

What Happened to Railtrack Shows the ultimate failure of Privatisation. **Discuss?**

The word Privatisation has been used in a variety of contexts, ranging from returning state owned companies to the private sector, contracting out services to the private sector and liberalisation and deregulation. Although the most common definition of Privatisation is the idea that involves transferring the production of goods and services from the public sector to the private sector.

Privatisation generally involves two main objectives. Firstly there is the objective to reduce the role of the government in economic affairs and share ownership of the public. The other main objective is to make public organizations operate in a more cost effective manner, essentially the public asset is sold because it is felt that the private sector could more effectively provide that service.

The main arguments for Privatisation are that historically, with communist countries, the state is not a good decider of how to distribute factors of production. The bureaucratic processes involved with decision making prevent efficiency gains which arise through the market mechanism.

Since organisations have been freed from political interference, they are now able to focus more on long-term objectives without having to keep voters on their side. As well as this industrial relations and productivity should improve as companies recognise that they have no government funding to fall back onto.

Another argument for privatisation is that the government wanted to create more competition, many state-owned companies were monopolies which exploited the public. Privatisation has introduced competition, in the telecommunications industry with Cable and Wireless and Orange competing with BT, which has resulted in falls in prices.

Another benefit is that privatisation raises revenue for the Government, by selling shares to members of the public. The funds raised allowed governments to fund tax cuts in the 1980's and early 1990's. However this could have been simply to gain political favour, and also this is a one-off payment and does not allow a steady supply of income.

Despite the proposed benefits of privatisation, there are numerous criticisms. A Major criticism is that by transferring an government owned monopoly to the private sector, is that it will simply create a privatised monopoly in its place. This is especially dangerous in a market where the demand is inelastic, e.g. Water.

It has also been strongly argued that many of the nationalised industries were sold off too cheaply to shareholders. After privatisation share prices rocketed and shareholders were able to profit, with the taxpayer shortchanged. As well as leaving people short changed they were also unemployed. Newly privatised businesses cut costs by downsizing, which created unemployment and frozen wages for lower skilled jobs.

A further criticism is that several organisations have been taken over by foreign competitors. E.g. an American company owns Northern Electric while Northumbria Water are owned by a French company. This takes money out of the local economy and allows transfer pricing.

The main case that will be focused upon in this argument is the failed privatisation of Railtrack in 1996. Railtrack PLC was formed in 1994 to be the custodian of Britain's railway infrastructure. As well as the running and upkeep of track, signals, stations, depots, arches, bridges and viaducts, the company has one of the country's largest property portfolios, including over 40,000 commercial property units and thousands of hectares of land.

Firstly, it is worth saying that, in theory, the privatization of the rail industry in 1996 wasn't necessarily a bad idea. British Rail was hardly doing an acceptable job of running the railways. Efficiency was non-existent, investment was kept to a minimum, and trains were just as late and just as untidy. Privatisation was supposed to improve the condition of our railways, creating greater efficiency, and greater investment. However, privatisation has comprehensively failed to do this, and more importantly, has failed to make our railways safer.

Generally it seems that Railtrack was too obsessed with making profits for directors and shareholders that it overlooked crucial safety standards which ultimately brought about its demise. The broken rail that caused the Hatfield disaster (2000) was known to Railtrack for 10 months before the accident. A possible cause for this incompetence could be that since taking control of the rail network in 1994, Railtrack has laid off 6,000 repairmen, 25% of the total workforce. This has coincided with a 42% increase in track failure. In this instance the nationalised rail industry may have had its faults, but at least it had its priorities straight.

The problem lies in the way in which the rail network was privatised. Although some parts were sold to individuals like Richard Branson, most of it went to companies like Railtrack whose interests seem misguided. The privatisation of the Railways was grossly undervalued by ministers, meaning that share prices rocketed when the new companies floated. Also the network was fragmented into so many sections that it was impossible to hold anybody accountable. Maintenance, repairs, operation and ownership of the rails were all done by separate companies. This is crucial because it is impossible to solve the safety problems when it no one would take the blame.

Conclusively main reasons for Railtracks failure are the expenses it has accumulated. Big projects have run up vast bills - upgrading the west coast main line is to cost £7bn, rather than the original £2.3bn. Railtrack has relied on government help to pay for an upgrade in safety standards since the Hatfield rail accident. It has had to make big penalty payments for poor reliability.

In conclusion to this argument, Railtracks case does not show the ultimate failure of Privatisation. My opinion is that Railtrack is one example of fussy management and greed which then led to the failure of Privatisation, however the process itself was not at fault. There are many other examples of where Privatisation has worked well, these include BT (1984), British Gas (1986), British Airways (1987). Privatisation it seems only works well in industries with less regulation, which have the potential to work more efficiently with less interference. However some industries are regulated because they have the potential to exploit the customer, these industries would be more difficult and dangerous to privatise. Privatisation depends on the right set of internal and external factors to work successfully. Good management, workers, communication and motivation are essential as well as external factors such as the amount of help from the government to get it underway, the competition in the new private market, the customer response to the new system. Without these key factors to drive the process of privatisation, then it maybe unsuccessful, and this is simply what happened with Railtrack.