

**"Railway regulation in 19th Century Britain:
the economic rationale and legacy of Gladstone and Chadwick"**

by

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Abstract

This paper examines the economic rationale of the ideas of Gladstone & Chadwick on railway regulation and the legacy of their ideas. In 1844 Gladstone proposed and implemented what we would now call price and quantity regulation whereas in 1859 Chadwick proposed competition "for the field", i.e. the establishment of a temporary monopoly or franchise, for a given period.

The thinking of Gladstone had been influenced by the classical school of economic thought, most notably J R McCulloch, whilst Chadwick had ideas influenced by his association with Jeremy Bentham and John Stuart Mill.

This ideas still impact today; the basic pattern of price and some quantity regulation inaugurated by Gladstone was not abolished until the 1960 Transport Act whilst Chadwicks idea of temporary licenses or franchises came back into vogue when the railways were privatised in 1997.

Introduction

There are two key features of nineteenth century laissez-faire economics, as described in Taylor (1972), that we are going to touch on here are:

- The role of government being strongly influenced by both the classical economists and the Bethamite utilitarians who both preached the virtues of economic individualism.
- The role of government being influenced by laissez-faire ideas in the development of economic policy with any departures being justified only if for the greater good, e.g.
"Laissez-faire, in short, should be the general practice: every departure from it, unless required by some great good, is a certain evil."

Mill (1870) Book 5, Chapter 11

It is important to recognise that the idea that government intervention was not necessarily in stark contrast to laissez-faire had earlier been made by Adam Smith.

"According to the system of natural liberty, the sovereign has only three duties to attend to; three duties of great importance, indeed, but plain and intelligible to common understandings: ... secondly, the duty of protecting, as far as possible, every member of the society from the injustice or oppression of every other member of it, or the duty of establishing an exact administration of justice; and, thirdly, the duty of erecting and maintaining certain public works and certain public institutions which it can never be for the interest of any individual, or small number of individuals, to erect and maintain; because the profit could never repay the expense to any individual or small number of individuals, though it may frequently do much more than repay it to a great society."

Smith (1776) Book 4, Chapter 9

The History of Railway Regulation in Great Britain: Before the 1844 Act

The majority of bills being considered in the House of Commons (and Lords) in the nineteenth century were private bills. Those bills dealing with public works provision defined the terms on which the entity was to operate and such bills were widely regarded both as contracts defining private property rights and as being immune from any attempt at retrospective legislation as this quote from 1870 shows:

"The railway companies had obtained their Acts subject to certain conditions which had been well considered with a view to the protection both of public and private interests. The bargain had been well made: Parliament had already sealed its conditions, and shareholders had invested their money under them, and it would not now be right to impose additional liabilities upon them."

Mr L. L. Dillwyn, MP for Swansea and Great Western
Railway Director (quoted in Foster (1992), pp. 18)

The first passenger railway lines were the Stockton & Darlington Railway opening in 1825 and the Liverpool & Manchester railway opening in 1830.

The railways differed from other public work provisions in that they did not have a time limited franchise (with 21 or 42 year being the norm) or a dividend constraint. The rationale operating here seems to have been

1. An acceptance of an argument that the magnitude of both the risk and the amount of the investment meant that a longer payback period than 21 years was necessary.
2. A belief that there would be sufficient competition between *different* firms on the same route that the opportunity for making monopoly profits that had existed on the turnpike roads would not be repeated. Tolls for track use were regulated but charges for the carriage of passengers or freight were not.

The monopoly profits earned by the turnpikes had been noted by economists:

"At many turnpikes, it has been said, the money levied is more than double of what is necessary for executing, in the completest manner, the work which is often executed in very slovenly manner, and sometimes not executed at all."

and the solution that had been suggested was essentially one of patience:

"The system of repairing the high roads by tolls of this kind, it must be observed, is not of very long standing. We should not wonder, therefore, if it has not yet been brought to that degree of perfection of which it seems capable. If mean and improper persons are frequently appointed trustees, and if proper courts of inspection and account have not yet been established for controlling their conduct, and for reducing the tolls to what is barely sufficient for executing the work to be done by them, the recency of the institution both accounts and apologizes for those defects, of which, by the wisdom of Parliament, the greater part may in due time be gradually remedied."

Both from Smith (1776) Book 5, Chapter 1

Railways initially challenged the position of the canals which had already established local monopolies in many parts of Britain. What then happened, and thus prompted the calls for regulation, was the creation of new transport monopolies by the railways.

In 1836, James Morrison made a speech on the control of the railways which was remarkably erudite in the understanding of the market that it demonstrated from an economic perspective. James Morrison was a wealthy self-made draper and was a friend of J R McCulloch, but it would be a serious mistake and injustice to see him as being an acolyte of McCulloch as there is evidence that McCulloch viewed him as an equal. For example, he was one of just three members of the Political Economy Club¹ to see McCulloch's work in draft. Morrison made a number of key points in this speech which are worth elaborating on.

First of all, he pointed out that because the enabling legislation for a railway did not preclude firms from setting discriminatory charging policies, there was nothing to prevent the establishment of local monopolies.

“All Acts of Parliament conferring on a Joint-Stock company the power of making a canal or railway between two or more places, necessarily confer peculiar powers and privileges on the subscribers, the abuse of which ought consequently to be guarded against. Such Acts authorise companies to carry their works through the estates and properties of private individuals, often inflicting inconveniences and injuries which no pecuniary compensation can remove or repair, the only justification for which – and in my opinion it is always a sufficient one – being the subserviency of private interests to the public good. But this is not all; these Acts further give them what is equivalent to a monopoly.”

Hansard (17th May 1836), 3rd Series, Volume 33, column 979.

Furthermore given that the first railway between any two places was likely to choose the most favourable route and

"... a company authorised by the Legislature to take possession of it had thereby acquired an incommunicable privilege and a substantial monopoly, inasmuch no company that may be formed at any future time for making a new canal or a new railway between the same places, could come into the field under equally favourable circumstances."

Hansard (17th May 1836), 3rd Series, Volume 33, column 979.

Morrison then points out why the commonplace belief that competition would occur between two destinations is invalid. This is because

"Suppose now, that the speculation should turn out to be a profitable one, and that the shareholders realize a large dividend, it is plain that, under the circumstances of the case, it would be all but impossible to reduce it, or to lessen their charges upon the public, by bringing a rival establishment into the field; for, first, the existing company is in possession of the best line; and, second, were it seriously intended to form a rival establishment, the original company would seek to deter them by reducing their charges; and if, as is probable, they succeeded in this way

¹ The Political Economy Club had been founded in 1821 as a dining club to debate the great economic issue of the day and was restricted to thirty members at any one time. Between 1821 and 1868, it had 109 members in total of whom just under half had been MPs at some time during this period. Its membership included Edwin Chadwick, William Gladstone, J R McCulloch, John Stuart Mill, James Morrison, Robert Peel and David Ricardo. More information on the interaction between Parliament and the Political Economy Club is to be found in Fetter (1980).

of getting rid of the threatened competition, they might again raise their charges to the continued injury of the public.”

