

RAILWAYS AND THE STATE IN THE UK

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The UK was unusual in the absence of direct inputs by the state into the design, building or financing of its railway system. This did not mean that the railways were 'exemplars of Victorian private enterprise, unfettered by the state'¹. Each new company required legislation, often contested, which accounted for about 5% of all development costs². This factor, along with the high cost of land, and parochial taxation, helped to impose a long-lasting over-capitalisation on the industry in its first few decades the nineteenth century also left a legacy of public regulation which had a uniquely high impact on the railways.

Before 1900 governments had taken powers to require the running of cheap trains for the benefit of workmen (1844 and 1883), the publication of rates and fares (1873), the standardisation of accounting systems (1868), maximum hours of work (even for adult males) (1893), the use of specified signalling and braking technologies (from 1889) and, most crucially (1894), maximum fares (subject to the authority of a statutory body, the Railway and Canal Commission). These measures had been taken out of concern for the welfare of passengers rather than employees, and in order to preserve competition and promote the public interest. The motivation for such interventionist strategies was not difficult to identify. Railways were,

until the appearance of the internal combustion engine, increasingly important to the economy, and increasingly dominant as a mode of transport. Furthermore, the industry was concentrated and the bigger companies were extremely large in relation to their counterparts in other sectors. By 1870 the 'big four' accounted for 44% of railway turnover. By 1905 the Midland had a paid-up capital ten times as great as the largest manufacturing firm. One authority has judged that price competition, which had been active in the early decades, was 'virtually dead by 1870'³. It is hardly surprising that fear of the consequences of railway monopoly took root in the nineteenth century.

Beyond these broad aims, public policy had lacked consistency. Regulatory institutions were relatively weak and incapable of exercising close control, but the complex of restrictive measures limited the freedom of action of railway management. Devices such as rates agreements and pooling schemes, which had been developed by companies as protection against competitive instability, were neither outlawed nor made legally enforceable. Major merger proposals, for which there was often a strong economic case, were rejected by parliament which periodically came under strong pressure from traders and public opinion (1868, 1873, 1908, 1909). On other occasions, amalgamation

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¹ Gourvish, T. R., "The Regulation of Britain's Railways: Past, Present and Future", in L. Andersson-Skog; O. Krantz (eds), *Institutions in the Transport and Communications Industries*. Canton, Mass, Science History Publications, 1999, 117-118.

² Simmons, J., *The Railway in England and Wales 1930-1914*. Leicester, University Press, 1978.

³ Channon, G., *Railways in Britain and the United States 1930-1940*. Aldershot, Ashgate, 2001, 111.

was permitted, as in 1899, for two large companies in the south east whose previous relationship has been described as ‘the worst case of mutually damaging competition’⁴. Overall, it is undoubtedly true to say that governments ‘wavered between imposing control and allowing commercial freedom’⁵, and probably correct also to say that ‘three decades of state intervention did more to facilitate railway development than to restrict commercial freedom’⁶. Some have nevertheless detected a major mood swing at the end of the 1860s and the beginning of the 1870s, which led to a pronounced tightening of regulation⁷. This happened despite the presence of a numerically strong ‘railway interest’ in parliament. This had peaked in 1866, when 215 railway directors were counted, including 51 in the House of Lords, though it has been plausibly estimated that the ‘efficient interest’ was a much smaller group of around 60 MPs on the boards of the larger companies. The influence of this lobby has been described as ‘more apparent than real’⁸. An alternative, but not totally dissimilar, interpretation is that the ‘railway interest’ was capable of delaying or diluting hostile legislation, but lacked the ability to succeed with positive proposals of its own⁹. Governments were able to count on the support of the great majority of the business community and of public opinion more broadly in opposing the interests of railway shareholders and in imposing a public utility role on the companies. As one historian has put it, the railways were an area where ‘vested interests combined against others –other employers pressed the government to regulate’¹⁰.

Despite concentration and the decline of price

competition, railway profits were not as high after 1870, with the net rate of return falling gradually from 4.55% in the early 1870s to 3.38% in 1900, before a minor recovery to 3.6% up to the First World War. If nominal additions to capital (capital not actually subscribed, or ‘water’ as it was sometimes described) are excluded, then returns were slightly higher, around 4.3% in the late 1890s, 4% in the next decade, and improving to 4.2% in 1910-12. The operating ratio, which measured working costs as a proportion of gross revenue, also deteriorated, pointing to difficulty in controlling a long-term trend of rising costs¹¹. The reasons for this problem were multiple. The forms taken by competition, when rates and fares were virtually identical, were in offering the fastest service, the most direct route and the most convenient terminal facilities. The broad reaction of the railways to public criticism in the late nineteenth century was ‘by increasing services while attempting to maintain rates, thus assuming a “public service” stance’¹². There can be little doubt that management was on the whole better organised and more systematic in the later nineteenth century than earlier¹³. Management reorganisation was associated with successful drives for efficiency in at least two of the larger companies, the North Eastern and the Midland, just before and after 1900¹⁴. The growth of regulation was clearly significant in explaining the divergent trends in profit and in managerial practice.

A major additional factor bearing on costs at this time was the rapid unionisation of the railway labour force, in which union density reached

⁴ Bonavia, M., *The History of the Southern Railway*. London, Unwin Hyman, 1987, 9.

⁵ Gourvish, T. R., “The Regulation...”, op. cit., 120.

⁶ Id., *Railways and the British Economy 1830-1914*. London, Macmillan, 1980, 51.

⁷ Parris, H., *Government and the Railways in Nineteenth Century Britain*. London, Routledge and Kegan Paul, 1965.

⁸ Alderman, G., *The Railway Interest*. Leicester, University Press, 1973, 224-227.

⁹ Watts, D.C.H., “British Railway Nationalisation: A Re-examination of the Causes, 1866-1921”. *Contemporary British History*, XVI-2 (2002), 18.

¹⁰ Wrigley, C., “The Government and Industrial Relations”, in id. (ed.), *A History of British Industrial Relations 1875-1914*. Brighton, Harvester Press, 1982, 152.

¹¹ Gourvish, T. R., *Railways...*, op. cit., 42-43.

¹² Channon, G., *Railways...*, op. cit., 126.

¹³ Crompton, G., “Management”, in J. Simmons; G. Biddle (ed.), *The Oxford Companion to Railway History*. Oxford, University Press, 2007, 306-307.

