CHROMIUM DREAMS: THE POLITICAL OBSTACLES TO RAILWAY MODERNIZATION IN BRITAIN

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In Britain the greatest obstacle to railway modernization in the past 50 years has been political. British governments have a poor record of investment in rail since 1945 and privatisation has provided only a partial solution to this problem. Once the post-war economic constraints eased off, gross investment in Britain's railways rose in real terms until 1959 before falling gradually during the 1960s. While gross investment levels picked up from 1969 they stabilized in the mid-1970s at an unsustainably low level and the railways' investment programme suffered greater cutbacks than the rest of the nationalized sector during the economic crises of the mid-1970s. A 1979 study showed that British Rail received less investment per train/km than any other EU railway, yet in real terms investment declined between 1979 and the mid-1980s. From 1988 investment rose steadily until in 1993 it reached a level higher in real terms than in 1960. However, if the Channel Tunnel was excluded, investment in the existing railway was not that much higher than the inadequate plateau of the 1970s. British Rail was receiving the lowest level of support of any EU railway in 1989 and the extent to which this was true was greater then than in 1979. By the end of the 1980s government reluctance to invest in the railways had driven the industry to crisis as its infrastructure and rolling stock was literally falling apart, as was dramatically illustrated by the 1988 disaster at Clapham Junction.

This paper looks at the one period in post war British history when the railways were offered the prospect of adequate investment and discusses how political problems led the industry to be blamed for a perceived failure of modernisation, with lasting repercussions. In doing so I will show that these problems are not confined to the period discussed, but are fundamental to the way in which the relationship between government and railway in Britain has developed.

In the mid 1950s Britain's railways were in a poor state. On top of net inter-war disinvestments, the funds available after 1945 were not enough to redress the effects of the combination of intensive use and inadequate maintenance during the war, let alone modernise the system. In 1955 a *Modernisation Plan* was published, proposing to turn the railways' annual deficit of £25m into a surplus of £5m in the early 1970s by investing £1200m. Eighteen months later a new version of the plan - *Proposals for the Railways* - set out in more detail how the financial improvement would take place and indicated that the railways would break-even by 1961 or 1962. However, in 1958 the railways, which had operated at a small surplus in 1955, lost nearly £50m (closer to £100m once interest was included) and in 1960 the government announced that it no longer had faith in the 1956 projections. The planned level of investment was reduced and a series of reviews were established which culminated in a new plan in 1963: *The Reshaping of British Railways*, known as the *Beeching Report* after Dr Richard Beeching, the chairman of the British Railways Board. This report was best known for its proposal to close about 30 per cent of the passenger network. The *Beeching Report* made much of the need for the railway to

focus on what it did best: moving bulk freight and passengers quickly over long distances and was followed in 1965 by a second report which sought to identify a core network of trunk routes for investment. The railways losses were reduced but only briefly, by the end of the 1960s they had grown significantly.

On the face of it then an initially over-ambitious and flawed plan failed and was replaced by a more realistic exercise in retrenchment and rationalisation, but the railways were such a hopeless case that this failed too. The popular memory of the period is summed up in Ian Marchant's Parallel Lines (2003):

> «[under the Modernisation Plan] Millions of pounds were poured into the railway, whose management spent it on vast new marshalling yards for freight traffic which never materialized, and lots and lots of lovely steam engines which were scrapped within a decade. And then Ernest Marples became Transport Secretary … and he liked motorways, not horrid old trains. So he made Dr Beeching chairman of BR, and he didn't like railways, either. So he decimated Britain's railway system, only five years after the investment of the Modernization Plan.»

Marchant's point about Marshalling yards is basically accurate but he is wrong about steam and – typically for such popular accounts – he stresses only the failings. There are three points the rest of this paper makes about that view:

- The crucial failings of the 1955 plan were political, both in a conceptual and a practical sense (a distinction I shall explain below)
- The early 1960s period saw a <u>development</u> of the railways' modernisation strategy rather than a reversal of it as implied by the quote above; meanwhile there was a significant change in government railway policy. This is significant because the extent to which the railway management had failed by 1960 has been overstated.
- The railway investment programme was more successful by the 1970s than it was ever given credit for.