Hansard (17th May 1836), 3rd Series, Volume 33, columns 979 - 980.

This is a classic description of predatory pricing to prevent entry. A similar statement was made later by J. S. Mill, in 1852 to be precise, to quote (from the 1870 edition of his *Principles of Political Economy*):

"They may run a race of cheapness to ruin a new candidate, but as soon as he has established his footing they come to terms with him."

to which the solution suggested is that

"In the case of railways, for example, no one can desire to see the enormous waste of capital and land (not to speak of increased nuisance) involved in the construction of a second railway to connect the same places already united by an existing one; while the two would not do the work better than it could be done by one, and after a short time would probably be amalgamated. Only one such line ought to be permitted, but the control over that line never ought to be parted with by the State, unless on a temporary concession, as in France; and the vested right which Parliament has allowed to be acquired by the existing companies, like all other proprietary rights which are opposed to public utility, is morally valid only as a claim to compensation."

Both from Mill (1870) Book 1, Chapter 9.

The phrase "on a temporary concession" raises the suggestion of franchising - an idea which we will return to later when discussing Chadwick.

Morrison then provides some evidence for his assertions based upon the operation of canals (for which there was more data available than there was for railways). He then questions the intellectual coherence of the belief that competition should be left to itself as the sole mechanism for working in the public interest.

"It is plain from the facts now stated, and I might have referred to fifty other similar instances, that competition in such case is not to be depended upon, as a means of reducing the exorbitant rates of charges which produce such extraordinary nor unlooked-for profits. But even though competition might be depended upon, the question arises, whether it would be right to trust exclusively in its protection. And to this question a decided negative should be given. The Legislature is bound to prevent, as far as it can, the unnecessary waste of public capital. Now, it would be obviously a most flagrant waste of capital to construct two or three canals or railways to do the business that might well be done by one, the only object, in fact, of the construction of the latter being the reduction of the charges made by the first, a reduction which might have been effected without trouble or outlay, by a proper legislative provision."

Hansard (17th May 1836), 3rd Series, Volume 33, columns 981 - 982.

Morrison then turned in his speech to suggest some solutions to the issues he had raised about the regulation of railways.

All future railway acts should have a clause in them allowing Parliament to revise the maximum rate or return allowed for three reasons.

1. In the early years of a railway, there would be doubts about traffic levels but as traffic levels rose so should profit as most of the costs of a railway were fixed.
2. The lowering of transport costs by railways should create new demand for transport, so raising revenue more than costs.
3. The technology being employed in the operation of railways was advancing and could be presumed to continue doing so, so costs would continue to be lowered.

“But, besides the improvement of the country, and the consequent increase in traffic, may we not also look for great improvement in the construction of locomotive engines, and in the whole machinery and management of railroads. These are admitted, on all hands, to be in their infancy; and yet the House of Commons has been legislating with respect to them as if they had already attained to the highest degree of maturity and perfection. Parliament fixes a rate of charge, supposed to be capable of yielding a profit to a company using the present engines upon the roads of the present construction; so that if, as is most probable, the engines and roads should be so much improved, and the costs and other charges so much reduced, as to enable them to perform the same work for a half or a fourth part of the present cost, the public will be shut out from all participation to this advantage! – Would not this be monstrously injurious to the interests of the public? And is not Parliament bound to provide against such a contingency.”

Hansard (17th May 1836), 3rd Series, Volume 33, columns 983 - 984.

Thus a downward revision in the maximum rates of return was likely to be necessary.

“Nothing, in fact, can be more improvident, or more absurd, than that Parliament should, once for all, fix the rate of toll when an undertaking is entered upon, and divest itself, of the power to reduce that rate in all time to come, how greatly soever it may exceed what would be a liberal return for the capital vested in the undertaking.”

Hansard (17th May 1836), 3rd Series, Volume 33, column 984.

And thus Morrison argues that

“For these, and a variety of reasons, I am clearly of opinion that Parliament should, when it establishes companies for the formation of canals, railroads, or such like undertakings, invariably reserve to itself the power to make such periodical revisions of the rates of charge, as it may under the circumstances deem expedient. It should then have the power to examine into the whole management and affairs of each company, to correct what may have been amiss in the former, and to fix the rates of charge for another period of years : always taking care that the proprietors are allowed a fair return for the original outlay of capital, as well as compensation for the risk which such undertakings are generally more or less subject to.”

Hansard (17th May 1836), 3rd Series, Volume 33, column 985.

Dividend limitation was deemed by Morrison to be ineffectual as

"The public has no check on the system of management, nor can it explore the thousand channels in which profits may be distributed under other names among

the subscribers, nor has it any means of preventing the wanton and extravagant outlay of money on the works, etc."

Hansard (17th May 1836), 3rd Series, Volume 33, columns 984 - 985.

One option put forward by Morrison was to follow the principle of the lighthouses "The cases of the Smalls', the Longships', the Dungeness' Lights, and other private lighthouses are instances in point. The parties by whom these lighthouses were erected, were authorised to charge certain rates for a specified term of years, on all ships coming within a certain distance of their lights ; the light-houses becoming, at the end of such terms, the property of the Crown or the public : and yet though this may be a more stringent regulation than any I propose introducing, the arrangement has always been regarded, and with justice, as a most improvident one, on the part of the public."

Hansard (17th May 1836), 3rd Series, Volume 33, column 986.

This is in effect, granting a license to a firm for a fixed period of time which is similar to the franchising idea.

Morrison stopped short of his preference for a system of railway commissioners (as this would have been politically unacceptable in the aftermath of the furore about the Poor Law Commissioners) and suggested instead that a clause giving Parliament the right to revise charges periodically should be inserted into each bill citing the 21 year reviews of the turnpike acts as a precedent. However, none of the ideas of Morrison were implemented at this time although some of them did resurface later.

In 1839 traders petitioned the House of Commons over what they saw as the monopolistic practices of the London & Birmingham Railway. This resulted in the creation of a Select Committee whose findings were that the earlier belief of Parliament that competition would occur once free access to a line had been secured for payment of a toll was not working.

An extract from the report of the Select Committee illustrate their findings rather succinctly.

" It does not appear to have been the intention of Parliament to give a railway company the complete monopoly of the means of communication on their line of road; on the contrary, provision was made in all or most of the Acts of Incorporation to enable other persons to place and run engines and carriages on the road, upon payment of certain tolls to the Company. The intention of Parliament in this respect cannot, however, be carried into effect in the way contemplated by the Legislature: for it is obvious that the payment of legal tolls is only a very small part of the arrangement which is necessary to open railroads to public competition; any person with the mere authority to place an engine and carriages on a Railway would be practically unable to supply his engine with water, or to take up and set down his passengers at any convenient station or terminus, and, indeed would be placed at such a disadvantageous situation, that all competition with the Company would be rendered impossible.

