

The nationalisation taboo

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Nationalisation has become the word British politicians dare not say, and the reason they give is always the same: it is unaffordable.

They claim that just taking water back into public ownership would cost over £100 billion, but that claim is outright nonsense, and it is worth understanding exactly why.

The trick is in what "cost" means. When we nationalised industries in the 1940s, we did not hand over a mountain of cash. We paid with government bonds, typically at 3% interest, repayable over thirty years or more, and in practice then rolled into the national debt.

The real cost of nationalisation is, then, nothing more than the interest on those bonds, and a nationalised business bought at a fair price should always be able to cover that from its own surplus. There is, then, no cash payout, and no one is "buying" anything at a fantasy price.

What might that mean for the water industry? Private investors and lenders have sunk around £100 billion into it, but the industry is not worth that now. Its shares are often worthless, and a fair price would reflect its current, depreciated value. That means shareholders accept their losses and lenders would take a haircut, meaning they get back part of what they lent. They knew the risk when they invested in a privatised monopoly, and they should accept the consequence.

The case for doing this is straightforward. Nationalisation protects essential services that are too important to fail. It lets us invest in their future at the lowest possible cost, because government borrowing is cheaper than private borrowing. And it future-proofs water, rail, energy, and other sectors against a repeat of the calamities privatisation has already delivered.

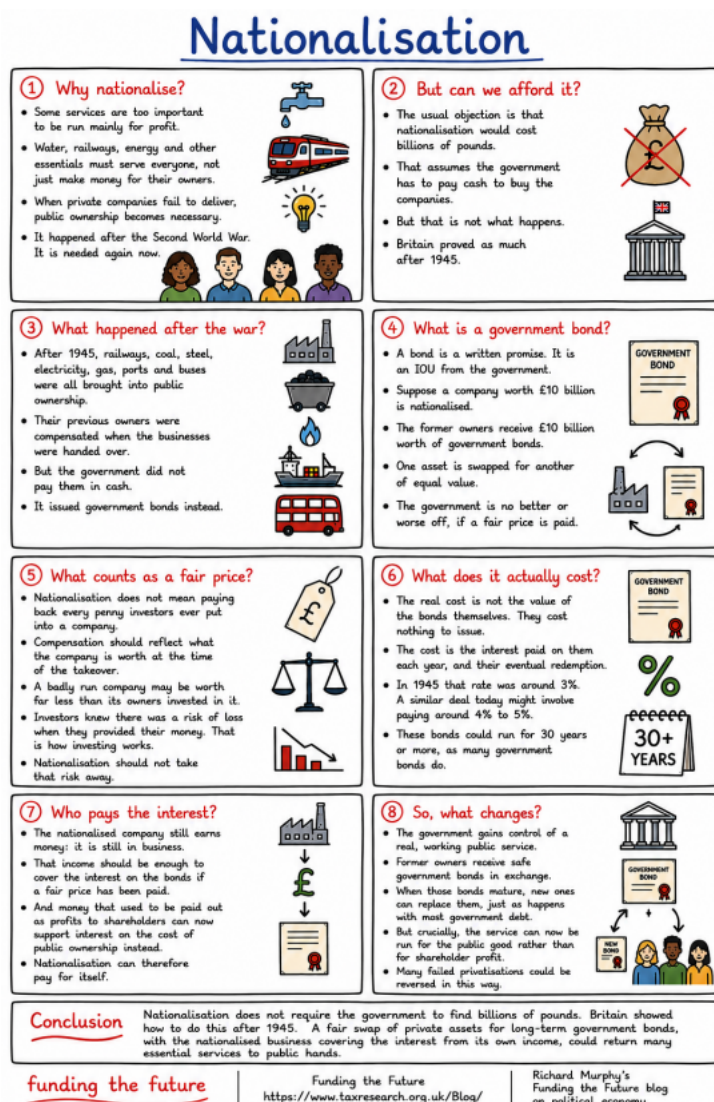
Nationalisation is not the problem. The misinformation about its cost is.

<https://www.youtube.com/watch?v=iyz-qzmNkCE?si=keG-Sj7AuEjEqP-Q>

This is the audio version:

https://www.podbean.com/player-v2/?i=2yggk-1b45881-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=f6f6f6&font-color=auto&logo_link=episode_page&btn-skin=c73a3a

There is no Debate Ammunition for this video, but there is an infographic instead:



This is the transcript:

There's a word in British politics that no one is allowed to use. It's so taboo that it's never mentioned. And what is that word? It's nationalisation. The public ownership of companies that can undertake activities to meet our essential needs. And it's something that we do need to talk about, even though our politicians, including those from the supposed left wing of Labour, will not mention.

It's time that we talked about nationalisation because there are some services that are just too important to the functioning of our economy and the well-being of people in this country to be run by the private sector. The water industry, railways, energy, and other essentials must serve everyone and not just shareholders. And vitally, these services cannot fail. We cannot do without them.

But the whole logic of the private sector is that a company can fail. Well, that is a price in the case of these supplies that cannot be tolerated, so they must therefore be publicly owned. A private company that cannot fail is one that is bound to abuse, and we've seen that they do. Nationally owned businesses should then be an essential part of our economy. And we need to nationalise all the industries that I've just mentioned now, if we are to have the economy that we need going into the future.

So why is it said that we can't afford to nationalise these failing privatised businesses? Politicians say we can't because they presume that we would have to hand over an enormous pile of cash to the owners of the businesses in question. That is complete nonsense. They haven't gone back to look at what actually happened in the 1940s. That was the time when we nationalised so many industries, and every single industry that was nationalised then was paid for with government bonds.