These three points add up to a case for arguing that that the dysfunctional relationship between government and railways in Britain is founded on a misunderstanding of the nature of the *Modernisation Plan* of 1955 and of why it "failed".

THE POLITICAL FAILINGS OF THE 1955 PLAN - CONCEPTUAL

The concept of the plans published in 1955 and 1956 was that a plan existed which would be implemented over a given period and during that period the railways would move from being a loss-making organisation to a profitable one. The conceptual problem here was that none of this was true. There wasn't really a plan and such plans that existed were not confined to a given period and did not envisage a profitable railway as their outcome.

By 1954 the need to modernize the railways was so obvious that even a Treasury official could say that «everybody wanted and expected the railways to spend money», without it being a complaint. However the origins of the plan published in January 1955 lay in the Treasury's discovery a year earlier that the British Transport Commission (BTC, the nationalised body which ran the railways and other publicly-owned transport) was borrowing just to cover its maintenance costs and that it would soon reach the limit of the amount it was legally allowed to borrow. Officials had little choice but to prepare a new law allowing it to borrow more; but they wanted the BTC to produce a modernisation plan, so that parliament, the public and Treasury officials would know where the money was being spent.

The *Modernisation Plan* was therefore drawn up in a hurry to justify deficit-financing. Throughout 1954 the BTC tried to convince the government to subsidise modernisation by giving the railways an interest-free loan to cover the cost of modernisation during the 15-year period of the plan. Crucially the BTC drew up the plan on the assumption that this loan would be available (because in February 1954 the Chancellor had implied to the Cabinet that he was willing to consider such an approach). There was no question then of this being a plan that would make the railways profitable, indeed the Treasury estimated that the loan would amount to a subsidy of £32m a year.

Officials at the Ministry of Transport were prepared to support this proposal as they saw no possibility of the railways making a profit, but the Treasury was determined to resist. However, the plan was completed at a time when the Government faced the threat of a railway strike over pay. The BTC Chairman Sir Brian Robertson refused to meet the union's demands, and publicly stated that if he were forced to do so, the BTC would no longer be able to break-even (which it was legally obliged to do). Ministers were willing to fund a settlement but could not be seen to subsidise the railways because this would remove the barrier to further pay claims in all the nationalised industries. At the height of the crisis, during Christmas 1954, the BTC's head of finance, Sir Reginald Wilson, met a senior Treasury official, Sir Bernard Gilbert, and told him that the railways could afford to meet the pay claim but could not afford to modernise, without the interest-free loan the Treasury had previously opposed. Gilbert passed this message on to ministers with the comment that 'all this [i.e. the interest-free loan] is for the future, and anyhow a subsidy on any such ground is of course entirely different from a revenue subsidy to meet a wage claim'. Ministers authorised the transport minister to tell the BTC that if they bought off the strike threat the government would provide the loan they wanted. A few days later Wilson delivered the plan to the Ministry of Transport complete with calculations showing a convenient profit at the end of 15 years but ignoring the cost of paying interest on the investment during that period. Unsurprisingly, no precise explanation for these figures has ever been found, but Treasury officials knew they had been "made to measure".

In the aftermath of the strike settlement, and unknown to Robertson and Wilson, Treasury officials met to discuss the BTC's financial position. They contemplated various methods of subsidy and concluded that the best would be to simply wait for the BTC to declare that it was unable to pay its debts and force it to rely on the Treasury to cover its losses. This would 'brand the BTC as the one [nationalised] body which had not met its obligations', and therefore deter other nationalised industries from taking a similar route and encourage them to resist pay claims.

