Kevin D. Tennent (University of York, UK)*, Alex G. Gillett (University of York, UK), James Fowler (University of Essex, UK) and David A. Turner (University of York, UK)

*corresponding author – kevin.tennent@york.ac.uk

Segmenting public and private: British Municipal Trading c. 1889-1975

Introduction and Literature Review

Municipal trading was a form of public administration which evolved in late nineteenth and early twentieth century Britain, and exported to parts of its empire (Mees, 2000), to operate utility services. Local authorities directly operated electricity, water, gas and public transport services with the broad aim of spreading the benefit to a broad user base while covering capital costs from the surpluses gained from operating the utilities. The historical narrative on municipal trading has focused to a large extent on the rent capturing element of the phenomenon, as utility industries often constitute natural monopolies (Coombs and Edwards, 1996; Falkus, 1977; Foreman-Peck and Millward, 1994; Kellett, 1978; Matthews, 1986; Millward, 2005, 2014; Millward and Ward, 1993; Roberts, 1984). Yet the institutional context of the form, which saw elected politicians enjoy very direct powers over local utilities, as opposed to the more familiar approach of delegating power to an arms length public corporation highlighted by Mees (2010), merits closer attention. Local authorities operated utilities as departments delegated under committees of councillors, without establishing a separate trading body. This clearly constituted a form of hybridity pulling together different rationalities (Mullins, 2006; Sacranie, 2012; Meyer et al., 2014; Pache and Santos, 2013; Skelcher and Smith, 2015), though these bodies remained firmly within the public sector while blending public, corporate and market institutional orders.

This paper uses a critical reading of contemporary theorists from the early twentieth century together with historical examples from the urban tramway industry to challenge the historically inherited basis of the assumptions around state logic, examining the institutional foundation of the municipal trading concept. We epistemologically align ourselves with the position of Maclean, Harvey and Clegg (2016) in seeking dual integrity in historical organization studies, contributing both high quality historical knowledge and theoretical novelty by utilizing the institutional logics approach (ILA) to critically reflect the normative framework through which emergent British local authorities and contemporary theoreticians resorted to a 'trading' approach to service delivery. ILA builds upon the field of institutional theory which understands social systems as being based around material practices and symbolic constructions which are translated into organizational form and practice by actors (Friedland and Alford, 1991, pp. 248-249). This organizational form and practice then constitutes a logic, which can be expounded or adapted to spatial and temporal circumstance by actors who otherwise derive their identity and meaning from the logics (Thornton and Ocasio, 2008; Greenwood et. al., 2010). This paper examines the ways in which the existing institutional logics of the transport and utility industries were blended into the public sector creating what Skelcher and Smith (2015) might consider a form of segmented hybridity, with the consequence for the British context that these industries evaded the status of de-facto public goods attained by other municipal provisions such as sanitation, education and street provision.

Intellectual development of ideas around municipal trading

The immediate late nineteenth century origins of what was contemporarily referred to as municipal trading were more commercial than altruistic. Socialism as a political force in Britain was in its infancy, and local Conservative and Liberal politicians were often the driving force behind municipal intervention in utility industries. For instance, in 1872

Birmingham Corporation, led by the charismatic Liberal, Joseph Chamberlain municipalised the city's gasworks with the aim not only of achieving universal supply but also of relieving the rates (Kellett, 1978). The introduction of domestic electricity also offered an opportunity for municipalisation while a daytime 'load' for power stations was needed, making tramway electrification, which was mostly achieved after the municipalisation mandated by the 1870 Tramways Act, desirable (Hannah, 1979, p. 14-19; Foreman-Peck and Millward, 1994, pp. 163-165; McKay, 1976). Tramways could be combined with a more conventional public good, street paving. Finer (1941, p. 28) argued that the economic case for municipalisation existed where an industry required a large capital compared to operating cost, and also where its activities were restricted to a locale, creating substantial barriers to entry. Any competition between producers could result in wasted resources, yet monopoly would also leave local consumers at the mercy of producers with no alternative but to move to a cheaper area. In utility industries supply networks were very localised until the 1930s, allowing for only a single wholesaler. Tramway networks were in some ways similar; while on the demand side they were subject to non-market competition such as walking or cycling, the requirement for parliamentary sanction, limited street space and economies of scale in operation generally prevented direct competition. Indeed, Finer's assessment echoed that of Warren (1923, p .33), a left wing pamphleteer, who justified municipalisation on similar, if more ideologically charged, grounds, suggesting that ratepayers could benefit from the provision of monopoly services 'at cost'. Yet Warren drew a distinction between services which he felt should be provided on a commercial basis and those provided without a charge being levied at point of use, including education, libraries and municipal bath houses.

