

# Economics of Nationalisation

A2 Microeconomics

November 2009

# The public-private sector mix

- Private sector
  - Small & medium sized enterprises
  - Listed companies e.g. FTSE 100, FTSE250
- Public sector
  - State owned and/or state operated businesses
  - Government may have ‘controlling share’
- 1980s and 1990s – wholesale privatisation
- 2000 onwards – some reversal of this
- Is the age of privatisation drawing to a close?

# UK Public Sector Businesses

Sector	Examples
<b>Finance</b>	RBS Northern Rock Bradford & Bingley Lloyds-TSB Banking Group
<b>Transport</b>	Network Rail East Coast Rail Dartford Crossing Channel Tunnel Rail Link
<b>Energy &amp; Other Utilities</b>	British Nuclear Fuels Royal Mail The Tote National Health Service Student Loan Book BBC

# Nationalization in the UK news

## State takes over key rail route



The UK's East Coast Mainline service between London and Edinburgh has been handed back to the government to run.

## B&B nationalisation is confirmed

Mortgage lender Bradford & Bingley (B&B) is to be nationalised, the government has confirmed.

The government will take control of the bank's £50bn mortgages and loans, while B&B's £20bn savings unit and branches will be bought by Spain's Santander.

Under the move, all B&B savings accounts are protected, and taxpayers are being shielded from any losses.

B&B is just the latest bank that has needed rescuing in a turbulent period for British financial institutions.



Bradford & Bingley's branches are being bought by Abbey

## Privatisation

### Gordon Brown's fire sale of public assets to raise £16bn



# Nationalisation overseas

## US government rescues insurer AIG

The US Federal Reserve has announced an \$85bn (£48bn) rescue package for AIG, the country's biggest insurance company, to save it from bankruptcy.

AIG will get an \$85bn loan, in return for an 80% public stake in the firm.

The rescue follows the collapse of US investment giant Lehman Brothers, which caused share prices to plummet across the world's financial markets.



The global financial crisis

[Open](#) [In pictures](#)

## General Motors emerges from bankruptcy after 40 days

'Business as usual is over at GM,' said CEO Fritz Henderson

Andrew Clark in New York  
guardian.co.uk, Friday 10 July 2009 15.25 BST  
[Article history](#)



The General Motors Renaissance Centre headquarters building in Detroit, Michigan.  
Photograph: Paul Sancya/AP

## Bolivia nationalises energy firm

By Charles Scanlon  
BBC News

Bolivia's government has seized control of a foreign-owned energy company two days before the country votes on a proposed new constitution.

President Evo Morales flew to a natural gas field in central Bolivia to order the immediate nationalisation of Chaco energy company.

He said the country was taking back control of its natural resources "little by little".

Troops earlier occupied all the company's offices and installations.



Mr Morales has taken over several companies since taking power in 2005

## Venezuela in bank nationalisation

Venezuela has nationalised its third largest lender, Banco de Venezuela, after agreeing to pay \$1.05bn (£660m) to Spanish owner Banco Santander.

The move follows months of negotiations between the government and Santander over how much Caracas would pay.

Venezuelan Vice-President Ramon Carrizalez said the move would allow the government to assert greater state control over the economy.



Nationalisation is a major policy of Hugo Chavez

# Other examples of state ownership in overseas economies

- Hypo Real Estate (Germany)
- Fortis (Netherlands)
- Kiwi Rail (New Zealand)
- AIG (US)
- General Motors (US)
- Bolivian energy company (Bol)
- 50% of Gazprom (Russia)
- Seylan bank (Sri Lanka)
- 2009, Chavez ordered the army to take over all rice processing and packaging plants
- Zimbabwe has nationalised food distribution infrastructure
- Nationalised oil industries in many OPEC countries

# Arguments for state ownership (1)

- **Weaknesses of the free market / private sector**
  - Free market price mechanism too volatile/uncertain
  - Efficiency gains in a private enterprise can come at expense of customer
- **Public ownership to meet economic & social targets**
  - Not for profit businesses – social aims / public interest
  - Natural monopoly arguments - in the interests of consumers
  - Quality of service: Royal Mail Universal Service  
Obligation would not exist under a free market (so rural households would lose out)

# Arguments for state ownership (2)

- **Employment protection** e.g. bank collapses – responding to the problems of systemic risk
- **Strategic justifications** e.g. nuclear power, airlines
- Public sector can be a **vehicle for macro-control**
  - Pay restraint
  - Employment at different stages of the economic cycle
- If the State turns a bank (N-Rock) around it could make healthy windfall profits

# State sector jobs in the UK



# The case against nationalisation (1)

- Cost to government/tax payer (opp. cost)
- Inefficiencies arising from government ownership
  - X-inefficiency, weak productivity growth
  - Overinvestment + Diseconomies of scale (overstaffing)
- Government has poor track record with efficient project management or budget control (e.g. NHS IT budget, Olympics bid school building programme)
- Public sector has poor record on industrial relations - often at direct cost to the consumer and to small businesses.
- Moral hazard if state owned industries cannot go bust in the usual way

# The case against nationalisation (2)

- Poor record on customer service in some public enterprises
- Rate of Return regulation / Price Cap regulation could be used instead of full-blown nationalisation
- Promotes unfair playing fields (e.g. Northern Rock vs other financial players; NHS v Private Healthcare providers, ITV/Ch4/Five vs the BBC)
- Grey area on EU State Aid legislation on competition
- Political priorities can over-ride commercial issues on capital projects (regulatory capture?)

# Key concepts to apply to the issue

- Economic efficiency
  - Allocative (e.g. Monopoly pricing)
  - Productive
  - Dynamic
- Funding versus delivery of key public services
- Public private partnerships
- The role of regulatory agencies acting as surrogate competitor
- State aid inside the EU

# Tutor2u Economics

Keep up-to-date with economics,  
resources, quizzes and  
worksheets for your economics  
course.

**tutor2u** 