Ministers relied on the BTC's plan to convince parliament and the public that in meeting the union's demands they had not bankrupted the railways, but when Robertson enquired about the promised loan they stalled. The reality behind their support for the plan was contained in the Treasury's draft for the Chancellor's Cabinet paper on the plan:

> «it may be said that [the BTC's] figures are optimistic and that solvency is too much to hope for... but... even if hopes are not realised in full, this is still the best way to minimise losses... What is the alternative... can anyone contemplate that by continuing as we are now there is any prospect of solvency?»

In 1956 the government adopted a policy of trying to fight inflation by holding down prices and wanted to use the nationalised industries as an example. In April the Cabinet therefore refused to allow the railways to put up fares and freight charges for 6 months. The Minister was soon accused of bankrupting the BTC and, as it had been losing £650,000 a week before ministers intervened, this was a difficult charge to deny. The BTC was not legally allowed to lose money unless it believed that eventually it could make a large enough profit to pay off its debts. The government announced an inquiry to show how this would be achieved and six months later the result of the inquiry - *Proposals for the Railways* - showed that the BTC would cease operational losses in 1961 or 1962. However, this estimate, like that offered a year previously, was invented to justify the government's position. At a meeting between Ministry and BTC representatives in May, chaired by the Minister, it was agreed that 'there was no time for prolonged discussions if results were to be produced in time for [*Proposals for the Railways*]... it was important to show a progression of lessening deficits over a reasonable number of years until a balance was secured. Some five or six years at most should be the aim'. Although the Commission agreed to say this, within days Sir Reginald Wilson had warned the Ministry that 1961 or 1962 was 'the very earliest date at which the Commission can hope to break-even in the most favourable circumstances', and by the time the document was published the government had imposed another six-month railway price freeze, clearly not 'the most favourable circumstances'. It was this combination of government interventions to hold down prices while allowing wages to rise that was the primary cause of the BTC's financial collapse during 1958.

It was not only the figures that were misleading. The whole concept that a plan existed was untrue. One consequence of the pressure the Commission was under to produce its plan quickly was that the *Modernisation Plan* was essentially 'a lot of mouldering schemes which the BTC and [regional managers] had found after a hurried search in their pigeon holes', in the words of one senior railway manager. The Commission had made it clear that it would take five years to work out the details of modernisation, experiment with new types of diesel locomotive and train and recruit the experts required. It is impossible to say that railway investment became *Modernisation Plan* investment at any given date, it simply increased gradually as the various programmes developed. This is significant because while the inquiries set up after 1958 may have uncovered shortcomings in the BTC's management of its investment programme, the financial collapse which led to those inquiries was not caused by them and the *Modernisation Plan*, which was not supposed to really get going until 1960, cannot be blamed for failing to avert it.

POLITICAL PROBLEMS OF THE 1955 PLAN - PRACTICAL

In 1960 the government appointed a committee of businessmen to examine the BTC's handling of modernisation, which (privately) commented that:

> «if in a private firm shareholders' money had been committed with the recklessness which characterised the inception of some of the projects making up the modernisation scheme those responsible would have been indictable.... [I]t almost seemed... as if the judgement whether or not to start a scheme had depended on the degree of support which it received from the particular technicians or other people in authority in, say, a particular region rather than on any economic justification.»

While the BTC cannot escape blame for these failings, they were both caused and exacerbated by political factors. In the decade since the end of the war the railways had been almost continually reorganised as politicians sought ideological and organisational solutions to the nation's transport challenges: centralisation vied with decentralisation, coordination with competition, private with public ownership, through a decade (1945-1955) when the railways' chief difficulty – a lack of funds for modernisation – was not addressed. Wartime control was removed (1945), nationalisation introduced (1948) and the nationalised structure completely altered following the replacement of Labour in 1951 by a Conservative administration determined to decentralise the railways management – a decentralised structure was introduced in 1955 after 18 months of a temporary organisation. The constant process of reorganisation and preparing for reorganisation was a major factor in the railways' unpreparedness when they were finally offered funds for investment. Moreover the structure finally arrived at in 1955 left the BTC unable to control regional initiatives and ill-informed about regional performance.

