Selling "The World's Favourite Airline": British Airways' privatisation and the motives behind it

Adrian Cozmuta[*]

University of Glasgow and Kyoto University

This article investigates the motives behind one of the earliest airline privatisations in history, that of British Airways. The British Airways privatisation experience highlights the dynamic characteristics of privatisation policymaking from the perspective of a flag carrier, including the various motives behind the sale, competing interests, and sale structuring, among other. The principal British Airways privatisation motives were reducing company borrowing, stimulating efficiency, and achieving popular capitalism. These received priority at different times given the long privatisation process. The initial motives were reducing public sector borrowing and stimulating efficiency, followed later by the aim of extending wider share ownership. Curbing union power and fostering domestic competition were not privatisation motives.

Keywords: privatisation; airline; British Airways; United Kingdom; Europe; state-owned companies; British political economy; economic deregulation; airline liberalisation; business decision-making; private ownership; airline performance; economic regulation

Introduction

On 11 February 1987, the world witnessed one of the most historic moments brought about by privatisation—British Airways (BA), the United Kingdom flag carrier was completely sold to private hands, making it one of the very first major state-owned airlines to ever reach flotation.[1] BA was formed after the merger of the two national airlines British Overseas Airways and British European Airways in 1974 at the initiative of the UK government, which argued that the pooling of resources would result in a more effective operation of traffic rights. Unlike its predecessors, the newly formed BA only lasted a bit over a decade under state ownership before being privatised.

The BA privatisation was announced in 1979, taking eight years until flotation due to restructuring, litigation, and scheduling conflicts. Out of all the Thatcher-period

[*] Contact address: a.cozmuta.1@research.gla.ac.uk; Website address: https://www.gla.ac.uk/pgrs/adriancozmuta/.

[1] By privatisation, I employ here the widely accepted and most common definition, specifically that of the transfer of ownership and responsibility of a business or concern from public to private hands. This should not be confused with deregulation, which entails the relaxation of regulatory controls of a particular business or industry, notwithstanding its ownership structure.

privatisations, this remains certainly one of the longest sales in-the-making. Consequently, the government was faced with endorsing other privatisation motives as the BA privatisation was prolonged and new challenges surmounted. Yet, a surprise recovery under a new management occurred during this process to the extent that the airline became one of the most efficient in Europe. BA also projected the newfound sense of confidence by adopting the slogan "The World's Favourite Airline," a reflection of its improved financial position during the privatisation process and hope for the future. This attests to the dynamic character of privatisation motives and how these may change over time.

The motives behind the privatisation have captivated the public and scholars alike. However, this has been true only to a certain, surprisingly limited, extent. Studies have mainly treated airline privatisation as auxiliary to public utilities as the airline privatisation drive developed only later.[2] Where airline privatisation, including BA, receives attention, research primarily focuses on assessing performance changes before and after privatisation rather than tracing the decision-making process and motives during the privatisation from a behind-closed-doors perspective.[3]

[2] This is especially evident in William L. Megginson, "Privatisation, State Capitalism, and State Ownership of Business in the 21st Century," *Foundations and Trends in Finance*, 11 (November 2017): 1–153; David Parker, *The Official History of Privatisation, Volume 1: The Formative Years 1970-1987* (Routledge, 2009), 189-98; Judith Clifton, Francisco Comín, and Daniel Díaz Fuentes, "Privatising public enterprises in the European Union 1960–2002: ideological, pragmatic, inevitable?," *Journal of European Public Policy*, 13 (August 2006): 736–756; Juliet D'Souza and William L. Megginson, "The Financial and Operating Performance of Privatised Firms during the 1990s," *The Journal of Finance*, 54 (1999): 1397–1438; Michael Beesley and Stephen Littlechild, "The Regulation of Privatised Monopolies in the United Kingdom," *The RAND Journal of Economics*, 20 (1989): 454–472; Matthew Bishop and John Kay, "Privatisation in the United Kingdom: Lessons from experience," *World Development*, 17 (1989): 643–57; John Vickers and George Yarrow, *Privatisation: An Economic Analysis* (The M.I.T. Press, 1988), 189-90; 348–50; Nonetheless, there have been several studies where airline privatisation has been considered, although this has not been the main focus of their research. For example, see Joseph Amankwah-Amoah, Jan Ottosson, and Hans Sjögren, "United we stand, divided we fall: historical trajectory of strategic renewal activities at the Scandinavian Airlines System, 1946–2012," *Business History*, 59 (2017): 572–606; Joseph Amankwah-Amoah and Yaw A. Debrah, "Air Afrique: the demise of a continental icon," *Business History*, 56 (2014): 517–546.

[3] See Peter Morrell, Airline Finance, Fourth Edition (Ashgate Publishing, 2013), 161–67; Parker, *Official History of Privatisation*; Charles Ng and Paul Seabright, "Competition, Privatisation and Productive Efficiency: Evidence from the Airline Industry," *The Economic Journal*, 111 (July 2001): 591–619; Mahdy I. Al-Jazzaf, "Impact of privatisation on airlines performance: an empirical analysis," *Journal of Air Transport Management*, 5 (1999): 45–52; Richard Green and Ingo Vogelsang, "British Airways: A Turn-Around Anticipating Privatisation," in *Privatisation and Economic Performance*, eds. Matthew Bishop, John Kay, and Colin Mayer (Oxford University Press, 1994), 89–112; Mark Ashworth and Peter Forsyth, *Civil Aviation Policy and the Privatisation of British Airways* (The Institute for Fiscal Studies, 1984), 7–21. For a study on the post-privatisation performance of British Airways and its impact on competitor stock prices yet also lacking in the rationale behind the process, see Catherine Eckel, Doug Eckel, and Vijay Singal, "Privatisation and efficiency: Industry effects of the sale of British Airways," *Journal of Financial Economics*, 43 (February 1997): 275–298. For a study of the main UK transport developments, including air transport and British Airways and privatisation, see Philip Bagwell and Peter Lyth, *Transport in Britain: From Canal Lock to Gridlock* (Hambledon and London, 2002), 159-99; Peter Lyth further explores airline deregulation within an international context, especially the interaction of British Airways and its predecessors with multinational organisations such as the

Furthermore, these studies have treated the BA privatisation motives as static, rather than highlighting the government's evolving rationales for the sale.[4] As such, the drawn-out privatisation process has also been neglected.

The main aim of this article is to consider the motives behind the BA privatisation and how these changed during the privatisation process. I address this by examining the 'usual suspects' associated with the British experience of privatisation—reducing company borrowing, improving company efficiency, curbing trade union power, fostering competition, and encouraging wider share ownership. In doing so, this analysis uses archival material from BA and the UK National Archives, among others.

I argue that understanding the BA privatisation serves several purposes, which taken together, make the study compelling:

First, airline privatisations do not often get exposure in privatisation or business history scholarship despite the airline privatisation drive of the 1990s and the important increase in passengers, employees, and associated businesses being serviced by flag carriers. BA is one such case. This oversight has important implications about the extent with which we really understand how the airline privatisation process develops over time, its motives, and the actors involved.

Second, the BA study also represents a main example of how a government understands and reacts to changes occurring during the privatisation process. This acts as a departure from the conventional performance-based studies, and shines a light on the decision-makers, not just the business itself for a more in-depth analysis of privatisation developments.

