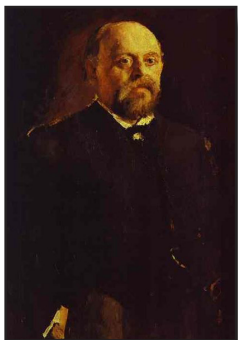




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V. Serov. Portrait
of Savva Mamontov. 1887.

The article reprinted from the Zhelezнодорожное дело (Rail Business) journal published 110 years ago reviews in detail the content of the brochure «On Railway Industry in Russia» edited by Savva Mamontov, one of the richest, well-known businessmen and benefactors of his time, who had got direct experience of managing construction and operation of railways. The brochure exposed the opinion of Savva Mamontov regarding numerous advantages of private railway construction contracting and further operation based on, speaking modern language, private-public partnership. The described advantages comprised speed of construction, rational cost policy, etc. The reviewer while agreeing with S. Mamontov on some issues insisted on more profound study of possible changes in traditional model of private and public railways that existed in Russia.

Keywords: railway, private entrepreneurship, business, Savva Mamontov, private-public partnership, history of railways.

For the original Russian text of the article please see p. 272.

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Savva I. Mamontov on the Railway Industry in Russia

In recent years, various issues related to construction, operation and economy of our railways have been raised almost every day. Listening to the opinions of the Society and taking into account the current state of the railway business, the Ministry of Railways has made and is making a number of attempts to reconcile the established traditions with new trends, but first of all it tries, although, unfortunately, so far it is completely in vain, to get to the reasons for the constant railway shortage and establish that state-owned railways give the State a certain income...

In a number of different publications, touching upon certain issues of railway life, attention is drawn to a small brochure «On the railway economy in Russia», published by the famous railway and financial in the recent past, Savva Ivanovich Mamontov ... In this brochure, the venerable builder of Moscow-Yaroslavl-Arkhangelsk railway, setting out his views on the existing procedure for construction and operation of railway lines and pointing out the desirable, from his point of view, changes in this order, compares the private railway business with the state, and comes to the curious, not in favour of the treasury, conclusions.

For example, from the data given in the brochure¹ on the turnover cost of railways without rolling stock, payment of % and sales costs, it turns out that the average cost of one mile of state-owned railways (15 lines were taken, traffic on which was opened in 1899–1902) reached 57741 rubles, and the average cost of one verst of private railways (15 lines opened for use in 1897–1901 are also given) cost 48061 roubles, i.e., almost 20 % cheaper than the state ones.

Assuming that the technical strength of the railway during its construction both by state and private routes, with the existing control, will be identical, S. I. Mamontov concludes that the above economy in private construction is due solely to the managerial and economic efficiency of the builders, as well as to the absence of unnecessary bureaucracy and red tape, alien to any private economy..

With a state-owned building, the picture is completely different. Contracts with contractors and suppliers, concluded on the basis of an outdated provision on public contracts and supplies, which are outdated in all respects, seem clearly abnormal, because they do not at all protect the interests of counterparties, placing them at the full disposal of technical supervision,

¹ This information is taken from the report of the Department of Railway Affairs on August 30, 1903.

which, on the basis of the contract, can lead to large losses and even ruin a completely serviceable contractor. This circumstance, as well as the existing clerical formalism for issuing current payments and final settlements, which are sometimes received with huge delays, force counterparties, when setting prices for work, to increase those by more than 10 %, in proportion to the risk incurred and the need to invest capital, time whose returns are difficult to pinpoint (not to mention the possibility of going out with a lawsuit).

In addition to the above circumstances, the venerable author of the brochure draws the reader's attention to a sharp difference in the basic tasks of construction. A private society, building a road for the use of its society and being interested in, possibly, a cheaper operation of the line being carried out, tries to finish the construction not only as soon as possible (so as not to pay extra% for the construction time), but also with such a calculation that later – after traffic opening – no need occurs to complete or rebuild the road due to operation. The situation with state-owned railways is completely different, the construction of which is carried out by one department, and the operation by another, and the interests of the builder and the future chief of its operation can be very difficult to reconcile and compare. As an example, S. I. Mamontov points to Moscow Circular Railway, the commissioning of which began at the end of 1907 and lasted for about 2 years. With buildings of this category, in addition to paying interest on the building capital during construction (often due to construction delays, much more than it was assumed when the estimate was approved), it is required almost always to bear additional costs for bringing the constructed line into proper form, which, in general, not only increases the cost of construction by a huge amount, but also charges the treasury with extra multimillion-dollar costs of litigation and payments of all kinds.

