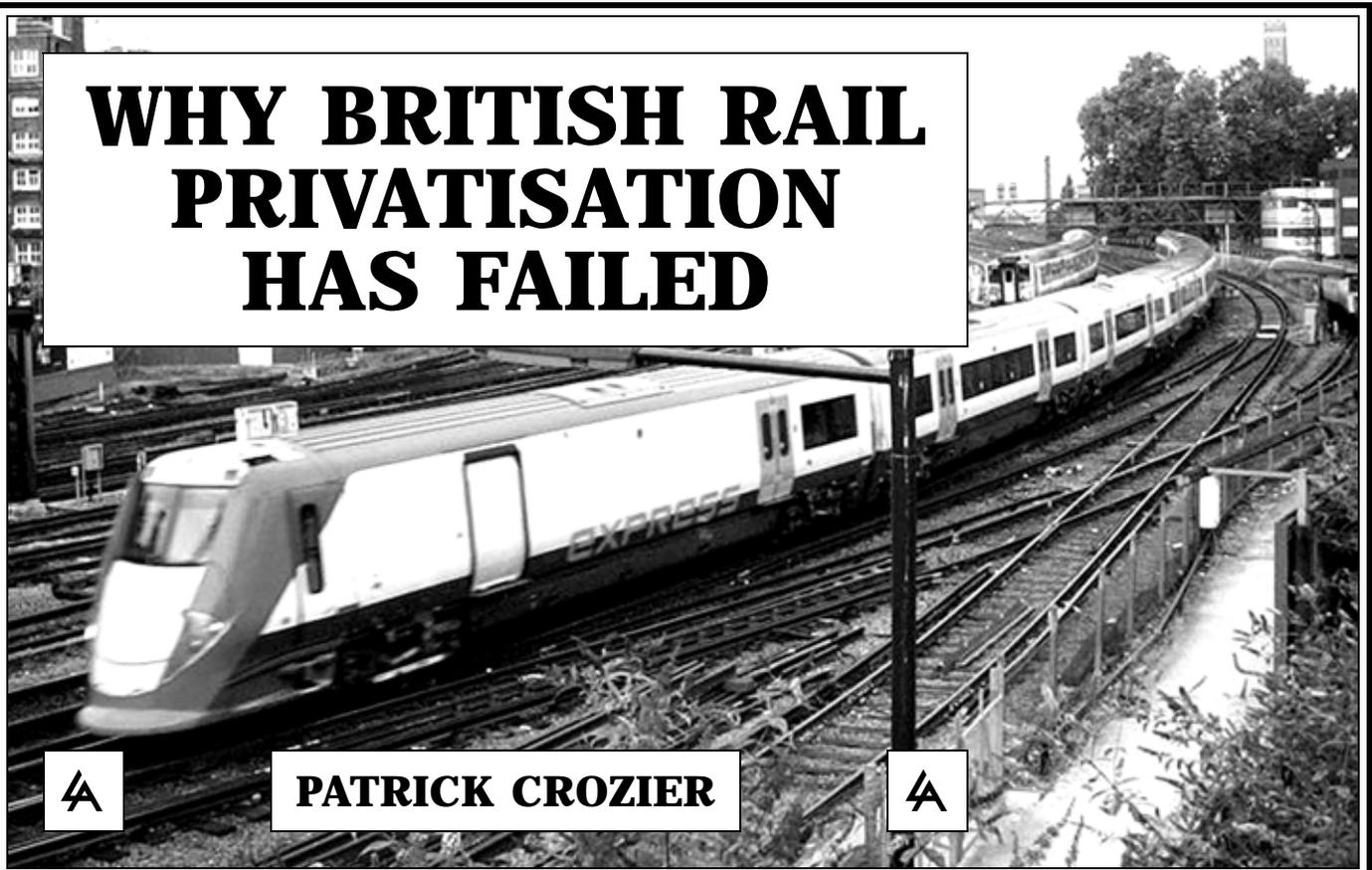


WHY BRITISH RAIL PRIVATISATION HAS FAILED



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PATRICK CROZIER

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British rail privatisation has failed. I think that's pretty safe to say. But I am a free-marketeer, a libertarian. I believe that the world would be a better place if we privatised schools, hospitals and even the police. I cannot at one and the same time claim that privatisation is a good thing and a bad thing. I have some explaining to do.