At the same time, as one Commission member complained, the BTC 'were under an obligation to pay their way, but no-one allowed them to run the business as if this was their object'. The interventions over pay and prices typified the atmosphere in which the railways operated. Although the BTC was legally required to operate without losing money it was also required to consider the needs of the public, agriculture and business. Attempts to close down loss-making routes were subject to an interminable process of review which ensured that even the closure of lines which should clearly never have been built and had never made money was controversial and time-consuming. Access to railway services was widely considered to be a right which should not be determined by ability to pay, both by passengers who used loss-making services and businesses which wanted freight facilities provided. Had the Commission announced that it would in future carry only that traffic which was obviously profitable and would increase that profit by a ruthless programme of job losses, this would have been unacceptable to public and politicians alike. The 1955 plan envisaged a concentration on the viable and most effective aspects of the railways' business as a necessary corollary to investment as part of a plan for solvency (although the BTC probably did not realise how much could be done in this respect); but this was both politically impossible and unthinkable in the mid-1950s – it would have been contrary to what the railways were thought to be for.

This combination of instability, poor organisation and confused objectives, all the result of government policies, hampered attempts to modernise. The government then exacerbated these problems by pressing the BTC to accelerate modernisation in order to reduce losses and to give a proportion of the work to the Scottish company North British to reduce unemployment there. The main outcome of this pressure was that large orders for diesels were placed before the prototypes had been properly tested the result was a fleet of often defective or underpowered locomotives many of which were scrapped within a decade.

The outcome then was that a plan devised on the assumption that it would require a subsidy, which was itself in no real sense a plan, was twice presented as holding the answer to making the railways pay. Although this misrepresentation was made at the government's request, it was the BTC that was blamed when its finances fell apart and the idea that the plan had been a failure was established.

THE CONTINUITY OF MODERNISATION

In the early 1960s the government abolished the BTC, setting up a British Railways Board to run the industry and appointing Dr Richard Beeching as its chairman. Beeching's plan was supposed to bring the expertise of business to the railways and was presented as a departure from previous policy. However the modernisation plan had always had at its centre the removal of steam traction and a concentration on those tasks to which the railways were best suited. These two elements remained at the centre of modernisation under Beeching. Much was made of the traffic studies used to justify the programme of closures which formed the main emphasis of Beeching's work. Yet most of the studies the plan used were planned or begun before his arrival as part of the existing modernisation drive. It was important for the government to present the *Beeching Report* as something radically new and coherently thought out, in order to help sell an increasingly controversial programme of railway closures to the public. But like the 1955 and 1956 plans before it, its financial estimates were not based on thorough plans, much of the statistical analysis was incomplete or based on very thin data, and the Treasury did not expect that it would eradicate the deficit.

It is true that Beeching brought a new vigour to reducing network size and getting rid of steam power, but the real change in the early 1960s was in government policy towards the railways. The new railway organisation was set a clear legal target - reducing the deficit. It was relieved of its social obligations – which were now to be contemplated by ministers when approving or rejecting closure proposals. It was given the freedom to organise itself in the way Beeching felt would make it most effective, with a strong central board able to override regional managers, despite ministers' enthusiasm for the ideology of decentralisation. The new transport minister was also now willing to support radical cuts in the size of the network and the procedure for doing do so was reformed. Although the government could never completely resist interfering in railway fares and wages, the damaging nature of such interventions had been publicly recognised and there was a greater reluctance at least in the first half of the decade to do so.

The extent to which railways policy changed in the early 1960s was exaggerated for political effect – both to sell unpopular closures and distance the government from the deficits it had inflicted. The changes which did take place addressed the failure of government during the 1950s rather than those of railway investment programme. The thinking behind the investment programme developed and the amount of money devoted to it was restricted and controlled more tightly by government, but its essential principles did not alter.