The safety of the Public also requires that upon every Railway there should be one system of management, under one superintending authority, which should have the power of making and of enforcing all regulations necessary for the

protection of passengers, and for duly conducting and maintaining this new mode of communication. On this account it is necessary that the Company should possess a complete control over their lines of road, although they should thereby acquire an entire monopoly of the means of communication. But if these extensive powers are to be granted to private Companies, it becomes most important that they should be so controlled as to secure the public as far as possible from any abuse which might arise under this irresponsible authority."

Select Committee on Railways (1839), pp. *vi* - *vii*

In 1840, the Select Committee reported and they believed that it was possible to disentangle prices into a carrier element and a toll proprietor element. One of the main reasons why price control *per se* was not used was because of issues about what was acceptable to include in the toll proprietor element which resulted in numerous legal cases - an issue which will be returned to when we consider the evidence presented to the Devonshire Committee in the 1860s.

The ultimate result of the deliberations of the select committee was the 1840 Railway Regulation Act. This gave the Board of Trade the power to inspect all lines before they opened. It was also given powers to supervise fares, rates and traffic and to investigate accidents if it so wished. The operation of this legislation led to the creation of the Railway Department with a staff of 3 (a statistician, an engineer and a lawyer) which was attached to the Board of Trade. The main aim of the department was railway safety with the objective being to certify that the provisions of the Railway Regulation Act had been met, not to ensure standard of construction - an approach which led to criticism years later at the time of the Tay Bridge disaster²

The original intention of the Bill that became the Railway Regulation Act in terms of monopoly control was to require railway companies to give full access to their accounts; this was heavily criticised in Parliament³ and the required returns were restricted to aggregate traffic (of passenger by class and of goods) and accidents.

Another important role was that the Railway Department was to monitor private members bills (which is how new lines were established⁴) to

"... guard against the insertion of improper clauses."

Board of Trade Papers, 11th August 1840

In 1842, we have a number of interesting developments.

Firstly, the Railway department investigated a case of price discrimination. Mr Langford of Ponders End was a commuter on the Northern & Eastern Railway to London and paid 2s a

² At approximately 7:15 p.m. on the night of 28th December 1879, the central navigation spans of the Tay bridge collapsed into the Firth of Tay at Dundee, taking with them, to destruction, a train, 6 carriages and 75 people. The Tay bridge had been open for 20 months.

³ It should be noted that it was not particular unusual for MPs to be directors of railway companies and *Bradshaw's Railway Almanack* published a list of them each year from 1847 onwards. Indeed, Checkland (1971) notes that in 1843 the shareholdings of John Gladstone (father of William) were worth £213,000 (approximately £15,000,000 in today's (2003) terms), much of these being in railway stock.

⁴ Parliament gave the company the right to purchase land and operate across public highways and in return it laid down maximum toll rates which the company must not exceed. Such Acts were based on earlier acts authorising turnpike roads.

day. He pointed out that the fare from London to Tottenham was 1s and the fare from Tottenham to Ponders End was 8d, giving a combined fare of 1s 8d. Mr Langford suggested that

"the director of railways can, by skillfully operating any one village or town, must effectually destroy *all* private competition by the post road from such locality, and having succeeded in destroying such competition in *one* place, the whole of the towns or villages on the lines become in succession victims to such operations"

Board of Trade Papers 6/280 7/1842

Such an argument by Mr Langford is, of course, a classic textbook example of predation, the existence of which had been noted earlier by Morrison. The Northern & Eastern Railway company argued that the 2s fare was the same as the coach but that it had decided anyway to assimilate fares to remove any consumer dissatisfaction.

Secondly, the issue of the relationship between the railways and coach companies was raised by G. R. Phillips, MP. He complained to Gladstone (then Vice-President of the Board of Trade) that the Great Western Railway (GWR) had given a monopoly to Waddell of Oxford in coach services between Steventon (then the nearest railway station to Oxford) and Oxford. Gladstone passed the complaint onto the Railway Department to whom GWR responded that Waddell had been contracted to meet all trains at Steventon enabling through ticketing from Paddington onto Oxford with the coach meeting the passengers at the platform and that other coach firms were not excluded from the station. This case and others like it revealed that the Board of Trade was powerless to act if the railway companies sought to extend their monopoly to the roads. The 1844 select committee on railways noted this lack of power but no action was proposed to be taken.

Thirdly, the 1842 Railway Act was passed which was mainly a safety Act to ensure that railways ran safe services. A requirement was made that new lines had to be inspected by the Board of Trade, which could demand traffic returns and inquire into accidents.

The History of Railway Regulation in Great Britain: The 1844 Act

1844 had a sharp increase in the volume of railway bills which, if they had all passed, would have led to a 50% increase in track mileage (from the existing 2000 miles to over 3000⁵). This raised the issue in the mind of W. E. Gladstone of how this growth, both in track and in parliamentary time, should be regulated.

W. E. Gladstone definitely had an interest in Economics and this can be tracked through his diary. His diary entry for Easter Tuesday 1843 (Tuesday 18th April - Foot & Matthew (1974)) noted that he began reading the recently released 3rd edition of "The Principles of Political Economy" by J. R. McCulloch. He finished reading McCulloch (1843) on Saturday 6th May; just 7 days before becoming President of the Board of Trade.

This warning passage

"A limitation of the rate of dividend tempts a prosperous company to engage in subsidiary undertakings, though of doubtful utility and profit"

McCulloch (1843), pp. 288

⁵ For a graphical portrayal of the growth in railway track mileage in Britain during the 1825 to 1870 period, see the chart in Appendix B.

does seem to indicate an understanding of what we would now call an Averch-Johnson capital bias effect (Averch & Johnson (1962)). This is an explanation of the phenomena where a firm whose rate of return is regulated will seek to invest in too large a stock of capital than that which would be required for the productively efficient operation of the business.

By the time of the 4th edition [McCulloch (1849)], McCulloch seems to have changed his mind substantially as he now accepts the need for regulation

"... and it is all but universally admitted that our legislation, with regard to railways and other public works., has evinced a highly culpable inattention to the public interests, and been discreditable to the intelligence of the country. Latterly, however, the extraordinary extension of railway projects has forcibly attracted attention to the subject ... ; so that, by adopting a well-devised system, we may check abuse and provide for the public interests in the lines that remain to be granted; and may probably, also, be able to repair, in part at least, the errors already committed in the cession of the others."

McCulloch (1849), pp. 301

An extract from an 1848 treatise on public interests puts this notion more bluntly:

"The principle of *laissez-faire* may be safely trusted to in some things but in many more it is wholly inapplicable; and to appeal to it on all occasions savours more of the policy of a parrot than a statesman or a philosopher"

McCulloch (1848), pp. 156

A slightly earlier passage in the 4th edition of *Principles* suggests that McCulloch was prepared to consider nationalisation as an option⁶.

"Hence, the obvious expediency, in passing acts for the formation of railways, canals, docks, water and gas companies, and other public works, of reserving power for the government to make periodical revisions of the tolls or rates of charge for the services to be performed; to control their management, in the view of providing for the greater security and convenience of the public; and, if needs be, to purchase up the works on reasonable terms."