¹⁴ Howell, D., *Respectable Radicals*. Aldershot, Ashgate, 1999, c. 2 ; Irving, R.J., *The North Eastern Railway Company 1870-1914*. Leicester, University Press, 1976, 213-227, 269-284.

roughly 50% by 1914. The unions enjoyed little success in the short run, but their formidable grievances over pay, conditions and discipline were intensified by the refusal of recognition by the employers. This had serious implications for both railways and government. The notion that major industrial disputes were purely private matters was already under challenge. The railways themselves, by increasing the interdependence of various sectors of the economy, strengthened this challenge. A threatened national rail strike in 1907 on the issue of union recognition quickly provoked government intervention. Lloyd George, a senior minister in the Liberal government, 'achieved a major political success'¹⁵ by settling the dispute after persuading the employers to accept a conciliation scheme, with permanent representative machinery. Four years later, amid more general labour unrest, the Prime Minister, Asquith, tried and failed to end a rail strike by offering a Royal Commission to investigate the workings of the 1907 conciliation scheme. Before the dispute was finally settled, after pressure from Lloyd George again, the first direct meeting had taken place between railway managers and union officials. Especially during the hectic years 1910-14 the government was involved in industrial disputes 'very much on an improvised basis'. In such a period of labour militancy, the government intervened so as to limit trade union gains, but also particularly important to Liberals was the objective of promoting a balance between labour and capital and attempting to minimise class conflict¹⁶.

Only a few years later the wartime coalition headed by Lloyd George began to take a more coherent and consistent attitude towards industrial relations. Between 1914 and 1921 the railways, in accordance with war contingency legislation of 1871, were under government control and operated as a unified system by a Railway Executive Committee staffed by senior company managers. Trade union recognition soon ceased to be an issue, being extended not just to the two main manual unions

but also to the body representing clerical and supervisory employees. Important gains were made by the unions in this period, not just pay increases to at least double the pre-war standard, but also the guaranteed eight-hour day, the guaranteed week and a week's paid holiday. These concessions were made partly in order to avoid a threatened strike in early 1919 and to end an effective national strike in September of that year. Soon afterwards, collective bargaining machinery was adopted. This included a Central Wages Board with representatives of the companies and the unions and a National Wages Board which additionally contained representatives of the public and an independent chairman. This machinery was subsequently endorsed by the 1921 Railways Act¹⁷. All this was part of a broader national trend. By 1920 about half the labour force in the UK was covered by multi-employer agreements, through either joint industrial councils, as on the railways, or statutory bargaining machinery. Although such developments built on pre-war foundations, where multi-employer bargaining had often been established on a local or regional basis, they were greatly stimulated by the Whitley Report of 1917 and by more general government encouragement. The years 1918 to 1921 saw 'an extensive and ambitious experiment in the state-sponsored construction of industrial relations', which strongly implied official approval of trade unionism¹⁸.

The new bargaining institutions on the railways were good examples of Britain's 'first industrial relations system, based on 'collective laissez-faire', which emerged between the 1890s and the early 1920s. This system can be seen as a response to economic problems of retardation and slow growth and the associated need for restructuring, and to the waves of strikes which were both causes and effects of these changes. However, this was most applicable to such export industries as coal, textiles and iron and steel, which were characterised by extensive growth, unstable competitive conditions and fragmented ownership¹⁹. The railways did not conform to this model. However, the railways were

¹⁵ Wrigley, C., "The Government...", op. cit., 143.

¹⁶ Ibid., 150-154.

¹⁷ Crompton, G., "Squeezing the Pulpless Orange: Labour and Capital on the Railways in the interwar years". *Business History*, XXXI-2 (1989), 66-68.

¹⁸ Howell, C., *Trade Unions and the State: The Construction of Industrial Relations in Britain 1890-2000*. Princeton, University Press, 2005, 73.

¹⁹ Ibid., c. 3.

about to enter a period when they were subjected to unforeseen competition from another mode of transport and also to depression in the staple industries. Much greater instability may have ensued in the absence of the new bargaining system.

World War I changed much else for the railways, apart from industrial relations. The years of unified control, escalation of costs, inevitable neglect of assets and the obviously poor post-war prospects for the smaller and weaker companies all combined to raise the question of the future structure of the industry. There was briefly a consensus favourable to some centrally administered scheme and the issue of nationalisation was naturally raised. Ministers introduced a bill in early 1919 giving the government powers to nationalise transport, the main stated reason being that 'in the past private interest made for development, but today I think I may say that it makes for colossal waste'. But the coalition government, under pressure from employers' organisations, and by now dependent mainly on Conservative support, soon changed its mind. A new way was devised of returning the industry to private ownership, although even this amounted to a major U-turn. Under the 1921 Railways Act 123 companies were compulsorily merged into four giant regional groups, the 'Big Four' of the interwar period: London, Midland and Scottish (LMSR), London and North Eastern (LNER), Great Western (GWR) and Southern (SR). These new companies were to be subjected to intensified regulation, by the recently created Ministry of Transport and the new Railway Rates Tribunal, which had powers of price control. A scheme for capping profits, based on the concept of 'standard revenue' (essentially the 1913 level of profits, with adjustments for subsequent investment) was a novel regulatory feature. This comprehensive reorganisation has been judged as having gone 'significantly further than any other intervention to date in the private sector in Britain, save the state's purchase of the domestic telegraph system in 1860'²⁰.

The act could be interpreted as either a half-way house to nationalisation, or as the most effective alternative to it. It seemed radical in its ditching of inhibitions about mergers in a major utility, but conservative in refusing to accept the value of uni-

fied direction of the system. Issues remain as to whether the act was influenced most by the 'national interest' or the 'political economy' schools of pre-1914 thought, as they have been recently labelled. The former, which logically led to advocacy of state control, emphasised the need to ensure that the railways were used to benefit the national community. Some of the characteristic metaphors in this discourse were of the railways as 'beasts of burthen to the nation', as a 'national means, not just a business', or as circulatory 'life blood' for the community. It was non-socialist in origin, but a 'left' perspective was sometimes added to this approach, often by socialists or trade unionists who believed that state ownership was appropriate for all major sectors of the economy and/or that this would be beneficial for railway workers. Before 1914 these views had been apparently gaining in popularity, and wartime problems had increased their relevance. The decisions taken after the war perhaps reflected these influences, weakened by late concessions to the political right as wartime pressures receded²¹.

But it can be argued that the 1921 act was influenced more by 'political economy' than 'national interest' antecedents, and that the desire for an early 'return to normalcy', or escape from wartime collectivism, was also a relevant factor. The 'political economy' approach had been favoured by those whose usual instincts were for laissez-faire economics and for non-intervention by government. It was generally dominant, though sometimes on the defensive, before 1914. Its adherents were sympathetic both to the property rights of railway shareholders and to managers' right to manage, and lacked confidence in the ability of government, especially one responsible to an elected assembly, to run an industry successfully, and without undue deference to employee interests. They occasionally made disparaging references to examples of other countries where railways were either subsidised and/or under state control. The inability of the railways to conform to customary models of market competition was something of an embarrassment, but nevertheless, it was deemed preferable to accept the emergent tendency of companies to cooperate and cartelise. Indirect regulation by law was less objectionable than direct state interference²².

