PE1452/I

Petitioner Letter of 15 April 2013

Response to Public Petitions Committee April 2013
PE 1452 PEOPLE'S CHARTER

The CBI response to PE 1452 noted that the People's Charter gave a central role to public ownership in regenerating Scotland's economy. It requested evidence to establish that the public sector could indeed produce better outcomes.

We therefore ask the PP Committee to consider the following evidence. It relates to two key areas of the economic activity, rail transport and energy generation and supply. This is followed by some short general observations.

RAIL TRANSPORT
The 2012 McNulty Report, *Realising the Potential of GB Rail,* compared the performance of rail services in Britain subsequent to privatisation with four national rail systems elsewhere in Europe, all or part publicly owned. It found:

- Fares in Britain were 30 per cent higher (figure 2.13)
- The efficiency gap in the use of resources was on average 40 per cent worse (Figure 2.9)
- Government subsidies elsewhere were all lower.

The report shows that the level of public subsidy had increased from £1.35b at constant prices for the last year of nationalisation to an average of £6b for the period 2006-10 (Figure 2.5). The report further commented that unit costs per head have not improved since privatisation in the mid 1990s - in contrast to rail industries elsewhere. It instanced as causes the industry's fragmentation, its 'misaligned incentives' and a culture which is not condusive to partnership.

The House of Commons Transport Committee session 2003-04 report *Future of the Railways* had also reviewed the post-privatisation performance of the rail industry - particularly in light of the series of tragic rail accidents (Southall, Ladbrooke Grove, Hatfield and Potters Bar). The report highlighted the perverse incentives established by the process of privatisation itself, undue profit-taking at the expense of essential infrastructure investment, the disastrous consequences for safety of contracting out maintenance work, the loss of core quality staff, the fragmentation of ownership and control and the decline in services standards.

Further detailed evidence can be extracted from these and other official reports. But the above would seem to underline the superior performance of publicly owned and democratically accountable provision. Rail transport is a key utility for the effective operation of any modern economy and an increasingly important one in terms of carbon emissions and for ensuring sustainable uses of energy.
Private ownership has found it impossible to provide cheap, competitive rail transport and has become a major obstacle to its strategic development. We would suggest that this should be a

matter of major concern to the Scottish Parliament given Scotland's particular geographical dependence on rail transport. It should also be a concern to members of the CBI.

ENERGY GENERATION AND DISTRIBUTION

This February Alistair Buchan, Chief Executive of Ofgem, warned the British government that within three years the reserve margin of generation will fall from 14 per cent to 5 per cent and that reliance on gas for generation will increase from 30 per cent to 60 per cent. This followed the Ofgem report of November 2012 *Gas: Security of Supply* pointed to the 'profound consequences' a disruption of gas supply would have and identified 'deeper problems' which had left Britain with less gas storage capacity than any other major economy. These deeper problems included the fact that Britain, of all major economies, was the most reliant on 'price signals to incentivise market participation'. The report argued that this had led to 'moral hazard' as suppliers withheld necessary investment in the belief that government would 'bail them out'. It pointed to the consequent dangers of 'market failure'. A year earlier the 2011 House of Commons Energy Committee report, *UK Energy Supply*, had also warned on the lack of investment and the 'huge gamble' being taken by the government in relying on existing incentives (paras. 52 and 103).

These immediate concerns follow two decades in which successive parliamentary reports, and much academic research, have warned of the consequences of privatisation:

- Asset stripping and the loss of professional skills essential for safety
- The rundown in new investment in infrastructure and increasing levels of transmission loss
- The inability of governments to exercise strategic planning in an area that is central both to the control of carbon emissions and the sustainable supply of energy
- The buying of assets by external production companies and the further loss of strategic control
- Repeated abuse of pricing mechanisms to force up profits and the rise in fuel poverty.[1]

While the Scottish Parliament has, to its credit, set very challenging targets for renewable energy, and made some progress towards these targets, it remains the case that the privatised structure of energy generation has made it far more difficult to achieve these targets – particularly in ways that can benefit the wider Scottish economy in terms of equipment manufacturing.[2]

Here also private ownership has shown itself unable to deliver secure, sustainable energy at an internationally competitive cost. It is also notable that the company that has bought up the biggest share of British capacity is itself the French state-owned company EDF.

MARKET FAILURE, BUSINESS INVESTMENT AND LEARNING FROM ELSEWHERE

Levels of business investment in Britain as a whole are at a historic low - and the figures for Scotland (especially in areas of R&D) are even worse. The current level of less than 15 per cent of GDP over a four year period to 2012 has never been matched by any other G7 country at

[1] F. Massimo, *The Great Divestiture: British Privatisations 1979-1997*, MIT, 2004; House of Commons Select Committee on Trade and Industry: Fifth Special Report, May 2004.
[2] Scottish Parliament Enterprise and Culture Committee, Sixth Report, June 2004: Renewable Energy in Scotland.

any time. And this has been despite successive government schemes to ease the supply of bank credit and the provision of tax incentives to stimulate business investment.

In this context the Scottish Parliament is asked to note the 2012 United Nations *Report on Trade and Development* (pp. ii) which singles out those countries with significant state sectors for playing a critical role in preserving the world economy from a far more serious economic collapse after 2008.

In academic literature a major reappraisal is taking place of the role of industrial policy and the strategic contribution of publicly owned companies.[3] The current Director of IMF, Christine Lagarde wrote in her Foreword to the 2010 of the *Agence des participations de l'etat* of the success of French state companies in becoming 'champions capable of competing with global market rivals'. In light of the collapse of business investment in the private sector in Britain and Scotland, the call of the People's Charter for a resumption of public sector involvement would appear urgent and overdue.

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[3] Aldo Musacchio and Sergei Lazzarini, Leviathans in Business: Varieties of State Capitalism and the Implications for Economic Performance, Harvard Business School Working Paper, 12-108, July 2012; Davide Fureeni and Aleksandro Zdzjenika, 'Banking Crisis and Short and Medium Term Output Losses in Emerging and Developing Countries: the Role of Policy and Structural Variables', *World Development*, Vol. 40, Issue 12, December 2012, pp. 2369-2378; Ayca Akareay Gurbuz, 'Comparing Trajectories of Structural Change', *Cambridge Journal of Economics*, Vol. 35, Issue 6, 2011, pp. 1061-1085.