But before I do, I want to make some comments and disclaimers. I am not a railway expert. I am not an authority on all the details of trains, timetabling, signalling or the finer points of the 1993 Railway Act. Railway enthusiasts are a passionate and informed bunch. The amount of information available is enormous. My previous specialisation was Northern Ireland. By comparison Northern Ireland is a simple and straightforward subject. I suppose what I am say-ing is that I could be wrong.

AN UNPLEASANT FEATURE OF MODERN LIFE

Rail is a fragile industry. It doesn't take much to cause chaos. A crash, a guards' strike, some bad weather or a person under

a train will grind operations to a halt instantly. It is also hugely capital intensive. Trains, signalling, stations all cost huge sums of money. You have got to be pretty sure of your return if you are going to invest. Although roads can be just as expensive they are not nearly as prone to disruption. Or at least not until the Fuel Protests of August last year.

Travel is crap. Whoever said it is better to travel than to arrive needs a good kicking. It takes time, it is tiring, you are subjected to people you don't know, you are often cramped, it is uncertain, it is dangerous. And that goes for all modern forms of transport be it rail, air or road. It is an essential, if unpleasant feature of modern life so people will always find reasons to complain.

FANTASTIC — THEN A LONG PERIOD OF DECLINE

A little history. The railway in the UK was pioneered by the private sector. State interference was pretty minimal. The state pushed through the Acts which allowed the railway to be built, they interfered a bit with 3rd class ticketing, they set up safety legislation but by and large the State kept out of the way of the running of the railway. The result was fantastic. Revolutionary even. Until, that was, the Second World War. The State took control of the railway as a wartime measure but didn't nearly compensate the railway enough for the loss of fares and for wartime damage. The railway didn't quite go bust but it had no money for investment and in the spirit of the time was duly nationalised. There then followed a long period of decline. Privatisation began with the 1993 Railway Act and the first privatised train ran on 4 February 1996.

It would be wrong to say that BR was all bad though. While customer service might have been lousy (remember the jokes about the BR sandwich), its engineering was quite good. The High Speed Train (HST) is still the fastest diesel in the world and the Advanced Passenger Train, though a failure, incorpor-

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FOR LIFE, LIBERTY AND PROPERTY

ated technology which is transforming railways around the world.

Let us be in no doubt that privatisation has failed but let us at least flesh that out a bit. To do so I think it is best to divide the picture into pre and post-Hatfield sections. We all know about the situation subsequent to the Hatfield crash in October 2000. A rail snapped underneath a GNER express travelling at 115 mph and four people died. The cause was found to be gauge corner cracking, a rare and little understood phenomenon. Railtrack went about looking for similar examples and placed speed restrictions on likely sites. It began a re-railing scheme. The result was the delays, overcrowding and mass desertion of the system which dominated the headlines in the last few months of last year. It was probably the worst period in the whole 175 year history of the railway.

THE FULL TRAIN EXPERIENCE

But what about the picture before Hatfield? A more normal time. Was that any better? If we assume for the sake of argument that Hatfield was a freak event, a one-off, is there any good news in the picture beforehand?

Sir George Young, when Secretary of State for Transport, claimed that privatisation would be “a good deal for passengers and a good deal for taxpayers”. Was he right?

From the point of view of the taxpayer the situation is confused. According to the Railway Forum, comparing the three years immediately before and immediately after privatisation, net government expenditure increased by about 10%. The figure would have improved over the next few years as subsidies declined. However, we now have the Strategic Rail Authority, or SRA, which is supposed to be disbursing £2bn a year on infrastructure improvements. So, the taxpayer loses out.

So what about the passenger? That of course is a tricky question. All customers are different. There are some statistics. Punctuality declined from 92.78% in May 1997 to 91.57% in August 2000. Prices for peak tickets and savers are lower in real terms. Overcrowding is a lot worse. On SWT crime has been halved. The National Rail Enquiry Service now answers over 90% of calls. (BR did well to answer 50%.) But these statistics only tell part of the story and neglect the full train experience.

When I embark upon a train journey these are the sorts of question I ask: How far away is the station? Will it be clean? Will the train be on time? How long will I have to wait? Will the train be clean? Will I get a seat? Will my travelling companions be objectionable? How much graffiti will I have to put up with? How long will the journey take? How much will it cost? Will I get mugged? Will the train be nice? Will I be able to while away my time?

From my own personal experience cleanliness varies enormously. SWT, Chiltern and FGE all make the effort. Silverlink and Thames Trains do not. To my knowledge only FGE and WAGN have made an effort on the decor. There are some new trains but not many. Around London only GatEx and Midland Mainline had new trains in regular service as of May 2001. Graffiti seems to have got a lot worse.

