Is it correct to argue that after the First World War politicians' erroneous assumptions that British railways would maintain their pre-war monopoly on inland transport had an adverse effect on their financial performance between 1923 and 1939?

The financial performance of the four British railway companies during the interwar period was indeed disappointing, and a number of different factors led to this. The sheer growth of road transport – and therefore the ending of rail's pre-war monopoly on inland transport - was indeed one of those factors. As for the part played by "politicians' erroneous assumptions", this was perhaps a nuanced one, which needs to be assessed in the context of both the design and the operation of the new arrangements set out in the 1921 Railways Act. It is argued here that the 1921 Act replaced a railway system-with-no-overall-design with a system-with-a-compromised-design, and that these and subsequent compromised arrangements made it nearly impossible for the railway companies to achieve commercial success. But it was not any simple lack of awareness by politicians as a whole that led to this, and instead the cause was the series of compromises made by the politicians involved.

There had been dilemmas for government policy, and compromises in making decisions, since the start of the railways in Britain, but the compromises changed, mainly for political reasons, as the circumstances of the times changed. Even from that start, competition between commercial enterprises was to be welcomed, and monopoly (or oligopoly) was to be feared, which entailed a continuing dilemma as to whether to have regulation by competition or by the state, a dilemma which also evolved even as it continued. In the economy as a whole, as Trentmann has expressed it, by the end of the First World War the idea of individualistic-competitive Victorian capitalism had largely been replaced by the reality of organised capitalism.[1] Accordingly, in the new circumstances of the interwar period wider government economic policy was torn between continuing to protect the public from monopolistic price rises and embracing the new ideas of promoting "rationalisation" to improve economic efficiency.[2]

[1] Frank Trentmann, "Chapter 9: The strange death of free trade: the erosion of 'liberal consensus' in Great Britain, c. 1903-1932" from *Citizenship and community: liberals, radicals and collective identities in the British Isles, 1865-1931*, ed Eugenio F Biagini (Cambridge: Cambridge University Press, 1996): 250

[2] Leslie Hannah, *The Rise of the Corporate Economy*, (London: Methuen, 1976), 29-60

In relation to inland transport, there was the question of whether to establish a policy framework for transport as a whole, or one for each sector individually – a choice that was consciously thought about before the latter course was taken. The lengthy story of the passage of what became the Act establishing the new Ministry of Transport in 1919 illustrates how Lloyd George at first actively desired the 'all of transport' option, before eventually replacing it with the (mainly) 'railways' option. This was just the first of the series of compromises during the interwar period that led to an impaired ability of the railway companies to operate profitably.

As Grieves makes clear, Lloyd George had in the first few months after the 1918 Armistice prepared the way for a major overhaul of Britain's transport system as a whole[3]. There was an early vision of what the new Ministry (of Transport, as it became) might be taking on under the energetic Sir Eric Geddes. As a manager with a track record of achieving excellent co-ordination of transport for military purposes during the way, Geddes envisaged the potential for a comprehensive peacetime strategy for transport as a whole. But his Prime Minister mentor was a minority party leader of a coalition government under pressure to return to 'normalcy' and release enterprise from government control. Accordingly political compromises led to a much-reduced role for the new Ministry - just chiefly the problematic railways and canals - when it was finally established. The 'managerialist' vision of the first Minister of Transport had been defeated by political compromise, and a disappointed Geddes left his post shortly afterwards.

The next compromise swiftly followed – almost as a logical consequence - during the passage of the 1921 Railways Act. Watts's post-hoc taxonomy of views about possible rail nationalisation, where he identifies three clusters of views, is helpful in showing how PM Lloyd George chose to let go of his previous leaning towards state ownership, and instead adopt the grouping of the four new companies as the politically preferred way forward[4]. But in addition, Watts's analysis shows how the focus of debate was a political one about how to deal with a problematic

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[3] Keith Grieves, "Sir Eric Geddes, Lloyd George and the Transport Problem, 1918-1921." *The Journal of Transport History 13* (Manchester: Manchester University Press, 1992): 25-26
[4] DCH Watts, "On the Causes of British Railway Nationalisation: A Re-examination of the Causes, 1866-1921," *Contemporary British History 16*:2 (2002): 24

industry (or public service, depending on one's viewpoint) rather than a strategic debate about the transport system as a whole (perhaps to be expected, given the reduced role for the Transport ministry).

