

BT is on offer to the nation proclaim the TV ads. The sale will be the most dramatic example to date of the privatisation strategy. The disturbing thing is how much has already been privatised - and how much, too, remains on the shopping list.

Sale of the Century

Dexter Whiffield

THE GOVERNMENT and British Telecom (BT) management together with merchant bankers and stockbrokers are hurriedly trying to pave the way for Britain's biggest ever share sale when BT is sold off this autumn. They are all desperate to make the sale 'successful' and are orchestrating a campaign to create a 'gold rush' climate leading up to the sale.

The sale of 51% of BT (in three separate payments phased over two years) will produce substantial income for the Government. It will also ensure that the potentially highly profitable development of telecommunications and information technology in Britain is firmly based in the private sector. However the BT sale is also crucial to the Tories' propaganda that selling the 'public sector to the public' is a means of spreading wealth and ownership and is a step nearer a 'company-owning democracy'. The Government won't have another similar opportunity of a huge sale of a very profitable public service (pre-tax profits in 1983/84 were £990m on £6.88 billion turnover) which can be marketed as a leader in new technology. It will also, for the first time in the asset sales programme, have direct access to the public as users of the service.

But there are also technical problems with a sale the size of BT. Financial institutions have been concerned for some time that the BT sale could swamp the Stock Exchange crowding out the flotation of other new companies and firms raising additional capital by selling new shares to existing shareholders. In 1983 the major financial institutions, insurance companies and pension funds had net investment in ordinary shares of British companies of £2.4 billion (compared to £2.2 billion invested during the same year in overseas companies). New share issues on the Stock Exchange during 1983 totalled £1.4 billion. BT will take up to £4 billion over two years. The answer for both financial and ideological reasons is to woo the so-called 'small investor'.

A success at all costs

At a time when daily newspapers are seeking £1m bingo winners the Government is trying to attract a million new small investors to become company shareholders in BT. They hope that they will buy an average £1000 worth of shares so that about a third of BT will be sold to 'the public'. In order to attract these investors the shares will have to compete with other forms of investment in the savings market, for example National Savings Certificates and building society deposit accounts. Hence the BT shares will be competitively priced. But this means sacrificing the highest possible price for BT in order to attract 'small investors'.

The biggest sale in history will also incur the biggest costs and discounts

The Government has clearly decided that the BT sale must be a success at all costs. The Tories want to avoid further scandals like Amersham International and the first Associated British Ports sales when shares were sold cheaply and then rocketed in price when trading started on the Stock Exchange. A million or so new small investors will be a useful insurance policy if the BT shares do the same. The Tories would use this to deflect criticism by claiming they had spread wealth to the public. Equally they want to avoid the initial share sale flops like Britoil, Enterprise Oil and the second Cable and Wireless flotation when only part of the share offer was taken up. Either way, the political repercussions could put further asset sales in the privatisation programme in jeopardy.

The biggest sale in history will also incur the biggest costs and discounts - estimated at more than £200m. Merchant bankers and stockbrokers will receive over £80m in fees for arranging the sale. The Government is funding £70m worth of

tax-free vouchers being offered to residential telephone subscribers. An £18 voucher will be offset against telephone bills to be given for every £250 worth of shares up to a £3000 limit. Alternatively bonus shares will be issued to investors who retain their shares for over three years. There is also a free share scheme for BT's 240,000 employees.

A £50m television, press advertising and market research operation has swung into action to try to persuade people who have never bought shares before to buy BT.

The sale could cost a lot more. Stockbrokers Grieveson, Grant & Co and Laing & Cruickshank have calculated that BT should be valued at between £7.5 billion-£8.5 billion. The initial sale could raise between £3.75 billion-£4.25 billion. But the pricing of shares to attract new investors combined with the current City sales talk which usually 'talks down' the value of public assets immediately before they are sold so that financiers can make a speculative killing afterwards, is likely to lead to a £3.0 billion-£3.5 billion sale. So the loss to the public could be as high as £1 billion or more when the £200m in sale costs are included.

The mythical small investor

The new Tory crusade for a company and property owning democracy has its target on the 'small investor', ie, anyone with up to £5000 at their disposal. They are trying to stem the tide for the number of private shareholders is declining rapidly. A recent study by the Stock Exchange¹ shows that private shareholders own only 28.2% of the shares on the Stock Exchange, down from 54% twenty years ago. Conversely, financial institutions like insurance companies and pension funds, have increased their grip on share ownership.

