short space it received is curious given that one of the central themes of Socialist economics is that by eliminating the need to make a profit in order to pay dividends the enterprise is enabled to pay its workers more, reduce prices and raise investment in the

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<sup>36</sup> *Ibid.*, p.61.

<sup>37</sup> *Ibid.*, p.66.

<sup>38</sup> *Ibid.*, p.76.

interests of consumers.<sup>39</sup> While Morrison followed this Socialist orthodoxy to an extent, claiming that there were advantages to public ownership even when shares were replaced by loans, because the rate of interest charged on the relatively secure loans of a public monopoly would be lower than the rate of return demanded by shareholders, he does not appear to want to rely on this argument. Instead, the argument which appears to have had more weight for him (at any rate he gives it by far the greater space) was that the pressure from shareholders to pay excessively high dividends would demand such a level of public regulation and supervision of a private monopoly that it would stifle the enterprise. In support of this argument about regulatory failure, he was able to cite the complaints of the four existing railway managements. They complained of the existing regulation that they were already 'not free to manage, and that the cost involved in statistical returns and reports to the Ministry of Transport, and in legal argument and the provision of expert evidence before the Railway Rates Tribunal, is great.' To this he responded, 'Great as it is, it would be greater still if the competition between the four undertakings were ended by the establishment of a statutory private transport monopoly.'<sup>40</sup>

The final part of Morrison's case rests on the merits of replacing a regulated private monopoly with a public monopoly run by an able management and supervised by a publicly spirited Board, representing the various stakeholders of the industry. Given all that has come to light in more recent years about the general level of incompetence of the "gentlemanly management culture" of British industry, which Correlli Barnett, in his devastating book, *The Audit of War*, blames for so much of Britain's relative economic decline,<sup>41</sup> the idea of an able, publicly spirited and professional management that could be trusted to get on with the job without detailed regulation and supervision was appealing. As Morrison put this part of the case for nationalisation:

A large public concern employing able officers with good status, supervised by a Board of able and public spirited people, is much more likely to resist improper influence, corruption, and jobbery and to insist upon clean administration and the supremacy of the public interest, than a private monopoly which has no real responsibility to the public.<sup>42</sup>

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<sup>39</sup> See further Redwood, J. *Public Enterprise in Crisis* (Blackwell: Oxford, 1980).

<sup>40</sup> Morrison, H. *op.cit.*, p. 79.

<sup>41</sup> Barnett, C. *The Audit of War* (Macmillan: London, 1986), see p.206 ff. And also Weiner *op.cit.*, p145 ff.

<sup>42</sup> Morrison, H. *op.cit.*, p. 80.

There was much else to Morrison's apologia. But let it suffice here to say that it presented an impressively argued case for the superior economic efficiency not only of a publicly owned London Transport but also of public ownership in general. It was also impressive for the way it succeeded in combining a high moral tone with a realistic business outlook, as is evident in the following passage in which he lectured his fellow socialists on the importance of economics:

The high moral purpose of Socialism does not and must not prevent the Socialist in public affairs carrying a sound business head on his shoulders, nor must he feel it in any way a treachery to his ideals if he must elaborate in a realistic spirit the organisation and management of socialised industries. The Socialist Minister of the future must try to be as good a man at business for public ends as the ablest of the capitalists or managing directors are for private ends. Certainly his mental and emotional outlook must comprise the visions, the ideals and the whole comprehensive policy of Socialism, for otherwise he might get lost in a mass of practical business details. But it is essential that Socialism should be sound public business as well as being healthy in its social morality. Socialism must stand the double test of being ethically sound and economically sound; for man cannot live by abstract ethics alone, while the establishment of a human society that lives by bread alone, - even though there be plenty of it - is an object to which it is not worth devoting one's life.<sup>43</sup>

## **THE CHRISTIAN ETHICS OF NATIONALISATION**

In addition to the persuasiveness of the political and economic case made for public ownership, nationalisation received strong support directly and indirectly from the moral leadership of the nation. Of course this moral leadership was not confined to the representatives of Christianity. However, as the moral influence of Christianity (and in particular Methodism) on the Labour movement was strong,<sup>44</sup> and as we are limited by the length of this study as to how many different perspectives we can include, in what follows we shall confine ourselves to an exploration of three of the leading Christian moralists of the inter-war and post-war years. A study of these three, William Temple, representing Social Christianity, R.H. Tawney, representing Radical Christianity, and Hensley Henson, representing Conservative Christianity, will show something of the diversity of Christian approaches to public ownership and will also

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<sup>43</sup> *Ibid.*, p.281.

<sup>44</sup> This is reflected in Morrison's lecture (and sermon) quoted above with its reference to a life not to be lived by bread alone.

give some indication of the extent of the Christian support for the nationalisation programme of 1945-51.

### William Temple

Of the Christian leadership which was broadly supportive of the ideals of the Labour Party, William Temple deserves first mention. Although he died in October 1944, before the end of the war, and after only two and a half years as Archbishop of Canterbury, his premature death only added to the stature of his teaching on social issues, which was already great in his life-time.<sup>45</sup> As a son of a former Archbishop of Canterbury, then as a brilliant Oxford don, he had gone on to play a leading role in the Ecumenical Movement. His translation from York to Canterbury therefore brought to the head of the established church a figure who commanded considerable moral authority in both Church and State.

Alan Suggate's account of the development of Temple's social thinking places Temple in the tradition of the Victorian Christian Socialists, notably Thomas Arnold and F.D.Maurice, and of the Christian Social Union (CSU) formed in 1889.<sup>46</sup> The spiritual core of this movement and of Temple's whole social outlook was an incarnational theology. This emphasised the fellowship of all human beings in Christ, who is believed to have assumed all humanity into himself in the incarnation. Temple liked to express this profound theological truth in the acronym BOMFOG (the Brotherhood of man and the Fellowship of God). His devotional classic, *Readings in St. John's Gospel* (1939-40), suggests that this incarnational theology was the main source of his theological inspiration throughout his life. However, as we will show from Suggate's study, Temple's war experience was to challenge his great incarnational synthesis and move him towards more of a theology of redemption in his last years.

Temple believed himself to have represented this social Christianity throughout his life. He also understood it to be the dominant teaching of the Church in earlier centuries. In one of his last utterances on economic affairs to members of the Bank Officer's Guild, he said of this tradition that 'though it has been obscured - never completely obliterated - during the seventeenth and eighteenth centuries, and rather fitfully revived in the nineteenth. I think it is going pretty

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<sup>45</sup> See further Welsby, P.A. *A History of the Church of England, 1945-1980* (OUP: Oxford, 1984), p.4.

<sup>46</sup> Suggate, A. *William Temple and Christian Social Ethics Today* (T&T. Clark: Edinburgh, 1987), p.xi.

strong again now'.<sup>47</sup> He contributed to this tradition from a number of different sources, of which the philosophical idealism of T.H.Green, the dialectical method of Edward Caird, the teaching of Jacques Maritain on personality, and the liberal catholicism of Charles Gore were the most important.

Temple wrote of Gore that he was the one 'from whom I have learnt more than from any other now living of the Spirit of Christianity and to whom more than to any other...I owe my degree of apprehension of its truth'.<sup>48</sup> Of Gore's publications, two volumes of essays which he edited deserve special mention for their influence on Temple's social ethics. *Lux Mundi* (1889), subtitled 'A Series of Studies in the Religion of the Incarnation', helped shape Temple's incarnational theology and his life-long sympathy for a reformed natural law ethic. The paper contributed to the collection *Property: its Duties and Rights* (1913), by the liberal humanist social philosopher L.T.Hobhouse may have been especially formative for Temple's response to the debate over public and private ownership of industry. It developed and defended the understanding of property in the Aristotelian - Thomist tradition that property should be privately owned but common in use. On the basis of this apparent paradox, Hobhouse insisted that everyone should have private property, it should be widely distributed, and that it should be under the control of the democratic state.<sup>49</sup>

In Maritain's teaching on persons, Temple found a resource to help him steer a course through the two competing ideologies of his time: social collectivism, which he rejected for its denial that 'every man is always more than can be expressed in all his social relationships taken together',<sup>50</sup> and liberal capitalism for its denial of the essential solidarity human beings share one with another by its treatment of the human being as a means and not also as an end. In Maritain's view capitalism stood condemned for its contempt of the poor man, who is held only to exist 'as an instrument of production, a 'hand', not as a person'.<sup>51</sup> It was this careful balance, with its insistence that means and ends should not be confused in the treatment of the human person, which helped Temple formulate his three moral constants of individual freedoms

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<sup>47</sup> Temple, W. *The Church Looks Forward* (Macmillan: London, 1987), p.141.

<sup>48</sup> In Suggate, A. op.cit., p.19.

<sup>49</sup> Hobhouse, L.T. *The Historical Evolution Of Property, In Fact And Idea* in Charles Gore ed., *Property Its Duties and Rights* (Macmillan: New York, 1922).

<sup>50</sup> Temple, W. *Christianity and Social Order* (Penguin/Shepherd Walwyn: London, 1942/1976), p.104.

<sup>51</sup> Maritain, J. *True Humanism* (The Centenary Press: London, 1938), p.107.

exercised in a fellowship of persons serving the common good and led to his approval of Aquinas' defence and limitation of private property.<sup>52</sup>

Edward Caird was Temple's Master at Balliol when he was an undergraduate there. His social concern inspired Temple, as it did many other Balliol students. But an equally important influence was Caird's dialectical method of acquiring knowledge. This sought to overcome the inadequacies of both the inductive and deductive method by modelling how we actually arrive at human knowledge by an interactive process of living, theorising and reformulating our theories in the light of experience. As Temple explained and defended the dialectical method: 'All actual thinking proceeds in circles or pendulum swings. We approach a group of facts; they suggest a theory; in the light of the theory we get a fuller grasp of the facts; this fuller grasp suggests modifications of the theory; and so we proceed until we reach a systematic apprehension of the facts where each fits into its place. In the end we have not one universal and unquestioned proposition with other propositions deductively established from it, but a whole system - a concrete universal - in which each element is guaranteed by the rest, and all together constitute the whole which determines each.'<sup>53</sup>

Green's distinctive Hegelianism, which emphasised God's immanence in both individuals and society as the principle of reason and morality, supported Temple's belief in the essential rationality of reality. Its teaching that God realises himself progressively in society and in individuals, allied with Green's dismissal of the notion of original sin as barbaric, also helped shape the young Temple's optimism about the possibility of social and individual progress and his striving for a synthesis of reason and revelation.<sup>54</sup>

The incarnational synthesis of these major intellectual influences on his thought served Temple for most of his life. However, as we have mentioned, in the last ten years, and especially after 1937, the gathering clouds of war and the influence of Reinhold Niebuhr rocked his confidence in this synthesis. These later influences forced him to take fuller account both of the pervasiveness of sin in all individuals and society and of the reality of power. The shift in his thinking, from a theology of creation to a theology of redemption, is reflected in the following passage from his opening address at the Malvern Conference, which he called in 1941 to begin

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<sup>52</sup> See further Suggate, A. *op.cit.*, p.111f.

<sup>53</sup> *Ibid.*, p.17 ff.

<sup>54</sup> *Ibid.*, p.16 ff.

the task of helping Church and society understand the causes of the war and to prepare for the reform of the post-war order. Temple's comment on Maritain can be read as a repudiation of much of his own work as a theologian and philosopher:

There is a second main point at which the scholastics fail to satisfy, and here I find in Maritain no advance upon St. Thomas. There is in that theological tradition no adequate appreciation of the hideous power of sin. Of course it is mentioned, and formally the description of sin is sound. But it is soon left behind and attention is fastened on particular sins which are the outward manifestation of sin itself. I lately read in close conjunction Maritain's last book to appear in English - *Scholasticism and Politics* - and Reinhold Niebuhr's last book - *Christianity and Power Politics*. Maritain's book is systematic and, though handling its subject only in outline, magnificently coherent. Niebuhr's book is a collection of articles, essays and sermons. Yet it is this and not the other which gives the impression of a deeply Christian mind grappling with the realities of today, and this is due to the fact that Niebuhr's whole mind is possessed by the sense of that aboriginal sin of man which consists in putting himself at the centre where God alone ought to be, thus claiming in effect to be the God of his own world. That fact is the source of power politics, and there can be no politics which are not in part power-politics until all citizens of all nations, and their rulers, are wholly redeemed out of self-centredness into perfect fellowship with God made known in Christ. If that consummation can ever be reached on earth, as I presume it cannot, it is certainly so remote that it may be left out of consideration except as the standard of judgement whereby we are all "concluded under sin."<sup>55</sup>

In Suggate's judgement, Temple's response to the extraordinary circumstances of the last years of his life helped in overcoming some of the weaknesses of the tradition of social Christianity which he had inherited and provides a resource for a methodological framework for Christian social ethics for today. At the heart of this framework is the method that Temple started to apply as early as the Conference on Christian Politics, Economics and Citizenship (COPEC), held in 1924. This began by accepting that the Bible can not provide us with a detailed programme of Christian social action. Instead, it understands the Bible as offering the direction of a Christian social ethic, in the sense of providing us with a broad Christian vision

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<sup>55</sup> *Malvern 1941, The Life of the Church and the Order of Society*, the proceedings of the Archbishop of York's conference, (Longmans, Green and Co.: London, 1941), p.15.

made up of the primary principles, such as love, peace and justice, which all Christians can agree upon. From these primary principles he then derived social principles, such as fellowship and freedom, from which he went on to form middle axioms. While he accepted that these may not receive the same degree of acceptance amongst all Christians, he nevertheless held that they ought to allow a group of Christians to begin working out the details of a programme of social action together with recognised experts in the social sciences. In order to complete this last step, Temple's method required that middle axioms be held together with the concrete circumstances surrounding a particular ethical decision, in the process of dialectical reasoning, or interplay between fact and value, which he had learnt from Caird. As Temple summed up this method, 'the right thing to do is the thing that is the best in the circumstances.'<sup>56</sup>

With this brief background to both the man and his thought, we can begin by turning to the Malvern Conference of 1941 for his specific teaching on public ownership. During the conference, two Anglican laymen, Sir Richard Ackland and Kenneth Ingram, put a radical motion on private property. It appeared to imply that private property and Christianity were incompatible. Temple responded in a letter to Ackland by asserting what he understood to be the traditional Christian doctrine of property that it required 'a full recognition of private property combined with an insistence that it must always carry responsibility.' As he went on to elaborate, 'The property without function is the thing that is condemned. Now this condemns a very large amount of property which exists today: to some extent in land, to an enormous extent in stocks and shares.'<sup>57</sup> While making clear Temple's defence of private property with social obligations, what it left open was what he thought should be done about the property which stood condemned.

Temple's appendix to *Christianity and Social Order* (1942), which contains his suggested programme for the reconstruction of British society after the war, confirmed and developed this somewhat inadequate response. In order to understand him we need to begin with the method he had proposed for COPEC and which he used, all-be-it inconsistently, from that time onwards. Applied to industry, this involved the use of the two derivative social principles of fellowship and freedom. These he had applied since as early as the First World War when he wrote that 'The

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<sup>56</sup> Suggate, A. op.cit., p.221.

<sup>57</sup> Quoted in Kent, J. *William Temple* (Cambridge University Press: Cambridge, 1992), p.159.

Labour point of view is fundamentally Christian'.<sup>58</sup> When he now applied these in the context of the Second World War, he used them to distance himself from the nationalisation plans of the Labour Party on the ground that nationalisation, by restricting economic freedoms in society, would have the consequence that it would also limit political freedoms. As he argued, 'no one doubts that in the post-war world our economic life must be 'planned' in a way and to an extent that even Mr. Gladstone would have regarded, and condemned, as socialistic'. But 'We can so plan for efficiency as to destroy freedom; Fascism does this.'<sup>59</sup>

The influence of Niebuhr's Christian realism here is more clearly apparent in the lesson Temple went on to draw that, 'The art of Government is not to devise what would be the best system for saints to work, but to secure that the lower motives actually found among men prompt that conduct which the higher motives demand... We must go on to seek to provide such outlets for self-interest while it remains - 'till Kingdom come' whether here or hereafter - as well as harness it to the cause of justice and fellowship'.<sup>60</sup> Niebuhr's influence is also evident in the way Temple supported this principled pragmatism with a realist interpretation of self-interest by allowing that it need not always be bad: 'Moreover, not all forms of self-interest are bad. A man is right to demand for himself and his children what is needed for the fullness of personal life, though it may be noble that when he has it he should sacrifice it. Our need is to find channels for right self-interest which do not encourage exaggeration of it as our present order does'.<sup>61</sup>

Nevertheless, despite his new found Christian realism, Temple did not altogether abandon his Christian socialism. He continued to hold together the derivative principles of freedom and fellowship by insisting that freedom be exercised in fellowship. Then holding these principles together with the economic circumstances of his time in the dialectical method, he proposed a number of reforms of industry. His industrial fellowship translated, firstly, into genuine industrial democracy. Criticising the exclusion of labour from decision making in industry he complained that 'The lack of any participation by labour in the conduct of the actual work of production is a manifest sign of the broken fellowship of our economic life'.<sup>62</sup>

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<sup>58</sup> In Suggate, A. *op.cit.*, p.79.

<sup>59</sup> *Christianity and Social Order*, p.99.

<sup>60</sup> *Ibid.*, p.100.

<sup>61</sup> *Ibid.*, p.100.

<sup>62</sup> *Ibid.*, p.103.

Secondly, it required the extension and institutionalisation of aspects of the existing corporative relations of the war. In this connection he proposed a change in the Articles of Association of limited liability companies to secure that workers are effectively represented as directors on the board of directors of their company. He also proposed that the State be empowered to nominate one or more directors 'to represent the public interest, that is to say the interest of the consumer who should always be paramount'.<sup>63</sup> Thirdly, he proposed that the surplus profits earned by a limited liability company, calculated in relation to a stipulated maximum level of dividends, be used for social purposes, such as 'a wage equalisation fund, for the maintenance of wages in bad times'.<sup>64</sup> Fourthly, in his suggestions for the reform of financial institutions, he proposed a limited programme of nationalisation in the interests of the common good. In this case he accepted that there was a strong case for nationalising the Bank of England and the Joint Stock Banks on the ground that 'it is wrong in principle that finances should control production'.<sup>65</sup> But even in these cases, his aversion to any extension of the power of the state led him to express a clear preference for the Morrisonian arm's-length model of the public corporation.

As revolutionary as these reforms still are today, it is clear from the above that Temple merely advocated the reform of industry within a capitalist framework; he wanted 'no breach of continuity', and 'transformation by adaptation, not by destruction'.<sup>66</sup> He also distanced himself from those Christians who advocated a kind of half-way house between capitalism and socialism in what he called the corporative state or, as it is more commonly known, the corporate state. This he argued, 'swings the pendulum too far'<sup>67</sup> on account of its denial of the individual. As he put this:

No citizen expresses through his activity in various fellowships the whole of his significance. It is true that to be a person is more than to be an Individual; but it is necessary to be an Individual; and indeed the fundamental doctrine that each man is a child of God, capable through Christ, the true Son of God, of rising to the height of that status, implies that every man is always more than can be expressed in all his relationships taken together. The scheme of the Corporative

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<sup>63</sup> *Ibid.*, p.103.

<sup>64</sup> *Ibid.*, p.196.

<sup>65</sup> *Ibid.*, p.111.

<sup>66</sup> *Ibid.*, p.113.

<sup>67</sup> *Ibid.*, p.104.

State is therefore as unsatisfactory as either Individualism or Communism.<sup>68</sup>

In the light of this exposition of the appendix to *Christianity and Social Order* we can conclude that Temple stood with the minority in the Labour Party who wanted more state control, rather than more state ownership, of industry, but that he nevertheless proposed a limited programme of nationalisation. However, this conclusion should not overlook the extent to which the influence of the early Temple's public membership of the Labour Party, his promotion of industrial democracy and an early version of the stakeholder corporation, and his condemnation of excessive holdings of land and shares, gave indirect support for the post-war nationalisation programme. It is also worth pointing out that there is an inconsistency in his cautious approach to nationalisation and the radical nature of his programme of reform, because his reforms had no hope of ever being implemented without something like nationalisation to break the power of the owners. In this connection, it is worth speculating whether Temple's gradualism reflected a personal weakness on his part which made him want to avoid conflict at all costs. This is in fact suggested by Adrian Hastings' portrait of Temple where he detects, as early as Temple's Repton appointment, someone who voiced views which promised a revolution in public school education but who really had no stomach to see through radical change.<sup>69</sup>

#### Richard Henry Tawney

In contrast to Temple, his life-long friend R.H. Tawney uncompromisingly advocated nationalisation as part of his Christian socialism. In this he stood in a radical tradition represented by the Chartism of William Lovett, the industrial socialism of Robert Owen, and the political economy of John Ruskin rather than in the reforming tradition of the Victorian Christian Socialists of Temple. Tawney's moral influence on the post-war settlement cannot be underestimated. As an editorial in *The Times* put it, on the day after his eightieth birthday was celebrated at a dinner in the House of Commons (November 28, 1960): 'No man alive has put more people into his spiritual and intellectual debt than has Richard Henry Tawney'.<sup>70</sup>

Tawney's influence as a social ethicist rested squarely on his work as an economic

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<sup>68</sup> *Ibid.*, p.104-105.

<sup>69</sup> See further Hastings, A. 'William Temple', in Rowell, G. ed., *The English Religious Tradition and the Genius of Anglicanism* (Ikon: Wantage, 1992), p.217.

<sup>70</sup> In Terrill, R. *R.H. Tawney and His Times* (Andre Deutsch: London, 1973), p.3. We draw on Terrill's study for much of Tawney's background.

historian. He combined this academic commitment with a life-long involvement with the Workers Educational Association (WEA); he was on the WEA executive for forty-two years, and president from 1928-1945. This selfless involvement brought him close to the working class person. It led to his gaining the reputation that he had taken the time to listen to workers, and therefore could speak authoritatively on their conditions. And such was his reputation, both as an economic historian and a saint of the workers education movement, that he was invited to contribute to a number of Government commissions. Of particular importance for our study was his membership of the Royal Commission on the Coal Mines, chaired by Justice John Sankey, which was called in response to a threatened miners' strike in February 1919. It turned him into a national figure and provided the laboratory for much of his thinking on nationalisation.

For Tawney's teaching on nationalisation, we need to begin with the general case he built against capitalism. The central argument of his classic, *Religion and the Rise of Capitalism* is that the emergence of capitalism marks a radical break with the medieval tradition of Christian social ethics, such that not only is it impossible to provide a moral defence of capitalism from within Christian tradition but also that capitalism is directly opposed to Christianity. In support of this thesis, he began by pointing out that in the medieval Christian tradition's understanding of the natural law as divinely given, ethics 'starts from the position that there is a moral authority to which considerations of economic expediency must be subordinated'.<sup>71</sup> It therefore follows in this tradition that economics is understood to be a branch of ethics, and ethics, in turn, a branch of theology. As Tawney pointed this out: The distinctive feature of medieval thought is that contrasts which later were to be presented as irreconcilable antitheses appear in it as differences within a larger unity, and that the world of social organization, originating in physical necessities, passes by insensible gradations into that of the spirit.<sup>72</sup>

He went on to explain that in this seamless religious, ethical and social framework, Christian teaching had a direct application to the whole of economic life: Prices were to be set according to standards of natural justice. The rules of extending credit were subject to the strictures against usury. Serfdom was acceptable in a hierarchically ordered society, but employment imposed on the employer both rights and responsibilities. Similarly ownership carried the responsibilities of a trustee, and therefore was viewed as a service. Profits, generally

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<sup>71</sup> Tawney, R.H. *Religion and the Rise of Capitalism* (Harcourt Brace/Mentor: New York, 1926/1947), p.41.

<sup>72</sup> *Ibid.*, p.25.

frowned upon, were treated as a special case of wages, in that the trader was only allowed to make a profit sufficient to satisfy his wants. Provision for the poor was a primary social responsibility. Particularly odious was the sin of avarice, which resulted in taking for oneself what is due one's neighbour. Permeating the whole was the notion of social solidarity, of a Christian commonwealth.

Tawney traced the abandonment of this comprehensive Christian social and ethical framework to the Reformation. He taught that in England, the dissolution of the monasteries unleashed such a flood of avarice that it set in motion a social upheaval that could not be contained by the political and religious authorities. In the teaching of the Continental reformers on justification by God's grace alone, material was provided for the growth of a religious individualism. Together these forces combined to overwhelm the traditional teaching of the Church such that by the Restoration, the progressive erosion of the authority of the established church by the growth of Nonconformity and the progressive secularisation of society, had contributed to an attitude of indifferentism. This repudiated the right of religion to advance any social theory distinctively its own. Then the huge social changes wrought by the Industrial Revolution further stimulated the abandonment of the Church's traditional teaching. Finally, in the eighteenth century, the established church itself abandoned its traditional social teaching with the consequence that into the ground vacated by Christian morality stepped secular theorists, such as John Locke and Adam Smith. In the development of their thought in political and economic liberalism, self-interest, previously condemned as the sin of avarice, came to be reinterpreted as a natural right and, in the "invisible hand" of the market, as part of God's providential work. Summing up this revolution, Tawney writes:

The law of nature had been invoked by medieval writers as a moral restraint upon economic self-interest. By the seventeenth century, a significant revolution had taken place. "Nature" had come to connote, not divine ordinance, but human appetites, and natural rights were invoked by the individualism of the age as a reason why self-interest should be given free play.<sup>73</sup>

In the same vein, in his concluding chapter, he writes:

The rise of a naturalistic science of society, with all its magnificent promise of fruitful action and of intellectual light; the abdication of the Christian Churches from departments of economic conduct and social theory long claimed as their

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<sup>73</sup> *Ibid.*, p.152.

province; the general acceptance by thinkers of a scale of ethical values, which turned the desire for pecuniary gain from a perilous, if natural, frailty into the idol of philosophers and the mainspring of society - such movements are written large over the history of the tempestuous age which lies between the Reformation and full light of the eighteenth century. Their consequences have been written into the very tissue of modern civilization.<sup>74</sup>

Over the course of his long teaching life, Tawney added to this historical critique of capitalism further criticisms. He was especially critical of the way capitalism had succeeded in overturning what he believed was the proper relationship between 'labour' and 'capital', in which 'capital' should serve 'labour'. This meant for him that capitalism was intrinsically evil 'whatever its economic consequences', and that 'The true descendant of the doctrines of Thomas Aquinas is the labour theory of value. The last of the Schoolmen was Karl Marx'.<sup>75</sup> As he put this indictment:

'Capital', as industry is organized today, hires 'labour'. It rubs its hands if 'labour' is 'cheap' and 'docile'. It cries and cuts itself with knives if 'labour' is 'dear' or 'restive'. It allows the workers as much initiative and responsibility as pit-ponies, and scraps them, with other worn-out tools, when they have served its purpose. Such an industrial order, and the social system which reposes on it, whatever its economic consequences, is essentially servile. It involves the treatment of human beings as part of the apparatus of production, instead of as the end for which alone it is worth while to carry on production at all. It means that the working lives of whole populations are dependent upon the will of half a dozen directors. It is, in short, the enemy of freedom.<sup>76</sup>

Tawney was also highly critical of the capitalist's insistence that private property is an absolute right. He countered by explaining that as the concept of private property has evolved, 'Ownership is not a right, but a bundle of rights.....the right to interest as the price of capital, the right to profits, and the right to control,..'<sup>77</sup> Unbundling these, Tawney sought to refute the arguments commonly advanced to defend private ownership which claim that shareholders provide a service to industry by providing capital, accepting risk, and regulating management, for which they deserve to be rewarded. On the first claim, he accepted that a payment is due for

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<sup>74</sup> Ibid., p.227.

<sup>75</sup> Ibid., p.39.

<sup>76</sup> Tawney, R.H. *The Radical Tradition* (George Allen & Unwin: London, 1964), p.136.

<sup>77</sup> Ibid., p.100.

the provision of capital. However, in his ideal re-ordering of industry, in which labour employs capital, and not the other way around, he insisted that capital should only be hired at the lowest possible cost. Consequently, he would change all shareholders into debenture holders, paid at the cheapest rate their capital can be had.

On the question of whether there is a proper right to share in any profit as a reward due the capitalist for his acceptance of risk, Tawney's answer was complex. It began with an analysis of business risk: First, there is risk of natural disaster, such as earthquake, which arise from causes outside the control of industry. Second, there is ordinary business risk, which arises from the necessary experimentation and unavoidable change experienced by any industry. Tawney insists that both these kinds of risk should be treated as costs of production and therefore ought to be covered by a charge on profits, with the charge being set by a joint body on which the workers, the consumers and the State would be adequately represented. Furthermore, the trust funds thereby created must not be liable to be raided for the payment of dividends. The third type of risk, Tawney described as "competitive risk". They are not due to "the act of God" nor are they the price of economic progress. They arise primarily from the manner in which industry is organized, and diminish or increase as that organization changes. They are normally at their greatest when competition is perfectly free; they are normally diminished when free competition is replaced by some kind of agreement'.<sup>78</sup> In other words, this third type of risk arises from the nature of a competitive capitalist system; change the system for one of public ownership, and the risk falls away.

On the question of the right to control, Tawney raised the objection we have referred to earlier, namely that the absolute right of the owners to use their property as they pleased, and therefore to hire and fire workers at will placed workers in a servile relationship to the owners. In addition, he made the point that the function of control can better be exercised by a system of public costing and audit. In the light of this analysis, he concluded that private property was a pretence: 'Rights without functions are like the shades in Homer, which drank blood but scattered trembling at the voice of a man.'<sup>79</sup>

To these criticisms of the values and ideas which lie at the heart of the capitalist

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<sup>78</sup> Tawney, R.H. *The Acquisitive Society* (G. Bell: London, 1921), p.105.

<sup>79</sup> *Ibid.*, p.87.

economic order, worth briefly mentioning are a number of his other important criticisms.<sup>80</sup> He believed that capitalism was opposed to religion. He saw in its acquisitiveness a blasphemous exploitation of nature. He taught that capitalist society was prone to making war. He claimed that the inequalities it produces undermines democracy. On account of the wastefulness of competition he was not prepared to admit that it could be an efficient economic system. On the basis of this comprehensive analysis, he concluded that Christianity was fundamentally opposed to capitalism. Furthermore, unlike the ever conciliatory Temple, he insisted that no compromise with capitalism is possible for the Christian. As he stated this challenge:

What is certain is that it is the negation of any system of thought or morals which can, except by a metaphor, be described as Christian. Compromise is as impossible between the Church of Christ and the idolatry of wealth, which is the practical religion of capitalist societies, as it was between the Church and the State idolatry of the Roman Empire.<sup>81</sup>

Against the background of this general indictment of capitalism, it is clear why Tawney, unlike Temple, was willing to countenance the radicalism of the post-war programme of nationalisation. Whereas Temple was content with reforming capitalism, for Tawney, because no compromise was possible, capitalism demanded to be repudiated in its entirety, 'whatever its economic consequences'.<sup>82</sup> This principled objection to capitalism was not however the whole of the picture, and it is easily possible to make the mistake of thinking Tawney more of a radical than in fact he was by forgetting his experience as a member of the commission which had investigated the coal industry, and which had persuaded him that public ownership was a viable economic alternative to private ownership of industry. In Tawney's eyes, the commission's report had successfully made the case for nationalisation. After its publication, he firmly believed that public ownership could no longer be dismissed as a remote possibility, something too impractical to be seriously contemplated, because the report soundly disproved the capitalist's claim, on the grounds of superior economic efficiency, to be the guardian of the interest of the consumers against that of the workers.<sup>83</sup> As he described the report in terms that made it out to be a watershed in the rejection of capitalism:

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<sup>80</sup> See Terrill, *op.cit.*, p.250 ff.

<sup>81</sup> *Religion and the Rise of Capitalism*, p.235.

<sup>82</sup> *The Radical Tradition*, p.136.

<sup>83</sup> *Ibid.*, p.120.

For the first time, the evidence for and against capitalism in one great industry has been marshalled and presented to the public, not by private individuals, but by a public body appointed by Act of Parliament. For the first time, its economic wastefulness has been remorselessly laid bare, not by reformers, but by technical experts, administrators, men of science and officials, including two blameless baronets whom the mine owners found it hardest to forgive. For the first time, all the business men on a Commission, not directly concerned in the industry under investigation, have affirmed that 'the present system of ownership and working....stands condemned, and some other system must be substituted for it.'<sup>84</sup>

But, as important as the economic advantages of public ownership might be, it must finally be said that the heart of Tawney's case for nationalisation was not an economic argument. Rather it is to be found in the way public ownership will replace what he took to be the unChristian, servile relationship between owner and worker in capitalism, with one which would give the worker the status, and with that the conditions of work, of an equal partner in industry. In this connection he wrote that the benefits to the mine-worker would not be 'so much in the direct additions which would make to his income, as in the cessation of petty tyrannies, the increase in the provision for health and safety, and in the greater freedom and security offered by his new status as a partner with the State in the conduct of industry'.<sup>85</sup> He felt the flawed relationship in capitalism was so wounding to the human dignity of the worker that: 'It is impossible to exaggerate the significance of that change of status. It is the difference between freedom and something like serfdom'.<sup>86</sup>

Not content only with raising the status of the worker, Tawney also saw public ownership as an opportunity to raise the whole status of work in industry on a par with that of the other professions, such as medicine. He believed public ownership could do this by adopting as its main purpose the goal of providing a service to society rather than that of maximising the profit of shareholders: 'The work of making boots or building a house is in itself no more degrading than that of curing the sick or teaching the ignorant. It is as necessary and therefore as honourable. It should be at least equally bound by rules which have as their object to maintain the standards of professional service. It should be at least equally free from the vulgar

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<sup>84</sup> Ibid., p.119.

<sup>85</sup> Ibid., p.125.

<sup>86</sup> Ibid., p.127.

subordination of moral standards to financial interests'.<sup>87</sup> In this connection, he accepted that internal pressures could bring about the restructuring of certain industries as professions, but that in most kinds of industry structured along the lines of the joint stock company, where management is divorced from ownership, nationalisation was a necessary first step in breaking the power of the shareholder. Of this conviction he wrote: 'The blow needed to liberate them from the property-owner must come from without'.<sup>88</sup>

The radical rhetoric employed above suggests something of Marx's influence on Tawney's socialism, which is undeniable. However, Tawney could never be accused of supporting anything like communism on account of his belief in democracy and also on account of his sensitivity to the objection that public ownership would inevitably suffer from the inefficiency of centralization and bureaucracy. In this connection, on the question of an appropriate administrative model, he insisted that because nationalisation is simply "a problem in constitution-making" that it is compatible with several different types of management. He pointed out that various options exist between the poles of a "unitary" constitution, like that of the Post Office, and a "federal" constitution, like that proposed by Justice Sankey for the coal industry. Having pointed out the range of options available, however, he followed Temple, Morrison and Keynes in their preference for the public corporation model by emphasising the desirability of removing control of nationalised industry from government. As he put this, 'there appears to be general agreement among all contemporary supporters of the policy of public ownership that, although the State must intervene to carry out the act of expropriation by due process of law, the administrative body which succeeds the private proprietor must not be a department directly dependent on the Government of the day'.<sup>89</sup>

In the light of this review of Tawney's Christian socialist case for nationalisation, there is little doubting from what source Labour politicians responsible for the post-war nationalisation programme, like Morrison, drew on for their moral inspiration. They found in his writings, as well as those others writing in the radical tradition, the moral indignation against capitalism that inspired them to seize the challenge of post-war reconstruction as an opportunity to build the "New Jerusalem".

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<sup>87</sup> *The Acquisitive Society*, p.92.

<sup>88</sup> *Ibid.*, p.111.

<sup>89</sup> *Ibid.*, p.114.

**Hensley Henson**

The extent of the political, economic and moral support for public ownership we have traced ought not to give the impression that there were no strongly dissenting Christian voices raised against the post-war nationalisation programme. On the contrary, there was a small and vociferous Christian opposition, the force of whose arguments may have contributed to the Christian realism of Temple's last years and to the beginning of an ideological opposition to public ownership in the Conservative Party which we shall trace to the Steel debate of 1948. Although this opposition to the Christian socialism of Tawney and Temple was isolated from the main political and economic currents of the time, their arguments have endured to inform the resurgence of conservative Christianity in our time which is supportive of privatisation. For this reason it is important that we should give an account of their social thought.

Prominent in this opposition group were Arthur Headlam, the former Regius Professor of Divinity at Oxford and Bishop of Gloucester, Ralf Inge, the former Lady Margaret Professor of Divinity at Oxford and Dean of St.Pauls, and Hensley Henson, the Bishop of Durham. Although Henson had resigned his bishopric shortly before the outbreak of the Second World War, the legacy of the social thinking he left in his voluminous writings made him the most formidable of this Christian opposition. Unlike most of his fellow bishops, who tended to be drawn from the upper middle-class and upper-class, he had come from a middle-class nonconformist background; at Oxford he was too poor to belong to a college. Edward Norman claims that it was this social background that 'is the key to Henson's conservatism';<sup>90</sup> it helped him understand the values of working-class people in a way that was denied most of the other bishops, and it allowed him to escape the class morality and guilt Norman maintains was behind much of the agitation for a social gospel.

In this connection Norman draws attention to the view, popular among the clergy at the turn of the century, that there was no social thinking in the Victorian Church; in this mistaken view, Victorian Individualism was not regarded as social thought at all.<sup>91</sup> For Henson, such cavalier dismissal of his whole social outlook could produce some extreme denunciations of his fellow Christian leaders whom he suspected of toadying to the new power of Labour. As he put this: 'The wheel has gone full circle, and the clerical toadies of the age do not flatter princes but

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<sup>90</sup> Norman, E. *Church and Society in England 1770-1979* (Oxford University Press: Oxford, 1976), p, 364.

<sup>91</sup> *Ibid.*, p. 233.

mobs.... They worship the possessors of power'.<sup>92</sup>

Though undeniably extreme, such savage criticism carried weight from a man whose ministry displayed a consistent and fearless opposition to the ever increasing power of organised Labour while at the same time insisting that 'Labour does not receive its due reward in England today'.<sup>93</sup> From his youthful days as Vicar of Barking, when, in 1899, he opposed the Gasworkers Union, to his later conflict with the coal miners, when, in the General Strike of 1926, he risked personal injury at the hands of the striking miners, his detractors could never claim that he lacked moral courage.

Nor could they dismiss his intellect. He studied Modern History at Oxford, where he was elected a Fellow of All Souls, and later was offered the Chair in Ecclesiastical History, which he turned down. He was therefore a historian of the equal of Tawney, and it is his historical perspective that gives his defence of conservative Christianity its distinctive character. At the time it presented a formidable response to the social Christianity of Temple, whom it is possible he viewed as his main rival for the leadership of the Church of England; COPEC he described as the Christian Socialist's "Nicaea", with Temple "its Pope".<sup>94</sup> He refused to send any delegates from the Diocese of Durham because he regarded it as 'the worst conceivable method of arriving at the truth'.<sup>95</sup> And immediately after the conference, he set about devoting part of his "Charge" to criticism of its main assumption: 'that the Christian Revelation includes adequate instruction on political and economic matters'.<sup>96</sup>

Rather than review the "Charge" at any length, we shall instead explore the chapter in his Gifford lectures of 1936, where we find the most systematic account of his conservative Christianity. However, before moving to his "Giffords", it is important to note that his "Charge" of 1924 contains important arguments lost or no longer presented as clearly by the time Henson came to give his lectures in 1936. The main ones reported by Norman include:<sup>97</sup>

1. The paradox that, while social Christianity disallows the motives and methods of capitalism, the welfare schemes of social Christianity requires the wealth creation of a capitalist economic

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<sup>92</sup> *Ibid.*, p. 231.

<sup>93</sup> *Ibid.*, p. 229.

<sup>94</sup> *Ibid.*, p. 256

<sup>95</sup> *Ibid.*, p. 227.

<sup>96</sup> *Ibid.*, p. 328

<sup>97</sup> *Ibid.*, p. 309 ff.

order.

2. The ideal man supposed by COPEC would be one deprived of personal responsibility and personal liberty.
3. The identification of Christianity with Labour would lead to a position where the Church could not bring any criticism to bear on politics.
4. The redemption of society must be effected through the redemption of individuals.

Returning to the Gifford lectures, we find Henson first asserting and then defending the central message of his "Charge" that Christianity 'has no essential association with any specific type of economic organization'.<sup>98</sup> The clear inference to be drawn is that there can be no such thing as a Christian socialism, and certainly no Christian advocacy of a detailed programme of nationalisation. The remainder of the lecture is devoted to defending this thesis against the implicit criticism that such a position is a denial of Christianity's call to transform the social order. This goal, he argued, is rightly undertaken, not by the attempt to replace the existing economic order by another, but rather by a process of assimilation whereby whatever morally sound elements in it are strengthened and it is brought 'by insensible degrees within the lines of Christian morality'.<sup>99</sup>

In support of his understanding of how Christianity ought to be left to influence the economic order through a process of gradual assimilation, Henson drew on Church History to argue that the power of Christianity to transform the social order from within is very effectual indeed. He began with the reminder that Christianity was originally introduced into what to the modern liberal mind must be the worst possible case: 'a world economically ordered on the foundation of slavery'.<sup>100</sup> And yet, despite this worse case, he pointed out that,

The Church made no attempt to change it, but by bringing into it a new spirit did in fact affect it very potently. The influence of Christianity was felt in raising the general tone of society, discouraging the harsher features of slavery, enlarging the horizon of human thought and silently but surely destroying the assumptions on which ancient society rested. (The transition from the imperial economy based on slavery to the medieval based on serfdom was effected

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<sup>98</sup> Henson, H. *Christian Morality* (Oxford University Press: London, 1936), p.271.

<sup>99</sup> *Ibid.*, p. 272.

<sup>100</sup> *Ibid.*, p. 273.

gradually, and, so to say, unconsciously).<sup>101</sup>

Similarly, in the case of feudalism, he observed that the same gradual process of Christian transformation had undermined the feudal order until it imploded from within. Here he pointed out that, 'once serfs were baptised in Christendom, it was inevitable that their status be raised to where it would subvert the hierarchical feudal order.'<sup>102</sup>

Henson believed that exactly the same process of Christian transformation was at work in the present economic order, capitalism, or what he prefers to call industrialism. In this case he argued that whereas the Christian emphasis of freedom had successfully subverted slavery, and the Christian emphasis of equality had subverted feudalism, the Christian emphasis of individuality will have a similar subversive influence on capitalism:

History is again repeating itself. The same capacity of almost limitless acquiescence, which enabled the religion of freedom to tolerate slavery and the religion of equality to tolerate feudalism, is being exhibited in the modern world in the case of industrialism. The religion which interprets, develops, and protects human individuality acquiesces in an economic system which so dwarfs and depresses individuality as to threaten its total destruction. The paradox is persistent and perplexing but its significance is not entirely hidden.