Focusing principally on the railways therefore, the old government dilemma about what to do with them took on a new form following the 1918 Armistice. Since 1827 the British railway system-without-any-overall-design (unlike Belgium for example) had been run by over 100 companies with an evolving mix of competition and co-operation, with many traders and some politicians fearing and trying to control any potentially monopolistic practices. But then, during the national emergency of the First World War, it had been found that under a single executive body, the Railway Executive Committee, when serving the needs of the war effort huge gains in efficiency and effectiveness could be achieved[5] - even the excess capacity of the network had proved useful – and now that wartime-only control by Government needed a successor arrangement.

The realisation that monopoly could be a benefit as well as a threat heightened the dilemma for politicians. The growing "rationalisation" movement – which among other ideas promoted horizontal amalgamations of companies to improve efficiency[6] – also raised the fears of many of the public, voiced in much of the national press and therefore a major influencer for politicians, of the 'organised capitalism' of the railway companies as a potentially exploitative monopoly. The new factor of growing road transport added a new complication to the dilemma: how, if at all, to include this within the new policy framework.

For Edwards highlights how government civil servants were in fact aware of the roads dimension when drafting the new arrangements for the railways, but their awareness proved ineffective due to what he calls a failure of "administrative process".[7] He demonstrates that the Director-General at the Ministry, Phillip Nash, advised politicians that the rise of road haulage would provide competition for railways but misunderstood the nature of the problem.[8] Edwards goes on to

[5] Philip Bagwell & Peter Lyth, *Transport in Britain: From Canal Lock to Gridlock* (London: Hambledon, 2002), 69-71

[6] Hannah, *The Rise of the Corporate Economy*, 32

[7] Roy Edwards, "Shaping British Freight Transport in the Interwar Period: Failure of Foresight or Administration, 1919-34?" in *From Rail to Road and Back again, ed* Colin Divall, Ralf Roth (Aldershot: Ashgate 2015), 89

[8] Ibid., 82

show that debate within the Ministry recognised that if rail companies could run 'through' road services it might encourage competition in transport in general (across both road and rail) - yet some were hesitant about the prospect of rail companies gaining a new monopoly in that market. Uncertain about whether therefore railways should be granted road powers, a Committee of the Board of Trade was asked to report, but its three conflicting reports naturally did not resolve the question. The LNWR/Midland grouping then sought to clarify the position by bringing in a Bill to empower them to run certain freight services by road, which failed and thereby brought the unwelcome clarity that these powers were not to be granted.

There was a legalistic ("*ultra vires*") basis for the rejection, but more fundamentally Edwards considers that this episode reveals an "inability of the regulators to appreciate how the freight haulage business worked."[9] It could also be said that politicians were aware that such a step would have been controversial, and chose to take the line of least resistance. In any event, it meant that politicians had in fact been briefed about the potential rise of road haulage – by Nash and others – but had chosen a politically pragmatic course. By this means they in effect created a competition between a highly regulated and constrained monopoly (rail) and a separate highly unregulated market of its own (roads). This was the compromised outcome of the ideological dilemma of whether to regulate or give free rein to commercial transport enterprises.

Roads were in effect treated as free enterprises and remained entirely unregulated until licensing was introduced in 1930 and 1933, while the 1921 Railways Act reflected an apparent view that railways were examples of 'organised capitalism' that needed to be reorganised and regulated by Government but not owned by it (nationalisation was very much a minority-view option). It replaced a system-with-no-overall-design with a system-with-a-compromised-design. The Act harnessed the rail enterprises together into the Big Four companies in order to achieve greater efficiencies and effectiveness, but it also hobbled much of their means of realising those aims. Companies were obliged to be common carriers, avoid undue preference between one trader and