In a capitalistic Victorian and Edwardian world where an emerging bourgeoisie was used to private provision of utilities, not only from an ideological perspective but also for investment (Rutterford, Green, Maltby and Owens, 2011), municipal trading came under attack from political conservatives who saw it as disrupting free trade, as well as indebting local authorities and leading to needless expansion of the state (Porter, 1907). In one of the form's earliest defences Shaw (1904) argued that municipal trading was beneficial for all of society based on the premise that cities could borrow more cheaply than commercial organisations; at 4% compared to at least 10% (p.100), because they did not have to pay dividends; indeed charges for their services could be minimised to enhance social good, allowing workers for instance, to enjoy improved work opportunities as they would be able to travel further. Operation on a trading basis would continue with the aim of providing sufficient surplus not just to cover operating cost but to provide a sinking fund for renewals, making municipal trading operations self-sustaining. Shaw (p.101-110) also highlighted how the committee structure of British municipal democracy, then based on collective decision making rather than the cabinet based structures more recently prevalent, allowed for democratic control to permeate down to the level of individual utilities. But this is not to say that democratic control meant governance was always played on a sustainable footing - Knoop's (1912, pp. 158-159) textbook that warned that some local authorities, particularly in the Manchester area, were drawing excessive profits from municipal trading towards rate relief and neglecting the maintenance of a sinking fund.

Some local authorities very deliberately saw their tramway and public transport operations as trading activities. Councils echoed the policy of post-deregulation bus companies such as Stagecoach of attempting to build up as much of a network as possible to gain economies of scale while discouraging overall integration on the passenger side in order to protect margins on individual routes (Mees, 2010, pp. 75-80; Wolmar, 1999). Tennent (2017) highlights the case of 1920s and 1930s York, in which decisions made by the corporation's transport committee, a delegated group of councillors from both the Conservative and Labour parties, deliberately favoured the protection of gross profit by charging passengers a new fare for every vehicle that they used on a journey. This approach to accounting was common on some British tramway systems which attempted to maximise the utility to the ratepayer rather than the service user; as Knoop (1912) demonstrates some German cities, while engaging in municipal trading, had introduced a more user-friendly zonal ticketing system in which users paid for the distance travelled irrespective of the number of individual routes taken. Some British municipal authorities, such as the London County Council (LCC), did follow a policy of fare reduction after muncipalisation, even integrating this with the provision of social housing in outlying areas such as Tooting (Abernethy, 2015, pp. 177-178; Barker, 1988, p. 58), but as Turner and Tennent (2019) demonstrate the earning of surpluses remained an important aim. Further, the LCC invested in major engineering schemes including the Kingsway tramway subway not just to provide opportunities for profitable through journeys between north and south London, but also to provide a new revenue earning utility spine.

Discussion and Conclusion

We propose that the local authority of the period of classical muncipalism (c. 1889-1975) in Britain can be understood as a case of Skeltcher and Rathgeb-Smith's (2015, p. 440) segmented hybrid type, in which an organization accommodates functions oriented to different logics. These logics can be compartmentalised within the organization, and the local authority was itself a hybrid, not necessarily possessing a uniquely state logic, and indeed many of these bodies were styled as corporations! This differentiates the case of classical municipalism from more contemporary cases of hybridity such as Doherty, Loader, Gillett and Scott (2018) and Gillett and Tennent (2018) in which the local authority is assumed to be a bringer of state logic to a third, separated body such as a housing association or football club. There is also a difference from Fowler's (2018) case of the London Passenger Transport Board, a sort of quasi-public body created in 1933 to sit at arm's length from both public and private sectors, and the assumption of Mees (2010) that a public corporation by necessity provides the framework for municipal transport services. Classical municipal bodies did not outsource hybridity but rather brought market and corporation logics into the Corporation along with state logic, which essentially applied only to the duties of the organization which had been devolved through legislation from the central state. Warren (1923: pp. 7-9) provides a useful schema here, demonstrating that local authorities did not levy charges against redistributive services which were mandated by the state or provided by local philanthropists, including the provision of health services, sewerage and sanitation, street maintenance and lighting. Local authorities might levy a small charge for the use of some of these services, such as public baths and wash houses, but these charges were intended to provide a contribution rather than cover full cost, most of the burden falling on ratepayers, meaning the owners of more valuable properties paid more. These services, which oriented to a large extent around social and economic class might be considered to derive legitimacy dominantly from the state institutional order. Conversely, as Warren illustrates, municipally traded services such as utilities and tramways were provided by the local authority in a framework mostly charged for strictly according to individual use of the service without regard to social or economic class as such, and thus legitimacy was to some extent derived from market and corporation institutional logics, with services theoretically provided out of capital subscribed by 'faceless' bondholders who did not have to live in the district of provision. Thus democratic participation was fused with externally provided capital and a monopoly market provision, creating a tripartite fusion of legitimacy sources, and councillors together with professional managers forming the equivalent of a board of directors and officers fulfilling bureaucratic roles, providing both municipal authority and identity.

