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ON THE NATIONALISATION OF RAILWAYS.

I.

IF we pass in review the history of the railway policies of various countries, we are led to the conclusion that these reveal, not arbitrary differences, but a variety of development in close interaction with the general political and economic conditions of the country. And a careful comparison of the world's railway systems shows this to be no less true of the large and smaller German States than of Russia or the United States, with their very much greater dimensions. The advantages and the drawbacks of every possible system may have been never so impartially discussed, yet in the end the traditions and the difficulties, the existing political and economic conditions of each country have had the last word.

In Germany, Switzerland, France and other Continental States, roads, canals and postal services had for centuries owed both their existence and their working to the central government. When the time came for the first railways to be built this ancient tradition stood the supporters of a State railway policy in good stead. And, even so, they did not have it all their own way, for in several of the smaller German States attempts were made to float joint stock railway undertakings, and it was only when the lack of available capital and the absence of business enterprise doomed these projects to failure, that a State railway system was finally decided on. In the kingdom of Prussia the plan, mooted in the reign of Frederick William IV. (1840), of constructing a network of railways, met from the first with a favourable reception. Unfortunately the enterprise that might have floated a joint stock company was wanting, and the Government was not in a position to step into the breach. For in 1820 the Crown had entered into a definite obligation not to borrow money without the consent of the nation. But to obtain this consent it would have been necessary to call a representative assembly into being, and this the Crown was not at all disposed to do.

Hence the Government could raise no loan and build no railways. The only alternative therefore was to compromise by forming a joint stock company, with the State as guarantor of the dividends. In this manner the majority of the Prussian railways came into existence, and it was not until 1848, the year which saw the birth of a Constitution and the opening of a Parliament, that a State line could be constructed. This was the Eastern Railway which linked up the capital with the eastern frontier.

In spite of the satisfactory results achieved by the State control of the Prussian railways, the doctrine of *laissez faire* and the references to the example afforded by England began about the year 1860 to gain the upper hand. To this cause can be traced the railway mania of 1872 and the crisis of 1873. The Parliamentary Commission of the latter year emphatically decided that a State railway system was the best cure for the disasters that had recently befallen the private lines. After a few years' hesitation the Government followed this advice, and as early as 1875 a scheme was devised for an Imperial railway system which combined two main ideas—nationalisation and the establishment of a uniform system for the whole Empire. When the second proposal was foiled by the opposition of the smaller States, which clung tenaciously to their individual independence, the Prussian Government decided to take over all the lines within its own dominion which still remained in private hands. The smaller States followed suit, and there matters rested for the next thirty years.

Switzerland affords another example of the way in which the special conditions existing in a country have influenced the development of its railway policy. The building of railways was here retarded by natural obstacles, and it was not until 1850 that the Federal Council called in two English experts, Robert Stephenson and Swinburne, to its aid. Two years later, in direct opposition to the report of a Select Committee which had recommended a Federal railway system, a law was passed which paved the way for a system of private railway undertakings. The newly-formed Federal Constitution of Switzerland was not strong enough yet to entrust the union with such extensive powers, while the small cantons—the supporters *par excellence* of individual independence—were too small for a system of State lines. The only alternative therefore was a system of railway companies, whose power, after forty years' development in the well-known manner typical of such organisations, was bound to come into conflict with the political powers of the Democratic State.

The example of the Prussian and other German State railways showed the easiest way out of the difficulty. After several futile attempts to obtain effective control over the companies by the imposition of definite regulations, the country proceeded gradually to nationalisation. The difference between the course adopted by Switzerland and its prototype was mainly a matter of procedure; the financial methods of the former under the influence of a Democratic Government were more complicated, and the progress of the undertaking was slower than in Germany. The first attempt made by the Federation to purchase the Central Railway failed altogether, and the weapon successfully used to defeat the measure was the Referendum (1891). The Government then resorted to methods better calculated to produce the desired effect on the majority of the nation, and obtained its end by invoking the popular hatred of capitalism and of the foreigner.

II.

