

# Judge Business School

*Too Big To Fail*

Investment and Nationalization

Lessons From British

Industrial Policy

William J. Nuttall

with Michael E Leybovich and

Matthias Holweg

# The Washington Consensus 1989

*“Stabilize, privatize, and liberalize”*

The term Washington consensus was coined by John Williamson

## But what do we see today?

*“Nationalize GM”* – opinion piece by Dan Neil  
LA Times 2 December 2008

*“Fed’s \$85 Billion Loan Rescues Insurer”*  
NY Times Business 16 September 2008

*“Northern Rock Nationalized”* – Forbes.com  
17 February 2008

*“East Coast Rail to be State Run”*  
BBC News website 1 July 2009

Over four years or more our research interest has been UK industrial convergence, investment and control in the aircraft and automotive sectors in the 1960s and 1970s

Those events formed part of the second wave of UK industrial nationalizations following the first wave in the late 1940s (comprising coal, healthcare and rail)

*When we started we had no idea how topical our interest would become*

## The backdrop: UK Manufacturing Performance

	1950 (%)	1960 (%)	1970 (%)	1979 (%)
France	9.9	9.6	8.7	10.5
Japan	3.4	6.9	11.7	13.7
UK	22.5	16.5	10.8	9.1
USA	27.3	21.6	18.5	16.0
West Germany	7.3	19.3	19.8	20.9

Share of world manufactured exports, 1950-1979 from Bernstein (2004) citing Crafts and Woodward, *The British Economy Since 1945*, p.12

# UK Automobile and Aircraft Industry histories some common themes?

- Post WWII UK industry is fragmented  
→ Consolidate
- Industry lags international best practice  
→ Invest
- Public has a high stake, but does not control  
→ Nationalize
- Eroding macroeconomic position  
→ Privatize



To gain understanding we interviewed key players from the left and right of the political spectrum

Tony Benn: 1970s Labour Government Cabinet Minister and Minister of Technology 1966-1970

Patrick Jenkin: 1970s and 1980s Conservative Government Cabinet Minister. Member of Parliament 1964-1987

According to Tony Benn the first wave of nationalizations was supported by a pragmatic consensus :

*“The recovery from the war was also seen as a military operation, that’s to say for example the Government planned the economy and when the bombers stopped coming out of the factories there was a pause and prefabricated houses started to come out of the same factories. It was that degree of central planning and that was something that was taken for granted, there was no argument about it.” (Benn, 2007)*