European Community in Peter Lyth, "Experiencing turbulence: Regulation and deregulation in the international air transport industry, 1930-1990," in *Transport Regulation Matters*, ed. James McConville (Pinter, 1997), 154-74. Other studies also consider the post-war UK transportation planning. In this sense, British Airways was not alone, rather it was among a series of planned transport privatisations within the domestic economy which occurred during the 1980s. For more on this example, see Mike Anson and Gerald Crompton, "Predicting, Providing, Sustaining, Integrating? British Transport Policy since 1945," in *Business in Britain in the Twentieth Century: Decline and Renaissance?*, eds. Richard Coopey and Peter Lyth (Oxford University Press, 2009), Chapter 15. For another complex study of airline deregulation, although from the perspective of its effect upon other forms of transportation, including railways see Robert Millward, *Private and Public Enterprise in Europe: Energy, Telecommunications and Transport, 1830–1990* (Cambridge University Press, 2009), 231-43.

[4] For example, see Reuel Schiller, "The Curious Origins of Airline Deregulation: Economic Deregulation and the American Left," *Business History Review*, 93 (2019): 729–53. Here, airline deregulation is studied, although there is no specific acknowledgement of privatisation as a deregulation device. An example of change over time and in terms of preferences comes from outside privatisation scholarship. See Anne Krueger, *The Political Economy of Controls: American Sugar* (National Bureau of Economic Research, 1988), Working Paper 2504 for a study of how the U.S. Sugar Program was initially opposed by sugar producers only for them to reverse their support in favour of its continuation. This occurred over time due to market forces and state involvement to subsidies businesses.

Third, BA is also one of the earliest and major state-owned airline privatisations. Understanding the processes behind its privatisation may provide insight into other airline privatisations, such as Japan Airlines, which was privatised the same year. Comparative research may then develop to highlight to what extent the BA privatisation served as a template or influence on other airline privatisations, and vice versa.

Last, this study highlights that privatisation and ownership change by itself may not be necessary for improvements in performance. This ties in with a larger debate within privatisation scholarship about the effects of standalone ownership transfer and managerial incentives and decisions.[5] In this case, the BA example tells us that a successful recovery is possible while under state-ownership and under the priorities of a new management.

The article adopts a chronological structure. In what follows, I present the initial motivation to privatise given government concerns, the subsequent search for a new rationale as the BA situation improved, and the encouragement of wider share ownership through the flotation, before providing some concluding remarks.

The Turbulent Years, 1979-83

When the UK Conservative government came to power in 1979 under the leadership of Margaret Thatcher, it was not in an enviable position. It was faced with accelerating inflation. The government believed that addressing this issue was achievable through the control of the money supply and its largest credit counterpart—the Public Sector Borrowing Requirement (PSBR). Consequently, PSBR ceilings were introduced to keep company borrowing under control through the 1980 Medium-Term Financial Strategy. Privatisation was perceived as a tool for relieving the PSBR by leading cabinet members during the early stages of Thatcher's first premiership.[6]

The situation was equally unfavourable at BA. The 1977 report on the performance of national companies and an early blueprint of privatisation candidates highlighted BA's inefficiency as well as its high borrowing potential to offset losses,

---

[5] For example, see Mattijs Backx, Michael Carney, and Eric Gedajlovic, "Public, private and mixed ownership and the performance of international airlines," *Journal of Air Transport Management*, 8 (July 2002): 213–220.

[6] Nigel Lawson, Financial Secretary to the Treasury, confidential letter to Keith Joseph, Secretary of State for Industry, 19 June 1979, PREM 19/31, (Kew: The National Archives, 1979); David Howell, Secretary of State for Energy, confidential letter to Geoffrey Howe, Chancellor of the Exchequer, 6 June 1979, PREM 19/31, (Kew: The National Archives, 1979); Margaret Thatcher, meeting minutes with Adam Ridley, advisor to the Chancellor of the Exchequer, 16 May 1979, THCR 2/6/2/22 Part 1, (Cambridge: Churchill College Archives, University of Cambridge, 1979); Geoffrey Howe, *Privatisation: The Way Ahead*, (London: Conservative Political Centre, 1981), 4; Geoffrey Howe, 1980 Budget, 26 March 1980, Hansard, House of Commons, Vol. 981, cc. 1439-91.

although it did not discuss performance issues.[7] At this point, a BA privatisation was not given enough thought. However, the issues at BA would eventually become difficult to ignore—pilots flew shorter hours and were paid more compared to European competitors, resulting in the use of more pilots, aircraft, and resources, as these are highlighted by BA reports.[8] In short, BA had an inefficient management and high operating costs, leading to borrowing concerns. This can be seen in Table 1.

Table 1. Annual BA borrowing forecast according to the Sub-Committee On Disposals Of Public Sector Assets and actual BA borrowing outcome.[9]

Year	Sub-Committee's BA borrowing forecast (£ million)	Actual BA borrowing outcome (£ million)
1977	195	195
1978	222	222
1979	348	348
1980	(forecast) 465	266
1981	(forecast) 462	234
1982	(forecast) 543	16
1983	(forecast) 595	-149
1984	N/A	-304

The airline's borrowing increased over the 1977-79 period.[10] The 1979 government's Sub-Committee On Disposals Of Public Sector Assets warned about a forecasted £1 billion plus in borrowing over the next five years to finance a "major programme of fleet replacement and expansion."[11] This caused concern, especially given the airline's

[7] Nicholas Ridley, *Final Report of the Nationalised Industries Policy Group*, 8 July 1977, THCR 2/6/1/37, (Cambridge: Churchill College Archives, University of Cambridge, 1977).
[8] British Airways and British Airline Pilot Association, *Report for BA and BALPA*, April 1977, AUJO Acc. 1273 Box 7, (Cambridge: Churchill College Archives, University of Cambridge, 1977), 9.
[9] Hoare Govett Limited, May 1987, Archive Box N465, (Heathrow: British Airways Archives, 1987), 63; J.G. Colman, advisor, confidential letter to John Moore, Secretary of State for Transport, 15 December 1986, T 533/182, (Kew: The National Archives, 1986); Department of Transport, *British Airways Sale Prospectus*, 1984, BT 245/1967, (Kew: The National Archives, 1984), 56; John Nott, Secretary of State for Trade, *Financing of British Airways – Share Issue*, memorandum to Sub-Committee On Disposals Of Public Sector Assets, 29 June 1979, CAB 134/4339, (Kew: The National Archives, 1979).
[10] The featured sums are not adjusted for inflation.
[11] John Nott, Secretary of State for Trade, *Financing of British Airways – Share Issue*, memorandum to Sub-Committee On Disposals Of Public Sector Assets, 29 June 1979, CAB 134/4339, (Kew: The National Archives, 1979).

1979 mediocre technical efficiency, highlighted in Table 2. Technical efficiency (TE) is an official aviation performance indicator used to assess the efficient utilisation of inputs. A low TE airline uses more inputs to achieve output, indicating waste. On the other hand, a high TE airline minimises waste, utilising the fewest quantity of inputs per unit of output. This highlights a more efficient airline. For example, a 60% TE airline would use 60% of its inputs efficiently to produce output. The rest of the 40% are wasted inputs. BA did not compare favourably to its competitors or the European average in the late 1970s. In fact, it was closer in performance to Alitalia, one of the worst-performing European state-owned airlines of the time. BA would start to match the European average in 1980 and surpass it starting 1981.

Table 2. Annual technical efficiency of selected airlines and the European average.[12]

Year	BA	Air France	Lufthansa	Alitalia	European average
1979	62.8	65.6	66	59.2	64
1980	63.9	65.3	65.5	58.7	64
1981	65.1	64.9	65	58.2	64.1
1982	66.3	64.5	64.4	57.7	64.2
1983	67.5	64.2	64	57.2	64.2
1984	68.7	63.8	63.4	56.7	64.5
1985	70	63.5	63	56.3	64.6
1986	71.2	63.1	62.4	55.8	64.7

Meanwhile, the government struggled to keep public borrowing within its PSBR ceilings. Table 3 reveals the outcome overshooting the ceiling between 1979-81. Geoffrey Howe, the UK Chancellor of the Exchequer at the time, admitted that the early PSBR failure gave ‘a shove to the privatisation process’, including for BA.[13]

[12] Data from David Good, Ishaq Nadiri, Lars-Hendrik Röller, and Robin Sickles, “Efficiency and Productivity Growth Comparisons of European and U.S. Air Carriers: A First Look at the Data,” *The Journal of Productivity Analysis*, Vol. 4, 1993: 115-25.
[13] Geoffrey Howe, *Conflict of Loyalty*, (London: Macmillan, 1994), 128.