[9] Ibid., 87

another, charge rates that involved cross-subsidising of bulky cheap goods with light valuable goods, and then publish those rates – which enabled road haulage competitors to cream off the light valuable goods and thus nullify that cross-subsidising mechanism.[10]

As Aldcroft makes clear, no one involved in drafting the 1921 Act really knew whether seven new companies, four new companies, or even one large one, would be able to realise the greatest economies of scale in practice, and the solution of four new companies was just a compromise[11]. Nevertheless Aldcroft asserts that the reorganisation under the Act was "undoubtedly … highly beneficial"[12] – compared with doing nothing presumably – and moreover argues that the shortcomings of the Act's measures to tackle financial matters was not the main cause of the subsequent continuing declining profitability of the railways,[13] a question to be considered further below.

The 'Government viewpoint' evolved a little during the period up to 1939, but mainly too little and too late, delivering further compromises that reflected a lack of overall strategic perspective. During the initial period up to 1929 there seems to have been a view that although the railways were not yet achieving the annual Standard Revenue of £51.4m set out in the 1921 Act there was not yet too much to worry about as the new companies were finding their feet. So it was thought a sufficient adjustment to permit them to run 'through' road haulage after all from 1928, and to abolish passenger duty in 1929. Only after that did the regulating of road services begin, with the licensing of public service vehicles in 1930, and road haulage in 1933.[14] Although the 1933 Act established a Transport Advisory Council – which might have hinted at the development of a more strategic approach to transport as a whole – this Council only produced a report in 1938, in response to the intensive "Square Deal" campaign by the railway companies. The report recommended several measures that might have removed some of the

[10] Gerald Crompton, "Efficient and Economical Working'? The Performance of the Railway Companies 1923–33" *Business History 27*, no. 2 (1985): 223. Also Harold Pollins, *Britain's Railways: An Industrial History*. (Newton Abbot: David & Charles, 1971), 161, citing Gilbert Walker's 1947 *Road and Rail*.
[11] Derek Aldcroft, *British railways in transition* (London: Macmillan 1968), 45
[12] Derek Aldcroft, "Chapter 5: The Decontrol of Shipping and Railways after the First World War" in *Studies in British transport history 1870-1970*, ed DH Aldcroft (Newton Abbot: David and Charles, 1974): 134
[13] Ibid., 134
[14] Bagwell & Lyth, *Transport in Britain*, 82

restrictions facing the railways, which were accepted by Government in April 1939, but the outbreak of war in September 1939 ended this potential way forward.[15]

Meanwhile the railways continued to do badly financially. Collectively, they never achieved the Standard Revenue of £51.4m set out in the 1921 Act, achieving peaks of £42.7m in 1929 and £34.2m in 1937 before falling sharply to £25.9 in 1938.[16] Dividends remained disappointingly low, notably in 1932, when just one company paid out to ordinary shareholders, and then only by drawing on reserves.[17] But in response to the question implied by Aldcroft (above), that perhaps this poor performance was due more to the inaction of the companies themselves than the difficulties created by the policy framework, it can be seen that this suggestion does not hold water. On the contrary, a range of initiatives, both tactical and strategic, can be identified which each of the four companies took to try to overcome these difficulties and establish a more profitable future.

Tactical initiatives by the railways during this period included detailed planning of conveyance rates by the LMS[18], the poster campaigns of the LNER[19], the concerted reductions achieved in coal consumption by the locomotives from the 'absorbed' companies into the GWR in the early 1920s,[20] and the negotiation of wage cuts in 1928 and 1931.[21] Numerous other measures to cut costs by all four companies can be cited. Notably, led by the LMS (initially in 1926), the Big Four gradually introduced containerisation and 'through' road haulage routes from 1928. However, neither were on a scale to arrest the overall decline in market share and therefore profitability, because the railways' road services continued to be dwarfed by the total size of goods vehicle traffic. The Table given by Dyos and Aldcroft shows sharp increases in the number of goods vehicles in use up to 1929, a reduced increase – but still an increase - after the crash, and a continuing