McCulloch (1849), pp. 300

There is some considerable evidence that Peel had been influenced by the McCulloch and his writings. In 1846, Adam Black wrote to McCulloch saying about the pension of £200 per annum obtained by McCulloch for services to the science of political economy:

"I look upon it as an acknowledgement of Sir Robert Peel that he is indebted to you for the enlightenment he received on those principles of political economy by which he achieved his triumphant reform in our commercial systems - It is as much as saying to the public, if I have succeeded in overthrowing the deeply rooted abuse of the protective system you are indebted to McCulloch as the person who furnished me with the weapons by which this was accomplished."

An extract from a letter of 7th July 1846, quoted on pp. 111 - 112 of O'Brien (1970)

McCulloch responded by dedicating his *Statistical Account of the British Empire* to Peel and continued what had been a regular correspondence between them that had begun in 1836.

⁶ O'Brien (1970) notes the earlier opposition of McCulloch to nationalisation as detailed in the proceedings of the Political Economy Club

McCullochs relations with Gladstone while not as close were quite affable and Gladstone praised his comptrollership of the Stationary Office in the House of Commons in 1854 (as detailed in Hansard (9th June 1854), 3rd series, Vol. 133 , columns 1345 - 1346).

The 1844 act of Gladstone was a personal measure and not a departmental measure, despite Gladstone now being President of the Board of Trade.

Many of the bills being presented to Parliament in 1844 were for railway amalgamation and Gladstone has noticed that previous amalgamations had led to rate increases. He also noticed that reducing the number of railway companies would make

"arrangements between rival lines easy of accomplishment."

Hansard, 3rd Series, Volume 72, columns 23.

This seems a clear statement of a belief that collusion was more likely as the number of firms diminished.

The Act was based upon the findings of a select committee. The 1st report of the Select Committee had tried to establish the principle that each railway bill should contain a clause making that railway not exempt from any future legislation. The 2nd report had recommended that all bills should go to a single committee whose members had no local or personal (i.e. financial) interest in the matters at hand. Both of these recommendations were not reflected in the subsequent legislation.

The 3rd report of the Select Committee was more substantial and echoed much of what James Morrison had said eight years earlier. The committee made recommendations in a number of areas:

Nationalisation

"That if, at the end of a term of years to be fixed, the annual divisible Profits upon the paid-up Share Capital of any such Line of Railway shall be equal to a percentage to be fixed, or so soon after the expiration of the said term as the said percentage shall have been reached, it shall be in the option of the Government either, first, to purchase the Line at the rate of a number of years' purchase, to be fixed, of such divisible Profits; or secondly to revise the fares and charges on the Line, in such manner as shall, in the judgment of the Government, be calculated to reduce the said divisible Profits, assuming always the same quantity and kinds of annual traffic to continue, to the said percentage: but with a guarantee, on the part of the Government to subsist while such scale of fares and charges shall be in force, to make up the divisible Profits to the said percentage.

And also, that at or after the end of the said term of years, it shall be in the option of the Government to purchase the Line at the said number of years' purchase of the annual divisible Profits, whatever be the amount of such Profits.

That the term of years be fifteen, to date from the next following first of January after the passing of the Act for the construction of the Railway."

"Parliamentary" Trains

"That the Companies may be required to provide upon such new Lines of Railway, as a minimum of third-class accommodation, one Train at least each way on every week-day, by which there shall be the ordinary obligation to convey such passengers as may present themselves at any of the ordinary stations, in carriages provided with seats and protected from the weather, at a speed not less than 12 miles an hour including stoppages, and at fares not exceeding a penny per mile; each passenger by such Train being allowed not exceeding 56 lbs. of

luggage without extra charge, and extra luggage being charged by weight at a rate not exceeding the lowest charge by other Trains; Children under Three years being conveyed without extra charge; and children from Three to Twelve years at half-price.

That the tax upon the receipts from such conveyance of third-class passengers should not exceed one half of any duty that may be laid upon the general traffic of Railways

That the Board of Trade have a discretionary power of dispensing with any of the above requirements, and of allowing alternative arrangements which shall appear to it to be better calculated to promote the public convenience upon any particular Railway; and that the Board of Trade have a discretionary control over the Train which satisfies the above minimum requirements, as regards times of starting, nature of accommodation, arrangements with connecting Lines, and other points of detail, subject to the above general principles, and to the understanding that such control is to be limited to the Train in question."

Military Trains

"That Companies shall be bound to convey upon such new Lines military and police forces, and public stores, baggage, and ammunition, on the requisition of the proper authorities, at fares not exceeding 1d. per mile for each private, and 2d. per mile for each officer, with the usual accommodation, and at charges not exceeding 2d. per ton per mile for stores and baggage; the same quantity of personal luggage being allowed free of charge to each officer and private as to each ordinary first and second-class passenger respectively; and the carriages in which such forces are conveyed being, whenever so required by the proper Authorities, provided with seats and protected against the weather."

Mail Trains

"That upon such new Lines the Post-office be empowered to required the transmission of the Mails (subject to the usual conditions as to payment for services performed by Railway Companies) at any rate of speed certified by the Inspector-general to be consistent with safety; and also to send a mail-guard with bags not exceeding the weight allowed for an ordinary passenger's luggage (or subject to the rules of the Company for any excess of that weight) by any of the ordinary Trains, upon the same terms and conditions as an ordinary passenger: it being understood, that this power shall not authorise the Post-office to require the conversion of a regular Mail Train into an ordinary Train, nor to exercise any control over the Company in respect of any ordinary Train."

Select Committee on Railways (1844), pp. 5 - 7

The case for nationalisation had been made in an anonymous pamphlet entitled "Railway Reform, Its Expediency and Practicability Considered" which was later found to be the work of William Galt (who will meet again later). This pamphlet supports the case for nationalisation with some statistical evidence, as detailed in Ekelund & Price (1979). Three pieces of evidence concern us here.

Firstly, there is the documenting of 3rd-degree price discrimination on 26 English railway lines in 1842 (with statistical evidence).

Secondly, there is the evidence from an experiment where rates were lowered in one line that because of (what was believed to be universally) increasing demand and declining marginal costs, rates could be cut by two-thirds and lines would not lose money.

Thirdly, there is evidence that the government purchase of railways would be feasible as many line (almost a half in 1845) were not making a competitive rate if return.

So what was the solution; the solution in terms of overall management in 1843 was the same as that Galt presented to the Devonshire Commission in 1865.

“Mr Ayrton: Then you would establish a statutory commission directly responsible to Parliament?”

Mr Galt: Yes; responsible directly to Parliament, and at the head of that commission a man in the social position of our cabinet minister, and in the same way responsible to Parliament for the management of it.”

Royal Commission on Railways (1867), pp. 319

The rest of the solution in 1843 according to Galt was that the railways should be run by the state in a similar manner to the recently constituted postal service.

A draft resolution was written by Gladstone on the 3rd of February 1844 with Gladstone speaking in favour of a railway committee two days later in the House of Commons. The cabinet colleagues of Gladstone were at best indifferent (and in some cases hostile).