Table 3. Annual UK PSBR by ceilings and outcome.[14]

Year	PSBR Ceilings (£ billion)	PSBR Outcome (£ billion)
1979-1980	8.25	10
1980-1981	8.5	11.5
1981-1982	14.5	8.5
1982-1983	9.5	7.5
1983-1984	8	9.75
1984-1985	7.25	10
1985-1986	7	<6
1986-1987	7	4
1987-1988	4	-3
1988-1989	-3	-14
1989-1990	-14	-7

Indeed, the BA situation was much talked about during these years within the Cabinet. It was argued that privatising BA "could bring substantial relief" to the PSBR and that there would be "no question" of reducing the PSBR if BA remained nationalised.[15] This anxiety was linked with BA demands for more borrowing amidst a "very disappointing performance."[16] As a result the government attempted to transfer the responsibility and anxiety of funding the airline to the private sector as fast as possible.

Privatisation was also considered a means of extending wider share-ownership since the first Thatcher premiership, or *popular capitalism* as termed by Nigel Lawson, the UK Chancellor of the Exchequer after Howe. The government believed that the consolidation of a property-owning democracy through the sale of shares would attract electoral support. This ideological belief in freer markets also stemmed from the Conservative ideological opposition to nationalisation, which was deemed devoid of freedom as power was concentrated in the hands of the state rather than in

---

[14] Data from Geoffrey Howe, *1979-1983 Budgets*, Hansard, House of Commons; Nigel Lawson, *1984-1989 Budgets*, Hansard, House of Commons; John Major, *1990 Budget*, 20 March 1990, Margaret Thatcher Archives, Retrieved from: http://www.margaretthatcher.org/document/109412 [Accessed on 12.01.2021].

[15] The impetus of privatising British Airways early to alleviate government finances was widely accepted. For its main proponents, see John Nott, Secretary of State for Trade, *Financing of British Airways – Share Issue*, memorandum to Sub-Committee On Disposals Of Public Sector Assets, 29 June 1979, CAB 134/4339, (Kew: The National Archives, 1979); Nigel Lawson, Financial Secretary to the Treasury, confidential letter to John Nott, Secretary of State for Trade, 18 July 1979, PREM 19/31, (Kew: The National Archives, 1979).

[16] Department of Trade and Industry, 1980, THCR 6/2/3/3, (Cambridge: Churchill College Archives, University of Cambridge, 1980).

the hands of employees and shareowners.[17] The popular capitalism approach, therefore, was deemed more accessible compared to educating the voters about the economic outcomes of privatisation:

> Many find it difficult to grasp…economic concepts but would have little difficulty…with the concept of ownership—it is something that people can understand, believe in, and vote for.[18]

However, the early privatisations only attracted a small number of new individual shareholders compared to later flagship sales, while popular capitalism was not deemed a priority at this stage. The precarious economic context generally took precedence. Popular capitalism was conceived as a long-term rather than short-term aim of the UK privatisation programme.[19] I come back to this ideal later in this study when specifically discussing the share-ownership aim in relation to the BA privatisation. As we will see, ideology would also played an important part for the BA case.

The earliest privatisation motives for BA, then, were addressing its inefficiency and borrowing situation. The UK government saw privatisation as a mechanism for inducing market discipline through effective competition and lack of government handholding. The resulting measures were meant to 'root out' complacency and inefficiency.[20] Simultaneously, a privatised company would no longer be allowed to borrow from government funds to fund its operation. This also ensured that government finances were no longer burdened by financial demands from nationally owned companies.[21]

For the most part, scholarship has considered these motives with a variety of other privatisations within the UK and international context. However, that research tends to embrace the government's perspective rather than also employing company

---

[17] The Conservative Manifesto, 1979, THCR 1/16/2, (Cambridge: Churchill College Archives, University of Cambridge, 1979); Geoffrey Howe, Keith Joseph, James Prior, and David Howell, The Right Approach to the Economy, 8 October 1977, THCR 2/6/1/216, (Cambridge: Churchill College Archives, University of Cambridge, 1977).

[18] Nigel Vinson, Centre for Policy Studies, letter to Margaret Thatcher, 11 June 1981, THCR 2/11/3/1 Part 2, (Cambridge: Churchill College Archives, University of Cambridge, 1981).

[19] Geoffrey Howe, *Conflict of Loyalty*, (London: Macmillan, 1994), 256; Nigel Lawson, *The View from No. 11: Memoirs of a Tory Radical*, (London: Bantam Press, 1992), 226-27.

[20] Nicholas Ridley, *Final Report of the Nationalised Industries Policy Group*, 8 July 1977, THCR 2/6/1/37, (Cambridge: Churchill College Archives, University of Cambridge, 1977), 15-16.

[21] For a more detailed explanation of UK privatisation motives, mechanism, objectives, and outcomes than what is permitted here, see Matthew Bishop and John Kay, "Privatisation in the United Kingdom: Lessons from experience," *World Development*, 17 (1989): 643–57. For a more theoretical and economics-routed study of UK privatisation mechanisms, see John Vickers and George Yarrow, *Privatisation: An Economic Analysis*, (Massachusetts: The MIT Press, 1988).

records in portraying the breadth of the argument.[22] As such, relevant details about the situation and priorities within the company may be lost to the reader. This is why we must consider the precarious context both at BA and within the wider UK economy of the time to understand why the government adopted these initial privatisation motives for BA.

The BA privatisation was initially planned for the early 1980s. However, economic recession and BA restructuring postponed this.[23] The government was effectively stuck with financing BA until a better context was found. The solution agreed between BA and the government was to change leadership and strategy to prime the airline for a more attractive sale outcome.

The new management's rationalisation policies, fleet renewal, and route reorganisation led to a surprise recovery and a pronounced reduction in borrowing as BA became more efficient and profitable, although at the cost of thousands of redundancies, or one-third of its workforce.[24] BA was among the leading UK companies "in shedding jobs" at the time.[25] This turnaround in just a matter of years and while under nationalisation had not been envisaged by government forecasts (Table 1). Neither was the fact that BA had now started repaying its loans starting 1983. In Table 2, the airline's TE improvements show that it was marginally ahead of its main competitors and the European average in 1982. None of its main European competitors undertook such an extensive rationalisation and fleet modernisation programme at the time. This helped the airline's improvements stand out with the hope that BA would become an attractive offer for flotation. It also explains why its technical efficiency increased by an annual average of nearly 2% over the 1979-86 period, whereas the European average was growing at a slower pace or decreasing in the case of the three main competitors. By 1986 and one year before privatisation, BA outclassed the European average, becoming a top performer in reducing waste and

[22] See for example David Parker, *The Official History of Privatisation, Volume 1: The Formative Years 1970-1987* (Routledge, 2009). Parker skilfully utilises government records to portray the UK privatisation experience, although the analysis does not make use of company records to the same extent for us to get a more detailed account of the other parties' involvement in the privatisation process. This is especially true for Parker's analysis of British Airways.

[23] John Biffen, Secretary of State for Trade, confidential letter to Margaret Thatcher, 3 March 1982, PREM 19/722, (Kew: The National Archives, 1982).

