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Printed for the War Cabinet. July 1941.

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Copy No. 19

W.P. (41) 158.

July 11, 1941.

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**WAR CABINET.**

**THE FUTURE OF THE RAILWAYS.**

MEMORANDUM BY THE LORD PRESIDENT OF THE COUNCIL.

ON behalf of the Lord President's Committee, I submit, for consideration by the War Cabinet, certain issues in regard to the future of the railways.

*Need for Revision of the present Railway Agreement.*

2. On the outbreak of war, an Agreement was concluded with the Railway Companies, which included provisions to the following effect:—

- (1) The railways were guaranteed a net pool profit of £40 millions. If they earned another £3½ millions they kept it. They retained half of any additional net pool profits over £43 millions, up to a total of £56 millions. (These figures are approximate.)
- (2) Rates, fares and charges would be adjusted to meet variations in working costs arising from the war.
- (3) The cost of restoring war damage up to a maximum of £10 millions in any full year might be charged to revenue expenditure, and charges raised to meet such cost.
- (4) After the end of the year 1940, either party might propose revision of these arrangements for any cause of a major character, and, if agreed, the arrangements should be revised accordingly.

3. The revision of the Agreement has now been made inevitable by two developments. First, the Chancellor of the Exchequer said in his budget speech that, as part of the stabilisation policy, he was considering how far the Exchequer could help in averting further increases in railway rates and fares. Secondly, his proposals for compensation for war damage to public utilities provide that the State should bear half the cost, and the undertaking the other half as a capital charge.

4. For these and other reasons my Committee are agreed that the Railway Control Agreement must be revised. The policy of stabilising railway rates necessarily involves substituting a State guarantee of a fixed remuneration in place of the existing sliding scale of profits. My Committee are also agreed as to the figure which would constitute an appropriate payment for the railway companies on a rental basis during the control period.

5. It is at this point that a fundamental difference of opinion has emerged. Under the existing Agreement, the railways have a direct financial interest in

securing efficiency and economy. If the new Agreement is made on the footing of a fixed payment, the question at once arises how efficiency and economy in operation can best be secured under these conditions. According to one view, an essential step towards achieving this result is to remove all possible conflict of interest between one railway company and another, by declaring now in favour of unification after the war. According to the other view, the desired result can best be secured by rearrangements with the sphere of management designed to give the Minister of War Transport a more effective influence in the operation of the railways, without prejudice to post-war arrangements.

6. It will be convenient to set out these opposing views in terms of the arguments put before the Committee by the Minister of War Transport and the Lord Privy Seal respectively.

*Views of the Minister of War Transport.*

7. The Minister of War Transport wishes to proceed to negotiate a new Agreement with the Companies, on the basis set out in the preceding paragraph: that is to say, he would substitute a fixed payment for the present sliding scale of earnings. The Exchequer would be responsible for any deficit in the net earnings below this figure, and would receive the benefit of any excess over it.

8. Taking as his primary object the need to secure the fullest effort from the railways during the war, the Minister of War Transport is satisfied that this end can best be achieved by retaining a system substantially on the present lines, functioning through the Railway Executive Committee and the General Managers of the railways. He proposes, however, to introduce a number of changes in organisation. A Controller of Railways would be appointed who would have direct access to himself and the Director-General of the Ministry of War Transport. There would also be some changes in the organisation of the Railway Executive Committee, whose functions would be more clearly defined, and a new Chairman appointed. He is satisfied that in this way he can secure a better understanding between the Ministry, the General Managers and the Railway Executive Committee. He believes that the war effort would be hindered and not helped by any public declaration at the present time that the railways would be unified after the war, or by any attempt to bring about unification at the present time. (In this he differs from the view held by his predecessor.) The Minister's view in this matter is based largely on the experience of what happened when the present Companies were formed after the last war by amalgamation of the then existing Companies, and from the experience of the formation of the London Passenger Transport Board. In all these cases amalgamation gave rise to a period of great uncertainty among the staffs concerned, which at the time resulted in something approaching chaos on certain railways.