History provides the key to the enigma which it presents. In every case acquiescence is seen to be the weapon by which the Christian religion conquers the hostile forces in its secular environment, and slowly but surely introduces its own transforming spirit. Slavery disappears but it enriches Christian morality with that conception of service as something inherently great which was burnt into the Christian mind by the long association of servile status and spiritual achievement. Feudalism disappears, but it bequeaths to Christian morality that sensitive loyalty and high chivalry which were shaped by the long discipline of feudal subordination. Christianity ever stoops to conquer.<sup>103</sup>

Having defended the gradualism which he understood to be the way Christianity has historically influenced the economic order, he proceeded to make a moral defence of an ideal capitalist system, which he understood as the economic expression of his individualism. Unlike both slavery and feudalism, he argued that 'there is no radical falseness of ultimate assumption

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<sup>101</sup> Ibid., pp. 273-274.

<sup>102</sup> Ibid., p. 275.

<sup>103</sup> Ibid., p. 275.

to be reckoned with'.<sup>104</sup> And, he argued further: 'Unlike slavery which embodies a false principle, and feudalism, which implies a false conception of society, industrialism does not necessarily do violence to any moral truth, nor run counter to right reason'.<sup>105</sup> He defended this moral claim with a comprehensive analysis of the mechanisms of a capitalist system: 'industry is obviously good in itself';<sup>106</sup> there is a Christian duty to work;<sup>107</sup> commerce 'is an inevitable inference from the social character of man';<sup>108</sup> wages and profits are morally legitimate;<sup>109</sup> inequality is justified on the basis that 'equity itself authorises a large inequality of recompense'<sup>110</sup> for persons who undertake different risks and make unequal contributions; dismissing the traditional Christian teaching on usury, he argued that 'interest on capital cannot be morally distinguished from wages and profits, being indeed a form of the latter';<sup>111</sup> and lastly, 'all the subsidiary features of industrialism - banking, advertisement and speculation - can be justified to reason and conscience' because they 'are indispensable to the conduct and expansion of industry'.<sup>112</sup> Furthermore, Henson argued, not only are the basic mechanisms of a capitalist system morally unquestionable, but Christian morality emphasises precisely those virtues which make for commercial success. In this connection he praised nonconformists, such as the early Quakers, for their business acumen. However, he was careful to distinguish their commercial spirit from the excessive individualism and materialism, which he associated with the Reformed Protestantism he held responsible for the 'monstrous Mammon-cult of modern America.' This he rejected on account of the way it has 'secured success in business at the price of a certain moral lop-sidedness.'<sup>113</sup>

Henson was also careful to distinguish between industrialism, which he could not fault on moral grounds, and its development. The latter, he allowed, 'flows from certain monstrous

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<sup>104</sup> *Ibid.*, p. 275.

<sup>105</sup> *Ibid.*, p. 276.

<sup>106</sup> *Ibid.*, p. 275.

<sup>107</sup> *Ibid.*, p. 276.

<sup>108</sup> *Ibid.*, p. 276.

<sup>109</sup> *Ibid.*, p. 276.

<sup>110</sup> *Ibid.*, p. 276.

<sup>111</sup> *Ibid.*, p. 276.

<sup>112</sup> *Ibid.*, p. 276.

<sup>113</sup> *Ibid.*, p. 278.

exaggerations', which he recognised can produce very great 'mischiefs'.<sup>114</sup> In this connection, he mentioned in particular the way the unprecedented size of modern communities and the new means of communication between them had 'so deranged perspectives and so complicated procedures as to obscure or contradict the very principles of legitimate industry'.<sup>115</sup> He also castigated the development of capitalism for the way it had resulted in what he described as the 'monotonous and even brutalizing labour, the destruction of the family under the influence of congested slums, the servility of spirit bred by abject dependence, and, along with these, the abounding wealth, sensuality and arrogance of plutocratic society'.<sup>116</sup> However, he always denied that these social evils were intrinsic to capitalism.

Moreover, he was also optimistic that what appeared to be the intractable problems of capitalism would in time be ameliorated, even if that meant that they would only be replaced by other problems. For instance, the excessive division of labour in standardization he expected was merely a 'passing phase' which would be overcome by 'the inherent resourcefulness of the human mind' aided by the 'Divine Wisdom'.<sup>117</sup> He also expected the worst excesses of capitalism to be corrected by democracy. As he put this faith: 'for though democracy has formidable risks and disadvantages of its own, it has ever this supreme merit that it cannot ignore the wrongs and hardships of the people'.<sup>118</sup> In any case, as he viewed it from his historical perspective, he did not see these social problems as permanent ones because he expected that capitalism was itself a passing phase. Indeed, at the time, he thought it was 'visibly disintegrating',<sup>119</sup> leaving Christianity its age old task of assimilating whatever new order was to replace it and of transforming that from within. In the meantime, he pointed out the wisdom that the material advantages of a capitalist system cannot be done without by a civilised society, and, therefore, that capitalism cannot be abandoned without finding a demonstratively superior alternative. In this connection he commented dryly, 'the ethical problem is presented in an economic framework which leaves little freedom to the Christian moralist. Neccessitas non habet

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<sup>114</sup> *Ibid.*, p. 276.

<sup>115</sup> *Ibid.*, p. 277.

<sup>116</sup> *Ibid.*, p. 286.

<sup>117</sup> *Ibid.*, p. 287.

<sup>118</sup> *Ibid.*, p. 287.

<sup>119</sup> *Ibid.*, p. 293.

legem'.<sup>120</sup>

Henson concluded this defence of Christian conservatism with a pointed attack on social Christianity. As a Church Historian he declared himself to be 'quite sure that Christian history demonstrates the incapacity of the church authorities to enter directly into political and economic affairs'.<sup>121</sup> He then stressed, presumably with Christian leaders like Temple and Tawney in mind, the extreme complexity of modern economics and sociology. And, he pointed out that, even if Christians were fully understanding of all the forces at work in modern society, Christians themselves are not free from all the faults and limitations of human nature that make the project of radical social transformation an enormous presumption.<sup>122</sup> Finally, and most pointed of all, he quoted Christopher Dawson on the dangers of well-meaning but ignorant clergy confusing Christian morality with the social fashion of the day and of dressing in colours which they should not:

There is no longer any danger of Christians attempting to force their beliefs on others at the point of the sword or of their trying to make men religious by act of Parliament. The danger today is rather that well-meaning people are apt to reduce Christianity to the level of secular idealism by identifying it with whatever social or political course is most popular at the moment, whether it be National Socialism in Germany or humanitarian socialism in England.<sup>123</sup>

This last criticism of the church leadership for merely following the intellectual fashions of the day, was to appear later as one of the main theses in Edward Norman's massive defence of conservative Christianity in the nineteen-seventies.<sup>124</sup> However, its warning in Henson's Gifford lectures appears to have gone largely unheeded by Church leaders seeking to influence the Government's programme of nationalisation. One of those who may have remembered Henson's individualism was Cyril Garbett, Archbishop of York (1942-55). He even gave specific warning, which Henson would no doubt have applauded, about the dangers inherent in all large-scale organisation of a loss of personal responsibility and initiative:

The weakening of personal responsibility has been hastened by central planning

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<sup>120</sup> Ibid., p. 282.

<sup>121</sup> Ibid., p. 288.

<sup>122</sup> Ibid., p. 290.

<sup>123</sup> Ibid., p. 289.

<sup>124</sup> In addition to his *Church and Society in England 1770-1970*, see also his *Christianity And The World Order* (Oxford University Press: Oxford, 1979).



and industrial organisation. Local firms and industries in which the employers were personally acquainted with the conditions of work have been replaced by vast industrial machines with far-flung organisation worked from central offices which issue their directions to all subsidiary branches. The nationalisation of the mines, the railways and other industries, however justifiable, has resulted in the undermining of local responsibilities. From Whitehall, or wherever the headquarters of the industry is situated, there pour forth from an army of clerks an unending stream of regulations and orders which choke all attempts at initiative.<sup>125</sup>

The lingering influence of Henson's individualism may also have had an impact on the important House of Commons' debate on the nationalisation of Steel in 1948. But here we can only speculate. As we have previously mentioned, the case for nationalising Steel was recognised to be different from all the others by senior figures in the Labour party even before the war. Their misgivings continued after Labour's election victory, and therefore were not merely misgivings based on the fear that the nationalisation of Steel would prove an electoral liability. Herbert Morrison, for example, is recorded as saying, during 1946, that steel nationalisation was 'a matter of business', and 'not really a political matter at all'.<sup>126</sup> This suggests he understood that Steel was a manufacturing industry, not a public utility, and was dependent not only on national but also on international markets for its profitability. As such, it was inevitably going to be a much more difficult industry to manage, because it would be subject to all the vagaries of the trade cycle and, in order to survive, it would need to remain internationally competitive. Also labour relations were good, with the Steel workers' leaders reputedly lukewarm about nationalisation. Furthermore, the industry was making a profit and a recent investment programme augured well for the future of the industry.<sup>127</sup>

However, whoever controlled Steel could exert an enormous influence on the whole of British industry, from car making, ship building to the construction sector. And, after the Bank of England, the utilities, coal, and transport were added to the pre-war nationalisations, only Steel was left to be captured for Labour to claim total control of the "commanding heights" of the British economy. In the circumstances, it is perhaps understandable that the nationalisation

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<sup>125</sup> Garbett, C. *The Church of England Today* (Hodder and Stoughton: London, 1953), p.114.

<sup>126</sup> Hodgson, G. *The Steel Debates*, in Sissons M. and French, P. *Age of Austerity* (Hodder and Stoughton/Penguin: London, 1963/1964), p.313.

<sup>127</sup> *Ibid.*, p.312 ff.

of Steel, whatever its merits on economic grounds, became what Morgan Phillips, Secretary of the Labour Party, described as 'the supreme test of political democracy - a test which the whole world will be watching'.<sup>128</sup> And, try as they may to evade the challenge of taking Steel into public ownership, the minority within the Labour leadership opposed to nationalisation was bound to be overruled, as they were by Bevan and other radicals in the Cabinet.

In opening the debate, George Strauss, the proposing Minister of Supply, did not help matters by provocatively concluding his speech with the words 'the Bill was designed to make the steel monopoly the servant, not the master, of the people'.<sup>129</sup> It was clearly this overtly political challenge that pressed the already seriously questionable case for nationalisation a step too far in the eyes of the Opposition. The reaction was not slow in coming from Oliver Lyttelton, representing the previously acquiescent Whig tradition in the Conservative party, who led for the Opposition: 'They give the whole thing away.... they believe in the doctrine of centralization of power in the hands of the State....it has long been our doctrine that, in a democracy, power should be dispersed'.<sup>130</sup>

Winston Churchill took up this baton. He was not new to nationalisation, having been responsible for the nationalisation of British Petroleum in 1914 and the Carlisle pubs in 1918. In the earlier debate about the nationalisation of the Bank of England he had declared that 'it does not, in my opinion, raise any matter of principle'.<sup>131</sup> But now, in this debate, the revered wartime leader succeeded in expressing such strong opposition to nationalisation that the debate had to be adjourned. In the heat of debate, as Hodgson claims, the Opposition 'evolved almost without noticing it an ideological opposition to nationalization that had been no more than a vague jumble of interests and prejudices in 1945'.<sup>132</sup>

But even then, despite the short-lived history of the first British Steel Corporation, denationalised in 1952, and Labour's retreat from full scale nationalisation in 1949,<sup>133</sup> there remained overwhelming public support for the radical redrawing of the economic borders of the

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<sup>128</sup> Ibid., p.311.

<sup>129</sup> Hodgson, G. *op.cit.*, p.318.

<sup>130</sup> Ibid., p.318.

<sup>131</sup> Pelling, H. *op.cit.*, p.96.

<sup>132</sup> Hodgson, G. *op.cit.*, p.329.

<sup>133</sup> Ibid., p. 328, Labour's policy document of 1949, '*Labour Believes in Britain*', stated: 'Unless there is economic necessity, there is no reason for always socializing whole industries.'

state. Therefore whatever the merits and influence of Henson's conservative Christianity, its criticism of public ownership was barely recognisable. At most it stood for an exhausted Victorian legacy, only capable of supporting an opportunist parliamentary opposition almost accidentally discovering an ideological opposition to public ownership in the Steel debate. Indeed, it is highly significant that it was only the nationalisation of Steel and none of the other nationalisations which aroused genuine controversy between the parties. And, as Hodgson points out, the Steel Bill was only debated in 1948, after Labour's political honeymoon had ended, and the huge strains of its over-ambitious legislative programme, added to all the other pressures of post-war reconstruction, had eroded Labour's hold on Government.<sup>134</sup> In this light the debate over Steel saw a revitalised Opposition exploiting its first real opportunity rather than expressing strong ideological opposition to public ownership as such. This had still to grow. The coming years would prove fertile ground as public ownership was tested in practice. However, at the time there was no denying that such was the political, economic and moral support for the post-war nationalisation programme that the extension of public ownership had about it 'an air of massive permanence'.<sup>135</sup>

## AN EVALUATION

Looking back now, after nearly fifty years has elapsed, it is of course extremely difficult to evaluate the nationalisation programme of 1945-51 from an ethical perspective. In order to be in a better position to do so one would have had to have lived through the experience of the two world wars and the great economic depression, and to know from the inside what it was like to live in a society which was much more dependent on industry than is our own. Nevertheless, in the expectation that some of the arguments for and against public ownership we have assembled will be of enduring value, even though the much altered circumstances of the 1970s and 1980s makes any uncritical transference of arguments used in the 1940s and 1950s to the debate over privatisation hazardous, we shall list below what we think are the main points arising from this historical study.

From our discussion of the politics of nationalisation, it would appear that public ownership had in its favour the interests of all three social classes. For the working class,

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<sup>134</sup> *Ibid.*, p.306.

<sup>135</sup> Hennessy, P. *op.cit.*, p.156.

nationalisation promised a strong political base from which to negotiate and campaign for a redistribution of wealth and income. For the middle class, economic planning and the expanding state bureaucracy promised more secure employment and political influence. For the upper class, it was a case of second best for it was worth conceding a mixed economy in order to avoid the communism which threatened to nationalise their land. With the possible exception of the former owners of the nationalised industries, most people therefore had an interest in supporting the post-war social order and of making a mixed economy work.

Our study of the economics of nationalisation suggests that there were a number of strong economic arguments for public ownership. In the context of post-war reconstruction, the consolidation of the industries under a single management promised to end wasteful competition and deliver economies of scale. Government control of investment would allow for the planning of how best to utilise scarce investment resources and would provide a means of encouraging full employment through the use of demand management of the economy. The improvement in industrial relations would improve productivity. The elimination of monopoly profits would release resources to be channelled back into the industries in increased investment and improved customer services. Nationalisation also promised rationalisation of the confused and costly patterns of ownership and regulation. On the strength of these arguments, although in retrospect the nationalisation programme was far too ambitious and included one very unsuitable industry in British Steel, it is difficult to deny that a substantial programme of public ownership looked a very plausible way forward for the British economy. Indeed, saddled then as much as it is today with the "gentlemanly capitalism" of the City, with its reluctance to invest in British manufacturing given the new markets opening up overseas, there is a case for arguing that the private sector could not be relied upon to provide the necessary investment needed for reconstruction.<sup>136</sup>

From the leading Christian social ethicists we have examined, Tawney's Christian socialist case for public ownership stands out for its advocacy of nationalisation as a means of emancipating the worker from the servile relationship between worker and owner in capitalist society and of raising the status of work in industry to a level with the other professions. His criticisms of the notion of an absolute right to private property, the acquisitiveness of capitalism,

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<sup>136</sup> Offer, A. 'The State We're In', in *Oxford Today*, Vol. 7. No. 3. Trinity, 1995, p. 12, responds to Will Hutton's criticism of the "gentlemanly capitalism" of the City for its failure to invest in manufacturing by pointing out that 'Given the virgin resources overseas, it is not clear that this was not a bad choice for such wealthy individuals'.

which he saw as undermining religion, and the inequality of capitalist society, which he saw as undermining democracy, are also all of enduring value. On account of these criticisms, he believed Christians ought to repudiate capitalism in its entirety. He was also convinced that public ownership could be economically superior to private ownership of industry. Although we are in sympathy with much of his critique of capitalism, we are forced to concede that experience has shown him to have been too optimistic about the prospects for public ownership.

As we noted by way of contrast, Temple, under the influence of the Christian realism of his later years, drew back from endorsing a radical programme of nationalisation. He advocated a gradualism, which looked to reform industry within a capitalist framework because he wanted 'no breach of continuity'. This older Temple, under the influence of Niebuhr, and responding to the spiritual darkness of war had come to shrug off some of his earlier influences, such as that of Maritain, whose condemnation of capitalism for its denial of persons was close to that of Tawney. Temple also justified his reticence about extending public ownership in terms of the traditional Christian defence of private property, and on account of the danger of extending the power of the state over the individual. However, he was prepared to accept a limited amount of public ownership in the interests of the common good. While this may have been too cautious in his own context, given the enormous task of reconstruction and the extent of social inequality, we nevertheless find Temple's caution about extending public ownership too far to have been vindicated by experience.

In addition to examining the contribution of social Christianity to a justification of public ownership, for completeness, we also looked at the criticism of public ownership from the perspective of a Christian conservative. In our view, Henson's defence of some of the capitalist virtues provides a helpful balance to Tawney's repudiation of capitalism in its entirety. In particular we approve of his emphasis of personal freedom and responsibility. We can also take seriously his warning about the danger Christian socialism poses for the Church by allying Christianity with the monopoly power of labour, thereby rendering the Church incapable of effectively challenging the Labour movement when it seeks not social justice but power for its own sake. However, in the post-war context, we find that Henson's individualism was badly out of touch with the pressing political, economic and social realities which demanded of individuals that they surrender more of their autonomy than he would ever have sanctioned. Given the impressive achievements of the welfare state, we also remain unconvinced by his pessimism about how much it is possible for human beings to achieve in improving the social condition of

society. Therefore, while we can fault the architects of the post-war nationalisation programme for being too ideological in their advocacy of public ownership, in the absence of any real experience of a mixed economy, we can only admire their generous and hopeful spirit.

## Chapter 4.

## THE EXPERIENCE OF NATIONALISATION (1951-1979)

'Anyone who argues in the light of nearly forty years' experience that there must be a way of managing State monopolies that will increase their efficiency, satisfy their consumers, and yield a return on the taxpayer's investment instead of being a burden on the taxpayer must believe in fairies.' (Patrick Jenkin)<sup>1</sup>

The heady hopes vested in the New Jerusalem established after the war, where Morrison's public corporation stood proudly alongside Beveridge's social security system, were to be short-lived. Less than half a century later, the disparagement of public ownership is now so complete that the negative case for privatisation, which claims that because the nationalised industries failed there was no practical alternative to privatisation, has largely triumphed. Indeed, this case has been so persuasively argued that it is easy to forget how many declared nationalisation a success in 1970, at the end of its first two decades. At that point there was fulsome praise of the nationalised industries. Some even judged public ownership to have fully realised the hopes of Tawney.

In what follows, on the suspicion that the change from success to failure was unlikely to have been so dramatic, we shall examine the record of public ownership. As we explained when setting out our method, this line of enquiry is consistent with what Richard McCormick has called 'the new age of experience' in Moral Theology, in which it is now recognised that to disregard the lessons of experience is to disregard one of the richest and most indispensable sources of moral knowledge. As Leslie Hannah puts this point in his assessment of the economic consequences of public ownership:

Idealists of left and right now - as in the past - will continue to by-pass evidence from the reality of capitalism and socialism. Their utopian dreams may ultimately be conducive to human improvement; certainly such hopes have sustained utopians in the past. Practical men may, however, benefit from learning some of the lessons of twentieth century experience as a discipline on their dreams.<sup>2</sup>

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<sup>1</sup> Quoted in Fry, G. 'The Path to the Privatization of Public Enterprises in Britain: A Public Policy Analysis', in *Public Policy and Administration*, Vol. 9, No. 3 Winter 1994, p. 20.

<sup>2</sup> Hannah, L. 'The Economic Consequences of the State Ownership of Industry, 1945-1990', in R Floud and D McClosky ed., *The Economic History of Great Britain Since 1700*, Vol. 3, 1939-1992 (Cambridge University Press: Cambridge, 1994), p. 168.

With McCormick and Hannah in mind, and also bearing in mind that the interpretation of experience is always fraught with difficulty and is bound to be messy, because experience is itself always a personal interpretation of reality, we shall draw on a wide range of documented experience of nationalised industry in order to shed light on the record of public ownership from as many angles as possible. Our study will pay especially close attention to the quality of the relationship between Parliament and the public corporations, as this is reflected in the bipartisan reports of the Select Committee On Nationalised Industry (SCNI). While it may be placing too much trust in Parliament as an alert "watchdog" of nationalised industry, Parliament developed a more continuous and thorough scrutiny of nationalised industry in its bipartisan Select Committee than any other form of scrutiny we have record of. We shall also draw on the views of politicians, ministers and civil servants, as these are reflected in the relevant Government White Papers and parliamentary debates on the nationalised industries, and the "hands on" experience of nationalised industry chairmen. And last but not least, we shall take account of the leading academic studies of the nationalised industries.

For ease of reference we will divide the period of our study into three calendar decades. We begin with the start-up in the fifties. Then we consider the hey-day of the nationalised industries in the sixties. And lastly we explore the turbulent decade of the seventies. We end the study in the year 1979 for the reason that this year marks the beginning of the new Conservative Government of Margaret Thatcher, which was to abandon public ownership and therefore marks a 'decisive breakpoint'. As John Vickers and George Yarrow put this: 'Until that year there was a clear, if erratic, trend in the direction of bringing greater numbers of enterprises under public ownership; since 1979, the privatization programme has produced a sharp movement in the opposite direction'.<sup>3</sup>

## **THE START-UP OF THE FIFTIES**

Most sources support the view that the experiment of public ownership did not get off to a good start. But this was to be expected given the formidable task of consolidating the previously separately owned companies in one organisation, forming new management teams and a new public enterprise working culture.<sup>4</sup> For this reason, because it was a starting up

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<sup>3</sup> Vickers, J. and Yarrow, G. *Privatization, An Economic Analysis* (MIT: Cambridge, Massachusetts, 1989), p. 139.

<sup>4</sup> Pryke, R. *Public Enterprise in Practice* (Granada: London, 1971), p. 435.

period, the fifties are not very revealing about the experience of public ownership.

Nevertheless, the speed with which some of the nationalised industries ran into difficulties, which rendered them unable to meet their statutory requirements of paying their way 'taking one year with the next', does reveal something of the optimism of Morrison's arms' length model. This asserted that the public corporation was best run as an independent organisation by a publicly spirited management, who could be relied upon to get on with the job of achieving the three main objectives of public enterprise: economic efficiency, financial probity, and public service. Accordingly, the Morrisonian statutes had put in place only a minimum of regulatory controls; there was no statutory provision making Chairmen directly accountable to Parliament and the power of Parliamentary scrutiny was limited to debates on the annual reports and accounts of the corporation. Morrison had opposed further powers of scrutiny on the grounds that 'it would result in taking the Chairman and principal members of Boards away from their business, and would make them nervous of appearing at any time before a half-circle of Members of Parliament, all having their pet views and putting them through a certain amount of cross-examination.'<sup>5</sup> For this reason, as well as the theoretical difficulties involved in arriving at an acceptable definition of efficiency, the idea of an efficiency unit for nationalised industry, originally proposed by the Webbs, had come to nothing.

However, once some of the industries had fallen into deficit and had to be bailed out at the taxpayer's expense, it was widely considered unthinkable to continue to exclude them from Parliamentary scrutiny. Consequently, in 1955, despite the implacable opposition of the Board Chairman, one of whom complained that 'Frequent lifting of the young plant to examine its roots inevitably stultifies growth',<sup>6</sup> the Conservative Government bowed to pressure and set up the SCNI as a cross-party committee, comprising six members of the Government, six from the Opposition, and a Chairman who was a member of the Government; later specialist advisors were admitted. It was empowered 'to send for persons, papers, and records', thereby considerably widening Parliament's powers of scrutiny.

The creation of this committee was the first major departure from Morrison's arms' length model of public enterprise. From this time onwards, the history of the gradually evolving

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<sup>5</sup> Quoted in Cockerill, A. *Parliamentary Scrutiny and the Nationalised Industries: The Select Committee on the Nationalised Industries, 1974-1979* (Unpublished paper of the specialist economic adviser to the SCNI), p. 1.

<sup>6</sup> Quoted in Foster, C. *Privatization, Public Ownership and the Regulation of Natural Monopoly* (Basil Blackwell: Oxford, 1992), p. 80.

economic and financial framework, set out in successive White Papers, reflects an increasing concern that Government ministers and Parliament should be able to exercise greater strategic control of nationalised industry in order to ensure that scarce national resources were being employed in the most economically efficient and socially optimum way. As such, these White Papers are especially revealing of the struggle to balance the primary commercial obligation of nationalised industry with their social responsibilities.

### **THE HEY DAY OF THE SIXTIES**

After the settling down period of the Fifties, the experience of the Sixties was increasingly dominated by a concern to promote the competitiveness of British industry in the context of mounting international competition. It was understood that there was an opportunity cost to any inefficient use of resources: they could have been invested elsewhere in the economy or could have been used to provide some other social service. This concern was linked in particular with a tendency for the nationalised industries to over-invest. It was also a response to the concern that government ministers were using their formal and informal powers over nationalised industry for social purposes at odds with the economic objectives of public ownership. For example, by holding down prices, they could encourage over-demand and therefore over-supply.

Here it is worth commenting that despite the theoretical arms' length relationship between government and the industries, the formal and informal powers of Ministers were considerable. Their influence on prices derived primarily from an informal arrangement whereby the Chairmen of the Boards agreed to consult with the appropriate Ministers on any significant change they wished to make. This "Gentleman's agreement" also gave Ministers the power to delay price increases. Ministers could also thwart any price increase by varying the financial objective. Consequently, while the Ministers had no formal power to fix prices, the consultative process involved tended to inhibit unilateral price changes by the Boards and generally worked to keep them down. The Government justified these powers on the ground that 'they must interest themselves in the prices of these goods and services which are basic to the life of the community and some of which contain a monopolistic element'.<sup>7</sup>

Ministers' control over external finance, for investment or loan, mainly derived from the

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<sup>7</sup> Cmnd. 1337, *The Financial and Economic Obligations of the Nationalised Industries* (HMSO, 1961), para. 31.

Government's decision, in 1956, to withdraw the possibility of a nationalised industry raising funds directly from the market on its own credit. In this case the justification given was that the amounts needed were 'too large to be raised in the open market without Government support and the industries are, of necessity, closely associated in the public mind with the Government, so that it would be difficult for the market to regard them as independent financial concerns.'<sup>8</sup> This ruling made those nationalised industries especially dependent on new investment captive to Ministers who could, for various reasons, delay or refuse to grant the funds for investment.

Concern about the possible abuse of these formal and informal powers contributing to a mis-allocation of scarce resources, prompted the Government to respond by issuing its first White Paper in 1961 with the title, *The Financial and Economic Obligations of the Nationalised Industries*.

#### 1961 WHITE PAPER (CMND 1337)

The White Paper began by clarifying the relationship between the Government and the nationalised industries to assert the industry's primary commercial responsibility. It insisted that 'although the industries have obligations of a national and non-commercial kind, they are not, and ought not, to be regarded as social services absolved from economic and commercial justification.'<sup>9</sup> It then went on to lay down a new financial framework. This included, on revenue account, the requirement that the nationalised industries should pay their way, by covering their costs, including interest and depreciation on the historic cost basis, over a five year period. In support of this basic financial discipline, the Government accepted that 'the industries must have freedom to make upward price adjustments especially where their prices are artificially low.'<sup>10</sup> It also expected that they would earn a commercial rate of return on capital employed at least higher than the cost of money to the Exchequer. To help them meet this expectation, and this is regarded as the principal innovation of the White Paper,<sup>11</sup> each of the industries was to be set a financial target, which, where appropriate, would be a required rate of return. Where non-commercial obligations were imposed from outside, the Government accepted that Boards

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<sup>8</sup> *Ibid.*, para. 27.

<sup>9</sup> *Ibid.*, para. 3.

<sup>10</sup> *Ibid.*, para. 30.

<sup>11</sup> See further Vickers, J. and Yarrow, G., *op.cit.*, p.130.

would petition for a change in their financial target.

The balance struck between the commercial and non-commercial objectives of the industries appears to have worked tolerably well for much of the 1960s. However, by 1967, the Select Committee was increasingly dissatisfied with the way financial targets were still being frustrated by Ministers' exercise of their formal and informal powers over prices and investment. They wanted to introduce some further "fine tuning" of the existing economic and financial framework in order more closely to define managerial discretion in the attainment of financial targets. In this connection it was recognised that the targets could be reached by various routes, such as by lowering standards of service, and therefore were not necessarily a good measure of efficiency. At their instigation the Government issued a second White Paper with the title, *A Review of Economic and Financial Objectives*.

#### 1967 WHITE PAPER (CMND 3437)

The new circumstances calling for this White Paper included the prices and incomes policy that the Labour Government had resorted to in their attempt to stave off devaluation of the pound in the financial crisis of 1966. As part of this policy the Government had announced that all future major price increases in the nationalised industries would be referred to the National Board for Prices and Incomes (NBPI). This added another layer of consultative procedure to hold price increases and therefore also profits down. There had also been vastly more investment that had come about in response to important technological changes, discoveries of new natural resources, and an increase in demand that had not been foreseen six years previously. Steel had also been recently re-nationalised and further nationalisation in the docks was planned. On an annual basis, all this new investment was equivalent to the whole of that for private manufacturing industry. With so much of the nation's economic resources at stake, the need was more pressing than ever to allocate resources upon an 'economically and socially rational basis.'<sup>12</sup>

In pursuit of this objective, the White Paper proposed the use of a uniform test discount rate of return of 8% on new investment. This rate was broadly consistent with the rate of return expected on low risk projects in the private sector. However, it accepted that there were projects

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<sup>12</sup> Cmnd. 3437, *Nationalised Industries, A Review of Economic and Financial Objectives*, (HMSO, 1967) para. 4-5 for the new economic circumstances.

which could not be justified purely on a commercial basis and that the Government 'must take a wider view than that of the industry itself, since the Government's objective is to secure the maximum social return on the capital invested, while the industry's concern is properly with the financial return.'<sup>13</sup> For this type of project it proposed the use of social cost/benefit analysis as a means of putting investment decisions on a rational basis.

On prices, in the interests of allocative efficiency, the major new proposal was for the adoption of a flexible pricing system. This sought to reflect the true cost of the particular goods and services provided. But here again the White Paper attempted to strike a balance between the commercial and social obligations of the industries. While it encouraged marginal cost pricing, and discouraged cross-subsidisation of loss making services which were not part of the industry's statutory requirements, it allowed that wider social or economic considerations might justify cross-subsidisation in price. It also stressed the need for price stability in the public enterprise sector as part of the prices and incomes policy adopted in 1966. As previously mentioned, in pursuit of this policy, the Government was committed to referring all major price increases to the NBPI.

The 1967 White Paper tends to be remembered for the introduction of marginal cost pricing. What tends to be forgotten is that it also introduced a new approach to the control of costs, which it understood to be at least as important as the control of prices. As it emphasised:

To make the best use of resources, it is not enough merely to ensure that prices properly reflect costs, important though this is. Continuous and critical attention has to be paid to costs themselves in order that an industry may play a full part in bringing about a more efficient and faster growing economy.<sup>14</sup>

To this end, the White Paper introduced a form of efficiency audit by empowering the NBPI to enquire into the efficiency of the industries whose proposals for price increases were referred to it. In addition, it required each of the sponsoring Departments to develop, in consultation with the industries, indicators of performance for use by the Government at the annual investment review. It also drew attention to the need of public enterprise to play a responsible part in the national incomes and prices policy by meeting the cost of pay increases out of improved productivity. It also called for all possible labour savings, the elimination of inefficient restrictive practices, and the effective consultation and collaboration between management and

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<sup>13</sup> *Ibid.*, para. 14.

<sup>14</sup> *Ibid.*, para. 27.

the shop floor to promote better productivity. As an overall indicator of performance, the White Paper further emphasised the importance of the financial target. Without such a target, usually measured as a rate of return on net assets, and therefore providing a means of comparison with rates of return earned in other industries, both public and private, it made the point that there 'would be an indefensible lack of control over the return achieved on a very substantial public investment.'<sup>15</sup>

The White Paper's concluding paragraphs returned to the basic Morrisonian principles in its definition of the role of the industries and the role of the Government: the industries were to be managed as primarily commercial concerns, without sacrificing satisfactory conditions of employment. Where an industry was required to act against its own commercial interests, the Government accepted the principle of explicit subsidies by agreeing that it should take responsibility, and would either make a special payment, or would adjust the financial objective. The Government in return, agreed not to interfere in the day-today management of the industries. However, it justified its indirect controls over price and costs as being a necessary part of its economic management of the economy through the prices and incomes policy. And it justified its role as the sole banker of public enterprise and its control over investment, through the mechanism of the annual investment review, on the grounds of needing responsibly to allocate the scarce investment resources of the economy.

By the introduction of these then relatively new management theories and controls, the Select Committee appeared to have succeeded in placing within Parliament's grasp the means of effectively regulating public enterprise. Christopher Foster makes this point:

A satisfying framework seemed within Parliament's grasp. Although also expressed with the ambiguity that parliamentary draftmanship and ministerial prudence seems to require, these ideas become known to, and understood by, a much larger circle of informed opinion than is common for economic ideas. The acclaim for them was much less than for Keynesian notions of demand management in the 1940s and 1950s or for privatization today, but was still widespread.<sup>16</sup>

However, despite the acclaimed new framework and the attempted clarification of the respective roles of the industries and of the Government, the first report from the SCNI for the

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<sup>15</sup> *Ibid.*, para. 33.

<sup>16</sup> Foster, C. *op.cit.*, p.82.

season 1967-68 continued to reflect concern about the relationship. While endorsing the general economic and financial framework set out in the 1967 White Paper, the Select Committee was especially concerned about the way Ministers continued to confuse their responsibility for efficiency and their responsibility for the wider public interest in their use of their formal and informal powers over prices and investment. In order to keep these two potentially conflicting responsibilities separate, the report proposed that they be exercised by different departments. For this purpose, and in order for Government to build up the required expertise, the Select Committee proposed the creation of a Ministry of Nationalised Industry which would exercise the Government's responsibility for efficiency.

#### 1969 WHITE PAPER (CMND 4027)

The Government responded to this report in the 1969 White Paper CMND 4027, *Ministerial Control of the Nationalised Industries*. While accepting the need to keep its responsibility for economic efficiency distinct from its responsibility for distributive justice, it rejected the report's organisational conclusion of a separate Ministry. There were several grounds cited, of which the most important was the argument that such a Ministry would not reduce intervention in the management of the industries, as the Committee hoped, but would add to pressures towards greater intervention. As the report put it: 'If Parliament were invited to regard the new Minister as having the general efficiency of the industries as his main responsibility, they would tend to expect him to answer on many aspects of the management of the industries, especially in view of the powers recommended.'<sup>17</sup> For the same main reason, the Government rejected the proposal that Ministers be given powers of issuing specific directives on any subject which appears to be in the national interest; it feared that such powers would involve the creation of a new climate which would 'inevitably lead over the years to a gradual encroachment by Ministers on the managerial responsibilities of the industries, so undermining their efficiency and reducing their capacity to recruit and keep capable top management.'<sup>18</sup>

At this point, in the light of the three major White Papers published in the 1960s, it is worth reflecting that the dialogue between the SCNI and the Government on the appropriate relationship between Ministers and the Public corporations had reached something of an

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<sup>17</sup> Cmnd. 4027, *Ministerial Control of the Nationalised Industries* (HMSO, 1969), para. 10.

<sup>18</sup> *Ibid.*, para. 16.

*impasse*. The SCNI was clearly concerned that the level of ministerial intervention was excessive and threatened the efficiency of nationalised industry. Hence its proposal for a separate Ministry responsible for the efficiency of nationalised industry. The Government, on the other hand, was concerned that the organisational reform proposed would not improve efficiency but would merely lead to further encroachment on the autonomy of the public corporations, and responded by publicly endorsing the original Morrisonian ideal, modified by the refinements introduced by the 1961 and 1967 White Papers. In retrospect this was a grave mistake because a separate ministry would have strengthened the hand of the nationalised industry chairmen in their dealings with sponsoring departments, particularly when the going was getting rough and appeals were being made to sacrifice the interest of their industry to the greater national interest, as became commonplace in the seventies.

However, in fairness to the Government's position over against that of the SCNI, at this time most of the nationalised industries were performing satisfactorily, even well.<sup>19</sup> Those that were performing badly, like British Rail, British Coal, and British Steel, could be explained by special circumstances that had little to do with the basic administrative model of public enterprise; coal was an industry facing a contraction in demand that posed all the intractable problems associated with scaling down an industry, in particular, reducing employment; British Rail despite all the progress made under the Beeching reforms, had suffered intense competition from road haulage and laboured under social obligations that made an ongoing subsidy necessary. British Steel had relatively recently been renationalised. By contrast, the other major public industries looked to be in blooming health. The Electricity industry was very profitable; prices in the Telecommunications industry had declined by 13% since 1963; British Gas, stood poised to reap the benefits of cheap natural gas supplies from the North Sea. Faced with this largely favourable record, the Government's reluctance to introduce a separate Ministry responsible for the efficiency of nationalised industry is perhaps understandable on the maxim that it is better not to tamper with something that appears to be working perfectly well.

RICHARD PRYKE (1971)

The Government's response to the Select Committee was soon to be supported by what

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<sup>19</sup> This section draws on Pryke, R. *The Nationalised Industries, Policies and Performance since 1968* (Martin Roberts: Oxford, 1981).

is often quoted as the authoritative study of the first two decades of nationalised industry, that of the economist, Richard Pryke.

Pryke was highly critical of the Select Committee. He regarded the public policy approach, which focussed attention on the administrative model, as pointless, because, confident as he was that the performance of nationalised industry could be measured, he believed that 'the excellence or otherwise of administrative machinery can only be judged by its result.'<sup>20</sup> He also claimed that the Committee had exaggerated the strains in the relationship between the government and the industries and was selective in the evidence it brought to support its warnings.<sup>21</sup> Furthermore, from the observations of the way the Government had increasingly come to accept paying the cost of the nationalised industries' social obligations and the evidence that the Boards were increasingly standing up and refusing to pay the price themselves or to take responsibility for Government decisions, he was confident that the relationship was in good working order. He could even write glowingly that 'It is not only in years but also in spirit that the nationalised industries have come of age.'<sup>22</sup> Even where he acknowledged failure, he believed that 'in the main these failures were due to factors beyond the control of the nationalised industries and that, although there was little to show on the surface, their transformation was already well under way.'<sup>23</sup> He further added in an unmistakable reference to the SCNI, 'this can only have been obvious to the most perceptive, dispassionate and industrious investigations and these were notable by their absence.'<sup>24</sup>

Pryke's study cannot be faulted on the grounds of industry. Whether it was sufficiently dispassionate or perceptive we shall have more to say later. The main conclusion of his exhaustive research into the performance of each of the nationalised industries was that, after a disappointing first decade, when a management deficit was the main drag on performance, public ownership had realised the hope of greater economic efficiency.<sup>25</sup> He also found that, as foreseen by Tawney, whom he quotes, public ownership had achieved economic success in a superior way to that of private ownership. As he put these findings:

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<sup>20</sup> Pryke, R. (1971), *op.cit.*, p.457.

<sup>21</sup> *Ibid.*, p. 456-457.

<sup>22</sup> *Ibid.*, p.464.

<sup>23</sup> *Ibid.*, p. 464.

<sup>24</sup> *Ibid.*, p. 443.

<sup>25</sup> *Ibid.*, p. 435.

That the nationalized industries have in fact earned their profits by what on balance have been superior means, in terms of the national welfare, to those employed by private industry, has been the central thesis of this book.<sup>26</sup>

In support of his thesis, Pryke distinguished between technical and allocative efficiency. By the former he referred to the cost of producing a given level of output, by the latter, to whether output and price are at the right levels. The distinction is a little misleading because technical efficiency, as Pryke defines it, also has implications for allocative efficiency. Nevertheless, the distinction is helpful in so far as it allows one to distinguish management responsibility for productivity as separate from its responsibility for setting price and output. With this clarification in mind, with respect to technical efficiency, on the evidence of his figures of rapidly rising productivity in the public sector, Pryke was sufficiently optimistic to conclude that 'there is no reason to believe that the large productivity gains of the last decade are a once-and-for-all phenomenon.'<sup>27</sup>

On allocative efficiency, which he viewed to be the less important of the two, he made the important point that what mis-allocation there may have been might not have been prevented anyway, because investment plans depended on estimates of future demand which had turned out to be impossible to predict.<sup>28</sup> In this connection, he made the point that one should not assume that normal commercial behaviour will ensure that resources are allocated in the best possible way. Also, he insisted that one should not disregard the impact of social costs on the national welfare. In discussing these in the context of the losses recorded by the National Coal Board, and the government's protection of this industry, he made special reference to the loss to the national economy of the contribution that could be made by those rendered unemployed, and to the hardship to communities affected by the rapid contraction of an industry. When all the relevant costs were taken into account, he concluded that there had been 'remarkably little mis-allocation.'<sup>29</sup>

Pryke put this economic success down to several factors: One was the "new broom" of the management teams introduced.<sup>30</sup> Another was the way the unified ownership had made it

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<sup>26</sup> *Ibid.*, p. 473.

<sup>27</sup> *Ibid.*, p. 437.

<sup>28</sup> *Ibid.*, p. 439.

<sup>29</sup> *Ibid.*, p. 442.

