DESIRABLE OR DAMNED?

Can the renationalisation of key utilities – such as the water industry – ever work, asks LEN SHACKLETON

Economics students have long been taught that privatisation of the UK's state-controlled industries in the 1980s and 1990s boosted productivity and consumer choice.

Where privatised businesses possess some monopoly power, or where there are significant externalities, they should be regulated, perhaps, but otherwise the market should rule.

This may soon change. Shadow Chancellor John McDonnell confirmed at the 2018 Labour Party Conference that his party intends to bring water, energy, Royal Mail and railways back into public ownership should it win the next election. Opinion polls suggest this is popular with the public.

Some economists have advocated nationalisation where there are 'market failures' such as externalities, information problems or 'natural' monopolies (where economies of scale, possibly the result of 'network effects' mean that the market becomes dominated by one producer).

However, these arguments were rarely used when the big burst of nationalisation happened in the 1940s.

Politicians argued that nationalisation could increase efficiency by cutting duplication (for example, railway routes) – or simply asserted a belief that common ownership was a good thing in itself.

Under nationalisation, an industry's assets were vested in a board, rather than coming under the direct control of a government minister. Boards operated on a 'top-down' basis: there was no question of nationalised industries being directed by the workers.

There were several recurring problems. One was instability of investment, requiring government spending: it was usually easier, in times of economic downturn, to cut this rather than welfare benefits. Another was frequent changes of direction as ministers came and went.

Lack of competition, and the fact that businesses could not go bust, meant little incentive to innovate and meet consumer needs, while powerful trade unions enforced over-staffing and raised pay above private sector levels.

Consequently, the financial and productivity performance of many industries was poor, and deteriorated over the 1960s and 1970s.

Under Margaret Thatcher and John Major, privatisation meant that the public sector shrank dramatically in size. The 1997-2010 Labour governments didn't try to reverse this trend.

However, railway infrastructure was taken back into public ownership (as Network Rail) after the collapse of the privatised Railtrack, and Gordon Brown's administration nationalised a number of banks and building societies after the financial crisis of 2008.

Generally, though, privatisation has been seen as a success both in Britain and abroad; the Thatcher/Major reforms were copied in many countries.

But there has always been left-wing opposition, and with changes of leadership in the Labour Party there has been a resurgence of belief in nationalisation.

This has been boosted by the failings of some privatised industries. Although railway passenger numbers have increased dramatically and investment has risen, commuters have reacted against rising fares and service disruptions.

In the water industry, prices have risen, infrastructure renewal has been slow and some water businesses have a poor record on reducing leakages. Similarly, energy prices have risen sharply and complicated tariffs have confused customers.

Some of these problems have been caused by poor regulation rather than anything privatised businesses have done. Others are the direct result of government policy.

LACK OF COMPETITION, AND THE FACT THAT BUSINESSES COULD NOT GO BUST, MEANT LITTLE INCENTIVE TO INNOVATE AND MEET CONSUMER NEEDS

Rail fares have increased faster than inflation because politicians of all parties wanted to reduce taxpayer subsidies. Electricity prices have been pushed up so that we can move to renewable energy (usually more expensive than coal-fired power stations).

Mr. McDonnell promises that renationalisation will avoid the errors of the past, and will be based on new forms of organisation.

For example, he envisages a network of regional publicly-owned water companies run by local councils, trade union and worker representatives and customers, with 'unprecedented levels of openness and transparency'.

Whether this would overcome the systemic problems of public ownership remains to be seen●

Len Shackleton
Professor of Economics
University of Buckingham
len.shackleton@buckingham.ac.uk

FURTHER READING

W. L. Megginson and J. M. Netter (2001) 'From State to Market' *Journal of Economic Literature* 39 pp. 321-389.

House of Commons Library Briefing Paper CB8325 (2018) *Public ownership of industries and services.*