²⁰ Channon, G., *Railways...*, op. cit., 128.

²¹ Watts, D. C. H., "British..." , op. cit., 8-15.

²² *Ibid.*, 15-19.

What is indisputable is that the legislation did indeed look back to the late nineteenth century rather than forward to the economic circumstances of interwar Britain. The fundamental omission was, of course, failure to anticipate the continuing expansion of road competition, and perhaps more excusably, the prolonged depression of the heavy industries which were the railways' principal freight customers. Although private ownership had been relieved, fear of railway monopoly and abuse of power had not disappeared. The Railways Act maintained and even tightened controls over the form and level of charges. This left the companies still forbidden to discriminate among customers and committed to a rate structure based on value by weight. 'Standard revenue', eventually set at just over £51 million a year, representing a return of between 4% and 5% on nominal capital, established a norm for profitability. If this figure had been exceeded, then 80% of the surplus would have been redistributed to customers. If standard revenue was not achieved, the only compensation available within the system was that the Railway Rates Tribunal would be sympathetic to proposals for higher charges. This advantage proved elusive, as price increases would simply have meant faster loss of market share.

In the 1920s it was passenger traffic that suffered the most serious losses, with receipts declining by 13% between 1923 and 1929. This reflected increased competition from buses and private cars. On the freight side of the business, the main problem was not so much diversion of traffic to the roads but rather the sluggish performance of the principal export industries. It was calculated in 1931 that if railway receipts had risen in line with overall economic growth, they would have been around 25%, or £45 million higher. Even so, the 1920s saw a slight improvement in profits, with net receipts from railway operations alone improving by 4%. The absolute fall in revenue was outstripped to the extent of £1.5 million by a larger reduction in expenditure. This, in part, represented the 'fruits of amalgamation', the slow-moving process of rationalisation and standardisation which occurred within each of the Big Four after the multiple mergers of the early 1920s. The upshot was that

the cyclical peak of economic activity in 1929 marked the closest approximation to the achievement of standard revenue. Two of the four groups came quite close in that year²³.

A collapse in profitability then occurred as the railways suffered the impact of the severe economic downturn of the early 1930s. The decline in company receipts from 1930 to 1932 varied between 15.9% and 23.6%. This time an associated reduction in expenditure ranging from 12.4% to 17.9%, reflecting the continuing gains from amalgamation, could only partly compensate. At the low point in 1932 two of the four scored less than half of standard revenue. £260 million of railway capital went without dividend, and only one company, the GWR, which drew on reserves for the purpose, was able to make any payment to ordinary shareholders. A substantial recovery then took place between the years 1933 to 1937, coinciding with a pronounced upturn in the British economy. Even so, at the modest peak of 1937, only one company posted higher net revenue than in 1929, with the other three showing falls of between 12% and 22%. By then freight was identifiable as the main problem area. In 1937 three of the Big Four were carrying more passengers than in 1929, and for longer average distances. But the volume of goods travelling by rail had dropped by 9.1% since 1929. The losses affected all categories, but mainly the lighter and more profitable types of merchandise, especially over distances below 75 miles. Where the freight market was growing, railways were losing traffic to road hauliers. Where their competitive position remained strong, as with coal and minerals, the available traffic declined because of the slump in the heavy industries. Again the railways were left with a reduced share of the total transport market and took only a thin slice of the economic recovery of the 1930s. A renewed downturn in revenue in 1938, following the trend of the economy, lowered the return on capital to roughly the level of 1932. There was only a brief recovery before 1939

Railway profits varied between £26 million and £44 million a year between 1921 and 1939, with peaks in 1929 and 1937 and troughs in 1932 and 1938²⁴. The railways held on to most of their

²³ Crompton, G., "Good Business for the Nation: The Railway Nationalisation Issue 1921-47". *Journal of Transport History*, XX-2 (1999), 142.

²⁴ *Ibid.*, 142.

traffic, with a moderate decline in freight being partly compensated by a gentle rise in passenger use. Total goods traffic fell from 19.17 billion ton-miles in 1920 to 16.67 in 1938. Total passenger miles between the same dates increased from 19.21 billion to 20.0²⁵. All these figures point to a substantial loss of market share by the railways. Estimates suggest a slippage in land passenger mileage from 19.2 out of 32.5 billion in 1920 to 20 out of 47.7 billion in 1938 (excluding private cars)²⁶. No reliable figures exist for car mileage or for road freight volumes, but it is known that the number of goods vehicles in use rose from 101,000 in 1920 to 494,000 in 1938.

The 1921 settlement was gradually drained of credibility as the railways failed to improve their financial performance and the anachronistic character of the regulatory system became increasingly obvious. This was, of course, open to amendment, and the railways, dependent as ever on parliamentary and public opinion, worked hard to emphasise the unfair disadvantages under which they laboured. Their successes included the granting of road powers to railway companies in 1928, reduction in the burden of local rates in 1929 (though the benefits went to customers, not the railways), the remission of passenger duty in 1929, and the introduction of a degree of regulation and public control over road transport in 1930 (passenger) and 1933 (freight). This did not, however, extend to 'C' licences ('own account' haulage by traders' own vehicles) which were the strongest growth point in interwar road transport. Two other welcome improvements in the early 1930s were the ending of restrictions on pooling of fares (helpful because of territorial overlaps among the Big Four) and on the granting of special rates (discounts for volume) to customers. Remaining problems were the railways' status as common carriers, the obligation to publish their rates and the charging system which set low rates for bulk freight where rail still enjoyed a modal advantage, and high for lighter, more valuable commodities. Road competitors were able to bid selectively for the more profitable traffic, thus 'skimming the cream' and leaving the railways

with the 'muck'. Road haulage could also exploit the advantage of a non-unionised labour force and lower labour costs²⁷. In the late 1930s a more radical proposal, the 'Square Deal', was advanced by the railway companies, which would have ended the remaining regulatory handicaps, especially in respect of pricing, but this lapsed because of war.