On stations the picture is patchy. Local stations seem slightly cleaner. Main line stations are infinitely nicer places to be. Liverpool Street and Paddington are my personal favourites.

With internet technology it is easy to look up both times and prices without having to deal with some pushy telesales person. With greater advertising I am fractionally more likely to

know about services, and there have been other minor improvements in customer service.

One area where the industry has failed miserably is in the area of liveries. Most of us must have tired of BR's rather drab attempts but privatisation does not seem to have improved matters.

The industry often claims that you can tell that it is doing a good job because ridership has increased by 30%. Big deal. This helps me neither as a passenger nor as a tax payer. Anyway, a lot of this has to do with a booming economy, price control, the appalling situation on the roads and double counting — i.e. nothing to do with privatisation.

THE STRATEGIC RAIL AUTHORITY HAS NO STRATEGY

So much of the present. What of the future? Is there light at the end of the tunnel, so to speak? Well, there are going to be a lot of new trains. Current orders stand at about £3bn.² They include 140 mph tilting trains for the West Coast and a complete replacement of slam door stock.

Unfortunately, there have been all sorts of problems in getting these new trains into service. Safety procedures are long-winded and even when they are completed many of the new trains have proved fault prone.

There is trouble ahead on the franchises. Most franchises have a sharply declining subsidy profile. This is OK if you have a good revenue stream. It is not if you are one of the many regional operators for whom the subsidy is a lifeline. For instance, last year Merseyrail almost went bust and had to be taken over. The new owners were able to negotiate a substantial improvement in their subsidy from the SRA. In early 2001 Virgin started talking about “handing in the keys”. This was shortly afterwards followed by a £100m payment from Railtrack.

Perhaps the much vaunted Strategic Rail Authority will pull the industry together? Well, no. It has just issued its policy document (a year late), a document remarkable for one thing — it has no strategy. It is little more than a pick and mix wish list. As the rail journalist Christian Wolmar pointed out, the SRA still (this is two years since it came into existence) has no idea whether the aim is TGV operations or tunnels under London or new commuter routes.

The SRA is also responsible for franchising. Of the five franchises currently being bid for or renegotiated, not one has been signed. Two have been suspended. The best known of these is the East Cost Mainline refranchising. The rumour on the street is that GNER were given the job but the government did not want to annoy Mr Branson so it was suspended and everyone blamed Railtrack.

And there is another worry about the future. Every single edition of a railway publication has some sort of call for a major restructuring of the industry. And this is not just statist fantasists. Long-term correspondents and senior industry figures echo demands for wholesale changes. This is not a happy industry.

Furthermore, following the publication of the Uff/Cullen report the industry is committed to introducing a hugely expensive safety system.

All this paints a rather patchy picture. When BT was privatised there was a step change in price and quality of service. Ex-council houses are far better looked after than their state-owned equivalent. Car and coal privatisation/liquidation have

saved the taxpayer a fortune. But trains? Who can say? It's a case of six to one half dozen the other. And that in itself is failure.

THE FREE MARKET WORKED HERE — AND STILL WORKS IN JAPAN

So what went wrong? Is private enterprise inherently wrong? Should I start dishing out Communist Party membership cards? Well, private enterprise worked on the railways in this country for 125 years or so. The railway — the track, the trains, the embankments, the cuttings, the tunnels, the viaducts, the stations, the vocabulary, the culture — was a private sector invention. It transformed the country. It made most of London possible, enforced standard time and was a vital motor of the industrial revolution.

I recently came across a statement from the British Railways Board dated 1943. In it they claimed that the British railway was the best in the world. I do not know what the truth is. But what I do know is that no one would make the claim today.

The free market still works. And it works on rail. We only have to look at Japan, which has the busiest railway in the world. Parts of the network have never been in state hands and work with military precision. Since 1987 the whole network has been in private hands. Although there is subsidy for outlying regions, there is no vertical fragmentation, no franchising. And it works like a dream with *a third of all the world's train journeys* being taken there. And it still has the fastest scheduled service. TGV eat your heart out.

NOT A TRUE FREE MARKET

What happened at privatisation? Railtrack was given the track, signalling and stations and then floated in 1996. The Roscos — Rolling Stock Companies — were sold the trains. That would seem simple enough but then the state put its oar in. Railtrack might own the track but others would maintain it. It was certainly not Railtrack's choice to do things this way. Train operating companies (TOCs) were to operate the trains. They would bid for fixed-length franchises. In these agreements the government would set the price of the main fares (to below inflation increases), set punctuality and reliability targets and the length of the contract and the price at which the TOCs would buy track services from Railtrack (these are known as Track Access Charges). The TOCs would state how much they needed in subsidy (or in some cases how much they were prepared to pay) and the lowest bid won. Railtrack leased most of the stations to the TOCs with the exception of the main termini.