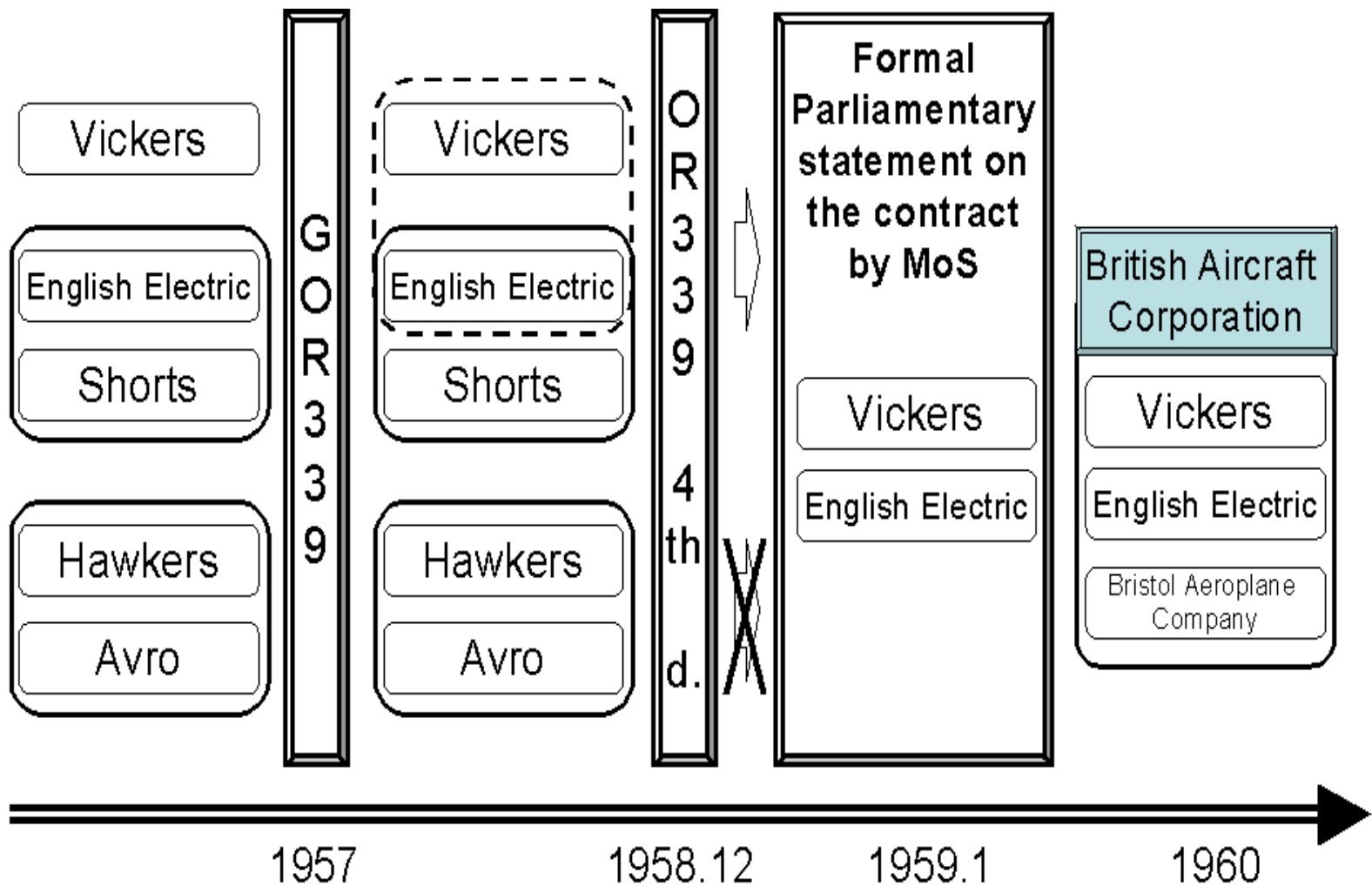
*“It was in the national interest that we should have farms, we should have factories, we should have manufacture, that was the way it was seen and that idea carried on and it wasn’t a specifically Labour idea, I mean the fact that Churchill nationalised the oil in 1914 and that Ted Heath nationalised Rolls-Royce is an indication that this was a generally shared view.” (Benn, 2007).*

Fragmentation of the aircraft industry was partly a consequence of the WWII policy of 'shadow factories'. In addition Corelli Barnett points out:

*“The truth is that the British Establishment’s whole approach to the question of industrial strategy was rooted in a Victorian mercantile conception of a myriad firms competing in a market place – industry was still often referred to as ‘trade’: ‘the coal trade’; ‘the steel trade’. The Establishment – politicians, civil servants, and hired economists- had not yet grasped the twentieth-century concept, pioneered by the great American and German corporations, of the massive technology-led operation that conquers its own market almost on the analogy of a great military offensive.” (Barnett, *The Audit of War*, 1986, p. 275)*

## Aircraft: First step - Consolidation

- In 1946, there were 27 British airframe design companies and 8 British aircraft engine companies
- In 1958 there were still, in effect, 20 airframe firms and 6 aero-engine companies (Gardner, 1981)
- Although the period from 1950 to 1957 has been called the "Golden Age of British post-war aircraft industry" due to numerous British aviation innovations, the government of the time saw an industry that would not be able to sustain itself without consolidation
- For military aircraft government had the policy lever of defence procurement



TSR2 Aircraft project one of the few to survive the Sandy's WP. TSR2 and Aircraft Industry Amalgamation chart based on material in Frank Barnett-Jones' *TSR-2 Phoenix, or Folly?*

## Automobiles: First step - Consolidation

- Up to the late 1960s, the British motor industry was dominated by the "Big Six"- Austin, Morris (Nuffield), Rootes, Standard, Ford, and Vauxhall (GM 1925-2009)
- In 1954 the Government had first suggested consolidation (Church, 1994), and there were a few major mergers prior to 1966, but the automotive industry was still largely fragmented
- The 1966 Wilson administration was determined to create a British national champion in the vehicles sector that could compete with the likes of the United States' Ford, General Motors, and Chrysler.
- By early 1968 they had created British Leyland Motor Corporation (BLMC)

