1980 How the state was rolled back

At the age of 56 Professor Michael Beesley finally found his ideas moving from the fringe to centre stage in British politics. It was 1980 and he was asked by the UK’s then Secretary of State for Industry Sir Keith Joseph, to conduct a public inquiry into the opening up of British Telecom’s network to competition. Beesley’s ideas kicked-started Margaret Thatcher’s privatisation programme and helped London Business School become a centre for thinking on the issue. His work continues to have an influence today.

“No one could have foreseen the political changes which were to promote markets to a central place in economic policies,” he wrote in an introduction to his 1992 book Privatization, Regulation and Deregulation. “The changes were particularly welcome to me.”

**Market solutions**

Beesley’s work led him to be called “the intellectual architect of privatisation, competition, regulation and deregulation in the UK utility sector” by his co-author Professor Stephen Littlechild. Another co-author Sir Christopher Foster said he was “one of the most influential applied economists of the second half of the 20th century in Britain”.

Beesley developed a belief in market-oriented solutions to policy issues while studying at Birmingham University in the early 1940s. But he found himself out of sync with the times as the 1945 election saw the start of a major shift to state control in economic affairs.

He started to research transport economics, publishing articles on transport policy and investment in roads and railways. He was a pioneer of cost-benefit analysis in the UK and used it to examine the economics of the M1 motorway and the Victoria underground line. He became a part-time advisor to the Ministry of Transport and in 1965 joined London Business School as one of the founding professors of economics along with Sir Jim Ball.

**Champion of competition**

Beesley’s work in academia secured his status as an economist with a ‘sound grasp’ of markets and someone the Conservatives could turn to when they came to power in 1979. When he was invited to explore the liberalisation of BT’s network he found there was huge scope for competition – even more than the Conservatives had in mind. BT and the unions opposed his report, but policy makers were persuaded and he became an advisor to the government on competitive aspects of telecoms. “I immediately became a recognised, if quite unofficial, champion of competition in telecoms,” he wrote.

The privatisation of BT was announced in 1982 with the sale of up to 51 per cent of the company’s shares to investors. And in 1984 the first major flotation of a British public company took place and was greatly oversubscribed. Almost two-fifths of the shares were allocated to the public and were bought by some 2.1 million people.

**Paving the way**

“It seemed incredibly radical that you could do that,” remembers Matthew Bishop who was a research officer at London Business School from 1986 to 1991 before becoming a journalist with The Economist. “People didn’t really believe it was possible to sell much capital to the public. But after BT there was an appetite for it and a feeling that almost anything could be privatised.”

Beesley worked with Professor Stephen Littlechild to help frame the way the newly-privatised BT – and later other sectors – could be regulated, including the concept of RPI-X price cap regulation, a way of incentivising monopolies to be more efficient, which is still in use today some 30 years on. Their papers were studied around the world as similar policies started to be taken up internationally.

**The economic case**

Privatisation caused huge controversy in the UK. Public debate around the issue was highly ideological, driven by the sense that the Conservatives were trying to reduce big government and take on the unions.

But Bishop, who also researched privatisation, thinks the School just wanted to get the economic arguments out there. “I don’t think the people at London Business School were being particularly ideological about it,” he says. “Beesley and others at the School were saying objectively these are inefficient industries, how do you make them more efficient so they actually provide the public with better value for money. In some cases that did lead to a lot of people losing jobs but in other cases there were growth industries, as some of the companies went on to become quite competitive internationally.”

**The rationale**

At the same time as the BT work, Beesley was asked to join a committee on bus privatisation and Patrick Brown, who went on to become Permanent Secretary at the Department of Transport, remembers his contribution: “Michael, as ever, sparked. Meeting after meeting he led us through the economic arguments for breaking up the monolithic bus industry and...
predicted, under fierce cross-examination, the outcomes: innovation, a 30 per cent reduction in costs, a reduction in the historic rate of fare increases, greater transparency in what local authorities buy for their bus subsidy and the maintenance of competition in a contestable market with very low barriers to entry.” Beesley contributed to an “unexpected revolution”, said Brown.

In 1985 Beesley was awarded a CBE in recognition of his work on public sector management. He continued to be involved in the wave of privatisations from gas to water. He became a member of the Monopolies and Mergers Commission from 1988 to 1994, and was an economic adviser to the regulators of the electricity and gas industries and the successor body that merged them, Ofgem. He also gave advice to other countries, including Australia, India, Pakistan, Hong Kong, South Korea, Cyprus and many European countries.

**The customer is king**

Beesley made a huge contribution to the freeing up of markets in the UK and around the world and never doubted this approach – even when he came face to face with one manifestation of a consumer-oriented society that might have alarmed other academics. As a visiting associate professor at Wharton in 1959 he discovered that “the burden of proof for failure in tests rested on the lecturer. The students actually questioned their grades!” he observed with mock dismay. “And horror of horrors, a campus magazine appeared, giving advice to students on which courses and individual instructors to select, or more important, which to avoid.” As someone renowned for his energetic and highly innovative teaching, clearly that was something Beesley would never have had to fear himself.

Michael Beesley was Emeritus Professor of Economics at London Business School, joining in 1965. He died in 1999.