Peel himself had problems with the legislation partly for pragmatic grounds:

"... there was a material distinction to be drawn between companies approaching parliament for the first time, and asking for authorization, and companies which, on the faith of Parliament, had invested their capital in the construction and establishment of great railways. Parliament, it was true, might repent of the indiscretion and levity with which it granted powers to those companies, but still the powers had been granted."

which is a statement of the issue mentioned earlier regarding a belief in the unalterable nature of the rights of private property once granted. Peel also had reservations for reasons that were squarely on the side of classical economics *a la* McCulloch:

"In his opinion, the natural control over these companies was not by minute interference with their gains, or by their management, but by holding out to them the menace of competition."

Hansard (5th February 1844), 3rd Series, Volume 72, columns 249 - 250.

By March 1844, a variety of railway resolutions were being debated in the House of Commons; a debate to which Gladstone contributed on the 4th of March 1844. In May 1844, Gladstone tried to rally support for his measures in the cabinet by circulating an internal cabinet memorandum which had been heavily influenced by the report of the 1844 select committee on railways; Gladstone having seen part of a draft on the 6th of May 1844 prior to publication on the 15th.

There was some limited public support for some action being taken against what was seen as the abuse of monopoly power, as this extract from the Illustrated London News shows:

"The Railway shareholders are consequently, on the leading lines, dividing among themselves from six to ten per cent on the price of the original shares. And hence the fact that the original £100 shares are, in some instances, at from £130 to £140 premium; while other shares on which £50 only have been paid, are at present at a premium of from £78 to £80.

These are stubborn facts; they are facts that speak for themselves. They disclose a state of matters constituting a monopoly of the very worst kind. The Directors of the leading Railway Companies having secured a monopoly of conveyance, act towards the public as they think proper. They make their own terms because they know the public have no remedy. They know that the public, having no other means of conveyance between the places through which their lines pass (the coaches being knocked off the road), are completely at their mercy."

Illustrated London News, 24th February 1844

The main provision of the Bill from an anti-monopoly perspective dealt with the revision of railway charges and the potential for purchase of the railways by the state.

"Using the then existing system of a large number of independent lines it was very difficult, if not impossible, to facilitate and cheapen railway communication; for "if nine out of ten companies were in favour of the experiment of cheap communication it would probably be in the power of the tenth to baffle the effort."

Gladstone quoted in Hirst (1931), pp. 89.

By the 3rd of July, things were not going well with the Railway Bill and Gladstone noted his anger in his diary:

"My temper was moved by the proceedings of the Railway People today."

Foot & Matthew (1974), pp. 386

Gladstone carried on pressing and spoke for 2¹/₄ hours in the House on the 8th of July but it was not to be and the anti-monopoly measures of the Bill were watered down with responsibility was transferred for the financial aspects of the Bill to the Treasury during the passage of the Bill through parliament. The price control and nationalisation measures were contained in the first two sections of the Act. Section 1 gave Parliament the power, from 21 years after its passage (i.e. 1865), to cap the rates of any new line⁷ which was earning more than 10% a year on the value of its paid up stock.⁸ Section 2 gave Parliament the power after the same 21 year period to nationalise any railway company which was making a return of more than 10% a year on the value of its paid up stock.

The issue of free access for coaches to station yards was initially present in the Bill but this clause was struck out in the House of Commons. Other sections in the Act that were passed obliged companies to carry the mail, to carry troops or police, allow public telegraph lines to be erected along their rights-of-way and to open their own telegraphic systems to public use.

The main other addition to the powers of the Board of Trade were the parliamentary trains provision (Section 6 of the Act) which applied to all train companies who obtained at least a

⁷ The definition of a new line also included existing lines if they were extended. Most lines were being extended during this period with some indeed being opened a stop at a time.

⁸ There were warnings of the 10% figure being too high with Morrison in 1848 warning that there was a risk of "permanently guaranteeing to the shareholders the enormous dividend of 10 per cent."

Morrison (1848), pp. 128

By 1865, railways were yielding a return of about 4% per annum.

third of their revenue from passenger traffic. The parliamentary trains provision required each railway company to run at least one train each weekday which stopped at each station at a speed of not less than 12 miles per hour and which conveyed third class passengers in carriage meeting the specification of the Board of Trade for a fare not greater than 1d per mile. This specification was that a carriage had enclosed sides, a roof, seats and provision for lighting and ventilation.

The History of Railway Regulation in Great Britain: After The 1844 Act

In August 1844, the Railway Department became the Railway Board partly as a result of Gladstone seeing the increasing demand of railway regulation as a threat to the other responsibilities of the Board of Trade. Gladstone communicated this belief to Peel in June 1844 who replied that a new department for railways outside the Board of Trade was not possible but that a Board within a strengthened Board of Trade was possible. The 10th Earl of Dalhousie, who had been made Vice-President of the Board of Trade in May 1843, took increasing responsibility for the Railway Board and effectively acted as its head rather than Gladstone. The altered stance of Gladstone on railway matters in the aftermath of the rather stormy passage of his Bill can be seen in this extract from a letter to Dalhousie (quoted in Parris (1965)):

"Your accounts of the Railway Department give me great satisfaction - it has occurred to me to ask whether you could conveniently send me the draft minutes of the Railway Department ... but it need not be thought of if it is likely to be troublesome"

Gladstone quoted in Parris (1965), pp. 64.

Dalhousie continued with the role of acting as the head of the Railway Board when he became President of the Board of Trade in February 1845 after the resignation of Gladstone over a non-Trade matter (specifically the increasing of a grant to the Catholic seminary in Maynooth). Dalhousie quickly found that the Board to be in regular conflict with select committees of the House of Commons on a regular basis and the impact of this was that the Commons decided strategic rail policy while the Board focussed its attentions on safety and the parliamentary trains.

In 1846 with the return of the Whigs to power, a new department (The Commissioner of Railways) was established which was independent of the Board of Trade but had no new powers. In October 1851, cost-cutting measures abolished the Commissioner of Railways and responsibility for the railways was returned to the Board of Trade.

The legislative focus of the 1850s was mainly focussed on bills in three areas:

1. The construction of new railway tracks
 2. The conversion of level crossings to bridges
- and
3. The amalgamation of existing railway companies.

It is the latter which is of most interest to economists and the evidence presented in depth in Parris (1965) indicates the behind-the-scenes role played by the Board. A good example of such a role is the case of the Lancashire & Yorkshire and East Lancashire Amalgamation Bill, 1858. Here the Board suggested the insertion of clauses that required the amalgamated company to build a new station in Wigan and to double the number of tracks on the Burnley branch. The company put in a clause committing itself to a new station at Wigan within two

years noting that "The Chairman [of the committee] has been looking at the Board of Trade Report"⁹.

Cardwell's Select Committee of 1852-3 had recommended that amalgamations of railway companies should be discouraged. However, the amalgamations continued and in a quarter century period, between 1850 and 1875, the London and North Western and Great Western companies alone absorbed 52 other railway companies between them.

