

Subcontracting is the curse of the modern economy

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The UK economy is now a mess built on the foundations of everyone sub-contracting everything they can whenever they think that possible. The result is that we have an economy made up of middlemen, all of them raking off their own bit of profit.

<https://www.youtube.com/watch?v=1Fcy3CuTsYE?si=r2ijcnEhBluyX3HK>

This is the audio version:

https://www.podbean.com/player-v2/?i=euq28-171b6e9-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=c73a3a&font-color=&logo_link=episode_page&btn-skin=ff6d00

And this is the transcript:

We really need to cut the middleman out of government.

What am I talking about? I want to tell you a story that my father told me a long time ago when he was a quite senior engineer in what was then called Eastern Electricity, which was of course part of the nationalised electricity industry, and supplied power electric power, to the people of East Anglia and beyond.

What he explained to me was that whatever happened to the power lines for which he was responsible in the whole of East Anglia and beyond, he had the labour force available to him to make sure that repairs could take place quickly. In other words, he

always had excess capacity to deal with any problem that came up, because that Electricity Board believed that it was its duty to ensure that everybody got power all the time, and if there was a crisis, like a winter snowstorm or something that brought a line down, they had to solve it as quickly as possible and had to have the people on hand to do it.

Now, that was a management philosophy that he knew and understood and liked.

That is not the management philosophy that now exists in any part of the UK government or the services that are privatised.

Instead, what we have is a situation where they work as lean as possible. And let's use that same example, although I admit that I am talking about hypotheticals here because I need to, because the companies in question all vary in their practices, but now a company that was employing people to deliver electricity would almost certainly outsource the vast majority of its maintenance work.

Now, that was what my father employed those staff who were excess to apparent requirements to do when they weren't dealing with an emergency. Those people weren't sitting around on their backsides doing nothing. They maintained the power lines. They kept the system in good order. Those spare people weren't spare. They were the pool of labour that was necessary to keep the system in good order so that breakdowns did not take place. And as a result, by and large, those breakdowns did not take place.

But now a power company will do something quite different. It will outsource the maintenance to a contractor.

That contractor will then subcontract the contract they've got.

In other words, they will let out a contract for a particular power line from A to B, and another one from B to C, and a further one from C to D, and on.

In other words, there will be hordes of contracting going on to get what they think is the best price for the maintenance of each element of the lines for which they have accepted responsibility under the main contract they've been given.

What does the subcontractor then do? You can guess it. They subcontract the work.

They might actually subcontract the work from, as I've just said, A to B, but they might do part of that to one person and part to another person and so on. But more likely, what they'll actually do is subcontract it to an actual contractor - somebody who employs people who will go out to a power line, in a van, and if necessary, they'll go up it, make the repair, and do whatever it is that is required.

The person at the bottom will themselves even quite possibly be established as a

contractor working for their own limited company through an umbrella organization to sell services to that third-tier contractor, who sells to the second-tier contractor, who sells to the first-tier contractor, who then sells to the power company.

Just imagine the inefficiency in that whole system. First of all, the company at the top has no idea who the person at the bottom who's actually doing the work is.

They've got no responsibility for them.

They've outsourced the responsibility for their training to somebody else, presuming that that is covered by the contracts that they've issued, after which they wash their hands of all further concern.

They aren't responsible for their pension.

They aren't responsible for their well-being.

They aren't responsible for their continuity of employment.

That person, the person at the bottom of the pile, now takes all the risk of ensuring that the power supply remains in place. when required, because they will not be paid if there is no work required of them, which will be the case when there isn't an emergency. Now they might charge a premium rate when there is an emergency, but even so, that assumes they're still around and trained to do the work.

This breaking down of the system has two consequences. One, there is no certainty of supply.

And two, whatever supply you get is incredibly costly to secure because at each tier of that whole contracting arrangement, the contractual arrangements have to be put in place, and that's great news for a lawyer somewhere.

And vast amounts of accounting has to be undertaken, which is great news for my old profession of accountancy.

And, somewhere along the line, everybody wants to take off a little bit of profit to make it all worthwhile, none of which actually needs to be paid, because we could go back to what we might call the old days, when my father was alive and running the same system, which was when he employed the people directly.

He knew who they were, he knew where they were, he knew what they could do, he knew he was responsible for them, he knew he had to train them, and so on.

Which of those two systems was really more efficient? My argument is quite straightforward. It was actually the old one. Because that way, the productivity of those people could be guaranteed.

The system could be kept in best order by people who knew what they were doing. And who were trained to do the job. And, at the same time, every single emergency could be managed. The consequence was the customer got best value for money.

Now, the profiteer gets best value for money. The lawyer gets best value for money. The accountant gets best value for money. The person who runs the umbrella company that finally employs the people who actually go out and do the real work that we require takes their own slug and gets best value for money.

And where is the employee at the whole bottom of this, now a contractor? Well, they're taking all the risk.

Them, and of course you. Because you are taking all the risk because you can't be sure that your power supply company will deliver you with energy.

Now, what does this all mean? What it means is this, in my opinion. That if we want an answer to the productivity problem in the UK, what we have to do is eliminate all these tiers of contracting. We need to get rid of this vast, endless infrastructure of legal practice and accounting practice and profit-taking that actually strips value out of every single thing we buy because the person with whom we contract, whether it be government or us, can't actually do the job themselves but will always pay someone else to do it.

I had the same problem with the washing machine recently. I had to complain about the fact that a relatively new acquisition had not worked. It needed repair. And the company in question said, well, we don't repair them, even though it was under guarantee. That's all been put out to contract. And I had to deal with a contractor who, guess what? - subcontracted it to somebody locally.

Now, the person did a great job repairing the washing machine in question. It now works. But there were three tiers of contracting even between me as a consumer and that person who came to repair it, whereas I had one contract that I knew of with the person who had sold it in the first place, but apparently not.

This is totally unproductive commercial practice intended only to increase the return to our professional people, using that term loosely, and the return to capital, because everybody takes a slug of the action all the way through, and ultimately the price has gone up. If the price has gone up, but we get nothing better, we're in a less productive economy.

And this failure in productivity in the UK economy is, I think, very largely down to our belief that nobody should actually do anything but should always subcontract it until we've come down to the bloke who actually knows how to turn the screwdriver and get the job done, or the person, whoever it is, who knows how to deliver the care that we require.

You get my understanding that people with the real artisan skills that are necessary to make large quantities of life function in the UK are being exploited by this system, and so are you if you want to buy their services but have to go through hurdle and hoop and whatever other barrier it might be that's been put in your way to get what you need at a higher price than is necessary.

We don't need to do this. We could actually go back to a system where people were plain straightforward and employed the staff that they required to do the jobs that they needed to be done. But that wouldn't give everybody the profit they want, would it? So that would be a terrible thing, except we'd all be better off.