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STATE PURCHASE OF RAILWAYS: A PRACTICABLE SCHEME.

By EMIL DAVIES.

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STATE PURCHASE OF RAILWAYS:

A PRACTICABLE SCHEME.

A COMBINATION of circumstances appears to point to the time having arrived when a commencement might be made with the nationalization of the British railways. The hand of every man—the traders, the public, the workers, and even the shareholders (as evidenced by the formation of the Railway Shareholders Association)—is against the management of the railway companies; and in order that the question may be transferred from the academic stage to the sphere of practical politics, it appears to be desirable that some workable scheme suited to present conditions should be formulated.

It cannot be too clearly understood that the nationalization of the British railways is not so much a technical as a financial question; no thinking person can seriously allege that State officials would not be able to work a railway system (can anyone assert that the London tramway service is worse now it is managed by the London County Council officials than it was under the régime of the companies?), and, for the matter of that, there is nothing (save common sense) to prevent the railways being run and managed in precisely the same manner as they are at present, i.e., without a single alteration in the personnel.

A Business Proposition.

Let us examine the question entirely from the business standpoint. When a proposition for the acquisition of an undertaking is placed before an expert financier, he asks himself the following questions:—

1. Is the concern a paying one?
2. Have the earnings and profits an upward tendency, or are they on the downgrade?
3. If the latter, can the management be improved?
4. Is the present a favorable time to buy?
5. Are the owners willing to sell?
6. How much do they want, and *how much less will they take?*
7. By what financial combination can the purchase money, and further working capital, if required, best be raised?

Let us answer these questions one by one.

Do the Railways Pay?

As a property, *Yes*. As an investment, so long as the present management continues, *No*.

The rate of interest earned on the total paid-up capital of the railways shows an almost uninterrupted fall; but this is due to the great increase in the capital requiring to be remunerated. Unfortunately for the stockholders, the mileage does not increase in proportion to the fresh capital raised, as is shown by the following figures:—

Year	Mileage open for traffic	Total paid-up capital and loans £	Average divid- end on total cap- ital and loans %	Capital and loans per mile £	Profit per mile £
1888	19,812	864,695,963	4.06	43,645	1,772
1898	21,659	1,134,468,462	3.64	52,379	1,860
1908	23,205	1,310,533,212	3.32	56,476	1,874

With the exception of the last two columns, the foregoing figures are taken from the Railway Returns for the year 1908, published by the Board of Trade (Cd. 4804; price 1s. 3d.). The capital and profit per mile are arrived at by dividing the total capital and net income by the mileage. It should be mentioned that the rate of interest on the capital appears lower each year than is the case if the amount of watered stock, i.e., nominal additions to capital in the shape of bonuses, etc., for which no money or the equivalent was received by the companies, is deducted. Allowing for this fictitious capital, which the Board of Trade puts at £196,000,000, the profit for 1908 would equal 3.9 per cent. on all the actual capital outlay.

Have the Earnings and Profits an Upward Tendency, or are they on the Downgrade?

A railway system which shows steadily increasing takings and growing profits per mile can hardly be regarded as a decaying industry. After all, the British railways have everything in their favor. We have in this country nearly the densest population in the world (in both senses of the word), still increasing at a rapid rate, a highly developed industry, and less competition from inland waterways than exists in any other manufacturing country.

The fact that the capital of the railway companies is increasing at a more rapid rate than the railway mileage does not detract from the value of the undertakings, although it may well seem extraordinary that the amount of capital per mile should be greater each year when one considers that we have no longer to face the awful abuses and frauds that were the concomitants of railway construction in the early days.

Can the Management be Improved?

Our imaginary financier, as he put the above question to himself, would probably smile. In the first place he would reflect that the 1,300 odd railway directors at present receiving an average salary—I should say, honorarium—of £500 per annum, plus free first-class travelling over the whole of the railways of the United Kingdom, are neither as cheap nor as profitable as most of the labor employed on railways, and it is even conceivable that he might consider the possibility of dispensing with their services altogether. The actual

running and management of the railways is already in the hands of the general managers and other officials, and it would not require a board of 1,300 gentlemen, at a cost of three-quarters of a million a year, to determine the policy of the railway system.

The mere perusal of the chairmen's speeches at the half-yearly meetings of shareholders would show what enormous economies could be effected by improved management.

On studying the balance sheets of the different railway companies our financial friend would rapidly come to the conclusion that the companies had been acting on the assumption that because they enjoyed a privileged position in the shape of a monopoly of the principal means of land transport, they were relieved of the necessity of following ordinary business methods. He would not be favorably impressed by the manifest insufficiency of the sums set aside for depreciation, and the fact that not one of the companies ever redeemed a farthing of the debenture debt would of itself suffice to show him how inefficient the management was in financial matters. An ordinary business concern either gradually extinguishes its debentures out of profits by a series of annual repayments, or, as in the case of the American railways, it makes its debentures repayable at a fixed date, say forty or fifty years after the money is raised. If, at the expiration of this term, it does not suit the company to pay off the debt, it issues a fresh loan, terminable at another fixed date, and is thus able to profit by any cheapening of money. The British railway companies would have saved millions from this source alone had they conducted their finance on ordinary business lines, instead of which they go on paying four per cent. and four and a half per cent. for money they could have raised at suitable times on much more favorable terms.