In one limited respect, the more sympathetic attitude of the state went beyond the removal of disadvantages and extended to positive measures of assistance. Legislation was passed in 1929 and 1935 which indirectly and modestly subsidised the railway companies by allowing them to borrow at less than normal rates of interest in order to finance employment-creating projects. Just over £30 million was raised under the first act and about £66 million under the second. The rationale was to facilitate useful investments which would not otherwise have been possible. This success was not without its problems. It was periodically stressed by the companies, as in the 'Square Deal' campaign, that Britain had virtually the only completely independent and unsubsidised railway system in the world. Acceptance of state help sat uncomfortably with such claims. The embarrassment was intense when the Weir Report of 1931 recommended large-scale electrification of the railways, costing £260 million, and the railway response was to ask for financial assistance. The government of the day was the minority Labour administration of 1929-31, and the minister in question was Herbert Morrison, who was to become a central figure in the nationalisation programme of the majority Labour government of 1945-51. Morrison grasped more clearly than anyone else the argument that if public support was considered essential, either to maintain railway revenue or to stimulate the economy, then continued private ownership became very difficult to justify. On several occasions he was scathingly eloquent about the railway record on electrification and modernisation. He suggested that it was evidence of 'degeneration into a Poor Law frame of mind' and amounted to 'a confession that they could not adequately do the job'. By 1939 only 5% of British railway mileage had been elec-

²⁵ *Railway Returns, 1921-1939.*

²⁶ Stone, R.; Rowe, D.A., *The Measurement of Consumers' Expenditure and Behaviour in the UK 1920-38*, vol. 2. London, 1966, 71.

²⁷ Crompton, G., "Efficient and Economical Working?: The Performance of the Railway Companies 1923-33". *Business History*, XXVII-2 (1985), 223.

trified, and only 1% north of the River Thames, as the Southern was the only company with a strong record in this respect. Morrison used the issue of electrification, which he associated with 'cleaner and brighter railways' to symbolise the common complaints against the interwar railways of the shabbiness and obsolescence of buildings and equipment²⁸.

Other factors promoted the revival of the case for nationalisation. Less than ten years after the settlement of 1921 opinion began to shift markedly under the impact of economic depression, railway decline and road competition. There was increasing awareness of the desirability of transport co-ordination, as was recognised by the Royal Commission of 1929-31. The main report anticipated unification by gradual and voluntary methods, but a minority addendum advocated nationalisation under the aegis of a National Transport Trust. Another important development was the establishment of the London Passenger Transport Board in 1933. This was carried out by the (Conservative) National Government, but had been conceived on non-partisan lines by Morrison a few years earlier. It dealt with congestion in London by co-ordinating traffic under the control of a statutory board. This was the first time that shareholders in existing businesses (bus, tram and underground railways) had been compulsorily bought out and compensated in paper securities, with no say in the appointment of directors.

The LPTB was based on the principle of the public corporation, which in later variants meant that board members would be appointed by the relevant minister solely on the grounds of individual ability and experience, with no concern other than the public good. Such bodies would enjoy considerable autonomy in running, in some cases, an entire industry, subject only to a general responsibility to government and parliament. Under independent and disinterested management, a nationalised undertaking would be 'absolutely free to go for sheer efficiency right from the beginning'. This approach was applied to the railways in the

1932 Labour Party policy statement *The National Planning of Transport*, which included the claim that transport nationalisation would be 'good business for the nation'. Some elements in this structure, particularly the absence of any representation for railway employees, were often challenged in debates within the party and its affiliated trade unions during the 1930s. Nevertheless the model survived as the basis of Labour policy and was implemented by the Attlee government after 1945. Its adoption by the main opposition party as the likely form of any future public ownership scheme almost certainly reduced hostility to nationalisation. The public corporation principle had already been accepted in the practice, if not the theory, of Conservative governments (the Central Electricity Board and the British Broadcasting Corporation of 1926), and in the policy proposals of the Liberal Party (the Yellow Book of 1928)²⁹.

By the late 1930s the Big Four had undergone an irretrievable decline in earning capacity, had become both financially over-capitalised and physically under-capitalised, were unable to modernise themselves unaided, and incapable of unifying the transport system³⁰. Some of them even showed awareness of their situation. At the end of 1937 the chairman of the LNER made a statement indicating that shareholders would not resist nationalisation on fair terms, remarking that 'the control of the railway industry by the state has reached a point at which accuracy can barely designate it as a private undertaking'. A railway-sponsored publication in 1938 defined the nationalisation issue as whether a self-supporting, adequate and properly-co-ordinated transport system could best be achieved under public ownership or under a combination of private ownership and uniform state regulation³¹.

Whatever the drift of opinion in the 1930s railway nationalisation was actually the result of World War II and the victory of the Labour Party, with an overall majority, in the 1945 general election. The weakness of resistance obviously owed much to the discrediting of the interwar regulatory system and to the emergent consensus that inves-

²⁸ Crompton, G., "The Railway Companies and the Nationalisation Issue 1920-50", in R. Millward; J. Singleton, *The Political Economy of Nationalisation in Britain 1920-50*. Cambridge, University Press, 1995, 125-136.

²⁹ Crompton, G., "Good...", op. cit., 149-150.

³⁰ Crompton, G.; Jupe, R., "An Awkward Fence to Cross: Railway Capitalisation in Britain in the Interwar Years". *Accounting, Business and Financial History*, XII-3 (2002), 439-459.

³¹ *Modern Transport*, 1938, 1 January, 9 April.

tment was bound to remain inadequate within existing structures. In Labour thinking, the railways fitted virtually every category of justification for nationalisation. They were 'natural monopolies', public utilities of strategic importance for other sectors of the economy, they were already cartelised and heavily regulated, their employees were strongly unionised and in favour of nationalisation, and their decline and limited profitability jeopardised investment and employment³². Heavy wartime use and dilapidation accentuated these factors to the point where 'a national rescue act' seemed necessary. Even so, the Labour leadership had become curiously reluctant to make any definite commitments on nationalisation. Although wartime public opinion moved decisively towards Labour, the party had been much affected by its participation in coalition government. Its consensual impulse was further magnified. In part this meant the downgrading of nationalisation as a policy instrument, especially in relation to economic planning. Reduced concern with full employment as a central priority, and the recent availability of physical controls and Keynesian budgetary techniques were influential here. However, a resolution at the party conference of 1944, moved from the floor by a railway trade unionist, forced the party to adopt a target list for nationalisation³³.