<sup>30</sup> *Ibid.*, p. 446.

possible to realise economies of scale.<sup>31</sup> For those industries, such as coal, where a contraction was necessary, he pointed out the advantage that the unified enterprise could minimise social costs by a careful control of recruitment, making it possible for workers threatened with redundancy at uneconomic pits to be offered work in more profitable pits. Linked with these gains, he included the improvement in industrial relations following the introduction of collective bargaining on an industry-wide basis. He further claimed that the improved industrial relations had encouraged progress in the field of productivity bargaining.<sup>32</sup>

But as impressive as these gains were to Pryke, he did not regard them as the best arguments for the superiority of public ownership. Although it is doubtful whether the industries would ever have been unified without nationalisation, he accepted the theoretical possibility that unification and the introduction of new management could have come about without nationalisation. It is therefore only where he moved on to explore the beneficial effects of public ownership which, in his view, must be regarded as the direct consequences of nationalisation, that we find his main arguments for nationalisation. Here it is highly significant that, in the face of those who now claim that the main reason for public enterprise having failed is that it lacked adequate incentives for good performance, Pryke discusses a whole list of incentives which he regarded as the main contribution of public ownership to superior economic performance:

The first of these was what he believed to be the strong incentive to reduce costs. This he argued derived from the more stringent financial constraints existing under public ownership. These included the formal and informal controls on prices, which to all intents and purposes held them down, and the requirement that the public corporations, with the exception of BOAC and British Steel, be financed entirely by fixed interest stock that must be serviced annually, rather than share capital that need not pay dividends in bad years. As he explained:

It would be surprising if the strong incentive which the nationalised industries have to pay their way and meet their financial targets without raising their prices did not result in their searching more vigorously for ways to cut their expenses. Cost reduction is the only way of escape from the difficult position in which they find themselves. This may help to explain the success which most of the nationalised industries seem to have had in increasing their productivity, the emphasis which so many of them have placed on work study and productivity

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<sup>31</sup> *Ibid.*, p. 447.

<sup>32</sup> *Ibid.*, p.447.

bargaining, and the rapid rate at which most cost-reducing innovations have been adopted.<sup>33</sup>

The second main incentive was that resulting from the detailed scrutiny to which the nationalised industries had been subjected. As he pointed out, 'There can be no doubt that the nationalised industries have been inquired into far more thoroughly than any other part of the economy.'<sup>34</sup> He argued that with this scrutiny taking place at a number of levels, including that of sponsoring departments, the SCNI, the NPBI, ad hoc investigations, and the occasional Parliamentary debate, the industries had ample reports on their operations to help them promote greater efficiency. Furthermore, he claimed that the existence of all this scrutiny, combined with the general publicity which the nationalised industry tended to receive, meant that there was always pressure on recalcitrant Boards to make their industries more efficient.

The third main incentive had to do with the different purpose and motivation he claimed for public enterprise. Although he qualified this claim by admitting that no hard evidence had been produced, he argued that a *prima facie* case could be made to support a belief in the superior motivation of public enterprise managers. This he believed explained much of the contrast between the performance of public and private enterprise. In this connection, anticipating some of the arguments for a stakeholder theory of the firm, he argued that the broader aims of public service were far more likely to enrich the nation than the single-minded aim of maximising the profit of shareholders. He justified this belief on the ground that, because profit was merely one of the rules of the game and not the object of the exercise, public enterprise managers were free to take fully into account the interests of all the stakeholders in seeking to meet the needs of consumers at the lowest possible price, to be model employers, and to ensure the continuing modernisation and rationalisation of their industries by adequate investment in new machinery and working practices.

In addition to this important discussion of the various incentives likely to be operating under public ownership, Pryke's study is also important for his arguments against de-nationalisation.<sup>35</sup> Here the core of his case against those who, at the time, were advocating this solution to the problems experienced by some of the industries, was that they had not taken sufficient account of welfare considerations and the evidence for the great strides in efficiency

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<sup>33</sup> *Ibid.*, p. 450.

<sup>34</sup> *Ibid.*, p. 450.

<sup>35</sup> *Ibid.*, p. 466 ff.

made by the nationalised industries. And, furthermore, that there was no plausible belief that the private sector could do better. In this connection, it should be recalled that he wrote before "Thatcherism" and global competition had forced a new enterprise ethos on the private sector, which then did not present the "lean and hungry look" of today. The contrast between an inefficient private sector and an efficient public sector was then only too plausible, as we are reminded where Pryke writes, 'In theory the main aim and driving force of private enterprise is to make a profit, although in practice many firms seem content to jog along, hoping for a quiet life and pursuing a policy of live and let live.'<sup>36</sup>

In concluding this review of the main findings of Pryke's study, while the tone of his writing betrays, in places, an enthusiasm for public ownership that suggests that he was not an entirely dispassionate observer himself, this ought not to detract too much from the overall integrity of his favourable view of public enterprise. This was based on a record of rising profitability, at a time when profitability in the economy generally was declining, and on the evidence for a rapidly improving productive performance for nationalised industry, which has never been seriously challenged.<sup>37</sup> However, in retrospect, his dismissal of what the public policy approach of the Select Committee had to contribute to an evaluation of nationalisation betrays a serious misperception, because it was precisely the shortcomings of the administrative model which handicapped public enterprise more than he cared to allow, and which partly accounts for the difficulties which many of the industries fell into in the 1970s. The strength of Christopher Foster's study, to which we now turn, was that, with the Select Committee, it was sufficiently perceptive to see that, already, by the end of the 1960s, the lack of precision in the statutory relationship between Parliament, Ministers, and Boards, posed a serious threat to the future effectiveness of nationalised industry.

#### CHRISTOPHER FOSTER

Foster's 1971 essay on the control of public enterprise was written from the perspective of his experience in the Ministry of Transport. It gave a penetrating analysis of the reality behind what he called the various fictions making up the public perception of public enterprise. His objective was to help clarify the triangular relationship between Parliament, Ministers, and the

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<sup>36</sup> *Ibid.*, p. 459.

<sup>37</sup> See further Hannah, L. *op.cit.*, p.181, and his tables for labour productivity growth rates and total productivity growth rates for the period 1958-68 on p.177.

Boards of nationalised industries because he believed that the original statutes were not clear where the authority of the Minister ends and the independence of the Board begins, and that the muddled triangular relationship prevented effective strategic control of public enterprise.<sup>38</sup>

Foster's essay is also important for the way it gave another perspective on the question of whether ministerial intervention had grown excessive. In this connection he needs to be understood as writing in response to the Select Committee report on ministerial control, which sided with the Board Chairmen, by complaining of too much interference from Ministers. As a former civil servant, Foster's essay is a defence of Ministers against the criticism levelled at them by the SCNI, from one who had first hand experience of the complex task facing Ministers.

Foster was especially critical of the way the SCNI was attempting to uphold a distinction between policy making and the implementation of policy, and its assignment of responsibility for the former to Ministers and the latter to Boards. While possible in theory, he attacked this distinction between strategic and tactical command as being impossible in practice. The reason he gave was that for it to work, it would require a level of trust that had Ministers setting policy and then showing no further interest in whether the policy had been implemented. But, as he explained, the third actor in this drama, Parliament expected more of Ministers than this because it expected them to promote both the efficiency of the nationalised industries and the social policy which was to be enacted through them:

Thus the simple distinction between the Minister's job of laying down policy and the Board's job of implementing them, collapses. The question then becomes one of trying to settle how far a Minister may go to see that his own and Parliament's policies are being carried out efficiently.<sup>39</sup>

In addition to drawing attention to the complexity of the triangular relationship between Parliament, Ministers, and Boards, and the special complexity of the role of Ministers, Foster went on to defend Ministers against the charge that their policies had not been stated clearly enough. He accepted that the lack of clear objectives, and the confusion of commercial and social objectives, posed great difficulty for public enterprise. However, he made the point that there was a limit to how far it was possible to clarify policy, especially when this involved the use of abstract criteria, such as economic efficiency. As he made this point in his criticism of the Select Committee:

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<sup>38</sup> Foster, C. *Politics, Finance and the Role of Economics* (George Allen and Unwin: London, 1971), p. 11.

<sup>39</sup> *Ibid.*, p. 17.

They are almost eighteenth century in their belief in the power of reason and the possibility of persuasion. They are of the enlightenment too, in believing that there are certain economic (and other) policies which can be set out as criteria at a high level of abstraction without involving detail, and yet can be tight enough for the purpose of public accountability.<sup>40</sup>

But this, according to Foster, was not the whole of the problem; even if greater clarity was possible, there were many constraints, some of them statutory, on the ability of Ministers to lay down binding statements of policy. Foster even went so far as to argue that such was the independence of the Boards 'strictly there has been no nationalization and no public ownership if by them is meant ownership by the state. In a sense, nationalization or public ownership is a myth.'<sup>41</sup> In support of this claim he referred to Lord Denning's judgement that 'in the eyes of the law the corporation was its own master.' Consequently, according to Foster, even if Ministers could clearly lay down statements of policy, because, legally, it was up to the Boards to determine their duties, these statutes could only have persuasive force and, therefore, could be disregarded: the exception was in the limited cases where statutes allowed Ministers to make specific directions to Boards. The outcome of all this, according to Foster, was deeply ironic because what limited powers the Ministers had, for example, that of opposing investment, tended to do with the commercial aspects of the corporation; over social policy, where one might reasonably think they had more interest and expertise they had very few powers. Furthermore, as he pointed out, whereas, in theory, nationalisation had been expected to give the State greater powers to respond to social needs, in reality, the State had acquired very little power.<sup>42</sup>

Foster also sought to dismiss what he believed to be the myth of the sponsoring Minister's power over his industry's financial policy. In a detailed analysis of the 1961 and 1967 White Papers, which, it will be recalled, had attempted to bring greater precision into the statutory powers of Ministers over financial policies, he argued that the interpretation and application of the Discount Cash Flow and Marginal Cost Pricing principles is often a very complex matter and is open to considerable difference of interpretation.<sup>43</sup> Thus, while these White Papers appeared to have extended the financial powers of ministers by the inclusion of

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<sup>40</sup> *Ibid.*, p. 19.

<sup>41</sup> *Ibid.*, p. 27.

<sup>42</sup> *Ibid.*, p. 29.

<sup>43</sup> *Ibid.*, p. 44 -52.

these criteria, he argued that the reality was that the Boards could choose what interpretation suited their ends. Further, he explained that Ministers were very vulnerable to Boards when it came to deciding financial policy because the Treasury, at the time, although in a powerful position to exercise influence and to back Ministers up, had not taken a systematic interest in controlling the finances of the nationalised industries; it had not done so because the nationalised industries were, in general, not expected to be unprofitable and, therefore, were still expected to pay back their loans.<sup>44</sup>

From his experience of advising Ministers, Foster was also able to helpfully explain the personal constraints on Ministers exercising their veto on investment decisions. In this connection, he refers to his astonishment when first entering the Ministry of Transport to discover that no railway investment had been turned down despite the Railways having run a large deficit for many years and that there were widespread doubts about the financial viability of much of that investment.<sup>45</sup> He explained the pressure on Ministers, firstly, by the way Boards tended to claim that any new investment was crucial to their industry's commercial viability. This put sharply the conflict of interest faced by the Minister, because should he decide to refuse the request on the ground of his responsibility for the public interest, this placed him in the unenviable position of having provided an alibi for the Board, which could at some future date blame poor financial or economic performance on the Minister for refusing their request.<sup>46</sup> Secondly, any Minister wishing to exercise his financial powers against the wishes of the Board faced the problem of his, and his department's lack of expertise and experience of the industry. While the former tended to inhibit the Minister from trusting his advisor's use of the still relatively new appraisal techniques, the latter tended to pressure him into giving the experienced and publicly spirited businessmen running the nationalised industries the benefit of the doubt.<sup>47</sup> Thirdly, the Minister, in contrast with the position of a merchant banker appraising a private sector investment proposal, who knows that if the request is turned down it can always be put to another merchant bank, felt his responsibility keenly because he knew he held powers of

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<sup>44</sup> *Ibid.*, p. 55

<sup>45</sup> *Ibid.*, p. 57.

<sup>46</sup> *Ibid.*, p. 58.

<sup>47</sup> *Ibid.*, p.60.

decision over the only means of finance open to the industry.<sup>48</sup> In the light of these pressures, and the way the Chairman of the nationalised industries could apply pressure by publicly expressing their irritation with a Minister, when questioned too closely by him, to the ever sympathetic Select Committee, Foster writes of how he came to understand why it was not surprising that few demands for new investment were ever turned down.

Even the power of appointment, according to Foster, was less potent in reality than it appeared. Here his analysis struck at the heart of the Morrisonian, arms' length model of nationalised industry, because, as he correctly recalled, 'Herbert Morrison seems to have believed that the most important thing was to choose the right man and then let him get on with the job.'<sup>49</sup> Firstly, his inside experience suggested that the best men for the job were proving difficult to recruit from the private sector, which not only paid more but where the exercise of power was much more clear cut.<sup>50</sup> Secondly, even if it was possible to get the right man, his experience had led him to suspect that the Board culture and senior management culture of any particular industry tended to frustrate any individual Board member, even a Chairman, from striking out in an independent direction.<sup>51</sup> Thirdly, he had found that, once an appointment had been made, the resort to dismissal would be resisted if the same Minister was involved because it would amount to a mistake in recruitment. And, if another Minister was involved, which was the more likely, because there was no guarantee that a replacement would be any better, dismissal tended to be used only as a last resort, and so was really quite ineffectual.<sup>52</sup>

On the basis of this insightful and very plausible view of the actual working of nationalised industry, Foster then went on to conclude that the widespread complaints about too much ministerial intervention were the result of a combination of the inadequacy of their powers and the pressure on Ministers from Parliament, which wanted greater control of both the finances and social policy of the nationalised industries. These pressures, he argued, forced Ministers to appear to be more interfering than in reality they were. Even in the instances where Ministers had resorted to pressure rather than persuasion, Foster argued that the confusion of

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<sup>48</sup> *Ibid.*, p. 61.

<sup>49</sup> *Ibid.*, p. 68.

<sup>50</sup> *Ibid.*, p. 69.

<sup>51</sup> *Ibid.*, p. 74.

<sup>52</sup> *Ibid.*, p. 75.

powers and duties made it difficult to substantiate charges of illicit pressure or "arm-twisting," and that, in any case, these charges were likely to be exaggerations.<sup>53</sup> As he sought to explain:

What the Select Committee does not seem to have seen is that the growth of intervention has not been an exercise of power (except in the very limited sense of having the authority to get some, but not all, of the information one wants and the right to be listened to) but the alternative to the exercise of power.<sup>54</sup>

But as defensive of Ministers as he undeniably was, Foster did not entirely exonerate them of blame. He admitted that there were two areas in which they appeared to have intervened without the necessary powers and that these were a possible cause for worry, because if allowed to become general practice they would have serious implications for financial discipline and efficiency. The first of these related to the pressure used to get the Air Corporations to buy British aircraft against their commercial interests. In this case it appeared that the Minister, in addition to issuing a directive, had applied pressure through the mechanism of the annual investment review. To Foster, while he conceded that it might be argued that the Minister had stayed within his statutory powers, because the statutes 'did not specify that the purpose of a Minister's financial powers was exclusively financial,'<sup>55</sup> the use of financial powers for social ends, in this case, to subsidise the aviation industry, suggested at the very least confusion between their financial and social powers. Accordingly, he wanted their statutory powers to approve capital expenditure amended to exclude social considerations. He also complained about the way Ministers had used the Gentleman's Agreement to delay price increases and how, even more seriously, delays in approving capital expenditure had affected the financial performance of certain industries.<sup>56</sup>

The second case of improper intervention to which Foster drew attention was that over prices and wages. In this case, as we have earlier explained, although there were a number of avenues, such as the "Gentleman's Agreement", open to them to exercise influence, except under Prices and Incomes legislation introduced by the Wilson Government between 1967 and 1969, ministers had no statutory powers over prices and wages. But despite the lack of powers, Foster conceded that 'here intervention had almost been ceaseless.' When the intervention was to

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<sup>53</sup> *Ibid.*, p. 102.

<sup>54</sup> *Ibid.*, p. 98.

<sup>55</sup> *Ibid.*, p. 109.

<sup>56</sup> *Ibid.*, p. 110.

combat inflation, he accepted that the issue of whether intervention was justified was complex. However, he insisted that at the very least Governments should be aware of the cost to the nationalised industries, in terms of the erosion of their financial discipline, of being made the "loss leader" of any anti-inflation campaign.<sup>57</sup>

Despite these concessions to the case made out by the Select Committee of too much ministerial intervention, Foster's overall conclusion was that the nationalised industries enjoyed a far greater practical independence than either their Chairmen or the Select Committee made out. He urged that strategic control of Parliament over nationalised industry needed to be tightened up by extending the powers of Ministers where this was necessary to effect greater strategic control, and by clarifying the limits of their powers, particularly with regard to pricing and investment decisions, where there was confusion and, consequently, the appearance of too much ministerial intervention. But, while he saw the administrative model of public enterprise as being flawed, in his eyes it was still reformable. As he put this:

At present we have the wrong system, used wrongly and despite their great qualities, with, in the past, the wrong people operating the financial aspects of it. Yet an efficient system is neither in terms of its statutory description nor its operation, so far from the present situation that it could not be achieved by a small number of definite steps.<sup>58</sup>

## THE TURBULENT SEVENTIES

The arresting feature of the experience of the early seventies is just how rapidly the enthusiasm for public ownership and the critical optimism that its controls could be made to work better, reflected respectively in Pryke and Foster's studies, were lost. Looking back on the period, it seems as if almost overnight the relations of the nationalised industries with their customers, trade unions, and government became severely strained.

We shall begin with the relationship of the nationalised industries with the public, because this had already become a sufficient cause for concern to prompt an investigation by the Select Committee, and, in response to their subsequent report, the Government issued its White Paper of 1971.

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<sup>57</sup> *Ibid.*, p. 117.

<sup>58</sup> *Ibid.*, p. 227.

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The Select Committee found that, although all the industries they had examined recognised that 'Publicly owned bodies, not exposed to the full consequences of commercial failure, and possessing in some degree a monopoly position, must deliberately cultivate a proper responsiveness to their customer's needs',<sup>59</sup> the reality was that many were not sufficiently responsive to their customers. Further, it found that the consultative machinery that had been set up for each of the industries was not seen to be effective by the public. It also found that there was a general perception that the Government, in the person of the sponsoring department, which, in highly technical matters was in the best position to safeguard consumer interests, 'does not always appear to the consumer as his champion.'<sup>60</sup> The consequence of these perceived failures was that the nationalised industries were subjected to a 'seemingly continuous criticism from the public which is far more captious than anything to which the private sector is liable'.<sup>61</sup>

In the light of these and other more detailed findings, the Select Committee sought to empower the consultative councils as the 'consumer's watchdog' by declaring that 'they have an essential part to play in reconciling the public to the operations of the great industries it owns.'<sup>62</sup> Its report went on to make detailed recommendations as to how the councils could more effectively fulfill this role. For instance it recommended that their independence from the industries be promoted by the provision of council offices separate from the industries, funding from the sponsoring departments rather than the industries, the means to hire specialist advisers when the complexity of the issues at stake warranted them, and the exclusion of Council Chairmen from a seat on the board of the industry. More controversially, in the case of the Transport Users' Consultative Council, it proposed that it be given a role in deciding on charges, be involved in investment planning, and to be fully informed about and to be consulted on planned reduction of services.

In reply, the White Paper accepted the main themes of the Select Committee report. What it declined to accept were some of the more controversial recommendations, which appeared to want to make consumer councils equal partners with boards and sponsoring

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<sup>59</sup> *Nationalised Industry Relations with the Public* (HMSO, 1971), para.3.

<sup>60</sup> *Ibid.*, para. 93.

<sup>61</sup> *Ibid.*, para. 5.

<sup>62</sup> *Ibid.*, para. 94.

departments in the regulation of nationalised industry. The Government was opposed to such a development on the main ground that it would erode the 'principle of commercial freedom' of the nationalised industries.<sup>63</sup> This revealed the Government's view that the consumer councils merely had a consultative role; they were an important but junior player in the regulation of nationalised industry.

But while customers may have been justified in complaining about the service they received from the nationalised industries, they had to some extent been compensated by price restraint. However, price restraint, good for customers, was soon to wreck havoc with the financial disciplines of the public corporations. Heath's misfortune was to impose price restraint and an incomes policy at the same time as the nationalised industries were rocked by labour unrest and the disruption caused by the oil crisis of 1973. The impact of all these shocks was to send the finances of the nationalised industries into "free fall". Their financial targets had to be suspended in 1973, and by 1974-75 the Government was forced to make £1,725 million available to them in revenue support.<sup>64</sup>

In response to the financial crisis, the Select Committee recommended, as early as December 1973, that there should be a wide-ranging inquiry. This was eventually implemented by the Labour Government, which announced, in 1975, that the National Economic Development Office (NEDO), an independent national forum for economic consultation between government, management and unions, was to undertake an enquiry. The NEDO published its report in 1976. It deserves to be considered in some detail for the reason that, after subjecting the arms' length model to thorough scrutiny, it proposed an alternative model which its authors and others would doubtless still see as a valid alternative to privatisation.

#### THE NEDO REPORT

After a preamble, which emphasised the importance of the nationalised industries for the whole economy, the report's Chairman, Sir Ronald McIntosh, stated the main conclusion: 'the existing framework of relationships, developed under governments of both main political parties, is unsatisfactory and in need of radical change.'<sup>65</sup> As he went on to justify a complete overhaul

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<sup>63</sup> Cmnd. 5067, *Nationalised Industry and the Public* (HMSO, 1971), para. 13 ff.

<sup>64</sup> See further Pryke (1981), *op.cit.*, p.261.

<sup>65</sup> The National Economic Development Office, *A Study of UK Nationalised Industries* (HMSO, 1976), p. 7.

of public ownership:

We accept that with goodwill and intelligent human relationships, individuals can make almost any system work. But our studies have shown that the present system is ill-fitted to withstand the strains and pressures which arise when the going is difficult; and that in many respects it acts as positive deterrent to mutual understanding. We are convinced that a completely new approach is needed.<sup>66</sup>

The report found that there was considerable confusion about the role and aims of the corporations, and especially about the extent of their public service obligations. Further that this confusion was exacerbated by the changeableness of sponsoring departments, which, when faced with severe financial pressure, were wont to try and force their own interpretation of a corporation's statutes. The report also found that while boards understood and accepted the roles of the Treasury, in controlling levels of investment and loans, and the Department of Employment, in controlling levels of pay, the price restraint policies of the Department of Prices and Consumer Protection were much resented as being inconsistent with the policies pursued by the other government departments. It concluded that 'The resulting uncertainties are rarely resolved in rational discussion of priorities; they can deteriorate into mutual recrimination and loss of confidence and leave a decision making vacuum.'<sup>67</sup>

The report then went on to discuss the uncertainties at the strategic policy level. Here it found that, as is common with most private sector companies, the Boards see it as their responsibility to decide on their strategies. However, it found this to be unrealistic in the case of public enterprise, with its inescapable public responsibilities. These included the responsibility to take account of government sector planning, government intentions regarding any subsidies that it was paying, and government involvement in major technological decisions. The report also drew attention to the general lack of trade union involvement at the level of strategic policy making. Here it warned that the trade unions 'increasingly are in a position to delay or prevent implementation of strategies on which their views have not been adequately canvassed nor their prior agreement sought.'<sup>68</sup> In the light of these findings it encouraged joint strategic plans, involving government and trade unions, such as the 1974 Plan for coal, and emphasised that 'the issues of public policy involved are so large and politically sensitive that

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<sup>66</sup> Ibid., p.10.

<sup>67</sup> Ibid., p.24.

<sup>68</sup> Ibid., p.27.

it is not realistic to suppose that they would ever be left for long to management alone to determine, subject only to periodic checks on their financial performance.<sup>69</sup>

As far as the more short term and medium term corporate planning level was concerned, the report noted that, while in most of the corporation's statutes there was no specific statutory requirement to submit plans to sponsoring departments for scrutiny, the lack of joint consultation on the corporate plan was again a problem in many industries. It found that when these plans were eventually submitted, conflicts could arise because by then the corporations were effectively committed to them, whereas the sponsoring department expected to consider strategic options at this late stage. A linked problem was that where the original statutes did give government a role in the planning process, in the annual investment review, sponsoring departments tended to be denied sufficient information on which to base their decisions. The consequence was that, as Foster noted earlier, individual investment projects were seldom turned down. A further consequence was found to be that sponsoring departments tended to react to financial stringency by across the board cuts, and that, in anticipation of these, boards tended to add a measure of padding into their investment plans. Lastly, as a further frustration of the whole regulatory role of the sponsoring department, the report found that the 'information which would be required for effective monitoring of performance trends is not usually requested from or provided by the corporations.'<sup>70</sup>

On the attempt to ensure efficient allocation and use of resources by means of the widely acclaimed framework published in the 1961 and 1967 White Papers, the report found that the policies of price restraint had frustrated the use of these guidelines in most industries. It also found that the guidelines were 'inappropriate except in very specific circumstances'.<sup>71</sup> In this connection, with respect to the principle of long run marginal cost pricing it found that 'there are many factors that prevent implementation of such action in practice.'<sup>72</sup> On the use of the test discount rate of return principle, it found that much investment can not or can not easily be dis-aggregated, because it relates to a total system, such as a gas distribution grid. On social cost benefit analysis, the report found little evidence of it having been tried. On the use of financial

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<sup>69</sup> Ibid., p. 10.

<sup>70</sup> Ibid., p. 31.

<sup>71</sup> Ibid., p. 36.

<sup>72</sup> Ibid., p. 36.

targets, in the light of price restraint, it declared that 'they will be irrelevant if artificial constraints on economic pricing or other commercial functions are not fully and accurately compensated'.<sup>73</sup> It was equally dismissive of their value in stimulating management to further efficiency in a monopoly situation or where competition is constrained because the targets can be achieved either by price changes or changes in levels of service. Lastly, in connection with the lack of any consistent rationale for the different ways in which individual nationalised industries were financed from loan capital and reserves, and, in the case of British Steel and British Airways, public dividend capital, on which there was no requirement to pay a fixed annual interest charge, it noted that the 'incentive effect of financial targets is severely reduced'.<sup>74</sup>

In reporting on appointments, the NEDO found that, despite civil servants believing 'that the power of appointment is the most important single mechanism for effecting changes in corporations performance', there was widespread dissatisfaction with the appointments system and that there was 'little publicly available evidence that reappointment is linked to a chairman's or corporation's performance'.<sup>75</sup> It also found that there were serious problems of recruitment. In this connection, while the report cited inadequate pay, pension arrangements and related conditions as being partly to blame, the frustration of government interventions was held to be 'a major deterrent to successful managers in private industry seeking a public career'.<sup>76</sup>

On the thorny question of the scale of government intervention, the report steered a safe course. It reported the view of many industries that government was guilty of illicit intervention on an excessive scale. It supported the plausibility of this view by noting how the pressures on government from major interest groups, particularly consumers and trade unions, had increased over the past decade at the same time as the role of the nationalised industries in a low growth economy had become even more strategic. And it did not evade fully stating the depth of the resentment:

From the boards' viewpoint the trend towards more frequent and ad hoc interventions has delayed decisions, disrupted previously agreed plans, invalidated criteria for planning and assessing performance, resulted in financial

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<sup>73</sup> *Ibid.*, p. 33.

<sup>74</sup> *Ibid.*, p. 33.

<sup>75</sup> *Ibid.*, p. 35.

<sup>76</sup> *Ibid.*, p. 34

deficits, and damaged the corporate morale of management and other employees. The level of decision making tends to be raised with resultant increased burden on senior management. The lack of prior consultation, the inconsistency with agreed procedures and guidelines and the apparent unwillingness of governments openly to carry the responsibility for their interventions give rise to particular resentment at board level.<sup>77</sup>

However, the NEDO also reported the opposing, "Foster", view that denied an excessive level of government intervention. In support of this view it cited how many civil servants believed that 'boards and management tend to 'play up' the consequences of interventions in order to obscure managerial shortcomings.' But, while insisting that it was 'undeniable that relationships between the nationalised industries and government have deteriorated', it maintained impartiality by concluding that the 'present structure of systems of accountability obscure the validity of these different points of view'.<sup>78</sup>

The report then went on to consider the consequences of specific interventions, beginning with prices. Here it drew attention to the way that, while not all nationalised industries were affected to the same extent, price restraint had been particularly damaging not only because of the effect on financial viability - the expectation that the corporations would pay their way taking one year and the next - but also because of its economic consequences - the inefficient use of resources resulting from the distortion of levels of demand and investment. On pay restraint, the report singled out the confusion introduced into collective bargaining by government entering into separate negotiations with trade unions; boards claimed that the consequence was that eventual settlements were higher than necessary. On the tendency for government to impose across the board cuts on investment, boards complained of major disruption for themselves and for their equipment suppliers, while civil servants sought a justification in the widely held suspicion mentioned earlier that the corporations pad their investment plans. Of other interventions reported, of special interest in the light of the post-privatisation behaviour of some of the industries, was the complaints about the way government had prevented diversification.

On the subject of the accountability of both Boards and Ministers to Parliament, the NEDO drew attention to the practical consequences of the considerable ambiguity in these relationships. In the case of the Boards, after analysing the formal position which required the

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<sup>77</sup> Ibid., pp. 35-36.

<sup>78</sup> Ibid., p. 36

Boards to submit annual reports and accounts to Ministers, and to cooperate with investigations initiated by the Select Committee, it reported that confusions concerning 'to whom they are responsible, for what functions and dimensions of performance, and over what time scale' had led to a situation in which they were 'not effectively required to account for their performance in a systematic or objective manner - whether it be to Parliament, to Ministers, to other legitimate interest groups or to the wider public.'<sup>79</sup> In this connection, it noted that, despite its continuous efforts, the Select Committee had 'not been able to reassure itself, the general public or individual interest groups about the performance of the nationalised industries.'<sup>80</sup> The report also drew attention to the way the ill-defined responsibilities and powers of ministers, in particular those to do with the power of issuing directives, meant that they tended to rely on persuasion and other informal means rather than use a general or specific directive. As a consequence, they were also not being held accountable to Parliament for their interventions.

The NEDO also pointed out some significant differences between the public ownership in the UK and that in France, West Germany and Sweden. It noted that there was no external audit institution for the nationalised industries in the UK. In contrast with their concerted approach, it described the British arms' length model as embodying a conflictual rather than cooperative relationship between the industries and government. In this connection the report drew attention to the way the short-term commitments of Ministers and senior civil servants to particular industries and the private sector attitudes of managers heightened the conflictual relationship involved.

Significantly, the report contradicted Pryke's defence of the adequacy of the incentives operating under public ownership. It described the system of controls as a 'minimising environment', characterised by a lack of any effective incentives for improved performance. As it put this in a passage that sums up the overall thrust of the report:

The evidence we have accumulated points overwhelmingly to the need to base the nationalised industries' relationship with government on three basic concepts - trust, continuity, and accountability. The present structure of relationships has manifestly failed to provide these. The lack of any assurance that when objectives and strategies have been agreed they will remain unchanged for long

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<sup>79</sup> *Ibid.*, pp. 38-39.

<sup>80</sup> *Ibid.*, p. 39.

discourages any sense of commitment. Confusion over the respective roles of Ministers, civil servants and management means that no one can be properly held accountable for performance; those who do well cannot prove it objectively and those who want alibis for their mistakes can find them without difficulty. This has led to widespread resentment, cynicism and loss of morale among the people most involved.<sup>81</sup>

However, despite its rejection of the Morrisonian model, the NEDO did not want to replace the arms' length approach with a fully concerted approach, which would directly involve all the interest groups in decision making. It rejected this alternative on several grounds: decisions would be less effective and more subject to delay; management motivation and morale would be weakened; the scope for outside intervention in management would be increased; procedures would become more bureaucratic; and accountability would be more obscured. Instead, it proposed a balanced approach which sought to draw on the strengths of both the arms' length and concerted approaches while avoiding their weaknesses by making a clear distinction between strategic decision making, which would be done in concert, and other management functions, which would be the responsibility of management. The proposed alternative was therefore a more collectivist and corporatist model than the one it sought to replace, but still one which stopped short of giving government executive powers.

At its head there was to be a Policy Council, responsible for strategic planning. This was intended to be essentially a "half-way house" between the sponsoring department and the corporation board. Under this arrangement, the board would be expected to contribute to the formulation of policy, but once this was agreed, the board would be expected to implement the policy within the framework of the agreed goals and performance criteria. Similarly, ministers were expected to be involved in the formulation of policy, and to abide by agreements reached. Where it was not possible to reach agreement, the NEDO accepted that government ministers should be given new powers of specific direction, which would enable them, after failing to persuade their fellow council members and only in extreme circumstances, to override Policy Council decisions. The directives were to be published at the time they were issued, and Ministers would be accountable for the use of these powers.

Drawing on the French, West German and Swedish practice, the Policy Council was to include civil servants and representatives of employees. Consumer representatives were

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<sup>81</sup> *Ibid.*, p. 10.

excluded, although it was proposed that the Council 'should be required to take full account of the interests of consumers'.<sup>82</sup> In addition to its responsibility for setting policy, it would take over the responsibility of board appointments and the remuneration of board members from the sponsoring departments. It was also to have the functions of establishing performance criteria, and of monitoring performance. In connection with these performance criteria, in place of the economic and financial framework set out in the 1961 and 1967 White Papers, the NEDO proposed an approach which would take account of the individual circumstances of the industries. Accordingly, subject to certain broad principles, such as those in previous White Papers which sought to ensure the most efficient allocation of resources in pricing and investment decisions, it left it up to Policy Councils, to 'agree and publish the targets appropriate for its particular industry.'<sup>83</sup> Significantly, it also accepted that they should pursue a blend of objectives: 'social, service, efficiency and financial' on the understanding that 'the concept that, if only its 'social requirement' can be isolated, a nationalised industry can be left to operate on a wholly commercial basis, is much too simplistic.'<sup>84</sup>

#### NATIONALISED INDUSTRY RESPONSES TO THE NEDO

Before issuing its White Paper in response to the NEDO report the Government, respecting the "hands on" experience of the managers running the industries, asked the corporation chairmen to respond to the report. The Select Committee published their comments in the 1976-77 session. While they divided on the NEDO analysis, they were largely united in opposition to its main recommendations, particularly that of a Policy Council.

British Gas, for example, questioned the report's claim that there had been a long-term deterioration in the relationships of Government and the nationalised industries. On the contrary they claimed, as surprisingly did many of the other corporations, that relations with the sponsoring department had always been good. Consequently it saw no need to change the arms' length model. In the Corporation's words:

Although, as the Study points out the philosophy of Government towards the nationalised industries has developed since the original statutes of 1946-49, and although the industries are being increasingly used as a means of implementing

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<sup>82</sup> Ibid., p. 48.

<sup>83</sup> Ibid., p. 49.

<sup>84</sup> Ibid., appendix p. 113.

economic policy, the Corporation does not believe that the "arms-length" approach has been discredited: the gas industry's generally good relationship with Government has developed because much of the time this method has been allowed to work.<sup>85</sup>

British Gas also rejected the view that their monitoring of performance and investment review procedures were inadequate, blaming any difficulties experienced entirely on fluctuating Government economic policy, particularly on prices. In this connection they complained bitterly that 'in little more than two years we have seen a change in Government requirements from a severe restraint on prices to the bringing forward of a price increase to reduce the Corporation's long-term indebtedness and thus increase their net contribution to the Public Sector Borrowing Requirement'.<sup>86</sup> They could not however see how the NEDO proposals would eliminate future interference of this kind, because, as they put it 'The difficulties that arise are not in the process of discussion and agreement of strategic plans and investment programmes, but in absorbing the subsequent changes dictated by Government economic policy.'<sup>87</sup> Further on, in response to the reports finding that the economic and financial guidelines set out in the 1967 White Paper were not an effective basis for the Government's control of the nationalised industries, they responded: 'The Corporation do not accept this view, but believe that the failure of the White Paper to achieve all that had been hoped for it is due more to the superimposition of price controls and to other Government interventions than to the shortcomings of the White Paper itself.'<sup>88</sup>

On the specific proposal of a Policy Council, the Corporation was emphatically opposed. The main reason given was that the Council would 'slow the decision making process on matters of strategic importance.'<sup>89</sup> It is also possible that British Gas was opposed on the ground that the Policy Council presented something of a "Trojan horse" for those who wanted to impose greater industrial democracy on nationalised industry. In this connection it may be significant that the Corporation devoted a considerable part of their response to describing the extent to which the board of British Gas already comprised members who had been promoted from the

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<sup>85</sup> Second Special Report from the Select Committee on Nationalised Industries, Session 1976 - 77, *Comments by Nationalised Industries On the National Economic Development Office Report* (HMSO, 1977), p.xi, para.6.

<sup>86</sup> *Ibid.*, p.xi., para. 3.

<sup>87</sup> *Ibid.*, p.xi., para. 7.

<sup>88</sup> *Ibid.*, p.xiii., para. 15.

<sup>89</sup> *Ibid.*, p.xii., para. 10.

ranks of former workers and consequently, in their view, were "worker directors", and the extent to which the Corporation was making progress at all levels in developing employee participation.

British Gas did not express an opinion on the proposal that ministers should be given additional powers of issuing specific directives. But other corporations produced a range of responses to this recommendation. British Steel, for example, accepted the recommendation 'on the basis that the power would be exercised only in extreme circumstances ( as the Report proposes ) and should be the subject of announcement in Parliament, and a debate if Parliament desires.'<sup>90</sup> British Airways, on the other hand, was opposed on the ground that 'Such powers would certainly introduce the possibility of Government intervention in the day-to-day management of the business and it is difficult to see how the concept of Board or management integrity could survive such a development.'<sup>91</sup>

If a general conclusion must be risked which sums up the nationalised industries' very varied and detailed responses to the NEDO report, it would have to be that they were united in their opposition to the general direction of change which they feared amounted to a dilution of the arms' length relationship. They were not however hostile to some regularisation of the relationships between the Government and the nationalised industries. All would have welcomed the bipartisan approach proposed by British Gas, which called for a more 'stable environment' in which the industries 'can pursue agreed objectives including the achievement of realistic financial targets'. This, rather than any radical overhaul of the model chosen for public ownership, about sums up what they believed to be the root of the problem facing nationalised industry. As British Gas put this:

Ideally, the long-term plans for the industries should be the subject of a reasonable degree of party consensus - a bipartisan approach - while leaving day-to-day political responsibility with current Ministers. It is in this area that the Corporation believe the real lesson is to be learnt from a study of Government/nationalised industry relationships in other European countries, and particularly in Austria, rather than in the field of distinguishing between the "arms length" and "concerted" approaches to control.<sup>92</sup>

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<sup>90</sup> Ibid., p.xix., para. 2.

<sup>91</sup> Ibid., p.x.

<sup>92</sup> Ibid., p.xiv.

## THE STEEL DEBATES

It was at this stage in the whole process of reviewing what was to be done about the problems of the nationalised industries that the crisis in the Steel industry intervened to shatter any realistic hope of a bipartisan approach. The immediate cause of the crisis was a world-wide collapse in demand for steel. The resulting over-supply forced British Steel to request additional external finance, which had to be approved by Parliament. This must have been acutely embarrassing for Labour, because not only had they re-nationalised the industry as recently as 1967, but the crisis also came hard on the heels of an election in which they had campaigned against the closures proposed in the Conservative Government's White Paper of 1973. In power Labour had then accepted the Beswick Agreement with the trade unions, which committed the Government to a much more gradual restructuring of the industry.

Given this political history, the parliamentary debates were bound to provoke fierce exchanges. As happened in that much earlier debate of 1948, they were to waken the slumbering ideological opposition to public ownership in the Tory party. They are also an important part of the story of privatisation because they provided the opportunity for some of the leading politicians to air their views on public ownership. Furthermore, they reveal something of the complexity of the task of regulating nationalised industry and of the limits of public ownership. Here it will be recalled that British Steel, being a complex manufacturing industry forced to compete in international markets, had always been recognised, by politicians of both main parties, to have been a nationalisation too far.

The then Secretary of State for Industry, Eric Varley, introduced the 1976 debate by attacking the Achilles heel of British capitalism, its lack of investment in British manufacturing. He argued that part of the blame for British Steel's difficulties must be placed on a lack of investment by the private sector after the industry had been denationalised in 1952. As he charged: 'many opportunities were missed in the 1950s and 1960s, when our main competitors were re-equipping themselves with modern plant and equipment while the private owners of the United Kingdom industry preferred to go on taking profits from existing and ageing plant. We are still suffering from the legacy of that chronic under-investment.'<sup>93</sup> His further justification for seeking to raise the amount of external finance needed by the industry was based on a commitment to the full-employment policy, which had dominated macro-economic policy since

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<sup>93</sup> Iron and Steel Amendment Bill, *Hansard*, Vol. 910. No. 92.

the war, and on the avoidance of the social costs to local communities of running down the industry, along the lines proposed by the former Conservative Government.

Michael Heseltine, leading for the Opposition, countered the first of these charges by quoting the levels of investment in the early 1960s. These he claimed, in real terms, were more than double those in the late 1960s after Steel had been renationalised. He also argued that, in contrast with international competitors who had concerned themselves with the 'real questions of industrial efficiency and strategy', the British steel industry had laboured under the threat of nationalisation.<sup>94</sup> He then went on to accuse Labour of worsening the plight of the industry by pursuing the Party's narrow interest at the expense of the national interest by having made an electoral issue out of the Heath's White Paper. Going further, he blamed the ills, not only of the steel industry, but also of the whole of British industry, on Labour's politicising of industry. As he put this, 'We need to look no further than the record of political treatment of the steel industry over the last 25 years to understand why Great Britain's industrial capacity has been so tragically debilitated.'<sup>95</sup>

This exchange set out the parameters of the debate. It also reveals something of the difficulty of untangling cause and effect, and therefore of the inconclusiveness of the debate. Before apportioning blame on either side, one should also bear in mind the recent bruising the Conservative Party had experienced at the hands of the unions. This had made everyone aware of the constraints on political action, for the dilemma faced by both parties was that they needed to introduce more internationally competitive manning levels but could not afford to risk another confrontation with the unions. In this political and economic context, it appeared that Parliament had little choice but to follow what virtually every other major European steel producing country was doing at the time, which was to bail out its steel industry.

But even the state's coffers can run dry. This alarming prospect was posed by the deepening crisis in the steel industry, which, by 1978, was to see the corporation lose one sixth of its total capital in one year and a call for its Chairman, Sir Charles Villiers, to be sent to the Tower, on account of his alleged failure to act on industry forecasts of much higher losses than he had publicly acknowledged or had communicated to ministers. This crisis, which could not be allowed to continue indefinitely, was the occasion for a much fiercer debate, involving a

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<sup>94</sup> *Ibid.*, p. 42.

<sup>95</sup> *Ibid.*, p. 43.

number of the political "heavy weights" of both parties. The debate was called for by the Select Committee, which played a central role informing Parliament about the extent of the crisis through a series of reports, in face of opposition by both the Chairman of British Steel and Government ministers.

