Britain: Plundering of public sector at heart of 'loans-for-peerages' scandal

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At the heart of the allegations that the Labour government in Britain granted peerages in return for cash is a bigger scandal—how the public sector is being plundered by the government and big business through privatisation and deregulation.

In March it was revealed that several businessmen nominated for peerages in the House of Lords had loaned the Labour Party large sums of money in the run-up to the 2005 general election—thereby bypassing the requirement that political donations of £5,000 ($9,200) or more be officially declared.

Labour officials finally conceded the party had received undeclared loans totalling £14 million ($26 million) from 12 individuals who had lent sums ranging from £250,000 ($462,000) to £2.3 million ($4.3 million). Heads of some of the biggest business interests were involved: Lord Sainsbury, chairman of one of Britain's largest supermarket chains, made a donation of £2 million; Dr. Chai Patel, chief executive of a private health company, donated £1.5 million; and Barry Townsley, a stockbroker who sponsors the government's private academy school scheme, lent £1 million.

It also emerged that key officials involved in Labour Party finances were unaware of the loans, knowledge of which was restricted to a small clique including Blair; Labour's then general secretary, Matt Carter; and the party's main fundraiser, Lord Levy.

On June 22, 2006 Levy gave evidence to a committee of MPs investigating party political funding. The meeting was held behind closed doors because Metropolitan police chiefs warned that any public discussion could prejudice their own investigations, under a 1925 law that makes it illegal to reward anyone who has given "any gift, money or valuable consideration" with a "title of honour." The law was introduced after Liberal Prime Minister David Lloyd George was caught selling peerages and honours.

But a seat in the House of Lords is only the icing on the cake for an elite that has seen its wealth and influence increase astronomically as a result of Prime Minister Tony Blair's pro-business policies.

One person whose name emerged in connection with the loans scandal was Rod Aldridge, founder of Capita, one of the UK's largest outsourcing companies. Aldridge resigned his position as company chairman earlier this year in an attempt to deflect attention from allegations that, in return for a £1 million loan, Capita was being given favourable treatment by the government.

"There have been suggestions that this loan has resulted in the group being awarded government contracts. This is entirely spurious," Aldridge insisted. He maintained that his loan was a "personal decision on my part" and he fully expected it to be repaid "along with the interest due after that period of time."

Capita has been the recipient of lucrative contracts as a result of the privatisation of public sector services through Public-Private Partnership (PPP) schemes. The company has seen a meteoric rise in its fortunes—its annual turnover growing from £112 million in 1997 to £1.4 billion today.

In all, Capita has received £2.6 billion in public funds for contracts, including a £190 million regeneration project for Blackburn council, £280 million for administering the London congestion charge (the fee charged to motorists for entering the Central London area) and £500 million to enforce payment of television licences.

Aldridge naturally advocates "reform" and "modernisation" in the public services. In his pamphlet "Advancing a New Public Service Ethos," he called for a new code to "help overcome the remaining ideological barriers to a plurality of service providers," i.e., to overcome widespread public opposition to the dismantling of social provision of services in the interest of private profit.

Aldridge goes on, "It is wrong to suggest that profit and public service are incompatible—they are not, provided that the public is getting added value and value for money from the engagement of a private sector provider."

Experience proves otherwise. Rail privatisation, for example, has been a disaster, with the government dishing out billions in subsidies. The latest in a long line of scandals involves claims of overcharging by three companies that own the rolling stock on the UK's railways. Contrary to Aldridge's claims, since the privatisation carve-up in the 1990s, ticket prices have consistently risen at more than the rate of inflation. The cost of long distance rail tickets has soared in recent years, leaving passengers with the prospect of flying or driving because each is cheaper than taking the train.

As for the government's record on privatising the health service, there is little sign of "added value" to anyone except stakeholders and corporate managers. Paul Miller, the leader of Britain's hospital consultants, said earlier this month that the National Health Service has had its best year ever "for losing staff" and "wasting money" on management consultants, who cost an estimated £1 billon last year. Under the Private Finance Initiative, the budget deficit for 2005-06 was £512 million—double that of the previous year.

In addition to false claims about the greater efficiency of the private sector and the 'miracle' of the market, the carving up of social infrastructure is justified on the grounds that the state can no longer afford to fund social provisions and the responsibility for this must now lie with individuals or churches, charities and the private sector.

Earlier this year Blair proclaimed that charities and voluntary organisations should play a major role in the provision of public services. These new volunteering charities closely follow similar programmes in the United States, such as AmeriCorps, a youth volunteering programme which at the request of President George W. Bush has expanded its work to include projects directly related to homeland security and faith-based organizations. AmeriCorps is part of Freedom Corps, a "White House initiative to foster a culture of citizenship, service" and, last but not least, "help all Americans answer the President's Call to Service."

Aldridge was appointed chairman of the Russell Commission, a £150 million private-sponsored youth volunteering scheme established by Chancellor Gordon Brown. The commission is sponsored by corporations including Tesco, Sky and T Mobile. Also on the list is KPMG, a US accountancy firm that came under scrutiny from a US Senate report in 2003, which found that the company had made $124 million creating "tax shelters" for its clients.

In return for backing the charity these large private companies are promised publicity and advertising and the chance to "play a key role in the governance and decision making of the implementation body," explains the Commission web site.

According to *The UK Voluntary Sector Almanac 2006*, there has been a "charitisation" of the public sector, leading to a 40 percent increase in the number of charities to 169,000 since Labour came to power in 1995. It considers that the government is saving £25.4 billion because an estimated 1.1 million full-time UK workers would be needed to replace volunteers. It notes that "average incomes for all organisations in the sector were either static or falling" and that individual charities "have struggled to increase revenues beyond the rate of inflation."

As Chairman of the Confederation of British Industry Public Services Strategy Board, Aldridge is also closely associated with the government initiative to open up the education system to private capital.

Veredus, a Capita subsidiary, is responsible for recruiting senior managers and head teachers to three of London's academy schools. The government is planning to build 200 such schools, which are funded by entrepreneurs and run independently of the Local Education Authorities, by 2010.

Academy schools have come under criticism for allowing business and religious groups to gain access to education and using it for their own interests. According to a *Guardian* report last year, "Private sponsors give a maximum of £2 million in return for a large degree of control over the school's curriculum, ethos and staffing." Another means by which business can gain control over academy schools is through the nomination of governing board members.

According to an Edinburgh University study, the proportion of children taking General National Vocational Qualifications (i.e., as opposed to academic qualifications) has risen from 13 percent at the predecessor schools to around 52 percent at the academies.

Moreover, at two academies run by the Christian fundamentalist Peter Vardy Foundation, creationism is taught as a valid scientific theory. Blair personally opened one of the Vardy Foundation schools in March 2004, praising its prospectus as "one of the best examples of modern social justice that I can think of."

The loans-for-peerages scandal is a product of the demand of capital for an even greater exploitation of labour for the benefit of a financial elite.

A 2005 study by Tulip Financial Research revealed that one percent of the population owned 23 percent of all wealth, while the poorest half owned only six percent. Inequality is even sharper if it is measured in terms of "liquid assets" (assets easily convertible into cash such as savings, bonds or cash), with the wealthiest one percent owning 62 percent of total liquid assets and the bottom half of the population owning *less than one percent*.

The huge fortunes being amassed by the upper strata are not the result of a corresponding expansion in productive growth, but largely represent a redistribution of existing wealth from the working classes towards the propertied classes.

Whilst the influence and wealth of the privileged elite grows, latest evidence suggests that social mobility has gone into reverse, with children born in the 1970s less socially mobile than those born in the 1950s.