It was in the days when the railway mania in Prussia was at its highest that the Report of the Joint Select Committee of both Houses of Parliament on "Railway Amalgamation" was published in England (1872). This big volume attracted my attention, and led me to an historical treatment of the subject which occupied my entire time for the next few years. I spent several months in the reading-room of the British Museum, where the "Accounts and Papers," comprising the complete set of Blue-books dealing with the history of English railway policy, were kept. I made a complete study of *Hansard's Debates*, the big quarterlies, pamphlets, &c., and supplemented these literary researches by many discussions with specialists on the subject. Armed with the fruits of these labours and a pile of Blue-books, I returned to Germany.

What I gathered from these materials differed substantially from the reports on the railway policy of England spread during the past ten years by our German Free-Trade propagandists. These reports were not founded on fact, but were merely the application of the general principle that all blessings spring from free competition to this particular domain. As a matter of fact, the connection which necessarily exists between the traditions and general political conditions of a country and its railway policy is nowhere more clearly visible than in England. It was not an abstract principle but the ancient institutions of the country which dictated the existing policy. England laid the

foundations of her unity as long ago as the Norman Conquest, but until the present day she has been at pains to keep the centralisation of her Government within the narrowest possible limits. This was only achieved by leaving to the municipality or to private enterprise many offices which the executive administration of the great Continental States had taken upon itself. This tendency is visible even in the development of roads and road-making. In this respect Adam Smith was in advance of the general opinion of his country when he wrote, in the conclusion of his chapter on the "Expenses of the Sovereign or Commonwealth":—"The expense of maintaining good roads and communications is no doubt beneficial to the whole society, and may therefore without any injustice be defrayed by the general contribution of the whole society" (Book V., ch. v.). Such general contribution can only be levied upon the whole society where the duty of building the roads devolves on the State.

In France the Government of the seventeenth and eighteenth centuries built roads and canals, whereas in England, even in the nineteenth century, complaints were rife about the deplorable condition of the high roads, and the best service rendered to the means of communication had been the construction of canals begun during the last quarter of the eighteenth century. Since the opening of the Bridgewater Canal these private undertakings attempted to do for England what the Government was doing for France. And when the first railway was designed to connect Liverpool and Manchester, and thus to run over the same classic ground which the first canal had covered, this and all subsequent railway undertakings in Great Britain entered on the path which the canals of England had followed for half a century. A tradition thus arose which was throughout intimately connected with the development of joint stock undertakings, but the type of institution which it produced was very different from what the supporters of the vulgar doctrine of free competition believed it to be. A single glance at the text of the Act of Parliament which sanctioned the construction of the Liverpool and Manchester line on May 7th, 1826—consisting of 112 pages, gross folio—suffices to correct such an erroneous conception. Here we find the rights of the company quite formally conferred on it; the authorisation to build a line with requisite bridges, tunnels, &c.; powers to acquire the necessary freehold, careful directions regarding the construction of tunnels under the city of Liverpool. Level crossings on the public highway are altogether forbidden, and steam engines are ordered to consume their own smoke. Further,

detailed regulations are set forth for the constitution of the company, and very definite limits are assigned to the tariffs permitted, with the express stipulation that these shall be lowered so soon as the company's dividends rise above 10 per cent.

The really noteworthy feature of this Act is not so much the provisions which it contains, as the fact that the majority of these provisions were taken wholesale from the Canal Acts, passed fifty years previous to this date. The first Railway Act and the whole line of subsequent Acts are closely connected with the traditional policy, according to which we see the Government always at pains to safeguard the public interest in undertakings of this kind by a number of detailed regulations. Just as the Law of Turnpike Trusts led on to the Canal Acts, so the Canal Acts passed over into the Railway Acts. This explains the anomalous clause 165: "All persons shall have free liberty to use the carriages or roads for the purpose of conveying goods or passengers or cattle"—which has often been quoted in so misleading a manner, and becomes so easily intelligible when one remembers that it was simply copied, together with other more appropriate clauses, from the Canal Acts into the first and all subsequent Railway Acts.

Free competition in the true sense of the term has never existed in the English railway system. A certain degree of competition must, however, be admitted, which has arisen chiefly because Parliament granted its concessions, not on a consistent plan, like a French Council, but in an absolutely casual and arbitrary manner. In some cases it even aimed at encouraging competition between different companies. Nevertheless, as Gladstone said in 1844: "Railway competition are like lovers' quarrels—*breves inimicitiae, amicitiae sempiternae*."