When the debate eventually took place, it was introduced by Sir Keith Joseph, for the reason that the Opposition made one day available, doubtless seeing an opportunity in the Select Committee's recommendation of a debate which the Government was unwilling to make time for. It was clear from the note he sounded early in his speech, that he intended to play the role in this debate which Oliver Lyttelton had played in the steel debate of 1948. As he declared, in what was only slightly more than a half-truth: 'As the House knows, Conservatives are not in favour of nationalisation, especially of an industry producing internationally traded goods such as steel.'<sup>96</sup> He then went on to make three main points: Firstly, on the evidence that the House had been misled by ministers on the extent of the crisis, he affirmed the role of the Select Committee and the powers given them by insisting that, because Parliament is the 'banker' of nationalised industry and 'represent the owners', Parliament was entitled to be informed 'both directly and through the Select Committee'. Secondly, he argued that to have a competitive industry was a higher national priority than to save jobs. He later elaborated on this point by explaining that 'the loss paid by the taxpayer may save jobs in steel but only at the cost of jobs elsewhere, because subsidies from the taxpayer simply shift unemployment generally from the less to the more efficient enterprises in the economy. There is no costless way out.'<sup>97</sup> Thirdly, with particular reference to the alleged failures of the Department of Industry to press for information and to take urgent action to limit the crisis, he made the point against public ownership in general that 'When nobody owns or when everybody owns, nobody at least in the Department, seems to care.'<sup>98</sup>

The reply of the Secretary of State is chiefly of interest for what it reveals about the regulatory role of Ministers and Boards and the difficult decisions they faced. In response to the Select Committee's allegations about a lack of ministerial responsibility involving the projected loss of £466 million, Varley explained that this forecast was a leaked internal BSC working

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<sup>96</sup> British Steel Corporation', *Hansard*, Thursday 9<sup>th</sup>. March 1978, p.1625.

<sup>97</sup> *Ibid.*, p. 1630.

<sup>98</sup> *Ibid.*, p. 1633.

document, which, because it was at the time only a working document had properly not been communicated to the Department of Industry. He also exonerated the Corporation Chairman for not having communicated the earlier, slightly lower forecast of a £443 million loss on the ground that this was also merely a working document. In further support of the Chairman, he quoted from the statement of a senior partner of Coopers and Lybrand, an international firm of Chartered Accountants, which declared that 'an adequate disclosure of the deteriorating condition of the Corporation was given.'<sup>99</sup>

Varley also denied that no urgent remedial action had been taken in response to the crisis. On the basis of evidence, such as the deferral of the Port Talbot development, he insisted that British Steel had undertaken 'a considerable and continual process of retrenchment to meet the trading position.'<sup>100</sup> For those who thought a more radical programme of retrenchment was called for, and who may have forgotten the recent humbling of the Heath administration by the unions, he drew attention to the sensitive relationship British Steel had with the unions. In this connection he pointed out the danger of asking the unions to accept the abandonment of the Beswick Agreement on the basis of a forecasted annual loss, only one month into the financial year, and claimed that the unions would not believe the forecast and therefore would not cooperate. In support of this claim he referred to the 1975 steel crisis, when BSC had warned of a prospective loss of £375 million but only incurred an actual loss of £255 million, which led to the accusation from correspondents that 'that was the year you tried to frighten the unions with an over-heavy loss.'<sup>101</sup> He also spelt out the cost of the massive industrial action that might have followed. He gave, as the cost to the industry, the figure of £150 million a month. The cost to the balance of payments he put at £50 million a week. In addition he pointed out that industrial action would set-back the Corporation's effort to regain market share. Lastly, he defended the Government's overall commitment to the rescue of British Steel by referring to the similar action being taken by other European governments in the face of the world-wide collapse in the market for steel.

Varley's speech received unexpected support from the next speaker, the former Conservative Prime Minister, Edward Heath, who represented the middle, post-war social

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<sup>99</sup> *Ibid.*, p. 1641.

<sup>100</sup> *Ibid.*, p. 1646.

<sup>101</sup> *Ibid.*, p. 1646.

consensus on public ownership in the debate. Although he undeniably took the opportunity of his speech to make a defence of the economic policies he had followed when in power, he rose above scoring mere personal political points against his opponents, both in the Opposition and amongst his own party, to give a magisterial treatment of the subject of nationalised industry. This began with a survey of the decline of British industrial power since the war, when out of an increase in the total world output of steel of 250m tonnes, Britain had succeeded in contributing only 4m tonnes of the increase. He declared that this decline alarmed him terribly. In these circumstances, he argued, again directly contradicting Keith Joseph, there had been no alternative to the state rescue of "lame ducks"; the alternative would have been to let many essential industries, such as coalmining, shipbuilding, carmaking, and toolmaking, and steel "go to the wall", with disastrous consequences for the balance of trade and for jobs. He went on to question the theory that other industries would arise to replace the lost jobs. Here he referred to the experience with agriculture, where the loss of 500 000 jobs over the last 15 years had not been made up anywhere else in the economy. He also referred to his experience with regional policy, which had shown him the huge obstacles in the way of creating new employment. In the light of this industrial experience he was emphatic that, while he was absolutely opposed to any extension of public ownership for its own sake, 'because it had completely failed to answer any of our problems',<sup>102</sup> the debate should not be about ownership, whether it should be private or public, but rather about how to help Britain's ailing publicly owned industries work better by focussing on the main problems facing the industries of a long-term lack of investment, overmanning, effective management, and a system of monitoring performance.

For reasons of space it is not possible to report the other speeches. But sufficient of the debate has been reported to reflect the different perspectives on public ownership of major politicians from both sides of the House. In the course of describing the various responses to the crisis facing British Steel, we have also disclosed something of the ongoing struggle to gain effective control over nationalised industry. Given that similar crises could be repeated in other industries, the Government accepted the urgency of again reviewing the controls over nationalised industry and of responding to the NEDO proposals.

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<sup>102</sup> *Ibid.*, p. 1657.

1978 WHITE PAPER (Cmnd.7131)

The Government issued its response in the 1978 White Paper with the simple title, *The Nationalised Industries*. It is an important document for our purposes because not only is it the last official response to nearly three decades of public ownership but it also sets out a regulatory framework that is comparable with the regulatory frameworks created for the privatised utilities. Indeed, in the light of the 1978 White Paper, if governments continue to levy windfall taxes on the privatised utilities, there is a case for arguing that they are nationalised industries in all but name.

The White Paper began by placing the blame for the deterioration in the relationship between the Boards and their sponsoring departments, the suspension of the economic and financial framework set out in the 1967 White Paper, and the collapse in the morale of management and the workforce squarely on Heath's price restraint policies. In response to this analysis, it declared the Government's intention that in future 'When help was to be given to the poorer members of the community it will be given primarily through the social security and taxation systems and not by subsidising nationalised industry prices.'<sup>103</sup> Furthermore, it declared that 'An adequate level of nationalised industry profits is essential to the continuing well being of the industries and their customers and of the economy as a whole.'<sup>104</sup>

It went on to reject the NEDO proposal of a policy council, where strategic decisions could be made in concert, on the main ground that it would slow down decisions by adding another layer of administration. It also pointed out that as the policy council's role and responsibilities could not be exactly defined, it would not overcome the problem of accountability. Linked with this objection was that the Government was unwilling to delegate powers to a policy council which it felt it should retain for itself, given that government would ultimately be held accountable.

As an alternative to wider representation in strategic decision making in a policy council, the White Paper encouraged greater industrial democracy at Board level and throughout the organisation. In this connection, it made specific mention of the Post Office experiment with a new board comprising, in addition to the Chairman, seven management and seven union Members, and five independent Members. It also gave notice of the Government's intention to

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<sup>103</sup> Cmnd. 7131, *The Nationalised Industries* (HMSO, 1978), para. 54.

<sup>104</sup> *Ibid.*, para. 55.

publish a further White Paper on industrial democracy. On the inclusion of civil servants, referring to the precedent set by the Boards of the British National Oil Corporation and of the Atomic Energy Authority, it stated that, after consultation with Chairmen, in some industries civil servants from the sponsoring department, and in a few cases from the Treasury too, would be appointed to Boards. In the case of consumers, while it saw a role for some consumer representation on boards, it declined to empower consumer councils in the belief that existing procedures were adequate.

On the question of how best to monitor performance, the White Paper proposed that the corporate plan should have a central place in the relationship between the nationalised industry and their sponsoring departments. It wanted the broad objectives of this plan to be published in the annual reports, together with the main points of any major review, to better inform the public and the SCNI. And as part of its commitment to allowing the corporate plan to play this key role, the Government undertook to regularise any intervention over investment decisions through its control of external sources of funding. Furthermore, in future, when the Government found it necessary to involve the nationalised industries in an overall programme of cutting public expenditure, as an alternative to across the board cuts, the White Paper allowed the nationalised industries the flexibility to implement cost savings or vary their price, subject to any counter-inflation policy, instead of cutting their investment programmes.

In addition to the corporate plan and a statement on how the industry was performing according to plan, the White Paper called for the publication of a variety of performance indicators. In this connection, while it upheld the validity of the general system of accountability set out in the economic and financial framework of the 1967 White Paper, which it wanted to 'reintroduce and reinforce',<sup>105</sup> in keeping with the NEDO call for the framework to take account of the individual circumstances of the industries, it made some important modifications:

On investment appraisal, while insisting on a 5% required rate of return on new investment as a whole, it left the test discount rate of return for individual projects to be determined by the nationalised industries themselves. Therefore, while the required rate of return on investment was roughly in line with the rate of return on loans in the private sector, the industries were left with considerable discretion in evaluating investment projects.

On pricing, it accepted the 'serious difficulty of interpreting' the practical application of

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<sup>105</sup> Ibid., para. 57.

long run marginal cost pricing in particular cases. However, it agreed with the NEDO that the practice of setting prices to cover total costs was not sufficient and insisted that charges for peak and off-peak usage be properly related to demand. It also required that arbitrary cross-subsidisation between consumers be avoided. Apart from these considerations and a reference to the Price Commission's continuing responsibility to investigate whether proposed price increases could be substituted by cost savings, it left each industry to work out the details of its own prices in relation to its individual circumstances.

On financial targets, the White Paper allowed that they should be based on a wide range of factors, including market prospects, the scope for improved productivity and efficiency, and the implications for the PSBR. And, responding to the NEDO criticism of financial targets that they are not necessarily a sufficient inducement to greater management efficiency, since they can be achieved without greater productivity by manipulating price or service levels, it required them to be supplemented by other performance indicators. In this connection, in addition to valid international comparisons, the White Paper cited labour productivity and standards of service as being desirable indicators of performance. But recognising the diversity of the industries, it left the choice of indicator to each of the boards to determine for themselves in consultation with their sponsoring department.

On methods of financing the industries, it rejected the NEDO call for proportionately less loan finance and upheld the distinction between industries which were eligible for risk capital, because they operate in internationally competitive markets, and those which do not, in which case it regarded capital structure as irrelevant and the obligation to pay interest on loans as a necessary financial discipline. The only concessions it made involved the possibility of a review of the terms on which an industry could borrow, which allowed for the conversion of part of the long term borrowing to medium term loans, and the capitalisation of interest in certain rare cases, such as when a major expansion would not yield revenue over a long construction period.

On cash limits, while accepting that the limit was not immutable, for the reason that the borrowing requirement of an industry would vary according to its trading conditions, which might be affected by factors outside the control of management, the White Paper emphasised the role of the cash limit as a proper discipline on the industries financial management. In this emphasis it was merely stating the reality of the Government's elevation of cash limits, originally intended merely as a Treasury instrument for the control of the industries' short-term indebtedness, as an instrument for the medium and long-term control of the Public Sector

Borrowing Requirement (PSBR). With the increasingly monetarist slant of economic policy, financial controls and, in particular, cash limits had therefore already supplanted the economic controls set out in the 1967 White Paper, such as marginal cost pricing.

Having, to its mind, strengthened ministerial control by these changes, the White Paper accepted that Ministers needed to be made more accountable for their interventions. Here it accepted the NEDO proposal that the Government be given additional powers of issuing general and specific directions, which, in the public interest, could overrule the decisions of a Board. But it committed the Government to using these powers sparingly and to compensating the Corporation for any cost involved.

#### RESPONSES TO THE 1978 WHITE PAPER

The immediate reaction to the new White Paper was mixed. The Select Committee appeared to take the view that the general thrust of the White Paper was to shift the relationship between Government and the nationalised industries in a more collectivist and corporatist direction, even though there were modifications to the relationship, such as over pricing, which lent the other way. Taking into account the major changes in the White Paper, such as the additional powers of issuing specific directives, and the Government's specific mention of the Post Office as a model of industrial democracy, it was not unreasonable to take this view. In response, the Committee felt the need to publicly reiterate their continuing support for the Morrisonian arms' length model. As reported by Anthony Cockerill, one of the specialist advisers on the SCNI:

During its final set of inquiries, therefore, the SCNI reiterated the view it had held throughout its existence that the proper relationship between government and the nationalised industries was an arms' length one, in which policy was jointly agreed, but implemented by the corporations. The committee acknowledges that, to be realistic, this principle would have to be modified from time to time in the face of wider economic considerations and force of circumstances. It was, nonetheless, a desirable and feasible rule to follow. In taking this view, the Committee was running against the tide of comment and policy at this time. As discussed below, the NEDO report had concluded that an arms' length relationship was not appropriate in current circumstances, and in any event had never worked well, and this was the view taken by the

government.<sup>106</sup>

The responses of the nationalised industries, tabled as an appendix to the the Select Committee's sixth special report of 1978, reflect, in the main, a similar unease with the White Paper's dilution of the arms' length relationship.<sup>107</sup> In the light of these responses and its own strong misgivings about the general thrust of the White Paper, the Select Committee believed the situation warranted another parliamentary debate. Time, however, had run out for the nationalised industries. With the downfall of the Labour Government after the "winter of discontent" of 1979, in which the public sector unions played a key role, the nationalised industries were fast losing even some of their most loyal supporters.

#### RICHARD PRYKE (1981)

One of those formerly loyal supporters was Richard Pryke. His second major study of the nationalised industries, published in 1981, is a good measure of the general disenchantment with public ownership on the eve of privatisation. After another investigation of each of the nationalised industries' economic performance, his conclusion was that public ownership had contributed to their poor performance during the 1970s. In support of this conclusion, he gave two reasons which he claimed had been ignored up till then.<sup>108</sup>

Firstly, he argued that the size and public character of nationalised industry invariably leads to the centralisation and politicisation of all decisions, even those of a local nature. He illustrated this point by drawing a comparison between the closure of corner shops and the attempted closure of unprofitable coal mines and train services; had retailing been nationalised, he argued, then even the closure of corner shops would have elicited public protest, activated pressure groups, and required a government policy; but because they were privately owned, hundreds were closing all the time without any fuss.

Secondly, he argued that public ownership raises unrealistic expectations, based on the misunderstanding that the industries need not operate as commercial undertakings because they are backed by the limitless funds of Government; the result was that customers demanded 'fair'

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<sup>106</sup> Cockerill, A. op.cit.

<sup>107</sup> See further Sixth Special Report from the Select Committee on Nationalised Industries, *Comments by Nationalised Industries and Others on the Government White Paper on the Nationalised Industries* (HMSO, 1978).

<sup>108</sup> Richard Pryke (1981), op.cit., pp.265-266,

prices and the maintenance of unprofitable services, and workers demanded 'fair' wages, irrespective of whether they have been earned, and also believed that they have a right to a job.

On account of these fundamental problems, and the way the industries had been treated as instruments of economic and social policy rather than as commercial undertakings, Pryke concluded his study with an appeal for more competition as the way forward. In the case of the natural monopolies, he assumed that while they would remain under public ownership, their organisations could be decentralised. Significantly, these conclusions were in broad agreement with those of the then young Conservative, John Redwood, who, in 1980, had published a study which listed those industries which he thought should be denationalised and those, such as the natural monopolies, which should be retained under public ownership but be left to be self-financing, subject to investigations by the Monopolies and Mergers Commission.<sup>109</sup>

But as radical as these solutions may have appeared at the time, with the hardening of the ideological opposition to public ownership in the Conservative Party and the increasingly monetarist slant of economic policy, the stage was set for an even more radical response to the nationalised industries.

## **THE LESSONS OF EXPERIENCE**

Before we proceed to this final part of the story of nationalisation, we shall pause and reflect on the history we have reported. As we warned at the beginning, any exploration of experience is bound to be messy. It is also bound to be complicated because reality is always complex. It is therefore understandable at this stage to want to avoid arriving at any definite conclusions about the record of public ownership. Nevertheless, we suspect that some patterns do emerge from the many perspectives we have assembled to give the outline of an answer to the question with which we set out: does the experience of nationalisation support the negative case for privatisation, which claims that public ownership failed and therefore there was no practical alternative to privatisation?

As we have mentioned, the fifties do not give a very helpful picture of public ownership because it was a starting-up period. However, the speed with which some of the industries fell into deficit from which some never climbed out may suggest something about the optimism of the original arms' length model. But then, in the light of the heyday of public ownership in the

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<sup>109</sup> Redwood, J. *Public Enterprise in Crisis* (Blackwell: Oxford, 1980), p. 201.

sixties, this optimism looks to be well supported. At the end of this decade, it is difficult to deny that Pryke's enthusiasm for public ownership was well-founded. As he judged it, public ownership was both an economic and social success.

From the social angle, the achievements of nationalisation were several: problematical industries, like coal, had been run down in an orderly manner, avoiding some of the social costs mining communities would otherwise have been forced to bear on their own; conditions of employment and standards of safety had been raised throughout the industries; improved industrial relations had contributed to substantially better labour productivity growth than those achieved by the same industries in the first half of the century before nationalisation;<sup>110</sup> monopoly profits in the public utilities had been avoided; and consumers had benefited from price restraint.

But few had ever doubted that nationalisation would bring about social gains. Therefore it was the economic success of public ownership at the end of this decade that was the more satisfying for its supporters. After the poor start in the fifties, the record was of steady improvement in most industries after the first shocks of merger and reorganisation. This included the superior labour productivity growth mentioned above; the impressive gains in total factor productivity, possibly a more reliable indicator of productivity because it includes a measure of how labour productivity is affected by capital intensity;<sup>111</sup> and, at a time when profitability was generally declining in the economy, the nationalised industries mostly enjoyed rising profitability. Consequently, in the absence of a counter-factual allowing a comparison to be made between the performance of the same industries under both private and public ownership, there was little the critics of nationalisation could seize on to support their case that nationalisation had either impaired the financial disciplines or the incentives Pryke claimed as explanations for the superior performance of nationalised industry.

To this record, should be added the changes made to the organisational model of public enterprise. A continuous and bipartisan Parliamentary scrutiny of the industries had been introduced in the form of the Select Committee. In the White Papers of 1961 and 1967, to use Vickers and Yarrow's words, 'an intellectually coherent approach, derived from welfare

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<sup>110</sup> See here Hannah, L. *op. cit.*, Table 6.3. Labour productivity growth rates in the core nationalised industries, 1948-85, p.177.

<sup>111</sup> *Ibid.*, Table 6.4. Total factor productivity growth rates in the core nationalised industries, 1945-88, p.177.

economics, to the problems of specifying objectives for public enterprises',<sup>112</sup> including rate of return analysis, marginal cost pricing, cost-benefit analysis, and explicit subsidy, had been introduced. Moreover, while admittedly the level of ministerial intervention had grown, and to a close observer posed the danger that the Select Committee warned of, given the public character of the industries it still remained within the bounds of the tolerable. And importantly, although there was already copious criticism, the nationalised industries enjoyed enough of the goodwill of the general public and of the workers to keep the experiment of public ownership on track.

What then explains the increasing disaffection with public ownership in the turbulent seventies? As the NEDO, nationalised industry chairmen, and the 1978 White Paper perceived the fundamental problem, the nationalised industries were increasingly made instruments of economic and social policy by governments of both parties, struggling to maintain the post-war commitment to full employment. This interference clearly wrecked havoc with the finances of the nationalised industries. It also meant that the much acclaimed economic and financial framework introduced by the 1967 White Paper was never really tried. It was suspended after the imposition of price restraint in 1973, and when that ended in 1975, was not reintroduced because of the change which made control of the PSBR through cash limits the dominant aim of policy towards the nationalised industries. Therefore, there is little truth in Patrick Jenkin's statement in the debate on privatisation in 1983:

Anyone who argues in the light of nearly forty years' experience that there must be a way of managing State monopolies that will increase their efficiency, satisfy their consumers, and yield a return on the taxpayer's investment instead of being a burden on the taxpayer must believe in fairies. Successive governments have tried. Some of the ablest businessmen in the country have been put in charge of the nationalized industries and they have tried. There have been any number of cash limits, financial targets, required rates of return, and cost objectives. Every device has been tried and none has solved the fundamental problem of the State industries.<sup>113</sup>

The failure of the main political parties to agree a bipartisan approach to nationalised industry, clearly demonstrated in the British Steel problem of over-manning, was also a major

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<sup>112</sup> Vickers, J. and Yarrow, G. *op.cit.*, p.132.

<sup>113</sup> Quoted in Fry, G. *op.cit.*, p. 20.

problem. Will Hutton blames this on the nature of the conservative British state, which has no institutional means of expressing the public interest outside of an all-sovereign Parliament.<sup>114</sup> Furthermore, as Pryke pointed out in his later study, with the expectation that the Treasury would always "pick up the tab", the trade union movement exploited their powerful political base in public ownership to oppose necessary cuts in manning and to push for ever higher wages. While this redistributive goal was justified, there was no doubt that the industries suffered from the conflictual nature of industrial relations. However, given the poor record of industrial relations prior to nationalisation, there is no good reason to think that industrial relations would have been any better had the industries been privately owned. Furthermore, with the full impact of monetarism on Britain's manufacturing and industrial capacity beginning to be recognised, a greater respect is being accorded Heath's commitment to full employment and, in particular, to his prices and incomes policy, which made the nationalised industries, with some success, a "loss-leader" in the campaign against inflation.<sup>115</sup> In the light of this further history, and taking into account the poor record of the private sector in the 1970s, the verdict on public ownership has become much more complicated.

The further point is worth making that we can only speak of the relative failure of particular nationalised industries. With the exception of British Steel, none of the industries failed absolutely, in the sense that, had they been in the private sector, they would have been forced into receivership. In this connection, what now tends to be forgotten is that the health of individual industries varied considerably at the end of the 1970s. It is true that a small cluster of industries, such as the railways, which had always proved troublesome industries under public ownership were performing very badly. They were a worrying drain on the public purse; at 1982 prices, the cost of capital write-offs and grants to them amounted to £40 000 million.<sup>116</sup> However some of the nationalised industries were in very good health. They were fully able to pass the scrutiny of the Select Committee and even to earn its praise.<sup>117</sup> Furthermore, immediately prior to privatisation the efficiency of a number industries, under the regime of cash limits, had

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<sup>114</sup> See Hutton, W. *The State We're In*, p. 50.

<sup>115</sup> See further, Stewart, M. *Keynes In The 1990s, A Return to Sanity* (Penguin: London, 1993), p.25 ff. for his discussion of the monetarist-Keynesian debate about a natural level of unemployment and the inflationary consequences of pursuing demand management policies which attempt to keep unemployment below the natural rate.

<sup>116</sup> Quoted in Fry, G. *op.cit.*, p.21.

<sup>117</sup> See further Cockerill, A. *op.cit.*, p.13.

improved considerably. There is also no denying, given the interest shown in buying shares on privatisation, and by their subsequent performance as privatised industries over a period when it would have been impossible to have effected some miraculous turnaround, that most of the UK nationalised industries were viable businesses at the time they were privatised. In this light, talk of the failure of public ownership is at best very misleading.

There is also now no way of knowing with any confidence whether a more concerted approach to policy making, as proposed by the NEDO, and which the 1978 White Paper looked as if it was edging towards, might have worked better than the Morrisonian arm's length model. Certainly experience with *Mitbestimmung* (co-decision making between employee and shareholder representatives) in the Rhenish model on the continent has not been entirely favourable in recent years. Nevertheless, this is seen as part of an adjustment process, which is anticipated will weather the impact of globalization on account of the strong social bonds underpinning the model.<sup>118</sup> Furthermore, the NEDO's criticism of the arms' length model for its exclusion of the other key players, government and the trade unions, from policy making as being unrealistic would appear to have been borne out by the experience of public ownership. A concerted approach may also have better retained the loyalty of consumers, who make up most of the public, and on whom the success of the whole project of public ownership crucially depended.

But as with most frustrating social experiments, they tend not to last long enough to provide adequate answers to all our questions. This is especially frustrating in this case because it is possible that the problems of public ownership were reformable without a change of ownership. As Foster, drawing on his enormous experience of nationalised industry, put this conviction again in 1992:

The repeated failures of British governments actively to address the problems of public enterprise which had been analysed by a succession of official committees and academic commentators, or to effect the remedies they had suggested, help to explain why public enterprise in the UK was so enfeebled by the end of the 1970s that it enjoyed little active support, but these failures do not show that the problems were insoluble without a change of ownership.<sup>119</sup>

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<sup>118</sup> See further Albert, M. and Gonenc, R. 'Rhenish Capitalism', in *Political Quarterly*, Vol. 67/3, July - September 1996, pp. 184-93.

<sup>119</sup> Foster (1992), *op.cit.*, p. 8.

Vickers and Yarrow arrive at a similar conclusion at the end of their analysis of the steadily evolving economic and financial framework we have traced through successive White Papers, which increasingly gave the impression that the Government had in hand a more precise and yet flexible and therefore realistic means of control. To quote from their study:

The crucial question, however, is whether or not significant improvements in performance could feasibly have been obtained whilst preserving public ownership of the industries concerned. As we have argued, the tighter financial controls that were developed in the late 1970s and 1980s do appear to have had some beneficial effects on certain aspects of performance and are indicative of the fact that ownership is far from being the sole determinant of behaviour.... Our own view of the matter is that substantial improvements in the control system were (and still are) feasible, including reforms designed (a) to establish arrangements capable of sustaining an arm's length relationship between ministers and managements and (b) to improve the incentives for internal efficiency.<sup>120</sup>

In the light of all the above, and bearing particularly in mind the achievements of nationalised industry in the 1960s and the heavy burdens the industries carried in the 1970s, we are not persuaded that public ownership failed. Indeed, we are inclined to think that Sir Peter Middleton, writing from possibly the best perspective from which to judge public ownership, that of Permanent Secretary to HM Treasury, got it about right when he said, with classic British understatement, "I don't think the record of nationalisation is all that bad."<sup>121</sup>

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<sup>120</sup> Vickers, J. and Yarrow, G. *op.cit.*, p.151.

<sup>121</sup> Reported in Plender, J. *The Big Selloff*.

## Chapter 5.

**THE ABANDONMENT OF NATIONALISATION (1979-1989)**

Just as nationalisation was at the heart of the collectivist programme by which Labour Governments sought to remodel British society, so privatisation is at the centre of any programme of reclaiming territory for freedom.<sup>1</sup>

(Margaret Thatcher)

The haemorrhaging of support for the nationalised industries by the end of the 1970s undoubtedly abetted the abandonment of public ownership in the 1980s. But the full story behind privatisation is much more complex and is the subject of considerable debate. Certainly our contention that economic liberalism played a decisive part in shaping the privatisation programme is contested. Indeed there are still those who argue either that the influence of economic liberalism on privatisation has been overstated and/or that privatisation came about more for pragmatic reasons.

David Marsh, for example, claimed that privatisation came about more for pragmatic political reasons in his review of the literature on privatisation in 1990. In the light of the emphasis on monetarism in the 1979 manifesto and the way the proceeds from asset sales are included in the public accounts as negative public expenditure, he concluded that the government seized on privatisation as an alternative way to control the Public Sector Borrowing Requirement (PSBR). As he put this, 'selling public assets was politically much easier and more popular, than cutting public expenditure'.<sup>2</sup> Then, for another example, Christopher Foster argued that the origins of privatisation have more to do with pragmatic economic reasons connected with the needs of the nationalised industries themselves than with any political motive or blueprint.<sup>3</sup>

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<sup>1</sup> Thatcher, M. *The Downing Street Years*, p.676.

<sup>2</sup> Marsh, D. 'Privatisation under Mrs. Thatcher: A Review of the Literature', in *Public Administration*, Vol. 69, Winter 1991, p.461.

<sup>3</sup> Foster, C. *Privatisation, Public Ownership and the Regulation of Natural Monopoly*, (Blackwell, Oxford, 1992) p.102 ff.

Foster may be right in claiming that there was no political blueprint as such. And, as Kenneth Wiltshire points out, 'There was no green paper, no white paper, no definitive piece of legislation, no second-reading speech, and the concept was not even contained in the manifesto of the Conservative Party for the 1979 elections at which the Tories came to office'.<sup>4</sup> Nevertheless, both Foster and Marsh's reconstructions of the origins of privatisation beg more questions than they answer and appear to overlook the key role played by right wing think-tanks in the genesis of privatisation. On the role of the think-tanks, Foster even appears to be unaware of their existence in Britain when he writes,

But whereas in the United States in 1980 the incoming Reagan administration was embarrassed by the number of schemes proposed by think-tanks for de-regulating monopolies, their equivalent did not exist in Britain, both because independent institutions of this kind did not exist and because politically motivated think-tanks in Britain have long been more interested in politics than detail.'

As will be shown in the light of the important study of Richard Cockett, *Thinking the Unthinkable, Think-tanks and the Economic Counter-Revolution 1931-1983* (1994), Foster's reconstruction is almost certainly wrong because think tanks, such as the Institute of Economic Affairs (IEA), and closer to the Conservative party, the Centre for Policy Studies (CPS), played a hugely important role. As Peter Jackson and Catherine Price comment, 'Much of the philosophy of the privatisation programme originated in a variety of think tanks in the UK during the 1970s. This philosophy was implemented in the UK in the 1980s and the lessons learned were shared with other countries'.<sup>5</sup> Moreover, it has now been admitted by one of the leading actors in the whole drama, Margaret Thatcher's former economic adviser, Sir Alan Walters, that the political objective of placing the former nationalised industries beyond the reach of re-nationalisation was always part of the original intention. At the World Bank seminar on privatisation in 1994 at Maryland, he explained that the original intention had been to put companies such as British Airways and British Steel beyond the reach of re-nationalisation by offering the bribe of popular capitalism to the people; this, he went on to justify on the ground

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<sup>4</sup> Wiltshire, K. *Privatisation, the British Experience* (Longman Cheshire: Melbourne, 1987), p.1.

<sup>5</sup> Jackson, P. and Price, C. ed., *Privatisation and Regulation, A Review of the Issues* (Longman: Harlow, 1994), p.ix.

that it, 'had forced the Labour Party to reform itself, abandon its own re-nationalisation plans and to become more "social democratic" in its approach'.<sup>6</sup> And supporting this understanding of the political origins of privatisation, Alex Brummer reporting on the World Bank seminar writes, 'Despite the effort to portray privatisation as a rational process which benefits the common weal, the thread which connects many privatisation schemes is political'.<sup>7</sup>

Of course we do not doubt that purely pragmatic motives, such as those linked with reducing the PSBR or the alleged failure of the nationalised industries, played an important part in the origins of privatisation. Nor would we want to discount the crucial part played by the success of the first big privatisation in 1983, that of British Telecom. Indeed, one might venture to say that the dramatic success of this first privatisation, which was heavily over-subscribed, despite it being ten times the size of the average large equity offering on the London market, provided the blueprint for the remaining privatisations and gave the programme an unstoppable momentum. To ignore these factors would be to make the mistake of thinking that privatisation was driven only by ideas, which, in any case, were not terribly original. As Dieter Helm reminds us, 'nineteenth century liberalism provided the main political theories and, despite the advances in the formal theoretical framework of neo-classical economics, much of the focus of policy prescriptions could be (and indeed has been) traced back to Adam Smith'.<sup>8</sup> Nevertheless, for the reasons we have given above, and which we shall further support below from a survey of the writings and speeches of the key theorists and practitioners of privatisation, we shall treat economic liberalism as a dominant influence on privatisation.

Bearing in mind Kenneth Wiltshire's advice that 'any analyst who wishes to understand the origins of this concept [privatisation] is forced to rely on indirect sources, some intuition and a keen understanding of British politics of the post-war period',<sup>9</sup> we shall begin our survey on the eve of privatisation by exploring how the electoral threat posed by Harold Wilson's Labour party started a radical reappraisal of public ownership by the Conservative's under Edward Heath. Next we shall consider the way Heath provided the Conservative party with a winning proto-Thatcherite electoral formula and how he also demonstrated the difficulty of holding on

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<sup>6</sup> Quoted in Brummer, A. 'Policymakers ponder privatisation's pitfalls', *The Guardian*, 20 April 1994.

<sup>7</sup> *Ibid.*

<sup>8</sup> Helm, D. ed., *The Economic Borders of the State* (Clarendon: Oxford, 1989), p.2.

<sup>9</sup> Wiltshire, *op.cit.*, p.ix.

to power with a commitment to the post-war political, economic and social consensus. Then we shall explore the revival of economic liberalism in the writings of its most influential theorists and how this revival came to 'capture' the Conservative party under the leadership of Margaret Thatcher. Having by then attempted to 'live' in this rival moral tradition in order to learn its idiom as best we can, we shall conclude by judging this case for privatisation, in accordance with our method of enquiry, in the light of its own standards.

## HAROLD WILSON

In post-privatisation Britain, it is easy to forget how credible a political alternative the Clause IV Labour party looked before 1979.<sup>10</sup> In the preceding period Harold Wilson had inflicted four electoral defeats on the Tories. A possible fifth victory in 1970 was won by Edward Heath against all the odds. In this period, it was Labour and not the Conservatives who could rightly claim to be the party of government. Indeed, looking back over the whole post-war period until 1979, beginning with the dramatic defeat of Winston Churchill, in the 1945 election, it could be said of the Labour Party that, were it not for its electorally damaging internal debates and the 1951 devaluation of sterling, it might have held power for the entire period.

In Harold Wilson, Labour had a very skilful political leader. His experience of Whitehall (as a civil servant during the war), his experience of government (his first cabinet post was in the Attlee administration directly after the war), and his experience as an applied economist (the politically important new discipline), could not be matched by any would-be Conservative rival. Then, at a time when social attitudes were changing and hardening against the political amateurism and traditional deference paid to the British aristocracy, Wilson's background as a 'commoner' from the North gave him the edge over the Conservative 'grandees' who were chosen to lead the Tories before their choice of Ted Heath. This background also helped the centrist Wilson unite a deeply divided Labour Party, itself a remarkable political achievement and another key to his electoral success. And not to be forgotten, there was the incomparable wit who out on the hustings could be counted on to floor hecklers with the double-edged repartee for which he was famous.

But even more electorally important than the man was 'Wilsonism'.<sup>11</sup> This political and

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<sup>10</sup> This section draws on Pimlott, B. *Harold Wilson* (Harper Collins: London, 1992).

<sup>11</sup> *Ibid.*, p.68 ff. for a fuller discussion of 'Wilsonism'.

economic philosophy was forged in the 1930s when the Labour Party shed some of its utopian commitments and accepted a capitalist framework for the economy, while advocating socialist planning and Keynesian demand management within capitalism. 'Wilsonism,' although not to be completely identified with the wartime economic management, had in some measure been tested in the achievements of the wartime economy, and had also proved itself capable of some achievements in the revitalisation of British industry in the 1960s. And, from hindsight, were it not for the crucial mistake not to devalue the pound in 1966, which cost the British economy one of its few last opportunities to reverse decline in the face of the ever stiffening global competition, 'Wilsonism' may well have looked forward to further achievements in the 1970s.

But if this prediction must remain in the realm of conjecture, then it remains to be said that in the 1960s there was no popular alternative to 'Wilsonism'. In this connection it is important to remember the role played by the myth of the success of Soviet central planning. This was widely believed. Thomas Balogh, the former Balliol fellow and Wilson's Economic adviser, expressed the belief in the following terms:

There is no need to doubt the utter determination with which Russia will pursue the drive towards higher productivity. The central control of her economy is a powerful help in this field. All in all, it is likely that Russian output per head will surpass that of Britain in the early 1960s and that of the US. in the mid-1970s, unless our progress is speeded up.<sup>12</sup>

Wilson, perhaps the British politician with the most personal experience of the Soviet economy, was certainly a believer. Indeed so widespread was the trust in the planning of the economy that Wilson's biographer, Ben Pimlott, remarks that a 'parallel could be drawn with the embrace of monetarism in the 1970s, and with the fashionable rejection of collectivism in the 1980s. Just as it later became difficult, even on the Left, to question a market approach, so in the 1960s it became hard, even on the Right, to doubt the wisdom of some form of planning'.<sup>13</sup>

Of course when planning was held to require the wholesale nationalisation of industry, then it did provoke widespread opposition, even in the Labour Party which had amongst its members many former supporters of the Liberal Party. But fortunately for Wilson the Gaitskellites had fought the Left over the issue of nationalisation in the 1950s and had won the party's backing for Anthony Crosland's ethical socialism with its preference for state control

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<sup>12</sup> *Ibid.*, p.276.

<sup>13</sup> *Ibid.*, p.276.

rather than state ownership of industry. It was therefore difficult to smear Wilson's Labour Party with the tar of further public ownership.

But even more frustrating for the Conservatives was Wilson's pragmatism. This meant, for example, that while in 1959 he sided with the Left over Hugh Gaitskell's plans to drop the nationalisation of steel and road haulage, in the run-up to the 1974 election, he could oppose the Left with his rejection of the National Executive's proposal that the state take over twenty-five leading companies. As he expressed this pragmatism to Tony Benn at the time: 'who is going to tell me that we should nationalise Marks and Spencer in the hope that it will be as effective as the Coop?'<sup>14</sup> While frustrating Benn, he was able to reassure sufficient voters to ensure the election of his party.

Wilson's pragmatism also meant that if he thought they would work, he had no compunction against stealing ideas from political opponents and putting them to work for his own party. A good example is his and Barbara Castle's proposals for the reform of the trade unions in *In Place of Strife* (1969). This poaching of his opponents ideas had the consequence that, provided the Conservatives stuck with the post-war consensus, both parties tended to tinker with political ideas that appealed to the middle ground. And, as Harold Wilson was believed to have the safer pair of hands, the electorate tended to leave the tinkering to Wilson. This was the abiding frustration of the Conservative Party faced with Harold Wilson. In some considerable measure it explains the right wing lurch of the Party away from the *Middle Way* of Harold Macmillan and the One Nation Toryism of R.A. Butler into Thatcherism.

## **EDWARD HEATH**

The importance of Ted Heath as a transitional figure in the Conservative Party's embrace of privatisation is that he both presented a winning proto-Thatcherite electoral formula and demonstrated the difficulty of holding onto power with a commitment to the 'middle way'.

Heath's early radicalism tends now to be obscured by his public hostility towards Margaret Thatcher and his opposition to her brand of neo-Conservatism. However, in her memoirs Margaret Thatcher can rightly claim that 'after the 1964 and 1966 defeats I joined with Ted Heath in a rethinking of party policy which seemed to foreshadow much of what we later

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<sup>14</sup> *Ibid.*, p.603.

came to call Thatcherism'.<sup>15</sup> These were the years of opposition, when the desperation to oust Harold Wilson and the goading and electoral popularity of the maverick Conservative, Enoch Powell, pushed Heath towards 'Selsdon Man'. This was the term of derision coined by Wilson in the 1970 election campaign to denounce Heath's image of having repudiated the post-war settlement accepted by all his predecessors, Churchill, Eden, Macmillan, and Hume.<sup>16</sup>

In his Selsdon Man rhetoric Heath certainly allowed himself to sound very radical on nationalised industry. His thinking appears to have drawn on the ideas of the Conservative Party Public Sector Research Unit (CPSRU) set up in 1967. The head of the unit David Howell had been influenced by Louis Kelso's *The Capitalist Manifesto* (1958), in which the author recommended the mass ownership of industry and enterprise as the best alternative to the Keynesian state.<sup>17</sup> In David Howell's own book, *A New Style of Government* (1970), Howell argued for a reduction of government and bureaucracy by 'transferring functions and activities [of government] back to the private sector or running them down altogether', describing the process in a footnote as 'privatisation'.<sup>18</sup>

For a practical example of privatisation Heath could also draw on the CPSRU pamphlet *DIAL ENTERPRISE 1971 - The Case for a Private Enterprise Telephone Service*. For this the author, David Alexander, drew on the earlier Institute of Economic Affairs pamphlet by Michael Cane, *Telephones - Public or Private?*, and an article by Russell Lewis in the Daily Telegraph. In this article, reflecting on the denationalisation of the German car-maker Volkswagen by the sale of 3.6 million shares to the 1.5 million individual shareholders, Lewis argued that if the same method 'allied with tax concessions to lower income groups, were used to return nationalised industries to the private sector, this would have the advantages both of helping the creation of a capital-owning democracy and of creating a vested interest in favour of denationalisation'.<sup>19</sup> Apparently persuaded by these arguments, at the Selsdon conference Heath pledged: 'We will remove the shackles of government from industry. We will banish the regulation and control of business activities. We will withdraw the Government from holdings

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<sup>15</sup> Thatcher, M. *op.cit.*, p.13.

<sup>16</sup> Campbell, J. *Edward Heath* (Pimlico: London, 1993), p. 239 ff.

<sup>17</sup> Cockett, R. *Thinking the Unthinkable, Think-tanks and the Economic Counter-Revolution 1931-1983* (Harper Collins: London, 1994), p.200.

<sup>18</sup> *Ibid.*, p.200.

