

Carillion's collapse in UK and the East Coast bailout: What would ending the "Private Financial Initiative rip-off" entail?

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In a YouTube video, Labour leader Jeremy Corbyn described the collapse of Carillion, the UK's second largest construction company, as a "watershed moment," a signal it is "time to put an end to the rip-off privatisation policies that have done serious damage to our public services and fleeced the public of billions of pounds."

Opposing the "outsource-first dogma" in the public sector, he cites the government bailout of East Coast Main Line (ECML) rail franchise last November as proof that it is "time we took back control" by ending the "PFI [Private Finance Initiative] rip-off." Corbyn also advocates taking the rail services back into public ownership.

Corbyn is tapping into the anger generated by the collapse of Carillion and the government's extension of the corporate welfare safety net to protect billionaire Richard Branson's Virgin Group while essential services such as the National Health Service are being gutted. He noted in his video "the scandal of the NHS being sued by private companies like Virgin after losing a contract bid."

But this points to a fundamental question that workers must address: If Corbyn were serious about such a course of action what would it mean? After all, hundreds of billions in investments are at stake, so any such moves would be bitterly resisted by those who stand to lose out.

The ECML bailout alone involved the government agreeing to shoulder losses of £2 billion (US \$2.76 billion) by terminating the franchise between London, Leeds, Newcastle and Edinburgh operated by Virgin Trains East Coast (VTEC), a joint venture with Stagecoach, three years earlier. To add insult to injury,

the VTEC consortium will be one of the very few bidders for the reorganised East Coast franchise due to be put out to tender in 2020. Stagecoach's share price rose 15 percent on the news.

The East Coast bailout came amid increasing public anger over ever rising rail fares—the highest in the world—and the unreliability of the rail network due to frequent cancellations and delays on a system that millions of people rely on to get to work. More than 75 percent of the population want rail taken back into public ownership.

Commuter groups and workers demonstrated at the UK's busiest stations in the New Year following the rail bosses' announcement of the biggest annual hike in train fares in five years. Average fares rose by 3.4 percent, while season tickets rose by 3.6 percent. The increases, the largest since 2013, are well above average increases in annual earnings for workers and middle-class people.

Fares on the East Coast line cost a fortune. Anytime London to Edinburgh return, a journey of some 400 miles that takes about four and a half hours, now costs a staggering £311 (US \$429), far more than a flight. Even a super off-peak return ticket costs £143 (US \$197).

And things are set to worsen. The government has eliminated its £600 million a year grant to Transport for London (TfL) that runs rail and bus services in the capital, starting in 2018. London will be the only city in Europe where there is no day-to-day transport subsidy, and the cost of commuting will rise even higher.

The private train operators are, in addition, beneficiaries of a generous subsidy system disguised to conceal the extent of their dependence on government

handouts. Network Rail, the not-for-profit infrastructure operator, receives an estimated £4 billion a year subsidy in return for halving its track access charges to the train operators. It has financed its investment programme by borrowing from the banks so that, including investment and maintenance costs but not debt servicing, there now is a funding gap of at least £9 billion a year.

Now the tendering processes for public contracts has been revealed as a public relations exercise in which deliberately low bids are submitted that can either be renegotiated upwards or evaded by “walking away.” The Department of Transport’s “Connecting people: a strategic vision for rail” seeks to extend the franchise system to include infrastructure. It calls for the regional devolution of Network Rail, whose role is to be reduced to one of “maintaining critical safety practices and an overall view of system operation.”

The political fall-out from another bailout was one reason why the government felt unable to bail out Carillion. But this leaves thousands of workers facing unemployment - and the threat of services failing that are run by Carillion, such as providing school meals.

No wonder that opposing corporate bailouts and Corbyn calling for essential services to be run in the “interests of the many, not the few” is a sentiment echoed by millions. But to really end such criminality would require the mobilisation of the working class against the corporate-dictated government policies, which did not simply begin with the victory of the Tories in 2010.

It was Blair’s Labour government that bailed out most of the first round of private franchises, awarded by the Conservative government in 1995-97, with extra subsidies. It also converted their contracts in to management only agreement on a cost-plus basis, and relaxed their service requirements. In 2004, rejecting all calls for rail renationalisation, Labour restructured the franchises to supposedly make them more commercially viable by only allowing bids from companies in the transport sector. This proved no more successful.

GNER Ltd, which won a second seven-year contract for the ECML franchise in return for a £1.3 billion premium, handed back the keys in 2006. In August 2007, the franchise was awarded to National Express on similar terms. Less than two years later National

Express demanded the contract be renegotiated. This forced then Labour Transport Secretary Andrew Adonis to set up a state-owned company to run the service until the Conservative-Liberal Democrat coalition let the contract to VTEC in 2015. Now, VTEC, having extracted as much as possible from passengers and rail workers, has done the same.

For decades, governments of all three main parties, the corporations, banks, financial advisors, and regulatory bodies have colluded in this criminal racket to divert public funds to the corporate bosses. It is this corporate plundering that lies behind the constant assaults on the jobs, wages and conditions of the 190,000 rail workers and now the 50,000 employees of Carillion and the thousands more in over 30,000 firms trading with it.

This is a societal problem that requires a frontal political assault on the bastions of economic power. That cannot be done by advocating a few piece-meal social reforms be enacted in parliament. It cannot be done through a party whose Shadow Chancellor John McDonnell spends his time seeking to charm the City of London and even the Davos Summit with promises to be “fiscally responsible.” It cannot be done by the Labour Party, a capitalist party of austerity and war, which is made up of MPs and councilors just as beholden to corporate interests as their Tory counterparts.

That is why the WSWS insisted that to safeguard the wages, conditions and pensions of *all* workers impacted by Carillion’s collapse means “breaking the stranglehold of the super-rich and their political defenders over society, and reorganising the economy to serve social need, not private greed. Politically, it involves not fruitless tinkering with the existing set-up but the recognition that it is beyond repair and that only a social revolution can provide a way forward.”

The author recommends:

UK: The political lessons of Carillion’s collapse
[17 January 2018]



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Socialist Equality Party visit:

wsws.org/contact