THE SUCCESS OF MODERNISATION

As we have seen, it is generally assumed that the 1955 modernisation plan failed. It is true that the BTC had been overly optimistic about how much freight it could retain in the face of road competition and, while Beeching was more realistic, he also over-estimated the railways future freight traffic, as the extent of this decline was not appreciated by either railway management or politicians and officials during the 1960s. Yet by 1970 the railways had transformed the size of the workforce, the size of the network, replaced steam with diesel and electrified half the network of lines (some of them dating back to the very earliest days of world railways) known as the West

Coast Main Line. It is worth looking at the figures here: in 1954 the railways had 18 425 steam locomotives, 71 electric and 320 diesel (almost all shunters) 2 150 electric multiple units and 62 diesel multiple units. Just 15 years later all the steam locomotives had been scrapped, 4 233 diesel and 328 electric locomotives, and 2 169 DMUs had taken their place and the were approximately 800 additional EMUs. The bulk of this change had been achieved in just 4 years, 1959-1962. Between 1960 and 1973, the railway workforce almost halved and the redundancy arrangements served as a model for other industries. Between 1955 and 1970 about a third of the passenger rail network closed and a substantially higher proportion of the total network closed. The number of stations handling freight was reduced from about 6,000 to about 600 and 3,149 of the 5,595 passenger stations open in 1955 had closed. These were massive changes in an industry which had carried a third of all passenger traffic (by mileage) and half of freight traffic (by weight) as recently as 1946 and which had employed over half a million men at the end of the 1950s. Moreover, by the end of the 1970s Britain had the most cost-effective railway in Europe, had introduced the world's fastest diesel train and was at the cutting edge of new train technology in designing the APT. Railway modernisation had not been a story of unmitigated failure. Huge change had been achieved.

CONSEQUENCES AND LESSONS

The railways had become something of a national joke by the 1970s - a symbol of failure. Much of this was down to the fact that modernisation was seen as having failed to stem their losses. All three plans had focussed on the financial outcome and combined investment with other measures (e.g. increased productivity, closures) aimed at achieving solvency. When the railways consistently failed to achieve this aim, railway investment was seen as having failed and by 1970 the government's willingness to invest in rail was firmly entwined with the railways' ability to meet financial targets. As Terry Gourvish's business histories of the nationalised railways show, on the one hand the government tended to set the railways tough financial targets in the belief that while they would probably not be met, they would at least encourage efficiency; on the other the failure of the railways to meet these targets was used to argue against the case for investing in them. There is some evidence that both tendencies encouraged rail managers to play up the anticipated financial benefits of investment in order to get it approved, a practice which in the long term merely discouraged investment.

By 1974 Ministry of transport officials believed that in judging railway plans '[t]he experience of the past quarter of a century suggests that the only safe rule is that if the figures show the future prospects of the railways in a favourable light they are probably wrong' and on this basis tended to take a negative view of proposals to invest in the industry, culminating in the embarrassing story of the Advanced Passenger Train (APT), abandoned in 1986 after more than a decade of development. Officials' scepticism here was partly justified by technical and project-management failings on the railways' part. However, this was something of a self-fulfilling prophecy in that had the project been more enthusiastically supported its difficulties might have been overcome.

Although subsidies were paid to loss-making services that were considered socially necessary after 1968, these subsidies were perceived as covering losses – a badge of failure, as the Treasury had envisaged they would be in 1955 - rather than a payment for a service provided, not least because their level was determined by the loss

on a service rather than its social value. Nor was there any distinction between losses arising from government unwillingness to allow fares to rise or politically sensitive lines to close, genuine social subsidies and that part of the deficit which could be reduced by better management. Investment was seen as having failed because in 1955, 1956 and 1963 it was presented as part of a plan leading to solvency yet in each case there was no detailed relationship between investment and financial outcome behind the published plans.