<sup>19</sup> *Ibid.*, p.201.

in private firms. We will begin to reintroduce private ownership into nationalised industries.'<sup>20</sup>

And yet Heath's true colours were not those of a proto-Thatcherite. As Opposition Leader he opposed Nicholas Ridley's radical denationalisation plans, and in office consented only to the denationalisation of the Carlisle State pubs and the travel agents Thomas Cook. Even more revealingly he nationalised the "lame ducks" Rolls Royce and the Upper Clyde Shipbuilders. However, Heath's biographer concedes 'a limited degree of truth in this analysis, notably with regard to trade union reform and the intention to create an economic climate conducive to enterprise'. 'To a much greater degree,' John Campbell goes on to clarify, 'it reflects the misunderstanding which Heath allowed to arise - indeed positively encouraged - by going along with an aggressively free-market rhetoric which he did not in his heart accept'.<sup>21</sup>

Tragically for Heath, Selsdon Man was to prove his undoing. The political rhetoric helped alienate him from the trade unions. Then when he was forced to make his much derided U-turn and to embrace corporatism, having alienated the trade unions, he was unable to make the central plank of his anti-inflation policy, an incomes policy, work. As John Campbell passes his judgement:

It was a fatal error for Heath to allow himself to be thought to have more radical intentions than in fact he had. He ended up between two stools, convincingly neither one thing nor the other: a fierce bark, with no real intention to bite - but the bite was enough to antagonise those he sincerely wanted to make 'social partners' in his new competitive/co-operative Britain. The result of his 'Selsdon' aberration effectively ensured that neither the initial policies with which he started out in government in 1970-1 nor those to which he turned in 1972-4 when he repudiated 'Selsdon' carried sufficient moral or political conviction to succeed. Heath's failure in government stemmed from this confusion.<sup>22</sup>

But Selsdon Man was not Heath's only handicap. Another was his failure adequately to prepare to deal with inflation. In 1972, when unemployment exceeded the politically unacceptable figure of 1 million, Heath's conventional Keynesianism prompted a dash for growth. This combined with other pressures on prices to push inflation beyond tolerable limits. Heath resorted to the conventional economic wisdom of an incomes policy. But even had he not

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<sup>20</sup> *Ibid.*, p.201.

<sup>21</sup> Campbell, J. *op.cit.*, p.267.

<sup>22</sup> *Ibid.*, p.267.

alienated the trade unions, he would have found it extremely difficult to make this anti-inflation policy work. As Campbell explains: 'It is inherently difficult for a Tory Government to operate a successful incomes policy because Labour can always outbid it... This was the Catch-22 of British politics in the 1970s which Heath could not resolve'.<sup>23</sup>

After Heath had been voted out of office in 1974, this Catch-22 was also to thwart the successful operation of an incomes policy by the incoming Labour administration. The Left of the party could always outbid those moderates wanting to take a stronger line on inflation. The failure, after 1974, of Wilson and Callaghan's social contract, which largely continued Heath's corporatism and incomes policy was to underline this uncomfortable fact and to strengthen the hand of those who advocated the abandonment of Keynes and the monetarist cure for inflation. And ironically, while Alan Walters was the first of the Conservative Party economic advisers to advocate monetarism only to find his advice rejected and himself relieved of his part-time job, by 1975 the Labour Chancellor, Denis Healey, was something of a convert. As Peter Jay commented, since Christmas Denis Healey's basic strategy had been 'to make unemployment the automatic reward for excessive pay settlements by keeping monetary creation within pre-determined limits'.<sup>24</sup>

But for the monetarist cure to be applied to inflation, the patient had to be willing, at least initially, to accept higher unemployment, and, if a complementary fiscal policy was to be applied, a reduction in social expenditure - the 'social' wage, or higher taxation. The last was politically very unpopular with already high levels of taxation. An indication of the difficulty of cutting the social wage is given by the major expansion of government expenditure on Education and the NHS under Heath, when, ironically, Margaret Thatcher and Keith Joseph were respectively heading those two government departments. It was these constraints on policy that led Labour to allow the nationalised industries rapidly to increase their prices as a means of raising public funds without raising taxes.

Interestingly, this use of the industries as a form of negative public expenditure may have presaged the end of public ownership in so far as it was not a big step to selling off entire industries in order to raise further funds for the exchequer.<sup>25</sup> A Labour government was the first

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<sup>23</sup> *Ibid.*, p.541.

<sup>24</sup> *Ibid.*, p.480.

<sup>25</sup> In British government accounting procedures the proceeds of asset sales in the public sector count as negative public expenditure.

to take this step when, after agreeing a loan with the International Monetary Fund, instead of complying with the condition that it cut public expenditure, it chose instead to sell shares in British Petroleum (BP). Inadvertently therefore, although it can be countered that BP was a special case, Labour may be regarded as having initiated a process that would end in privatisation. As the dissident Labour Cabinet Minister, Tony Benn, noted in his diary at the time: 'We have provided a blueprint for selling off public assets in the future and we will have no argument against it. It is an outrage.'<sup>26</sup> Benn was to be proved right when John Redwood, in his advocacy of popular capitalism, was able to claim a precedent for privatisation set by a Labour government. As he put this: 'The precedent of the sale of BP shares was readily taken up by the Conservative government which found itself, in its early years, as impecunious as its Labour predecessor.'<sup>27</sup>

Two further developments of the 1970s also heralded privatisation as an alternative to Tony Benn's siege economy with its extensive plans for nationalisation.<sup>28</sup> One was the emergence of stagflation - rising prices with rising unemployment. This new phenomenon reflected business leaders' fears about the long term prospects of the British economy in an increasingly globalized market. In this new situation, in which the scope for an independent national monetary and fiscal policy seemed much restricted or even non-existent, the Keynesian argument that public ownership could be used as one of the instruments of macroeconomic policy looked to be no longer valid. In any case, experience with fine tuning the economy showed that it was virtually impossible to assemble adequate information to make the required calculations.<sup>29</sup>

The second development came to be called the 'British disease' - endemic industrial action. This was inflicted on the British economy by the increasingly militant trade unions, who had defeated Barbara Castle's proposed reform of industrial legislation, thwarted Heath's National Industrial Relations Court and humbled his government, reneged on Wilson and Foot's social contract after 1974, opposed the Bullock Report (1978), with its enlightened proposals for industrial democracy along the lines of the German *mitbestimmung*, and then, finally, had

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<sup>26</sup> Benn, A. *The Benn Diaries* (Hutchinson: London, 1995; this ed. by Arrow books: London, 1996), p.421.

<sup>27</sup> Redwood, J. *Popular Capitalism* (Routledge: London, 1989), p.72.

<sup>28</sup> See further Pimlott, B. *op.cit.*, p.639 ff.

<sup>29</sup> See further Healey, D. *The Time Of My Life* (Michael Joseph: London, 1989; this ed., Penguin: London, 1990), p. 382.

helped bring down Callaghan's government in the "winter of discontent" of 1979. Their militancy underlined the "Catch 22" of British politics by demonstrating the futility of any future anti-inflationary prices and incomes policy which did not have their full cooperation.

Furthermore, in the course of helping bring down the Labour government in the "winter of discontent", the trade union movement, with its power base in the nationalised industries, had also come to pose a threat to parliamentary democracy. In the course of this dispute the Government considered declaring A State of Emergency on several occasions. On one of these, in order to ensure supplies of essential drugs and medical equipment, Ministers even considered sending tanks into ICI's medical headquarters, which was blockaded by striking workers.<sup>30</sup> As Denis Healey, then battling, as Chancellor, to bring inflation under control, described the increasing disorder: 'Each night the television screens carried film of bearded men in duffle coats huddled around braziers. Nervous viewers thought that the Revolution had already begun.'<sup>31</sup> For 'Sunny Jim', the Labour Prime Minister who rose from the ranks of the working class, it was a personal crisis which he has reputedly never got over, because the only achievement of the militant shop stewards was to invite Mrs. Thatcher to 10 Downing Street to begin her revolution.

## **THE RISE OF ECONOMIC LIBERALISM**

With this understanding of British politics on the eve of privatisation, we shall now explore how the political and economic crisis just sketched combined with the Conservative Party's electoral crisis to pave the way for the revival of economic liberalism that was to 'capture' the Conservative Party under Margaret Thatcher.

The story of this revival begins in the 1930s. At the time Harold Laski had pronounced liberalism dead: 'we must, if we are to be honest, admit that the liberalism for which Hobhouse battled so bravely has suffered an eclipse so startling and so complete as that which affected the doctrine of the divine right of Kings after the revolution of 1688'.<sup>32</sup> However he had overlooked the few British economists and writers, such as Lionel Robbins and George Orwell, who were stubbornly keeping economic liberalism alive in Britain. They were soon to be joined by a group

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<sup>30</sup> See further Davies, A.J. *To Build A New Jerusalem, The British Labour Party from Keir Hardy to Tony Blair* (Michael Joseph/Abacus: London, 1992/1996), p.365.

<sup>31</sup> Healey, D. *op.cit.*, p.463.

<sup>32</sup> Quoted in Cockett, *op.cit.*, p.59.

of emigres fleeing either the collectivism of national socialism in Germany or communism in Eastern Europe.<sup>33</sup> This group included the German economists Ludwig von Mises and his disciple Friedrich von Hayek, the Hungarian philosopher, Michael Polanyi, the Austrian philosopher of science, Karl Popper, and the refugee author from the former Soviet Union, Ayn Rand.

Some of these were to battle on as very isolated figures in university departments over the next four or five decades before their work was to be fully recognised. But then in 1974 Friedrich Hayek was awarded the Nobel prize for Economics. Two years later the award went to the monetarist Milton Friedman. James Buchanan, the 'founding father' of Public Choice Economics, had to wait until 1986 for his Nobel prize. The 1970s also saw the publication of Robert Nozick's *Anarchy, State and Utopia* (1974), widely acclaimed as a another challenge to the post-war egalitarian consensus. According to Dieter Helm, these four: Hayek's constitutionalism, Friedman's economic liberalism, Buchanan's public choice, and Nozick's libertarianism, represent the four distinctive schools of the New Right, a term coined by the Fabians for the diverse movement that unites the new economic liberals.<sup>34</sup>

### **Friedrich Hayek.**

Of the emigres, Hayek, whose academic career spanned seven decades, has probably been the most influential in shaping right-wing policies, attitudes, and behaviour, particularly in Britain.<sup>35</sup> Even those who radically disagree with him tend to concede the cogency of his economic philosophy.<sup>36</sup> And, very important for practical men and women, his prediction in the 1930s that Keynesian deficit financing would only debase the currency and in the long run be counter-productive appeared to have been substantiated by the inflation and the unemployment of the 1970s. For its prophetic value his argument with Keynes, which he later summarised in his *Constitution of Liberty* (1960) is worth quoting in full:

The development of Lord Keynes theories started from the correct insight that

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<sup>33</sup> See further, Graham, D. and Clark, P. *The New Enlightenment, the rebirth of liberalism* (Channel 4: London, 1986).

<sup>34</sup> See further Helm, D. *op.cit.*, p.4 ff.

<sup>35</sup> Forrester, D. 'Political Justice and Christian Theology', in *Studies in Christian Ethics*, Vol.3., no.1., p.6.

<sup>36</sup> Plant, R. *Modern Political Thought* (Blackwell: Oxford, 1991), p.90. See also Griffiths, B. *Morality and the Market Place*, p.33.

the regular cause of extensive unemployment is real wages that are too high. The next step consisted in the proposition that a direct lowering of money wages could be brought about only by a struggle so painful and prolonged that it could not be contemplated. Hence he concluded that real wages must be lowered by the process of lowering the value of money. This is really the reasoning underlying the whole 'full employment' policy now so widely accepted. If Labour insists on a level of money wages too high to allow of full employment, the supply of money must be so increased as to raise prices to a level where the real value of the prevailing money wages is no longer greater than the productivity of the workers seeking employment. In practice, this necessarily means that each separate union, in its attempt to overtake the value of money, will never cease to insist on further increases in money wages and that the aggregate effort of the unions will thus bring about progressive inflation.<sup>37</sup>

Understandably the stock of any person who had made this prediction in the heat of the great economic debate in the 1930s would have to rise in the economic conditions of the 1970s. Furthermore, in the political conditions of the 1970s, when Heath had been humbled by the unions and even Labour was unable to operate an effective prices and incomes policy because of the militancy of the unions, the threat to liberal democracy appeared to be about to fulfil Hayek's other main prediction that the 'middle way' of a mixed economy would lead to 'serfdom'. Although Hayek disavows in the 1976 preface to *The Road to Serfdom*, first published in 1943, that he had 'contended that any movement in the direction of socialism is bound to lead to totalitarianism',<sup>38</sup> the note of danger he sounded made this prospect and not only pauperisation the central message of the book:

In the dozen years in which this country has now become his [the author's] home he has become increasingly convinced that at best some of the forces which have destroyed freedom in Germany are also at work here, and that the character and the source of this danger are, if possible, even less understood than they were in Germany. The supreme tragedy is still not seen that in Germany it was largely people of goodwill, men who were admired and held up as models in this country, who prepared the way, if they did not actually create, the forces which now stand for everything they detest. Yet our chance of

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<sup>37</sup> Hayek, F. *The Constitution of Liberty* (Chicago University Press, 1960), p.280.

<sup>38</sup> Hayek, F. *The Road to Serfdom* (Routledge: London, 1944; ARK paperback edition, 1986).

averting a similar fate depends on our facing the danger and on our being prepared to revise even our most cherished hopes and ambitions if they should prove to be the source of the danger. There are few signs yet that we have the intellectual courage to admit to ourselves that we may have been wrong.<sup>39</sup>

The organising principle of Hayek's philosophy of economic freedom 'is based upon a profound insight into the nature and limits of human knowledge.'<sup>40</sup> This insight is essentially a development of the calculation argument of Hayek's teacher Mises.<sup>41</sup> As the historian of Liberalism, John Gray, explains the calculation argument:

The Misesian insight is that in any modern economy there will be billions of market exchanges and therefore billions of prices. In the production of any consumer good, for example, producers will need the guidance provided by the prices of many capital goods and these prices will typically be subject to constant change. Because resources and preferences are not static, the structure of relative prices will itself be in a state of constant change. Mises's argument is that, without market pricing of assets, their relative scarcity is unknowable, since simulating market pricing is a calculational impossibility in an economy where billions of market exchanges take place and pricing is in a state of dynamic flux. The limitation of human knowledge identified by Mises's argument is therefore a calculational limitation. For Mises there cannot be a socialist economy, since rational economic planning by individuals and enterprises is feasible only with the assistance of the information provided by market pricing.<sup>42</sup>

Hayek went on to deepen this critique of socialism by arguing that the difficulty of central planning is more than a matter of calculation. Central to his argument is the idea of the economy as a spontaneous order, transmitting and generating dispersed information that allows production to be produced at the lowest possible cost. Hayek even dispensed with the word economy. He argued that the use of the word involved a confusion of language because of the way it suggested that the purpose of the market is the allocation of scarce resources to the most efficient ends, whereas no one person is in a position to know what these ends are, and therefore

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<sup>39</sup> *Ibid.*, p.2.

<sup>40</sup> Institute of Economic Affairs, *Masters of Modern Economics, Economic Freedom, F.A.Hayek* (Blackwell: Oxford, 1991), p.vii.

<sup>41</sup> See further Cockett, R. *op.cit.*, p52 ff.

<sup>42</sup> Gray, J. *Beyond the New Right, Markets, Government and the Common Environment* (Routledge: London, 1993), p.68.

any discussion in such terms is necessarily empty. In its place, Hayek preferred the Greek word *katallaxy*, on account of the way it describes a spontaneous order. This he argued better expresses the only purpose of the spontaneous and ever evolving order of the market, which he understood to be that of exchange. As he explained in *The Confusion of Language* (1968), 'Only because the market induces every individual to use his unique knowledge of particular opportunities and possibilities for his purpose can an overall order be achieved that uses in its totality the dispersed knowledge which is not accessible as a whole to anyone.'<sup>43</sup> John Gray again provides a helpful clarification of this aspect of Hayek's thought:

The epistemic impossibility of successful comprehensive central planning is not for Hayek, as it was for Mises, chiefly a calculational one; it is rather one that flows from the very nature of the knowledge possessed by economic agents. This knowledge, Hayek insists is not only or mainly the propositional knowledge of basic facts that can easily be theorised or quantified; it is local knowledge of floating economic environments, often embodied in skills or practices or expressed in entrepreneurial insights. This is knowledge that by its very nature cannot be collected by a central planning board.<sup>44</sup>

The importance of the epistemic argument for privatisation is that it strongly calls into question the theoretical possibility of an efficient nationalised industry let alone an entire planned economy because the central planners and the managers of public enterprise simply lack sufficient information on which effectively to plan and to manage. As Gray comments on the further development of the insights of the Austrian School, they demonstrate that 'even if the soviet leadership had been successful in creating a new *homo sovieticus*, who would not respond to the perverse incentive structure created by the planning institutions but would mechanically follow planning objectives, he would lack the knowledge needed to achieve the planners' goals.'<sup>45</sup> Therefore, according to this insight, the free market not only protects individual economic freedoms by rejecting the notion that there is one purpose or a common set of purposes for economic activity, but it also offers the most rational allocation of resources possible, because it is only the market which can fully utilise all the information residing in the many individual consumers and suppliers to match supply and demand.

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<sup>43</sup> *Economic Freedom*, F.A. Hayek, p.373.

<sup>44</sup> Gray, *op.cit.*, p.69.

<sup>45</sup> *Ibid.*, p.67.

Furthermore, by utilising all the information available, and this is a crucial part of Hayek's defence of the market, the market economy not only rationally allocates scarce resources between competing uses, but also ensures that fresh wealth is created. Brian Griffiths explains this aspect of Hayek's thought by contrasting a positive-sum game, in which all the players gain and a zero-sum game in which some players are made better off at the expense of others.<sup>46</sup> In Hayek's thought, the market economy is a positive-sum game because the way prices act as signals in a market economy, conveying information about consumer demands and the relative costs of different ways of supplying these demands, ensures that as soon as producers respond to price signals they are in effect creating new wealth by moving to supply a change in demand at the least possible cost. By contrast, a planned economy is likely to be a zero-sum game because prices are not competitive and therefore do not convey all the information required to ensure the creation of fresh wealth at the least possible cost; as a result some players are always likely to be made worse off.

Hayek's defence of the market economy therefore implies a 'general presumption against state enterprise'.<sup>47</sup> However, it does not follow that he rejects any role for the state in the provision of economic goods and services. In this connection, it is important for the use of Hayek's thought to clarify the difference between his defence of the limited state and Nozick's defence of the minimum state. For Nozick, the only legitimate functions are those of the "night-watchman": national defence and the provision of a civil and criminal justice system. In contrast, for Hayek, 'The range and variety of government action that is, at least in principle, reconcilable with a free system is considerable.'<sup>48</sup> The fundamental difference between these positions derives from the way Nozick bases his theory of justice on a theory of rights, whereas Hayek bases his on procedural justice. Consequently, just as the rules of a game can always be changed to improve the game for all, for Hayek, property rights are reformable in the interests of procedural justice.<sup>49</sup>

Nevertheless, if Hayek is less absolutist in his understanding of property rights than is Nozick, and, as a consequence, may allow some limited scope for nationalisation, for example

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<sup>46</sup> Griffiths, B. *Morality and the Market Place*, p.31 ff.

<sup>47</sup> *Ibid.*, p.138.

<sup>48</sup> *Ibid.*, p.136.

<sup>49</sup> *Ibid.*, p.136. Griffiths comments that Hayek 'treats property rights as artefacts, conventions necessary both for economic welfare and personal independence, rather than as eternal verities given us by natural law.'

in circumstances of massive economic disturbance, his philosophy of economic freedom provides a strong justification for privatisation in its defence of private property as the best guarantor not only of negative freedoms but also of positive freedoms. This aspect of Hayek's philosophy is often overlooked, and as a result he is often wrongly accused of a disregard for positive freedoms. In this connection, while accepting that Hayek did not sufficiently emphasise the positive freedoms promoted by the market, Gray finds it necessary to offer the following defence of the place of positive freedoms in his philosophy:

It is not true of Hayek, even if it may be true of other thinkers in the classical liberal intellectual tradition, that the regime of property rights and free markets under a limited government is defended primarily on grounds of negative liberty. For in Hayek, as in Kant himself, freedom has two faces: it encompasses both protection against coercion and the possibility of self-determination. In Hayek, again as in Kant, the freedom of self-determination or autonomy is secured chiefly through the institution of private property. For it is by using one's own property according to one's own values and goals, without the necessity for consultation with one's neighbour, or any collective authority, that one can most nearly approximate the status of an autonomous agent. In this (often tacit or implicit) defence of the market economy for its contribution to positive freedom, Hayek expresses a deep insight that is negated or misunderstood by most critics of classical liberalism...For this reason, the regime of private property and free markets is to be defended as the best embodiment of positive freedom in a context of value-pluralism and cultural variety - and not merely or primarily as the institutionalisation of negative freedom.<sup>50</sup>

In addition to Hayek's intellectual achievements, he contributed the practical organisational skills to form a movement for the revival of economic liberalism. Richard Cockett identifies the beginning of the movement with the calling of the *Le Colloque Walter Lippmann* on 26 August 1938, in Paris, on the eve of the war.<sup>51</sup> The colloquium was called by the Frenchman Louis Rougier, Professor of Philosophy at the University of Besançon in response to the apparently inexorable decline of liberalism in Europe. With Hayek in attendance, the conference proceeded to identify as 'a most dangerous illusion' the argument for the mixed economy that there is some 'middle way' between the extreme Fascist/Communist collectivism

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<sup>50</sup> Gray, J. 'Hayek on the Market Economy and the Limits of State Action', in Helm, D. ed., *The Economic Borders of the State* (Clarendon: Oxford, 1989), p.141.

<sup>51</sup> This section draws on Cockett, R. *op.cit.*, p.11 ff.

and the individualism of classical liberalism.<sup>52</sup>

After the disruption of the war, Hayek revived the idea of an international liberal forum. He proposed that the forum should wage a twenty year campaign using Fabian methods to win the intellectual war between collectivism and economic liberalism. As he explained the need for a long term outlook: 'What to the contemporary observer appears as a battle of conflicting interests decided by the vote of the masses, has usually been decided long before in a battle of ideas confined to narrow circles.'<sup>53</sup> His successful conference in 1948 spawned the Mont Pelerin Society, with its sole object 'the exchange of views among minds inspired by certain ideals and broad conceptions held in common, to contribute to the preservation and improvement of the free society.'<sup>54</sup>

With the Mont Pelerin Society as the protected headquarters of the movement, operating as the forum for discussion of its basic philosophy, the campaign against the mixed economy was mostly fought at the level of practical policies put forward by think-tanks associated with the movement. The earliest of these was the Institute of Economic Affairs (IEA) founded by Anthony Fisher in 1955, with its first Director, Ralph Harris. The Institute's purpose was given it by Hayek who advised Fisher that he 'should join with others in forming a scholarly research organisation to supply intellectuals in universities, schools, journalism, and broadcasting with authoritative studies of the economic theories of markets and its application to practical affairs.'<sup>55</sup>

In keeping with this aim the IEA focused its efforts on a stream of publications applying economic liberalism to specific economic areas. In doing so, the IEA sought to shift the focus of economic interest to micro-economic issues in line with Hayek's complaint that Keynesian economics was mistakenly concerned with macro-economic aggregates that could not adequately represent the diversity and specificity of real economic exchanges.<sup>56</sup> One of the earliest of these pamphlets to apply the theory of free markets to the public utilities was Michael Cane's *Telephones - Public or Private* (1966), which we have referred to earlier in connection with

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<sup>52</sup> Ibid., p.11.

<sup>53</sup> Ibid., p.80.

<sup>54</sup> Ibid., p.117.

<sup>55</sup> Ibid., p.124.

<sup>56</sup> Ibid., p.145.

Heath's Selsdon Man rhetoric. Cane's conclusion that 'the weight of quantitative evidence plus the impediments virtually inevitable to government-owned enterprise suggest strongly that the telephone service would be better off divorced from the public sector',<sup>57</sup> would doubtless have been read by Keith Joseph - the minister responsible in 1984 for the privatisation of British Telecom, the first big privatisation. Joseph is recorded as having first visited the IEA in 1964, then again in 1975 for 'a further course of education'.<sup>58</sup>

### **Milton Friedman.**

In addition to the micro-economic studies of individual industries, the IEA made another major contribution to privatisation by its sponsorship of the monetarist cure for inflation. According to Cockett, 'if there is one central idea that the IEA can be credited with placing at the centre of British politics, it is the doctrine of monetarism, which started life in the late 1960s as a highly technical economic technique for achieving monetary stability, but which later became the highly politicised motivating principle of Mrs Thatcher's economic reforms of the early 1980s'.<sup>59</sup>

The leading figure behind the IEA's sponsorship of monetarism was not Hayek, who disputed the monetarist case, but Milton Friedman, who, according to John Kenneth Galbraith, is probably the most influential political economist since the Keynesian revolution.<sup>60</sup> Friedman is another founder member of the Mont Pelerin Society and probably its most famous exponent of the free market. His empirical studies had led him to conclude that inflation was always a monetary phenomenon. This explanation held out the promise of a cure which persuaded the IEA, who enrolled him in their campaign for monetary stability. Friedman was invited to give the first Wincote lecture of 1970, which he titled *The Counter-Revolution in Monetary Theory*. Following this lecture, the IEA generally promoted his ideas throughout the 1970s, and assisted in preparing his television programme 'Free to Choose' shown in six episodes in 1980. The programme was held to have had an enormous impact on British public opinion.<sup>61</sup>

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<sup>57</sup> *Ibid.*, p.146.

<sup>58</sup> Graham, D. and Clark, P. *op.cit.*, p.20.

<sup>59</sup> Cockett, R. *op.cit.*, p.150.

<sup>60</sup> Galbraith, J.K. *A History of Economics* (Penguin: London, 1987), p.274.

<sup>61</sup> Cockett, R. *op.cit.*, p.152.

According to Foster it was Friedman who gave the decisive call for privatisation when, in a lecture in 1976 entitled *Curing the British Disease*, he advised that 'the obvious thing to do with the steel industry, the railroads and all these industries currently government operated was to get rid of them by auctioning them off...One suggestion [for the steel industry] which I think makes a good deal of sense would not be to auction it off, but to give it away by giving every citizen in the country a share in it.'<sup>62</sup> Foster went on to comment:

at the time, Friedman's suggestion seemed irrelevant. Yet policy change was imminent. One who was later close to Margaret Thatcher suggests that it probably dates from the end of the year in which Friedman spoke or the beginning of the next, soon after she became Conservative leader (in 1975).<sup>63</sup>

As part of their sponsorship of monetarism, the IEA promoted the influential British monetarists Alan Walters and his student Patrick Minford. It was the latter who helped put the focus of an anti-inflation policy on the Public Sector Borrowing Requirement (PSBR). In the IEA publication *Is Monetarism Enough?* (1980), Minford argued that in order to reduce inflation the government had to reduce the PSBR by at least four percent as well as controlling the money supply.<sup>64</sup> With privatisation being politically the easiest way of reducing the PSBR, it soon came to be viewed as an essential adjunct to the monetarist cure for inflation.

### **Keith Joseph.**

Whereas the IEA was set up to influence the universities, the media, and policy makers in general, the hidden agenda behind the creation of the Centre for Policy Studies was the conversion of the Conservative Party. As Keith Joseph explained to Anthony Harris and Arthur Seldon of the IEA, Margaret Thatcher and his think-tank was not intended 'as a rival to the IEA, but to do in political terms for the free market what the IEA had done in the wider intellectual community.'<sup>65</sup> As Joseph further confided to Cockett in 1991, 'my aim was to convert the Tory Party.'<sup>66</sup>

Joseph's own conversion he dates from 1974. It was only then that he claims to have

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<sup>62</sup> Foster, C. op.cit., p.108.

<sup>63</sup> Ibid., p.108.

<sup>64</sup> See further Cockett, R. op.cit., p.155 ff.

<sup>65</sup> Ibid., p.236.

<sup>66</sup> Ibid., p.237.

understood that, despite having represented the Conservative Party for over twenty years, he had been a moderate Fabian. It was this self-understanding that contributed to the famous *mea culpa* Upminster speech of 1974, in which he confessed that the Conservative Party's 'well-intentioned statism' was jointly to blame with Labour for the country's relative economic decline. As he confessed:

Since the end of the Second World War we have had altogether too much Socialism. There is no point in my trying to evade what everybody knows. For half of that thirty years Conservative Governments, for understandable reasons, did not consider it practicable to reverse the vast bulk of the accumulating detritus of Socialism which on each occasion they found when they returned to office. So we tried to build on its uncertain foundations instead. Socialist measures and socialist attitudes have been very pervasive.<sup>67</sup>

In his 1974 Preston speech *Inflation is caused by governments*, Joseph waded deeper into heresy. He questioned the post-war political commitment to full employment through the use of Keynesian deficit financing and urged that 'the time has surely come to turn for advice to economists, critical but constructive, who proved painfully right in their forebodings.'<sup>68</sup> These economists were of course the economic liberals who, like Hayek, had since the 1930s predicted the inflationary consequences of Keynesianism. More pointedly, Joseph appeared to align himself with a specifically monetarist counter-inflation policy by arguing that stable money growth 'gradually brought closer into line with the growth of our production was the essential prerequisite for tackling all the other ills of the British economy.'<sup>69</sup>

For privatisation, Joseph's 1976 Stockton lecture, *Monetarism is not enough*, was perhaps even more important. He used the occasion to claim that monetary stability provides only the framework for economic regeneration. He insisted that in addition to this framework, the economic borders of the state needed to be redrawn so as to free more of the nation's resources for use in the private sector. In doing so, he sought to oppose the new cross-party monetarist consensus which was gaining ground with the conversion of the Labour Chancellor, Denis Healey, and to ram home his message that there was no viable 'middle way'. As he put this challenge:

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<sup>67</sup> *Ibid.*, p.245.

<sup>68</sup> *Ibid.*, p.246

<sup>69</sup> *Ibid.*, p.245

Monetarism is not enough. This is not intended as a counsel of despair, but a warning note. Government's intention to contract the money supply is welcome and potentially beneficial to all. But it is not enough unless there is also the essential reduction of the state sector and the essential encouragement of enterprise.<sup>70</sup>

### **Margaret Thatcher.**

The CPS and Keith Joseph were also the decisive influence on the conversion of Margaret Thatcher. As she admitted in her memoirs:

I had always been an instinctive Conservative, but I had failed to develop these instincts either into a coherent framework of ideas or into a set of practical policies for government. And the faster the illusions of practical men crumbled before the onrush of reality, the more necessary it was developing such a framework. Keith and I established the Centre for Policy Studies to do just that.<sup>71</sup>

And praising the economic liberalism of Alfred Sherman of the CPS, a few days after her first election victory, she wrote in a letter. 'You have been a constant inspiration to Keith and myself in difficult times....None of us will forget that 'There is one thing stronger than armies and that is an idea whose time has come.'<sup>72</sup>

In the light of these statements, as we have previously mentioned, it is difficult to agree with Foster who, while admitting that Margaret Thatcher's 'strength of will' to roll back the borders of the public sector was crucial for the whole privatisation programme, describes this determination as merely a 'vehement if unanalysed wish', which 'cannot be described as being based on either political or economic arguments: rather, it was based on a powerful gut feeling.'<sup>73</sup> She was clearly an early convert. If her memoirs are to be taken at face value, she may even have been an economic liberal from birth as her linking of the influence of her father's grocery business with the calculation argument of the Austrian School suggests:

My father's background as a grocer is sometimes cited as the basis for my economic philosophy....Before I read a line from the great liberal economists,

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<sup>70</sup> Quoted in *ibid.*, p.248.

<sup>71</sup> Thatcher, M. *op.cit.*, p. 14.

<sup>72</sup> Quoted in Cockett, R. *op.cit.*, p.265.

<sup>73</sup> Foster, C. *op.cit.*, p. 109.

I knew from my father's accounts that the free market was like a vast sensitive nervous system, responding to events and signals all over the world to meet the ever-changing needs of peoples in different countries, from different classes, of different religions, with a kind of benign indifference to their status. Governments acted on a much smaller store of conscious information and, by contrast, were themselves 'blind forces' blundering about in the dark, and obstructing the operations of markets rather than improving them.<sup>74</sup>

It should also be recalled that privatisation offered Margaret Thatcher a means of controlling the trade unions by offering workers the bribe of popular capitalism.<sup>75</sup> Indeed, after Heath's drubbing at the hands of the unions and successive attempts to reform industrial relations had failed, it was possibly the only means left to a Conservative Government. Here the hope was that once workers owned shares they would be reluctant to support militant trade union leadership threatening industrial action which might harm the industries they now partly owned. Although this objective of privatisation could not then be stated publicly,<sup>76</sup> Lord Wolfson, Chief of Staff in Mrs. Thatcher's Policy Office at 10 Downing Street, has recently stated openly "The big issue was control of the trade-unions; privatisation was subsidiary to that."<sup>77</sup>

Furthermore, for what additional light it sheds on Margaret Thatcher's ideological commitment to privatisation, it should also not be overlooked that her government was possibly the best prepared in the Party's history. In Nicholas Ridley's policy group on the nationalised industries the new party leadership had explored the mechanics of privatisation as well as prepared for possible confrontation with the unions if the policy were implemented.<sup>78</sup> As Ridley reveals in his memoirs, his group's report was 'almost identical to the original 1970 one, suitably updated'.<sup>79</sup> In any case, he did not think it 'played a very important part in shaping the policies which were later to be implemented. They were all there in Margaret Thatcher's head, and rather

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<sup>74</sup> Thatcher, M. op.cit., p.14.

<sup>75</sup> See further Wiltshire, K. op.cit, p. 8.

<sup>76</sup> It is now generally listed in most text books on privatisation that one of the objectives of privatisation is to reduce the grip of the labour movement on the economy. See further Guislain, P. *The Privatization Challenge* (The World Bank: Washington DC. 1997), p. 19.

<sup>77</sup> Plender, J. *The Big Selloff*.

<sup>78</sup> See further Cockett, R. op.cit., p.267

<sup>79</sup> Ridley, N. *My Style of Government, The Thatcher Years* (Hutchinson: London, 1991), p.16.

than wanting detailed blueprints for office, she wanted more ideas'.<sup>80</sup> And, providing an explanation for the absence of any mention of privatisation in the 1979 manifesto, and a measure of the strength of the commitment to the mixed economy in the party and the country at the time, he writes, 'It was natural that only those ideas which had electoral appeal found their way into the public domain.'<sup>81</sup>

In the light of all this, and bearing in mind the admitted influence of Hayek's *The Road to Serfdom* on her political orientation in the 1950s,<sup>82</sup> it is difficult to conclude otherwise than Margaret Thatcher came to power with a libertarian commitment to privatisation. For this reason her memoirs should be taken at face value where she writes that the 'fundamental purpose' behind privatisation is not to improve the performance of the industries involved but to promote freedom. As she expressed this commitment:

Just as nationalisation was at the heart of the collectivist programme by which Labour Governments sought to remodel British society, so privatisation is at the centre of any programme of reclaiming territory for freedom. Whatever arguments there may - and should - be about means of sale, the competitive structures or the regulatory frameworks adopted in different cases, this fundamental purpose of privatisation must not be overlooked.<sup>83</sup>

### **James Buchanan.**

While Margaret Thatcher and Keith Joseph were early converts to economic liberalism, the conversion of the Conservative Party to privatisation, with so many "wets" still strongly committed to the mixed economy and occupying positions of influence, was never going to be easy without convincing arguments for the political advantage to be gained from privatisation. These came to be provided by the political analysis of the Adam Smith Institute (ASI).

The ASI draws on the Public Choice Theory developed by James Buchanan, another member of the Mont Pelerin Society. As Buchanan explains his sub-discipline, 'all of public choice or the economic theory of politics may be summarised as the 'discovery' or 'rediscovery' that people should be treated as rational utility maximisers in all of their behavioural

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<sup>80</sup> Ibid., p. 16

<sup>81</sup> Ibid., p. 16

<sup>82</sup> Ibid., p. 12.

<sup>83</sup> Ibid., p. 676.

capacities.<sup>84</sup> The crucial word in this explanation is 'all', for Public Choice Theory assumes that people choose on the basis of their rational self-interest whether they are choosing in the economic or political sphere. The normative conclusion follows that, 'because people will tend to maximise their own utilities, institutions must be designed so that individual behaviour will further the interests of the group, small or large, local or national.'<sup>85</sup> As Buchanan expresses this purpose, it is to construct or reconstruct 'a political order that will channel the self-serving behaviour of participants towards the common good in a manner that comes as close as possible to that described to us by Adam Smith with respect to the economic order.'<sup>86</sup>

As this quotation shows, Buchanan derives his inspiration from classical liberalism. Indeed he denies that public choice is in any sense original:

It represents rediscovery and elaboration of a part of the conventional wisdom of the eighteenth and nineteenth centuries, and notably the conventional wisdom that informed classical political economy. Adam Smith, David Hume and the American Founding Fathers would have considered the central principles of public choice theory to be so elementary as scarcely to warrant attention. A mistrust of government processes, along with the implied necessity to impose severe constraints on the exercise of governmental authority, was part and parcel of the philosophical heritage they all shared.

Buchanan's theoretical work has mainly concerned the application of these central principles in the design of political constitutions. Of this work, his defence of the balanced budget rule of the classical fiscal constitution and his criticism of Keynesianism for its asymmetry which 'naively presumed that politicians would create budget surpluses as willingly as they create deficits'<sup>87</sup> is especially important for privatisation by drawing attention to the theoretically insatiable fiscal demands of the nationalised industries. These demands, which allegedly make balanced budgets very difficult if not impossible to achieve, arise from what Margaret Thatcher's Chancellor of the Exchequer, Geoffrey Howe, dubbed their 'constitutional irresponsibility.' This, Howe explained, derives from the Morrisonian constitution which 'grants our nationalised corporations a degree of autonomy which is probably unique in the Western

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<sup>84</sup> Institute of Economic Affairs, *Masters of Modern Economics, Constitutional Economics, James Buchanan* (Basil Blackwell: Oxford, 1991), p.42.

<sup>85</sup> *Ibid.*, p.42.

<sup>86</sup> *Ibid.*, p.43.

<sup>87</sup> *Ibid.*, p.42.

World....The government's only real weapon is its threat to reduce or cut external funds. This is far too drastic to be effective.'<sup>88</sup>

Buchanan's theoretical work on constitutions has also sought to provide a defence of private property rights which has direct relevance to the subject of privatisation. On the basis of analysis which shows that majority voting could make everyone worse off than they would be with no collective action he argued that American political history has been 'superior' to the British majoritarian democracy because the constitution of the United States prevents the economic disruption caused by politically motivated changes in the ownership of industry. As he commented, 'it would be difficult to conceive of an American cycle of nationalisation, denationalisation and renationalisation of a basic industry merely upon shifts in the legislative majority between parties.'<sup>89</sup> In the light of this analysis, he espoused strict constitutional restraints as the means of halting the growth of the Leviathan state, which, if allowed to go unchecked, will gobble up all the nations economic resources.

Buchanan's fellow public choice theorist, Gordon Tullock, provided another level of critique of the Leviathan state with his analysis of bureaucracy. In his *The Politics of Bureaucracy* (1965), Tullock asked the simple question: 'What are the rewards and penalties facing a bureaucrat located in a hierarchy and what sorts of behaviour would describe his efforts to maximise his own utility?'<sup>90</sup> This subversive line of questioning has undermined confidence in the public service ethos which provided part of the justification for public ownership. Tullock's analysis also supports the claim that bureaucrats in charge of the nationalised industries are bound to expand the size of the organisations they control well beyond any tolerable levels of efficiency. John Gray dubs this claim the 'incentive argument', for its identification of the deficient structure of incentives in bureaucracies as an explanation of their inefficiencies.<sup>91</sup>

In addition to introducing the general theory of public choice into the political debate over the nationalised industries, the ASI sought to supplement the work of the other think-tanks by applying public choice theory to show how free market policies could most fruitfully be

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<sup>88</sup> Quoted in Foster, C. op.cit., p.114.

<sup>89</sup> *Constitutional Economics*, James Buchanan, p.36.

<sup>90</sup> Ibid., p.37.

<sup>91</sup> See further Gray, J. op.cit., p.68f.

introduced into a hostile political culture. As Madsen Pirie, President of the ASI, explained this task in his version of public choice *Micropolitics* (1988), 'The idea at the core of micropolitics is that creative ingenuity is needed to apply to the practical world of interest group politics the concepts of free market theory.'<sup>92</sup> For privatisation, the application of these ideas involved identifying the self-interest of those who stood to be affected by privatisation and to communicate the advantages of privatisation to each affected group. As Pirie advised would-be privatisers, 'the first task when contemplating an act of privatisation is to list all those groups and to identify their advantage....The golden rule about privatising is always to give people greater advantage than they previously enjoyed. In Britain, we say the rule is: never cancel a benefit....however unjust it is....especially if you can buy it instead.'<sup>93</sup>

So confident was Pirie in the benefits of privatisation that by 1985 he wrote an article for the Institute of Public Affairs Review with the title, *Privatisation Benefits Everyone*. But perhaps more important for the conversion of the Conservative Party was his clear identification of the political advantage to the Party in privatisation. As Foster summarises Pirie's argument:

He pointed out that those who own shares tend to vote Conservative, as do workers who are given shares in the firm where they work. Managers in the private sector are more likely to vote Conservative than are those in state enterprises. Trade unions are more likely to vote Labour and they are more numerous in state enterprises than they are in private enterprises. And if there is less state enterprise, there need be fewer civil servants: they were more likely to vote Labour, so there will be a further reduction in Labour voters.<sup>94</sup>

This finding of public choice would doubtless have made privatisation decidedly attractive to the average Conservative politician who in the mid-1970s found himself representing a party once again shut out of power, and who would increasingly have been drawn from a new class of professional politician which Public Choice Theory assumes will adopt policies that will serve their rational self-interest. In this light, Foster's dismissal of Pirie's *micropolitics* as an explanation of one of the motives of the Conservative Party in adopting privatisation is barely credible.<sup>95</sup> Indeed so plain was the political advantage to be gained from

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<sup>92</sup> Quoted in Cockett, R. *op.cit.*, p.283.

<sup>93</sup> Quoted in Foster, C. *op.cit.*, p.103.

<sup>94</sup> *Ibid.*, p.103.

<sup>95</sup> *Ibid.*, p.106.

privatisation that it hardly needed Public Choice Theory to point this out. And, in any case, as early as June 1976, Russell Lewis, the influential contributor to the Conservative Party libertarian pressure group, the Selsdon Group, had already made the point about political advantage when he drew a comparison between the dissolution of the monasteries and privatisation: 'Just as Henry VIII assured the success of the Reformation by selling the monasteries to the gentry, so the Conservative revolution of the future may be made safe by parcelling out State concerns among the people.'<sup>96</sup>

### **John Redwood.**

The link between Henry VIII's selling of the monasteries to the gentry and privatisation, however, could not be relied upon to win the support of the wider public for privatisation. For this purpose a less Machiavellian sounding apologia was needed and was supplied in the rhetoric of popular capitalism. The author of the new rhetoric was the Head of Mrs. Thatcher's Policy Unit from 1983-85, John Redwood. In 1988 he published the distillation of his thinking in a cogency argued book with the title *Popular Capitalism*. The book claims to present a coherent economic and moral case for popular capitalism, which though 'much broader than the simple expansion of ownership by attractive share sales',<sup>97</sup> includes privatisation as an essential part of a capitalism with a human face.