This meant that the amalgamation of railway companies was an early development in the companies' history, and that a general misgiving soon began to exist regarding the possible consequences of such a monopoly in private hands. From this to the idea of nationalisation was but a step. Even before the age of railways, whenever Parliament had been approached with a request for a concession for the supply of gas (1810, 1816, 1817, 1824) the Earl of Lauderdale had offered the most strenuous opposition in the Lords to all Bills sanctioning the formation of a company for this purpose, on the grounds that such a monopoly should not be handed over to a commercial company. In view of the development of the railway companies on monopoly lines, this opinion became very general. Early in 1839 Mr. R. W.

Rawson delivered an address to the Royal Statistical Society, in which he compared the new Belgian State Railway system with the English system, very much to the disadvantage of the latter. At the same time, an Edinburgh Reviewer wrote: "Theory and experience alike conclusively prove that the State should control the railways"; and the same opinion is to be met in both Houses of Parliament. In the year 1844 a comprehensive Parliamentary inquiry was instituted, the result of which was the Act of August 9th, 1844. "After a period of twenty-one years," so runs the second clause of this Act, "it shall be lawful for the Treasury to purchase every railway which shall be sanctioned either in the present or in any of the future sessions of Parliament. The purchase shall come into force at three months' notice, and the purchase money shall amount to twenty-five times the average net profit of the past three years."

Next followed the classical age of the Manchester doctrine, in which the dogma of non-interference achieved its greatest triumphs. Naturally enough exceptions can be quoted even here. When in 1865 the twenty-one years prescribed by the Act of 1844 had elapsed, a Royal Commission was appointed to inquire into the railway question. The chief subject of inquiry was the tariff problem, especially the differences which existed between various distances—in a word that aspect of the railway question which specially brought out the incompatibility between a private railway system and the public ends which it was designed to serve. Nevertheless, the consequences of this incompatibility were not seriously discussed at this date. Only a single paragraph in favour of a State railway system was appended to the report in the form of a rider, by Sir Rowland Hill, the reformer of the Post Office. Even Gladstone, the ardent pioneer of the Inquiry and Act of 1844, declared in 1865, in his capacity of Chancellor of the Exchequer, that the Government had no intention of carrying into effect the provisions of the Act of 1844. Nor did the inquiry on "Amalgamation," instituted by the Parliamentary Committee of 1872, achieve anything beyond the appointment of a new Commission on Railways and Canals (1873). It is true that the warning note sounded by Captain Tyler, one of the railway inspectors who gave evidence before the Committee, was frequently quoted. "In the end," so ran the statement, "the country will be in the hands of a few companies, which will combine further among themselves until they form a single huge railway monopoly. The question will then arise whether the State shall control the railways or the railways

the State." Very similar, if more cautious, was the pronouncement of Mr. H. T. Farrer, the Permanent Secretary of the Board of Trade, who set forth his views in an article on "Industrial Monopolies," in the *Quarterly Review*. Even in the business world the movement had its supporters, and we find, firstly at Liverpool, and secondly at Hull and Plymouth, industrial magnates who raised their voices in favour of nationalisation.

Since then thirty-six years have elapsed, years fraught with many economic and social changes for all countries—not excluding England. The factor of the greatest importance in this respect has been the democratisation of England, following on the electoral reform of 1867. This has found expression in fiscal changes, in the legislation for the protection of the working man, and especially the railway employee, and, above all, in municipal socialism, for the democracy can impose its will with less hindrance on municipal than on national politics, where the former "ruling-classes" have kept a good deal of their influence. Hence the new socialistic spirit penetrated much more rapidly into the municipal transport services, gasworks, waterworks, and so forth, than into the corresponding national institutions. Even here, however, progress is not entirely absent. In 1861 Mr. Gladstone founded the Post Office Savings Bank Department, and in 1868 the telegraph was nationalised and became another branch of the Post Office—that institution which had for centuries remained the solitary national undertaking of its kind.

The foreigner is not, however, competent to judge of the prospects of so great a reform as the nationalisation of English railways. I will therefore confine myself to a short description of the experiences of Germany under this head.

III.