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[15] Bagwell & Lyth, *Transport in Britain*, 83
[16] Pollins, *Britain's Railways*, 158, from *Railway Returns*
[17] Gerald Crompton, "Good Business for the Nation: The Railway Nationalisation Issue 1921-47" *The Journal of Transport History 20*, no.2, (1999), 142
[18] Peter Scott, "British Railways and the Challenge from Road Haulage: 1919-39" *Twentieth Century British History Vol.13:2* (2002): 110-13
[19] D. C. H. Watts, "Evaluating British Railway Poster Advertising: The London and North Eastern Railway Between the Wars," *Journal of Transport History 25, no. 1* (2004)
[20] PRO RAIL 258/304 "Annual Report of the Chief Mechanical Engineer" (GWR 1925): 2
[21] Gerald Crompton, "Efficient and Economical Working'?", 229-30

relentless rise even after the introduction of the early 1930s licensing measures.[22] Scott's Table of road haulage reveals a similar pattern.[23]

Nevertheless the Big Four attempted strategic initiatives too. The most successful was the electrification of many of the lines of the Southern Railway, where the numerous short high-use suburban lines made the infrastructure change a particularly sound investment for a company for whom passenger traffic was relatively more important than it was for the other three companies. Although none of the Big Four ever achieved the Standard Revenue set out for them in the 1921 Act, as the revenues of all four declined overall, it is notable that the Southern had the least decline[24]. This relative 'success' (if that) of the Southern contrasts with the lack of any tangible result from the strategic initiatives attempted by the other three.

The LNER's attempt to make all its employees into *de facto* sales representatives looks a particularly creative dimension to its marketing strategy[25], yet the outcome in practice looks disappointing, as the LNER's decline in their share of the national revenue was the steepest[26]. It could possibly be argued that the decline in goods traffic might have been even greater otherwise, but the fact remains that for an increasing number of traders the advantages offered by road hauliers of price, minimised handling, reduced pilfering and flexibility were the decisive ones[27]. This was a clear case of structure defeating strategic change, the structure being partly the inherent logistical advantages of road over rail haulage, and partly the regulatory framework that arose from a series of political compromises.

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[22] HJ Dyos & DH Aldcroft, *British Transport: An Economic Survey from the Seventeenth Century to the Twentieth* (Harmondsworth: Penguin, 1974), 359 - Figures: 1918: 40,700; 1921: 128,200; 1929: 329,794; 1932: 370,100; 1938: 494,866.

[23] Peter Scott, "British Railways and the Challenge from Road Haulage: 1919-39" *Twentieth Century British History Vol.13:2* (2002): 106

[24] *Railway Returns 1928-38*, Table reproduced in TC Barker & CI Savage, *An Economic History of Transport in Britain* (London: Hutchinson, 1974), 158. By my calculation the SR 'share' of national revenue increased from 15.6 percent to 20.5 percent 1928-38.

[25] Colin Divall, "Conceiving distribution in the United Kingdom: the (London and) North Eastern Railway's discursive response to road haulage, 1921-1939," in *From Rail to Road and Back Again? A Century of Transport Competition and Interdependency*, ed. Colin Divall and Ralf Roth (Aldershot: Ashgate, 2015): 96-8

[26] *Railway Returns 1928-38* (same Table in Barker & Savage). By my calculation the LNER 'share' fell from 27.5 percent to 23 percent.

[27] Peter Scott, "British Railways and the Challenge from Road Haulage", 105-6

A major factor at least as important as Government policy was the fact that for most of the interwar period the economy as a whole did badly, especially the heavy industries that were the main bulk freight customers. The brief post-war boom ended in 1920, and the slow recovery from that ended with the 1929 crash – so that for most of this period the railway companies reasonably considered that they were fighting for a share of, at best, a static rather than an increasing quantity of potential traffic. As Scott describes, companies had to be wary of setting lower 'exceptional' rates for specific customers, partly because other traders could demand the same under 'undue preference' rules, and partly because the calculation was that there was not enough potential increase in traffic to be gained that would offset the reduced revenue[28]. Similarly, it may have been partly just timidity, but it was also uncertainty both about Government policy and the economy as a whole that led the GWR Board to fail to make a decision twice (1925-7 and 1938-9) on whether to electrify the line from Taunton to Penzance.[29] (These sandwiched the national Weir report of 1931 on electrification, the cautious projections of which suggested just a net return of two percent per annum over 20 years after interest charges.[30]) The 1927 report to the GWR predicted a "7.3 percent return" – presumably in total rather than per annum - on £3.5 million spent over eight years, and the 1939 report a 0.75 percent per annum return on £4.5 millions spent over four years. No decision was recorded clearly, an indecision that could be characterised as either timid, or understandable, or both. As Crompton describes in detail, the GWR and all the Big Four were also under enormous pressure from shareholders to prioritise dividends over capital investment. Consequently, the railways were physically under-capitalised.[31]