Much of the book, in particular its criticisms of the inner contradictions of Marxism and Social Democracy, will by now be familiar territory as it draws on the main theorists of economic liberalism whom we have considered above. For instance, he argued the case for the limited state by pointing out that once governments accept the responsibility of ownership of industry, experience bears out the lesson that they will then be 'pulled into a vicious cycle of ownership, subsidy, fudged decisions, bad investments, more subsidy, more fudges and bad decisions leading to the debilitation of the underlying industrial or commercial strength of the country'.<sup>98</sup> In an echo of Hayek, he warned that the end of this cycle, with its 'politics of a little bit more of that and a little bit less of this', can result in a free people being delivered into

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<sup>96</sup> Cockett, R. *op.cit.*, p.216.

<sup>97</sup> Redwood, J. *Popular Capitalism* (Routledge: London, 1988), p.31.

<sup>98</sup> *Ibid.*, p.25.

'serfdom by the back door'.<sup>99</sup>

Redwood also warned that experience with the mixed economy has shown that owning and directing industry seriously compromises the main task of government. Again drawing on the theory of the limited state, he defines this task as involving the creation and policing of the legal, financial and economic framework in which industry can flourish. In this connection, he pointed out that governments with large vested interests in public ownership cannot afford to be fair to private sector companies on the margin of a large nationalised industry. Furthermore he argued that such a compromised government cannot possibly set fair tariffs or subsidies affecting nationalised industries, when it itself is the owner and is being constantly lobbied by the industries? As he put this in his own words: 'For governments should be the arbiters, the people above the factious disputes between industries, companies and individuals. Government should be the upholder of the law and the arbitrator in disputes over contracts....It is very difficult to carry out this role fairly or with impartiality if at the same time government is acting as owner and manager of whole series of assets.'<sup>100</sup>

In addition to these standard economic liberal arguments for privatisation, Redwood made three distinctive contributions to the debate which are worth mentioning: Firstly, he traced the origins of privatisation, not to the failure of public ownership as such, but rather to the specific abuse of the monopoly power granted the trade unions by the Acts of Parliament nationalising their industries. In this connection, he wrote of the ideas making up popular capitalism that their 'origins lay first and foremost in the dreadful experiences during the last eighteen months of Edward Heath's Conservative government from 1972 to early 1974. That government was constantly being held to ransom by powerful trade union monopolies....The Heath government fell because of the nationalised industry trade union problem... it was that major event in British politics of the early 1970s that led me to write and think and try and proselytise in favour of breaking up monopoly concentrations of power, wherever they lay, but especially in the public sector, and introducing private capital on some scale or other into these large public enterprises.'<sup>101</sup>

Secondly, he was able to support the theoretical criticism of social democracy by drawing

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<sup>99</sup> Ibid., p.41.

<sup>100</sup> Ibid., p.25.

<sup>101</sup> Ibid., pp.145-146.

on a survey of international political and economic trends to point out that in all those countries which have experimented with a mixed economy, experience has shown that the market system becomes progressively eroded and distorted with serious consequences not only for economic growth but also for democracy. On the basis of this survey he concluded that public ownership had failed to better the lot of ordinary people and now only popular capitalism could deliver both economic prosperity and freedom for all. As he put this in a passage that provocatively draws on words from the now abandoned Clause IV of the Labour Party:

The opening up of a mass franchise to all those who toiled by hand or brain, but did not own their own house and had no share in their business, was a radical departure of the late nineteenth and early twentieth centuries. What the new Conservatives are saying is that it was right to enfranchise every man, but that he will only be truly enfranchised as a full citizen in the economic life of the country when he also has a stake in its land and in its means of production.

Experiments by socialists to empower the people by nationalising the main assets of the country failed almost universally. Nationalisation not only failed to deliver the goods in an economic sense, unable to reassure employees, delivering a strike-torn present, never a strike-free future; but it also failed to give the large body of electors any meaningful say or choice over the way the business was run or the kinds of products an service it could deliver. <sup>102</sup>

The third distinctive contribution of the book to the debate was to base the case for privatisation in what he claimed to be the ineluctable logic of the world economic system which he understood to be too much in debt by the end of the 1970s. According to Redwood, this imposed on governments everywhere the imperative of substituting equity for loan finance. Here he pointed out that the impressive record of growth in the 1960s and early 1970s had been in part fuelled by a major expansion in international credit. Then, following the oil crisis of 1973, this steady expansion of credit was added to overnight by the huge transfer of income from the industrialised nations to the oil producing nations, which was almost immediately channelled back into the Western world and the developing world through further bank lending. After that major adjustment, the second oil crisis pushed the world economy further into debt. For the developing world, already struggling to compete with the advanced production technology resulting from the revolutions of cybernetics and robotics, these events made their economies captive to world banking institutions and posed a further crisis of international aid. The

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<sup>102</sup> *Ibid.*, p. 156.

developed world was more fortunate in that it at least owned much of the banking system in which the petro-dollars were deposited. Nevertheless, it too suffered from the way governments were further forced to intervene in their economies either through deficit financing, to prevent the deflationary effects of the oil crisis, or with selective assistance to individual industries or regions. And, with the banks awash with money that they were ever finding new ways to lend, the private sector was unable to resist the temptation to take on more debt than was prudent. The outcome was, as one of Redwood's chapter titles reads, *The Road to Ruin: The World in Hock to Bankers*.

For Redwood, popular capitalism is the only way out of this world predicament. The sale of state assets provide the public funds pecuniary governments, saddled with debt and fighting inflation, need to continue to maintain public services without raising taxes or adding to the national debt. Privatisation encourages the expansion of stock exchanges which makes it easier for all companies to replace loan capital with equity or to raise new equity capital for economic growth. And, privatisation provides a means of tackling the huge debt mountain of the developing countries, without putting the international financial system at further risk, through the financial instrument called a debt swap. The last allows a foreign investor to buy a developing country's loans in exchange for the government cancelling the loan and issuing shares in a privatised industry in its place. In addition to reducing the interest that would otherwise have to be paid, Redwood explains that the further advantage to the developing country is that once foreign investors have a stake in the economy they are the more motivated to help make that economy work. And once the flow of foreign investment into a developing country becomes sustained, the more likely it is that affluent nationals will invest their savings at home rather than finding means of escaping financial controls to invest their funds abroad. In this way a virtuous circle can be introduced leading to faster and faster economic growth.

On the strength of its response to the moral crisis posed by the indebtedness of the poorer countries and its answers to the problems besetting the mixed economies of the developed countries of Western Europe, Redwood claims for the set of ideas making up popular capitalism 'a coherent world view'.<sup>103</sup> As he elaborates:

The ideas interlock. They address the core of the financial problem of the age, the over-indebtedness of governments and companies in many parts of the

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<sup>103</sup> Ibid., p.32.

world. They also address the core of the social problem of the age. Ever growing state intervention has created that very kind of alienation that Marx thought he saw in capitalism. The re-introduction of incentive, opportunity and self-enterprise is rebuilding the self-respect, as well as the economic strength of those countries that are trying it. This coherent set of ideas is linked to liberty and is the economic expression of democracy in all its manifestations. These ideas are the most powerful set the world has seen since state-based, nationalisation-based, go-for-planned growth strategies developed in the post-war consensus.<sup>104</sup>

But whether it is coherent or not, it is undeniable that the rhetoric of popular capitalism was very persuasive for it promised nothing less than liberation: For the army of small shareholders whom he described as turning up to the annual general meetings of privatised utilities with a whole new look in their eyes, it promised the economic enfranchisement which would at last make political enfranchisement meaningful. For employees, he referred to the new confidence and enthusiasm that comes from owning a share of the business. For the people in the developing world there was the hope that the burden of debt would be lifted and they too might have a share in property. With all of this to recommend it, Redwood hailed popular capitalism as 'a major world revolution'<sup>105</sup> whose time had come. He warned that the 'foolish politician who ignores the march to freedom'<sup>106</sup> would be swept onto to the slag heap of history. He also confidently predicted, on the ground that popular capitalism is not only about wealth creation but also about 'the spread of wealth and ownership and the participation of employees in ownership', and is therefore 'a hybrid creed which is neither clearly of the right or of the left', that in time all political parties would be forced to accommodate its ideas.<sup>107</sup>

### **John Moore.**

The political success of popular capitalism in forcing all the main political parties in Britain to accommodate many of its ideas and, in particular privatisation, cannot be questioned. But no matter how persuasive, ideas can fail without a firm hand to guide them through the political quagmire that is Westminster. Therefore at least part of the success of privatisation

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<sup>104</sup> Ibid., p.32.

<sup>105</sup> Ibid., p.157.

<sup>106</sup> Ibid., p.23.

<sup>107</sup> Ibid., p.45.

must be attributed to the minister Margaret Thatcher chose to be responsible for the initial stages of the British privatisation programme, John Moore, Financial Secretary to the Treasury from 1983 to 1986. As becomes apparent from a reading of his paper, published by the Harvard Business Review in 1992, with the title, *British Privatisation - Taking Capitalism to the People*, Moore fully succeeded in 'living' within the framework of economic liberalism and applying its leading ideas. As the final step in identifying the principal arguments for privatisation in the writings and speeches of its principal exponents, we shall now set out the main lines of his apologia for privatisation:

Moore predictably began by claiming that public ownership has failed along the lines of the Austrian School's epistemic argument for the market: without giving market signals the attention they deserve, the outcome is likely to be inadequately managed industries and enterprises, lacking the essential information needed for decision making. As an illustration of the economic inefficiency that results from allowing political considerations to override the market, he referred to the ramifications of the political decision in the early 1970s to hold down the price of gas in order to offset the effects of the OPEC oil price shocks. This he explained led to the undercutting of the competitive position of the electrical utilities that burn coal, producing excess electrical capacity, surplus coal production, and shortages of gas; in short, utter confusion in the energy sector.

Moore then went on to provide another explanation for the failure of the nationalised industries along the lines of the incentive argument. He prefaced his argument here by recasting the old view of self-interest as a vice into a virtue: 'Self-interest is not some evil attribute to be repressed: it is simply the urge people have to improve their lot, to make things better for themselves and their families. It has been the engine of progress since the dawn of time, and to pretend otherwise is to ignore one of the most powerful forces available for improving the quality of life.'<sup>108</sup> He then drew on the insights of the Virginia School of Buchanan and Tullock to argue that the denial of self-interest as a motive for managers and employees and the evasion of the discipline of the market place which means that 'industries do not have to succeed in order to survive' leads to 'inertia, inefficiency and scant attention to the wants and demands of consumers.'<sup>109</sup>

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<sup>108</sup> Moore, J. 'British Privatisation - Taking Capitalism to the People', in *Harvard Business Review*, January-February, 1992, p.118.

<sup>109</sup> *Ibid.*, p.118.

Moore made no mention of the responsibility nationalised industries are supposed to have for inflation, as an argument for privatisation. This is no doubt due to his writing from the vantage of the early 1990s, by which time inflation had to some extent been tamed. However, he did indirectly refer to the view that links privatisation with monetarism, as Keith Joseph did in his *Monetarism is not Enough*, and as Patrick Minford did in *Is Monetarism Enough?* by referring to the contribution asset sales made to the improvement of the PSBR. According to Moore, the £34 billion contributed by the time of his writing led to a dramatic improvement in the overall economy and a repayment of 12.5 percent of the national debt.

Next Moore deployed the argument linking privatisation with liberty: 'Both [the free market and individual ownership] are inseparable from liberty, democracy, and the improving living standards democracy requires to survive.'<sup>110</sup> His warning here doubtless draws on the perceived threat to civil liberties posed by the trade union disturbances of the 1970s and the longer term danger from pauperisation that Hayek predicted would result from state interference in the economy. He also made much of the argument that privatisation, by extending share ownership in society and, therefore, individual human autonomy, promotes positive freedoms. In this connection, he wrote:

People want to own property, and they fully appreciate the value of equity ownership as a flexible capital asset. Many people own very modest numbers of shares, but whatever they own often represents their first source of income beyond an otherwise total and, for many, frightening reliance on their weekly pay. The tiny group of individual shareholders in 1979 - barely 7% of the British population - has grown to more than 25% in 1991.<sup>111</sup>

Significantly, Moore was sensitive to the criticism that privatisation has contributed little to the alleviation of poverty by defending the British privatisation programme for standing 'privilege on its head' by reversing proportional scaling to give absolute priority to the small investor. He also defended the practice of not merely giving away shares to the worse-off in society as a means of extending their positive freedoms by claiming that giving away shares misses Thomas Paine's point that "what we obtain too cheaply we esteem too lightly." And, understanding privatisation as an education in the principles of a liberal capitalist society, he claimed that individuals should be required to exercise their autonomy by making their own

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<sup>110</sup> *Ibid.*, p.124.

<sup>111</sup> *Ibid.*, p.119.

decisions to buy shares and to commit some of their own resources to the choice. Hidden in this part of his apologetic is the New Right critique of social welfare, which, in books like that of Charles Murray's *Losing Ground* (1984), cannot lightly be dismissed as an explanation for the 'dependency culture' that is widely believed to pose a grave threat to the future of the welfare state.

Finally, in the special case of the former public utilities, Moore defends the substitution of ownership by control through licenses and regulatory agencies along the lines of the constitutional argument. He claims that the main advantage of the change of role from owner to regulator is that it frees the government to protect their constituents' interests, whereas before the needs of the industries and not the consumers' interests were paramount. He also confidently claims that the creation of a regulator empowered to intervene to promote competition and, where this is not possible, to create and manage the mechanisms that must stand as proxies for competition, such as pricing formulae, and standards of customer service, is superior to the regulation of state ownership. In the case of uneconomic services, that Hayek allowed the state may provide, such as public telephones in sparsely populated rural areas, Moore argues that their supply can be adequately ensured by license.

On the strengths of these economic liberal apologia for privatisation, Moore concluded: 'In my view, the argument about state and private ownership of industry in the UK is over. Private ownership has won, and debate has to centre instead on the theory and practice of regulation.'<sup>112</sup>

## **THE ECONOMIC LIBERAL CASE EXAMINED**

Having at this point 'lived' within the framework of economic liberalism in order to learn its idiom as far as we are able, such are the risks of venturing beyond what Atherton calls one's "traditional enclosures", that it may be difficult not to agree, at least provisionally, with Moore's conclusion. Indeed, as a general comment we have found that the case for privatisation in popular capitalism speaks eloquently of freedom and utilises an economic rationality which seriously challenges our more traditional Christian ethical framework. However, as we shall argue in what follows, the debate about public and private ownership of industry is far from over because the choice between these two is much more complex than the economic liberal case

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<sup>112</sup> *Ibid.*, p.120.

makes out, even judged by its own standards.

Consider, firstly, the epistemic argument for privatisation. This holds that the market's superior utilisation of information will ensure a more efficient and therefore more rational allocation of scarce resources than public ownership. After the failure of the Soviet command economies, few would contest the sufficiency of this argument as an argument against the central planning of an entire economy. However, as an argument in support of privatisation in a mixed economy it is not necessarily true in those cases where there is significant market failure, such as when conditions of natural monopoly, economies of scale, and significant social costs apply. Moore's analysis of the energy sector is defective, for example, because he fails to take account of the social costs attaching to the use of coal in the generation of electricity, which provided part of the justification for tilting the market in favour of gas in the seventies. In this connection, supporting much of the post-war economic justification for nationalisation, Vickers and Yarrow comment that 'it is perfectly possible to argue within an orthodox microeconomic framework that in many contexts (of which natural monopoly conditions are the most obvious example) public management will do better in terms of economic efficiency than private management.'<sup>113</sup>

Secondly, consider the incentive argument. This holds that privatisation promotes economic efficiency by doing away with the deficient structure of incentives that operate under public ownership. Here, while it is possibly too distrustful of the public service motives of some civil servants, we can begin by accepting the cogency of much of Tullock's analysis of bureaucracy. Furthermore we can accept Vickers and Yarrow's argument that 'the allocation of property rights does matter because it determines the objectives of the "owners" of the firm (public or private) and the systems of monitoring managerial performance. Public and private ownership differ in both respects. As a result, changes in property rights will materially affect the incentive structures, and hence the behaviour of managements'.<sup>114</sup> Certainly the almost continuous scrutiny of the stock market and the threat of a fall in share price and possible takeover can reasonably be assumed to be a far stronger negative incentive on management than the sanctions, such as the dismissal of a board chairman, that Foster considered to be wholly ineffective under public ownership.

However, the question of whether the positive incentives operating under private

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<sup>113</sup> Vickers, J. and Yarrow, G. *op.cit.*, p.1.

<sup>114</sup> *Ibid.*, p.3.

ownership are always superior to those operating under public ownership is more complex. The size of the incentive schemes offered senior executives in the privatised industries must of course be a spur to improve economic performance. For this reason no management of a privatised industry is likely to be accused of opting for a minimising environment. But it is worth pointing out that sizable monetary incentives for the attainment of short or medium term performance targets can jeopardise more important long-term business objectives, such as the maintenance of an adequate level of investment. In this connection, economists make the distinction between short term or static efficiency and long term or dynamic efficiency. And as Jackson and Price point out:

In the privatisation literature static efficiency has been over-emphasised. Little discussion centres on whether or not there are significant market failure in the capital market and whether investment decisions made by public enterprises are more dynamically efficient than decisions made by private firms. Given the risk pooling advantages of the public sector and the public sector's access to future tax revenues to underwrite financial risks, then the case for private decision making need not be as clear cut as is often supposed if the argument is couched purely in terms of static efficiency.<sup>115</sup>

Turning to the incentives operating at lower levels of the organisation, the extension of employee share ownership is likely to have strengthened the positive incentives operating throughout the enterprise because of the sense of ownership conveyed. The threat of redundancy is certainly a much stronger negative incentive under privatisation in the context of mass unemployment and the massive 'downsizing' programmes that have followed privatisation. By contrast the public enterprise culture of 'jobs for life', which was supported by strong public sector trade unions, and the nationalised industry role of 'employer of last resort', which was supported by the post-war political commitment to full-employment, had few sanctions to deploy against underperforming employees.

That said, there are limits to the efficiency gains from job insecurity. For one, increasing job insecurity has been linked with higher job related stress and, consequently, with higher levels of employee absenteeism. Although it is virtually impossible to quantify this cost, when account is taken of the impact on family life of job related stress the economic costs may not be inconsiderable. For another, job insecurity could be self-defeating by strengthening the power

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<sup>115</sup> Jackson, P. and Price, C. *op.cit.*, p.8.

of trade unions. Consequently, although high levels of unemployment may prevent a return to the labour unrest of the 1970s, this cannot be ruled out because union leaders must recognise, as Vickers and Yarrow have pointed out, that the privatised industries 'have fewer resources than the government to resist union pressures and could not ride a year-long strike as the government managed to do with the miners in 1984-85'.<sup>116</sup> Taking all these factors into account, the incentive argument for privatisation which is otherwise strong, is made to look much weaker.

Thirdly, consider the constitutional argument. This holds that privatisation allows government to focus without the distractions and confusions of ownership on its central, constitutional, task of creating and upholding a legal framework within which industry can operate freely and fairly. Here we can begin by accepting the strength of this argument for limited government on account of the theoretical insight that governments fail as much as markets do, and that for every justifiable government intervention there are likely to be unforeseen adverse consequences. We would therefore not want to contest anything in Gray's general comment which we quote in full below:

The political thought of the New Right also contained a powerful analysis of government failure in the Western democracies. The Virginia School of Public Choice gave intellectual rigour to arguments about governmental overload and over-extension by applying to the behaviour of democratic politicians and governmental bureaucracies the same economic models applied to behaviour in markets. It illuminated the absurdity of the conventional view of economics as being governed by an inexorable, impersonal logic of profit and loss, while political life was seen as a realm of voluntaristic choice-making, and it revealed how far modern democratic states have been transformed into agencies for rent-seeking by (often collusive) special interests. If the Virginia analysis was sound, we could expect government activity always to be fraught with the risks of government failure, of capture by collusive interest groups and of bureaucratic expansionism. The economics of political life, as theorised by the Virginia School, suggested that for every instance of market failure there might be a corresponding instance of government failure. Skewed as public choice theory undoubtedly was by the corrupt and elephantine bureaucracies of the US government, which are nowhere else precisely replicated, it nevertheless gave a theoretical statement of the limits of the efficacy of government which

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<sup>116</sup> *Ibid.*, p. 18.

accounted for much in the post-war experience of the Western democracies.<sup>117</sup>

However, we are led to qualify our support for the constitutional argument as a justification for privatisation in the light of what public choice theory would predict of the utility maximising behaviour of large, strategically important firms in the private sector: they would seek to 'capture' government for their own ends. In this respect public choice theory and the Marxist analysis of power in a capitalist democracy show a considerable convergence. It follows that, while one might like to think that the state's divestiture of its ownership of enterprises would allow it to focus on creating and policing a legal framework for the economy unencumbered with all the responsibilities and temptations of ownership, the reality is bound to be more complex for the reason that privatisation adds to the political power of private capital, which can be expected to behave in self-interested ways which may thwart the just exercise of power in a liberal democracy. Consequently, privatisation need not necessarily make fair government any the easier.

We can treat the monetarist argument for privatisation as a variant of the constitutional argument for the reason that it enjoins governments to forgo the use of an interventionist monetary policy and to control money according to a clear set of rules. This argument holds that privatisation is an essential part of an anti-inflation policy on account of the fiscal irresponsibility of public ownership, which subverts control of the money supply. Here again we would not want to contest Gray's general comment that, 'In so far as economic growth had faltered in the Western economies in the seventies, and the Keynesian policies that had sustained it before then seemed to be self-limiting or misconceived, the monetarist analysis and prescription was a system of ideas whose time had come'.<sup>118</sup> However, as an argument for privatisation it is weakened to the extent that the inflationary behaviour of the nationalised industries can be tackled by other means, such as the system of cash limits imposed after 1976 and by allowing the industries greater freedom in setting their prices.

The regulatory argument is another we can treat under the broad umbrella of the constitutionalist argument as its basic concern is also with limited government. However, it also deserves special attention for the reason that advances in the theory and practise of regulation have been used to justify privatisation in their own right. Much of the strength of this argument

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<sup>117</sup> *Beyond the New Right*, p.vi.

<sup>118</sup> *Ibid.*, p.vii.

relies on the experience of regulation in the United States and on the claims, initially made by Stephen Littlechild and Michael Beesley, for the superiority of price cap over rate of return regulation as a means of 'holding the fort' until the industry can be subjected to greater competition.<sup>119</sup> The debate is admittedly complex and yet what it appears to overlook is the simple truth that regulation by agency, as originally proposed by Littlechild and Beesley was only intended to be an interim measure; these authors fully recognised that ultimately the success of privatising the former public utilities depended on the encouragement of competitors, and, therefore, that the main aim of regulatory policy should be to promote competition. It follows that the strength of the regulatory argument has to be judged on two criteria: the effectiveness of the regulatory agency model as a holding operation and the scope for competition.

With regards the former, the problem of the asymmetry of information, whereby the management of an industry withholds vital information from the regulator and thereby thwarts effective regulation already appears to have been borne out by experience. Littlechild, for instance, who was appointed the electricity industry regulator on the strength of his theoretical work on regulation, has been subjected to widespread criticism by the public and consumers for imposing a far too lax regulatory regime. In responding to this criticism by tightening the regulatory framework, he has also fallen out with the industry for introducing uncertainty by twice changing the price cap; this he previously taught was a 'one-off' restriction which 'preserves the firm's incentive to be efficient, because the firm keeps any gains beyond the specified level'.<sup>120</sup> And it would appear that Littlechild's failure has been followed to a greater or lesser extent by all the other regulators in the light of the £8 billion of tax the new Labour Government has announced it will raise by a one off tax on the privatised utilities. Indeed, the size of this claw back of monopoly profit, which the privatised firms appear to have taken in their stride, is an indication of just how wide of the mark regulation has been in general. Nevertheless, as we have previously stated, too much should not be read into this experience because just as the experiment of nationalisation initially got off to a bad start, so it can be expected that the initial experiments with regulation will not go smoothly.<sup>121</sup>

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<sup>119</sup> See further Beesley, M. and Littlechild, S. 'Privatization: Principles, Problems, and Priorities' in Bishop, M., Kay, J. and Mayer, C. *Privatization and Economic Performance* (Oxford University Press: Oxford, 1994), p.20 ff.

<sup>120</sup> *Ibid.*, p.21.

<sup>121</sup> This may be too generous to the case for regulation in the light of experience of regulation in the United States. See further the debate between Littlechild and the leading US expert on regulation, Gregory Palast in *The Guardian* Newspaper, Thursday January 18, 1996.

This point also applies to attempts to introduce greater competition into the natural monopolies. However, in this case a worrying consensus appears to be emerging amongst the academic commentators that a great opportunity was missed to create more competitive frameworks for many of the industries in the rush to privatise. Vickers and Yarrow, for instance, maintain that, 'By failing to introduce sufficiently effective frameworks of competition and regulation before privatizing such industries as telecommunications and gas, the Government has lost a major opportunity to tackle fundamental problems experienced in the past under public ownership'.<sup>122</sup> Making the same point, Bishop, Kay and Mayer complain that:

The consequences of the failure to give adequate attention to the structure of industries prior to privatization has been that regulation has not been able to realize one of the advantages that it should have over public ownership - careful targeting on market failures. The areas of market failure in most utilities are quite narrow. In contrast, the scope of regulation in all cases has been very broad, encompassing entire industries. As a consequence, the job of regulators has been made impossible by the nature of the task that they have inherited, namely the stewardship of whole industries'.<sup>123</sup>

If these assessments are true, and regulation by agency should only be seen as 'holding the fort' until competition arrives, as Littlechild and Beesley originally envisaged, the prospects do not look good for effective regulation of the privatised utilities.

Fourthly, consider the the argument from negative freedoms. This holds that privatisation promotes and safeguards civil liberties. It is held to do this by reducing the size of the state and the power of labour monopolies and by encouraging economic growth without which civil liberties are endangered. To the extent that privatisation enlarged the stock market, stimulated the entrepreneurial motive, supported a long over-due reform of the trade unions, and generally recognised basic commercial freedoms by promoting competition and the principle of comparative advantage, there is certainly a case to be argued here. Furthermore, we would accept that privatisation, by undercutting the power of the trade unions, has helped safeguard British democracy from a repeat of the threat posed by the "winter of discontent" of 1979. Although, as we shall explain further in our final chapter, a parliamentary democracy is not for us the whole of freedom, it is an essential part, and to the extent that privatisation has helped

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<sup>122</sup> *Ibid.*, p.429.

<sup>123</sup> Bishop, M., Kay, J. and Mayer, C. *op.cit.*, p.15.

safeguard the social order and the civil liberties provided by parliamentary democracy from an illicit use of trade union power, this should be recognised. Nevertheless, even after conceding all we have, the argument from negative freedoms cannot be allowed to carry the day because the extent to which privatisation has helped safeguard civil liberties is more difficult to assess when account is taken of the greater centralisation of power which has accompanied the Thatcherite revolution. There is also the need to take account of the draconian changes in industrial relations legislation. Here it is difficult to deny that Jim Prior's 1980 Employment Act, which repealed most of Labour's pro-union Employment Protection Act, and Norman Tebbit's even more hardline change, which has made trade union funds liable to sequestration, have eroded the civil liberties of workers by limiting their right of association, right to engage in collective bargaining, and right to strike.<sup>124</sup>

Fifthly, given the internal debate within liberalism over freedom, which looks to balance an emphasis on negative freedoms with an equal emphasis on positive freedoms, we ought also to consider the argument for privatisation from positive freedoms. This asserts that privatisation promotes freedom by extending share ownership in society to classes of persons who would otherwise be reliant on wage income or state welfare. The difficulty, however, with this argument is that it does not square with the reality of privatised Britain. For all the rhetoric of popular capitalism, it is impossible to deny that the major beneficiaries of privatisation were the financial institutions who were paid the substantial transaction costs incurred on privatisation, the new senior managements, and the new share owners, most of whom are part of comfortable Britain. In this light, the redistributive aspect of proportional scaling of shares appears to have been more of a ploy to gain popular support for privatisation than a genuine attempt to use privatisation for redistributive ends.

Furthermore, the dramatic extension of share ownership following privatisation obscures the fact that most of those who bought shares for the first time ended up by owning a very small portfolio of shares (typically in one firm and worth less than £1000), which could in no way change their reliance on wage income or, if they were unemployed and somehow had managed to buy shares, state welfare. In this respect, the fiscal objective of successfully selling the firms and raising as much revenue as possible for the exchequer (to pay for the tax cuts of the 1980s)

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<sup>124</sup> The complex subject of industrial relations legislation deserves to be considered in a separate study, hence the brevity of the comment here.

clearly overrode the principles of popular capitalism and did nothing to change the long-term decline in the proportion of the stock market owned by individuals.<sup>125</sup> Indeed, popular capitalism was always an unrealistic dream. As a report in the *Economist* explains, 'Individual direct investment is not worthwhile without specialised knowledge and the cash to build diversified portfolios. Most new investors lacked both investment skills and money. Better to pool the risks and leave the decisions to professional managers by investing through the institutions. A share-owning democracy is a neat political phrase - but the market tells against it.'<sup>126</sup> For all these reasons it can hardly be claimed for privatisation that it has met that fundamental wish of every human being, of which liberalism bears such eloquent witness, 'to be his own master'.<sup>127</sup>

The discrepancy between the theory and reality of popular capitalism pointed out above is a pity because the argument from positive freedoms could be one of the strongest arguments for privatisation. Although the use of privatisation to rectify injustice in the distribution of capital in society would undoubtedly clash with some of the New Right thinking on welfare, it is not alien to the thinking of the New Right. As we have pointed out, although Hayek tended to neglect the importance of positive freedoms in his stress on the threat to negative freedoms, the importance of positive freedoms for human autonomy was always part of his defence of private property and free markets. Friedman likewise is not averse to some modification of property rights,<sup>128</sup> and the notion of a negative capital tax is not far from his radical welfare proposal of a negative income tax. Nozick also shows some awareness of the need for a redistribution of capital in his proposal that Rawls' Difference Principle should be used as a basis for rectifying past injustices in the distribution of capital.<sup>129</sup> However, if this commitment is obscured in these three theorists, from within the New Right the Public Choice School provides a clearer justification for using the proceeds of privatisation for the rectification of injustice in the distribution of capital with its proposal of a negative capital tax. As Gray makes this point:

A more appropriate response to the reality of injustice in the distribution of

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<sup>125</sup> See further Vickers, J. and Yarrow, G. *op.cit.*, p.190.

<sup>126</sup> 'Risk Aversion', in *The Economist*, 6 November 1993, p.27.

<sup>127</sup> Berlin, I *Four Essays On Liberty* (Oxford University Press: Oxford, 1969), p.131.

<sup>128</sup> See further *Capitalism and Freedom*, quoted in Brown, C.V. and Jackson, P.M. *Public Sector Economics*, 4<sup>th</sup> ed. (Blackwell: Oxford, 1978), p.55.

<sup>129</sup> *Anarchy, State and Utopia*, p.230-231.

capital is a redistribution of capital itself, perhaps in the form of a negative capital tax which would supply the propertyless with a patrimony of wealth which would compensate them for the effects of previous injustices. It would be a virtue of such a redistributive policy, from a classical liberal viewpoint, if it could be financed by the sale of state assets and so need not entail further governmental encroachment on private capital. Whether or not this proposal be accepted as practicable, it is a valid insight of socialist thought, and one recognised most fully by the theorists of the Public Choice School, that a restoration of economic freedom presupposes in justice a redistribution of capital holdings.<sup>130</sup>

Sixthly, consider the development argument. This holds that the privatisation of a developing country's nationalised industries, with the creditor countries swapping debt for equity, provides an appropriate means for a rich country, like Britain, to respond to the development crisis of the heavily indebted countries. This argument certainly provides a welcome recognition of the moral obligation of the rich nations to help solve the international debt crisis, for which they are mostly to blame. However, the difficulty with swapping debt for equity is that it is likely to result in the industrial assets of a poor country being wholly owned or mainly owned by foreigners. While this can bring positive advantages, both economic and political, it cannot be justified because it involves swapping a form of debt slavery for wage slavery.<sup>131</sup>

Finally, in addition to the arguments we have summarised and evaluated above, we are reminded to evaluate the deeper level of argumentation underlying the economic liberal case for privatisation by the great champion of liberalism, Sir Isaiah Berlin. He taught that: 'The ideas of every philosopher concerned with human affairs in the end rest on his conception of what man is and can be',<sup>132</sup> in other words, on some or other notion of the self.

This part of our enquiry involves digging below the surface of the data we have up till now been working with because not all those whom we have surveyed are forthcoming about the model of human nature they assume. We should also not assume that they all subscribe to the caricature of the economic liberal self: economic man - essentially the autonomous, rational

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<sup>130</sup> Gray, J. *Liberalism* (Open University Press: Milton Keynes, 1986).

<sup>131</sup> See further Spar, D. 'The Spotlight and the Bottom Line' in *Foreign Affairs*, Vol. 77, No. 2, March/April 1998.

<sup>132</sup> Quoted in Suggate, A. 'Hayek and Havel in a Christian Perspective', in *Religion, State and Society*, Vol. 20, Nos 3 & 4, 1992, p.305.

self, whose rationality is narrowly defined in terms of self-interested economic behaviour. In our view, to criticise the economic liberal case for privatisation on account of this caricature of the self would be to attack a straw man because, in all but the most reductionist of theorists (possibly Hayek and Friedman), the notion of the self is richer than the merely libertarian and utilitarian in that it includes a raft of mainly Victorian values, such as hard work, thrift, and personal responsibility. There is also a recognition of the importance of culture to reinforce the values of the individual. Here one need only recall the popular term used to describe Thatcher's social revolution, 'the enterprise culture' and the high moral tone of what has come to be known as her *Sermon on the Mound*. Not without justification Preston described her as 'the most forceful Christian Prime Minister since Gladstone in her personal beliefs'.<sup>133</sup> Furthermore, from the privatisation programme itself, there is the strong moral concern, expressed especially in John Redwood's writings, to provide an appropriate ethical response to complex national and international problems that goes beyond the purely libertarian and utilitarian simplicities.

If we are right in this, perhaps too generous, analysis of the self underlying privatisation, then if what *man is* is that he is basically a competitive individual acting out of self-interest, what the privatisers assume he *can be* is an enlightened individual, acting out of a rational self-interest, as an independent, responsible and productive member of a family. The question then is whether this conception of the self is still too thin to support the economic and political renewal promised by privatisation. In our view, this is still the case for the reason that in modern Britain, where the traditional moral constraints cannot any longer be relied upon to encourage the individual and his community to respect a set of reciprocal duties and rights which make for a natural, unenforced, equality, the individualist emphasis behind *homo privatus* must lead to politically unacceptable levels of inequality. In this connection, Alan Suggate comments that 'In society at large there is, amidst all its frictions, a network of organic elements of social cohesion. A free market has no respect for these organic relationships and their established institutions, and is liable to dissolve them into individuals and their market preferences.'<sup>134</sup> As a result, while the initial impact of restoring commercial freedoms may see high levels of economic growth, the private affluence and public squalor associated with a privatised society

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<sup>133</sup> Preston, R. *Religion and the Ambiguities of Capitalism* (SCM: London, 1991), p. 78.

<sup>134</sup> Suggate, A. 'The New Right', in *Crucible* (Church of England Board of Social Responsibility: London, Oct.-Dec. 1988), p. 158.

is bound to provoke a political reaction which will seek to restrict commercial freedoms. Thus the whole process is self-defeating, as the rejection of some of the more extreme aspects of Thatcherism in the 1990s already demonstrates.

Furthermore, but less certainly, the short-term economic gains are likely to be eroded over the long-term as increasing levels of inequality and a corresponding climate of envy generate an adversarial, atomistic, competitive, and low trust culture.<sup>135</sup> In this assessment we draw on the insight of institutional economics which points out the importance for economic efficiency of a culture of trust. What this simple insight claims is that optimum economic efficiency, what economists call a Pareto efficient outcome, when no one can be made better off without making someone else worse off, is only achievable through a socially cohesive, cooperative, high trust culture because the level of trust allows for low cost economic exchanges. In contrast, an individualistic, competitive low trust culture will incur high transaction costs, such as the legal costs of drawing up contracts, in its economic exchanges and therefore cannot be optimally efficient.<sup>136</sup> As Mark Casson explains:

Overall economic performance depends on transaction costs, and these mainly reflect the level of trust in the economy. The level of trust depends in turn on culture. An effective culture has a strong moral content. Morality can overcome problems that formal procedures - based on compliance on contracts - cannot. A strong culture therefore reduces transactions costs and enhances performance - the success of an economy depends on the quality of its culture.<sup>137</sup>

If this highly plausible insight into the importance of culture and morality for economic efficiency is true, and the evidence from relatively successful high trust business cultures such as that of Japan and Germany suggests that it is, then in modern secular and pluralistic Britain, the low trust 'enterprise' culture encouraged by the notion of the self underlying privatisation is unlikely to sustain high levels of economic performance over the long term. In this connection, bearing in mind his claim that the success of an economy depends on the quality of its culture, Casson concludes his book with the ominous warning:

The 1980s witnessed a period of deliberate cultural engineering....But whereas many firms under the influence of management 'gurus' opted for a high trust

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<sup>135</sup> See here the critique of the trust thesis in Desai, M, 'Francis Fukuyama, Trust: The Social Virtues And The Creation Of Prosperity', in *The Times Higher Supplement*, 27 October 1995.

<sup>136</sup> See further Brown, C.V. and Jackson, P.M. op.cit., p. 28 ff.

<sup>137</sup> Casson, M. *The Economics of Business Culture* (Oxford University Press: Oxford, 1991.), p.3.

culture, most governments did the opposite. Trusting no one but the ideological extremist, some of them unleashed as much power as they could muster against the institutions they considered to be infected with the post-war cultural legacy...With cultures so diffuse and fragmented, and with distrust a persistent theme, there is a danger that the 1990s could become a decade of despair, with no moral foundation by which even a basic code of business behaviour can be legitimated.<sup>138</sup>

In the light of this evaluation of the main arguments for privatisation in economic liberalism, we are led to the overall assessment that, judged according to its own standards, the economic liberal case does not fully succeed as a moral justification for privatisation. To summarise our view of its strengths first: Its emphasis of the market, of the incentives operating under private ownership, and of government failure are all justified on the basis of theory and of experience. It is also difficult to deny the strength of the argument from negative freedoms in the light of the way privatisation has helped prevent the illicit use of trade union power by helping erode support for trade unionism. The argument from positive freedoms is also theoretically strong, provided democratically elected governments, with a much broader constituency than the poor, can be persuaded to place distributional considerations before fiscal ones and to use privatisation as an opportunity to rectify injustices in capital holdings.

However, against these strengths we would offset the following weaknesses: Its highly individualist notion of the self is too thin to sustain the quality of culture needed to support a high level of economic performance over the long term. The epistemic argument for privatisation cannot be relied upon in the case of those industries subject to significant market failure, such as natural monopoly, where public ownership is likely to do better. The incentive argument does not take sufficient account of the short-termism of the stock market, which can lead private sector management to ignore long-term investment, with consequent dangers for a firm's dynamic efficiency; although the investment record of the nationalised industries was far from satisfactory either, at least public ownership escaped this tyranny. The constitutional argument, in its central claim that privatisation frees the state to devote itself, without the encumbrance and distraction of managing industry, overlooks the extent to which privatisation adds to the concentrations of economic power held in private hands, which, by swopping one set of pressures for another, may not make it any easier for government to rule industry fairly.

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<sup>138</sup> *Ibid.*, p.262.

The monetarist argument is undermined to the extent that the inflationary behaviour of nationalised industries can be curbed by other means. The regulatory argument is weakened on account of the asymmetry of information in the relationship between regulator and the regulated and because of the difficulty of introducing competition on which effective regulation ultimately depends. The argument from negative freedoms has to be qualified to the extent that a privatised state needs greater centralisation of power in order to make competition work and has to curb the civil freedoms of workers. Finally, the argument from positive freedoms runs aground on the hard rock of reality in that impecunious modern governments are never likely to use privatisation proceeds to rectify the injustice in capital holdings.

This overall assessment of the economic liberal case for privatisation is consistent with Peter Jackson and Catherine Price's comment that 'Privatisation is not a panacea. It creates new problems while solving old ones or recreates the difficulties which nationalisation and increased public activity sought to solve.'<sup>139</sup> As such, we are reminded of Gray's criticism of the New Right for its 'rationalist attachment, inherited from the Enlightenment classical liberals in France and America, to systems and projects of world improvement.' His further comments also bear repeating as an epitaph to the privatisation project:

The lesson of the bankruptcy of the New Right, intellectual as well as political,....is that political life is not a project of world improvement in which are invested the transcendental hopes of an age without faith. It is an almost desperately humble task of endless improvisation, in which one good is compromised for the sake of others, a balance is sought among the necessary evils of human life, and the ever present prospect of disaster is staved off for another day.<sup>140</sup>

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<sup>139</sup> Jackson, P. and Price, C. *Privatisation and Regulation, A Review of the Issues* (Longman: New York, 1994), p. 27.

<sup>140</sup> *Beyond The New Right*, p.vii.

**PART III THE ETHICS OF PRIVATISATION**

## Chapter 6

### PRIVATISATION AND THE COMMON GOOD

As regards the *use* of external things, a man ought not to possess them as exclusively his own (*ut proprias*), but as common to himself and to others (*ut communes*), and thus he should be ready to put them at the disposal of others who are in need. (Thomas Aquinas)<sup>1</sup>

At this stage, having explored the positive case for privatisation in economic liberalism and the negative case which claims that the nationalised industries failed and therefore there was no moral alternative to privatisation, and having indicated why we are not persuaded by either case, it remains for us to give our evaluation of privatisation in the light of our liberal catholic moral tradition, with its central idea the common good. In what follows, bearing in mind the criticism that the lack of moral consensus in post- industrial and post- modern society means that there can be no such thing as the common good, we shall begin by justifying our theory of the common good.<sup>2</sup> We shall also set out the traditional Christian understanding of property, which, contrary to libertarian theories of justice, allows that property rights may be varied in the interests of promoting the common good. We shall then apply our two main principles of the common good, social order and social justice, in dialogue with the relevant political, economic, and social circumstances surrounding privatisation.

