

Nationalisation's high short-term price and higher long-term cost

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LABOUR'S manifesto is as long as it is ambitious. Over 123 pages of sometimes dense prose, the party promises to “upgrade” the economy and “transform our energy systems”. This would involve the nationalisation of the water system, the energy-supply network, Royal Mail and the railways. Britain's infrastructure is indeed due for an upgrade. But Labour's plans would be costly—both in the short and long term.

The first challenge would be to move privately held firms back into public ownership. The government might ultimately need to fork out over £60bn (\$78bn) for the water industry, a similar amount for National Grid (which runs electricity- and gas-transmission networks) and £5bn or so for Royal Mail. Borrowing such large amounts would put upward pressure on government-bond yields, which would ripple through the economy into mortgages and corporate-borrowing costs.

Nationalising the railways, by contrast, might not be especially costly. Network Rail, which manages the track, is already in public hands. The train companies have time-limited franchises. Once these have expired, the government could take back control at little cost. However, many of the franchises do not expire until the 2020s. And if the operating companies knew that they had no chance of holding on to them, they would surely curtail investment.

More costly than the initial price of buying back these industries would be the long-term damage done to them by placing them back under public management. National ownership in the past was characterised by chronic underinvestment and inefficiency. A paper from the World Bank pointed out that investment flooded into Britain's water industry after it was privatised in 1989. Even on the railways, which passengers readily complain about, satisfaction is higher than in most of Europe.

Yet Britain's utilities are far from perfect. On international rankings of infrastructure quality the country has slipped in recent years. Energy firms take advantage of consumers' unwillingness to switch supplier, by charging steep prices to their most loyal customers. Water bills have risen sharply in real terms since privatisation, in part to pay for higher investment.

A number of factors make Britain's utilities work less well than they could. The current system, where a "super-regulator" (the Competition and Markets Authority) shares competences with sectoral regulators (such as Ofgem and Ofwat), creates confusion. Regulations are complex; utility firms hire senior staff less for their ability to think creatively and more because they can navigate the rules.

There is a need for fresh thinking on how to solve these problems. But Labour has simply exhumed policies that were buried decades ago for the good reason that they did not work. The party's leader, Jeremy Corbyn, is often described as a radical. In fact his programme is in many ways a conservative manifesto.