Under the influence of various political and economic conditions the railway policies of various countries have developed in different directions. But there is one experience which they all share. The undeniable fact that the greatest mileage by far is in the hands of joint stock companies must not on any account be regarded as the verdict of the majority in favour of this system. In the most important countries—England, France, and the United States of America—the question of public *versus* private ownership has been a burning one from the very beginning, and never has the controversy raged more fiercely than in the present

day. On the other hand, where nationalisation is an accomplished fact no one would seriously think of questioning the institution. This has long been the experience of Germany, and more recently that of Switzerland. In England even, the same may confidently be asserted of the postal and telegraph services. Or has any sane person ever been heard—even when the wave of Individualism was at its highest—to demand that the Post Office should be freed from Government control and handed over to a joint stock company or to the play of free competition and private enterprise? Has any serious proposal been made during the past forty years to go back on the nationalisation of the telegraph, except in that erroneous criticism of Stanley Jevons, who saw in the existing extravagant tariff a defect inherent in governmental administration?

It cannot be denied that every system and every measure of social and political life has its drawbacks. Moreover, where the public transport services are concerned unreasonable expectations and unjustifiable reproaches are never far to seek. But the real danger to which a national institution of this kind is exposed is the demand that, owing to its public character, it should be run at a financial sacrifice, while the responsibilities which the State thus incurs are liable to be overlooked. An example of this danger was afforded by the adventurous projects of Messrs. Galt, Brandon, and others, who clamoured for nationalisation from the earliest days of railway construction in England, in the hope of securing a field for the realisation of their wildest fantasies. It is true that contemporary Germany, where a State railway system is in force, has not provoked childish follies of this kind. But a more practical and lasting sort of criticism has now come into vogue. The earliest opponents of Prussian railway nationalisation had laid most stress on the objection that the finances of the State would not be equal to the strain. When experience proved the contrary, and the State railways began to show considerable profits over and above the interest due, the opposition shifted its ground and reproached the system with being too "fiscal," that is, inclined to give too much prominence to considerations of profit for the revenues of the State. There have been some persons foolish enough or forgetful enough to hold up the company system as a pattern on which the State system might well endeavour to model its policy, while in reality the majority of the companies generally made much larger profits. Still, it has never been seriously proposed to revert to the old system of private enterprise. The State railways have become a national institu-

tion, whose details may legitimately be criticised, but which in its entirety is no longer open to question.

And we must note this : there is nothing accidental about these institutions, for they develop according to an inherent necessity. The root idea is the same, whether we proceed according to the old English fashion of government, and safeguard the public interest by prescribing to these undertakings a course which will compel them to fulfil their obligations and serve the public need, or whether, under more favourable conditions, we carry the idea to its logical conclusion, and place the whole organisation into the hands of the State and the community. They are to be centralised institutions, organised on a single, consistent plan, and directed by the sovereign unity of a Government Executive.

A critical survey of the Australian railway system has recently been published by an American author (Victor S. Clark, the *Quarterly Journal of Economics*, May, 1908, Vol. xxii., pp. 399-451), following on a piece of work which was brought out by a Seminar of mine some considerable time ago. The article ends with the words : "The evils predicted of Government ownership in the United States are not now apparent in Australia. Each country has probably followed the policy best adapted to its circumstances. To change that policy in response to a theory would be unwise. If industrial conditions change in America in such a way as to demand Government ownership it will doubtless come."

I should be inclined to attack the problem for the United States and for Europe from a different standpoint. It is not so much the industrial as the political conditions which would have to be altered before Government ownership could become possible, and the decisive question to my mind is not whether Government ownership is desirable from the industrial point of view, but whether it is possible under existing political conditions.

I would not venture to prophesy for any foreign country at exactly what date its political conditions will be ripe for the nationalisation of its railways. But just for this reason I venture to maintain that it is only a question of time alike for France, for England, and for the United States of America.

