**Why privatisation always trumps nationalisation**

By Philip Booth in the Institute of Economic Affairs (London Think Tank)

13 November 2013

In a recent poll, there was strong support for the renationalisation of both the railways and the energy industry. In both cases, renationalisation would be a strange step back into the dark ages of state controlled industrial strategy. As it happens, ownership of the railway infrastructure is already nationalised although the trains are operated privately. It is the problems caused by the nationalised part of the industry about which the most complaints are made.

When we are sitting on a train complaining about delays, that delay is normally caused by the nationalised infrastructure company and not by the private company operating the trains. When we complain about the costs of the railways and the level of government subsidies, the nationalised network is responsible for those high costs to a much greater extent than the private operating companies. Nationalisation cannot be the solution to the problems evident within a nationalised industry.

Indeed, the private part of the train network – the operating companies – are doing spectacularly well by all measures whether it is passenger traffic, investment in rolling stock or the marketing of special cheap rail deals attractive to different types of customers. There is a good news story here. Passenger traffic is back at levels not seen since the 1920s, having increased by 88 per cent since privatisation.

Any students wishing to travel home to Manchester for Christmas can book a lunchtime train from London with Virgin for just £30 in mid-December. This would be a first class ticket with free meals, drinks and Wi-Fi; something I could have only dreamed about as a student. So, let us not go back to the dark days of nationalisation. Indeed, it would be much better to allow the industry to merge the track with the trains under private ownership to avoid the unnecessary costs imposed by the artificial split.

The situation in the energy market is similar. Privatisation was an unalloyed success with prices falling by over 30 per cent in the following decade or so. What has happened since is a form of corporatist state control of private businesses as regulations and costs have been loaded onto the energy companies – and investment plans dictated by the state. The government has locked in a nuclear power deal that involves guaranteeing twice the current market price for electricity. The state also requires companies to source energy from renewables costing up to three-and-a-half times the cost of producing electricity through the cheapest method.

It is true that, today, after a decade or more of increasing state control, we have an energy industry that serves vested interests rather than the consumer interest once again. Electricity prices before taxes are now 15 per cent higher than the average of major developed nations. Electricity could be around 50 per cent cheaper without the government’s interventions. We must liberalise that industry and not return to the state control that is the source of most of the industry’s problems.

We should, perhaps, remember one fact from the era of nationalisation. In the post-war period, government planning dictated the development of a nuclear programme using expensive technologies promoted by the government of the day. This led to the most expensive government project disaster in British history, costing well over £30bn.

Perhaps the nationalised High Speed 2 rail service will beat that record. We may have grumbles from day-to-day but it is far better to have private businesses that are responsible to consumers and shareholders rather than nationalised industries that answer to bureaucrats and vested interests. The record demonstrates that. If anything, the experience in both the rail and energy industries suggests that the government needs to intervene less and not more.

**The lessons of nationalisation**

Analysis By Steve Schifferes, Economics reporter, BBC News 2008

Nationalisation, once the central dividing line between Labour and the Conservatives, is now out of fashion, after Tony Blair's campaign to modernise Labour in the 1990s. Under Mrs Thatcher, most government-owned firms, including gas, electricity, telecoms, coal, steel, airlines, and cars, were privatised and sold off. In the past, government has often used nationalisation to provide infrastructure, such as transport or communications, that support enterprise, as well as bailing out failing firms.

Among the key lessons of previous nationalisations are:

•Nationalisations of failing firms have been less successful than nationalisation to provide infrastructure

•The cost of nationalisation has varied considerably

•A key problem for nationalised firms is the scale of investment and innovation

•Nationalisation's effect on the economy often depends on whether it has inhibited competition.

|  |  |
| --- | --- |
| **NETWORK RAIL, 2002**  The last privatisation by the Conservative government in 1996 created a complex system of companies to run the railways. Network Rail has not been the solution some hoped for.    Among them was Railtrack, whose job it was to maintain the track and stations, and receive payments from the train operating companies for their services.    But the model broke down when costs over-ran and Railtrack was unable to get enough revenue from the train companies to make a profit. In 2002, Labour's then Transport Secretary Stephen Byers announced that he was replacing Railtrack, which was put into administration, with a not-for-profit organisation, Network Rail, underwritten by the Treasury.    The government denied this was nationalisation, but Railtrack shareholders sued for compensation and eventually received most of the value of their shares at the time it stopped trading. | **ROLLS-ROYCE, 1971**  Aircraft engine maker Rolls-Royce was nationalised by Edward Heath's Conservative government in 1971 after it hit difficulties over the development of its RB211 engine as development costs over-ran.    The car division was separated in 1973, and the company was privatised again under Mrs Thatcher in 1987. Rolls-Royce has gone on to become one of the UK's most successful international companies, the second-largest supplier of aircraft engines in the world after GE in the US, and has diversified its range.    It also has production facilities around the world, including Germany, the US and China.    The aircraft industry has always been heavily subsidised - directly or indirectly - by governments in its initial development phase, as the continuing disputes between Boeing and Airbus attest. |
| **BRITISH LEYLAND, 1968/1975**  The creation of British Leyland, amalgamating all British car brands in a single company, is one of the biggest disasters in the history of nationalisation.  The nationalised UK's car industry lagged far behind its competitors. The company was first created in the private sector, at the urging of the Labour government in 1968. It soon became clear that the sprawling firm lacked the resources to modernise in order to compete with international car companies like Ford and Vauxhall.  In 1975 the government nationalised the firm, eventually spinning off Austin-Morris and Jaguar-Rover-Triumph into separate parts, as well as bus, truck and refrigeration divisions. But plagued by poor industrial relations and unimaginative designs, the company's market share fell sharply.    The company was initially sold to aircraft manufacturer BAE. Eventually some parts of the company were sold off, ultimately ending up in the hands of foreign investors, with BMW acquiring Rover and Mini, Ford buying Jaguar and Land Rover, and the Chinese acquiring MG. Currently the UK is undergoing something of a revival of car production, but it is all under foreign ownership. | **BRITISH RAIL and NATIONAL COAL BOARD, 1947/1948**  The nationalisation of the mines and railways by the Attlee Labour government in the 1940s initially provoked little controversy.  Modernising the railways after nationalisation went slowly  The mining industry had been in deep financial difficulties for decades, with many small, unprofitable mines closing and continual industrial troubles.    Both industries had been nationalised and run successfully by the government during World War II.    The rail network had also been heavily bombed.  But attempts at modernisation, including the phasing out of steam and closing of redundant lines, went slowly amid much public opposition.    Mining also received limited investment after nationalisation, and was rapidly run down by the Conservative government in the lead-up to the 1984 Miners Strike. |