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MEH 9/11/5/11 Incomplete copy filed behind
Might like to see the comment
DAW

17.10.79

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MR. WALKER

Copies to Mr. Gilchrist
Mr. Hewitt
Mr. Plenderleith
Mr. Tempest
Mr. Threadgold
Ms. Kilvington (Overseas Group 11)

PCH

Goodheart.
I agree entirely. And surely a free
issue to taxpayers defeats the argument that
denationalisation usually means disposing of those
national assets (eg BP, etc) likely to return better to
the taxpayers interest. It is also a much better
level than progressive income tax rates.

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PRIVATE OWNERSHIP OF BNO

1. Is there any alternative to the term 'privatisation'? This strikes me as a hideous form of English usage, but I have not been able to think of any short, clear, better alternative. Suggestions would be welcomed.
2. The previous papers on this subject by DAW and MEH tended to the conclusion that a partial free distribution of BNO shares would be undesirable. In reaching this conclusion, it seems to me that they both overlooked a 'political' element in the situation which, though it may be distasteful to raise, should nevertheless enter the analysis. This refers to the Labour Conference's absolutely clear resolution that they intend to re-nationalise without compensation sales of public assets.
3. This latter feature seems to me to introduce a major change into the analysis of the optimum way of carrying out under the present government any distribution of public sector assets. If the government were to sell a clearly distinguishable block of BNO, without a free distribution, it would make it very easy for the Labour Party to re-nationalise without compensation, and would accordingly lower the price at which such assets could be sold in the first place. If, on the other hand, the present government were to issue all (designated) UK residents with a free issue, and then in addition make further sales, following the BCRIC analogy, it would be much more difficult, at least in my view, for the Labour Party to carry out their threat. In the first place, it could be argued that since the nation continued largely to own BNO, since every member of the nation held a share rather than simply a wealthy minority, that BNO would remain truly nationalised, at least in a sense. In addition, so long as the BNO shares which were freely distributed maintained a market value, the maintenance of the Labour Party's threat to re-nationalise without compensation would in effect represent a threat to impose a capital levy on every single person in the country. Assume, along the lines of MEH's analysis, that a free distribution was made in a manner that would provide assets worth, say,

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£15 to every UK resident. Do you then seriously think that the Labour Party could enter a forthcoming election with a tenable threat to levy a charge of £15 on all residents? What a vote loser!

4. Moreover, once the Labour Party's policy is taken into consideration, it no longer remains necessarily the case that the authorities would actually lose money by distributing some proportion of BNO shares freely to all residents. The expected value of a BNO share must reflect the future expected flow of returns from holding such an asset. That expected value must, therefore, be seriously affected by the probability that the shares would become valueless after the election of a future Labour government. If the issue of free shares should significantly reduce that probability, then the expected value of BNO shares actually sold in the market could be higher if it were accompanied by a free distribution, rather than lower, if it was perceived by the market that the free distribution itself would significantly lower the chance of expropriation.

5. The above considerations seem to me to shift the balance much more towards the BCRIC approach. Moreover, as MEH notes, the wider distribution of wealth is regarded as advantageous in its own right, and that would be facilitated by the widest possible distribution of such assets.

CAEG

17th October 1979.

C.A.E. Goodhart