The old fashioned but still popular method of instituting comparisons between different countries and systems, in order to discover whether State railways or private companies offer cheaper rates, greater security of conveyance, more facilities, &c., is doomed to remain barren. Comparisons of this kind are apt to

leave out too many considerations, and they never get to the root of the matter. The real question belongs to a higher order of things, and is not to be answered in terms of quantities at all. It amounts to this—that the sovereign power of Society over the principal means of transport must not in the long run be left to private enterprise and profit-making companies. The attempts, however, to attain this end by making the companies conform to certain stipulations laid down by Act of Parliament, and to laws and regulations enacted from time to time, have been attended by various degrees of failure. The cause of this is simple enough. The essential condition for the efficiency of any method of communication, such as railways, the Post Office, and the telegraph, is the most thoroughgoing centralisation possible. The more centralisation there is, the more order there will be, the more systematic arrangement, the more safety, promptitude and cheapness. Hence the irresistible tendency for such institutions to amalgamate into one great complex undertaking, even when there was originally no uniform plan and no centralisation. But every such amalgamation is a fresh step towards a monopoly, not *de jure*, but *de facto*, a monopoly which is inimical to the public interest so long as it is not in the hands of the community. Hence the restless tendency to nationalise every monopoly—the only means of setting the matter at rest. For the State is the only rightful owner of a monopoly, and the sole trustworthy guardian of the public interest.

It was in this spirit that, soon after the foundation of the German Empire, the scheme for a uniform State railway was placed in the forefront of the practical politics of the day. Here we have the first epoch-making measure directly antagonistic to the vulgar tenets of *laissez faire*. The difficulties encountered were not due to any doubt that might exist regarding the expediency of a uniform system of communication; they were based, not on economic, but on political grounds. The opposition came from the smaller German States, which clung with tenacious obstinacy to their independence, and were unwilling to make over to the central authority any more than they had already yielded at the foundation of the Empire. The consequence was that instead of having one great Imperial railway system, Germany had to put up with a number of small State railways, the only large one among them being the Prussian State Railway.

The expediency of a great uniform system has now been conclusively established by the success of the Prussian State Railway, which, thanks to the economies rendered possible by its high

degree of centralisation, has achieved a great reduction in its working expenses, and hence a large profit. And this notwithstanding that a generous price was originally paid to the dispossessed shareholders; that the network of Prussian railroads has been extended by branch lines in all directions; that the tariff rates and fares have been reduced, and the rolling stock and station yards renewed with a liberal hand.

All this is in striking contrast to the indifferent success of the smaller German States, whose railroads cover so little space that the receipts are barely sufficient to pay the interest on the capital expended on their purchase, without drawing on the general revenue of the State. Their narrow railway policy may therefore be said to have brought its own penalty in the shape of financial loss. Already, however, they have entered on the best way of repairing the damage. It is now ten years since the Grand Duchy of Hesse linked its railway system on to that of Prussia, so as to share in the advantages of a uniform organisation, and there is no doubt that in the course of time the other German States will be driven by the pressure of necessity to adopt a similar course. In a former article¹ I have already shown what an increasing benefit the profits of a State railway have proved during the past twenty years to the revenues of the kingdom.

The Prussian civil servant is undoubtedly a factor of the first importance in the State railway system. As early as the middle of the nineteenth century the experiences of the country in this connection were distinctly encouraging. When the Prussian Government guaranteed the interest on the original railways, it reserved to itself the right of taking over the lines in the event of such a contribution from its funds becoming necessary. As soon as one of the railway companies availed itself of this privilege and consequently passed into the hands of the Government, the net profits of the line rose immediately, and no further contribution from the revenue was required.

It may be true that the material of the Prussian Civil Service which is required for the State railway and other administrative functions has not by any means reached the level of absolute perfection. But this much is certain—the first indispensable condition of a successfully worked State railway system is a competent Civil Service. Indeed, among all the difficulties urged by American writers against the establishment of a State or Federal railway system in the United States, the most plausible

¹ ECONOMIC JOURNAL, 1907, pp. 516–523.

argument is that the need for reform of the existing Civil Service, which comprises the administrative authorities of towns, States, and the Union, is already one of the most urgent problems of public life. If this fresh duty, requiring the services of a mighty army of new officials, were to devolve on the State or Union, the problem would be complicated beyond all measure.

In the German States, and especially in Prussia, the tradition of some centuries has produced the type of civil servant which is a *sine quâ non* of this and other branches of public service. For, just as the success of private undertakings depends on the personality of individual chiefs and their assistants, so the public administration depends for its welfare on the character of its civil servants.

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