The rescue of the railways cost £927 million under the Transport Act of 1947. Furthermore British Railways were required to carry the cost of servicing the debt on government stock issued in compensation. These interest charges, amounting to about £27 million a year, were sufficient to keep net earnings negative. The disappearance of surpluses almost immediately after nationalisation was an ominous initiation for BR. It has been counterfactually, but plausibly, suggested that if the government had been prepared to delay slightly, the railways could have been acquired 'at much less cost to the public by sale through the receivers'³⁴. BR was not expected to act as a profit maximiser, being required only to aim to break even over the

course of the business and serious deficits. Gourvish has recalculated the financial results over the first five years, and his conclusions point to a cumulative loss of £28.8 million. Even the tiny nominal surplus recorded in 1952 disappears on this reworking. The implication of these figures is that there was 'no period of comparative prosperity before the onset of more intense road competition from the mid 1950s'. The estimated £440 million disinvestment between 1938 and 1953 left a depressing legacy for those contemplating revival³⁵.

The near inevitability of losses by the late 1940s soon began to expose the seriousness of the ambiguities inherent in the 1947 act. The British Transport Commission was required to provide an 'efficient, adequate, economical and properly integrated system of public inland transport'. It was assumed, as it had been by advocates of public ownership in the debates of the 1930s, that it would be possible to combine commercial efficiency with public service. The legislation made clear the government's entitlement to give 'directions of a general character' in the national interest. Some problems were immediately obvious. The vast majority of the road haulage industry was left in the private sector, and the aim of unification or co-ordination thereby undermined. There was also some contradiction between the goals of economic planning and the existence of several separate quasi-autonomous nationalised industries (NIs), of which the BTC was just one. Even Morrison himself seems quite quickly to have regretted that the government, which had 'a wider viewpoint of the public interest than the Boards' was no longer 'in a position to exercise the control on wide issues of policy which the national economy requires'. Later historians noted that there was no systematic instigation of investment, or use of government purchasing power to influence the private sector. Not surprisingly, 'any hope of a unified transport system, or a coherent energy policy...died in the lifetime of the government that set up the nationalisation programme'³⁶. The organisational structure

³² Crompton, G., ., "Good...", op. cit., 153.

³³ Crompton, G., "Railway Nationalisation in the United Kingdom", in L. Andersson-Skog; O. Krantz *Institutions in the Transport and Communications Industries*, Canton, Mass, Science History Publications, 1999, 143.

³⁴ Walker, G.; Condie, R. H. B., "Compensation in Nationalised Industries", in W. A. Robson (ed.), *Problems of Nationalised Industry*. 1952, 65, 72.

³⁵ Gourvish, T. R., *British Railways 1948-1973*. Cambridge, University Press, 1986, 4, 69, 92.

³⁶ Middlemas, K., *Power, Competition and the State, I, Britain in search of balance 1940-61*. London, Macmillan, 1986, 167.

re improvised in 1947, which involved a Railway Executive alongside four other bodies under the overarching BTC, has been judged 'the first of several defective solutions'. The policy-making role of the Railway Executive was cramped by the presence of the superior authority. It had a functional, vertical, managerial structure and did not find it easy to co-ordinate the work of the regions, where loyalty to former company identities remained strong. It was abolished in 1953, leaving the BTC as a unitary body.

As some pre-war union activists had feared, public ownership failed to transform employment relations on the railways. It did not prevent a rapid subsequent reduction in the size of the labour force and may have contributed to the mildness of the union response to this development. At the 1948 conference of one rail union, a well-received speech lamented that 'workers' control of industry seems as far away as ever'³⁷. It has been argued that even by 1951, poor pay, lack of participation in management and dissatisfaction with transport policy had dissolved 'a large part of the goodwill and idealism' initially felt by the employees³⁸. Thus despite the genuine enthusiasm for nationalisation shown by the rail unions, it finally arrived in the form of a public corporation with all the essential characteristics of large private sector companies, in terms of conventional managerial hierarchies and industrial relations, and lack of significance for central economic planning. Thus the large input from a government party professing socialist principles had a relatively slight impact on railway nationalisation. This reflected both the consensual emphasis of interwar Labour policy and postwar failure to develop the potential of public ownership. The government was aware of lack of public enthusiasm for nationalisation and moved to limit its future scope. The phrase 'failing the nation' first appeared in a 1949 policy statement as the basic justification for public ownership, expressing a newer and narrower approach. Some important positive advantages had nevertheless been secured by the 1947 act. Continued private ownership would not have permitted

any substantial investment, could not have unified the network or facilitated standardisation, and would have lacked capacity for coping with the imminent financial deficits.

The next few decades were characterised by continual decline in the railway share of the transport market, though absolute volumes of traffic were broadly maintained – the same trend as in the interwar years. Market share fell from 15% in 1953 to 7% by 1973 to 4% in 1993/4 for passengers and from 42% to 15% to 6% over the same dates for freight³⁹. These figures showed that although BR enjoyed a monopoly of rail transport, it faced fierce intermodal competition, with its sponsoring ministry usually more committed to road-building than to railway development. Forecasts and perceptions of market share, however, varied considerably over time in their realism and accuracy. Through the 1950s there was excessive reluctance to recognise the strength and permanence of the shift to roads. But by the 1980s and 1990s debates on the future of the rail system and the form of privatisation were tinged with unnecessary fatalism over the probability of further decline.

Between these dates the Modernisation Plan of 1955 had been and gone. This was an ambitious scheme to invest £1.24 billion over the next fifteen years on infrastructure, locomotives, rolling stock and stations. It was actually more of a statement of intent than a precise plan, an announcement of a policy of rolling modernisation⁴⁰. The details had to be drawn up in some haste once the government had shown willing to relax its normally unfriendly attitude to capital expenditure. The 'Plan' 'used a scattergun approach to fire investment at all parts of the railway with little sense of overall objectives or priorities'⁴¹. It was riddled with errors, including electrification schemes for branch lines, and massive excesses in several directions – the number of diesel prototypes, of new marshalling yards, of locomotives for the West Coast main line. The underlying financial assumption in 1956, that the BTC would break even on operating account by the early 1960s, was probably illusory from the

³⁷ Griffiths, R., *Driven by Ideals: A History of ASLEF*. London, ASLEF, 2005, 162-163.

³⁸ Bagwell, P.S., *The Railwaymen*. London, Allen and Unwin, 1963, 605.

³⁹ Gourvish, T.R., *British Rail 1974-1997: From Integration to Privatisation*. Oxford, University Press, 2002, 5.

⁴⁰ Loft, C., *Government, the Railways and the Modernization of Britain*. London, Routledge, 2006, cc. 3, 4.