The 1859 paper of Chadwick is in a sense, a position paper, on his beliefs about how governments should intervene in the market in general with some specific example, one of which is railways. Some of his previous roles in government are noted in Appendix A with more detail to be found in Finer (1952) Essentially, the argument being made by Chadwick is that in the presence of natural monopoly regulation is not an appropriate means of proceeding by the state and that an alternative means of handling property rights is needed. The basic proposition made in Chadwick (1859) that we are interested in here is that prior to 1844, he had

“... proposed, as an administrative principle, competition "*for the field,*" that is to say, that the whole field of service should be put up on behalf of the public for competition, – on the only condition on which efficiency, as well as the utmost cheapness, was practicable, namely, the possession, by one capital or by one establishment, of the whole field, which could be most economically administered, by one, with full securities towards the public for performance of the requisite service during a given period. The principle was, upon due consideration, extensively adopted and advocated by permanent public officers, commissioners and interested public investigators for the regulation of enterprises in railways, then at their commencement; but the views chiefly advocated by speculators and persons who profit by multiplied conflicts - who gain whosoever else lose - were adopted by Parliament”

Chadwick (1859), pp. 385

This idea of "competition for the field" was called “contract management” by Chadwick (as explained in Ekelund & Price (1979)) but it is analogous to the franchising of the modern British railway system. Chadwick then provided empirical evidence on the problems with British railways compared to those on the continent.

Firstly, on price he found that price discrimination was more marked in England as whilst 3rd class prices were roughly similar across Europe, 1st and 2nd class prices differed greatly in Britain as compared to the continent

Average fares per mile (<i>d.</i>)	England 1857	France 1854	Belgium 1856	Prussia 1857	Austria 1857
1 st class	2.01	1.55	1.33	1.4	1.4
2 nd class	1.41	1.16	1.00	1.15	1.10
3 rd class	0.87	0.84	0.65	0.77	0.83

⁹ This particular version of the bill failed to pass through the House of Commons. The act which was passed a year later does have a clause for the doubling of the Burnley branch (which was subjected to the usual rigorous safety inspections which it initially failed in June 1860 but passed in July) but not for a new station in Wigan as work had already started on one.

Secondly, on the fixed costs of building a railway price he found that these were much higher in England which is partly explained by the anecdotal evidence of land prices being higher as landowners realised the value of their land and raised their asking prices accordingly.

Average costs of railway per mile (£)	England 1857	France 1854	Belgium 1856	Prussia 1857	Austria 1857
	39275	25668	16391	14886	18465

In his 1865 address, Chadwick stated that

"I have seen no reason to alter the opinion .., that it was not necessary that what is usually understood as the Government should undertake either the maintenance of the old, or the construction of new works; that it might constitute a responsible department to out them up for competition, to construct them, and form them on conditions of direct public responsibility."

Chadwick (1865), pp.107

It is worth comparing that to this extract from a speech by Tom Winsor (Rail Regulator for Great Britain) on 28th January 2003

"By contrast, the SRA (Strategic Rail Authority) has a quite different and separate jurisdiction. It awards, monitors and enforces passenger rail franchises. It administers the system of grants for freight access, freight facilities and passenger improvements. It makes loans and monitors and enforces the consumer protection conditions of operating licences and exercises discretions under those licences. And in all this, it devises strategies for using its powers so as to achieve its statutory purposes. "

Winsor (2003), pp.13

Thus, the SRA constitutes a responsible department to put them up for competition (via the passenger rail franchises), constructs new works (via grants and loans) and has direct public responsibility (because it monitors and enforces the consumer protection conditions of operating licences).

In his 1866 paper, Chadwick utilised the empirical analysis of his 1859 paper to argue the case for nationalisation on the grounds that the railway system had major faults

"The chief defaults are first, those against unity of management for efficiency as well as economy: - secondly, exactions on necessities, by means of monopolies, instead of payments, merely for service, without profits; - thirdly – charges in disregard of an economical principle of increasing ratios of consumption with diminishing ratios of price by means of monopolies."

Chadwick (1866), pp. 203

The criticisms of Chadwick were that:

1. On some main lines between cities, there was a duplication of capital which resulted from the lack of unity (i.e. two lines competing for the same traffic - an example would be the two routes from Birmingham to London)
2. There were scheduling problems for commuters which were the result of having to change railway station to change from one train company to another.

3. There were high search costs for commuters that resulted from their having to acquire the timetables and fare schedules of several companies¹⁰.
4. There were low levels of capacity utilisation which were the result of monopoly and the application of price discrimination.
5. There was a lack of technological innovation which was caused by the existence of monopoly.

These arguments can be briefly summarised as being that the railways were not productively efficient (as prices did not fall as costs fell) and were extracting monopoly profit.

The History of Railway Regulation in Great Britain: The 1867 Royal Commission on Railways

In 1865, Gladstone persuaded Lord Palmerston (the then Prime Minister) to establish a Royal Commission to consider the possible nationalisation of the railways. Gladstone, who was now Chancellor of the Exchequer, privately stated that he was in favour of the state buying up the railways and leasing them for short periods of times under stringent conditions as

"they had too much influence, the present companies, they were becoming powers in the state: and the waste of means by delay and diversion of traffic was intolerable.

But if purchase by the State were impossible, or thought to be so, there would remain various palliative measures. The control of parliament, or of the Board of Trade, might be made far more stringent. The State could give in return:

1. Abolition of tax now levied on railways.
2. Indirect gain by abolishing other taxes on locomotion.
3. Saving of interest by taking over their debentures, the amount of which is about £100,000,000"

Diary entry of Edward Henry¹¹ for 18th March 1865, quoting a conversation of 20th February 1865 [Vincent (1978)]

The Commission was led by Lord Devonshire and was intended merely to be a fact finding body. As such it considered evidence from many parties on the various issues. For example, returning to the issue of what was an acceptable definition of the toll proprietor charges that a railway line owner could levy, the railways suggested that a clause of the form:

"It shall also be lawful for the company, acting as carriers, to make a reasonable terminal for the accommodation afforded, and services rendered by them in respect of any goods or minerals, other than the actual conveyance thereof along the railway; provided always that such charge shall in no case exceed the rate of 2*s.* per ton for goods, and 9*d.* per ton for minerals at each terminal station of such traffic ..."

Royal Commission on Railways (1867), pp. 22.

¹⁰ The timetabling issue was why *Bradshaw's Railway Almanack* was so popular. To quote from the instructions of Sherlock Holmes to Watson in Doyle (1892)

"Just look up the trains in Bradshaw"

¹¹ Edward Henry (the Right Honourable Lord Stanley MP, FRS) was to be a member of the Devonshire Commission.

should be inserted into all subsequent railway bills but the colliery owners strongly opposed it. This was partly in response to an attempt of Thomas Gibson (the then President of Board of Trade) to introduce a bill in 1865 authorising the setting of a reasonable fees for

"loading, covering and unloading of goods at any station on the railways, being a terminal station in respect of such goods and for the delivery and collection and other services incidental to the duty or business of a carrier"

Royal Commission on Railways (1867), pp. 22.

