

Rev2

An old idea with a lot of future: the benefits and costs of a publicly owned British Broadband

David Hall, Visiting professor, PSIRU, University of Greenwich

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An old idea

The Labour party's policy to nationalise BT's networks and use public finance to roll out 100% full fibre household connections was treated by the media as a startling new initiative.¹ It's about using futurist technology to shape a 21st century economy, using public ownership to break out of the frustratingly slow and piecemeal lack of progress from market-led policies - typical of the Corbyn-led Labour party.

But looked at historically, it's just the third leg of a long-term political hat-trick of nationalisation of telecoms networks in the UK – and the first time that the Labour party has been involved.

The first leg came 150 years ago, in 1868, when the networks of the private telegraph companies - the first electric telecoms system - were taken into public ownership by the Conservative government of Benjamin Disraeli - with the support of Gladstone's Liberal Party - in the first 'modern' nationalisation.² The reasons for doing so are instantly recognisable. About 70% of the population had no or bad service, because "[private] telegraph offices were concentrated where they could win most trade and earn most profit, and therefore did not offer the advantage of speedier communication with the outlying villages and suburbs".³ By contrast, an official report showed that elsewhere in Europe, state-run telegraph systems provided better services at much lower prices. The obvious solution was nationalisation of the companies under the control of the Post Office, which had a much wider network of offices than the private companies.⁴ Within 2 years the number of telegrams sent had doubled, and the average price fell by one-third.⁵

The second step came just over a century ago, with the nationalisation in 1911 of the next new technology – the telephone networks. This time it was carried out by a Liberal Government - but with the support of the Conservatives - because "it would be wrong to leave a service which had become so essential to the social and commercial life of the country in private hands". So the Post Office again took over the "piecemeal and planless" private networks "to build them up into a system that might better meet the nation's needs". It worked: "not only has a better and better service been provided, it has been provided at a lower cost... [and] could afford to give a town service to country subscribers"⁶

¹ FT 15 November 2019 Labour's broadband plan shows nationalisation's consumer appeal. Conservatives should worry that Corbyn is winning the argument [Robert Shrimley](https://www.ft.com/content/a7aafb0-0796-11ea-a984-fbbacad9e7dd)
<https://www.ft.com/content/a7aafb0-0796-11ea-a984-fbbacad9e7dd>

² C.R. Perry 1997 The Rise and Fall of Government Telegraphy in Britain BUSINESS AND ECONOMIC HISTORY, Volume Twenty-six, no. 2, Winter 1997
<https://thebhc.org/sites/default/files/beh/BEHprint/v026n2/p0416-p0425.pdf>

³ W. Hardy Wickwar 1938 The Public Services

⁴ The Post Office had already demonstrated its efficiency by running savings banks since 1861 (Perry 1997) - also reflected in modern Labour party policy to renationalise the Post Office and create public banking services

⁵ Perry 1997 p.422

⁶ Hansard 1911. *HC Deb 19 June 1911 vol 27 cc45-100* Telephone Transfer (Consolidated Fund, Etc.)
<https://api.parliament.uk/historic-hansard/commons/1911/jun/19/telephone-transfer-consolidated-fund-etc> ; Wickwar 1938 pp 140-141

So now, in 2019, Labour becomes the third UK political party to propose nationalisation in order to extend a new telecoms technology throughout the country, because the existing private companies have failed to do so. The policy should no longer be surprising: it has been tried and tested for over a century and a half. The more interesting question is why the Conservatives, and the Liberal Democrats, no longer support such policies.

Benefits and costs

The main objection raised to Labour's nationalisation proposals is that they would be too costly, but a simple analysis of the benefits and costs of the broadband proposals suggests otherwise. The most easily quantified benefit is that the cost of capital will be much cheaper under public ownership. Instead of paying out dividends to BT shareholders at a rate of over 14%, plus interest on private loans at over 4.5%, a nationalised company would be able to raise capital at less than 2% - which means an annual saving, for the Openreach division alone, of over £400m. That saving alone could finance a fifth of the cost of universal fibre to every home.