⁴¹ Wolmar, C., *Broken Rails*. London, Aurum Press, 2006, 41.

start. There was both failure to anticipate changing circumstances and mistakes in implementation. The second half of the 1950s represented probably the worst failing by management during the whole period of nationalisation. It seems to have helped the Treasury to acquire 'almost a pathological dislike of large public sector projects', though the Treasury did not, of course, require much assistance in this respect⁴². Despite disappointing results in both technical and financial terms, this period saw a substantial increase in railway investment from £65 million in 1954 to a peak of nearly £168 million in 1959. It rose as a share of both national (4.1% at the peak in 1958-60) and of public sector investment (from 15% to 20% between 1948-53 and 1954-62)⁴³. Most of the new investment went into improved rolling stock, but it also allowed progress towards the elimination of steam traction and the electrification of the west coast main line between London and Lancashire.

The crisis of the early 1960s generated significant changes in both policy and structure. The 1962 Transport Act wrote down railway debt and replaced the BTC with the British Railways Board (BRB), a move which marked the abandonment of aspirations to transport co-ordination. It was, however, a centralising measure within the railway sector. The first chairman of the new BRB was Dr Richard Beeching, who had been recruited from ICI in 1961 as the last head of the BTC, at the unprecedentedly large salary of £24,000 a year. In his first two years he introduced some forty additional managers from the private sector. Beeching was associated with the decision to tackle the problem of mounting losses by way of systemic cuts. The document *The Reshaping of Britain's Railways*, published in 1963, recommended drastic surgery on the more marginal parts of the network, in the hope of restoring the remaining core to financial health. Over 5,000 miles of track and 2,000 stations were intended for closure, and less than half of the surviving mileage was earmarked for development. This strategy was implemented in diluted form through the rest of the decade, continuing after Beeching's own resignation in 1965. It plainly

failed in its aim of restoring profitability. The accumulated losses of £775 million for the ten years after the report were higher than the £560 million for the previous fourteen. The potential savings from the closure programme and the withdrawal of stopping trains had been over-estimated and other cost-reduction opportunities neglected. The statistical basis of the whole exercise had been fragile, and judgements on the contribution to overall revenue of various routes were often dubious. Decades later, some of the closures of the 1960s had become a matter for general regret⁴⁴.

One positive outcome, by way of reaction against the Beeching cuts, was the 1968 Transport Act, which apart from writing off some further debt, introduced the concept of a 'social railway' through a complex formula for special grants for loss-making routes considered necessary on public service grounds. In 1969 302 lines and services received grants amounting to £61 million. The 1968 act also created successful self-managing Passenger Transport Authorities which exercised a measure of control over local services in several metropolitan areas, with the ability to subsidise, specify fare structures and integrate buses and trains. The 1974 Railways Act included a further capital reconstruction, with nearly £200 million of debt written off, and replaced the 1968 grant system with a block grant, the Public Service Obligation. By then a near consensus had emerged on the desirability of maintaining a network of around 11,500 miles. Up to 1974 railway charges had been tightly controlled in a time of rapidly escalating inflation, encouraging passenger growth, but pushing finances into the red. In the second half of the decade, fares were raised far faster than prices in general, reducing railway losses, but deterring passengers⁴⁵.

The case for slimming the network was overwhelming. But there had been a damaging tendency through the 1960s and into the 1970s to pursue a chimera of financial stabilisation via closures. Eventually it became apparent that additional closures could never produce sufficient savings to eliminate the overall deficit. This illusion had been a

⁴² Gourvish, T. R., *British Rail...*, op. cit., 3.

⁴³ Gourvish, T. R., *British Railways...*, op. cit., 274-275.

⁴⁴ Wolmar, C., *Broken...*, op. cit., 44-52.

⁴⁵ Gourvish, T., *British Rail...*, op. cit., 58-59.

distraction from the need to control total costs and to achieve greater efficiency via higher productivity, which often required targeted investment. Treasury scepticism and resistance to investment proposals naturally made this seem impossibly difficult and encouraged persistence with network reduction strategies. Net disinvestment occurred on a considerable scale between 1963 and 1973. Gross railway investment in 1969 was probably 'lower in real terms than at any time since nationalisation'⁴⁶. BRB chairmen Raymond in 1966 and Marsh in 1971-3 and then Parker in 1981 all argued unsuccessfully for major investment in the core network. By the late 1970s the Board was making references in its annual reports to 'the danger of a crumbling edge of quality' (1977) and to 'signs of cracks in quality of service' (1978)⁴⁷.

It was hard to persuade governments of the need for more continuous welded rail, electrification or colour light signalling. The Advanced Passenger Train project had to be abandoned in 1986, when it was possibly close to success. Evolving government guidelines which contributed to this generally unsympathetic attitude included the white paper of 1967, *Nationalised Industries: A Review of Economic and Financial Objectives*, which advocated the use of discounted cash flow techniques with a common test rate of 8%, in order to improve allocation of resources. The External Financial Limits of 1976 sought to relate investment more closely to the recent track record of each NI, and performance targets for NIs were adopted in 1978.

The severe economic depression of the early 1980s saw BR losses reach £1 billion by 1982. It also brought a reversion to earlier and more archaic attitudes to the financial problem. A major investigation by the Serpell Commission produced a resolutely negative report, focusing on the need for reductions in current expenditure and a range of

options for further pruning of the network. Option A, which became the best known, would have cut BR's route mileage to just 1,630 from the existing 10,500 in order to bring commercial viability to rail⁴⁸. The hostile, and effective, response of both BR and public opinion to this threat produced valuable results in the longer run. When privatisation came under active consideration in the 1990s, it was assumed that preservation of existing services would be essential to avoid public anger.

Against this back-drop of a period in which 'regulation became synonymous with parsimony, in terms of both investment and subsidy to the fare-paying passenger', BR's performance was improving. Examples of innovation and success included the High Speed Trains (HSTs) launched in 1976, which provided the fastest regular diesel services in the world, the introduction of sprinter units from 1986 on provincial services and the economical electrification of the East Coast main line in the late 1980s and early 1990s. BR was internationally renowned for its prowess in signalling technology and in portable ticket machines. It had gradually become a much leaner organisation. Numbers employed in the railway business had fallen from just under 600,000 in 1953 to 223,000 in 1973 and to 115,000 by 1993. In the 1980s there was a decline of around one third, with an additional drop of 12% in the early 1990s⁴⁹. In a comparative study of 1979, 'British Rail stood out as a high productivity labour system', with only Sweden enjoying a more favourable revenue-cost ratio. On the other hand it had the lowest level of investment per train-kilometre of all ten countries studied⁵⁰. It was perhaps the most financially successful railway in Europe⁵¹, with a subsidy of only 0.16% of GDP compared to the European average of 0.52%⁵². Indeed the productivity record of BR compared favourably with the average for the economy as a whole. Total factor productivity for the

⁴⁶ Loft, C., *Government...*, op. cit., 121.

⁴⁷ Gourvish, T., *British Rail...*, op. cit., 77.