The Devonshire Commission was given anecdotal evidence of price discrimination being practised in the operation of these toll proprietor charges but no hard evidence.

The Devonshire Commission took evidence from two figures we have already met - William Galt and Edwin Chadwick.

Galt was the first of them to give evidence on Tuesday 7th November 1865.

First, he was questioned about the profitability of railways in 1844 and responded that:

"At that time they were a very profitable investment; the principal railways were paying 8 and 10 per cent. dividend"

Royal Commission on Railways (1867), pp. 311

Later, when asked if he thought it desirable that the fixed effect of a low tariff should be ascertained, he responded

"I think so, for this very reason, that it appears that the very basis of legislation on the subject is an accurate and clear knowledge of the effect a low tariff would have on the increase of passengers. You know exactly, for instance, the cost of transit, and you know precisely the fares that are paid in this country and abroad, but unless you acquire a knowledge of the number of passengers that would come under a low tariff; I think you are deficient in the very knowledge which is absolutely necessary to enable you to legislate properly upon the subject. If it should be the desire of the Commissioners to ascertain accurately the fiscal effect of low fares, nothing could be more easy than to have the experiment tried on a couple of lines, and if it were recommended to Government, and the Government agreed in the view of the case, and recommended it to Parliament, in another year, or two, at the time when you make your final Report you would be able, definitely and distinctly, to say what was the effect of the low tariff, what increase of passengers it produced, and so be able to legislate satisfactorily upon the matter."

Royal Commission on Railways (1867), pp. 313

This is an interesting response because Galt is quite clearly suggesting that an experiment might be necessary to verify his results.

Galt quite clearly noted that there was collusion by the companies as demonstrated by this exchange.

"Mr Roebuck: You consider that the companies have a monopoly; but does not competition exist to a considerable extent between them? Here are three railways, for example, between London and Liverpool; do they not compete for traffic?"

Mr Galt: No, we cannot call it competition; they divide the monopoly, but they do not compete. They agree as to the fares¹², and all charge precisely the same, consequently there is still a monopoly. Competition can only exist where there is such a number of competitors in the market as to prevent combination. I cannot assent to the proposition that merely because there are two or three companies carrying passengers it is the less a monopoly, because they agree upon certain terms.”

Royal Commission on Railways (1867), pp. 318

Galt noted that the 1844 Act was not capable of implementation:

“I think that it would not be practicable to carry out the Act of 1844. The Act gives compulsory powers, but I do not think it possible to carry them into execution; to deal with the four or five hundred millions of railway property upon the compulsory principle is, I think, entirely out of the question.”

Royal Commission on Railways (1867), pp. 319

His own proposed scheme was essentially one of franchising.

“My idea is this, that all the railway property should be made the property of the State, and that they should lease it out to companies. There are different ways of managing it when the State has acquired it, but following this plan of leasing the railways out to companies you make the terms first with reference to what the public require. You say to the company, You must carry the public on such and such terms; you must carry goods at such a rate, and you must carry parcels and whatever may be necessary, at a fixed tariff, and then you would lease it out to the company.”

Royal Commission on Railways (1867), pp. 319

It is worth noting that the shift in Galt's expressed thinking that has occurred from 1843 (when he believed in the state owning the railways and running them directly) to 1865 (when he still believes in the state owning the railways but now believes that it should lease them out on a franchise basis with price and quality controls).

Galt believed this would have other effects (such as on capacity utilisation as he believed that trains were operating at less than 25% capacity)

“Mr Ayrton: Your meaning is this, is it not, that it would be so, if their traffic could be made three or four or so many times greater than it is at present, without increasing their expenses?

Mr Galt: Yes, without increasing their expenses.”

Royal Commission on Railways (1867), pp. 320

Chadwick gave evidence on Thursday 10th May 1866.

After an initial grilling by the Duke of Devonshire, Chadwick puts his cards on the table about the utilitarian nature of his perspective in this exchange.

¹² A stable Railway Companies' Association, run through the Railway Clearing House, had emerged in 1861.

“Mr Ayrton: Your view appears to be, that railways should not be constructed for private profit by a company, but merely as a means of communication from one part of the country to another?”

Mr Chadwick: Yes, just as a highway is made. The main lines of communication are the rightful service to the public, and free and safe communication a duty of the State, and all the means to that end ought to be maintained for the people. My idea is that branch railways might be out on the same footing as turnpike road trusts, out of the rates.”

Royal Commission on Railways (1867), pp. 840

Later on (in a remarkably monosyllabic exchange on his part), the idea of the state owning the railways and leasing them out comes out in this discussion with Sir Rowland Hill (inventor of the Penny Post).

“Sir R. Hill: If railways were made by the State, or by the owners of the land in a particular district, you would recommend, as I understand you, that they should be leased out to be worked?”

Mr Chadwick: Yes.

Sir R. Hill: In drawing out a lease for that purpose I presume stipulations must be made as to the maximum charge which the lessee would be entitled to make?

Mr Chadwick: Certainly.

Sir R. Hill: Competition might be invited for the public from those leases, and that competition might be made to depend upon the question as to which of the several competitors would make the largest reductions in the charges?

Mr Chadwick: Yes.”

Royal Commission on Railways (1867), pp. 841 - 842

Chadwick later emphasises the need, in his belief, for the expansion of the railways finances at the local level.

“Earl Belmore: Am I to understand that you think it is advisable that branch railways in this country should be made upon the same principle that public roads are now made in Ireland, namely, out of the public rates, and that after they are made that they should be maintained out of the public rates?”

Mr Chadwick: Certainly it is demonstrably the most correct course; correct in economical and legislative principle that all charges on transit or intercommunication of the nature of costs should be jealously reduced; that all payments in the shape of profits beyond the bare cost of proper service should for the future be rigidly excluded as commercially wasteful and politically mischievous. The trunk lines may be economically aided by subventions from the general public or by the state - the branch lines by the local public. The Irish Railway Commissioners, Captain Drummond, Sir John Burgoyne, and their colleagues, proposed what is now regretted, as the correct principle, which will be more regretted, as a return to them is delayed, that the general railways should be so provide for, the branch lines by advances secured on local or baronial rates, or rates coincident with the immediate benefits.”

In an addenda to his verbal evidence, Chadwick made a lengthy written submission to the Commission. I wish to draw attention to two paragraphs. In this paragraph, Chadwick seeks to clearly distinguish his views from that of Galt.

"Agreeing with Mr. Galt on some main points, my own views of the principle applicable to the question are distinct from his views, as also to the most eligible method of carrying out the reform. I attach more importance to the facilities for future extension and completion of the capillaries of the system. ... I wish distinctly to be understood that I cannot agree with Mr Galt, that the existing directories or any selection by them are the most eligible parties for the purpose."

Royal Commission on Railways (1867), pp. 855

In the second, he draws on another source we have already met to explain why the railways are mismanaged.

