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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

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Blending Public and Private: British Municipal Trading c. 1889-1975

ABSTRACT

Municipal trading was the dominant delivery form for transport and utility services in late nineteenth and early twentieth-century Britain and saw local authorities operate these services on a profit-making basis. This paper uses historical evidence and the ideas of contemporary theorists of municipal trading to demonstrate how these bodies formatively brought hybridity into the public sector, using blended public, corporate and market institutional orders. It demonstrates that in order to gain institutional legitimacy for municipal trading local authorities had to fall back on antecedents in the transport and infrastructure industries, notably in the turnpike trusts, canal and railway industries.

Keywords:

Public and not-for-profit; Past or current movements or trends; International comparative thought, management or practice

Blending Public and Private: British Municipal Trading c. 1889-1975

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.

Literature Review

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 (Friedland and Alford, 1991, pp. 248-249) 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 (Mayer and Rowan, 1977; DiMaggio and Powell, 1983). Scott (1995) explicates the structures from which these material practices and symbolic constructions derive their legitimacy, demonstrating that there are regulative, normative, and cultural cognitive 'pillars' supporting institutions. This framework is beneficial to consider the defining characteristics of a sector in which organizational authority is used to regulate the social space of a locality. This could be considered an institutionalising process built upon repeated, regularized and often homogenous behaviour, with the gradual emergence of a dominant paradigm, which will replace weaker structures (Mahalingam and Levitt, 2007, pp. 523-526). These dominant structures come to define 'sectors' constituted of organizations and institutions pursuing similar activities, practices and routines essentially characterised by forms of institutional isomorphism (Mayer and Rowan, 1977) – to gain legitimacy, an organization within a sector must take on at least some of the defining characteristics of organizations within its sector.

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). Because actors derive identity and meaning from the logics (for instance, a not-for-profit organization may be owned by its members) it is generally considered to be challenging to create joint ventures between sectors. The combination of, or blending of different institutional logics together, a process known as hybridity, generated increasing attention throughout the 2010s as collaboration between agencies of the state, private and third sectors to achieve common outcomes through collaboration became more common (Billis, 2010; Battilana and Lee, 2014). These structures, given the label 'hybrids' were typically public-private partnerships with different variances of social enterprise type delivery model, which often delivered services formerly provided by an arm of the state or municipal government (Seibel, 2015;Skelcher and Smith, 2015). Gillett and Tennent (2018) demonstrate that in certain circumstances it is possible for blended logics to be reconciled with each other in order to create new logics, for instance in the world of professional sport, where the limited liability company was adopted as the wrapping for bodies which were essentially more intended to represent the profile of a locality than to generate profits. The 'rolling-back' of the state following the 2008 financial crisis created an interest which stimulated academic study of hybrid entities, but Gillett and Tennent (2018) also demonstrates that the professional sport hybrid form had a longer history stretching back to the 19th century, suggesting a of antecedence for the post-millennial hybrid form worthy of further elaboration, especially in the broader space of locality creation.

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. This blending was a major characteristic of the public sector in the UK and other English speaking countries as utility and public transport provision were extended. This paper aims firstly to extend the theory of institutional logics and hybridity by demonstrating that a blended logic does not require a blended organizational form to exist – instead, such logic can be appropriated by and internalised into what is normatively considered the public sector. Secondly, the paper considers the deeper microfoundations of this hybridity over time, postulating that this form of hybridity is nested much more deeply within the longer-term traditions of Anglo-Saxon governance, culture and capitalism, an inheritance, which has created an antipathy to collective action which continues to have implications for policy making and the delivery style of public services in the present. The paper now proceeds through a discussion of intellectual and conceptual ideas around the development of this hybridity through the municipal trading form before considering some examples of policy and practice from the public transport sector in British cities that demonstrate the process through which the logics were blended. Finally, some ideas around the antecedence of the concept are applied to consider why a trading approach was the way in which local authority intervention in utilities and transport was legitimated.

