

Written evidence from Jag Patel¹ (PGG03)

The Public Administration and Constitutional Affairs Committee Propriety of governance in light of Greensill inquiry

The military-political-industrial complex has been the original model for lobbying and corruption from the earliest of times – indeed, the career prospects of people in the pay of the State are inextricably linked to those with the means to produce weapons systems, facilitated by the “revolving door” and intense lobbying behind the scenes where it matters most, in the corridors of power inhabited by the same, self-serving political, administrative and military elite.

INTRODUCTION

1. The corporate lobbying scandal involving a former Prime Minister has exposed the nexus between the political elite and the business elite which has been cemented by their shared desire to exploit the shortcomings of the administrative state to advance their financial interests. Indeed, the trouble with public expenditure is that the twin evils of lobbying and corruption rear their ugly heads *every* time taxpayers’ money crosses the boundary between the public sector and the private sector.
2. In this latest exposé of influence peddling in Whitehall, the press and media have painted a picture which gives the impression that only a handful of people are involved in these nefarious activities. The reason is simple – journalists are obsessed by human interest stories and consequently, they have developed a habit of focusing only on people and personalities right at the top.
3. But the fact of the matter is that lobbying and corruption is widespread throughout the public sector (and by extension the private sector), at every level of the hierarchy, but no one has bothered to publicise this reality in Parliament.
4. This submission goes some way towards putting that right.

NOLAN PRINCIPLES ARE BEING ROUTINELY VIOLATED

5. The Seven Principles of Public Life known as the *Nolan Principles*, which form the basis for ethical conduct expected of people in public office, are being routinely and brazenly violated without care or concern – not only by top politicians, but also the administrative and military elite.
6. Consider, for a moment, the market in defence equipment for which the government is the only customer.
7. The clear message behind the government’s defence procurement policy is that military equipment for the Armed Forces is to be purchased through open and fair competition² – the only exceptions being off-the-shelf purchases and single-source

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² Defence Industrial Policy document, *Industry for Defence and a Prosperous Britain: Refreshing Defence Industrial Policy*, published December 2017, p.23, PDF file (1.28 MB)

development contracts, the latter to be handed out on a preferential basis (to the Select Few).

8. But, the problem with letting uncontested, single-source contracts in this way is that the decision on which contractors to pick, and which to leave out is in the hands of a small number of people in Whitehall – leaving them exposed to the charge of favouring the privileged few (usually those who shout loudest in the corridors of power) at the expense of the many, thereby tilting the playing field and entrenching economic power in the hands of the same selected few, possibly for decades to come.

9. The market in defence equipment, funded exclusively by taxpayers, is there for *all* private sector players to partake in. Instead of resorting to heavy-handed interventions, the government should deploy the market-based instrument of competition to select the winning contractor on the basis of price competitiveness and value for money. To this end, the defence equipment market should be shaped *not* by the interfering hand of people in the pay of the State who *always* get it wrong, but by competitive market forces driven by the profit motive and winning mindset.

EXTREMELY HIGH RISK THAT PUBLIC FUNDS WILL BE SQUANDERED

10. Additionally, there exists an extremely high risk that committing public funds in this way will *not* deliver the return on investment as advertised, or worse still, squandered altogether because:

- a. Procurement officials at MoD's defence procurement organisation in Bristol, who are charged with negotiating the finer details of the contract are hopelessly ill-equipped to deal with the private sector, which means that they will be duped into spending taxpayers' money on poorly conceived projects – only for this to come to light many years later, when some Select Committee of the House of Commons produces a report on its findings.
- b. The internal business process used to select the recipient for the contract is susceptible to manipulation and distortion by parliamentary lobbyists in the pay of those who can afford to spend the most.
- c. It is certain that the final decision on the choice of the single, preferred contractor which is in the hands of the governing elite will be made, not in the *national* interest but to serve the interests of career politicians or their financial backers.

CONFLICTS OF INTEREST

11. But what is worrying about this top-down approach to organising the defence equipment market by diktat is that it is riddled with *conflicts of interest* because the judgements made by these people, as it relates to the expenditure of public funds are distorted by the fact that they will end up in the private sector via the “revolving door” to pursue a second career, sometime later on. More specifically, there is every chance that they will favour one bidder over others (in response to clear signals) and treat this bidder leniently, when it comes to marking invitation to tender responses because they are completely dependent upon it for their subsequent career choices, when their time in public service comes to an end or their employment contract is terminated abruptly by political edict.