Turning then to the existing foundations of railway operation, S. I. Mamontov emphasizes the economic and economic principles that underlie operation of private railways. The boards of such railways are made up of directors-shareholders, who post bail, personally interested in profitable conduct of business; the direct supervisor of technical operation, the engineer, the road manager, and other employees are interested in the profits of the society by awards, relatively large, given out in proportion to the profits of the operation. The administrative apparatus of the private society is mobile and sensitive. The permanent owner of the business – the Management Board, and in some cases the Management – always knows for sure whether the enterprise brings profit or loss and therefore has the full opportunity to take appropriate measures without delay. Having the nature of a commercial business, a private road tries to attract cargo and passengers in these types, observing its own interests; it simultaneously takes into account the interests of shippers and passengers, taking care of their convenience and the least possible formalism and constraints in settlements and relations with their customers.

State-owned operation is of a completely different, inert and irresponsible nature, due to mainly the fact that the role of the Board is played on state-owned roads

by the Railways Administration, which consists of irresponsible officials, and instead of the responsible Line Manager – the Head of the Road, also placed within the framework of an official. Local railway administrations do not have time at all to think about shippers and passengers, for they are busy issuing and sending certificates, reviews and all kinds of information requested by countless instructions and circulars from various controlling and supervising institutions. In addition to the State Control, what other various things are controlled by the local railway administrations: the Treasury Chambers, the Treasury, and the Railway Administration ... What different statistical departments and inspector audits require from the railway administrations ... Due to the established procedures, the final result state-owned operation on the lines is found out many years later², and the calculation of the results of operation made from year to year by the State Control, as it turned out at the present time by the commission of General Petrov, does not correspond to the true state of affairs. With this order, it is not surprising if some uncovered deficits of previous years float up completely unexpectedly for business leaders, as happened with the former Minister Shaufus when the budget of the Ministry of Communications in the State Duma was considered...

Then, as in the case of state-owned buildings, due to all the above circumstances, during state-owned operation there are chronic overpayments for procurement of fuel and various materials at higher prices than in private operation, and the production of work – in comparison with private roads – is more expensive. The reason for this phenomenon is the same as in the case of buildings: clerical red tape, formalism and chronic delay in payments, either due to the indifferent attitude of the road agents to the case, sometimes due to excessively vigilant supervision by the State Audit Office, then, finally, simply due to earlier the loan spent by the Road Administration, from which it would be necessary to pay...

The venerable S. I. Mamontov reinforces all these conclusions with references to the facts he observed from the operational life of the Northern and some other state-owned railways. So, for example, large claims have already been filed against the treasury by oil suppliers (Nobel and Mazut firms) for the delay in payments for the delivery of this product to the roads. According to the calculation on January 1, 1909, the claims of the named companies extend to 10,000,000 roubles and for late payment to the treasury, it is likely that, in addition to legal costs, it will be required to pay an unproductively huge fine of 12 % per annum. It can be expected that if the oilmen manage to collect the aforementioned fine, they will undoubtedly try to collect fines for late payments and all other contractors and suppliers offended in this direction, which, of course, will cause large losses for the treasury ... Another curious fact from the field of formalism and a clear sign of chronic bureaucratic thoughtlessness, according to the author of the brochure, took place on the Northern Railways in 1905 or 1906. Competition was provoked for supply

² Naturally, with such a delay, even if one wishes, nothing can be done to improve the case without seeing the real results of setting up this case.



of oil residues, and not only the prices were higher than in the previous year, but, in addition, oilmen warned that if the announced prices were not approved, then in 2 weeks they would rise even more. Despite the fact that the statement was quite credible, since everyone was well aware that the entire oil business was in the strong hands of a group of firms linked by a syndicate, the announced prices were not approved by the Railways Administration. The same persons came to the second competition, but, as previously stated, the initial price was increased so that the treasury had to unproductively overpay more than 400,000 roubles³. Since in the given case, which is hardly possible in a private railway sector, the reproach for causing such large damage to the treasury, it would seem, should also be addressed to the representatives of the Ministry of Finance and State Control, who committed such a serious violation of the interests of the treasury, the author of the brochures believes that «participation of the State Control Office in the state-owned operation of the railways, in the form as it is at the present time, makes the operation more expensive completely aimlessly».

