The South Eastern and Chatham Railways Managing Committee: A Case for Vertically-Integrated Regional Duopolies?

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ABSTRACT

In 1898, two railways serving the south-east of England agreed to be managed by a joint committee. This paper finds clear statistical evidence of the negative impact this had on total economic costs, including opportunity costs of capital, as well as working expenditure. Thus, additional support was provided for the then British railway policy already strongly suspicious of railway mergers on competition grounds. At the same time the findings could reopen the discussion on the wisdom of today’s British rail privatisation philosophy. In particular, one could argue that, instead of separating infrastructure and train operations, the creation of vertically-integrated regional duopolies along the pre-1899 networks might lead to genuine competition, require less regulation, reduce costs, and thus increase economic surplus.

Keywords: Competition, Duopolies, Economic Costs, Privatisation, Railways

1. INTRODUCTION

In 1917 a Parliamentary Enquiry into the state of Britain’s railway system coined the phrase “a riot of individuality”. It had never been different right from its very beginning a century earlier. Railway lines had sprung forth all over the country. While many of the new schemes either went bust or were amalgamated into larger companies, the number of companies kept rising almost throughout culminating in 214 different schemes being in existence on the eve of the First World War. All counties were served by a multitude of lines, with even many smaller towns being served by at least two companies. It only ended with the 1921 Grouping Act which established the “Big Four” regional monopolies.

Kent was slightly different. By the mid 1850s the South Eastern Railway had achieved a near monopoly status, covering most of the county with the exception of its northern coast and hinterland between the Medway and the Thanet. Following its failure to provide a connection to Faversham, a new line from Strood, on the SER line from Dartford to Maidstone, to Faversham was proposed in 1853 by the East Kent Railway. It opened in 1858. Being essentially a contractor’s line and thus always being short of money it offered itself for sale to the

DOI: 10.4018/jsds.2011040106
SER. Firmly believing that this was just another of those fledgling lines that could be snatched up at a large discount if one only waited a little bit longer, the SER declined. It was a costly mistake. The EKR, having changed its name to London Chatham & Dover Railway signalling its arrival into Victoria and Holborn, began to make inroads into SER territory, reaching Canterbury in 1860 and Dover, the destination of the SER’s first line, a year later. Even being forced into temporary receivership through no fault of its own in 1866 didn’t stop the LCDR’s progress. When it came out of bankruptcy proceedings, James Forbes, its former general manager and receiver, became chairman and immediately went into battle with Sir Edward Watkin, his SER counterpart, over territory at many locations. While being very costly in terms of capital, many of these new lines led to smaller variable profits at the time as well. Any attempts to foster a closer cooperation let alone a fully blown merger foundered on the personal antagonism between the two chairmen which only ended when Watkin had to resign in 1894 on health grounds.

The companies agreed to form the South East and Chatham Railway Joint Managing Committee, effective January 1st, 1899. While the companies remained separate legal entities—the capital accounts were being kept separate until their amalgamation into the Southern Railway—59% of traffic receipts and costs was awarded to the SER and 41% going to its far smaller rival, thereby reflecting the latter’s much healthier receipts per train mile. As Adrian Gray put it, “the SER reached agreement 40 years too late” (Gray, 1997).

It may have been intended to be a merger in all but name. Cosmo Bosnor, the Joint Committee’s first chairman, proclaimed in 1921 that it was only the threat of a heavy stamp duty due upon a full merger which prevented complete amalgamation. It was not a love marriage, though, as, with rivalries still running deep, the two sides kept quarrelling. Still, it was a unique situation encountered neither before nor after in any region or country in Europe, and probably not even in the whole world. For a couple of decades Kent had been home to just two major railways. Despite being rather unequal in terms of size and management philosophy, they were remarkably similar in other aspects. With the exception of the SER’s inroad into London, Brighton and South Coast territory west of Edenbridge and its Reading and Hastings branches, they effectively served the same territory. Both had two London termini, with one each serving the City and the other the West End and Parliament. Both were in direct competition for twelve Kentish towns, with rival stations often no more than a couple of 100 yards and, e.g., respective bridges over the Medway just a couple of yards apart. Then, practically overnight, the duopoly became a monopoly.

Commercially, it should have paid off. Even without enjoying its new monopoly status by raising fares – the Board of Trade had a close watch on this, but in the end the Bill giving legal status to the Joint Managing Committee only contained a clause setting maximum charges for 1st, 2nd and 3rd class; it did not provide any similar ceiling for rates – profit should, ceteris paribus, have been expected to rise if only because costs should have come down for two reasons. First, wasteful competition including protracted legal challenges would have stopped once the feud between the two companies had ended for good and the merger been accomplished. Second, with many lines crisscrossing and linking the same places, routes should have become better utilized and train diagrams should have become simpler and easier to manage implying another dampening effect on costs. Looking at profits, though, could be misleading, especially as commercial success did actually prove to be elusive just as the profitability of most other British railway companies also decreased during the first one and a half decades of the 20th century. The causes are easy to identify. On the aggregate level, a worsening of overall economic conditions in Britain, and thus aggregate demand, led to a slump in freight traffic, while an ever increasing competition by buses and trams contributed to a downward shift in passenger numbers. Correspondingly, a reduction in actual profits would not only be far from sufficing to question the commercial logic of
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