12. To add to this wanton act of recklessness, the moment they arrive on the contractor's premises these people, especially those who had reached the upper echelons of the Civil Service & Armed Forces and who are intent on proving their worth, immediately begin the task of lobbying their former colleagues to swing the decision on down-selection in favour of their new employers – in so doing, destroying the level playing field which is at the very heart of the competition process, not to mention, reinforcing the view that there exists a cosy relationship between MoD and contractors. It is for this reason, and this reason *alone*, that contractors' decision on whom to recruit is heavily biased in favour of people who are about to leave the bosom of the State.

PUTTING SELF-INTEREST FIRST

13. So, we have a situation where the *very* people who are supposed to ensure fair play are actively engaged in undermining it, for the sole purpose of advancing their careers – aided and abated by defence contractors.

14. And because contractors know no other way of bringing-in new defence business other than by subverting the procurement process, they have become trapped in a cycle of repeatedly taking on more and more of these type of people, because their contacts within MoD have a habit of drying-up after a few months due to the massive churn of postholders in the public sector – which means that incumbents displaced by new arrivals are forced to move sideways into other business-critical roles for which they are woefully ill-equipped, bearing in mind that they only got a job in the private sector not on merit, but because of who they knew. It would explain why staff on contractors' payroll today is made-up *entirely* of people who were previously in the pay of the State.

15. What makes it particularly easy for contractors to exploit these people is the receptiveness of public servants borne of their desperate desire to leave the public sector, as well as, the common traits of sense of entitlement, self-importance and inflated egos.

16. Far from facilitating the delivery of equipment to the Armed Forces that is fit for purpose, adequately sustained in-service and constitutes value for money through-life, defence procurement and the attendant defence manufacturing industry that relies on it for its survival is nothing but a protection racket – created to serve the career interests of people who are *currently* in the pay of the State, and those who were *previously* in the pay of the State.

17. Operating together, these two groups should be seen as an insidious fraternity hell-bent on taking full advantage of their origins deep in the establishment to get the better of the State.

18. So, it is clear that the much-vaunted values of selflessness, integrity, objectivity, accountability, openness, honesty and leadership have not got in the way of procurement officials putting their self-interest first, ahead of the public interest.

COSY RELATIONSHIP FACILITATES TRANSFER OF PEOPLE VIA THE “REVOLVING DOOR”

19. The problem with publicly-funded contracts is that they are highly susceptible to *cronyism* – the nexus between the governing elite and the business elite that contrives to put the interests of business first, *ahead* of the wants, needs and expectations of ordinary citizens. Not least, because the twin evils of lobbying and corruption rear their ugly heads every time taxpayers' money crosses the boundary between the public sector and the private sector.

20. Indeed, it is the cosy relationship between the governing elite and the business elite that facilitates unhindered transfer of people in the pay of the State to the private sector via the “revolving door” – which would explain why trust in government, public sector institutions and the business community has collapsed in the first part of this century.

21. Whereas media focus is on a small number of high-profile political and administrative elite who shamelessly exploit their previous contacts and know-how they have accumulated whilst in the pay of the State to line their own pockets and unwittingly tilt the playing field in favour of their new paymasters in the private sector, the journey made by *thousands* of ordinary public servants underneath them who are also looking to follow the example set by their departmental leaders and cash-in on this bonanza, has escaped scrutiny.

22. Of course, everyone has a right to sell their labour in the free market to whomsoever they wish, for whatever price they can command. However, the brazen way the newly-retired political and administrative elite have gone about exercising this freedom without any checks and controls on the way they go about disseminating privileged information about inner workings of government is scandalous, and *always* to the detriment of taxpayers – which is what they promised they would protect whilst in the pay of the State!

MILITARY- POLITICAL-INDUSTRIAL COMPLEX

23. The military-political-industrial complex has been the *original* model for lobbying and corruption from the earliest of times – indeed, the career prospects of people in the pay of the State are inextricably linked to those with the means to produce weapons systems, facilitated by the “revolving door” and intense lobbying behind the scenes where it matters most, in the corridors of power inhabited by the same, self-serving political, administrative and military elite.

24. At a time when the headcount at UK MoD’s defence equipment acquisition organisation at Abbey Wood, Bristol is being forcibly slashed, there exists an extremely *high* risk that departing procurement officials, including those who have not previously taken part in the assessment of invitation to tender responses, will be persuaded to pocket corresponding memory sticks and offer them in return for employment, to *competitors* of owners of these same memory sticks – thereby transferring innovative design solutions and intellectual property, which can then be used by unscrupulous recipients to grab a larger share of the defence equipment market.