⁴⁸ Wolmar, C., *Broken...*, op. cit., 53.

⁴⁹ Gourvish, T., *British Rail...*, op. cit., 291-294.

⁵⁰ Ibid., 71; British Railways Board and University of Leeds, *A Comparative Study of European Railway Performance*. London, British Railways Board, 1979.

⁵¹ Shires, J.D. et al., *Rail Privatisation: The Practice-An Analysis of Seven Case Studies*. Working Paper 420, Leeds, Institute for Transport Studies, 1997, 1.

⁵² Harris, N.G.; Godward, E., *The Privatisation of British Rail*. London, Railway Consultancy Press, 1997, 52.

UK showed annual growth rates of 1.8% for 1960-1970 and 17% for 1948-1973, whereas the corresponding railway figures were 4.0% and 2.1%. On labour productivity alone the railways recorded 6.6% for 1960-1970 and 3.8% for 1948-1973⁵³.

The 1980s have been regarded ‘as something of a “Golden Age” in modern railway operating’⁵⁴. Various parts of the system achieved financial break-even and even slightly better, in favourable circumstances – InterCity by the mid 1980s, Network South East by the late 1980s. By 1990, it has been convincingly argued, ‘there was a sound legacy of effective decentralised management, clearer objectives, and a shattering of the myth that railways could not achieve financial targets’⁵⁵. From the late 1970s BR had introduced a form of decentralised sector management in order to inject business criteria into a wide range of important decisions. The culminating change was the organisational reform which became known by 1990 as ‘Organising for Quality’ (OfQ). By 1992 the regions, often the location of resistance to managerial innovation, had been eliminated and functional staff divided among the sectors, consisting of six businesses and 27 profit centres, and central services. Just over 600 staff remained at head office. These developments were described as ‘the biggest change in organisation ever undertaken on Britain’s railways’⁵⁶. An insider view from a former non-executive Board member was that ‘I don’t think the British railways were ever as well run as in the early 1990s’⁵⁷.

OfQ was undoubtedly a form of ‘radical decentralisation’ (an earlier title for the scheme) and one which was focused on commercial efficiency. As in the nationalised steel industry, a reduced emphasis on public service, staffing and regional considerations facilitated striking improvements in financial results. Firmer directives on performance from the late 1970s, given further impetus by the

Thatcher government after 1979, interacted with the managerial changes. One authority has judged that BR came closest under the leadership of Reid (1983-1988) to the optimal mix between ‘the benefits of competitive markets’ and ‘the stipulation of clear public interest objectives’⁵⁸. These managerial advances were still predicated on significant amounts of goodwill and corporate morale. The Major government in the early 1990s took little account of such changes and rejected the opportunity of further efficiency gains within an integrated public sector railway.

Nationalisation had been implemented in a form which ruled out key objectives of its pre-war advocates, namely a co-ordinated transport system and the close linking of the NIs with national economic planning. State intervention proved to be ‘complex, intrusive and capricious’⁵⁹. It became clear that public sector status did not guarantee either organisational stability, adequate funding or consistent directions on strategy. The railways underwent major structural and/or financial changes in 1953, 1962, 1968, 1974 and 1976. More than half of the first 25 years was spent preparing for substantial changes or re-organising in consequence. There was also repeated detailed scrutiny from official enquiries in 1960, 1965, 1966-1967, 1973, 1976-1977 and 1982. One chairman referred to a state of ‘perpetual audit’⁶⁰. Governments took relatively little interest in long-term goals, but developed a keen appetite for interference at lower and more ad hoc levels, especially over price increases, cuts in services or industrial disputes. Their concern was usually to avoid political unpopularity. The nearest approximation to consistency was on the prices front, where ministers frequently used their influence to delay or scale down proposed increases. This sometimes had the purpose of moderating inflation in the economy as a whole, but inflicted heavy damage on railway finances, parti-

⁵³ Gourvish, T., *British Railways...*, op. cit., 563-565; Millward, R., “State Enterprise in Twentieth Century Britain”, in P. A. Toninelli (ed.), *The Rise and Fall of State Enterprises in Western Countries*. Cambridge, University Press, 2002, 170-173.

⁵⁴ Gourvish, T., *British Rail...*, op. cit., 443.

⁵⁵ *Ibid.*, 230.

⁵⁶ *Ibid.*, 106, 138, 374-383.

⁵⁷ Wolmar, C., *Broken...*, op. cit., 55.

⁵⁸ Gourvish, T., “The Regulation...”, op. cit., 127-128.

⁵⁹ *Ibid.*, 125.

⁶⁰ Gourvish, T., *British Railways...*, op. cit., 570.

cularly in periods of rapidly rising costs like the 1970s. The whole period exposed 'all the contradictions of the government's role as shareholder, banker and customer'⁶¹. Much ammunition was given to the enemies of public ownership.

Privatisation was first applied to BR's subsidiary businesses, the engineering workshops, ferries and hotels, which were sold between 1980 and 1987 for net proceeds of just over £1 billion, enabling both a reduction in subsidy and a modest increase in investment in the core business⁶². The latter eventually became the last major NI to be sold – a decision announced in a white paper of 1992 and the Railways Act of 1993. The model adopted 'did not have the support of the railway professionals'⁶³, but was driven by Conservative politicians anxious to complete their rolling programme of comprehensive privatisation, by sympathetic civil servants, especially the 'hyper-active privatisation unit' in the Treasury, and by consultants with no previous knowledge of railways, on whom £450 million was spent during the preparations. Key goals were to raise efficiency through the injection of competition and private sector management. The elimination of subsidy, currently around £1 billion a year, in what was still perceived as a declining industry, was a highly desirable objective for the Treasury. Splitting the infrastructure from the provision of train services was critical to the new model. This broke up the vertically integrated structure which had been a common feature of railways everywhere since the earliest days. Britain's privatisation introduced a degree of fragmentation which was unique. By 1997 the system had been divided into around 100 companies, which included Railtrack, the monopoly infrastructure provider, 25 passenger train operating companies (TOCs), 3 rolling stock companies (ROSCOs), 13 infrastructure maintenance and re-

newal companies (INFRACOs), each employing numerous sub-contractors, and six freight companies (soon reduced to two). This fragmented pattern required a correspondingly complex regulatory system. The Office of the Rail Regulator (ORR) primarily monitored Railtrack, and Office of Passenger Rail Franchising (OPRAF) supervised and subsidised the TOCs. This was to become the Strategic Rail Authority (SRA)⁶⁴.