## Step Two – Investment and Control (Nationalization)

- The motor industry was nationalized in 1975 as British Leyland (BL), Ltd. The aerospace industry was also nationalized in 1977 as British Aerospace.
- Investment, ownership and control were linked. In the aircraft case the investment came first in the auto case it was concurrent

Tony Benn observes:

*In '74, I published the figures of Government subsidies, massive subsidies for the aircraft industry and quite a lot to the motor industry, but not on the scale of the aircraft industry and we were just pouring the money in and they were making the profits and pocketing them. And if we didn't put the money in they would have collapsed.” (Benn, 2007).*

## More on Step 2 - Investment and Control (Nationalization)

Tony Benn observes:

*“The aircraft industry, although it was privately owned, paid it entirely on public subsidies and I took the view that if you put Government in, it should be on the normal basis, if you invest in a company you get a share of its ... that’s only if you’re an industrialist you put money in, you expect to be one of the shareholders but the Government just poured the money in and that just really wasn’t working very well and wasn’t a very sensible way of spending public money.” (Benn, 2007)*

*“Well it wasn’t state control we had in mind, I mean we had a planning agreement, that was the idea that the customers, the producers, the Government and the Trade Unions involved would meet and discuss the strategy for the industry and that was a very democratic idea and they worked extremely well too.” (Benn, 2007)*

## Thatcher's Conservative Victory in 1979 Broke the Consensus

### Arguably by 1980 large-scale nationalization was eroding national competitiveness

Margaret Thatcher felt that investment was most likely to be effective when left to the private sector. Patrick Jenkin explained:

*“You’ve actually got to get the finance into the hands of the private sector, which is what we did. And to my mind the strongest argument has always been you cannot expect those huge sums of investment money [ ...] to come from the Treasury.” (Jenkin, 2007)*

*“The state can’t run anything, I mean it’s now so obvious that actually you’ve got to get the state out of these competitive industries, they’ve got to be competitive, or else you simply pour money into them all the time, the taxpayer pays for them.” (Jenkin, 2007).*

## Some Words on Privatization –

Despite it being beyond our main scope of interest

- Concerning the reverse journey of privatisation we observe from the Rover case that once public assets are privatised the new private owners have no obligation to act in the best interests of the taxpayer and that the newly privatised firm might seek to liquidate its assets at the earliest possible opportunity.
- This example acts to reinforce the notion that privatisation should only be done on the basis of achieving a sale at a fair price
- Political pressures for early privatization can be as dangerous as the crises that prompted pragmatic nationalization in the first place

## Hindsight?

In the post-privatisation era, the two industries have seen divergent fates.

Rover was not able to attract the kind of investment and financial success it needed to sustain its operations, and went through a catastrophic downward spiral.

BAE Systems, however, has enjoyed a solid record of development over the past 20 years. Some key controversies notwithstanding. Recently it has been keen to become an American company.

## A Subtext?

Are the two histories parallel or are there links and synergies?

*“It is sometimes asserted that the current high standing of the UK aircraft industry has been in part at the expense of other manufacturing sectors less able to demonstrate their ‘strategic’ value and thereby attract continuing support from the state. Aerospace, it is argued, has ‘squeezed’ out resources, both human and material, which might have been more fruitfully deployed in other manufacturing sectors.” (Hayward, 1989)*

Increasingly Rover took on the status of an asset to be liquidated on terms best suited to BAE’s needs. George Simpson, chief executive of Rover under British Aerospace, spoke about a high-level meeting in the summer of 1993:

*“We sat down at Board level and had a long discussion, and the conclusion was that we’d taken the [Rover Group] to such a level that it might be better to try and sell it now to bolster the [BAe] balance sheet.” (Oliver, Holweg & Carver, 2008)*

## Lessons for 2009?

- **Lesson #1:** Nationalisation is generally pragmatic, not ideological
- **Lesson #2:** Providing resources without capabilities is a recipe for disaster – management matters
- **Lesson #3:** Governments talk long-term, but act short-term
- **Lesson #4:** Investment and control are separate stages and the dangers lie in political pressure to steer nationalized industries

***Thank You***