#### THE COMMON GOOD

At the heart of the ecumenical (and secular) ethical tradition of the common good is the foundational belief in the dignity of the human person. In Christianity, belief in this inalienable dignity derives from the understanding that it was for each and every one that the pre-existent Son of God was incarnated, died, rose again and ascended to glory from where he shall return

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<sup>1</sup>Quoted in Evans, J. and Ward, L. *The Social And Political Philosophy of Jacques Maritain, Selected Readings* (Geoffrey Bles: London, 1956), p.67.

<sup>2</sup> As Malcolm Brown voices this criticism : 'In the face of the sustained demolition of the concept of the 'Common Good' from Robert Nozick through Milton Friedman to Keith Joseph and beyond, it is just not sufficient to assert that such a thing as the 'Common Good' exists and can be agreed upon.' See further his *How Can We Do Public Theology Today?* (The William Temple Foundation: Manchester, paper, July 1977), p.4.

to be our judge. It also derives from the Biblical belief in the creation of human beings in the *imago dei*. As recent Trinitarian theology has pointed out, the nature of this act of creation in the image of God has bestowed on human beings an individual and social nature, which adds further content to the notion of human dignity by insisting that we were made to be persons in community with one another.<sup>3</sup> Perhaps the nature of this radical community, from which no person can rightly be excluded, is best illustrated, not by abstract theological ideas, but by the simple story of one of our Northern saints as retold by Basil Hume:

There is an interesting story about Saint Aidan and King Oswin. Oswin gave Aidan a horse because the king thought it would be more suitable for a bishop to ride a horse than to go on foot. One day Aidan met a beggar, and having nothing to give except the horse, he gave the horse away. The king was not very pleased with this and rebuked Aidan. But Aidan was not to be swayed from the conviction of his faith. In a rather stern and direct manner, he responded to the king, 'Which is more important, this child of a mare or this child of God?' The king was covered in confusion, and it is said that he went down on his knees and asked Aidan forgiveness for his pride.<sup>4</sup>

The idea of the common good follows from the recognition that the dignity of the human person needs to be protected and fostered by what John Finnis calls 'a whole ensemble of material and other conditions that tend to favour the realization, by each individual in the community, of his or her personal development.'<sup>5</sup> Understood against this theological and philosophical background, while the common good affirms the emphasis on the individual in the modern world, by insisting that the individual is anterior to society, it avoids individualism by also emphasising the sense in which the individual is dependent on society for his or her good.<sup>6</sup> As Thomas Aquinas put this finely balanced teaching:

For ...if the good of one human being is the same good [i.e. human good] as the good for a whole *civitas*, still it is evidently a much greater and more perfect thing to procure that state of affairs which is the good of a whole *civitas* than

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<sup>3</sup> See for example Kasper, W. *The God of Jesus Christ* (SCM: London, 1984), p. 307, and Schwöbel, C. and Gunton, C.E. ed. *Persons, Divine and Human* (T&T Clark: Edinburgh, 1991), p. 59.

<sup>4</sup> Hume, B. *Footprints of the Northern Saints* (Darton, Longman, and Todd: London, 1996), p.33.

<sup>5</sup> *Ibid.*, p.154.

<sup>6</sup> See further Alan Suggate's discussion of Maritain in his *William Temple and Christian Social Ethics Today*, pp. 111-112.

the state of affairs which is the good of a single human being. For: it belongs to the love which should exist between human persons that one should seek and preserve the good of even one single human being; but how much better and more godlike that this should be shown for a whole people and *for a plurality of civitates*.... The good, *the good common to one or many civitates*, is what the theory, i.e. the 'art' which is called 'civil' has as its point (intendit). And so it is this theory, above all - as the most primary (principalissima) of all practical theories - that considers the ultimate end of human life.<sup>7</sup>

The scope of this thesis will not allow us to apply all the conditions which make up the common good in the course of our evaluation. Therefore, we shall be selective and choose two conditions which are foundational, in the sense that without them, it would be difficult or impossible for each individual to realise the other conditions. Here, in opposition to those who would deny the existence of a common good, we are ready to affirm that, while there will always be disagreement as to what constitutes its finer elements (and we would certainly want to widen the traditional understanding of the common good), there can be no denying that certain basic conditions or social primary goods are essential for human flourishing. For us, and here we follow the priority given these generally in political ethics, these foundational conditions are social order and social justice. While we are accepting that they are not the whole of morality, as it is not difficult to think of a long list of other conditions, such as aesthetics and virtue, which are also important for human flourishing, these two at least provide a minimum basis for making a moral judgement. As John Lucas dryly reminds us, even 'Justice by itself is not enough. It does not make a man happy or fulfilled, and is no guarantee of salvation in this world or the next. There is no justification by justice alone. Nevertheless, it is not to be despised.'<sup>8</sup>

Although modernity has tended to emphasise social justice, in its reaction against the abuse of social order as an authoritarian and repressive principle, we shall begin by applying the principle of social order. This has often been given priority in Christian tradition on account of the belief in a divinely instituted, rational, social order, which has been obscured by sin, and which it is the task of the church to recover. As Paul Ramsey justifies an emphasis on social order, 'there will be an inner pressure within acts that seek to be concretely loving also toward

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<sup>7</sup> Quoted in Finnis, *J. Aquinas* (Oxford University Press: Oxford, 1998), p. 114.

<sup>8</sup> Lucas, *J. On Justice* (Oxford University Press: Oxford, 1980), p.263.

order (and not only so far as it is just) as among the fundamental needs of men.<sup>9</sup> The principle has also received emphasis as the primary end of the state on account of the horrors unleashed by the breakdown of social order, which can threaten a reversion to the state of nature where, according to Thomas Hobbes, 'every man has a Right to every thing; even to one another's body.'<sup>10</sup> Indeed, as anyone who has lived through a revolution or natural disaster will doubtless agree, social order is so foundational to the common good that, except in rare circumstances when a given order is so intrinsically evil or bound to give way to disorder, practical reasonableness dictates that it should receive a proper emphasis if not always priority.

But if we must begin with social order, social justice must not be left far behind. It requires we accept, as John Donne put it, that 'no man is an island, entire of itself; every man is a piece of the continent, a part of the main'<sup>11</sup> Therefore it enjoins us not to think only about how we can foster our own good but also 'the other chap's good'.<sup>12</sup> As such, it is opposed to our imposing a particular social order on society which is exclusively for our benefit, because this does not take into account the need of others for a social order which is also to benefit them. For this reason, John Lucas describes justice as 'one of the cardinal virtues; for it is the bond of peace, which enables the individual to identify with society, and brethren to dwell together in unity.'<sup>13</sup>

The other-directedness of social justice has led many to assume that its essence is equality. Thus, while egalitarians, on the one hand, tend to equate social justice with equality of outcomes or opportunity, libertarians, on the other hand, tend to equate social justice with equal (negative) freedoms. For this reason, as Amartya Sen provocatively argues, even those libertarians who do not believe in social justice still believe in equality.<sup>14</sup> However, as John Finnis explains, while equality is a formal principle of justice, because all members of the community are deserving of equal treatment in the distribution of goods, for resolving questions of distributive justice 'equality is a residual principle, outweighed by other criteria and

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<sup>9</sup> Quoted in Childress, J.F. 'Order', in Macquarrie J. and Childress, J. *A New Dictionary of Christian Ethics* (SCM: London, 1967), p.439-440.

<sup>10</sup> Hobbes, T. *Leviathan* (J.M. Dent & Son: London, Everyman's Library ed.1987), p.67.

<sup>11</sup> Donne, J. 'Devotions: Meditation 17', in Rhodes, N. *Select Prose* (Penguin: London, 1987), p. 126.

<sup>12</sup> Lucas, J. *On Justice* (Oxford University Press: Oxford, 1980/1989), p.3.

<sup>13</sup> *Ibid.*, p.263. See also John Finnis, *op.cit.*, p.161.

<sup>14</sup> See Sen, A. *Inequality Reexamined* (Oxford University Press: Oxford, 1992), p. ix.

applicable only when those other criteria are inapplicable or fail to yield any conclusion. For the objective of justice is not equality but the common good, the flourishing of all members of the community, and there is no reason to suppose that this flourishing of all is enhanced by treating everyone identically when distributing roles, opportunities and resources.<sup>15</sup> On this understanding, rather than beginning with equality, the catholic tradition derives social justice from the common good as that principle which gives to each member of the community what is his or her due. In deciding this, the tradition has tended to apply three criteria of distributive justice: right, merit and need. Although the adequacy of these have been much discussed, as Preston remarks: 'Christians have not ruled out any of these three altogether, and they have not produced a fourth.'<sup>16</sup>

We are in basic agreement with the use of these three traditional criteria of distributive justice for we accept that justice should not be equated with a formal equality because some differentials are necessary in order to take account of differences in right, merit, and need. It would seem only fair, for example, that a diligent individual who contributes more to the common good than a lazy individual should receive a bigger share. Similarly, in order to fulfil a certain office in the community, which, for example, requires extensive hospitality or power, it is again reasonable that the office-holder should receive a larger share of consumer goods or power, as befits the office, than other persons in the community who are not required to provide hospitality or exercise power. Furthermore, it is reasonable to recognise, both as a requirement of social order and social justice, the limited rights individuals acquire over possessions through purchase, gifts, and, more controversially, inheritance, all of which is another source of inequality for the reason that most possessions have an individual character.

Nevertheless, we think it essential that our understanding of social justice take account of the modern emphasis on equality for several reasons: Firstly, and this is an historical argument, the allowance for distributional inequalities in the traditional theory of justice has tended to be exploited in the past to justify unacceptable levels of inequality. Secondly, while the tradition has tended to respond to the claims of equality by giving the criterion of need primacy, this is inadequate when need is determined in accordance with some absolute measure of what an individual needs of the basic primary goods, and not in relation to the rough or

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<sup>15</sup> Finnis, J. *op.cit.*, p. 173-174. See also Flew, A. *The Politics of Procrustes* (Maurice Temple Smith: London, 1981), p. 141.

<sup>16</sup> Preston, R. *The Future of Christian Ethics* (SCM: London, 1987), p. 10.

approximate equality which a society is capable of. In this we are guided by the Catholic bishops of England and Wales where, in their document entitled, *The Common Good*, they insist that, as a requirement of social justice, 'Governments cannot be satisfied with provision for poor people designed only to prevent absolute poverty' but must also address relative poverty.<sup>17</sup> Thirdly, we can no longer ignore the fact that distributional inequalities have consequences for wealth creation. Here we have in mind the report of The Commission On Social Justice set up by the then leader of the Labour Party, John Smith, which insisted on the close link between economic regeneration and social justice.<sup>18</sup> Fourthly, it is a true insight of utilitarianism that, on account of the law of diminishing returns, a more equal distribution of social goods will increase the total welfare. As Roy Jenkins has put this case for equality:

A modicum of redistribution would obviously have increased the total welfare of the individuals who made up the nation. The liberal view that every individual has an equal right to his own happiness and the Marshallian concept of diminishing marginal utility, amounted between them, to a very strong levelling case.<sup>19</sup>

For all these reasons, we shall evaluate privatisation in terms of whether it improves or worsens the inequality of wealth and income in society.

The second criterion of social justice we shall apply is freedom. By including an emphasis on freedom, we are responding not only to criticism that traditional Thomism is unacceptably authoritarian and repressive in its interpretation of the common good but also to a type of Christian socialism, which has emphasised equality at the expense of freedom. What we have in mind here is the image of social justice described by The Commission on Social Justice as 'a subtractive and inhibiting force which busies itself, for reasons ranging from asceticism to sheer envy, in taking away things from successful people and giving them to the unsuccessful (minus the considerable bureaucratic costs of doing so).'<sup>20</sup> That said, our understanding of freedom is not the freedom to do as one pleases within the law, as is upheld by procedural theories of justice, such as those of Hayek, Friedman and Nozick, who reject the

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<sup>17</sup> The Catholic Bishops' Conference of England and Wales, *The Common Good* (1996), p.17.

<sup>18</sup> The Report of The Commission on Social Justice, *Social Justice, Strategies for National Renewal* (Vintage: London, 1994). See especially p.97.

<sup>19</sup> Quoted in Plant, R. *Modern Political Thought* (Blackwell: Oxford, 1991), p. 158.

<sup>20</sup> *Ibid.*, p.19.

idea of social justice as a left-wing plot to subvert freedom. In contrast with their view, which only looks to maximise an individual's freedom of choice, our Christian understanding of freedom looks to each person to work out their individual life plan reasonably and responsibly in relation to what fosters the common good.

Thus our understanding of freedom has both a social and an individual dimension. Here we are informed by Oliver O'Donovan's concept of a Christian liberal order in which freedom is conceived as both a 'social reality' and an individual reality in so far as a free society depends upon the 'free-self giving of each member'.<sup>21</sup> In this connection, he goes on to write of the 'Christian paradox of freedom perfected in service' that 'Christian thinkers could, perhaps, allow a sense in which the individual must be the measure of the social good; but this would need to be balanced dialectically by the assertion that society is the measure of the individual good.'<sup>22</sup> Although this conception is undeniably opposed to the individualist understanding of freedom in liberalism, it can still respect a legitimate pluralism on account of its affirming of the individual and its recognition that 'it is essential to our humanity that there should always be foreigners, human beings from another community who have another way of organising the task and privilege of being human, so that our imaginations are refreshed and our sense of cultural possibilities renewed.'<sup>23</sup>

Of course there is no practical way of applying this ideal type of Christian freedom. Therefore, in the absence of a better alternative, our choice is to apply the tests of democratic freedom and consumer choice, and, where it is not always practicable to provide choice in the provision of public services, the test of whether there is effective consumer representation in the regulation of monopoly services. Although democracy is a far from perfect ideal of freedom, and is particularly vulnerable to the criticism of majoritarianism, that democratic freedoms are insufficient to protect the rights of minorities, there is some evidence to support Henson's argument, which we reported in chapter 3, that the supreme merit of democracy is that it 'it cannot ignore the wrongs and hardships of the people.' There is also the wisdom of Reinhold Niebuhr's Christian realism: 'man's capacity for justice makes democracy possible; man's

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<sup>21</sup> O'Donovan, O. *The Desire of the Nations, Rediscovering the roots of political theology* (Cambridge University Press: Cambridge, 1996), p.255.

<sup>22</sup> *Ibid.*, p.275.

<sup>23</sup> *Ibid.*, p.268.

capacity for injustice makes democracy necessary.<sup>24</sup> Furthermore, while it is true that many churches are opposed to democracy as a form of church governance, as John De Gruchy has pointed out in his study of *Christianity and Democracy*, there is a convergence between the democratic *system* and its *vision*, and the ecumenical *koinonia*, its holistic missionary paradigm, and its vision of *shalom*.<sup>25</sup> And although, as we have mentioned above, we do not accept that freedom can only be understood as a matter of free choice, we still think consumer choice is one important dimension of freedom, when it is understood in its proper relation to the common good as the freedom to pursue a purpose.

### THE CHRISTIAN UNDERSTANDING OF PROPERTY

In addition to applying our two main principles of social order and social justice, we shall also draw, as a general framework, on the understanding of property in the catholic tradition. The great merit of this teaching is that it avoids, to use Temple's words, 'the unsocial outlook of the individualist and the socialist's check upon initiative.'<sup>26</sup> To this end, it begins with the reminder that all property belongs, not to individuals, nor to the state, but to God. Here it draws on the emphasis in the Old Testament on the dependence of the Israelites on God for their land. Indeed, this Biblical tradition insists that the status of the people with regard to the land is no better than tenants who have no security or inheritance.<sup>27</sup> As Charles Gore summarised this radical Biblical doctrine of stewardship:

God the Creator is the only absolute owner of all things or persons - that "all things come of Him" and are "His own," and that we men hold what we hold as stewards for the purposes of His Kingdom, with only a relative and dependent ownership limited at every point by the purpose for which it was entrusted to us.<sup>28</sup>

It follows that human beings can only use property as a social trust for the promotion

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<sup>24</sup> Niebuhr, R. *The Children of Light and the Children of Darkness* (James Nisbet: Hitchin, 1945), p.vi.

<sup>25</sup> De Gruchy, J. *Christianity and Democracy* (Cambridge University Press: Cambridge, 1995), p.276.

<sup>26</sup> Quoted in Suggate, A. *op.cit.*, p. 112. Temple praised Aquinas' defence and limitation of the rights of property as 'a most wholesome doctrine much needed in our day.'

<sup>27</sup> For a fuller account of the Biblical teaching on property see further Hay, D. *Economics Today, A Christian Critique* p.33 ff., in which he quotes Leviticus 25:23 (Revised Standard Version of the Bible) : 'The land shall not be sold in perpetuity, for the land is mine; for you are strangers and sojourners with me.'

<sup>28</sup> Gore, C. ed., *Property, Its Duties And Rights* (Macmillan: New York, 1922), p.xi.

of the common good. There can therefore be no absolute right over property, as for example accorded by Roman law. Neither can the argument for a private enterprise economy be sustained, as Brian Griffiths attempts to do, which claims that 'The justification of private property rights....is rooted in creation.'<sup>29</sup>

Nevertheless, the catholic understanding of property is opposed to the denial of individual property rights altogether. The ordering of property in the Old Testament clearly respected a limited right of private ownership. The prohibition against moving a neighbour's boundary stone,<sup>30</sup> the Jubilee laws,<sup>31</sup> and the story of Naboth's vineyard<sup>32</sup> provides some of the evidence for a system of inalienable private property rights in ancient Israel. In the New Testament, while the examples of Jesus, as living out of a common purse,<sup>33</sup> and the early church, as practising a community of property,<sup>34</sup> may be taken to support a radically new understanding of property in Christianity, which dispenses with private property altogether, this interpretation has not been widely supported. The exceptions are Christian monasticism, where the renunciation of property has tended to be seen as a voluntary ideal and not the pattern for social order, and Christian millenarian movements, where the attempt has been made, always unsuccessfully, to impose a radical community of property on society.<sup>35</sup>

In the development of the biblical teaching in the Aristotelian-Thomist tradition, private property has been understood as necessary for human flourishing in community. In this connection, in his contribution to Gore's collection *Property, Its Duties and Rights*, regarded by Preston as still an indispensable treatment of the subject,<sup>36</sup> L.T.Hobhouse defends Aristotle's correction of Plato's communism on account of its emphasis of unity to the exclusion of a diversity that recognises the need for each individual to have some freedom in which to develop personality. As Hobhouse put this understanding of social reality, 'unity is only one feature of

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<sup>29</sup> Hay, D. *op.cit.*, p.78.

<sup>30</sup> Deuteronomy 19:14; 27:17.

<sup>31</sup> Leviticus 25: 8-13.

<sup>32</sup> 1 Kings 21.

<sup>33</sup> Luke 22: 36.

<sup>34</sup> Acts 4: 32.

<sup>35</sup> See further Cohn, N. *The Pursuit of the Millennium* (Secker & Warburg: London, 1957), p. 13 ff.

<sup>36</sup> Preston, R. *Explorations in Theology 9* (SCM: London, 1981), p.77.

social life, and that the true community must be a whole of many parts.'<sup>37</sup> However, he then goes on to criticise Aristotle's theory as individualistic, on account of his over-emphasis of the role of property as an expression of personality. As he put this; 'In emphasizing this side of the matter it may be allowed that Aristotle lets the communal principle evaporate into a mere pious aspiration.'<sup>38</sup> But this interpretation is too severe on Aristotle because, as Finnis points out, Aristotle sums up his teaching on property in the apparent paradox that 'possessions should be privately owned, but common in use'.<sup>39</sup> What Finnis takes this to mean is that while it is in the interests of the common good that property should be privately owned, for the reason that in this way it will allow for the development of personality and be best cared for, nevertheless the legitimate use to which property is to be put is always decided with reference to what promotes the common good.<sup>40</sup> For this reason, for example, a private owner has no right to dispose of property as he pleases and he has no right not to use it if someone else can use it in order to promote the common good.<sup>41</sup> As John Paul II sheds further light on this paradox in his encyclical *Laborem Exercens*(1981):

The right to private property is subordinated to the right to common use, to the fact that goods are meant for everyone...They cannot be possessed against labour, they cannot even be possessed for possession's sake, because the only legitimate title to their possession, whether in the form of private ownership or in the form of public or collective ownership, is that they should serve labour and thus by serving labour that they should make possible the achievement of the first principle of this order, namely the universal destination of goods and the right to common use of them.<sup>42</sup>

Nevertheless, if there is some truth behind Hobhouse's criticism of the Aristotelian - Thomist tradition's understanding of property as individualistic, as Hobhouse went on to show, this tradition has intrinsic to itself a radicalism which stands opposed to a social order based on a grossly unequal distribution of property. Here he drew on the Christian correction of Aristotle's

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<sup>37</sup> Hobhouse, L.T. 'The Historical Evolution of Property, In Fact And In Idea', in Charles Gore ed., *Property, Its Duties and Rights* (Macmillan: London, 1922), p.29.

<sup>38</sup> Hobhouse, L.T. *op.cit.*, p.29.

<sup>39</sup> Finnis, J. *op.cit.*, p.171.

<sup>40</sup> *Ibid.*, p. 173.

<sup>41</sup> *Ibid.*, p.172.

<sup>42</sup> John Paul II, *Laborem Exercens* (Incorporated Catholic Truth Society: London, 1984), p.30.

acceptance of the way non-Greeks, women, and slaves, were excluded from participation in the *polis*, on account of their lack of ownership of property, by the ethical universalism which insists that all people, on account of the belief that they are all children of God, have the right to be citizens and not to be treated either as slaves or as wage-slaves, and therefore have the right to fulfill themselves. As he explained the radicalism of the principle that property is necessary for the development of personality:

But as a basis of the institution of property this principle carries with it consequences which seem too often to be overlooked. On the one hand it carries the condemnation of a social system in which property of the kind and amount required for such development of personality is not generally accessible to all citizens, who do not forfeit their right by misfeasance. A society which should accept this principle, could not tolerate anything like the existing distribution of wealth, could not permit those methods of accumulation which concentrate wealth in the hands of the few and leave the many - so far as the practical object of earning their living is concerned - as naked as they were born. Cherished as a Conservative principle, it has in it the seed of Radical revolution.<sup>43</sup>

On account of this radicalism, Hobhouse advocated the widest possible distribution of property. There is the basis in the catholic tradition, therefore, of a Christian liberalism, which, for example, Michael Novak comes close to espousing in his criticism of a monotheistic impulse which looks to impose a unitary conception of the common good on society at the expense of individual freedom.<sup>44</sup> But what Novak, in common with much Protestant and Enlightenment individualism, loses sight of is the need to hold diversity together with unity in such a way that the need for social solidarity is also respected.<sup>45</sup> It is also worth pointing out that Christian advocates of democratic capitalism tend to lose sight of the general disparagement of possessions in Christian tradition. This warns of the way materialism can be harmful to the soul. We need only recall here Jesus' teaching about how it will be 'easier for a camel to pass through the eye of a needle than for a rich man to enter the Kingdom of God',<sup>46</sup> to find the basis, as Temple did in his response to the Malvern debate, of a Christian opposition to private holdings in excess of that needed to ensure personal freedom and to promote personal fulfilment.

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<sup>43</sup> Hobhouse, L.T. *op.cit.*, p.30; See further Finnis, J. p.170.

<sup>44</sup> See further Novak, M. *The Spirit of Democratic Capitalism*, p.50 ff.

<sup>45</sup> See further here Harries, R., *Is There A Gospel For The Rich?*, p.97.

<sup>46</sup> Mark 10: 25.

In connection with this traditional Christian reticence about possessions, we had also better consider here the psychological justification for private property which maintains that a capitalist society will be more efficient and stable than a socialist one because private ownership recognises the reality that most human behaviour is based on self-interest rather than altruism. The argument is generally but anachronistically credited to Adam Smith, on account of his famous saying, 'It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest. We address ourselves not to their humanity but their self-love.'<sup>47</sup> An awareness of the psychology underlying this argument is of course not absent from Christian tradition. Aquinas inferred it when he taught that something which is personally owned is likely to be better cared for.<sup>48</sup> Temple, as we have mentioned, also recognised the need to take self-interest into account when constructing social order. And, as John Finnis argues, practical reasoning has to proceed on the basis of what people 'actually are'.<sup>49</sup> However, too much should not be made of this argument for private enterprise in the age of the modern publicly quoted company, where ownership and management has become separated and where the pressure to satisfy shareholders and deter predator companies favours decisions which generate short-term at the expense of long-term results or what economists call dynamic efficiency. As Will Hutton has argued in support of the Stakeholder Economy, this "casino capitalism" and predator capitalism has introduced a degree of instability which poses a direct threat to the future viability of British enterprise.<sup>50</sup> Furthermore, as Donald Hay points out in his criticism of Brian Griffiths, 'Many people are highly responsible stewards of resources in which they have no property rights: the examples of Christian ministers, hospital doctors, and university professors come to mind.'<sup>51</sup>

Finally, this discussion of the understanding of property in Christian tradition would not be complete without addressing the question whether the state can ever be justified in nationalising the property of a citizen, which they have acquired through due process. One part of a response has already been stated in the principle that though property may be privately

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<sup>47</sup> Smith, A. *The Inquiry Into The Nature And Causes Of The Wealth Of Nations* (Penguin: London, 1986), p.119.

<sup>48</sup> See further Evans, J. and Ward, L. *op.cit.*, p.66 ff.

<sup>49</sup> Finnis, J. *op.cit.*, p.170-171.

<sup>50</sup> Hutton, W. *The State We're In* (Jonathan Cape: London, 1995), p.134.

<sup>51</sup> Hay, D. *op.cit.*, p.78.

owned it should be in public use. Consequently, if, for any reason, a private owner is not putting his or her property to use in the interests of the common good, then, public authority can rightly redistribute or expropriate the property in question.<sup>52</sup> Another part of a response can draw on the understanding in this tradition that property is not part of the natural law but of positive law (there is no labour in the garden of Eden and therefore the fruits of the earth belongs freely to all). As such, property is intrinsically related to the good of social order by offering a means of controlling sin (in the fallen order which has followed the banishment of humanity from the Garden of Eden). It does this by excluding those who seek to accumulate property either for personal consumption or to gain power over another by setting limits to how much property they can claim for themselves. But because, in a fallen world, inevitably some will succeed in gaining sufficient power to acquire property which is the rightful possession of others, it is necessary for the state to be accorded the power to rectify injustices in holdings. For this reason, Hobhouse makes the distinction between property for use, which is the legitimate possession of the individual, and property for power, which ought to be under the control of the democratic state. Although he understands this power as vesting in the state 'ultimate ownership of the natural sources of wealth and of the accumulations of past generations, together with the supreme control of the direction of industrial activity and of labour contracts,'<sup>53</sup> the exercise of this power is properly understood to be limited in catholic tradition by the principle of subsidiarity asserted by Pope Pius XI in *Quadragesimo Anno* (1931).

It follows that, in contrast with the theory of a limited state in Hayek and the minimum state in Nozick, the state in the Aristotelian- Thomist tradition has a positive duty to vary existing property rights in the interests of the common good, within a framework which respects the need for each individual to own a limited amount of property for self-development and which respects the principle of subsidiarity. Consequently, within this tradition, it is perfectly legitimate for the state to meet a threat to social order or to promote social justice by employing a range of means, including various kinds of taxation and the nationalisation and denationalisation of property, provided this respects individual freedoms and the principle of subsidiarity. That said, it stands to reason that interventions in the economy involving substantial changes to property rights should not be undertaken lightly for they are bound to be taken as a

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<sup>52</sup> See further Finnis, J. *op.cit.*, p.173.

<sup>53</sup> *Ibid.*, p.33.

political, economic, and social revolution, and, as such, pose a degree of change which is in itself a threat to social order. For this reason, it would always seem desirable to limit this kind of intervention to that of a last resort.

In the light of all the above, the understanding of property in the catholic tradition can be summed up in the wisdom that there is no one normative model of ownership and that what is appropriate will depend on what best fosters the common good in a particular concrete situation.<sup>54</sup> As John Paul II, stated this wisdom in *Centesimus Annus* (1992):

The Church has no models to present: models that are real and truly effective can only arise within the framework of different historical situations, through the efforts of all those who responsibly confront concrete problems in all their social, economic and cultural aspects as these interact with one another.<sup>55</sup>

As a final word on our evaluative framework, in deciding what best fosters the common good in a particular historical situation, what we shall be looking to do is, in the words of Alan Suggate, 'bring alongside one another an analysis of the empirical situation and a total Christian understanding of life.'<sup>56</sup> Accordingly, we shall seek to keep in close dialogue the social principles and Christian understanding of property we have discussed above with an analysis of the political, economic and social circumstances which are relevant to an evaluation of privatisation. As we have encountered some of this analysis already in our narrative history of nationalisation, where appropriate we shall refer here only to the relevant conclusions.

Having now set out our evaluative framework as best we are able, we shall now proceed with our evaluation. As we proceed, it is worth bearing in mind not only that the 'all-round

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<sup>54</sup> It was this basic understanding of the tradition which allowed William Temple to state in *Christianity and Social Order* (pp. 99-100):

To put it shortly, we have talked in a doctrinaire fashion about socialism and individualism long enough; it is time to try and get the best out of both. The question is not - Shall we be Socialists or shall we be individualists? But - How Socialist and how individualist shall we be?

<sup>55</sup> John Paul II, *Centesimus Annus* (Incorporated Catholic Truth Society: London, 1991), p. 31. Finnis, J. representing the secular exponents of the traditional, makes the same point, only adding that it is not unreasonable that systems of ownership should combine elements of both public and private ownership. As he explains in *Natural Law and Natural Rights*, p.171:

For regimes of property are very various and, usually, complex; and not unreasonably so, since what combinations of private and public ownership reasonably answer to the requirements of general justice varies with time, place, and many different circumstances: indeed the very distinction between 'public' and 'private' may reasonably be treated in some systems as not exhaustive.

<sup>56</sup> Suggate, A. op.cit., p.223. See further p. 207 ff.

flourishing of human beings in community is indefinitely many-sided',<sup>57</sup> but also Aristotle's dictum that one should not demand too much precision from practical reasoning.<sup>58</sup>

## SOCIAL ORDER

The image of public ownership as the agent of social justice has tended to obscure the sense in which it was intrinsically bound up with the preservation of social order. As we have reported in our narrative history of the nationalisation programme of 1945-51 (Chapter 3), the overriding political justification for public ownership was that it would undercut socialist agitation by supporting a gradual and democratic redistribution of power and wealth to the working class. The economic justification essentially consisted in the belief that the daunting task of post-war economic reconstruction could not be left to the market, on account of the inefficiency of private enterprise. The moral justification tended to see public ownership as an opportunity to cement the fragile human solidarity brought about by the war. What we need to enquire into now, in the different circumstances of the eighties and nineties, is whether the justification of public ownership in terms of its contribution to preserving social order still has validity as an argument against privatisation.

At the outset of this enquiry, we cannot avoid the fact that the multifaceted concept of social class still presses itself on us because Britain is still criticised for being an especially class ridden society. The extent to which this is true is of course the subject of ongoing debate. Stein Ringen, who is currently Professor of Sociology and Social Policy at Oxford University, comes down in favour of Peter Bauer's pamphlet *Class on the Brain*, the new edition of a pamphlet published twenty years ago by the Centre for Policy Studies. According to Bauer, 'Class distinctions exist,' but 'they are not particularly strong and there is nothing exceptional about Britain in this respect. Britain is a pretty open society without strong barriers to social or economic mobility, and it has become more open in recent decades. The British, however, punish themselves by *believing* that their society is one of unusually strong and rigid class

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<sup>57</sup> Finnis, J. *op.cit.*, p.174.

<sup>58</sup> *Ibid.*, p.176. In this connection, Finnis writes 'Aristotle's famous and often overworked dictum about not demanding too much precision in ascertaining the demands of practical reasonableness has an important application.'

distinctions.<sup>59</sup> However, the authors of three recently published books on class in Britain disagree.<sup>60</sup> They all conclude that British society is riven by class and that class divisions have remained relatively stable.<sup>61</sup>

Without entering into this debate here, it is worth making the point that even if public ownership did not significantly alter British class divisions, as the stability theory of class inequality maintains, public ownership certainly provided, at least initially, a means of upholding social order by containing and moderating class conflict. It did this principally by continuing the corporatist relations between the labour movement, government and management of the wartime economy and by providing a cultural sphere in which the aspirations of working class people could find expression and at least some limited fulfilment. Here one need only recall, for example, how British Rail encouraged a railway family, in which there was a strong sense of belonging to a distinctive social group within society.<sup>62</sup> Public ownership also contributed to a moderation of class conflict to the extent that it was only very opaquely an extension of the welfare system by helping maintain an artificially high level of employment, either as the agent of Keynesian demand management or as employer of last resort. And, not to be underestimated, experience with running the nationalised industries impressed on socialists the difficulties of making public ownership work and perhaps gave them more of an appreciation of private enterprise.<sup>63</sup>

Of course it is impossible to say exactly to what extent these factors contributed to the relative peace of the post-war period. There is also the counter-argument to consider that the nationalised industries became something of a focus for class conflict in the sixties and seventies by providing the trade unions with a strong political base, which they employed to block even Labour Party attempts to reform them. Nevertheless, if the coal strike, which led to the General

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<sup>59</sup> Ringen, S. 'The Great British Myth, Why the claims of continuing class inequality fail to take account of social change', in *The Times Literary Supplement*, January 23 1998, p.3-4.

<sup>60</sup> Brook, S. *Class, knowing your place in modern Britain* (Gollancz: London, 1998); Adonis, A. and Pollard, S. *A Class Act, England's new class structure* (Hamish Hamilton: London, 1998); and Marshall, G., Swift, A. and Roberts, S. *Against The Odds, Social class and social justice in industrial societies* (Oxford: Clarendon, 1997).

<sup>61</sup> "The stability thesis of class inequality" in, for example, *Against the Odds*, argues that there has been no essential change in class inequality in Britain since the war.

<sup>62</sup> Interview with Dr. Margaret Armstrong, former Economics Adviser to British Rail.

<sup>63</sup> As we reported in chapter 5, Harold Wilson, for instance, in his last term of office, took a far more pragmatic approach to the question of whether industry should be publicly or privately owned than he had done in earlier administrations.

Strike of 1926, is anything to go by, the class conflicts that marked these later decades might have been significantly worse had the industries been privately owned. And without the nationalised industries providing a strong base for the labour movement to challenge for political power through the Labour Party and to insist on a measure of corporatism from whichever party was in power, it is possible that the movement would have resorted to non-democratic means. As it happened, in contrast with the aftermath of the First World War, when revolution looked imminent, by 1950, British communism was in inexorable decline, with the two Communist Party of Great Britain MPs losing their seats and with membership of the Party dropping to under 40,000.<sup>64</sup>

In the light of the above, it is reasonable to conclude that the mixed economy made an important contribution to upholding social order in the post-war period. Given the ongoing debate about class in modern Britain, it is therefore also reasonable to speculate that public ownership may still offer an important means of avoiding the kind of class conflict that could undo many of the economic gains promised by privatisation. In this connection, the pitched battles fought on the streets between the police and angry protestors in the 1980s are a reminder that, even for the relatively law abiding British, there is a point when resentment can be fanned into violent opposition. However, before accepting this argument for public ownership, we need to engage with the complex and much altered social and economic circumstances of modern Britain, which makes it less plausible to see public ownership operating in exactly the same way as it did in the past.

One of the most disturbing features of modern Britain is the growth of an underclass. This is suggested by statistics which reveal that in 1975 6.5 per cent of non-pensioner households in Britain had no actively employed members of the British workforce;<sup>65</sup> ten years later, by 1985, this percentage had more than doubled to 16.4 per cent; by 1994, the percentage increase had slowed but was still up at 19.1 per cent. As a further indicator of the growth of this class, there was a 15 per cent increase in unemployed lone parents between 1992 and 1997. There has also been a dramatic increase in Britain's prison population, making Britain's incarceration rate higher than that of any other country in the European Union. Between 1992 and 1995 the increase was nearly a third. Figures for the rates of serious crime show a similar rise. These grew

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<sup>64</sup> See further Porter, B. *Britannia's Burden*, p.268.

<sup>65</sup> Drawn from Gray, J. *False Dawn, the delusions of global capitalism* (Granta Books: London, 1998), p.30-31.

from 1.6 million in 1981 to 2.8 million in 1981, then to 4.3 million in 1990. Expenditure on law enforcement increased correspondingly throughout the Thatcher administration. Together these statistics reveal an extent of social exclusion and a threat to civil society, which can be described as a time bomb waiting to explode.

Privatisation has undoubtedly contributed to the growth of this underclass. Most privatised companies announced massive redundancy programmes soon after being privatised. The loss of those permanent and semi-permanent jobs have not been made up elsewhere in the economy. Many privatised companies have also adopted employment practices which have casualised labour and added to the insecurity of workers. Privatisation has also contributed to the break up of industrial communities, such as the railway and coal mining families. It has also been accompanied by 'cherry picking', whereby services are aimed at the more affluent customers and the poor tend to be neglected or lose their services altogether. As a result, an increasing reality of post-privatisation life is that a minority of citizens now live without those basic services, clean water, adequate heating and light, and a telephone to connect themselves with other members of their family, friends, and to the outside world, which have long been taken for granted in the West as necessary for a civilised life. But privatisation cannot be held entirely responsible. Much of this social change has been driven, not by free markets but by technological change and globalization. The growth of an underclass would therefore have occurred regardless of whether privatisation had been implemented or not. In support of this conclusion, John Gray writes:

However, the dislocations of social and economic life today are not cause solely by free markets. Ultimately they arise from the banalization of technology. Technological innovations made in advanced western economies are soon copied everywhere. Even without free market policies the managed economies of the post-war period could not have survived - technological advance would have made them unsustainable.

New technologies make full employment policies of the traditional sort unworkable. The effect of information technologies is to throw the social division of labour into flux. Many jobs are disappearing and all jobs are less secure. The division of labour in society is now less stable than it has been since the Industrial Revolution. What global markets do is to transmit this instability to every economy in the world, and in doing so they make a new politics of

economic insecurity universal.<sup>66</sup>

Furthermore, the growth in the underclass might have been worse were it not for the modernisation of Britain, which globalization demands and which privatisation is held to have encouraged.<sup>67</sup> Here we have to do with the criticism of social democracy (or welfare capitalism) for its emphasis of the distribution of wealth at the expense of wealth creation. As John Milbank, taking up Henson's criticism of Christian socialism, points out, 'sufficient state welfare provision and trade union rights are predicated upon capitalist growth,'<sup>68</sup> in other words, *nemo dat quod non habet*; you can't give what you haven't got. Public ownership was particularly vulnerable to this criticism on account of the way social expectations were allowed to distract the industries from their primary commercial purpose. Furthermore, it is difficult to deny that, by providing a strong political base for the trade unions, public ownership assisted the unions in their damaging adversarial relationship with capital.

Much of this criticism of social democracy is strong, as we have admitted in our recognition of the strengths of the economic liberal case for the market in chapter 5. There was also an undeniable logic in the sequence of events leading up to privatisation. As Tony Benn rightly pointed out, the deepening economic and political crisis appeared to signal the end of the "Wilsonist" corporatism, which had held workers, business and government together up till then, and to demand a clear choice be taken between the kind of siege economy with further nationalisation, which he advocated, and the neo-liberalism which Heath had espoused in his Selsdon Man phase and which Margaret Thatcher was then beginning to cautiously embrace.<sup>69</sup> However, granted that we shall never know whether Benn's economic ideas would have proved successful, cutting Britain off from the global market was a high risk strategy, if not impossible. Raising import controls was bound to invite retaliation from Britain's trading partners. This could have led to a reduction of world trade and thereby further weakened Britain. Furthermore, in the straightened circumstances Labour inherited from the Heath administration, Benn's proposal that the government should take into public ownership a further string of "lame ducks" was highly implausible. Where would the money come from for their rescue and modernisation?

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<sup>66</sup> Gray, J. *False Dawn*, p.20.

<sup>67</sup> *Ibid.*, p.16.

<sup>68</sup> Milbank, J. *The Word Made Strange* (Blackwell: Oxford, 1997), p.268.

<sup>69</sup> Benn, T. *The Benn Diaries* (Hutchinson: London, 1995; this ed. By Arrow; London), p. 370.

Theoretically, his siege economy also went against the two fundamental principles of classical economics, comparative advantage and competition, which have proved to be the most reliable route to improving living standards. This left the neo-liberal route. As we have shown, the first steps on this road were forced upon the government by the conditions the IMF placed on the loan it granted in 1976. Then once the precedent of selling shares in BP had been made, as Benn predicted, further asset sales were bound to follow as a means of avoiding cutting social expenditure. All that remained to happen was the "winter of discontent", which threatened to fulfill Hayek's prophecy that the mixed economy would lead to serfdom.

To the political and economic crisis leading up to privatisation we have sketched above, we need also to add the difficulties experienced by some of the nationalised industries. Although, as we concluded our chapter on the experience of nationalisation (chapter 4), we are not convinced that public ownership failed, we can not deny that those industries with a consistently poor economic and financial record were cause for serious concern. They placed a burden on an already hard-pressed exchequer and their inefficiency had a knock-on effect on the rest of British industry, further undermining its waning international competitiveness. British Steel was of course the glaring example. The way the corporation had rapidly run up seemingly uncontrollable deficits made the finances of a state such as Britain, with so large part of its economy under public ownership, look precarious to potential investors. The industries dependent on large subsidies, such as the railways, were also a worry. They presented a seemingly bottomless drain down which state finances were being pored, adding to the indebtedness of the state and also to inflationary pressures in the economy. There were also the successful public corporations, such as British Telecom, who were in need of substantial new investment in order to remain internationally competitive, and who stood to lose out in the race to form large international companies, capable of effectively competing in a global market. In each of these cases, it would have been irresponsible to rule out the option of de-nationalisation.

In the light of our evaluation so far, we are therefore bound to conclude that, on account of the difficulties facing social democracy, in general, and the nationalised industries, in particular, a substantial but selective divestiture of state industries was justified on the basis of the principle of social order. Indeed, given the constraints imposed by globalization, either continuing to try and make the post-war settlement work better, in the manner of Harold Wilson, or attempting the radical alternative proposed by Tony Benn may have been a great deal riskier. Furthermore, to the extent that popular capitalism has succeeded in extending share ownership

and in giving the working class a stake in industry through employee share schemes and through investment by the pension funds of employees in the shares of privatised companies, there is a case for arguing that privatisation has left Britain's liberal democratic order more secure than it was before. It can also be claimed that privatisation has bought time and provided the resources for the state to continue to fund high levels of social welfare and to respond specifically to the needs of the underclass by, for example, the social exclusion unit set up by the present government.

