

Crony capitalism – how it works:- a letter from our Chairman

This letter from our Chairman appeared in the Derby Telegraph.

Whilst Mr. Corbyn is rightly making a great fuss about the terms on which private providers like Carillion contract for the provision of public services, the fashion for this type of arrangement reached giddy heights under Labour government.

One of the most notorious contracts was the sale in 2001 by the Inland Revenue of two thirds of its office buildings for £370 million which they leased back for £144 million per annum, including maintenance costs. Over the period of the whole contract period, the actual cost is estimated to be £4.2 billion. The much increased value of the office premises will benefit the contractor, a firm based in a tax haven!

Why does any government make such a silly bargain? Our old friend, the EU comes into it. Under the Growth & Stability Pact, governments are required to restrict their borrowing. By making the contractor put up the necessary money, the government keeps the debt off the public accounts. Of course, the contractors pay a much higher rate of interest than the government would have done and then have to add a profit on top. The increased cost is spread over many years and few people notice but the taxpayer is far worse off.

There is another advantage for those in the know. Ministers and senior civil servants, who awarded large lucrative contracts during their careers, retire from public office and spend a year with their inflation-proof pensions. They then reappear as directors and consultants for the contractors, using their insider knowledge to sell their services to their

former colleagues in government. This process is known as “the revolving door”. They come back in again to their old ministries, demonstrating that private finance contracts provide very well-paid second careers for those who have left the public service.

The privatisation of Royal Mail demonstrates another aspect of EU influence. The EU’s Postal Directives decreed that letter and parcel deliveries must be part of a European market in postal services and not a nationally provided public service. Many people of widely ranging views supported the retention of this national institution. The Labour and Trade Union Movement did so too but suppressed the fact that this privatisation was the result of EU laws and continued to support EU membership.

Back in 1983 Michael Foot was the Labour leader and his policies were very similar to those of Mr Corbyn. Ken Clarke remarked then “The great thing about Europe is that it makes most of Labour’s policies illegal” . At least Mr Foot drew the obvious conclusion – that we should leave the then EEC. So it is strange today to see all but a handful of Labour MPs trying to wreck the European Union (Withdrawal) Bill. It has now passed its third reading in the Commons which is one step along the way of removing those EU influences which drove the process of privatisation.

Yours faithfully,

Edward Spalton