This is all rather weird. The whole point of private enterprise is that the state is not involved. But just look at where the state interferes: it controls the prices that operators charge customers, it controls the prices that Railtrack charge operators, it provides subsidy, it controls the length of the contract between operators and Railtrack, it effectively prevents operators from owning track and track owners from operating trains. It splits the train owner from operator, operator from track owner, track ownership from track maintenance.

And the result? Well, it's no great surprise that with prices held below inflation, commuter trains are now massively overcrowded. With such short franchise terms the TOCs are reluctant either to spruce up or rebuild stations. With the bizarre track access agreements Railtrack has an incentive to reduce traffic on its railway, even to sacrifice safety on the altar of punctuality. And with every deal having to go

through Railtrack, the TOC and the Regulator it is no surprise that the West Coast Route Modernisation is a fiasco.

I have also heard some truly bizarre stories. For instance, in Birmingham, operators would miss out stations if the train was late. Why? Because they feared that they would miss their punctuality targets. I cannot imagine that happening in a truly free market. Similarly, I learned from TV of a situation at Cambridge. A connecting train was late. The station manager held the train it was connecting with so that passengers could transfer. Good man, you might think. Far from it. In the crazy world of the new railway the operator risked missing his punctuality figures and could have faced a fine.

THE EU AND SEPARATION

And by the way this has nothing to do with the EU. I would be the first to assert that the European Union is the origin of all evil — but not on this occasion. All that directive 91/440 demands is separate accounting between infrastructure and operations. This is the relevant article (now abolished):

- The aim of this Directive is to facilitate the adoption of the Community railways to the needs of the Single Market and to increase their efficiency;
- by ensuring the management independence of railway undertakings;
- by separating the management of railway operation and infrastructure from the provision of railway transport services, separation of accounts being compulsory and organisational or institutional separation being optional ...

The aim is/was to make cross-border operations easier. The French approach has been to create an infrastructure owner (RFF) whose infrastructure is entirely run by the operator SNCF. I do not see any reason why a government would have to go even that far. All it would have to do would be to split the railway into two companies that are part of the same group but have separate accounts in much, the same way as Microsoft has Microsoft(UK) and Microsoft(US).

The railway can't take fragmentation. But it seems to work in the air. The airports, the traffic controllers and the airlines are all different entities. Why not on rail? I think the reason is that trains are in constant contact with the track. For instance, what if you want to operate a faster service? In the air it is simple — buy a faster plane. OK, there may be questions about noise but that's about it. But on rail you have to get the signalling and the track to go with the faster train. What if you want to increase capacity? An airline just buys a bigger plane. On the rails you can run longer trains but only if the platforms are long enough. You could run double-deck trains but many of the bridges and tunnels on the route will have to be rebuilt. And what if you want to operate more services? All an airline has to do is to buy more slots. But on the railway, with complicated paths dictated by the characteristics of preceding and following services, this can get extremely complicated.

CRASHES COST MONEY

And then there is safety. The public for some reason trust the state to run a safe railway but not the private sector. The disasters at Clapham Junction, King's Cross, Moorgate and Hither Green are put down to bad luck or "the Tories", Hatfield and Ladbroke Grove to corporate greed. What we saw after Ladbroke Grove was a hysteria whipped up by the press and politicians, which became a whirlwind after Hatfield.

I do not know whether the railway has become more or less dangerous and frankly, I don't care. The railway would have

to be extraordinarily dangerous for safety to become a factor in my own personal calculations. People did not desert the railway because they thought it was dangerous. They deserted it because the trains weren't running. Do I think "I will we be involved in a terrible accident and have my face seared off"? Well not really. There are arguments for and against expecting such catastrophes, but the truth is I don't know.

What I do know is that crashes cost money. The train is badly damaged or destroyed. Ditto the track. The track is blocked for days so passenger revenue takes a nosedive. (The Hatfield disaster cost about £30m.) Some of this may indeed be covered by insurance payouts — but where does the money for them come from? No, a train company operating in a free market has every reason to run a safe railway. Again, just look at Japan.