"For what I have stated as to the commercial mismanagement of our railways I have high commercial authority. The late Mr. James Morrison, who made between three and four millions of money, will be acknowledged as the foremost one. He explained to me the principles of his success, one of which was always to consult the interests of the consumer. On asking him how it was that with such apparently very simple principles he was so singular in their application or that he had nor numerous successful competitors, he said that the fact was that with the common commercial and trading minds it was rare to find any one who could act constantly on principle."

Royal Commission on Railways (1867), pp. 855

In the end the evidence of Galt and Chadwick made little difference.

The final report of the Devonshire Commission in 1867 begun by detailing the success of the existing regulatory system in terms of improving safety, establishing the operation of a common gauge and enabling easy interconnection between routes. More importantly for Gladstone and his ideal of the state buying up the railways, the Commission noted that the nationalisation provisions of the 1844 act could not be put into place for a number of reasons. Firstly, many parts of lines could not be bought because the building of them had been authorised as part of legislation passed before 1844.

Secondly, railway accounts were incomplete and had been calculated on a variety of different bases, despite the establishment of a requirement in the 1844 Act for them to be calculated on a standard basis for the last three years of the 21 year probation period before nationalisation could take place. Technically, the railway companies had broken the law here, but the commission showed no enthusiasm for investigation save prosecution. As the accounts were incomplete and had been calculated on a variety of different bases, it was impossible to decide who has a rate of return greater than 10%¹³.

¹³ This should not have been a surprise. James Morrison had pointed out in 1846 that

"no precautions had been taken to settle the principle by which Parliament could obtain anything like, an accurate knowledge of the net profits of railway companies"

An 1849 committee of the House of Lords had found that no set of railway accounts were comparable as current and capital expenditures were often poorly distinguished and rail and non-rail business were not adequately ring-fenced. A recommendation for separate accounts, a clear accounting convention and independent audits was made but no proceeded upon (see Foster (1992) p. 32). This is an example of asymmetric information being used to obscure what is happening - the railway companies are maintaining a set of accounts in an house style

Conclusion

The ideas of Gladstone on regulation had a carrot and stick approach. The stick element was the administrative regulation of rail charges whilst the carrot was protection against the competition of new lines. The ideas of Chadwick relied upon firms competing for a time-limited monopoly.

Neither of these sets of ideas were effectively implemented in practice and thus the discretionary era of railway regulation ended, primarily due to the strength of two factors; the Victorian belief in the rights of private property and the opposition of the railway lobby. If the 1844 Act had been passed twenty years earlier, before a mile of track had been laid, then the regulation of Gladstone might have worked but by 1844 it was too late to have any real effect given the strength of this belief in the sovereignty of private property.

A range of factors had to change for the railways to be less of an issue Firstly, the strength of the belief in the rights of private property had to change and this did happen as the nineteenth century wore on. Secondly, the power of the railway lobby in Parliament had to diminish and this occurred as suffrage became more universal. Thirdly, the railway companies continued to favour growth instead of profit maximisation with the returns on railway stock falling to 4% by the time of the first world war.

For Gladstone, another chance at railway regulation occurred when he became prime Minister but Ireland dominated his time.

Ultimately, it seems that the main lasting value of the debate surrounding the 1844 Act is as an example of how ideas reoccur in economics.

(which the 1849 committee noted were often audited by two shareholders) so comparison between companies is virtually impossible.

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Appendix A

Dramatis Personae

(in alphabetical order by Surname)

Edwin Chadwick (1800 - 1890)

While studying in London to become a lawyer, Edwin Chadwick joined the Utilitarian Society where he met Jeremy Bentham, James Mill and John Stuart Mill. In 1832, Earl Grey (then Prime Minister) initiated a Royal Commission of Enquiry on the Poor Laws to which Chadwick was appointed as one of the assistant commissioners responsible for collecting information. Chadwick emerged as one of the most important members of the investigation and he was eventually responsible for writing nearly a third of the published report.

Chadwick officially retired in 1854 on a £1,000 a year pension but continued to campaign for changes in the law including reform of sanitation, education and transportation.

More information on the life of Edwin Chadwick can be found in Finer (1952).

William Ewart Gladstone (1809 - 1898)

Gladstone entered Parliament in 1832. His first post in government were in the administration of Sir Robert Peel where he first served as Vice-President of the Board of Trade from 1842-3 and then President from 1843 - 1845; it was this period where he became involved with railway regulation. His resignation in 1845 over the increasing of the exchequer grant to Maynooth led to a lengthy period outside of government. He returned to government as Chancellor of the Exchequer in 1859 serving there until 1866 and developed a reputation as a proponent of Free Trade and administrative reform. He became Prime Minister in 1868 and continued in this post until his general election defeat in 1874 resigning the leadership of the Liberal Party the following year. Gladstone returned to be Prime Minister again from 1880 - 1885, 1886 and 1892 -1894.

More information on the life of William Ewart Gladstone can be found in Jenkins (1995).

John Ramsay McCulloch (1789 - 1864)

John Ramsay McCulloch began his journalistic career as the editor of The Scotsman, eventually moving on to the whiggish Edinburgh Review, where he served as economics editor until the late 1830s. McCulloch used his position at the Review to popularise the Classical theories and promote his favourite economic policies. McCulloch lectured on political economy at University College London from 1828 to 1832 and was appointed Comptroller of HM Stationary Office by Sir Robert Peel in 1838.

More information on the life of John Ramsay McCulloch can be found in O'Brien (1970).

James Morrison (1790 - 1857)

James Morrison entered into Business as a draper focusing on turnover to generate income - his motto being 'small profits and quick returns'. He entered Parliament as a Liberal in 1830 for St. Ives, moving to Ipswich in 1831 which seat he kept until 1837 (with the aid of a successful election petition in 1835). He re-entered Parliament in 1840 as a member for the Inverness Burghs where he stayed until his retirement in 1847. He is of interest here for two main reasons. Firstly, his speech of 17th May 1836 where he urged that there should be a periodic revision of the tolls and charges levied by railways and other public works. Secondly, his successful attempt in March 1846 to obtain a Select Committee for the better promoting and securing of the interests of the public in railway acts and the draft report this committee produced which although not adopted at the time influenced much subsequent legislation.

More information on the life of James Morrison can be found in Stephen & Lee (1963).

Robert Peel (1788 - 1850)

Robert Peel became an MP in 1809 and became Home Secretary in 1822. Peel was Prime Minister for a short time in 1834 to 1845 and again from 1841 to 1846. The second terms as Prime Minister saw a range of economic reforms including the implementation of income tax as a five-year temporary measure, a number of railway acts, a rationalisation and reduction or abolition in duties on goods, the 1844 Bank Charter Act and the 1846 repeal of the Corn Laws. It was this latter reform that was the main factor in the collapse of this second ministry as his party split. Peel himself resigned and did not hold office again. He fell from his horse on Constitution Hill on 29 June 1850 with the horse stumbling on top of him and Peel died from his injuries on 2 July 1850.

More information on the life of Robert Peel can be found in Gash (1972).

Appendix B Miles of rail track in Britain 1825 - 1870

Miles of rail track in Britain
1825 - 1870

