State Monopolies - The Co-operative Alternative

by Lord Gallacher

Privatisation of state corporations running industries or providing services in Britain has been an initial political and economic success for Conservative administrations. Political success derives from astute commercial presentation of the exercise aided by the Labour Party's previous failure either to appraise or re-appraise such state corporations over their forty year life span. Economic success has stemmed from selling most of these bodies as statutory private monopolies at bargain prices with the Treasury pocketing the money in a creative accounting exercise designed to bamboozle those, like myself, who never came within miles of mastering the principles of double entry book-keeping, let alone the concept of negative expenditure.

A feature of the exercise, about which official Labour spokesmen have been surprisingly muted, is the absence of any criticism of the fact that assets, cheaply acquired from municipal owners in the 1940's, such as gas undertakings, were disposed of as though the Labour Government had initially paid market value for these. Near confiscation might have been excusable when one form of public ownership was being substituted for another, but it should have been vigorously attacked in the 1980's when privatisation was the name of the game. This is particularly important in the context of pending disposals of electricity and water industries to private bargain hunters.

Preventing the Abuses of Private Monopoly?

The fact that privatisation left monopoly status undisturbed was good for sales and also vindicated Labour's concept on first creation. Whether the machinery designed as a safeguard against potential abuses of private monopoly power - an operating licence, combined with a formula for price increases and a supervisory office - remains to be seen. Consumer representation machinery, as now devised for British Gas plc, is appreciably weaker than in the days of public ownership despite endeavours to strengthen it during the passage of the bill.

Attempts to find an alternative basis of private ownership to prevent possible abuse of monopoly power, which are said to be in hand for selling the electricity industry, are not easy to come by. If such bases appear in meaningful fashion in Parliamentary legislation the result may be to depress the selling price of shares. Electricity, unlike gas, separates the generating and distributive functions. This was considered essential for a national grid system in England and Wales. Scotland is different as it is in the case of water.

Weaknesses in the Nationalised Industries

As the creator of the public sector, the Labour Party has been curiously neutral about nationalised industries *per se*. The Morrisonian concept of keeping public corporations away from possible Parliamentary interference was carried to the nth degree. This left the way clear for ministerial and civil service intervention in running state industries, which, combined with a steady growth of trade union power, unmatched by any responsibility for commercial performance, is just about the perfect recipe for managerial frustration.

The Labour Party also washed its hands of the operational or development problems of the public sector it created. This is partly due to the Party's subservience to trade union finance, but has been carried to extreme lengths. For example, no chairman of a nationalised industry has addressed the Labour Party's annual conference. Even on issues where trades unions themselves are divided - such as future modes of generating electricity - conference debate proceeds unhindered by views from those who ought to know the facts. Using the conference block voting system to resolve such issues is akin to substituting the claymore for the scalpel.

Equally, Labour Party formulation for the return of privatised enterprises to the public sector was a non-event in the last general election. It is doubtful if voters had any understanding of either of the options proposed for compensating share holders in British Gas or British Telecom. The type of corporation to which these enterprises was to be returned also made little impact. Maybe it was too soon for serious consideration of the potential defects of private statutory monopolies or the superiority of the proposed replacement form of public ownership.

Prospects for Privatisation -

Trades unions concerned in privatised companies appear quiescent as regards the future. Relations with new employers have yet to be firmly established. Employee shareholding, which was encouraged in privatisation schemes, may produce a new climate. Profit related pay, with income tax relief for approved schemes, seems suited to be part of the collective bargaining process in private monopolies.

The fact that there will not normally be another general election until 1991/92 does not absolve the Labour Party from thinking about its attitude to the future of public ownership. Water and electricity are likely to be privatised early in the lifetime of the present Parliament. For different reasons both are contentious proposals. Employee objections are more likely to be against their form rather than the substance. This leaves the Labour Party with the task of constructive opposition to both measures combined with the obligation to think creatively about policy towards the resultant companies if and when Labour is returned to office.

- Particularly in Water

Water provides the better opportunity for a stand against privatisation. The present arrangement whereby ten regional authorities in England and Wales have responsibility for water, sewerage, rivers, environment, recreation and pollution control is generally regarded as having worked well. Furthermore this structure was entirely devised by Conservative Governments in 1973 and 1983. Compensation to existing owners was not paid under these measures.

There is concern across the political spectrum about creating a private monopoly in an area which had long been either in municipal ownership or in a few private water undertakings limited by statute to paying fixed rates of interest on capital. Proposals for change have been delayed and it is now rumoured that the bill will confine privatised regions to water and sewerage functions with a new public national authority to deal with rivers and generally oversee the industry in England and Wales. This is said to have aroused opposition from certain of the present regional authorities.

The jewel in the crown is the Thames Water Authority, formerly the Metropolitan Water Board. Manifestly this belongs to the ratepayers of Greater London, particularly the London Metropolitan Boroughs and other identifiable local authorities. The Labour Party ought to campaign for compensation for such former owners as part of the privatisation process. If this fails then an endeavour should be made to take the Government through the courts on the issue which concerns both principle and natural justice.

I am probably in a minority of one in believing that the Co-operative form of ownership now has greater potential when it is statutory rather than voluntary. Agricultural marketing boards in Britain are essentially statutory producer Co-operatives. They have survived the dislike of the Commission of the European Communities and indeed the extension of the marketing board concept to other member states of the EC may be essential if managing the CAP is ever to be brought under control.

A Co-operative Alternative

Would the present regional water authorities in England and Wales make good statutory Co-operatives of consumers as an alternative to private monopoly companies? I believe they would. Present groupage of functions and areas served are regarded as about correct. Their present weakness as public corporations is that they are at the mercy of the Treasury. Even from plc's, the mandarins of Great George Street will require a continuing contribution to the exchequer over and above corporation tax.

If they became statutory Co-operatives I would envisage the transfer of assets and liabilities to them without compensation to central Government. Shareholding in each regional water Co-operative would be open to a prescribed list of bodies each holding a single membership share worth, say, £10,000. Other required capital would be found either from retained profits and/or by loan flotation as now by statutory water companies. Borrowing could be Government guaranteed.

Permitted shareholders would be bodies representative of consumers or other users such as local authorities, regional consumer Co-operatives, county branches of the NFU, regional branches of the CBI and of the TUC. Non-executive directors of boards of regional water Co-operatives would be appointed by and from shareholders. Executive directors would be appointed by part-time directors. All directors would hold one share for the duration of their board appointments. Reports would be made to the annual meeting of shareholders. Accounts would also be presented there.

The shareholders would also appoint from among themselves a members' committee to exercise general oversight on behalf of all shareholders and users. This committee would meet periodically with the board of directors and would be specifically consulted about charges as well as having the right of access to the Co-operative's auditors. All voting, whether at the annual general meeting, board of directors or members' committee would be on the basis of one member one vote.

Consultative committees of consumers would be appointed by the members' committee on a county basis (or similar) in each regional Co-operative to represent the interests of users generally. Each consultative committee would be chaired by a non-executive director with meetings about quarterly. Consultative committee members, though not shareholders, would be entitled to attend the annual general meeting with speaking, but not voting, rights.

And for Wider Extension?

The above outline may provide a discussion framework for other public corporations. it aims at the provision of services and facilities on a non-profit system without control by either Parliament or Whitehall. It may also serve as a basis for the return of statutory private monopolies to common ownership. If the Labour Party were seen as a force for such de-centralisation the political impact could be significant.

Note of the Author

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