[24] British Airways' new chairman, John King, undertook an extensive rationalisation programme which was instrumental for the airline's turnaround. The measures, trials, and outcomes represent a story by themselves. While this is not the focus of the present article, organisational management researchers are encouraged to explore the underpinnings of King's managerial measures as a case study for airline management during a recession. For King's view of privatisation and British Airways, see John King, *The Lessons of Privatisation*, 18 June 1987, Archive Box N466, (Heathrow: British Airways Archives, 1987).

[25] Kleinwort Grieveson Securities, *Investment Research: British Airways*, January 1987, Archive Box N467, (Heathrow: British Airways Archives, 1987).

utilising inputs.[26] This is further confirmed by its revenue per passenger per mile flown data (Table 4).

Table 4. Annual BA passenger yield per mile flown for selected years.[27]

Year	Passenger Yield (£)
1980	3.7
1981	4.2
1982	4.9
1983	5.6
1984	5.9
1985	5.8

The BA passenger yield reveals an upward trend between 1980-85. It emerged from an average passenger yield during recession to nearly doubling it by the end of the period. This increase could have been due to air fare or efficiency increase. As the bilateral system of price-setting was still largely in place throughout the 1980s, this meant that fare increases were subjected to limitations. This indicates that higher yields resulted from BA's efficiency improvements rather than substantial changes in fares.

---

[26] The British Airways performance turnaround while under nationalisation has received some attention. For example, see Richard Green and Ingo Vogelsang, "British Airways: A Turn-Around Anticipating Privatisation", in *Privatisation and Economic Performance*, eds. Matthew Bishop, John Kay, and Colin Mayer, (Oxford: Oxford University Press, 1994). This relates to a wider debate within privatisation scholarship on the effects of standalone ownership changes upon performance. Green and Vogelsang highlight that the most important performance improvements have come as British Airways was nationalised and under the policies of a new management rather than in the several years after privatisation. This casts doubt on the importance of standalone ownership change through privatisation rather than due to new managerial objectives as some of the principal drivers of performance improvements in the civil aviation sector. This article's data also suggests the same improvements while under nationalisation rather than after privatisation. Disentangling the effects of standalone ownership change and other factors to explain performance continues to be a challenging endeavour, but worthy of further investigation using various methodologies.

[27] Scrimgeour Vickers & Co., *British Airways*, January 1987, Archive Box N465, (Heathrow: British Airways Archives, 1987), 14; As example, a £3.7 passenger yield means that the airline receives on average £3.7 revenue per passenger per mile flown. However, the yield is not an accurate comparator across airlines as it varies by route length and passenger class (first, business, economy, etc.), among other variables. Nonetheless, it is a civil aviation benchmark because it tracks revenue changes over time for a specific airline.

The extent of the BA turnaround scenario surprised the government. The airline became an asset rather than a liability to government finances. BA accounts reveal that the airline absorbed funds in 1981 but generated over £400 million by 1985.[28] Internal BA funds also permitted the airline to embark on a further £200 million aircraft investment programme after 1984.[29] As such, BA was contributing to the reduction of the PSBR while a nationalised industry. This would have confounded the first Thatcher Cabinet, which believed that privatisation was the only means by which BA could become more efficient and reduce borrowing. The government eventually acknowledged that BA refinanced "very substantial borrowings over the past few years," although this was only privately admitted.[30] However, the government refused to publicly acknowledge that a national BA could perform efficiently while under state control despite advertising BA as a success story ahead of flotation.

Better news also came from the UK economy. If the government was struggling with keeping borrowing within the PSBR ceilings during the early 1980s, it was now becoming more capable at falling within the ceilings. Table 3 details a recovery in the PSBR during the 1982-83 fiscal year, although this was achieved more consistently only after 1984-85 as the PSBR became less of an issue and more a solution for government finances. Starting 1987-88, increased tax revenues transformed the PSBR into a Public Sector Debt Repayment (PSDR), also referred to as a budget surplus. The government announced that the PSDR would have been achieved even without privatisation by the time of BA's sale.[31] The government downplaying privatisation in reducing borrowing confirms that privatisation no longer retained the same importance to government finances as in the early 1980s.[32]

Importantly, the PSBR reduction throughout the 1980s tamed the urgency to consider privatisation for reducing borrowing and improving efficiency by means of privatisation. Improving economic conditions and the relatively fast turnaround success at BA left both parties unsure about the way forward.

If the BA privatisation was to go forward, a new justification for it was now needed.

---

[28] Hoare Govett Limited, UK brokerage firm, May 1987, Archive Box N465, (Heathrow: British Airways Archives, 1987), 63; The figure is not adjusted for inflation.
[29] Department of Transport, *British Airways Sale Prospectus*, 1984, BT 245/1967, (Kew: The National Archives, 1984), 39; The figure is not adjusted for inflation.
[30] J.G. Colman, advisor, confidential letter to John Moore, Secretary of State for Transport, 15 December 1986, T 533/182, (Kew: The National Archives, 1986); John Rhodes, British Airways privatisation advisor, quoted in *BA Capital Expenditure Proposals*, 6 February 1986, BT 384/317, (Kew: The National Archives, 1986), 16.
[31] Nigel Lawson, *1989 Budget*, 14 March 1989, Hansard, House of Commons, Vol. 149, cc. 293-317; Nigel Lawson, *1988 Budget*, 15 March 1988, Hansard, House of Commons, Vol. 129, cc. 993-1013.
[32] Nigel Lawson, 1987 Budget, 17 March 1987, Hansard, House of Commons, Vol. 112, cc. 815-28.

In Search of a New Rationale, 1983-85

The 1983-1985 period of the BA privatisation planning can be described as experimental. As BA was no longer putting pressure on government finances and was becoming increasingly efficient relative to its competitors, the government had to reconsider its rationale to privatise it. Two new privatisation motives can be distinguished during this period based on government rhetoric: curbing trade union power and fostering domestic competition. Yet these were not privatisation motives for BA.

Curbing union power was an economic and political concern for Thatcher. Under nationalisation, union demands pressured the government into accommodating excessive wages relative to output, therefore eroding competitiveness. For a government which was also pursuing anti-inflationary policies in the early 1980s, wage-push inflation was even more problematic. Attempts to address union power could prove volatile for the government, trade unions, and the electorate, as exemplified by the events of the 1979 Winter of Discontent.

Early Conservative party proposals argued that privatisation could break union power and wage demands as private sector competition and profit-seeking managers would have incentivised union fragmentation and wage moderation.[33] In short, privatisation was deemed a "genuine experiment in...worker control."[34]

It is, however, important to question the government rhetoric and the notion that privatisation was employed as a solution for curbing BA union powers.[35] Indeed, these union concerns were especially warranted when the government's closure of coal mines caused widespread social unrest, culminating with the 1984 miner's strike. But the government pursued more direct and legislative actions rather than await the effects of privatisation. For BA, its unions were also treated differently to other industries.

First, the government acted through legislation to curb union power rather than via privatisation. This is a general case and not just specific to BA. The early Cabinet considered union reform as imperative and legislative measures were to be taken "at once."[36] This conflicted with their early proposals. The issue of trade union legislation

---

[33] Nicholas Ridley, *Final Report of the Nationalised Industries Policy Group*, 8 July 1977, THCR 2/6/1/37, (Cambridge: Churchill College Archives, University of Cambridge, 1977), 11.

[34] Ridley, 17.

