

The costs of nationalisation

The Shadow Chancellor has come up with new economic doctrine. Apparently if you borrow money to pay for something this means it does not have a cost to you. He accepts that were a Labour government to be elected, it could nationalise say the water industry by offering government bonds to the current shareholders. The good news about this is he does recognise that in a free society and democracy the state does have to offer compensation or a price to asset owners, if it wishes to acquire their asset. The bad news is he thinks issuing government bonds to acquire the shares means taxpayers do not pay!

There are good reasons why advanced democracies do not usually elect governments that say they will confiscate assets held by private owners. Whilst in the first round of any such policy it might prove popular with those who benefit from the confiscation, the second round effects are very negative for many. Investors will be put off buying and building assets in the UK if they think a government might simply steal them. Anyone living in the UK with savings or a pension fund will be very unhappy, because they are likely to hold some shares in the utilities or large companies the state wishes to confiscate. So one cheer for the Shadow Chancellor that he sees it would be a very bad policy to say the state will simply take companies and assets over without payment.

The idea that offering shareholders a bond in return for their shares must mean for it to work that the state would pay fair levels of compensation. The shareholders will only accept the bond as compensation if it is at a realistic level, and if the bond can immediately be converted into cash, as many may not want to hold the bond. They may wish to sell the bond on to someone else. Whichever way you look at it, the government will be in effect paying cash for the shares they buy, and borrowing all the money. That means taxpayers have two big bills to face. They have the annual interest bill on the debt incurred to buy the shares, and the repayment of the bond in due course when the entire cost of the shares falls due. This will mean higher taxes to meet these bills.

Labour may argue that they will enjoy the benefits of the profits of the companies they buy, which they hope will cover the interest cost of the bonds. Here, if we look at history, we see that unfortunately many nationalised industries in the past did not earn enough to pay the costs of their capital. There had to be frequent injections of new capital and writes off of old at the expense of the taxpayer. It is difficult to avoid the conclusion that this will be an expensive policy for taxpayers. After all, if Labour also wishes to cut prices and boost wages in these nationalised businesses, that means they will not be making profits.