NOTHING TO OFFER

25. Such behaviour only reinforces the view that lower-level defence procurement officials have nothing to offer potential employers in the private sector (unlike the political, administrative and military elite), except someone else’s (stolen) *property*! And when these people arrive on Contractors’ premises, they promptly become a burden on fellow co-workers and the payroll because they do not have the necessary skills (due to being selected for reasons other than merit) as task performers to add value to the business, only costs.

26. What’s more, because many defence contractors don’t have a “*Code on Ethical Behaviour in Business*” in place, they will not only happily accept such proprietary information without any qualms, but also encourage its unauthorised removal from MoD Abbey Wood – yet they would not want their *own* memory sticks to fall into the hands of their Competitors.

27. Such is their twisted sense of morality!

28. There is something very disturbing about people who have previously, as public servants sworn undying allegiance to Her Majesty Queen Elizabeth II, only to then engage in defrauding and ripping-off Her Majesty's Government on behalf of vested interests, whilst pursuing a second career in the private sector.

GOVERNMENT MARKETS ARE SUSCEPTIBLE TO CRONYISM

29. Competition is the essence of enterprise and free market capitalism. In Adam Smith's use, the "free market" is not a market free from government, but one that is free from rents – these rents include distortions borne of market power, privileged access and position.

30. Those who are convinced that a free market economy is what brings prosperity to all should also acknowledge that *competition* is the essence of the enterprise culture and that it alone fosters innovation, wealth creation and the winning mindset. For an economic system that relies on voluntary exchange between buyers and sellers and seeks to deliver goods and services to everyone at a price they are willing to pay, vigorous competition among vendors on the basis of a level playing field is absolutely essential.

31. It is therefore heartening to learn that senior members of this government, including the Prime Minister, are self-confessed free marketeers and are willing to go out of their way to praise the virtues of the market over the State at every opportunity.

CENTRAL TENET OF CAPITALISM

32. The central tenet of capitalism is that those participating in it do so in the expectation that they will profit from their *own* labour and initiative. Yet, the last several years has seen the widespread belief that individuals at the top of big business and corporate houses are benefiting at the expense of their customers, employees, supply chain partners, the local community and the environment.

33. The post-second world war experience has repeatedly vindicated the view that the single most powerful driver of prosperity is profit-seeking businesses trading within a law-governed and competitive market economy.

34. However, in the new millennium, the recently exposed frailties of capitalism are all too evident in markets in which the *government* is the main or only customer, which happen to be some the most closed in the world, with significant barriers to entry. In the UK, the government spends £292bn of taxpayers' money in a non-pandemic year to purchase goods, services and labour from the private sector, making it quite easily the single largest buyer.

35. But the problem with government markets is the endless subsidies handed out to incumbent businesses which insulates them from being usurped by agile and innovative start-ups, thereby preventing wealth being spread about.

LOBBYING AND CORRUPTION

36. This is further complicated by the fact that, such markets are highly susceptible to cronyism – the nexus between the governing elite and the business elite that contrives to put the interests of business first, ahead of the wants, needs and expectations of ordinary citizens. Not least, because the twin evils of lobbying and corruption rear their ugly heads every time taxpayers' money crosses the boundary between the public sector and the private sector.

37. It is, as the economist Randall Holcombe puts in his book *Political Capitalism* a "system in which the economic and political elite cooperate for their mutual benefit." The political elite tilt the economic playing field in favour of the economic elite, privileging

them through subsidies, regulatory protections and targeted tax breaks. In exchange, the economic elite then help to ensure that the political elite remain in power. The rest of us pay the bill for this quid pro quo through higher taxes, higher prices, and a less efficient, less dynamic economy.

38. As the UK looks outwards beyond the EU to establish new trading relationships, there is a fear among free marketeers that uncompetitive businesses will intensify their lobbying efforts to gain an unfair advantage over foreign competitors at the expense of UK taxpayers.

CORRUPTION IN THE DEFENCE SUPPLY CHAIN

39. For decades now, it has been the policy of successive governments of all persuasions to hand out single-source, development contracts to selected UK-based defence contractors on a preferential basis. Indeed, according to the government's own figures, 42% of new MoD contracts by value were placed via open competition in 2016/17, *down* from 64% in 2010/11 – which leads one to conclude that the trend is towards more of the same.³

40. By letting government-funded contracts in this way, the MoD has shown leadership and set an example by inadvertently directing prime contractors to adopt the same method of hand picking their *first-tier* supply chain partners, for *each* dissected workshare part of their evolving technical solutions.

