The Railways: A Case for Privatisation

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The rail industry in Ireland is examined in this essay. Seamus O'Brien looks at the evolution of the industry in Ireland, the importance and suitability of rail travel in Ireland and at the present situation. He concludes that nationalisation and transport policy has failed the railways and he recommends deregulation and privatisation.

Introduction

The provision of a railway service in Ireland has been a loss making exercise every year since 1946, an expense that has to be bared by the state. Thus, the justification for providing the service in this way must be questioned. Why should the state provide it and what are the alternative ways of running the network? The aim of this paper is to examine how the industry has evolved to the present day; what is the cause of the financial mess in which the company is in; and how can this problem be solved? Firstly, I will briefly examine the evolution of the industry in Ireland since World War I, particularly the restrictive and draconian legislation that was passed. I will then go on to discuss the importance of rail travel to Ireland, its suitability, and the restrictions which geography imposes. The present situation of the company shall be discussed; it's network, number of passengers, and the internal problems of the company. The discussion will include an analysis of the UK experience of privatisation and the lessons that can be learned. Finally, I will examine what Coras Iompair Eireann (CIE) describes as the biggest ever rail investment programme in the history of the state that is due to take place over the next six to ten years[1].

Brief History of the Irish Railways

The railway companies in Ireland prior to the First World War were highly prosperous firms with a diverse range of business activities including banking and the running of hotels. However, after the war, '*the monopolistic powers of the railways was eroded by the growth of road transport.*'[2] Just as the canal network of Ireland began to experience competition from the mid 19th century onward, now it was the turn of railways. Initially, legislation was passed with the aim of reducing

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[1] http://www.irishrail.ie/projects/ontrack.asp

[2] Barrett, (1982: 81).

the operating cost of the rail companies; most notably the merging of the 26 railway companies into one, The Great Southern Railway Company, by the Railway Act of 1924. An additional attempt was made at lowering their costs by the passing of The Railways Act of 1927, which allowed the railway company to operate road services. However, this proved to be of little use to the company.

From 1925 - 1931, the number of road vehicles in Ireland increased from 29,000 to 49,000. A similar period, 1926 to 1931 saw the number of passengers travelling on The Great Southern Railways decline from 15.5m to 11.9m. The increasing number of goods vehicles from 4,950 in 1925 to 8,278 in 1931, the impact of the recession and the trade war with the UK were additional factors that faced rail transport. Further draconian legislation was passed in the 1930's. Now the aim was at restricting road transport. The Transport Act 1932, prohibited the operation of scheduled passenger services except under license from the minister for industry and commerce. The Road Transport Act of 1933, restricted the operation of road freight for reward, outside small exempted areas near the main towns, to persons operating prior to the passing of the act. This legislation coupled with further restrictions on road transport during the Second World War brought a period of modest prosperity to the railways.

In 1944, the Dublin United Transport Company and The Great Southern Railway Company were merged to form a new company, CIE. It was hoped that the profits of the Dublin Operation could be used to subsidise other parts of the network, and no additional subsidising from the public funds would be necessary. The Transport Act of 1950 nationalised CIE and amalgamated it with the Grand Canal Company.

As part of the policy of reducing the exchequer borrowing requirements, the public capital programme was reduced from a volume index of 128 in 1982 to 100 in 1985 and 70 in 1989. From about 1984 - 1995 it was government stated policy that no further substantial investment would be made in rail transport. Buses, telecoms, airlines and other sectors also suffered from cutbacks in investment. However, the railways were unique in that they did not face any competition like other sectors.

The Importance of Rail Transport

One argument in favour of a continual subsidy to the railways is that they provide a means of transport for those who do not have access to a car. It is viewed as a means of income distribution. However, the reality is that those of the lower income brackets do not travel very much. For example, while total consumption by the highest income quintile, is 4.2 times that of the lowest income quintile the expenditure on rail travel is 9.6 times greater.[3] In income distribution terms, the general transport subsidy is inefficient compared to a general subsidy to consumption because of the low use of public transport by low-income groups. Rail travel is concentrated among high-income groups and subsidising it does little to create a more equal society. It is '*a very dubious candidate for public expenditure because it is, to a quite exceptional extent consumed by the affluent and its subsidisation is therefore likely to make the distribution of income less equal.*'[4] Surely an alternative method of subsidising travel for the poorer members of society exists than the expensive train network.

Also, the effects of rail travel on road congestion and road accidents tend to be over exaggerated. In Ireland, the market share of the railways is so small that its disappearance would have little effect on congestion. It would take a huge amount of public expenditure to bring about any substantial transfer of traffic from road to rail. The elimination of the train from Ireland would have little effect on the number of accidents since the rail network carries such a small percentage of total passengers. In 1998, total rail travel in Ireland amounted to just over 32m passengers. This represents only 11% of total public transport trips.

To some, railways are seen as an environmentally friendly mode of transport. They are seen as conserving energy and as a safer means of transporting dangerous goods. However the energy costs of the railways are far greater than considered and their cost in relation to hazardous goods is disproportionate to their benefits. The noise and pollution that result from road traffic are better tackled by direct measures than by the roundabout method of subsidising the railways.

