

Why Not Learn From Britain?

Sham International, National Freight Consor-
tium and British Telecom dramatically
increased their profit performance after pri-
vatization.

It can be said that virtually every major
enterprise privatized witnessed a big
improvement in its financial performance.
As for the claim that Thatcher is selling off



IN 1979, the government of the United King-
dom embarked on an ambitious program of
returning state-owned corporations to the pri-
vate sector. The reasons cited for privatiza-
tion in the U.K. were a desire to increase
competitiveness and efficiency, and the
belief that the powers of the free market
could bring results where state control failed.
It has now been 11 years since the United
Kingdom began to privatize, and over the
past few weeks a number of Egyptian jour-
nalists have attempted to assess the impact of
divestiture on growth and development in
that country in order to see what lessons
Egypt might learn from it. Two of these writ-
ers claim, based on their findings, that priva-
tization in the United Kingdom was a total
failure.

The journalist went so far as to assert that
the performance of private industries was so
bad that most of the divested enterprises
were eventually liquidated. Another journal-
ist attacked those supporting privatization in
Egypt for having no historical memory about
the British colonial era. He warned that those
in support of U.K.-style privatization should
also remember U.K.-style occupation, argu-
ing that Egypt should never consider imita-
ting anything that comes from such an "impe-
rialist aggressor." The same writer went on to
accuse British Premier Margaret Thatcher of
selling off public assets to what he called
capitalist-imperialists at the expense of labor
in state industries.

Those are of course, wild charges by jour-
nalists who are obviously very far off the
mark in their assessments. I believe that it is
in order to point out a few important things
to these journalists: First, the profit perfor-
mance of privatized companies between
1983 and 1988 showed an incredible
improvement for the majority of divested
companies. For example, before privatiza-
tion, the armorer Jaguar was losing as
much as £31 million annually. In its first year
after privatization, it recorded a profit of
over £38.5 million. Similarly, firms such as
British Aerospace, Cable & Wireless, Amer-

In some cases, such as Cable & Wireless
and Jaguar, long-term share-based profit
sharing schemes were also introduced. In
another case, 96 percent of eligible British
Telecom employees applied for and were
allowed shares in their privatized firm. The
privatization of British Telecom also resulted
in a massive extension of share ownership in
the United Kingdom: over 2 million individ-
uals applied for and were allowed shares.
Who, then, is buying out enterprises in the
United Kingdom? What makes the British
experience so interesting is employee partici-
pation in equity after divestiture.

1. an offer of free shares
2. an offer of shares given free in propor-
tion to shares bought by the employee
3. a special application form which gives
employees priority in the allocation of any
shares that they apply for (up to a fixed limit)
in addition to the free and proportional
offer.

state enterprises to a select group of capital-
ist-imperialists, this also is nothing more
than an attempt to twist the reality of how
privatization was implemented in the United
Kingdom. Special arrangements were made
to encourage employee participation in virtu-
ally all privatizations. In addition, there have
been a number of managerial/employee
buyouts, the largest of which was the sale of
the National Freight Company.

In many of these privatizations, labor was
given:

So, who are the small group of capitalist-
imperialists to which the journalist refers?
Those calling for the privatization of
Egyptian state enterprises producing com-
modities like beer, chocolate, bubble gum
and perfume are not forgetting Egypt's col-
onial years. They are simply calling for the
use of an economic tool for the reform same
enterprises, which is very late in coming.
It should be remembered that we can learn
as much from a friend as we can from a foe.
It simply does not matter whether we take
the approach to reform of Margaret Thatcher
or that of Mikhail Gorbachev, as long as it is
effective in helping Egypt to restructure its
economy.

Egypt is a country in search of an economic
policy, and it makes sense to adopt policies
that have worked elsewhere. Privatization
has worked in Britain, Turkey, and in many
other countries that were desperately trying
to get certain enterprises to become more
efficient and simply to make reasonable prof-
its.

We have a chocolate company that cannot
make money, a beer company — which is, by
the way, a national monopoly — making
unreasonable returns to equity, a perfume
company that is just breaking even and a
daily producer that loses money on the pro-
duction of ice cream and yogurt.

Britain, after various attempts to restruc-
ture similar enterprises, in the end turned to
privatization and employee stock ownership
to try and turn its firms around. The British
concluded that their problem was ownership
and turned to employee participation as their
answer.

Egypt must consider the same approach, at
least in some select companies. Restructuring
the bureaucratic mechanisms through which
enterprises are managed will change little,
because in reality the problem facing Egypt-
ian state enterprises is likely to be ownership
as well.

One piece of advice for our dear journal-
ists who have developed a love for writing
on subjects of which they know little:
Research your facts before writing a final
judgment. Privatization is too sensitive a
topic for general readers to misunderstand.