Intellectual development of ideas around municipal trading

The immediate and most visible mid-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 (streetcar) electrification,[1] which was mostly achieved after the municipalisation mandated by the 1870 Tramways Act (33 & 34 Vict, c.78), desirable (Hannah, 1979, p. 14-19; Foreman-Peck and Millward, 1994, pp. 163-165; McKay, 1976). A further stimulus was the 1888 Local Government Act (51 & 52 Vict. c.41), which created a regularised network of county councils in England, and Wales, with settlements numbering 50,000 and above in number excepted, and given their own local authorities known as county boroughs. Fifty-nine county boroughs were initially created, and these powerful local authorities, known as 'Corporations' controlled almost every facet of urban planning together with the provision of services such as education, public health and sanitation, street lighting and paving, and policing within their urban areas. This provided an institutional form replicated across England and then by comparable authorities in Scotland of representative local government in which ratepayers elected councillors who sat on committees with delegated decision making and advisory power for particular policy areas. By 1908 50 county boroughs and 24 other local authorities had used their powers issued under the 1870 Act to municipalise their tramway systems, many of these using a municipalised

[1] For consistency the British nomenclature, 'tram' and 'tramway' are adopted here.

electricity supply (Knoop, 1912, p. 101). Together with electrification a further driving force was that tramways could be combined with a more conventional public good, street paving, as the 1870 Act required tramway operators, public or private, to pave the road under their tracks. Yet as Knoop's (1912, pp. 9-40) academic textbook for practitioners demonstrated, a common expectation was that municipal ownership would not just expand provision, but that these services, usually funded by issuing public debt, would provide a rate of return that would not just cover capital costs but also was sufficient to subsidise ratepayers.

This is not to say that the existence of natural monopolies was not a reason for the establishment of municipal trading, but rather that to some extent British local authorities hoped to absorb monopoly rents and were sometimes encouraged by commentators. Knoop (p. 20) suggested that the demand inelasticity of utility industries meant they would be easy to exploit for private companies, which also might be less willing to extend their networks into less populated areas (37-38). The political scientist Herman 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. The problem was that competition between producers would restrict the potential for economies of scale and so could result in wasted resources, a yet monopoly would also leave local consumers at the mercy of producers with no alternative but to move to a cheaper area. Further, in utility industries supply networks were very localised until the 1930s, allowing for only a single wholesaler, while the development of IT systems that allowed for an intermediary trading system would have to wait until the 1990s. 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 that 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 bathhouses.

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 portrayed it as disrupting free trade, as well as indebting local authorities and leading to needless expansion of the state (Porter, 1907). Some of the strongest opposition came from the US where the commentator Robert Porter argued that municipalisation constituted the state speculating in commercial and industrial enterprise, which must run counter to good governance (1907, p. 21). Certainly there was more widespread resistance to municipalisation there despite the poor quality of privately owned tramway services, Chicago for instance voting against taking its somewhat chaotic system into public ownership in 1907 and again in 1918 (Young, pp. 98-101). In a response to Porter's extensive critique the prominent Fabian Socialist Bernard Shaw (1904) argued that municipal trading was beneficial for all of society based on the premise that public bodies could borrow more cheaply than commercial organisations; at a rate of 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 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. Indeed, McKay (1976) argued that this politically motivated strategy of surplus redistribution sowed the seeds of the eventual abandonment of tramways because local authorities could not afford to replace life expired infrastructure. This suggests that councils may have thought of ratepayers as the dominant stakeholder rather than their customers or employees (though these were not exclusive groups) rather as profit making companies might think of shareholders, echoing more recent critiques of shareholder primacy capitalism (Lazonick and O' Sullivan, 2000).