Summarizing the above, S. I. Mamontov draws attention to some abnormality in the very structure of private railway companies formed according to the current statutes, and expresses his opinion on the desired changes in the conditions of private railway business:

1) The private railway sector must be established on the basis of construction contracts and lease agreements, and the private company, which is the builder and leaseholder of the roads, must make deposits to the Government to ensure the correct completion of construction work, as well as serviceability of the rent for operation of roads.

2) It is necessary to establish an independent railway fund, the funds of which should not be spent anywhere except for the needs of the railway network. This fund should receive the amounts received from the circulation of pledges of private companies in the corresponding interest-bearing State securities.

Since the benefits of the Government from the adoption of such changes in the existing order of the private railway sector are more than obvious, then, according to the author of the brochure, it is only necessary to touch on the issue of how acceptable these changes are for private companies.

As S. I. Mamontov believes, «the company's pledges can be formed from the joint stock capital, and the interest received from the securities in which the pledges are turned will go to income on this capital, i.e. in dividends on shares.

«In the case of temporary unprofitable exploitation, the society can be allowed to owe rent for a certain interest; to pay a pledge to replenish this debt only after a certain amount of time has elapsed after the start of operation; the expense of the collateral should be replenished when it reaches 40–50 % of the original value».

«In order to equalize the companies formed on the projected basis, with the old ones, on the issue of the proportional division of income into shares and bonds,

³ The next year, the same thing was repeated exactly, with the only difference that the treasury had lost 200,000 rubles in vain.

it will probably give the new companies the right to deduct from the net profit in the first place, 2–3 % on the joint capital».

Having briefly outlined the essence of the venerable S. I. Mamontov's brochure, I cannot but say that the issue of the railway economy in Russia is extremely complicated not only in the form of its vastness and versatility, but also because of the half-century that has elapsed, during which this economy was improving expanded and, finally, poured out into the forms in which it is now.

Since my railway service proceeded almost exclusively within the close framework of liquidation settlements on the roads that passed into the treasury, and did not at all come into contact with the internal railway life, I would find it difficult to express my personal opinion on the issue raised by S. I. Mamontov.

I will only say one thing, that – whether it is bad or good – but the system of railway economy that has existed for many years has undoubtedly taken too deep roots not only in the Department of Railways, but also in other departments related in such matters to the named Ministry: State Control, The Ministry of Finance and others, which is directly involved in resolving the most important economic railway operations, have gotten used to the well-established system, and therefore not only a radical change in it, but even a partial breakdown, as, presumably, will turn out to be very difficult, not to say almost impossible. It is difficult to expect that entire corporations, from top to bottom, even realizing abnormality of the conditions in which their long-term activities revolve, with a light heart will go towards a radical breakdown associated with destruction of the habits and attitudes that have been assimilated by whole generations of past and present ministerial officials. Undoubtedly, and the fact that the mass of bureaucratic officials will be stubborn opponents of new trends, even because they recognize their powerlessness and inability to obey new trends and perceive their foundations, i.e., to put it simply, they are aware of the need in their souls – in case of radical transformations in the department – to leave and give place to others, more capable of perceiving new views.

From this point of view, it seems to me that the idea of the need to abolish government construction and operation and give preference to private enterprise, for all its seeming truthfulness and expediency, pursued by the venerable author of the brochure, makes one want not only its more detailed development, but, at the same time, and a detailed reasoned conclusion on the part of railway specialists, both supporters and opponents of the views of S. I. Mamontov, on the need to implement new or changed principles of the railway economy. It should not be forgotten that, along with the sad phenomena of the state economy, cited by S. I. Mamontov, as, presumably, there are good sides to it. On the other hand, one cannot ignore the defects of the private economy, which had and still have to come up against, not only when the private railways were accepted into the treasury, but also during the usual normal beating of the railway pulse.

V. M.
(*Zheleznodorozhnoe delo [Rail Business]*, 1910,
No. 10, pp. 47–49) ●