

# Ownership

## Public/private.

1. A recent report on USA politics said that Sanders, the self-styled socialist, “never talks about ... the inherent inefficiencies of unaccountable public monopolies.”

## Monopoly.

4. It is generally agreed that monopoly is bad. That is why we have a Monopolies Commission. Lack of competition means that a company cannot easily go out of business, no matter how inefficient and ineffective its operation, and it means that it can charge whatever prices it likes for its products and services. And the consumer has no choice but Hobson's, and that only where the product is not vital.
5. But let us not talk only of public monopoly. Private monopoly is generally worse. It invites all the inherent inefficiencies of monopoly but with the potential addition of sheer greed. This is particularly evident in the pharmaceuticals industry. In 2015 an uninhibited young US financier called Shkreli is reported to have bought control of an established drug and raised the price per pill from an arguably excessive \$13. 50 to an incredible \$750.
6. He was able to do that because in some circumstances monopoly is beneficial and positively encouraged. Specifically, we motivate and reward innovation by granting exclusive rights to new ideas and products, for a limited period, through patent law and similar legislation. We would lose a lot if we stopped that. But it seems clear that, where people come to depend on the product, some limits need to be put on how ruthlessly the exclusive right is exploited.
7. Moreover, some monopoly is for all practical purposes inevitable. For example, we have a single integrated rail network, and nobody would reasonably advocate returning to the chaotic free-for-all of Victorian times. Similarly we have single networks for the distribution of electricity and gas. In all three cases different companies offer their services based on that network.
8. The telecommunications industry is less straightforward. There is a single publicly-owned network for “land lines”, over which a variety of privately-owned companies offer a range of telephone, Internet and other telecommunications services. In addition to which there is a number of quite distinct privately-owned cell phone networks, despite the inherently inefficient duplication that that entails. Moreover, some private companies have been granted exclusive right to install and operate a fibre optic network in a given area, in parallel with the older land-line network.
9. Royal Mail

## Efficiency

13. It is often assumed that private business is inherently more efficient than publicly owned business. Why is that? Because private business is subject to competition and inefficient businesses go bust, it seems.
14. But that assumes there is competition, and that going bust is an option in the event of poor performance. Neither is true of the water companies: they inevitably have local monopolies, and our dependence on their services means that we certainly cannot allow them to cease to operate.

15. And it assumes that an inefficient company will be unprofitable. Which is likely to be untrue if the competition is just as inefficient. And much UK industry withered when its conspiracy of inefficiency was subjected to the cold blasts of foreign competition.
16. Even so, there is considerable merit in the assumption. Open competition is always likely to combat complacency and drive business to improve performance.
17. That was claimed to be why we “privatised” the water companies, for example. But what nonsense that was! Water supply has to be a local monopoly, and effective competition is not an option. Nor can a water company be allowed to go out of business if it makes a loss. And now some “privatised” water companies are owned by nationalised enterprises of foreign governments.
18. TSB – that having no shareholders gave them an unfair advantage over other banks.
19. banks
20. RBS
21. Giro

### **Accountability.**

23. It is slightly odd to see public businesses and services described as “unaccountable”. They are in principle fully accountable to whatever public body “owns” them, and hence subject to thorough scrutiny and evaluation on behalf of the community they serve.
24. It cannot be denied, however, that the available accountability is not always exercised as firmly as it should be, or to wholly appropriate criteria. Democratic vigilance is always called for, and the electorate need to hold their elected representatives to account for any failure to supervise their public services appropriately.
25. On the other hand, to whom is a private business accountable?
26. It is accountable to the law, of course, and stands to be penalised for any transgressions. But so too are public services, of course, but it is not quite the same. For instance, there is something very unconvincing about a publicly funded service being fined for its failings. And
27. Private business may also be claimed to be accountable to its customers, who will generally go elsewhere if their requirements are not satisfied. However, that does not apply when there is no real alternative, its effect is greatly diminished when the business can rely on customer inertia (e. g. automatic payment for services or subscriptions automatically renewed) or in the many cases where there is not expected to be a significant volume of repeat business anyway.
28. The primary accountability of private business is generally believed to be to its shareholders. But, insofar as they take an interest, shareholders are not concerned about much more than share value and yield. Small shareholders are often suppressed at AGMs. And the larger shareholders tend to be financial institutions whose directors have little interest in curbing the pay of directors!

### **Regulation or control**

29. Russia – centrally managed economy – deciding that the government knew better than the consumers what their needs are. – opposing reliance on market forces to balance supply and demand.

30. As Thatcher knew, “the market” is an invaluable means of regulation of the economy. Indeed, it may be argued that there is always a market, because goods in short supply will always be allocated in accordance with available purchasing power, even if that power is non-monetary, and because surplus production can only be offered at reduced price or discarded.
31. The Russian system was always capable collapsing from sheer inefficiency, but one suspects that rampant corruption was even more destructive. Unfortunately, the rampant corruption of the free market system which replaced it seems to have been even more harmful to most of the population.
32. Free and uncontrolled markets are not always in the public interest.
33. Taxation
34. red tape
35. Regulators – trade associations – CORGI, BMA, professionals – accountants, solicitors
36. Parliament, including select committees – QUANGOs – NAO, etc.
37. if all else fails, – publicity and campaigns, boycotts, etc.
38. For example, it is eminently sensible to have house building done by as many independent, competitive enterprises as the market can sustain, and few would seek to make a case for any government involvement in that. However, it is clear, and accepted, that it is the duty of government to impose building standards, to ensure both adequate quality and safety. It is also largely accepted that there needs to be public regulation of what types of houses are built and where, bearing in mind numerous issues such as the environment, the feelings of neighbours, and the increased demand for local services and infrastructure. Indeed, it is arguable that even the initiative for new building cannot be left entirely in private hands, given that they will be driven by the need for profit, and that their choice of how much of what they would like to build, where, and when, will not always be in the public interest.
39. Finance; sale/lease; land value depends on use