[35] Privatisation scholarship has had a tradition of perpetuating performance-oriented studies on the effects of privatisation upon efficiency and profits. Less so has been said about how trade unions and labour have been affected. For examples where privatisation and its labour impact are considered, see James Arrowsmith, "Post-privatisation industrial relations in the UK rail and electricity industries," *Industrial Relations Journal*, 34 (2003): 150–63; Pablo Ghigliani, *The Politics of Privatisation and Trade Union Mobilization: The Electricity Industry in the UK and Argentina,* (Bern: Peter Lang, 2010), 45-63.

[36] Keith Joseph, Secretary of State for Industry, *Solving the Union Problem is the Key to Britain's Recovery*, 5 February 1979, THCR 2/6/2/93, (Cambridge: Churchill College Archives, University of

in 1980, 1982, and 1984 at a relatively early stage compared to the main UK privatisation drive confirm this haste. The privatisation programme was still in its infancy by the time of these major developments, with most privatisations occurring post-1984. The union legislation curtailed politically motivated action, imposed periodic ballots for closed shop agreements, and empowered employers to dismiss striking workers, among other measures. Unemployment also facilitated the dissolution of union powers. Long-term protesting became impractical since striking workers would have their pay and unemployment benefits suspended. Their jobless situation weakened their bargaining power. Legislative reform coupled with unemployment disincentivised protesting. The government later admitted that economic stability had been achieved by 'reforming trade union law' and not by means of privatisation.[37]

Second, BA unions were specifically accommodated rather than dismantled. This was quite unusual compared to other industries, such as steel and mining. BA unions enjoyed substantial benefits—generous redundancy pay, new pension schemes, and a new profit-sharing scheme contingent upon the airline's performance.[38] The government engaged in what is termed "control by seduction" as it did not want any other issues to postpone the privatisation.[39] As such, addressing union powers by means of privatisation was not a motive for the BA case or for the wider UK privatisation programme.

If the government was swift to adopt other measures against union action rather than wait for the effects of privatisation, the same cannot be said of its ideal of fostering domestic competition. Indeed, the beliefs in freer markets and financial deregulation were already rooted in Conservative ideology by the time of Thatcher's first premiership. However, competition was generally not considered as a principal privatisation rationale until 1983, when leading government advisors argued that the

---

Cambridge, 1979), 12; Keith Joseph, Secretary of State for Industry, letter to Margaret Thatcher, 27 January 1979, THCR 2/1/1/39, (Cambridge: Churchill College Archives, University of Cambridge, 1979).

[37] Nigel Lawson, *1989 Budget*, 14 March 1989, Hansard, House of Commons, Vol. 149, cc. 293-95; 313-14.

[38] Kleinwort Grieveson Securities, *Investment Research: British Airways*, January 1987, Archive Box N467, (Heathrow: British Airways Archives, 1987), 9; These very generous incentives made the British Airways bankers acknowledged that the airline was essentially "buying jobs out."

[39] Kenneth Clarke, Minister of State for Employment, confidential letter to Nicholas Ridley, Secretary of State for Transport, 20 September 1985, T 533/182, (Kew: The National Archives, 1985); Indeed, the government thought it was easier to satisfy the demands of several transport unions with British Airways and tame any risk of union action ahead of privatisation. Another prominent example is the 1984 UK Transport and General Workers' Union encouragement to protest the privatisation. Yet the most powerful transport union was unsuccessful. This was due to the incentives offered to the workforce, which discouraged action; Mike Reed, quoted in Irena Grugulis and Adrian Wilkinson, "Managing Culture at British Airways: Hype, Hope and Reality," *Long Range Planning*, 35 (April 2002): 179–194.

motive was "a good basis" for the next couple of years.[40] This came as a result of several studies published at the time, which presented the benefits of market discipline.[41] Yet, this motive also highlights the rhetoric over substance aspect for the BA privatisation.

The government advertised its competition aim, but actual steps to facilitate it were opposed both by the Cabinet and BA despite strong recommendations for promoting fair competition from the domestic Civil Aviation Authority (CAA).[42] The government argued that transferring routes from BA to British Caledonian (BCal) and British Midland Airways (BMA), its main domestic competitors, would weaken the BA flotation's attractiveness and eventually lead to political embarrassment due to a failed sale.[43] At the same time, the Cabinet also understood that privatising BA as a monopolist in the domestic civil aviation market would defeat its message of fostering competition:

> There is a real dilemma: speed of privatisation, and simplicity, may speak in favour of leaving BA as it is, but the creation of a properly competitive market…favours a partial break-up sale before privatisation. The threat implied by a near-monopolist would be enough to inhibit competition.[44]

On the BA management side, there was substantial opposition to route transfers from its bankers and Chairman. BA argued that "even a small deviation from the present structure" would diminish its size and performance, enabling other airlines to "grow at the expense of BA."[45] This claim was invalidated by the CAA, stating that

---

[40] Alan Walters, Chief Economic Advisor, private correspondence to Margaret Thatcher, 14 April 1983, THCR 1/15/5A Part 3, (Cambridge: Churchill College Archives, University of Cambridge, 1983).

[41] Increasingly more studies highlighted the benefits of privatisation and competition at the time. For one of the UK government's favourites, see Michael Beesley and Stephen Littlechild, "Privatisation: Principles, Problems and Priorities", [1983], in *Privatisation and Regulation: The UK Experience*, eds. John Kay, Colin Mayer, and David Thompson, (Oxford: Clarendon Press, 1986), 35-58; The government was quick to jump aboard the Beesley and Littlechild study's proposals for deregulation and competition as they also perceived it as electorally beneficial. This is confirmed by Kenneth Baker, private correspondence to Alan Walters, 12 April 1983, THCR 1/15/5A Part 3, (Cambridge: Churchill College Archives, University of Cambridge, 1983); The 1983 Conservative Election Manifesto also advertised fostering competition as one of the new principal aims for Thatcher's second premiership, see *The Conservative Manifesto, 1983*, THCR 1/20/6/5/5 Part 1, (Cambridge: Churchill College Archives, University of Cambridge, 1983).

[42] UK Civil Aviation Authority, *Summary of Main Conclusions and Recommendations*, in Nicholas Ridley, Secretary of State for Transport, confidential letter to Cabinet, 1 October 1984, CAB 129/218, (Kew: The National Archives, 1984), 275.

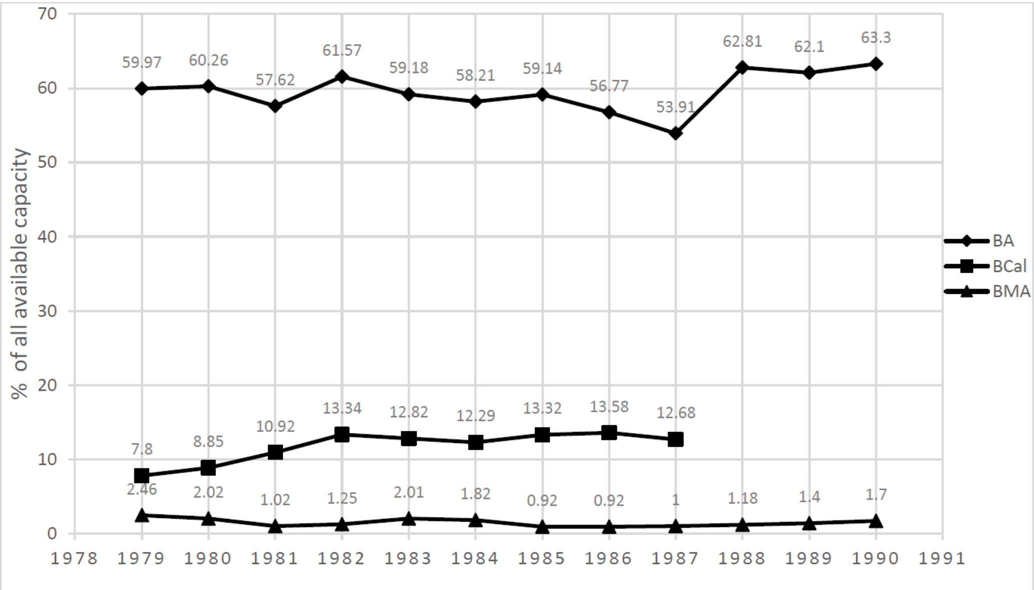
[43] Robert Armstrong, Cabinet secretary, confidential letter to Margaret Thatcher, 3 October 1984, PREM 19/1412, (Kew: The National Archives, 1984).