They carried a moderate interest rate; 3% was the norm at the time, and they were repayable after 30 years or more. Most of them came up for repayment in the 1980s and were simply rolled over into the national debt. No cash ever changed hands as a result. I make that point. I make it very strongly. Every single politician who says that we cannot afford to nationalise because the cash cost will be too high is talking a load of old nonsense. They do not know what they're talking about, and I am not very tolerant of politicians who talk outright rubbish to put forward terrible arguments that harm the people of this country. But that's what they do when they talk about nationalisation. The claim that nationalisation will cost too much or is unaffordable is totally bogus.

And I'll go back and just talk about 1945 again for a moment. Steelworks, bus companies, mines, as well as railways and other industries, including canals even, were all nationalised. A fair value was paid for the businesses that were acquired by the state, and the fair value reflected the value that those businesses were in at the time that they were acquired.

The payment was made, as I've said, with bonds, and the government acquired an asset at fair value. In other words, national debt did not really go up as a consequence

of buying these assets because, on the other side of the balance sheet from the debt that was issued to pay for them, there were assets to balance the equation. So long as the government did not overpay, the books still equated.

And as I've said, interest was then paid, payable for a period of around 30 years or more. And at that point, supposedly there was going to be a repayment, but in practice, the repayment was made by the issue of replacement bonds. So interest has been the only cost of nationalisation, and it's been pretty modest, and it's effectively being written off by inflation over time.

So what, then, is a fair price to pay for an asset that you want to nationalise? We keep hearing politicians say, we can't nationalise the water industry because it will cost more than £100 billion. Now, I don't dispute that private investors and private lenders have sunk, and I use the word with care, sunk a hundred billion pounds into the water industry. But that does not mean the water industry is worth £100 billion. What has the water industry done with that money? It's lost it.

The water industry itself is worth very little at present. The shareholders in the water companies are probably holding assets that are worthless. In fact, we know this is true. We know that many pension funds have written off the value of their investments in water companies if they're held in the way of shares. Those shares are now worthless. Why would the government pay for them?

Those who lent money to the water companies also know that they're going to have to take what is called a haircut. What's a haircut? It means that if they lent £100, they might get £30 back. That's what a haircut means. It means that they lent to a company that lost the money that they made available to it. The best that they can hope for is that they now get some of their money back.

The government would pay these lower prices as a result. So any politician who says that we have to compensate the private sector for the cost of the money they put into the water industry is again talking complete and utter rubbish. I'll be polite. It could be described very much worse than that, but they are spouting nonsense. The cost of nationalising the water industry might be a few billion pounds, and it would all be paid in bonds, and we'll pay an interest rate of 4% to 5% at best on that. The annual cost would be pretty modest, in other words.

And that actual cost is the interest we will pay on the bonds. That is the only cash cost of nationalisation. I cannot stress that more strongly. We don't pay for the nationalised asset. We issue a bond for it. The bondholder can then sell it; that's how they get hold of cash, but that's the process that has gone through. The interest is the only cost.

But remember, we're buying functioning businesses. The electricity industry isn't going to be nationalised to be put out of business. Nor is water, nor are railways. They're going to continue to function, and if the price paid for the assets is a fair price reflecting

their current value, that business should be able to generate a sufficient surplus - I won't call it a profit in this case because nationalised industries don't, as such, make profits - but it should be able to make a sufficient surplus to cover the entire cost of the loan interest payable on the bond, which was used to nationalise it.

That means the price is fair. In fact, by definition, that's how we would know we got it right. And if that's the case, the cost to the exchequer and what the government calls taxpayers' money - quite inappropriately, because of course it is, government money in reality - will be precisely nothing. There will be no cost at all.

That's the great advantage of nationalisation. We force those people who have bought assets in privatised businesses that have turned out to be valueless to give up their assets to the government. The government gets them at a discount to reflect their current worth, and we get the benefit of running them in the future, but with a very low interest cost attached.

And there are three reasons to do this.

The first is to protect essential public services.

The second is to ensure that investment can be funded at the lowest possible cost. And there is a massive investment we know that is required in water, in the railways, in energy and transmission, and all sorts of other things as well. And the government can always fund that investment at the lowest possible cost. Its cost of borrowing is always lower than that of the private sector companies who have been running these assets to date.

And third, we do this to future-proof these essential services so that we do not run again into the calamities that are now facing all these sectors as a consequence of our negligence in privatising them over the last 40 or so years.

So is it time to put that word back on the political agenda? Should we be talking about nationalisation again? Yes, of course we should be. We should end the decades of taboo because they are ridiculous. The privatisation model has failed, and we can put it right quickly, easily, and cheaply, with the cost being paid by those who put their faith in Margaret Thatcher's promises, which have failed to deliver.

They knew the risk they took. They should now accept it. We should be allowed to compensate them fairly for whatever asset they have left and then put these assets into use in the public sector to ensure that we get the public services that we desire.

Any politician who says that is not possible is talking nonsense. Always call them out. Say, "Why are you saying it's not possible? Do you know we don't have to pay cash to nationalise these businesses? Do you know that we only pay a fair price? Do you know that the ongoing cost is only the interest paid, and the business should be able to

generate that? So why are you objecting, Mr Burnham?" Or whoever else we are aiming the comment at?

That's what I want you to do. But if you disagree, let me know. There's a poll down below. Let us have your comments. Like and share this video. Please do subscribe to the channel and hit the bell button so you are notified when we make further videos, although we do that every day, so you will get a regular notification. And if you'd like to buy a coffee so that Tom and I can keep making these videos, that would be great.

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Poll

[poll id="505"]