So even if the Tories managed to entice another million £1000 shareholders, it would increase the number of private

¹ *The Stock Exchange Survey of Share Ownership* Stock Exchange 1983.

shareholders by 62.5% to 2.6 million people (still a tiny minority of the population) and increase their proportion of the value of shares held by individuals by a mere 3.6%.

The Government is also keen to encourage employee share ownership. 'Business-ownership, home-ownership, and share-ownership are the best anti-Marxist barriers of all' declared Tory MP Edward du Cann, chairperson of the Wider Share Ownership Council writing in the foreword to a recent Institute of Directors report 'Share Ownership for Employees and Directors'. The report succinctly states their motives: '... desirability of introducing share ownership among employees generally must therefore rest on the capacity of this approach to create a general climate of opinion among employees which is favourable to the company. By providing greater insights into the nature of business risk, capital and profit, and the potential to benefit from their successful management, such schemes create a greater awareness of the close connection between a company's success and an employee's personal fortunes.'

The free share offers to employees are simply frills with major restrictions attached to them. Employees of Cable and Wireless own 0.001% of the company, 0.005% at Amersham International, and 0.2% in Britoil. There are now over 500 employee share ownership schemes in Britain 'owning' (controlled by trustees who are often the directors of the firm) £125m shares - just 0.12% of the total market value of all the shares issued on the Stock Exchange.

Speculative gains

There is ample evidence that those people who do buy shares in assets sales do so for quick speculative gains. Immediately after the sale of British Aerospace in 1981, there were 158,000 individual shareholders, excluding employees. Ten months later there were only 27,000, a reduction of 83%. The number of small shareholders (less than a 100 shares) declined from 44,000 to 3,300, a fall of 93%. At the same time the number of shareholders holding one million or more shares leapt from one to thirteen. The share registers of other companies sold by the Tories have also shrunk dramatically as individuals sold their shares. Within a year of the first Cable and Wireless sale the 150,000 shareholders had shrunk to less than 26,000. Only a month after the Amersham International sale the number of shareholders fell from 62,000 to

a mere 10,000. Within six months of the Britoil sale 18% of those with under 2000 shares had sold out - and at a time when the shares were still selling below the sale price.

Speculators are increasingly using the small investor bandwagon to send in multiple applications for shares under different names and nominee companies. Three months after the sale of Associated British Ports in February 1983, the share register revealed that 27.5% of shares were held by nominee companies. Big business is also quick to move in to snap up 'bargains at the sale'. The government blocked RTZ's bid, using nominee companies, for 49% of Enterprise Oil shares. Their holding was limited to 10% of the initial share offer. However they scooped up another 20% immediately after the sale. Norwich Union Insurance bought 10% at the same time.

Buying a small percentage of shares in BT or other asset sales does not give any form of control or ownership whatsoever. A £1000 of shares in BT will give a small investor 0.000029% control (assuming a £3.5 billion sale). Shareholders will have



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about as much information and influence as they would from having a building society account. Employee share ownership or an increase in individuals owning company shares is not going to have any meaningful effect on the distribution or control of wealth in Britain.

Discounts galore

The sale of BT is only part of the Tories' comprehensive privatisation programme and their fundamental restructuring of the

welfare state and public services. We are halfway through a decade in which the public sector is being drastically reduced. Years of struggle, conflicts and public investment both before and after nationalisation and the establishment of the welfare state and local public services are being swept aside as the Tories sell off assets and open up new markets for capital. A new industrial strategy has emerged, based not on state investment and grants to industry for 'new' factories and jobs, but on selling-off public assets to multinational companies and financiers. Forcing local government, health authorities and the civil service to contract-out services is also part of this strategy. Privatisation is not unique to Britain but no country is being subjected to such extensive change in nationalised industries and public services at such a rapid pace.²

Based on the highest 1984 share price as a guide the eleven major public asset sales

<u>Government 'losses' on assets sales</u>				
	Gross sale price	Share price at sale	Highest share price in 1984	Government 'loss' on sale
Amersham International	£70.6m	142p	272p	£64.6m
Associated British Ports (1)	£22.0m	112p	298p	£36.5m
Associated British Ports (2)	£52.4m	250p	298p	£10.0m
BP (1979)	£290.0m	363p	540p	£141.4m
BP (1983)	£565.0m	435p	540p	£130.9m
Britoil	£548.8m	215p	277p	£158.0m
British Aerospace	£148.6m	150p	401p	£248.7m
Cable & Wireless 1981	£224.0m	168p	387p	£292.0m
Cable & Wireless 1983	£260.0m	275p	287p	£105.9m
Enterprise Oil	£392.2m	185p	194p	£19.0m
Jaguar Cars	£297.0m	165p	181p	~
Total	£2870.8m			£1235.9m

