

Funding the Future

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In my latest video I argue that nationalisation does not cost the taxpayers of a country anything if it is done properly. Labour knew that in 1945, but apparently, they do not do so now. Why have they forgotten all that they once knew?

<https://youtu.be/eE1XN4IQyzU?si=6KgA5bni6OW6UNCU>

The audit version of this video is here:

https://www.podbean.com/player-v2/?i=kmzg6-164195a-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=f6f6f6&font-color=&logo_link=episode_page&btn-skin=c73a3a

The transcript is:

Nationalisation does not ever involve what is commonly called taxpayer's money.

This might come as a bit of a shock to the Labour Party, but they knew it in 1945. Keir Starmer keeps on saying, "We can't nationalise the utility companies, we can't nationalise water, we can't fulfil the nationalisation of railways when we wish to, because taxpayers would have to foot the bill."

No they don't. Taxpayers have got nothing to do with footing the bill.

When the rail industry, the coal mines, the steel industry, the road transport industry, and other industries were all nationalised post the Second World War because the economy required their output and they were left in a dire state, by the consequences of that war, the owners were paid for the value of their businesses.

And they were paid with government bonds. Government bonds are simply a statement

of a loan with the government. The government said "We owe you the money that this bond represents and we'll settle it with you in 30 year's time" - that was the normal figure used at the time by the way - "and we'll pay interest on it in the meantime of say 3%." That was the normal figure used at the time.

And the consequence was that they paid market value because the businesses in question could generate a surplus sufficient to cover that interest cost.

And the bonds themselves were not paid for out of taxpayers' money. Let's be clear that even if there is such a thing as taxpayers' money, and I doubt it, what happened to those bonds when they came to be due for payment in the 1970s was that the value was extended. In other words, the original bonds were replaced with new bonds for another 30 years. And what happened when we got to 2005 and those bonds ran out? They were replaced with new bonds which ran for another 30 plus years.

We've never paid to buy the railways.

We've never paid to buy the canals.

We've never paid to buy the steel industry as it was at the time, or whatever else we nationalised.

The point was, we simply issued bonds to pay for it. A promise to pay, which the government issued, which carried interest, and which never involved a single payment of taxpayers' funds, because if the businesses had carried on making surpluses, which they could have done if they'd been run in the same worn out, desultory fashion that was being pursued by the then owners, they would have generated enough money to cover the costs of the interest on those bonds in perpetuity.

So, what would happen now if we were to, for example, nationalise the water companies?

We would pay the water company shareholders the market value of their shares.

How much are shares in Thames Water worth? Well, frankly, not a lot.

How much are the loans made by commercial organisations to Thames Water worth? Well, a bit more than the shares are worth. There is some value in them. But are they worth £1 for every £1 that was originally loaned to Thames Water?

No.

How do I know that? Because they're trading at a value much lower than that on stock markets.

So we would replace the loans which already exist to a company like Thames Water

with new government bonds issued to the existing bondholders at the current fair market value. Say, one pound of new government bonds for every four pounds of bonds that they had previously owned, because that is what they could get for them if they sold them to anybody else.

That was the principle that was established in 1945.

Use bonds to pay for nationalisation.

Cover the interest costs out of the revenue surpluses that were made by the activities in question.

Well, that was the theory. Sometimes those activities did not make revenue surpluses but that was because of the choice that government subsequently made to improve the quality of the services to meet the needs of the people of this country. And that's an entirely separate issue.

But is this something, therefore, that creates a burden on taxpayers?

No, never.

Labour knew that in 1945. They knew that they could transform the UK economy by knowing that in 1945.

So why don't we know that now when they once knew it then?

I really don't know the answer to that question. But I wish they read their own materials and justifications for nationalisation issued at that time. Because at that point in history they knew that nationalisation was the best thing to do for the people of this country with regard to the natural monopolies that we all depend on for the supply of our basic services.