The British local authority therefore formed a sort of hybrid of itself, integrating redistributive and trading functions into different departments of the same organisation. After 1945 with electricity, gas and water nationalisations together with eventual bus de-regulation in 1986 the body would be gradually stripped back to deriving legitimacy, authority and identity most dominantly from the state institutional logic, bringing the process full circle to the creation of arm's length hybrids for the era of the New Public Management, when public-private partnership forms would again be in vogue.

This stripping back was easily achieved because of the deep institutional antecedence of utility and transport provision, particularly in England. The hybrid form was necessary to facilitate municipal trading because infrastructure and transport provision in Britain had derived its legitimacy, authority and identity from the market and corporation institutional orders since the early modern period, and this 'blocked' the development of a more 'assimilated' or 'blended' logic in the British context which might have allowed for transport and utility provision to develop on a more redistributive basis (Skelcher and Smith, p. 440). Tramway services, such as those operated by the LCC were often municipalised out of the hands of private companies under the 1870 Tramways Acts, but deeper traditions also prevailed. The pervasive expansion of the rail industry in the hands of private companies after 1830 is well documented, but canals had been operated by private firms for almost a century beforehand. The evolution of transport as a private service both in terms of infrastructure and carriage goes back father than steam powered transport, demonstrated by the evolution of a private road carrying industry. Commercial road transport encouraged by the growth of the quasi-privately developed 'turnpike trust' system from around 1706 onwards (Albert, 1972), which prefigured the municipal trading model by allowing private groups of individuals to form trusts which could mortgage funds for long distance road improvements, secured on tolls often themselves collected by private contractors. This was a solution to the reluctance of local parish authorities to perform their statutory duty, enshrined in 1555, to maintain roads mainly used by carriers passing through their areas, and until the rise of the railways trusts were able to gain such legitimacy, authority and identity that they were able to resist government attempts to reform them, even when frequent toll bars were causing traffic congestion in the London area. The deep institutional foundations of the transport and infrastructure industries have therefore pervaded their governance in the UK over the very long term, and continue to do so to the present day. The era of muncipalism fits into and indeed reinforces this pattern rather than appearing as an exception to it.

References

Abernethy, S. T. (2015), *Class, gender and commuting in Greater London, 1880-1914.* PhD Thesis, University of Cambridge.

Albert, W. (1972). *The Turnpike Road System in England, 1663-1840.* Cambridge University Press, Cambridge.

Barker, T. C. (1988). 'Urban Transport.' In Freeman, M. J., and Aldcroft, D. H., (eds), *Transport in Victorian Britain*, Manchester: Manchester University Press.

Coombs, H. and Edwards, J.R. (1996), Accounting Innovation: Municipal Corporations 1835-1935, Routledge, Abingdon.

Falkus, M. (1977), "The development of municipal trading in the nineteenth century", Business History, Vol. 19 No. 2, pp. 134-161.

Foreman-Peck, J. and Millward, R. (1994), Public and Private Ownership of British Industry: 1820-1990, Oxford University Press, Oxford.

Fowler (2018). *Did The London Passenger Transport Board Secure for the Workers the Best Obtainable System of Popular Administration and Control?* PhD Thesis, University of York.

