Funding the Future

The Centre for Policy Studies has get every part of its...

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The Telegraph made much noise yesterday about a claim from hard right think tank, The Centre for Policy Studies, that what they say are Labour's nationalisation plans might 'cost' £176 billion. As the CPS put it:

New research published by the Centre for Policy Studies estimates that the cost of Labour’s renationalisation plans would be at least £176billion. This would represent around 10 per cent of the national debt, or nearly £6,500 for every household. It would be enough to pay for central government’s contribution to the cost of 2.9 million new homes in social housing.

Labour’s 2017 manifesto, and its subsequent policy announcements, have committed the party to the renationalisation of some or all of the energy, water, rail and mail sectors, as well as an unknown number of PFI deals.

Analysis by the CPS estimates the costs of these renationalsiations as: over £55.4bn for energy, £86.25bn for the water sector, £4.5bn for Royal Mail, and £30bn for PFI nationalisation (although this estimate is particularly uncertain).

According to the Telegraph, Chancellor Philip Hammond said:

Labour claim renationalisation won’t cost taxpayers a penny, but in fact it would mean hundreds of billions more borrowing, meaning more debt and higher taxes.

The claims by both the CPS and Chancellor, willingly repeated by the Telegraph are absurd.

The first reason for this is that they assume that buying an asset, which is what happens when you nationalise something, is the same as spending money on consumption. To use a household analogy, they are claiming that buying a car and a takeaway meal are the same thing: the suggestion is that both are consumed, and are of no further value, minutes after the spend takes place, but that is obviously untrue of the car, or any other capital asset. In that case it is absurd to suggest that there is a cost of anything: there is instead an investment, which is something fundamentally different, not least because it goes on the government's balance and quite categorically is not the cost at all. It is instead an asset, and they're good things to own.

Second, spending money on buying this asset does not mean that money cannot be spent on other asset: as a matter of fact any government, anywhere, can create money whenever it wishes to so long as that does not create inflation and so long as there is a mechanism for a return on that money to be paid. In that sense the government is exactly like a bank who lends money to someone to buy an asset: unless there are capital controls in place (and there are not) and so long as it can be shown that an asset can pay for itself a bank will always willingly lend precisely because it makes money from doing so. The suggestion then that nationalising any industry will prevent the building of social housing is simply untrue: there is no shortage of money for this purpose if both can pay for themselves. What CPS are showing is that they do not understand how governments, money, and banking all work.

Third, as a matter of fact it is apparent that CPS think the nationalised assets can pay for themselves. After all, the whole basis of the valuation that they propose for the assets in question is the present income stream that they generate. What they say would have to be paid these assets is compensation to the current owners for giving up their future income stream to which they now have a right. If there was no such income stream there would be no compensation due. But precisely because they do think a price will be payable CPS clearly indicate that these assets are, as they stand, income generating. And there is no reason, at all, why that income stream should cease the moment the assets are nationalised: as a matter of fact it is exceptionally unlikely that they will. To put it another way then, the assets can pay for their own purchase in that case out of the income stream they generate. This is not an unusual concept: when one company buys another it is always assumed that the future income stream of the acquired company will generate the funds to pay for its own acquisition. Why else do it otherwise? If CPS do not know that they really do not know how markets work.

And fourth, in that case there is absolutely no reason to have more taxes at all as a result of this nationalisation: they simply would not be needed. And nor would the interest payable on the debt be a cost to taxpayers: the nationalised assets would pay that themselves.

So, it is true that there would be more debt. But equally, the country would own more assets. And there is no net cost then to buying the assets: any additional borrowing is matched by owning new assets.

And because these new assets generate an income, then maybe no extra tax need be collected to pay for this acquisition because they pay for themselves.

All the CPS claims are wrong, and have to be because their suggested asset values prove that a) these assets are worth buying and b) can pay for themselves or they're not worth the price they claim to be appropriate.

There is, however, something that CPS ignore. The current owners of these assets will value them at the commercial cost of borrowing to buy them. It is a fact that the commercial cost of borrowing to buy an asset is higher than that which the government pays. The result is that the private sector will value these assets at a lower rate than the government, precisely because the government can borrow more cheaply than anyone in the private sector. So, when the government, after nationalisation, substitutes borrowing in these industries at the government's rate of interest as opposed to current borrowing at commercial rates of interest the value of these assets will rise. At the same time interest costs within these these industries will fall, and the surplus that they will generate will be greater than that which the private sector could have made. The result is that in fact far from requiring that additional tax be paid these industries should begin to make a return to the Exchequer greater than anything that they could generate as a profit in the private sector.

And how do we know that could happen? Because evidence supports the argument; that's why. The East Coast rail route proves it: when nationalised this paid strong, positive, returns to the government. When under private management it has required successive bailouts. It's the same asset, but it's simply more successful in state ownership, paying a return to the government when nationalised that could, if the government so wish, actually reduce the tax burden on people in this country, whereas privatising it increases that tax demand.

Bizarrely, CPS do then have all their logic wrong. In fact every argument they make is the exact opposite of what is likely to happen if the nationalisation of industries that are natural monopolies takes place for public benefit.

It really is time the right wing stopped talking economic nonsense about nationalisation. In the case of natural monopolies state ownership is the only logical way to organise an industry for social benefit.