Railway managers took the blame for the supposed failure of modernisation. The fact that the 1955 plan was not designed to solve financial problems was seen as a mistake by the railway planners, rather than a misrepresentation by the government. An early and influential critic the economist Christopher Foster understandably argued that he plan should have taken account of the cost of interest charges during its implementation. But Foster had no way of knowing that the reason it didn't was that Ministers had led the BTC to believe they would not have to pay this interest.

Behind the specifics of this story lie political difficulties which continue to offer fundamental challenges to railway investment programmes in Britain:

It is in the nature of railway modernisation to be an ongoing process. While individual projects have clear beginnings and ends the whole idea of a modernisation plan implies a stop start approach to investment which is difficult to sustain in terms of manufacturing capacity and expertise. Yet politicians must have such plans and are not usually wiling to wait for them (perhaps this reflects the popular memory of the railways past with great men inventing the steam locomotive or opening the worlds first railway, downplaying the extent to which technology and business develop incrementally and encouraging us to see progress in terms of giant leaps rather than small improvements). The idea that there is a problem which will be addressed from a given date within in a given timescale and that there will be an end after which things are better seems to be necessary for ministers' – and the public's - peace of mind. While a rolling programme within an overall strategy makes sense, the publication of an 'end-to-end' plan of the 1955, 1956 and 1963 inevitably presents a misleading picture.

Secondly in Britain subsidy is seen as a mark of failure rather than the cost of providing a necessary social service, a legacy of references to the railways as one of the lame duck industries derided by Thatcherism, and railway investment has historically been linked with plans to improve the financial position of the railways generally. Therefore it is difficult to generate popular support for specific projects (outside areas immediately affected), which is important in overcoming the stifling effect of the planning process.

Finally, as an industry often wrongly seen as suffering a crisis, the railways are prone to the political tendency to address a problem through reorganisation rather than addressing it directly. It is no coincidence that as the railways' organisation became more stable during the 1970s and 1980s, their performance improved.

These problems are not specific to the 1950s, as the railways recent history in Britain shows. Since 1992 the railway industry has suffered from a politically-induced lack of stability comparable to that evident between 1945 and 1955. After 1992 the attention of the BRB was diverted from running the railways to reorganizing for privatisation, while a massive investment hiatus lasted into 1995-6 and privatisation saw an exodus of expertise from the industry. Before the new structure could bed down, the Strategic Rail Authority was established (in shadow form in 1999 and in practice in 2001, accompanied by an advisory Commission for Integrated Transport). Having been placed in administration in October 2001, the new privatised track authority, Railtrack, was replaced

by a not-for-profit company, Network Rail, the following year. Meanwhile the franchises awarded to private operating companies were subjected to a protracted renewal process and, following a policy review, the SRA was abolished by the Railways Act 2005. One of the problems that encouraged this disruptive decade of reorganisation as the (scarcely, in hindsight, credible) belief that privatisation could eliminate railway subsidies – a clear indication of the failure to accept that these are payments for a service rather than the outcome of poor management.

Meanwhile the flagship of privatised investment in the railways, the West Coast Main Line modernisation, has been scaled down from its original extent after its costs spiralled out of control. Critics have found that the plan was in fact based on completely unrealistic assumptions which were never fully challenged because it had to be rushed through in accordance with the timetable for privatisation. The ten year transport plan published in 2000, which was almost immediately rendered irrelevant by the aftermath of the Hatfield disaster, has been criticised as being 'a consolidation of what was already announced rather than a brave new deal for the railways' – a disturbingly similar description to that of the 1955 plan – devoid of any real strategy.

If this suggests that the same problems can be seen bedevilling investment in rail today as half a century ago, it should not surprise us. The one clear lesson of privatisation is that the government cannot escape responsibility for the railways, because the railways – privately or publicly owned – are inevitably dependent on public subsidy. This has now been recognised by government. Railway investment is therefore inevitably a political issue and the problems which hampered attempts to modernise them half a century ago remain relevant.