[44] David Wolfson, PM's Chief of Staff, letter to Margaret Thatcher, 15 November 1983, THCR 2/6/3/173, (Cambridge: Churchill College Archives, University of Cambridge, 1983).

[45] Robert Armstrong, Cabinet secretary, confidential letter to Margaret Thatcher, 3 October 1984, PREM 19/1412, (Kew: The National Archives, 1984); John King, British Airways Chairman, letter to Nicholas Ridley, Secretary of State for Transport, 4 July 1984, AMEJ 2/1/125 File 2, (Cambridge: Churchill

BA would not suffer internationally as it would keep its Heathrow hub intact.[46] Yet the government was not willing to risk this. The CAA proposals largely went neglected despite its advisory and regulatory role within domestic civil aviation. Consequently, BA's domestic market size remained generally intact until its 1987 privatisation (Figure 1).

Figure 1. UK market share of selected UK airlines by annual percentage of all available capacity (passengers and cargo).[47]



BA further consolidated its domestic market status as a monopoly in the few years after the sale as the government allowed the airline to buy-out assets from BCal after their bankruptcy. This betrayal of competition principles caused upset within the Conservative Party, with several members arguing that there was "no point in having

College Archives, University of Cambridge, 1984); John King, British Airways Chairman, letter to Julian Amery, Conservative MP, 23 May 1984, AMEJ 2/1/124, (Cambridge: Churchill College Archives, University of Cambridge, 1984); John King, British Airways Chairman, submission to the UK Civil Aviation Authority, 16 May 1984, AMEJ 2/1/124, (Cambridge: Churchill College Archives, University of Cambridge, 1984).

[46] UK Civil Aviation Authority, quoted in *Civil Aviation Competition Policy*, Hansard, House of Lords, 30 July 1984, Vol. 455, cc. 600-34.

[47] UK Civil Aviation Authority, *UK Airlines: annual operating, traffic and financial statistics*, 1979-1990, (London: CAA, 1983-1990); British Airways' temporary decrease in domestic market capacity in 1986-87 is predominantly due to depressed traffic as a consequence of international developments, including the Chernobyl nuclear accident and the Libya bombings. For more on the causes for this decrease, see Scrimgeour Vickers & Co., *British Airways*, January 1987, Archive Box N465, (Heathrow: British Airways Archives, 1987).

a CAA if one does not follow its recommendations."[48] These complaints, however, did not deter the government from reneging on its promises.[49]

If the government tried to dispose of an ailing BA as fast as possible during the early 1980s, it was now treating the airline with kid gloves during this period to secure a successful flotation. The accommodation of BA unions and refusal to foster domestic competition to protect the airline demonstrate this. As opposed to other British privatisations at the time, BA was arguably the most well-recognised and best performing brand put up for sale. The government were very aware that an impasse or failed privatisation of its flag carrier airline could spell widespread political embarrassment and potentially set back its privatisation programme.

Regardless of this period of uncertainty in finding a privatisation motive, the BA sale was still scheduled to go ahead. A new, and final motive was consolidated to justify the sale—extending wider share ownership.

Extending Wider Share Ownership through the BA Sale, 1985-87

Extending share-ownership through the BA privatisation was not considered an official aim beyond the mention of it in correspondence between BA and government members.[50] The "breakthrough" occurred after the 1984 British Telecommunications privatisation revealed that large flotations were absorbable by markets.[51] By 1985, the government announced an "irreversible shift in attitudes" due to popular capitalism,

[48] For example, see Anthony Steen, UK Conservative MP, *Transport*, Hansard, House of Commons, 17 November 1987, Vol. 122, cc. 968-69; Thatcher's confidant, Ian Gow, was also one of the more vocal challengers of the government's disregard for its competition ideals, see Ian Gow, letter to Margaret Thatcher, 2 April 1982, THCR 2/1/4/107, (Cambridge: Churchill College Archives, University of Cambridge, 1982).

[49] Another example of the government's reticence to abide by its competition ideals came during the 1982-84 antitrust litigation by Laker Airways against British Airways. Laker accused British Airways of predatory pricing on trans-Atlantic routes. The lawsuit was brought in U.S. courts. Thatcher lamented that she 'would not be able to denationalise British Airways', citing "disastrous" consequences and "very serious political damage," see Margaret Thatcher, mentioned in Geoffrey Howe's, Secretary of State for Foreign Affairs, confidential meeting with Charles Price, U.S. Ambassador, 6 March 1985, PREM 19/1412 Part 3, (Kew: The National Archives, 1985); Margaret Thatcher, confidential meeting with Geoffrey Howe, Secretary of State for Foreign Affairs, and George Schultz, U.S. Secretary of State, PREM 19/1658 Part 4, 21 February 1985, (Kew: The National Archives, 1985). To protect British Airways, the British government intervened in the lawsuit, using its political leverage to force an out-of-court settlement by appealing to the U.S. government, see Margaret Thatcher confidential letter to Ronald Reagan, 18 November 1984, THCR 3/1/42, (Cambridge: Churchill College Archives, University of Cambridge, 1984). The lawsuit was eventually settled out of court in 1984, although the details remain confidential. The Laker episode highlights that the government was prepared to save British Airways from an active investigation meant to reinforce competition principles despite its self-proclaimed competition aim.

[50] John King, British Airways Chairman, letter to Nicholas Ridley, Secretary of State for Transport, 4 July 1984, AMEJ 2/1/125 File 2, (Cambridge: Churchill College Archives, University of Cambridge, 1984).

[51] Nigel Lawson, *The View from No. 11: Memoirs of a Tory Radical*, (London: Bantam Press, 1992), 221.

promising to structure further sales as to offer "the greatest incentives" to wider share-ownership.[52]

As a privatisation put on hold for several years due to performance, restructuring, and competitive challenges, the government finally settled on popular capitalism as the reason for selling BA. The favourable conditions at BA during this period determined the government to push ahead with a date for the flotation—February 1987. The BA privatisation advisors were given the directives to structure the sale as "to widen share-ownership."[53]

Several steps were taken which confirm that extending share-ownership was a principal motive for the BA privatisation. First, the BA share-price was under-priced to stimulate demand.[54] This was not specific only to the BA sale. Other privatisations were under-priced. Compared to smaller (Amersham), similar-sized (Rolls-Royce), flagship (British Telecommunications), and other UK privatisations, the BA initial share price was among the lowest (Table 5). Lawson argued that this was a major incentive for inducing wider share ownership.[55]

Table 5. Selected privatisations by initial share-offer price, share over-subscription, and resulting share premium on the full share price.[56]

Company and Privatisation Year	**Initial share-offer price (p)**	**Over-subscription**	**Share premium (%)**

