German SPD opens the door for rail privatisation

Hendrik Paul
19 April 2008

The Social Democratic Party executive has paved the way for the sell-off of the German railway system on the stock market. German Rail (Deutsche Bahn - DB) is the largest remaining state-owned enterprise in Germany.

The measure accepted by the SPD on Sunday, April 13 will have drastic repercussions for both rail employees and the population as a whole. Once the stock exchange is allowed to determine the fate of the railways, the inevitable result will be job cuts, declining services and increasing safety risks.

The SPD executive agreed on a “compromise” deal which means that 24.9 percent of rail transport — i.e. goods and general rail travel — will be hived off to private investors. The issue of privatisation has been a source of conflict in the SPD under conditions where an overwhelming majority of the German public are opposed to such a move. According to a current Emnid poll, 70 percent of the population reject any privatisation of the railways, and among SPD supporters this figure rises to 73 percent.

A deal was reached in the SPD after the chairman of the party, Kurt Beck, dropped his own proposal and instead agreed to the watered-down version of the “holding company” model put forward by the German Transport Minister, Wolfgang Tiefensee (SPD). Beck’s “compromise” was in fact a capitulation to the right wing in his party.

Beck’s shift was hailed not only by his critics inside the SPD, but also by the grand coalition government (SPD, Christian Democratic Union, Christian Social Union), and the free market FDP. Beck’s nod to the right wing in his own party was also seen as a measure to shore up his shaky grip on the SPD leadership and avoid a crisis which could have rocked the ruling coalition.

Just last autumn a SPD Party Congress had declared: “Private investors should not exert any influence on managerial policy (of the railways). The most suitable form in this respect is the non-voting preferential stock option [...] We reject any other form of participation by private investors.”

Now with its latest decision to allow investors to determine rail policy, the SPD has snubbed not only its membership, but the population as a whole.

The widespread rejection of privatisation by the population is not only bound up with justified distrust of the policies of the ruling grand coalition, but also with the consequences of the reform of the railways carried out in 1994.

Since that year, as part of its preparation for privatisation, DB has shed more than half of its original workforce (500,000 in 1994) and massively increased fare prices. At the same time a quarter of the rail track (10,000 kilometres) has been closed, affecting in particular many remote rural areas which now lack any adequate rail connection. Safety levels were visibly affected, and the period since 1994 has seen such disastrous train accidents as those at Eschede and Bruehl, in which 110 passengers died.

Popular opposition to privatisation found a distorted reflection in the SPD and led to months of conflict, threatening to tear the party apart. The issue at stake in the SPD, however, was never principled rejection of privatisation, but instead how one could give the impression of retaining some sort of centralised control of the largest transport system in Europe. Or to put it more simply: the conflict centred on how to hoodwink the public while bowing down to market forces.

The subsequent “compromise,” which Beck described as a “rationally clean and economically responsible model,” is from the point of view of the German public and rail workers irresponsible and irrational.

In the first place, the agreed Tiefensee plan detaches the rail network from transport services, with the rail network (rail track, stations, electricity) to remain in public possession and be financed by the public purse. Following the disastrous experience of rail privatisation in Great Britain, where the breaking up of the railways resulted in a host of catastrophic accidents, such a decision is criminal. The British government had gone further and originally also privatised rail track but is now planning partial re-nationalisation in light of the consequences.

The SPD’s decision means that German railways are making the first step towards repeating the British experience - with contrary and competing interests in charge of rail infrastructure and rail transport.

The move will also undoubtedly accelerate the process of shrinking rail services. Less profitable lines will be closed down, in favour of links between the main cities serviced by high-speed (and expensive) trains. According to the Berlin-based consultancy firm KCW, long-distance rail transport in the east of Germany is in future to be limited to the cities of Berlin, Leipzig and Jena. All other major cities, including a number of state capitals in the east of the country, will be seriously isolated from or even denied rail connections.

The apparently small proportion of 24.9 percent of the transport system made available to private investors is aimed at giving the impression that the system will remain under the majority control of the government. The original plan put forward by the Transport Minister envisaged selling off 49.9 percent of rail transport. However, the measure opens the door for further privatisation, and it is unlikely that the 49.9 percent option was regarded in the first place as realistic, given the current conditions in the stock market.

In the future the government only has to refer to chronic budget problems in order to justify cutting back on rail subsidies, demand an injection of funds and open the way for a second or third round of privatisation.

At the same time, it is fallacious to think that control over a partly privatised enterprise can be secured by sufficient public seats on the board. The fate of a company is not decided in the executive committee but rather directly on the stock exchange. DB has been subject to these pressures since its reform of 14 years ago - although it remained in public hands during this time. Already in 2000 Deutsche Bahn chairman Hartmut Mehdorn declared that the main task was to "improve the efficiency of the enterprise every year by five percent as is the case everywhere in industry."

The sum raised will only represent a fraction of the real value of the enterprise, which according to the official statistics of the Transport Ministry, is worth €55.4 billion in total, i.e., €14 billion euro for a 25 percent share. According to press reports the highest sum on offer for such a flotation would be around €5 billion euro — meaning that two-thirds of the value of an asset subsidised by the taxpayer over decades will have vanished into thin air.

Secondly, only a third of the proceeds from the stock sale will be re-invested in the railways, although the need for more finance has always been the main argument used to justify privatisation. The remainder of the proceeds will either be absorbed in the federal budget or used by Deutsche Bahn to stock up its own capital reserves. No doubt part of this sum will also be used to hand out exorbitant salary increases for DB board members.

The German rail unions are primarily concerned about their own future role in a privatised railway system. The two unions with the closest links to DB management — Transnet and the GDBA - have supported for some time the plan put forward by Transport Minister Tiefensee. They merely insist that the interests of the trade union bureaucracy "are clearly secured in contracts or the like."

The chairman of the GDBA, Klaus Dieter Hommel, has even emerged as a fierce advocate of privatisation. A joint press statement by both trade unions at the start of the month quotes Hommel as follows: "The worst solution from our point of view would be just remaining in the current situation. That would harm German Railways in the face of competition and not help railways as a whole." He called for a "brisk political decision."

The GDL train driver's union rejects privatisation and has declared its opposition to anticipated cuts to job and rail lines. At the same time, however, the GDL supports the subordination of DB to international competition which, it maintains, can be done without relying on private investors. The union's web site declares: "The GDL defends the standpoint that the railways can develop their position in the face of national and international competition without a stock market floatation. This is quite possible on the basis of the proven performance of railway workers and the exhaustion of its own reserves."

By the "performance of railway workers," the GDL understands its own readiness to subordinate the interests of rail employees to the competitive status of the enterprise. Following a year-long dispute with DB management in which the GDL restricted its campaign to wages and refused to raise the issue of rail privatisation, and on the basis of the concessions made by the union bureaucracy to end its dispute, the GDL bureaucracy has gone a long way to demonstrate its readiness to discipline its members in order to better serve management.