Political persuasion undoubtedly played a role as to how far local authorities deliberately saw their tramway and public transport operations as trading activities. Tennent (2017) highlights the case of 1920s and 1930s York, in which decisions made by the corporation's transport committee, deliberately favoured the protection of gross profit by charging passengers a new fare for every vehicle that they used on a journey. While York's tramway committee was composed of a delegated group of councillors from both the Conservative and Labour parties, the council as a whole remained dominated by the Conservative party who ultimately partly privatised the system in 1935. In York the tramway system had been municipalised, electrified and comprehensively rebuilt and extended by the corporation between 1907 and 1916 (Tennent, 2017: p 408). The initial reason for municipalisation was the financial failure of the private company which originally provided services on a single line, though by 1907, with most towns in the north of England having municipalized tramways, institutional isomorphism seems likely to have played a role as the council used the promise of rates relief as a reason to press ahead with raising bond finance for the project. At the opening ceremony of the first line in 1910, Alderman Meyer outlined his hopes that the system would 'pay' based on the experience of the already operational system in nearby Sheffield, while providing 'every facility' for workmen and symbolising York's belief in progress and modernity (Light Railway and Tramway Journal, 1910; Tramway and Railway World, 1910). Meyer's early hopes that the system would return a surplus to the ratepayers were not achieved. Despite maintaining fares at an above average rate of 1.5d/mile or more for a number of years, entrepreneurially investing in extensions by trolleybus and motorbus rather than tram, and resisting the implementation of any form of transfer ticket until 1928 (Tennent, 2017, pp. 408-415), the undertaking proved unable to make surpluses on a consistent basis. After 1931 York's undertaking was unable to make a profit and a subsidy from ratepayers was required, while the Corporation itself came under pressure from the Great Depression, losing 40% of its revenue from rates in the 1931-32 financial year, to the extent that along with many other County Boroughs it was bailed out by central government. Faced with humiliation the Corporation attempted to regain self-sustaining status through fiscal austerity across all its departments, and also by re-negotiating its industrial settlement with the transport unions (Tennent, 2017: 412-413). By 1934 the undertaking's debts still stood at £138,346, though having exceeded £200,000 in 1922; this mirrored the national pattern found by the 1929-31 Royal Commission on Transport, which discovered that £47 million of capital was still outstanding against £85 million borrowed by local authorities earlier in the century (Royal Commission on Transport, 1931, p. 105). Not surprisingly the Royal Commission recommended that local authorities look to phase out trams in favour of trolley and motorbuses, even though conceding that trams could still carry more people than buses and cost less to maintain. York took heed of this, scrapping its trams in 1935, but also formed a commercial joint venture with a local motorbus company as a replacement, transferring liability for transport for the private sector. The broad, national direction of thinking was clear, however – public transport, even though in the public sector, should be at the very least be a self-sufficient if not a profit making business and capable of replaying its capital costs.

The 'line by line' approach to accounting seen in York was common on some British tramway and bus systems that attempted to maximise the utility to the ratepayer rather than the service user. Surveying the UK's transport undertakings in the late 1930s Finer (1941, p. 355) found that out of 86 undertakings, 56 had no form of transfer tickets. The belief, expressed by the general manager of the York system, J. A. Bromley, was that passengers switching from line to line while only paying one fare would lead to a 'dead loss' for the second vehicle, regardless of the fare charged (York Corporation, 1926). There was a further resistance to issuing system-wide tickets and passes for the same reason. As demonstrated by Mees (2010) this had the effect of leading to disintegration, ultimately discouraging passengers from using public transport for complex journeys when alternatives such as the automobile became available. Knoop (1912) demonstrates that 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. Conversely, the British approach was itself an antecedent to the eventual strategy of bus companies such as Stagecoach, after the 1986 de-regulation of bus services, of attempting to build up as much of a network as possible to gain economies of scale on the supply side while discouraging overall integration on the passenger side in order to protect margins on individual routes (Mees, 2010, pp. 75-80; Wolmar, 1999). Conversely, the zonal approach remained common in continental Europe and was often even extended beyond and between modes, especially in Switzerland and in urban areas in Germany.

Some larger British municipal authorities, such as the London County Council (LCC) as it gradually muncipalised and electrified privately owned tramway networks in London between the mid-1890s and 1907, did follow a policy of fare reduction after muncipalisation, while wages were increased for tramway workers. The LCC was dominated by the Progressive faction between its inception in 1889 and 1907, when the more conservative Moderate faction came to power. This was even integrated with the provision of some of Britain's first social housing in outlying areas of the city 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. The LCC progressives were particularly influenced by Fabian as well as Quaker welfare capitalist ideas, and believed that economic and social profit could be combined. 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. However, the authority was ultimately undermined by its enabling act of parliament which restricted its transport powers to the operation of trams, and faced competition from the privately owned underground and bus systems, which its operations were only integrated into after the formation of the genuinely hybrid London Passenger Transport Board in 1933 (Fowler, 2018; 2019).