Friedland, R. and Alford, R.R. (1991), "Bringing society back in: symbols, practices and institutional contradictions", in Powell, W.W. and DiMaggio, P.J. (Eds), The New Institutionalism in Organizational Analysis, University of Chicago Press, IL, pp. 232-263

Gillett, A. G., & Tennent, K. D. (2018). Shadow hybridity and the institutional logic of professional sport: Perpetuating a sporting business in times of rapid social and economic change. *Journal of Management History*, *24*(2), 228-259.

Gillett, A., Loader, K., Doherty, B., & Scott, J. M. (2018). An examination of tensions in a hybrid collaboration: A longitudinal study of an empty homes project. *Journal of Business Ethics*, 1-19.

Hannah, L. (1979), Electricity before Nationalisation: A Study of the Development of the Electricity Supply Industry in Britain to 1948, Macmillan, London.Finer (1941

Kellett, J.R. (1978), "Municipal socialism, enterprise and trading in the Victorian city", Urban History, Vol. 5, pp. 36-45.

Knoop, D. (1912), Principles and Methods of Municipal Trading, Macmillan, London

Maclean, M., Harvey, C. and Clegg, S.R. (2016), "Conceptualizing historical organization studies", Academy of Management Review, Vol. 41 No. 4, pp. 609-632.

Matthews, D. (1986), "Laissez-faire and the London gas industry in the nineteenth century: another look", The Economic History Review, Vol. 39 No. 2, pp. 244-263.

Mees, P. (2000), A Very Public Solution: Transport in the Dispersed City, Melbourne University Press, Carlton South, Victoria.

Mees, P. (2010). *Transport for suburbia: beyond the automobile age*. Earthscan, London.

Meyer, R.E., Egger-Peitler, I., Höllerer, M.A. and Hammerschmid, G. (2014), "Of bureaucrats and passionate public managers: institutional logics, executive identities, and public service motivation", Public Administration, Vol. 92 No. 4, pp. 861-885.

Millward, R. (2005), Private and Public Enterprise in Europe, Cambridge University Press, Cambridge, MA.

Millward, R. (2014), The State and Business in the Major Powers: An Economic History 1815-1939, Routledge, Abingdon.

Millward, R. and Ward, R. (1993), "From private to public ownership of gas undertakings in England and Wales, 1851-1947: chronology, incidence and causes", Business History, Vol. 35 No. 3, pp. 1-21.

Mullins, D. (2006), "Competing institutional logics? Local accountability and scale and efficiency in an expanding non-profit housing sector", Public Policy and Administration, Vol. 21 No. 3, pp. 6-24.

Pache, A.C. and Santos, F. (2013), "Inside the hybrid organization: selective coupling as a response to competing institutional logics", Academy of Management Journal, Vol. 56 No. 4, pp. 972-1001.

Porter, R.P. (1907), The Dangers of Municipal Trading, Routledge, London.

Roberts, R. (1984), "Business, politics and municipal socialism", Businessmen and Politics: Studies of Business Activity in British Politics, 1900-1945, Heinemann Educational Books, London.

Rutterford, J., Green, D. R., Maltby, J., & Owens, A. (2011). Who comprised the nation of shareholders? Gender and investment in Great Britain, c. 1870–1935. *The Economic History Review*, *64*(1), 157-187.

Sacranie, H. (2012), "Hybridity enacted in a large English housing association: a tale of strategy, culture and community investment", Housing Studies, Vol. 27 No. 4, pp. 533-552.

Shaw, B. (1904), The Common Sense of Municipal Trading, Archibald Constable & Co, London.

Skelcher, C. and Smith, S.R. (2015), "Theorizing hybridity: institutional logics, complex organizations, and actor identities: the case of nonprofits", Public Administration, Vol. 93 No 2, pp. 433-448.

Tennent, K. D. (2017). Profit or utility maximizing? Strategy, tactics and the Municipal Tramways of York, c. 1918-1935. *Journal of Management History*, *23*(4), 401-422.

Turner, D. A., and Tennent, K. D, (2019). 'Progessive Strategies of Municipal Trading: The policies of the London County Council Tramways c. 1891-1914, *Business History*, in press.

Warren, J.H. (1923), Municipal Trading, Labour Publishing Company, London.

Wolmar, C. (1999). *Stagecoach: a classic rags-to-riches tale from the frontiers of capitalism*. Orion.