OLD BOYS' NETWORK

41. But unlike MoD, which has been disbursing such contracts on national security grounds, prime contractors have been using the tried-and-tested old boys' network to choose their first-tier subcontractors, usually during a gathering at the 19th Hole limited to the great-and-the-good from subsidiary companies wholly-owned by the prime contractor, or some other favoured, old school-tie chums – which has allowed *corrupt* activities, characterised by artificially inflated subcontract prices and the obligatory kickbacks that go with them to flourish. It is the stupid act of disclosing the budgeted expenditure figure in the invitation to tender that has given prime contractors the opportunity to “divvy up” this money in the same way as they dissected the technical solution into its workshare parts, thereby offering leeway for discretionary payments.

42. By its very nature, this type of clandestine activity in the defence supply chain is very difficult to unearth, because the extremely *small* number of people right at the top who benefit from it will go out of their way to keep it under wraps, citing the excuse of commercial confidentiality whilst skilfully covering their tracks.

43. It is truly a bizarre situation, where the buyer *tells* the seller (confidentially) the price level at which he should pitch at, so that they can both profit. A scenario which can only occur on government-funded contracts!

EPIC STORY OF BRIBERY AND CORRUPTION

44. But what is especially disturbing about this epic story of bribery and corruption is that it is instigated and perpetuated by people who were *previously* in the pay of the State – given that the workforce on defence contractors' premises, large or small, is made-up *entirely* of former public servants who came across in overwhelming numbers, via the “revolving door” to pursue a second career in the private sector.

³ *ibid.*, p.23

45. Whatever happened to the much-vaunted principles of selflessness, integrity, objectivity, accountability, openness, honesty and leadership which was supposed to define these people?

46. What's more, MoD's green lighting of this practice has prompted first-tier subcontractors to also select their *lower-tier* suppliers in the same manner, paving the way for the entire defence supply chain to be corrupted, right down to the lowest level of piece-part & component manufacturers.

FAILING TO SPREAD PROSPERITY AROUND

47. But the real tragedy about this whole sorry saga is that agile and innovative engineering businesses from adjacent sectors, who have not previously engaged with MoD, have been *shut-out* from the opportunity to act as subcontractors to these defence prime contractors, which would explain why it has failed so miserably to comply with the government's own policy of spreading prosperity & opportunity around, by increasing the proportion of MoD spend with small and medium-sized enterprises to 25% by 2020. The actual figure for financial year 2018/2019 was 19.3%.

48. Additionally, *not* using the market-based instrument of open and fair competition to select first-tier subcontractors has the effect of protecting these defence SMEs from being exposed to the full rigours of the free market, that is to say, shielding them from "feeling the heat" of competitive market forces, which has in turn, led to them becoming notoriously inefficient, because they are simply being gifted a steady stream of uncontested subcontracts which they expect to receive in perpetuity – cultivating an entitlements culture.

49. It is also the reason why engineered products manufactured by indigenous prime contractors cost *substantially* more than equivalent items in the non-defence sector – which would explain why they have become seriously uncompetitive both, in the domestic market and in export markets.

50. It is a mystery why the government would want to tolerate this sort of criminal behaviour on taxpayer-funded contracts, given the intense focus of attention on the dubious habits of the private sector right now, and the uncertainty surrounding the continuance of free market capitalism in its present form in the UK.

CONCLUSIONS

51. The undeniable fact is that lobbying and corruption is widespread throughout the public and private sectors, but no one has bothered to publicise this reality in Parliament.

52. The Nolan Principles are being routinely and brazenly violated without care or concern, by people in public office at every level of the hierarchy – not just at the top.

53. Far from facilitating the delivery of equipment to the Armed Forces that is fit for purpose, adequately sustained in-service and constitutes value for money through-life, defence procurement and the attendant defence manufacturing industry that relies on it for its survival is nothing but a protection racket – created to serve the career interests of people who are currently in the pay of the State, and those who were previously in the pay of the State.

54. Everyone has a right to sell their labour in the free market to whomsoever they wish, for whatever price they can command. However, the brazen way the newly-retired political, administrative and military elite have gone about exercising this freedom without any checks and controls on the way they go about disseminating privileged information

about inner workings of government is scandalous, and always to the detriment of taxpayers.

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56. The problem with government markets is the endless subsidies handed out to incumbent businesses which insulates them from being usurped by agile and innovative start-ups, thereby preventing wealth being spread about.

57. Unlike MoD, which has been disbursing defence contracts on national security grounds, prime contractors are using the tried-and-tested old boys' network to choose their first-tier subcontractors.

58. What is especially disturbing about this epic story of bribery and corruption in the defence supply chain is that it is instigated and perpetuated by people who were previously in the pay of the State.

59. It is ironic that people in Whitehall are ready to impose strict rules and regulations on the private sector to curb its excessive profiteering tendencies but hesitant about any constraints on their *own* behaviour or ethical conduct in public office. Such are their values!

May 2021