There are further benefits from public ownership because the public objectives become the company's objectives. Instead of the complex transactions involved in creating incentives for private companies, competitive tendering, subsidies for unprofitable areas, the investment programme can be developed through simple direct planning, with the added advantages of transparency, public accountability and debate, and flexibility to change procedures if desirable.

The initial cost of nationalisation is the compensation payable to the current private shareholders, which is decided by parliament on a case by case basis. If it's based on the actual book value of shareholders equity, rather than market value, the cost for Openreach alone would be about £2.5bn.⁷ So just in terms of the cost of capital, the nationalisation would pay for itself in less than 7 years, which makes it a very good investment.⁸

The cost of installing the universal fibre network is also lower under this approach: according to a government report, if done through a monopoly company, about £20bn as compared with £32bn. if done through a number of different private companies looking to maximise returns. And there is greater flexibility and transparency in meeting this cost, either by charging users of the network, or from general taxation, or from special taxation on the internet companies who will gain most from a universal fibre network – Amazon, Google, Facebook, Netflix.

A public system

An investment programme to create such a universal system has a very different economic logic from investments made by individual firms operating through market incentives. The public benefits of maximum social and economic opportunity are central, not coincidental 'externalities', as they are for the firms.

Countries make public investment in these systems as a big part of nation-building. In the 20th century, electrification – especially rural electrification – became a legendary episode for countries such as the USA, France, Ireland, and has continued to be so for developing countries including

⁷ Compensation for nationalisation of the telephone company in 1911 was paid only for the physical assets: "no payment being made for goodwill, no payment being made for past or future profits, and no payment being made in respect of compulsory purchase" (Hansard 1911)

⁸ A similar calculation was made in the 1860s, in relation to nationalising the telegraph, by J.L. Ricardo, a Liberal MP, and nephew of the famous economist David Ricardo, who pointed out to Gladstone: "it would pay the government to buy out the commercial companies by borrowing £2million at 3.25% and continuing to make 6.5% profit..." (Hardy Wickwar p. 133)

post-apartheid South Africa, and Brazil, where universal electrification was named 'luz para todos': 'light for everyone'.

This commitment to a planned, integrated universal network makes no economic sense to private companies – it is far too large, and fails to select the most profitable elements. Private companies demand that such a programme should be broken down into 'bankable projects', which can then be selectively tendered for by different network companies (Virgin, Cityfibre, etc) based on the anticipated revenue stream – and the unprofitable parts ignored. The market for services also means that the system itself gets fragmented to allow a framework of 'competition' between different service providers, such as Virgin, TalkTalk, or the mobile phone networks.

All this is unnecessary and dysfunctional for public service systems, where universality and equality are key requirements for achieving social and economic goals. An integrated system under public ownership enables efficiency gains from public planning of the rollout of the network itself, combined with a core public internet service provided with every connection. .

The core benefits are public, in terms of improved social and economic welfare, which are greater than the benefits to each individual – we all benefit from the connections of others, too. Households should still be users with accounts and individual rights to services, but the finance for the system can draw on public finance or cross-subsidies.

Multiple futures

There is clear benefit to the economy from such a universal system. A great range of public service benefits can also be developed. Universal fibre connection enables the NHS to develop systems of universal care for all, even the remote and the housebound. The network can be used for a renewed public role for BBC television and radio, where the full range of drama, documentary, and film is made available for streaming by citizens, and communities can develop a range of local services. Schools and universities can use the network to share research and deliver teaching and learning. New social media network services, such as a public social utility equivalent of Facebook, can be developed, offering "public options".⁹ We will get a lot of public futures.

⁹ Regulating informational Infrastructure: Internet platforms as the new public Utilities. K. Sabeel Rahman 2018 2 geo. L. Tech. Rev. 234 (2018)
<https://georgetownlawtechreview.org/regulating-informational-infrastructure-internet-platforms-as-the-new-public-utilities/GLTR-07-2018/>