[52] John Moore, "The Success of Privatisation" [1985], in *Privatisation and Regulation: The UK Experience*, eds. John Kay, Colin Mayer, and David Thompson, (Oxford: Clarendon Press, 1986), 97.
[53] Norman Lamont, Financial Secretary to the Treasury, letter to Charles Irby, Baring Brothers and Co. merchant bank director, 15 August 1986, T 537/85, (Kew: The National Archives, 1986); John Rhodes, British Airways privatisation advisor, letter to Norman Tebbit, Secretary of State for Trade and Industry, June 1985, BT 245/1967, (Kew: The National Archives, 1985).
[54] National Audit Office, *Department of Transport: sale of government shareholding in British Airways Plc*, 7.
[55] Nigel Lawson, *The View from No. 11: Memoirs of a Tory Radical*, (London: Bantam Press, 1992), 228.
[56] The share premium percentages are based on the full share price. According to definitions from the UK National Audit Office, a share premium is the amount of increase in the price of a share above the offer price; Data from *Privatisation*, Research Paper 14/61, (London: House of Commons Library, 2014), 4-42; National Audit Office, *Department of Trade and Industry: sale of government shareholding in British Telecommunications Plc*, (London: House of Commons Papers, 1985), 10; National Audit Office, *Department of Energy: sale of government shareholding in British Gas Plc*, (London: House of Commons Papers, 1987), 9-11; National Audit Office, *Department of Transport: sale of government shareholding in British Airways Plc*, (London: House of Commons Papers, 1987), 8-10; National Audit Office, *Department of Trade and Industry: sale of government shareholding in Rolls-Royce Plc*, (London: House of Commons Papers, 1988), 9-10; National Audit Office, *Department of the Environment: sale of the water authorities in England and Wales*, (London: House of Commons Papers, 1992), 29-31; Matthew Bishop and John Kay, *Does Privatisation Work? Lessons from the UK*, (London: Centre for Business Strategy, London Business School, 1988), 33-4; Peter Morrell, *Airline Finance*, Fourth Edition, (Aldershot: Ashgate Publishing, 2013), 167.

Amersham (1982)	142	24.6	35
British Telecommunications (1984)	130	9	33
British Gas (1986)	135	4	9
British Airways (1987)	125	23	35
Rolls-Royce (1987)	170	9	34
Water Authorities (1989)	240	6	18

Second, the BA share under-pricing led to a sizeable over-subscription. This is a situation where demand for new shares outstrip their availability. This strategy was also a means of generating profitable after-market premiums on the shares. The government wanted to "provide a better prospect of a healthy after-market."[57] The resulting premium was common among Thatcher-period privatisations. However, the BA after-market premium was among the highest and, consequently, among the most attractive for a profitable re-sale. Profitable premiums were advertised as an encouragement to invest in the privatisation programme and participate in wealth creation.

Third, the government pursued other incentives to facilitate popular capitalism through the BA flotation. A clawback mechanism was implemented to extend share-ownership by reallocating shares from institutions to individuals. The mechanism was a means of supporting individual share-ownership. After the clawback, nearly 20% of institutional shares were transferred to individuals, leaving the BA offer 23 times oversubscribed.[58] Furthermore, the government encouraged domestic shareholding by allowing non-UK nationals to hold only up to 25% of BA shares.[59]

Last, loyalty bonuses were also awarded. Shareholders who retained BA shares for three years received one free share for every ten to incentivise long-term share retention and 'strengthen share-ownership.'[60] BA employees were also offered incentives to buy shares. Each BA employee was offered free, discounted, and 2-for-1 government-matched shares.[61] The BA chairman revealed that 94% of BA employees became shareholders, establishing "a more securely capitalist economy. It is

[57] National Audit Office, *Department of Transport: sale of government shareholding in British Airways Plc*, (London: House of Commons Papers, 1987), 8.
[58] NAO, 8.
[59] Price Waterhouse, *Privatisation: The Facts*, Archive Box N465, (Heathrow: British Airways Archives, 1987).
[60] John Moore, letter to Margaret Thatcher, 20 October 1986, T 533/182, (Kew: The National Archives, 1986).
[61] Price Waterhouse, *Privatisation: The Facts*, Archive Box N465, (Heathrow: British Airways Archives, 1987); Moore to Thatcher, 20 October 1986, T 533/182.

promoting…a greater understanding of the nature of capitalism and a healthier attitude to the concept of profit and the creation of wealth."[62]

These measures confirm that extending wider share ownership was a privatisation motive for BA, which became advertised starting 1985. The BA flotation was indeed popular, gathering slightly over 1.1 million initial shareholders, being highly over-subscribed and generating a profitable premium. It compared favourably to other privatisations in terms of initial number of shareholders, although it was not as popular as the flagship privatisations of British Telecommunications, British Gas, and the English and Welsh water authorities.[63] Nonetheless, BA was now a 100% private airline and the government celebrated achieving its share-ownership aim.

This celebration was short-lived, however. The BA sale was only a partial and short-term success for fostering the ideological pursuit of popular capitalism. The government stimulated short-term share-ownership by share under-pricing to attract shareholders. Yet this strategy resulted in *excessive* share under-pricing and profitable premiums, inducing investors to sell their shares. As a result, BA experienced one of the largest drops in terms of investor numbers after just 1 year since its flotation—from over 1 million initial investors to around 400,000.

The special incentives to encourage long-term shareholding were insufficient in halting the diminishing BA shareholder number. Instead of offering sufficient long-term bonuses, most incentives were given to widen share-ownership over the short-term through share discounts. The UK Department of Transport also confirmed that it "did not commission market research to determine the need to offer bonus shares," highlighting government short-sightedness.[64] Consequently, the government misjudged the balance between the short- and long-term incentives offered to individual shareholders.

Share concentration within a select few institutions rather than with individual share-owners further challenges long-term popular capitalism. In terms of increasing shareholder numbers, popular capitalism had been achieved through the BA privatisation. However, it was not the "people's capitalism" envisaged by the government.[65] While the BA clawback mechanism transferred shares to individual shareholders, it was insufficient in reducing institutional shareholding. Consequently,

---

[62] John King, British Airways Chairman, *The Lessons of Privatisation*, 18 June 1987, Archive Box N466, (Heathrow: British Airways Archives, 1987), 16.

[63] National Audit Office, *Department of Trade and Industry: sale of government shareholding in British Telecommunications Plc*, (London: House of Commons Papers, 1985), 10; National Audit Office, *Department of Energy: sale of government shareholding in British Gas Plc*, (London: House of Commons Papers, 1987), 9-11; National Audit Office, *Department of Transport: sale of government shareholding in British Airways Plc*, (London: House of Commons Papers, 1987), 8-10; National Audit Office, *Department of the Environment: sale of the water authorities in England and Wales*, (London: House of Commons Papers, 1992), 29-31.

[64] NAO, *Department of Transport: sale of government shareholding in British Airways Plc.*

[65] Nigel Lawson, *The View from No. 11: Memoirs of a Tory Radical*, (London: Bantam Press, 1992), 224.

initial individual shareholding was slightly below institutions, which held 36.1% of BA total shareholding.[66]

BA was not an exception. Other UK privatisations experienced a similar individual shareholding minority despite the clawback mechanism. Shareholders were attracted with a similar short-term strategy and incentives. Amersham's large premium was followed by a pronounced decrease in its shareholders after the first year, while individual shareholding was swamped by institutions. The British Telecommunications premium resembled Amersham. British Telecommunications also suffered a substantial long-term decrease in shareholders, with individuals accounting for 11% of total shareholding. Despite the relatively healthy initial individual shareholding, the Rolls-Royce flotation premium was almost identical to that of BA in being among the largest of any British privatisation. As was the case for BA, Rolls-Royce also had one of the heaviest falls in shareholder numbers after its initial sale. Over 1 million investors sold their profitable shares, leaving the company after 1 year.[67]

Popular capitalism, then, was only partially achieved through the BA privatisation. The government stimulated short-term share-ownership through share under-pricing, high after-market premium, and other incentives to attract large shareholder numbers. The steps taken by the government to ensure this outcome confirm that extending wider share ownership was a main privatisation motive for BA. However, excessive share under-pricing, the large premium, and lack of share retention incentives encouraged investors to sell their shares, while share concentration within institutions over individuals reveal the government's short-sightedness in maintaining long-term stable ownership. This common practice among UK privatisations highlights the delicate balance of developing efficient privatisation policymaking and establishing electoral support. The latter objective appears to have taken precedence over the former for the BA flotation. This example also highlights the prioritisation of ideology related to popular capitalism over the practicalities of achieving a long-term sustainable flotation for its share-owners.