The Suitability of Ireland

The particular nature of the demography and geography of Ireland means that the economics of rail transport is very different to other countries. Our low and dispersed population means that the cost of reaching a given amount of potential passengers is higher because more ground must be covered. Table 1 below compares the population density of Ireland with a select number of other EU countries.

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[3] Barrett, (1988)

[4] Pryke & Doudgson. (1975) P.251

Table. 1. (Source: Oireachtas Committee Report 1999)

Comparative Densities for Ireland and EU, 1996/1997		
Countries/ Regions	Pop. Densities, Persons Per Sq. Km	Urban Pop. % of Total
Ireland	53	55
UK	243	89
EU Average	115	78
Austria	96	64
Germany	357	87
Finland	15	64
Denmark	122	85
Irish Regions		
Dublin	1,148	
Midwest	57	
S. West	45	
S. East	42	
Border	33	
Midlands	31	
West	25	

Unlike other EU countries, our island status means that interconnections with other networks are restricted. All this makes a fixed line transport system, like the railways, more costly for Ireland than other EU countries. The initial infrastructure costs of railways are high, and not lightly undertaken, and the assets once created may exist for decades if not centuries. Moreover, there are few alternative uses for the assets once created. This relative inflexibility of transport supply, to which the railways are particularly prone, means that shifts in demand either for transport as a whole over a specific route or between modes of transport may produce great imbalances between supply and demand. The implications are that a bus-based option is likely to be a better alternative in cost terms than rail. It is likely in these circumstances, that reliance on a bus/road network is likely to be less costly and more effective than a rail connection.

The most suitable market for inter-city rail would be one with a big city at each end of the route with a distance of between 330km and 600km between them. Frankfurt to Munich or Paris to Lyons would be examples of inter-city markets where the rail mode is at an advantage. Ireland however does not have any two cities, which meet these requirements. The closest is Dublin to Cork, a distance of 260kms. However Cork is quite a small city, which limits service frequency, and the distance is short enough to leave the car mode competitive for many trips. The pairing of Dublin and Belfast is a shorter distance at about 175kms but the city is considerably larger than Cork.

The geographical constraints of rail freight are even greater than the passenger service. The most optimal route for freight is for very long trips of 1,000kms or more, carrying high volume traffic. Rail freight has proven to be a profitable enterprise in the US and the potential exists across Europe because of the long-distance, high volume business. Ireland however is too small to generate a pattern of traffic for which rail freight has natural economic advantages.

Iarnrod Eireann Today

The rail network of Ireland is a predominantly radial network extending outwards from Dublin. It consists of 2,290kms of track, of which 2,030kms are used by scheduled passenger trains. However, despite the poor state of the infrastructure, the number of rail passengers has increased by a significant 20% for the period 1991-1998. The lack of investment has been reflected in slower operating speeds, reduced reliability of journey times and an overall poorer quality of service.

The company remains one of the largest drains on taxpayers' funds in Ireland with the subsidy for the year 2000 amounted to 146m. The present Minister for Public Enterprise proudly boasts that the '*annual subvention to CIE has now increased by 70% while the capital spending on transport has increased by almost 700% since the government took office*'.[5] Yet, the contribution of the company to the movement of people and freight remains insignificant in the context of the total transport market (as can be seen from Table. 1, above) It is overstaffed, under-utilised and provides a poor quality of service. Also, it is unlikely that the board of CIE will make any serious attempt to operate at the minimum cost level so long as it is in receipt of a subsidy and not expected to pay its way.

The four main problems with the running of Iarnrod Eireann are as follows:

[5] Irish Times, 16/11/01

- Poor Infrastructure. The lack of investment has been reflected in slower operating speeds, reduced reliability of journey times and an overall poorer quality of service. The majority of rails are more than 50 years old, sleepers more than 20 years, both are a long way beyond their "life expectancy". Poor infrastructure in turn leads to safety concerns.

- Management. The radial changes that need to take place within the company are not going to be achieved with the incumbent management team. The team is predominantly engineering orientated with an ethos of administration rather than of management. They lack any sense of commercial management skills and few have any experience in state of the art customer service practices, finance and project evaluation.

- Unions. The review group *'Iarnrod Eireann: A Way Forward'* pointed out several union problems that exist within the company. It pointed out a variety of restrictive practices that exist. One, being the absurd policy of only recruiting driving personnel externally that are not qualified, and at the same time being short of drivers. (Drivers Wanted. Qualified Applicants Need Not Apply!)

- Staff. The problem of overstaffing within Iarnrod Eireann is undoubtedly related to the last problem. The 1995 Oireachtas Committee Report on CIE highlighted a number of staffing concerns; the staff cost is rising per head each year; there is a lack of commerce graduates in the company, engineering graduates being preferred with a ratio of 59:16; and a problem of overstaffing of clerical workers, ticket collectors and guards.