Ironically, therefore, whereas nationalisation helped preserve social order in the post-war period, when the task of economic reconstruction and the threat of communism were the dominant concerns, in the altered circumstances of the seventies and eighties, when the impact of globalization and the threat posed by the underclass are the dominant concerns, a substantial programme of de-nationalisation was justified on the basis of the principle of social order. This irony supports the wisdom of the catholic tradition, in its insistence that no one economic system should be held to be normative, and that what economic model is appropriate depends on what will promote the common good in the particular political, economic and social circumstances of the time.

## **SOCIAL JUSTICE**

But this judgement is only half of the picture. We cannot be sanguine about the long-term stability of a post-privatisation social order where privatisation has contributed to a grossly unequal society becoming even more unequal and to the erosion of certain fundamental civil liberties. Nor should we accept that the principle of social order provides us with a sufficient justification for a substantial programme of de-nationalisation, because, as we explained in the introduction to this chapter, while the principle of social order is deserving of special emphasis, and perhaps should be accorded priority in most cases, it should always be held in tension with social justice, for justice is itself a cardinal virtue, which under certain conditions is deserving of a higher priority than social order.

With this tension in mind, and consistent with our understanding of social justice, in what follows, we shall begin by exploring whether privatisation has improved or worsened the inequality of wealth and income in society. Then, as the second part of our enquiry into the impact of privatisation on social justice, we shall consider the question whether privatisation has increased or decreased the level of freedom in society.

## Equality

On the state of inequality in Britain today, Ringen is in agreement with the authors of the three books on class mentioned earlier. He writes that 'Widening inequalities in Britain (since about 1975) have been solidly documented in studies of its tangible manifestations - such as income.'<sup>70</sup> According to the recent Rowntree Report on Income and Wealth, for instance, since 1979 the share of the lowest income group fell, whereas the richest one fifth of the population saw its share of after-tax income grow to 43 per cent by 1984-85, the highest level since the war.<sup>71</sup> However, Ringen then takes issue with the authors he reviews when they claim that egalitarian policies have failed: 'As long as egalitarian policies were pursued (1945-75), inequality narrowed dramatically. When egalitarian policies were abandoned (from about 1975), inequalities widened even more dramatically.'<sup>72</sup>

If we are to accept this analysis of inequality since 1945, then it is tempting to jump to the conclusion that public ownership made a significant contribution to closing the inequality gap. Certainly any reading of the political diaries of those close to the centre of political life in the post-war period suggests that the labour movement wielded considerable power over the formulation of economic and social policy. And, even if Ringen's analysis is faulty and there was in fact no significant change in inequality over the post-war period, as the authors reviewed by Ringen claim,<sup>73</sup> the conclusion may still hold that public ownership contributed to reducing inequality because, without the strong political base provided the trade unions in the nationalised industries and the way the industries supported full employment policies by acting as employer of last resort, inequality may otherwise have widened over this period.

However, this view of public ownership and inequality does not go uncontested. Leslie Hannah, for one, challenges the argument that the act of nationalisation directly affected a redistribution of wealth on the ground that the compensation paid to the former owners left the distribution of wealth unaffected.<sup>74</sup> He also questions the extent to which the nationalised industries affected a redistribution to the poor by means of the subsidies paid to them in order

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<sup>70</sup> *The Great British Myth*, p.3.

<sup>71</sup> Hills, J. *Income and Wealth, The Latest Evidence* (Joseph Rowntree Foundation: York, 1998).

<sup>72</sup> *Ibid.*, p.3.

<sup>73</sup> See also the study by Atkinson, A.B. *On Unequal Shares* (Harmondsworth; Penguin, 1972).

<sup>74</sup> *Ibid.*, p.193.

for them in turn to subsidise public services. He writes, 'The case was frequently advanced, for example, that subsidising railways would benefit the poor: yet empirical analysis showed that the beneficiaries of rail subsidies were those on above-average incomes: overwhelmingly the poor travel by bus or not at all. The state is frequently the tool of powerful pressure groups other than the poor.'<sup>75</sup> This criticism is well-founded, and it is worth noting that Hannah is supported by a considerable body of research, in particular that of the Public Choice School, which questions the redistributive impact of state intervention on account of the capture of the state by powerful pressure groups, particularly the articulate and politically skilful middle class.<sup>76</sup> Nevertheless, we do not think it seriously undermines our view that public ownership provided an effective political base for the labour movement to advance the egalitarian policies which either reduced inequality or kept it from getting any worse between 1945 and 1975, and that this remains one of the strongest moral arguments in favour of public ownership.

In contrast to the record of nationalisation, privatisation has undoubtedly contributed to worsening inequality since 1975. We ought to discuss this in relation to both society and the individual corporations, because public ownership promoted egalitarianism not only in society at large but also in each of the nationalised industries in so far as it kept pay differentials relatively close together and rewarded meritorious public service by a system of honours. Indeed, it has been the rapid increase in executive pay in the privatised utilities, which has created wide differentials between the highest and lowest paid employees, that has provoked some of the bitterest controversy surrounding privatisation, leading to some annual general meetings becoming uncharacteristically heated affairs. Although the standard defence of the increased differentials in pay, that in order to recruit the most able managers the company has to pay the market rate, cannot responsibly be dismissed as a ground for some convergence between what managers used to be paid in the nationalised industries and the market rate, we cannot accept either that it is necessary to offer the excessive rates of pay or that they can be justified in terms of the common good, for excessive differentials of pay erode trust within a company and society and demean the lower paid employees. As Charles Handy, in the spirit of Tawney's *Equality*, puts this deontological and consequentialist criticism of excessive inequality within the firm:

When senior executives of companies earn fifty, sometimes even one hundred,

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<sup>75</sup> Hannah, L. *op.cit.*, p.193.

<sup>76</sup> See further Gray, J. *Beyond The New Right*, p.vi.

times the pay of their own workers, it is hard not to feel that it is an affront to those workers. The executives compare their exotic salaries and benefits to the rewards given to the stars of sports or films or music, but these have earned their rewards by their own individual efforts, whereas the executives are supposed to be members of a team. Would the team, one often wonders, do so much worse if that particular player was absent?<sup>77</sup>

Sadly, one of the most disillusioning aspects of privatisation has been the way the image of public service, which for all their failings still attached to the managers of the nationalised industries, has so quickly been replaced by the popular one of greed.<sup>78</sup>

Although the rhetoric of popular capitalism has done much to colour the reality of worsening inequality for society at large, the true picture here is closer to that of legalised theft than about empowering the proverbial 'Sid'. This is supported by the analysis which finds that privatisation has involved the sale of national assets, in which every citizen had a share, at discounted prices to a proportion of the population, giving this group a net increase in wealth (with the entitlement to a future flow of income in the form of dividends). Unfortunately, it is very difficult and perhaps even misleading to attempt to calculate the total increase in inequality from the discounts given investors in all privatisations, because of the different investor groups involved and because the shares have fluctuated in price since privatisation. As a result we can only have a very impressionistic picture of the increase in inequality. But this is still very revealing. In the case of the first big privatisation, British Telecom, for instance, investors paid £3,750 million for assets the stock exchange valued at £7,470 million, giving investors a net increase in wealth of £3,720 million.<sup>79</sup> Thus for every share they bought they got one free. To give some idea of the increase in wealth over time resulting from the increase in the value of privatisation stock, the case of the Atomic Energy Authority Technology, recently criticised by the Public Accounts Committee, serves as a good example: in 1996 the shares were floated at 280 pence a share; the next day they were valued at 323.5 pence, an instant profit of 43.5 pence;

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<sup>77</sup> Handy, C. *The Hungry Spirit* (Hutchinson: London, 1997), p.117.

<sup>78</sup> The report of The Commission on Social Justice refers to 'the stupid respect for greed which helps some to believe (despite the evidence) that talented top managers will do their best only if they are paid fifty or a hundred times more than their employees.' See further p.6.

<sup>79</sup> Galal, A. et.al., *Welfare Consequences of Selling Public Enterprises, An Empirical Analysis* (The World Bank: Washington DC., 1994), p.6.

in May 1998 the price had risen to 777.5 pence a share.<sup>80</sup> That is a more than doubling of value in only two years. Were these the only mistakes made in the valuation of shares at flotation, they might be excusable on the basis of fears that BT, being the first big privatisation, could not be allowed to fail and that, in the case of AEA Technology, it was difficult to value the assets of a subsidiary company. However, the undervaluing of shares and the failure to include adequate claw back provisions to allow the state to recover unfair capital gains and excess profits,<sup>81</sup> was repeated in every privatisation. This handed to private and institutional investors large windfall gains, without their taking any risk, and therefore rules out the moral justification for privatisation which claims investors earned their gains on account of the risk they took.<sup>82</sup>

In this light, there is no denying the truth of Tony Benn's judgement that the British privatisation programme can be described as a plunder of national assets. Whatever the "spin," there is no denying that part of the public which did not invest in privatisation shares has not received fair compensation for the loss of their share of these former national assets. Furthermore, the majority of people who were left out or chose to remain out of the privatisation bonanza have lost not only the entitlement to the wealth conveyed by the shares, but also to the major part of the future income flows attaching to it. As a result all they are effectively left with now is an entitlement to part of the future flow of income through company taxation,<sup>83</sup> which in the case of some of the enterprises sold, is a lot less than what they contributed to the exchequer as nationalised industries,<sup>84</sup> and to what the regulators can claw back for them in the form of lower prices and better quality.

However, as blatantly unjust as this outcome is, we accept, in theory, that an evaluation of the social justice of privatisation has to go beyond the question of inequality to look at the

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<sup>80</sup> See further the Public Accounts Committee report on the privatisation of AEA Technology.

<sup>81</sup> See further Ramanadhan, V.V. ed., *Privatization and Equity* (Routledge: London, 1995), p.24 for a discussion of claw-back provisions.

<sup>82</sup> See here also Vickers, J. and Yarrow, G. 'Privatization in Britain', in MacAvoy, P. Sainsbury, W.T., Yarrow, G. and Zeckhauser, R. *Privatization and State-Owned Enterprises* (University of Rochester: New York, 1989), pp. 220-224. In addition to the loss to the Exchequer of the windfall gains, Vickers and Yarrow draw attention to the substantial cost of flotations (advertising, advisory fees, etc.).

<sup>83</sup> Of which the poor will receive a disproportionately low share given the way the middle and upper classes tend to succeed in gaining control of the use of tax revenue.

<sup>84</sup> To give some idea of the loss involved, for the four years 1987-1991, the net contribution to the Government of the Electricity Industry in England and Wales amounted to £5,998 million, compared with a total tax take for the four years after privatisation of only £3, 103 million, a loss of just under £3 billion. See further Wilson, B. 'Blowing a ruse', in *The Guardian Newspaper*, 26 September 1995.

total welfare gains from privatisation. This might justify privatisation on the basis that the increased inequality fosters the common good by making everyone better off. As such, it is a part of our evaluation which cannot responsibly be omitted. In this respect, because it is not primarily concerned with equality but with the common good, the catholic tradition is not necessarily opposed to a utilitarian welfare analysis, although it must find its criterion for a moral judgement, the maximization of utility or happiness, far too narrow. Neither is it necessarily opposed to an application of the celebrated Rawlsian difference principle, which allows that greater inequality may be compatible with social justice, provided everyone is made better off. The problem, though, with this kind of empirical study is that the method employs so many questionable assumptions and predictions and involves calculations based on a counterfactual, that it is difficult to take the results seriously; they are too open to the charge that the figures have been plucked from thin air.

A good example is the welfare study of privatisation by economists of the World Bank, who to their credit are aware of some of its limitations, although this does not seem to have kept them from using it prescriptively for policy recommendations.<sup>85</sup> The fly jacket boasts that it is 'the first comprehensive empirical study to measure the effects of divestiture on sellers, buyers, consumers, workers and competitors'. Its method involves measuring changes in consumer and producer surplus as a means of answering questions about who gained and who lost. The application of this method in one of twelve case studies, that of British Telecom, reveals, according to the authors, that the world is £10 billion better off.<sup>86</sup> This is broken down to a gain of £1 billion for foreign investors, £2.72 billion for nationals, £2.25 for government, £4.15 for consumers, and a loss of £0.12 billion for competitors. On the basis of these figures the report concludes that 'The distribution of the welfare gain comes as close to a Pareto improvement as possible.'<sup>87</sup> On the face of it, this would seem to be a sufficient vindication of the decision to privatise. However, on closer investigation, one finds that no calculation is included of how workers fared, which is a glaring omission given the massive programme of redundancies following privatisation and, given the unemployment in Britain in the 1980s, cannot be excused on the assumption that those laid off found alternative employment. Furthermore, the study made

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<sup>85</sup> Galal, A. et al., *Welfare Consequences of Selling Public Enterprises, An Empirical Analysis* (The World Bank: Washington DC., 1994).

<sup>86</sup> *Ibid.*, p.6.

<sup>87</sup> *Ibid.*, p.7.

no attempt to forecast how markets or technologies are going to change,<sup>88</sup> whereas the reality has been dramatic changes in the market, with telecom companies merging into giant international companies. There has also been dramatic changes in telecommunications technology, bringing with it, as Brian Wilson, then Labour's Trade and Industry spokesman, pointed out, 'the potential for massively increased profitability, no matter who owned it'.<sup>89</sup>

The weakness of this kind of study has also been widely demonstrated by the record of regulation. This has underlined the difficulties of predicting the economic performance of the privatised utilities. Indeed the imposition of a windfall tax on the utilities, in order to claw back excessive profits, has not only savaged the reputation of the regulators but has also laid bare any pretence that these companies will ever enjoy full commercial freedom within a regulatory framework. As a result, a further level of uncertainty has been introduced into attempts to predict their future performance because any forecast must now include the question: what will a future government do? One should also not leave out the latest irony in the story of privatisation, which is the trend for privatised companies to buy back their own shares in contradiction of the goal of extending share ownership. Will this action prompt a further tax to mop up the surplus cash? In addition to this kind of imponderable, there are the questions which arise with foreign ownership, such as what will happen when such a company begins to withhold taxes or thwart the regulator or be broken up by its foreign parent.

And of course the greatest imponderable of all is: what will the poor do in response to the worsening inequality? Perhaps with the end of the Cold War and the triumph of capitalism the poor no longer pose a threat. However, one dare not be complacent. As John Gray warns:

The regime of *laissez-faire* is bound to trigger counter-movements which reject its constraints. Such movements - whether populist and xenophobic, fundamentalist or neo-communist - can achieve few of their goals; but they can still rattle to pieces the brittle structures that support global *laissez-faire*.<sup>90</sup>

And, echoing this warning across the Atlantic, the former Secretary of Labour in the first Clinton Administration, Robert Reich, writes:

Unchecked, the disintegration of the social compact threatens the stability and moral authority of the industrialised countries. It even threatens continued

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<sup>88</sup> Ibid., p.5.

<sup>89</sup> *Blowing a ruse*.

<sup>90</sup> *False Dawn*, p.20.

economic growth. Those who bear a disproportionate share of the burdens and risks of growth, but enjoy few, if any, of the benefits, will not passively accept their fates. Unless they feel some stake in economic growth, they are likely to withdraw their tacit support for aspects of open economies that generate growth but simultaneously impose losses and insecurities on them.....

When the current expansion slows, those who are barely staying afloat or who are sinking will not remain silent. Yet by that time, their voices may resound not to progressive ideals but to the politics of resentment. History yields ample warnings.<sup>91</sup>

In the light of all the above, it is prudent to conclude that, while history may yet prove privatisation made every one better off in the long term, what really matters for the present is the injustice that has made an already grossly unequal society more unequal. Privatisation therefore fails one of our basic tests of whether it promotes the common good. Here, in the absence of hard facts, we are guided by catholic social teaching in its emphatic rejection of extreme inequality and of the so-called trickle down theory, which holds that an increase in the wealth of the rich will eventually make the poor better off. As this teaching is expressed in the *Common Good*:

But there must come a point at which the scale of the gap between the very wealthy and those at the bottom of the range of income begins to undermine the common good. This is the point at which society begins to be run for the benefit of the rich and not for all its members.

There are some ideological thinkers who advocate this approach. We would question their proposition that the further enrichment of the already wealthy must, as the inevitable result of economic laws, eventually also improve the lot of the less well-off and poor. This proposition is contrary to common sense as well as to experience. Some of those who employ it may merely be seeking justification for the pursuit of their own economic interests. Even from the point of view of the wealthy this is self-defeating. Jesus in the Gospels repeatedly warns about the dangers of over-attachment to material riches. Those dangers are not just to the individual, but also to the community.<sup>92</sup>

## **Freedom**

We can afford to be more brief in the application of the second of our two principles of

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<sup>91</sup> Reich, R. 'Light Blue Touchpaper', in *The Guardian*, 15 March 1998.

<sup>92</sup> *The Common Good*, p.17-18.

social justice for the reason that we have already discussed privatisation in relation to the argument from negative freedoms in economic liberalism in the previous chapter. There we expressed a basic agreement with the argument that public ownership had come to pose a threat to civil liberties at the end of the seventies by virtue of the close link between trade unionism and the nationalised industries. In this connection, there may be a germ of truth in Heath's criticism of Temple's social Christianity where he wrote that Temple 'placed too little emphasis on the need to maintain personal freedom; that in his wish to redress the balance of power between those who own and those who produce he failed to see that in so doing some would seek not justice but power for themselves for its own sake.'<sup>93</sup>

To that earlier analysis of public ownership and negative freedoms, we should add the mounting consumer dissatisfaction with the monopolistic and bureaucratic service provided by the nationalised industries. Although consumers benefited from price restraint and from the cross-subsidisation of services, and it should not be lost sight of that every consumer is also a voter, the nationalised industry's general lack of responsiveness to consumers frustrated individual freedom. They were never given an effective voice in the regulation of nationalised industry, and, because there was no competition, could not take their custom elsewhere. As a consequence, while, admittedly more in theory than in practice, the consumer is king in the free market, the reality of public ownership was that the interests of the state, management and the workers generally took precedence over that of the consumer.

In the light of this record, it is difficult to deny that experience has disappointed the hopes of social democrats that public ownership would always promote freedom. But, on the other hand, it is equally difficult to deny the basic Marxist insight that concentrations of economic power in private hands can be used to oppress the poor and powerless and to thwart genuine democracy. Faced with this *impasse*, the seemingly inconclusive debate over private and public ownership has moved on to explore positions between the entrenched neo-liberal and mixed economy positions. This has come to focus on the role of civil society, understood to include intermediate organisations and 'soft' institutions, such as collective beliefs, customs, routines and habits. Proponents of this new Third Way, such as Anthony Giddens, claim that

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<sup>93</sup> Foreword to *Christianity and Social Order* (Shepherd and Walwyn: London, 1976), p.2. See here also Sedgwick, P. 'Freedom, Wellbeing and the Enterprise Culture', in *Studies in Christian Ethics* Vol. 3 No.1 (T&T.Clark: Edinburgh, 1990), p.56 where he writes of an emerging consensus 'which affirms the creation of wealth in a market economy, not simply because it increases wealth, but because of intangible but real values such as freedom and democracy.'

these intermediate organisations and institutions can be used to promote a more genuinely free 'associative' democracy. However, and here we follow Ash Amin, who, after thoroughly exploring this new debate and giving it his qualified support, concludes that 'no matter how out of date the discussion might appear, the question of socialising ownership and control of the economy cannot be ducked if the concentration of property-based power is to be avoided.'<sup>94</sup>

In the light of this conclusion, we cannot find otherwise than that privatisation also fails the second of our two tests of social justice. Despite the rhetoric of popular capitalism, it has undoubtedly subtracted power from Labour and added this power to the already substantial property-based power of Capital. This is amply supported by the fact that the Thatcherite industrial relations legislation has succeeded in limiting certain fundamental civil liberties, such as the right of association, the right to engage in collective bargaining, and the right to strike, whereas attempts to change industrial relations legislation in the 1960s and 1970s all failed on account of opposition from the trade unions. Furthermore, by weakening the public sector unions, privatisation has paved the way for the adoption of unemployment as a permanent proxy for an incomes and prices policy. While this expedient may be justified as a temporary measure on the way back to full employment, it cannot be morally justified as a permanent response to inflation and globalization on the principle that if the market economy, as the direct employer, cannot provide employment for every one who wishes to work, then the government, as the indirect employer, has an obligation to endeavour to do so.<sup>95</sup>

Privatisation has therefore been one of the means of placing Labour back in the servile relationship with Capital which Tawney's advocacy of public ownership sought to end. Once more, as Maritain put it in his indictment of capitalism, 'the poor man exists only as an instrument of production, a 'hand', not as a person.'<sup>96</sup> As such, although he is better supported by social legislation in Europe, he is still vulnerable to the kind of management who Morrison described will 'take it out on the men'; more likely they will not bother because it is easier to either casualise his labour or export it to countries where it can be had cheaper. Looking back

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<sup>94</sup> Amin, A. 'Beyond Associative Democracy', in *New Political Economy*, Vol. 1, No. 3, 1996, p.323. See here also Preston, R. 'A Response To Ulrich Duchrow', in *Studies in Christian Ethics*, Vol. 3 No. 1 (T&T Clark: Edinburgh, 1990), p. 97, where he acknowledges that Duchrow makes a strong point about the 'political inequalities produced by economic inequalities, and the necessity of trying to establish countervailing power.'

<sup>95</sup> See here Brown, D. *Choices, Ethics And The Christian* (Blackwell: Oxford, 1983), pp. 63-64, for a discussion of the principle of the state as indirect employer, as declared in John Paul II's encyclical *Laborem Exercens*.

<sup>96</sup> *True Humanism*, p.107.

on the heyday of the nationalised industries, not a golden era but nevertheless one which succeeded in raising the status and conditions of workers and which accepted that the state had a responsibility to provide employment as employer of last resort, it is no wonder that MacIntyre has described the triumph of liberal capitalism in our day as a new dark ages.

But what should we now do? MacIntyre, on the understanding that the modern liberal state is beyond redemption, would exhort us to discover a new St. Benedict in order to keep alive the moral life in community. This vision, however, is too pessimistic for us, given all that public ownership was able to achieve for the working class. And yet, if we must continue to engage with the modern liberal state, we now accept that an extensive programme of re-nationalisation, with the aim of returning the privatised industries back to public ownership, is no longer practicable. As our application of the principle of social order would suggest, that is no longer an option in the globalized market of today. Indeed, in this context, it would seem that we have no choice but to accept the sense of Henson's argument that the material advantages of capitalism cannot be done without and therefore, as he put it, 'the ethical problem is presented in an economic framework which leaves little freedom to the Christian moralist. *Necessitas non habet legem.*'<sup>97</sup>

Furthermore, in the light of experience with public ownership, it must be pointed out that the application of the test of freedom cuts both ways: whereas privatisation promotes concentrations of property-based power, nationalisation promotes concentrations of labour power and favours the producer over the consumer. Consequently both privatisation and nationalisation tend to work against the promotion of freedom for all citizens. Nevertheless, on the understanding that nationalisation is the more justifiable on account of the imbalance of power it seeks to right and on account of the way it seeks to elevate the status of Labour to that of a partner with Capital, we would keep nationalisation as a last resort, while, as we shall outline in our postscript which follows, striking out in new directions in order to promote the common good.

Here we recognise that any social project looking to challenge entrenched power has to carry a realistic threat. Of course, in the context of the global market, it will not always be easy for the nation state to make the threat of nationalisation real. Nevertheless we are not persuaded that the nation state, increasingly supported by regional agreements, such as the European Union,

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<sup>97</sup> *Christian Morality*, p.282.

is powerless. That said, we favour a selective approach, which would limit any nationalisation programme to those industries which can effectively be managed as public enterprises.<sup>98</sup> Furthermore, on the understanding that the Morrisonian statutes were unrealistic to exclude representatives of government, workers and consumers from policy making, we would also opt for more of a concerted model of public ownership along the lines proposed by the NEDO. In the interests of social order we would also insist on appropriate industrial relations legislation.

We draw support here for our continued, but qualified, support for public ownership, not only from the catholic tradition but also from the radical strand in Christian social ethics, represented in this thesis by Tawney and by Liberation Theology. This prophetic tradition rightly emphasises the evangelical imperative of liberation by insisting that a due share of the good gifts of creation be restored to the poor and powerless.<sup>99</sup> It will be recalled here that Tawney, in an echo of the violent language of the psalmist,<sup>100</sup> justified nationalisation on the ground that, 'The blow needed to liberate them from the property owners must come from without.'<sup>101</sup> Although Tawney may be vulnerable to the criticism that he was a high-minded moralist<sup>102</sup> and Liberation Theology vulnerable to the criticism that it has misread Marx and belongs to a heretical millenarianism,<sup>103</sup> the indispensable contribution this radical Christianity makes is to force us to confront the reality of power. In so doing, those of us who have the time and resources to write about change instead of changing the world, are compelled to look at the world from the other side and so to come to see that sometimes what passes for order actually hides a radical disorder. As Christopher Rowland writes of this tradition in his book, *Radical Christianity*, 'It has protested against those arrangements which have the appearance of order but which in reality have brought about the prosperity and progress of some at the expense of others.'<sup>104</sup>

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<sup>98</sup> For instance we would avoid nationalising a complex manufacturing industry such as British Steel.

<sup>99</sup> See further O'Donovan, O. *The Desire of the Nations*, p.3, and Forrester D. *Theology and Politics*, pp. 168 - 171.

<sup>100</sup> See, for example, Psalm 50. 22.

<sup>101</sup> *The Acquisitive Society*, p.111.

<sup>102</sup> See further Atherton, J. *R.H. Tawney As A Christian Social Moralist* (Ph.D.Thesis : University of Manchester, January 1979), p.465 ff.

<sup>103</sup> See further Kee, A. *Marx and the Failure of Liberation Theology* (SCM: London, 1990) and Cohn, N. *The Pursuit of the Millennium* (Secker and Warburg: London, 1957).

<sup>104</sup> Rowland, C. *Radical Christianity* (Orbis: New York, 1988), p.160.

Postscript

**A NEW PROJECT**

Then the wilderness will become garden land  
and garden land will be reckoned as common as scrub.

Justice will make its home in the wilderness,  
and righteousness dwell in the grassland (Isaiah)<sup>1</sup>

As the conclusion of our thesis, in the brief space we have left, we shall sketch the outline of a new project which looks to promote the common good by building on the strengths of both nationalisation and privatisation while avoiding their weaknesses.

Before we proceed, in the light of the dashed hopes of so many projects of social improvement and the intractable problems besetting all modern societies, it is important we begin by explaining that we advocate a gradualist approach, which understands that social justice is best promoted in a programme of incremental change rather than by means of a political revolution. A failure to respect this principle of social order, the second of our two foundational principles of the common good, would be to repeat the mistakes of millenarian movements and of the Enlightenment, with its secular versions of the Christian hope of a world transformed. Accordingly, and consistent with John Gray's warning that political life 'is an almost desperately humble task of endless improvisation',<sup>2</sup> we have devised our project with a view to it being implemented by a gradual process of reforms to the existing system; to borrow some words of William Temple, we are wanting 'transformation by adaptation, not by destruction'.<sup>3</sup>

With these prefatory remarks in mind, in what follows we shall elaborate on the four parts of an organic programme of reform: the renewal of civil society, the re-distribution of wealth, the adoption of the stakeholder corporation, and the strengthening of global and regional governance. In our view, this new project is essential if we are to move beyond the simplicities of both nationalisation and privatisation to promote a more inclusive society and an international order which works for all its citizens.

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<sup>1</sup> Isaiah 32:15f. 'A passage read at the inauguration of Nelson Mandela as President of South Africa on 10 May 1994', quoted in De Gruchy, *J. Christianity and Democracy*, p.278.

<sup>2</sup> *Beyond The New Right*, p.vii.

<sup>3</sup> *Christianity and Social Order*, p.113.

## THE RENEWAL OF CIVIL SOCIETY

As the first part of this new project, we would wish to support the renewal of civil society in the programme for a new 'associative democracy' and in the overlapping assortment of proposals making up Anthony Giddens' 'third way'. This fresh attempt to overcome the difficulties of social democracy includes proposals for new public-private partnerships, the encouragement of voluntary associations, an emphasis on the family, renewing communities through local initiatives, and positive welfare.<sup>4</sup> These proposals are too many and varied to discuss in detail here and it will have to suffice to say that the importance of building the capacity of civil society to challenge concentrations of property-based power and generally to promote social justice by insisting on responsive, transparent, and accountable government cannot be exaggerated in the light of the failure of both statist solutions, which have sought to expand the state, and *laissez faire* solutions, which have sought to shrink the state.

It may be worth further elaborating here that, by making freedom one of the pillars of a new project, we are looking to build on the strong democratic traditions of the British state. These were wisely respected by the architects of the Labour Party's post-war nationalisation programme and rightly championed in the 1970s, when British democracy was threatened by a militant trade unionism, for democracy is the most popular and durable form of political governance in the modern world.<sup>5</sup> Nevertheless, as strong as these traditions doubtless are, there is a pervasive feeling that there is something wrong with British democracy - it is not democratic enough. This disquiet is not only a response to the low voter turnout in elections but also relates to the sense in which we are still subjects of a largely intact feudal constitutional order, with its top-down system of government in hock to property based power. What is needed is a new public involvement in democracy, such that it will produce more government by the people and for all the people. As Jonathon Freedland puts it:

we need to sweep away a post-feudal order and declare, like the new South Africans, *Mi Smo Narod* - a phrase which means both 'we are a *people*' and 'we are *the People*'. Then we can engage together in the adventure they call *masakane*, the building of a new nation.<sup>6</sup>

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<sup>4</sup> See further Giddens, A. *The Third Way* (Polity: Oxford, 1998), particularly pp. 69 - 128.

<sup>5</sup> See further Held, D. *Democracy and the Global Order* (Polity: Oxford, 1995), p.3.

<sup>6</sup> Freedland, J. *Bring Home the Revolution, the case for a British Republic* (Fourth Estate: London, 1998), p.228.

## THE RE-DISTRIBUTION OF WEALTH

As important as democracy is for the common good, however, it has shown itself to be insufficiently attentive to the needs of the minority of the poor in a modern, liberal capitalist society. Therefore, as the second part of our project, consistent with our understanding of social justice as requiring the promotion of greater social equality, we advocate extending the already existing re-distributive programme of the state by imposing a wealth tax in addition to the present inheritance tax.<sup>7</sup>

We of course accept that the imposition of a wealth tax involves trade-offs between economic equity and efficiency and that experience with wealth taxes in Scandinavia, in some of the continental European countries, and in Ireland has been mixed.<sup>8</sup> Nevertheless, we believe these inefficiencies outweighed by the threat to social order posed by the underclass, which if left to grow any larger, could result in the kind of social conflagration which would destroy all the political, social, and economic progress promised by our post-nationalisation and post-privatisation order. Furthermore, granted the mobility of capital is a constraint, we follow Tony Atkinson, President of the Royal Economic Society, who, in his proposals for a reform of welfare, insists that the economic constraints are exaggerated and politicians have more room to manoeuvre than they admit. As he argues:

Developments in the world economy, and the completion of the European marketplace, all shape the context within which social policy has to be formed. But they are not all-determining. Politicians cannot abdicate responsibility. There are important choices to be made, both nationally and at European level, and they will determine the kind of society in which Europeans will live in the next century.<sup>9</sup>

We can also justify our advocacy of a redistribution of wealth on the ground that it is essential for the project of modernizing Britain, which Thatcherism started but which failed to address the root cause of the problems of the British state. Here we draw on Avner Offer's

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<sup>7</sup> Exactly what kind of wealth tax would be appropriate is a subject for further research. See Brown, C.V. and Jackson, P.M. *Public Sector Economics* p.567 ff. and Flemming, J.S. and Little, I.M.D. *Why We Need a Wealth Tax* (Meuthen: London, 1974).

<sup>8</sup> Not surprisingly the Select Committee on the Wealth Tax has produced five different reports but failed to agree any of them.

<sup>9</sup> Atkinson, A. 'Whither Welfare?' in *Oxford Today*, Vol. 10, No. 2, Hilary Issue, 1998, p.11.

criticism of Will Hutton's modernizing thesis which points out that Hutton is perhaps not radical enough by failing to address 'the large inequalities of wealth (going back to industrial land ownership) that largely determine the hands-off risk preferences which drive Hutton's story.'<sup>10</sup> To our mind it is this feature of the still largely intact British feudal system, with the immense investment opportunities opening up abroad, such as in China, which accounts for the lack of British investment in manufacturing. If this analysis is correct, then one essential part of a strategy for national renewal must be a redistribution of the wealth currently controlled by the 'gentlemanly capitalism' of the City. Although this will not stop much of this wealth being reinvested in the City, it would provide start-up capital for individual entrepreneurs looking to supply the enlarged domestic market and create the opportunities for many more people to develop the 'human capital', both knowledge and services, which, in a post-industrial society, 'is increasingly identified as the source of the wealth of nations.'<sup>11</sup>

### THE STAKEHOLDER CORPORATION

As the third part of a new project to promote the common good, we advocate the stakeholder model of the firm proposed by John Kay in preference to either the public corporation model of nationalisation or the publicly quoted company of privatisation.

The essential difference between this model and that of the shareholder agency model of Anglo-American capitalism is that, in looking to make accountable the power of the large business corporation, it adopts a trusteeship approach to corporate governance. As such, it limits the property rights of shareholders by allowing 'managers to pursue multiple objectives, yet holds them responsible for their performance'.<sup>12</sup> This means that, whereas the responsibility of the manager as agent-principal in the publicly quoted company is to maximise the value of the shares, a duty which may conflict with what is in the best interests of the corporation, the responsibility of the manager as a trustee of the stakeholder corporation is to sustain all the corporation's assets, both tangible and intangible, such as the human resources of a corporation and the goodwill it enjoys in a particular community. As Kay explains this, 'The objectives of managers as trustees therefore relate to the broader purposes of the corporation, and not simply

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<sup>10</sup> Offer, A. 'The State We're In', in *Oxford Today*, pp. 12-13

<sup>11</sup> *Ibid.*, p.13.

<sup>12</sup> Kay, J. 'The Stakeholder Corporation', in Kelly, G., Kelly, D., and Gamble, A., *Stakeholder Capitalism* (Macmillan: London, 1997), p. 136.

to the financial interests of the shareholders.<sup>13</sup> With all this to commend it, the stakeholder corporation has justifiably been called a form of Kantian capitalism, in that it looks to treat all those whose lives are affected by a particular business as persons: not only as a means but also as an end.<sup>14</sup>

Once again, the adoption of this reform would be 'transformation by adaption, not by destruction'. As Kay points out, the stakeholder model more closely mirrors the reality of corporate governance in the large publicly quoted company, where the notion that shareholders own the corporation is a fiction.<sup>15</sup> Furthermore, although its understanding of business social responsibility is wider than that of Anglo-American capitalism, where, as Milton Friedman put it in the title of his celebrated article, the social responsibility of business is to increase its profit,<sup>16</sup> the stakeholder model nevertheless accepts that the discipline of the market provides a necessary commercial framework within which it has to operate and be regulated. This has the important advantage over the public corporation in that, because it has to operate in the market and is a separate legal entity, it is less susceptible to government interference. Here it will be recalled how the almost unceasing interference by Ministers in the affairs of the nationalised industries contributed to low management morale, made effective regulation difficult, and eroded the financial disciplines of the industries. And, while we accept that there may be extreme situations which might justify making industry an instrument of economic and social policy, such as in the case of Heath's price and incomes policy and, more recently, in that of the windfall tax levied on the privatised utilities, experience bears out the wisdom of respecting the independence of corporations on the understanding that their primary contribution to the common good is to be effective businesses. Finally, against those who deny any legitimacy to the market, we would also argue that accepting the discipline of the market can be morally justified on the understanding that business values, such as profit and efficiency, can also be

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<sup>13</sup> Ibid., p. 135.

<sup>14</sup> See further Freeman, W.&A. 'A Stakeholder Theory of the Modern Corporation: Kantian Capitalism', in Tom Beauchamp and Norman Bowie, *Ethical Theory and Business* (Prentice Hall: New Jersey, 1988), p. 92 ff.

<sup>15</sup> Ibid., pp. 128-131. See also here Williamson, J. 'The Road to Stakeholding', in *Political Quarterly* (Blackwell: Oxford, 1996), p.210 for her discussion of the passive shareholding of institutional investors. See also Hay, D. 'The Public Joint- Stock Company: Blessing or Curse?' (Paper: Tyndale Ethics Meeting, 1990), for a distinctively Christian advocacy of the public trust company.

<sup>16</sup> 'The Social Responsibility of Business Is to Increase Its Profits', in *New York Times Magazine*, September 13, 1970.

human values, in the sense that they provide valuable information to managers, to professional investors and other decision makers, which allow them to promote the good of the corporation and the common good.<sup>17</sup>

Of course, just as with any large, complex organisation, with operations touching the lives of millions of people, it will not always be easy to reconcile all the stakeholder interests in the commercial framework set by the market. Therefore constructive compromises will have to be struck. But there is no good reason to think, as Elaine Sternberg does, that stakeholder theory would in practice be unworkable because it reduces 'corporate governance to a complicated procedure of balancing the competing claims of various stakeholders', ruling out the pursuit of any specific objective, commercial or otherwise.<sup>18</sup> In any case, in response to the unprecedented power of the modern large business corporation, which it can use for good or for ill, society has begun to rewrite its mandate for business by demanding a greater responsiveness to a wide range of social and environmental concerns. This changing mandate, with its increasing emphasis of social justice, is making it increasingly difficult for managers to dismiss the legitimate concerns of other stakeholders.<sup>19</sup>

## GLOBAL AND REGIONAL GOVERNANCE

As the fourth and final part of our new project, we join those who advocate strengthening the capacity of already existing regional power blocs and international institutions to act as countervailing powers to the unprecedented property-based power of the global market.

In this connection, it is worth recalling that not so very long ago the market was a simple mechanism for dealing with the economic surpluses of a subsistence economy. Later it allowed a limited division of labour and specialisation. Even as late as the Middle Ages, when there were already a number of market towns, the market was still such a minor part of the structure of human life that it scarcely drew any systematic reflection. For this reason, as John Kenneth Galbraith explains, 'economics as now known still did not exist.'<sup>20</sup> However, since the Industrial

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<sup>17</sup> See further Mahoney, J. 'Christian Perspectives On Business Ethics', in *Studies in Christian Ethics*, p.27. Also see John Atherton, *Christianity and the Market*, p. 219 ff for his discussion of the virtues of the market.

<sup>18</sup> Sternberg, E. 'Stakeholder Theory: The Defective State Its In', in Hutton, W. *Stakeholding and its Critics* (Institute of Economic Affairs: London, 1997), quote taken from the back cover.

<sup>19</sup> See further Mahoney J. *Teaching Business Ethics*, p.ix ff. for a discussion of the changing mandate of business.

<sup>20</sup> John Kenneth Galbraith, *A History of Economics* (Hamish Hamilton/Penguin: London, 1967/1969), p.25.

Revolution, the volume, value and complexity of market transactions have grown on a staggering scale such that now the main economic players are no longer individual buyers and sellers but transnational corporations, exploiting every marketable resource and technological invention available world-wide. In this light, what Alan Booth has to say about the consequences of the development of nuclear weapons also applies in the case of the market: 'We have got to learn to live with the fact that we are now powerful creatures'.<sup>21</sup>

Our predicament though is that our ability to control these new powers has not kept pace with their development. As a result we have entered an era increasingly plagued by anarchic forces.<sup>22</sup> These now include international terrorists, suspected to be armed with nuclear weapons and biological weapons of mass destruction, and increasingly unstable free market forces, which are exhausting the capacity of international institutions, such as the United Nations, the IMF, and World Bank, to sustain world peace and economic stability.<sup>23</sup> In this global context, what cannot be afforded is exactly what privatisation is doing, dividing the world into two camps: the few who own most of the world and the many who own nothing and are prey to all the vicissitudes of an amoral world order. These are the classical conditions for violent revolution, which, in a world armed with weapons of mass destruction, will be unimaginably worse than any the world has yet witnessed. As John Gray warns, 'It beggars belief to suppose that these weapons will not be used in the coming decades, with incalculable cost to human and other life.'<sup>24</sup>

In this increasingly dangerous and anarchic world order, while there can be no prospect of planning economic life along the lines advocated by state socialists,<sup>25</sup> it is a matter of survival that we should gain control over the market forces which threaten either to end history or to

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<sup>21</sup> Alan Booth, *Not Only Peace, Christian Realism and the Conflicts of the Twentieth Century* (SCM: London, 1967), p.91.

<sup>22</sup> See further John Gray, *False Dawn*, p.206 ff.

<sup>23</sup> See further Martin Feldstein, 'Refocusing the IMF', in *Foreign Affairs* (March/April 1998 Vol. 77, No. 2), p. 20 ff. See also Kung, H. *A Global Ethic for Global Politics and Economics* (SCM: London, 1997), p. 218 for his description of the instability of the world economic order of which he remarks, 'For any one who is not an economist, a cursory glance at the globalized financial markets on which several hundred billion dollars are traded every day (only a fraction of this trade in commodities) can give the impression in the 1990s of being another dance around volcanoes, as in the 1920s ('the roaring twenties'), with excessively high share prices and a highly irrational hunt for records on the stock exchange.

<sup>24</sup> *False Dawn*, p.174.

<sup>25</sup> See further Kung, H. *A Global Ethic for Global Politics and Economics* (SCM: London, 1997), especially p.215 - 216, where he argues for a 'global, competitive, social and environmental order', in place of a world planned economy.

plunge us back into a Hobbesian state of nature. It is therefore crucial we understand, as Nicholas Boyle points out, that the principal effects of privatisation has been to 'transfer yet more of the local workforce to a global jobs market, and to reduce the sovereignty of the national government by transferring to multinational companies such strategic responsibilities as the supply of water and power, waste disposal, communications, and transport.' Consequently, in this new privatised, global order, as he goes on to comment, 'There is something odd afoot if a "privatizing" administration also complains about a supposed loss of powers to extraterritorial political and legal institutions which are at least either elected or directly or indirectly responsible to elected bodies.'<sup>26</sup>

On this further understanding of the consequences of privatisation, we can conclude that there is now no alternative but to share more of the power of national governments with regional democratic assemblies, such as the European Union, and accountable international institutions, such as the United Nations. The profound irony of privatisation, with its concern to shrink the state for the sake of the individual, therefore, is to make us more aware of the need to expand our individual horizons to embrace the challenge of regional and global governance, without which there can be no realistic hope of building the vision of a 'peaceful global order, freely chosen by all its citizens.'<sup>27</sup>

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<sup>26</sup> *Who Are We Now?*, p. 317.

<sup>27</sup> *Ibid.*, p.321.

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