Conclusion and Implications

The principal BA privatisation motives were reducing company borrowing, stimulating efficiency, and achieving popular capitalism. Each of these motives was prioritised at different times over the course of the long privatisation process. The initial BA motives were reducing public sector borrowing and stimulating efficiency. These resulted from BA's early 1980s modest efficiency and the government's motivation to exclude its borrowing from the PSBR. The idea of extending share-

[66] Peter Morrell, *Airline Finance*, Fourth Edition, (Aldershot: Ashgate Publishing, 2013), 167.
[67] National Audit Office, *Department of Trade and Industry: sale of government shareholding in Rolls-Royce Plc*, (London: House of Commons Papers, 1988), 9-10.

ownership was also present at this early stage. However, this became more prominent after the success of other sales and after the situation at BA improved. The share-underpricing and other mechanisms for attracting individual investors confirm this. Nonetheless, these measures affected share retention over the long-term as profitable after-market premiums incentivised the sale of shares. Breaking union power was not a BA privatisation motive as the government accommodated its union demands, while fostering competition was only an endorsement rather than a primary motive. The government showed indecision and opposed measures to increase domestic competition to not endanger the flotation despite its proclaimed support for freer markets.

By highlighting these developments, this study contributes to a better understanding of airline privatisation and privatisation policymaking from the perspective of the government and the company involved in the process. It also adds to existing business history studies on airlines by expanding what was understood about the entire privatisation process of one of the world's earliest airline privatisations. If previous studies mainly focused on the early planning years, this study also builds upon that by researching the trials and tribulations of later years and the search for other privatisation motives as the economic context changed both in the wider UK economy and at BA.

There are also several implications which arise from this study:

First, performance indicators reveal that BA's efficiency also continued its upward trend three years after privatisation. However, this study has highlighted that a more pronounced change came while under nationalisation than after flotation. Therefore, BA's profitability and efficiency three years after privatisation suggest that privatisation and ownership transfer alone had little effect on performance. Rather, improvements resulted from sound managerial decisions to internal inefficiency, competition, and world events. This ties in with the larger debate in privatisation scholarship related to the potential impact of ownership upon efficiency and performance. As airlines now operate within more internationally competitive markets than the 1980s, the effects of competitive pressure and ownership changes are even more difficult to disentangle. The BA privatisation can serve as a starting point for a more thorough analysis into the benefits or shortcomings of ownership structures and governance within the civil airline sector over the long-term.

Second, this study has also highlighted the triumph of rhetoric over substance, especially as it relates to the treatment of BA competition and trade unions by the government. Thatcher governments' rhetoric upheld fostering competition and weakening unions as among their most important policies. There are examples of fostering competition and weakening trade unions in industries such as bus services and mining, respectively. In these cases, the government upheld their policies. However, there are counterexamples revealing that several industries have been exempted. BA is one of these. Despite the government's rhetoric and insistence that privatising BA as a monopoly would negate the purpose and benefits of privatisation, BA was protected against domestic competition as the government did not want to jeopardise a successful flotation. Similarly, BA's workforce was accommodated by the government for the same reason. Future research may help elucidate why BA was accommodated and protected against competition. A further point of enquiry is to consider how much of the government's rhetoric on the wider privatisation programme is substantiated by facts. This aspect would better highlight the achievements and pitfalls of the Thatcher-period privatisation programme by judging their outcomes related to initial government planning and policymaking. Internationally, BA may serve as a comparative example on how other governments approached airline privatisation policymaking in relation to the UK experience.

Third, BA was among the first flag carrier privatisations, followed by Japan Airlines, KLM, and others during the 1980s. A more pronounced privatisation drive occurred during the 1990s, when many of the largest national airlines were sold. A suggested pathway for research would be a comparative study examining to what extent these subsequent airline privatisations were inspired or shared similar motives with BA. Were these politically and/or economically motivated privatisations? Context is important here, and some answers related to the drivers of airline privatisation are known. Increasing liberalisation and the fall of Communism encouraged the overall pursuit of privatisation, including airlines, in regions such as Central and East Europe. In other cases, privatisation was encouraged by international bodies. In exchange for a stability package to address the 2000 Turkish financial crisis, the IMF demanded that the Turkish Airlines privatisation be speeded-up to relieve government finances. These examples highlight that the airline privatisation trend continues, but also indicate that there are other privatisation motives which deserve attention due to their potential impact upon policymaking and stakeholders, including upon management and its incentives. As this study highlights, new BA management was instrumental in bringing around the airline while being nationalised. On the other hand, state-owned flag carriers still exist, and many have performed well compared to their privatised counterparts. National airlines such as Singapore Airlines, China Airlines, and Emirates have ranked among the world leaders in terms of revenue per passenger.[68] The Asian region has historically been less welcoming to airline privatisations. Further research may reveal whether there are political and ideological reasons behind this choice or whether Asian governments regard privatisation and ownership transfer alone as having few benefits to airline performance. Therefore, research is encouraged to continue assessing the motivations, benefits, and misjudgements of privatising airlines.

This study has discussed the privatisation of an airline. In this sense, it has specifically insisted on the changes and objectives that a firm undergoes rather than focusing on the outcomes due to privatisation. Yet, what do we know about the other

[68] Peter Morrell, *Airline Finance*, Fourth Edition, (Aldershot: Ashgate Publishing, 2013), 130.

stakeholders involved in the privatisation process? Privatisation and business history scholarship has historically had the tendency to focus its research on the firm and its shareholders rather than include other important parties, such as employees and even customers. This study has mentioned the rationalisation process which BA underwent to make a quick recovery ahead of privatisation. However, we do not know much about the outcome of the thousands of workers at BA or the thousands made redundant because of privatisation. We are also still largely unaware of the impact of privatisation upon employees generally. The impact upon gender representation in the workplace and worker complaints are some of the examples worthy of consideration. After all, we know that the objectives of the firm may not necessarily align with the wellbeing or objectives of its employees. This is one potential fruitful pathway for research in privatisation and business history scholarship.

Disclosure statement

No potential conflict of interest was reported by the author.

Acknowledgements

I am grateful for the helpful comments of the editors and anonymous reviewers which have improved this article. This research originated during my degree at Cambridge. As such, I thank Duncan Needham for his support and guidance during this early stage. I am especially thankful to Ray Stokes and Takafumi Kurosawa for their continued support and insightful comments and advice. They have encouraged and inspired me, as well as helped shape this research. Thank you to Mark Billings, who has kindly offered his comments and support with the draft. I have presented various versions of this article at the universities of Glasgow, Kyoto, Cambridge, Oxford, as well as at events organised by the European Business History Association and the Economic History Society. I thank all the participants who have helped me improve it. I thank the kindness of the British Airways and Churchill College, Cambridge archives staff, who have treated me generously while conducting research. Personal appreciations go to my family, who have continuously inspired and supported me.

Notes on contributor

Adrian Cozmuta is a double doctoral candidate in Economics and Economic and Social History from the universities of Glasgow and Kyoto. He has a long-standing interest in privatisation, international business history, and contemporary economic history. He has completed degrees at Cambridge and Glasgow.