Notions of on-track competition had to be hastily abandoned, as it was realised that the letting of franchises to TOCs required the bidders to be granted local monopolies. The only feasible element of competition was 'for', not 'on' the ground. The number of franchises was, in economic terms excessive, but a smaller average size made it easier to attract bidders. An enthusiastic special adviser to the minister in charge, argued that the devolution of BR's role to a large number of separate firms would 'replace command relationships with British Rail by contractual relationships between free-standing autonomous bodies'⁶⁵. It was also urged that private ownership would mean the distancing of the railways from government and independence from Treasury restrictions. These plans were adopted at or near the peak of enthusiasm for outsourcing in the British economy and took no account of the practical disadvantages of departing from a unitary system. The reliance of the system on contractual relationships between independent units, each seeking a slice of profit, quickly generated 'friction at the interfaces' and led to uncontrollable escalation of costs⁶⁶. An analysis of Railtrack's investment projects concluded that they were costing two to three times as much in real terms as BR would have paid, because of the need to reward layers of contractors and to compensate TOCs for temporary closures⁶⁷. This factor was highly relevant to the fiasco of the upgrading of the West Coast Main

⁶¹ Gourvish, T., *British Rail...*, op. cit., 448.

⁶² *Ibid.*, c. 7.

⁶³ Bradshaw, W.P., "The Rail Industry", in D. Helm; T. Jenkinson (ed.), *Competition in Regulated Industries*. Oxford, University Press, 1998, 179.

⁶⁴ Crompton, G.; Jupe, R., "A Lot of Friction at the Interfaces: The Regulation of Britain's Privatised Rail System". *Financial Accountability and Management*, XIX-4 (2003), 397-418.

⁶⁵ Foster (1994), 7.

⁶⁶ Crompton, G.; Jupe, R., "Such a Silly Scheme: The Privatisation of Britain's Railways 1992-2002". *Critical Perspectives on Accounting*, 14 (2003), 617-645.

⁶⁷ Ford, R., "Railtrack investment-money into a black hole?". *Modern Railways*, July 2000, 19-21.

Line, where projected costs spiralled from an initial £2.1 billion to over £10 billion by 2001. The company's lack of engineering skills and poor project management also made a solid contribution to this outcome. This precipitated the collapse of the privatised Railtrack, and its eventual replacement by a 'not-for-dividend' organisation, Network Rail.

The performance of the TOCs also deviated from the optimistic expectations of 1993. There was never a level playing field, as the first franchisees were given the easiest terms, and this factor remained influential for many years. The bidding process was costly for both bidders and judges, and the decision-making lacked transparency. Some TOCs enjoyed a combination of comfortable subsidy-enhanced profits, whilst others struggled. This situation was usually resolved either by increasing the subsidies, from which half the TOCs benefited, or by putting the franchise on 'cost-plus' management contracts, which were in force on nine out of 25 franchises by 2003. This meant that the TOC was simply following detailed specifications imposed by the SRA and undermined the pretence that private management was supplying a creative input. Together these two devices for the bailing out of unprofitable TOCs emphasised the token nature of the supposed transfer of risk from the public to the private sector. It had been envisaged that subsidies to the TOCs would taper off and eventually disappear by 2005. In fact they were stabilised by the Blair government in the late 1990s and then began to rise again substantially, reaching £2.5 billion by 2003-04. More than half of the outgoings of TOCs went on access fees to Railtrack, which explained the need for subsidies⁶⁸. Over 90% of the access fees, however, were fixed, with no variation in proportion to use. Hence Railtrack lacked incentives to spend adequately on maintenance or improvement of the infrastructure. Its shareholders, who had been allowed to buy the company for the low price of £1.9 billion in 1996, were rewarded with dividend payments of more than £700 million (over 40% of operating profit) during the next five years. One area in which the company was atypically proficient was in negotiating with the ORR over its funding requirements. By 2001 it had been promised direct subsidies of £1 billion a year in addition to the indirectly sub-

sidised access fees it received from the TOCs. The vision of a subsidy-free railway was fading rapidly. Early in the new century total subsidies to the system were running at several times the level of BR days.

Total leakages from the railway between 1995-1996 and 2000-2001 have been estimated at about £3.8 billion. Apart from the distributed profits of Railtrack and the TOCs, most of the rest came from the ROSCOs. These three companies had been purchased at an extremely favourable price by the original private owners, and later sold on to banks. 80% of the revenue they obtained from leasing trains to the TOCs was guaranteed by government. The supply of new equipment has been disappointingly slow and inept and has met many obstacles created by organisational incoherence – itself the consequence of privatisation. Between 1996 and 2002, the ROSCOs made profits equivalent in most years to over 30% of turnover, amounting in all to £1.8 billion, or roughly the sum for which they were sold at privatisation. £1.3 billion has been paid out in dividend, and the parent companies also receive interest payments as finance providers. In 2007 the government finally decide to refer the issue of their leasing charges to the Competition Commission.

Almost the only welcome development after privatisation was the (unanticipated) increased demand from passengers, which rose by 30% between 1996 and 1990 and continued to expand thereafter. This was driven by economic growth and rising real incomes, as it had been under BR in the second half of the 1980s. Other influences were worsening congestion on the roads and higher fuel costs. Rail passengers also benefited from the regulatory capping of many fares, at least for the first seven years. Policy has since reverted to a strategy used in the 1980s and early 1990s, of regularly raising fares in real terms in order to cope with rising demand and inadequate capacity.

Privatisation has delivered none of the benefits claimed for it. It has not increased efficiency, it has not improved the quality of services, it has not solved the problem of capital shortages, it has not reduced subsidy, it has not relieved government of responsibility for the industry, and its regulatory

⁶⁸ Crompton, G.; Jupe, R., "A Deficient Performance: The Regulation of the Train Operating Companies in Britain's Privatised Railway System". *Critical Perspectives on Accounting*, 17 (2006), 1035-1065.

system has been unable to cope with the fragmentation of the system. Only the unstated aim of the transfer of wealth from the public to the private sector has been achieved. It transpired that the description ‘complicated, inefficient, ineffective and bureaucratic’⁶⁹ was more applicable to the defects of the privatised than the nationalised structure.

Neither the Conservative decision to privatise in the early 1990s nor Labour’s subsequent decision not to renationalise was based on empirical evidence about the recent performance of the system. Both reflected the increasing permeation of the British state by the ideology of privatisation⁷⁰.

⁶⁹ Foster, C., *The Economics of Rail Privatisation*. London/Bath, Centre for the Study of Regulated Industries, 1994.

⁷⁰ Crompton, G.; Jupe, R., “Visions and Sea Changes: The Impact of Nationalisation and Privatisation on Britain’s Railways”. *Paper to Accounting history International Conference*, Siena, 2003.