The recently published Uff/Cullen report takes the biscuit. Take two fairly well balanced and reasonable men. Put them in a room with umpteen lawyers and one train crash, and then add some media-manipulated public hysteria and what do you get? A report that commits the Government to introducing a system which will cost £30m for every life saved. By comparison, local authorities spend £50,000 per life saved. The ten people who died at Heck would be alive today, for the outlay of some £800,000 or so each.

DIFFICULT TO WORK OUT WHO IS IN CHARGE

This system of private ownership and state control has profound political significance. Statist politicians got tired of the results of their day-to-day running of the economy via state-owned industry. But they did not tire of power. The rail model seemed to offer them the ideal situation: power without responsibility. They could meddle all they liked and never shoulder the blame. Or at least that is what they thought.

Unfortunately, the wheels are coming off the dream. Labour's hope was that they could meddle, but that ultimately the investment that they wanted would materialise as a consequence of the strong balance sheets of Railtrack, the TOCs and the Roscos. The problem is that their meddling has undermined those very balance sheets. Had the government not bunged Railtrack £1.5bn in April 2001, Railtrack would have gone bust. No investment there. Virgin is, as I say, talking about giving up. Its £50m subsidy this year turns into a £50m payment in two years time. That was dependent on the WCRM meeting ambitious targets, which isn't going to happen. Moreover, Virgin, via its Rosco, has invested massively in new rolling stock (£1bn). The £100m that Railtrack gave them will keep them quiet for a while but not forever. Just wait for the howls.

There is another point I would make about this pseudo-privatisation and that is that it is terribly difficult to work out who is in charge. Just the same is true of things like the Dome and Wembley Stadium, and I guess will be true of London Underground and Scotland. Kafka would understand.

Coming back to that £1.5bn given to Railtrack the other month. If Railtrack hadn't received that money it would have gone bust. But isn't the prospect of bankruptcy one of the great disciplines of the private sector? Not any more, it would seem. This system has failed. It is called privatisation but private companies are no longer in charge. The challenge for libertarians is to describe this system, and any others that the state will doubtless try to conjure up. We have been hoist by our own petard. We have talked about privatisation as if it were the answer to everything, while forgetting that it must be

allied to freedom. Take the freedom out and this is what you get.

FREE THE INDUSTRY

And this is about freedom. By and large where the industry has had some freedom, improvements have been made. For instance: crime. Or mainline stations. Or uniforms. Freedom has not yielded perfect results, as those liveries demonstrate, but the point is not that free enterprise is perfect, merely that it is less imperfect.

So where should we go from here? Statism in the form of state-ownership or state-control has failed. The less state the better.

In recent weeks and months there have been calls for re-nationalisation. I am not necessarily against this. Not because I have abandoned my libertarianism or am having a crisis of faith, but simply because bizarrely the industry would have greater freedom if state-owned than it does when state-controlled.

But I would prefer to see no state involvement at all. Free the industry of price controls, franchising, fragmentation, regulation, safety regulation and subsidy, and see what happens.

But wouldn't large parts of the industry go bust? Probably. The railway is effectively three businesses — in fact the same three businesses that BR divided itself into: Network South-East, InterCity and Regional Railways. Parts of Network South East and InterCity did not receive a penny of subsidy and most of the rest would need little encouragement to flee the nest. Regional Railways make huge losses and would go bust.

But wouldn't fares rocket? Perhaps but I doubt it. Passengers will put up with high fares for a while but over the course of a year or so will move or change jobs. And when that has happened, getting them back will prove nigh on impossible. Fares were not ludicrously high when the railway was previously free to set them.

Integration would take place. I am not sure whether the natural state would be one gigantic operation covering overland and underground operations or whether we would get a regional separation on the basis of main termini. But what I am absolutely sure about is that vertical fragmentation would disappear. If you operate trains you need control over the track, over punctuality, new train acceptance, high-speed operation, stations, timetabling. All these things demand close integration, and in my opinion one organisation to make the decisions.

I appreciate that these are not definite answers. But if you set something free you cannot be sure quite what is going to happen. Freedom is scary.

I believe there is a future for rail. At very least London relies on its railway and I doubt if ripping up the track and replacing it with tarmac is anything more than a fantasy. What the railway needs is a new culture. A culture of customer service, of cleanliness, of maintenance, of punctuality, of discipline. And culture needs stability. State ownership can never guarantee stability. Neither can our present system. Only freedom can.

NOTES

1. http://www.rail.co.uk/atoc/public/levllbulletin_fs.htm
2. *Rail*, Issue Number 408, May 2nd-15th 2001.