### **House building.**

42. The next Labour government is likely to institute a programme of house building, to provide homes for the many who currently cannot afford them and to help keep down the currently excessive cost of all housing. The Tories make it clear that they will attack Labour for doing this, calling it “the party of spending”.
43. Labour should now point at that the Tories are the party which squanders resources. They squander resources by allowing the housing shortage to raise rents to unreasonable levels, many of which are paid as housing benefits to private landlords. And they squander resources by allowing many who could be gainfully employed building houses to be left idle receiving benefits.
44. And Labour should now point at that if they were to spend £100K building a house worth £150K then they would indeed thereby increase the deficit by £100K, offset by any consequent savings in payments for unemployment and housing. But they would also, by spending £100K to obtain an asset worth £150K, decrease the NND by £50K, which by itself might provide sufficient financial justification for the transaction.

### **Ownership.**

45. A belief that -- is often simplified to the mantra “Public bad, private good”.

46. The ridiculous examples of the water companies and of TSB (See above) may be cited as examples of the unthinking application of that tenet.
47. And the principle comes to be that the government should never own, or even have shares in, any business which could be a private commercial enterprise. But why?
48. In 1913 Winston Churchill had the UK government take a controlling interest in the company which became BP. He did so in order to protect oil supply for the ships of the Royal Navy. But the government wisely chose to avoid interfering in the management of BP, which became a major global corporation, and a valuable government investment. The arrangement continued until 1979, when Thatcher started selling off the shares, completing the job in 1987. The reasons for the sale have not been claimed to be anything to do with the commercial well-being of BP.
49. The government has owned shares for over 100 years, but should it continue to do so? It has acquired shares in the past for military reasons (BP) or because a financial crisis makes that the best option available (various banks). But, such special cases apart, is there any justification for the government buying shares? Some would say not, arguing for example that this would constitute interference in the market.
50. But I see no objection, provided the shares are cheap enough and the company sound enough to offer prospects of a good yield and a good capital gain later thus reducing the deficit and the NND.
51. However, nobody will be happy to see civil servants gambling with on the stock exchange with the nation's money. The job should be done by people who understand what they are doing, and it should be done in accordance with well-defined principles and policies.

### **Legal forms**

53. Many forms of "private" entity. Need a lawyer and/or accountant to explain this all reliably. But here is a lay view.
54. Most common form – company limited by shares
55. mutual, company limited by guarantee, customer cooperative
56. worker cooperative, partnership, now often with limited liability
57. Lloyds
58. John Lewis
59. Mondragon
60. QUANGOs ??

### **Valuation.**

62. Which raises the question of how cashable assets are to be valued. In the past the valuation has been on the advice of people likely to gain from a low valuation, so it is not entirely surprising that valuations have tended to be low. If we truly believe in the effectiveness of "the market" then we would assess the current value of shares at the price at which non-government shares are being traded. And if the government owns 100% then it should consider a Dutch auction of (say) 5%.
63. On the other hand, the market value of shares does not always reflect their true worth. Sometimes there are bubbles created by greed, optimism and euphoria, such as the famous dot. com bubble, and in those circumstances it is highly desirable to sell shares before the bubble bursts. And sometimes shares are patently undervalued, not

necessarily even reflecting the salable value of properties owned. This provided fodder for the infamous Tory asset strippers of the 1960s. All of which suggests that the government's valuation of shares needs to be informed not just by the prevailing market price but also by their own assessment of the shares' intrinsic worth.

64. The worst possible option would seem to be to seek the opinion of financial experts in "the city" when they or the friends stand to gain from an inappropriate valuation.

### **Asset sales**

65. *Cashable assets.* Cashable assets include shares owned by the government.

Governments have been inclined to treat income from the sale of shares as a reduction of the deficit. But if shares are sold at their value then the NND is unchanged. And if they are sold at less than their value, which has happened in the past and is likely to happen in the future, then the NND necessarily increases. Can that be a good thing?

66. Sale of assets at knock-down prices can be the only possible response to a severe cash flow crisis, but it cannot be passed off as prudent or desirable financial management. And if it done unnecessarily then it has to be regarded as squandering money, the very thing that austerity is claimed to oppose. Let us have some honest accounting here!

67. Even worse, by selling shares at a discount the government inevitably transfers money from those who do not buy them, including the nation's poor and needy, to those who do, including their better-off and greedier compatriots. That can only increase the currently appalling levels of inequality in the country. Can this provide any benefits, other than making the beneficiaries grateful to the Tory government?

68. Similar thoughts apply to the sale of council houses at substantial discounts. This was argued to be socially desirable, as part of drive to create a "property-owning democracy"; but it looked to me more like a sordid attempt to buy votes with my money.

69. *Sale of shares.* Austerity is justified by the Tories as the way to reduce "the deficit", which has in fact failed to do. And the deficit is regarded as bad because it increases "the National Debt". But with honest accounting, which seems currently out of fashion, the National Debt should be offset by the value of salable assets, giving us a Nett National Debt (NND).

70. Cashable assets include shares owned by the government. Governments have been inclined to treat all income from the sale of shares as a reduction of the deficit, which it is. But if shares are sold at less than their value, which has happened in the past and is likely to happen in the future, then the NND necessarily increases. Can that be a good thing?

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78. Risk
79. Where does profit go?
80. How much are directors paid?

[Ancient incomplete rough draft]