The Case For Deregulation

Telecom deregulation is estimated to have saved the Irish economy over E570m/£450m a year. Airline deregulation has added an extra 80,000 jobs in tourism and there have been huge gains from telecom deregulation in the telemarketing, knowledge-based industries and e-commerce. Could similar gains be had through a deregulation of the rail industry?

Deregulation is based on contestability theory formulated by Professor W. J. Baumol, former president of the *American Economics Association.* The theory states that governments should not ban new entrants to any sector. New entrants keep the incumbents efficient. They introduce new producers with new ideas and new capital to a sector. Large efficiency gains result from repealing bans on new entrants and reducing economic rents by a strong competition policy.

Should Iarnrod Eireann be privatised? Since the UK privatisation in 1997, passenger numbers have increased by 20%; distance travelled by nearly 30% and freight movement is up by 33%. Most industry experts expect passenger numbers to rise by over 50% over the next 4 years. Virgin Railways is expecting them to double and is spending £2bn sterling on new trains.[6] Both the punctuality and reliability indices for British railways were up after privatisation and passenger revenue rose in line with the extra traffic. Subsidies were down and productivity up.

Railtrack, the company in charge of the infrastructure collapsed yet the train operating companies are growing while their services are deteriorating. One of the fatal flaws of the privatisation was that the operating companies bare none of the cost for an increased traffic volume while Railtrack has seen none of the benefits.[7] It is an over-stretched network with 10% of the track at or beyond the end of its physical life; a further 30% needs replacing within the next 5 years.

One interesting proposal for the rail industry, put forward by Virgin Rail is that a railway hub should be developed. This is an idea borrowed from the airline industry whereby the amount of long distance point-to-point train routes would be reduced and instead run shorter feeder services into hubs. That means that passengers have to put up with changing trains more often; but in return, they get more frequent trains. The development of a spoke network would considerably reduce costs instead of running point-to-point services.

The Plans for Rail Transport

The objectives of the National Development Plan (NDP) with regard to rail travel are: to upgrade the infrastructure, rolling stock and facilities so as to improve the safety of the network; increase the physical capacity of the railway to cater for growing passenger demand; and improve the quantity, speed and reliability of services. Some E635m/£500m is being allocated for the completion of the railway safety programme 1999-2003 and a renewal and upgrading programme. E190m/£150m will be will be spent on the upgrading programme, focusing on the provision of new rolling stock; upgrading stations; renewing railway plant and

[6] The Economist. (16/12/00)

[7] The Economist. (05/01/02)

equipment. This pursuit of extremely expensive fixed track investment is sidelining less costly transport projects that could be realised much sooner.

Dublin is a city with a relatively low population density. Light Rail Transport (LRT), metros, and other rail-based forms of transport require a much higher population density and are thus unsuitable. The land use policies as pursued by the city, have not provided catchment areas that are sufficiently large enough to develop such projects. A rail based transport system simply does not suit Dublin in its present form. The construction of a rapid rail system as is being planned will have to involve a policy of high-density catchments surrounding each suburban stop. This however is likely to be contrary to the popular desire of low-density housing with no high rises. Many areas that would be served by lines approved by the government are sprawling low-density suburbs with falling population levels. Brian Joyce, the former chairman of CIE estimates that the Luas project will cost four to five times the original estimate and use up to 50% of the capital's resources for public transport in return for carrying less than 10% of the peak hour passengers in Co. Dublin. Moreover, some of this 10% will have simply changed from using a bus to Luas thus reducing the impact of Luas on increasing the share of commuters who use public transport.

The option of serving Dublin airport with a rail link branching off the Sligo line, as envisaged by CIE and Aer Rianta was ruled out though it could have been done in a much shorter time than a metro line. Although the Sligo line option scored better in terms of cost-benefit ratio and internal rate of return, the Dublin Transport Authority (DTO) was reluctant to pursue it because it would undermine the cause for a metro line, running underground through the city-centre from Shanganagh to the airport. If its wider metro plan were to have credibility, it would have to include an airport link.

Conclusion

The justification for most semi-state companies is that they were set up to provide a service at a time when no one else would. This however has not been the case of Iarnrod Eireann. The nationalisation of the railways in Ireland, through draconian legislation was aimed at reducing the damages with which road-based forms of transport had inflicted. The social benefits of the railways are assumed to be greater than the private benefits despite the lack of supporting evidence. As it has been shown above, the demographic and geographic characteristics for a rail-based transport system are not as strong as elsewhere. This together with a management team that lacks any sense of a commercial focus or experience with running a competitive company; the under investment as a result of constraints on government expenditure prior to about 1995; and the strong unions have been the main reasons for the past and present poor performance of Iarnrod Eireann.

If a rail based form of transport is desired, then it is imperative that future investment is based on value for money. An alternative housing policy and density will have to be drawn up with denser cities along the suburban routes and larger cities at each end of the inter-city routes. The management and union problems of the company are the same as most monopolies that are run by the state an in order to eliminate them, deregulation must take place, and deregulation requires privatisation in order to achieve a level playing field for all. It is clear that nationalisation has been a failure, what is now required is privatisation, deregulation, and the separation of transport policy formulations from transport operations.

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