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 Skelcher 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 styled themselves as corporations! Local authorities were more self-sufficient in the late nineteenth and early twentieth centuries, and the notion of a public sector in itself was still being developed. This differentiates the case of what we might call 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 that 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 which state or non-market logic would become dominant the British context which might have allowed for transport and utility provision to develop on a more redistributive basis (Skelcher and Smith, p. 440). In simple terms, to legitimately municipalise transport and utilities in a way which fitted British regulative, normative and cultural-cognitive pillars, local authorities had to adopt the apparatus and approach of the private sector (Scott, 2001). Regulatively legal sanction and power came from central government in the form of the 1870 and 1888 enabling acts together with powers to raise money from the bond markets. Normative expectation, however, while allowing for some concession to the interests of the community at all levels was that intervention, which was sometimes considered to run counter to the privilege of the free market, would only be moral if done on a financially self-sustaining or profit making basis. Failure to do this, to have to subsidise services from the rates was to meet with shame or dishonour and risk consequent loss of legitimacy through the normative pillar (Scott, 2008), and further, would run contra to the prevailing cultural orthodoxy built up within municipalism that Corporations as a whole were intended to be self-sustaining and self-financing bodies, functioning as a symbol of a city or town’s enterprising character.

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 much deeper traditions of transport as a privately financed and managed entity also prevailed. The rapid, and pervasive expansion of the rail industry in the hands of private companies after 1830, establishing much of the national network before about 1852 without any form of central government planning, is well documented. Gourvish (1980) estimated that in the boom years between 1845 and 1849 around 4.5% of Gross National Product was pumped into rail construction, absorbing virtually all the free capital in the UK, while a route mileage in excess of 13,000 was in operation by 1870 (Aldcroft and Dyos, 1971). There was no expectation until the First World War that the government would subsidise the rail network, and broadly speaking private firms were free to invest in the services they felt most profitable, though government increasingly placed public responsibilities such as common carrier obligations upon it. Further, a national network of canals catering to the transport needs of industry had been constructed and operated by private firms for almost a century beforehand. But these projects also had an element of legitimacy derived from state fiat - both canal and rail projects were enabled by acts of parliament, which gave promoters the powers to form companies and compulsorily purchase land (Harris, 2004).

Even the rail and canal transport forms had an earlier antecedent. 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 construction and 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. By the time of the 1888

Local Government Act and the reforms in local government that followed, there had already been at least 180 years of development of hybrid infrastructure forms, and this heritage of private investment had encouraged the growth of the London capital markets. To create a legitimate investible potential for the raising of capital local authorities needed to focus on the promise of economic returns rather than the enablement of utility or the redistribution of resources.

In addition to antecedence, there was also a subsequent policy tendency in British and, more broadly in English speaking countries to see utilities and transport provision in a business logic context rather than a redistributive frame. Mees (2010), writing from an Australian point of view, was sharply critical of this tendency as it has occurred particularly in Australia, New Zealand, the US and UK, and particularly since the vogue for 'neo-liberal' policies since the 1980s. While local authorities themselves became less capitalistic in the period after 1945, the expectation that transport should be profit making did not fully die away in the post-war period, a tendency perhaps best epitomised by the concern of successive governments between 1948 and 1994 that Britain's nationalised railways were not capable of turning a surplus (Gourvish, 1986; 2002). Successive attempts to both rationalise and modernise the system, which was never fully integrated into a broad policy towards public transport, failed to generate returns to the public purse, leading to the privatization of the 1990s. The bus de-regulations of the 1986, which almost totally removed national and local government control over the planning of bus services together with the eventual privatisation of municipal operators as well as the government owned National Bus Company suggest a similar tendency.

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.

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