Alongside these insufficiently-successful attempts to make either tactical or strategic improvements to their operations, the railway companies actively lobbied governments for change because they did of course realise that the transport policy structure was set against them. Their piecemeal successes - with

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[28] Ibid., 110: Demand was thought to be "[price] inelastic in a downward direction"
[29] PRO RAIL 258/274, "GWR Secretarial papers: Electrification of Taunton to Penzance section."
[30] Pollins, *Britain's Railways*, 188
[31] Gerald Crompton & Robert Jupe, "An awkward fence to cross': railway capitalization in Britain in the inter-war years." *Accounting, Business & Financial History 12*, no. 2, (2002): 448-452

extended road powers in 1928, and abolition of passenger duty in 1929, coupled with the arrival of road licensing in the early 1930s - were not strategic enough to arrest the decline, and it was only with the Square Deal campaign in the late 1930s that they took on the fundamental issues of undue preference and being a common carrier. As described above, this campaign came too late. This lateness was perhaps a symptom of a 'political' dilemma for the companies: Should they continue to promote themselves as a good public service (to combat the portrayal since late Victorian times of railways as greedy monopolists), or should they now risk the accusation of monopoly by asking for more commercial freedom? The Square Deal campaign may have come too late in practice, but if started earlier it may well have been met with too much hostility, judging by the previous fears expressed by many since late Victorian times.

Unfortunately it was nearly impossible for any of the measures to succeed, whether tactical or strategic – with the political lobbying arguably too late. While Government was continuing to show uncertainty in its policy towards the transport infrastructure as a whole during the early boom of the road industry, it was supremely difficult for the Big Four to achieve the changes needed in just the rail infrastructure on its own. The companies were not completely blameless in failing to arrest their decline, but given the fact that they made these concerted attempts to help themselves, and that those attempts mainly failed due to the nature of the transport infrastructure and its inconsistent regulation, then one of the key factors in their decline was clearly the policy framework in which they operated.

No one can say for certain whether a different policy framework, leading to a managed 'integrated transport' system – as envisaged by Geddes - could have been made to work in practice, and to make the railways financially viable, during the interwar period. But the opportunity even to attempt such an approach was lost by the political compromises made during the Parliamentary process to reduce the scope of the new Ministry of Transport to that of principally railways and canals. The system-with-a-compromised-design introduced by the 1921 Act was also, by definition, the outcome of a political compromise. After that the politicians compromised again when loosening some of their own tight regulation on the railway companies – despite which it was still the combination of that series of political compromises that made it so difficult for railway managers to find a profitable way forward.

This writer had at one time rather assumed that interwar Governments had just blithely failed to notice that during this period "[Railway] Companies' true competitors were no longer each other but the roads."[32] Closer examination of the subject has shown that key civil servants had in fact certainly identified the growing role of road competition even in 1921, and informed politicians accordingly, though without offering a clear solution. The politicians were therefore less acting on "erroneous assumptions" and more compromising on the apparent line of least resistance politically, both in 1921 and in the series of compromises which the railway industry experienced throughout the interwar period (and in other periods too). It was this series of compromises by Government, rather than 'simple' "erroneous assumptions", on their part, that made up a key factor – though not the only one - in adversely affecting railways' financial performance from 1923 to 1939.

3224, plus 52 in footnotes.

[32] Andrew Bridges, "The Management of Great Western Railway Investment Between the Wars" (MA dissertation at Bristol Polytechnic 1984), Abstract

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