9. The Minister of War Transport has informed us that, although some difficulties arose earlier in the war owing to the tendency of the managers to pay regard to the interests of the individual railway companies, he had found no real evidence that this state of mind still persists and gives rise to difficulties.

10. He further takes the view that if rail transport was to be unified, it would be necessary to deal also with road transport. This was a very difficult matter, which should, if possible, be avoided in war time.

*Views of the Lord Privy Seal.*

11. The Lord Privy Seal, on the other hand, takes the view that, since it is admitted that the railways must operate during the war as a single unit, and that they must work in with other forms of transport, it is obvious that a policy of future unification must help, and a policy of subsequent separation must hinder, this end. He regards it as fundamentally unsound to instruct the Railway Managers to work together as a single entity during the war, and at the same time to be prepared to separate into four separate units after the war. In his view, any scheme of devolution of responsibility should take place on functional lines rather than on the basis of division between the separate Railway

Companies, and all extensions of plant and diversions of traffic and rolling-stock should be looked at from the point of view of the railways as a single unit. For these reasons the reforms proposed by the Minister of Transport will not, in his opinion, be effective.

12. The Lord Privy Seal also draws a distinction between unification in the operational sphere, which the Railway Managers should be carrying out at the present time, and amalgamation of ownership. The latter consists mainly in an adjustment of the equity interests, which is a matter of accountancy. Furthermore, if the incentive to economy and efficiency is to be removed by giving the railways a fixed guarantee, it will be necessary to rely on the motive of public service. This would best be secured if the unification of the railways under public ownership is at once accepted.

13. Again, in the Lord Privy Seal's view, all forms of transport must be used as an instrument of reconstruction schemes after the war. It would be in the interests of all parties concerned that the annual amounts payable to the owners of the railways after the war should be fixed now, and not left until after the end of the war.

14. The late Minister of Transport, as the result of experience, recommended a declaration of intention to unify the railways. This was generally known in the railway world. It had raised hopes in the railway workers which will now be dashed. In the Lord Privy Seal's view it accounts for the new spirit of accommodation among the railway managers and directors.

15. The Lord Privy Seal also urges that railway nationalisation has been for many years put forward by the Labour Party, and that it is not unreasonable that Labour, as a partner in the Government, should desire that some part of its programme should be implemented. In his view, it would be statesmanlike to take action in a field in which there is not acute controversy, and to remove one cause of national disunity from the political arena.

16. For these reasons the Lord Privy Seal holds that, before any decision is taken to proceed with a revision of the Railway Agreement, a decision should be taken in favour of unification of the railways under public ownership.

#### *Conclusion.*

17. It is important to make clear that the difference of opinion does not concern the question whether the railways should be unified after the war or, indeed, whether some form of public ownership for the railways may then be found appropriate. Indeed, most if not all of us have formed the personal opinion that the unification of the railways might be desirable after the war. The point at issue is whether a declaration at this moment that the railways will be unified after the war would or would not assist in securing the fullest possible effort from the railways during the war period. It is on this issue that our opinions are divided.

18. Three members of the Committee (the Lord President of the Council, the Chancellor of the Exchequer and the President of the Board of Trade) feel that the opinion of the Minister of War Transport, who has considerable experience in this field and who has made the matter the subject of close examination since he took up office, must necessarily carry very great weight, and that very strong justification would be required before his views were set on one side.

19. On the other hand, three Members of the Committee (the Lord Privy Seal, the Minister without Portfolio and the Minister of Labour and National Service) are convinced that the best way to secure the fullest effort from the railways during the war would be to make an immediate declaration of unification of the railways, and would favour steps to make that unification effective as speedily as possible.

20. We have not found it possible to reach any accommodation between these opposing views. Thus the Minister of War Transport rejects the suggestion that the railways should be leased for the period of the war, and placed under an effective Central Management, organically distinct from the management of the existing railway companies. In his view such a degree of interference with the management of the companies would not produce the most efficient results.

21. In these circumstances we submit the issues involved for decision by the War Cabinet.

J. A.

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