In the actual working of the railways it is quite obvious that considerable economies could be effected; while, in the lower grades, there are often too few workers (how otherwise account for the dangerously long hours worked by railway servants?), there are far too many high officials, this state of affairs having become quite a scandal on some of the companies' systems. Too many comfortable jobs are created for the relatives and protégés of directors, of high officials and large shareholders.

Is the Present a Favorable Time to Buy?

On the whole, *Yes*. Owing to a combination of circumstances the railways are to be obtained more cheaply than at any recent period of their history.

During the last ten years the Stock Exchange value of British railway stocks of the nominal amount of about £1,300,000,000 has fallen by nearly £350,000,000! This fact does not reflect much credit upon the management, and cannot be explained away by reference to local rates, "penal budgets," or free trade. In business circles it is not considered a good sign when the directors of a company plead political conditions as a reason for poor results; it is generally recognized as a token of ineptitude.

The intending purchaser, having satisfied himself that the concern is in itself good, rather likes to see a fall in market values, this being favorable to him ; but he asks himself, "Is the bottom near at hand, or is the fall going further?" as in the latter event he would be able to make better terms by waiting. There are people—and many Socialists among them—who are not in favor of purchasing the railways at anything like present market values, or on the terms of the 1844 Act, referred to later in this pamphlet.

These objectors state that the permanent way, the rolling stock and plant generally, are not worth nearly as much as the companies would receive. They say "Why should we pay for so much old iron, larger sums than would suffice to construct entirely new railways?" They point out, moreover, that we are probably on the eve of the substitution of electrical for steam motive power, so that we should buy much plant that we shall not require.

My reply is that with the example of the Metropolitan Water Board before us, it is better to buy now, even if we have to pay more than the property is really worth, than to wait a few years and be made to pay through the nose. The fresh capital which the companies still have to raise every time they make an improvement (although in other countries it is the usual practice to pay for "betterments" out of profits), is raised on more onerous terms than it would be by the State, so that every such increase in the value of the property carries with it a heavier burden for the State when it does purchase.

For the same reason it would be cheaper for the State to purchase the railways now and to electrify them, raising the necessary funds at three and a half per cent. or less, than for the companies to do this in their more expensive fashion and afterwards be bought out on that basis.

There is, further, the bare possibility that if one waits long enough an administrative genius might arise among the railway boards (accidents will happen even in the worst regulated concerns) who might really carry through such a scheme of unification and reforms that the railways would pay much better than they do at present, in which case the nation would ultimately have to give much more before it could acquire the railways. In view of the frantic efforts made, for example, by the South-Eastern Railway directors to prevent the appointment of a railway expert on their board, as urged by a singularly influential committee of shareholders, it does not seem likely that this will occur for some time to come ; but strange things happen sometimes, and one never knows !

Are the Owners Willing to Sell ?

A year or two ago I would unhesitatingly have answered this question in the negative. Now, however, I believe there are many stockholders who, frightened of labor troubles, which are not likely to diminish in intensity as time goes on, would be willing to exchange their railway securities for Government stock, even with a lower yield, provided they saw some little immediate advantage.

It is, of course, necessary to distinguish between the attitude of the stockholders and of their nominal servants, but actual masters, the directors. These, together with the principal officials of the railways, would at first naturally be against nationalization, because they would feel their acquiescence to be tantamount to an admission that *their* management was not good. On the other hand, they would be influenced by the increasing difficulty of raising fresh capital, a consideration by which the ordinary business man would be swayed to a very great extent. But then railway directors are not ordinary business men. I think, therefore, that railway directors as a body would at present be against State purchase; but they are gradually getting used to the idea, and have a vague notion that it may one of these days come about. The fact that the one acknowledged railway expert of ability in this country, under seventy, who happens to have a seat on a railway board of directors, Sir George Gibb, has expressed himself as on the whole favorably disposed towards nationalization, may have some influence.

As to the stockholders (it is characteristic of the existing state of affairs that I had almost found it unnecessary to refer to the actual *owners* of the railways) the majority would still probably be content to leave the matter in the hands of the gentlemen who have thus far made such a mess of matters; but there is an increasing body sensible of the fact that as things are, it will not be possible much longer to continue to pay even present dividends, and that when the inevitable débacle comes, they may fare much worse than by a sale to the State at the present juncture.

As this prophecy of a débacle may appear far-fetched to the ordinary reader, it may be well to draw attention to a little-known factor of considerable importance in connection with the railway position. The reason that the stocks of most of the railway companies stand at as high a price as they do (even after the great fall in values already referred to) is that many of them are in the category of trustee securities; that is to say, executors and others are allowed to invest trust money in them. This, by increasing the demand, gives an extrinsic value to these railway stocks, and causes them to be quoted at a higher price than the actual return on the capital would justify.

Now, under Section 1 of the Trustee Act, 1893, this distinction is conferred upon "debenture, rent charge, guaranteed or preference stocks of any railway in the United Kingdom, *if the dividend for the last ten years has been not less than three per cent. per annum on the ordinary stock.*"

One can see, therefore, how the directors will strain every nerve to keep dividends on the ordinary stocks above the minimum required by this Act, even if in other circumstances they would not consider it advisable to distribute so much of the profits in dividends.

Even the directors of British railway companies cannot, however, continue for a lengthy period to distribute more profits than have actually been earned; and as the increasing difficulty in raising fresh capital renders concealment of the true position more and more

difficult, the time is approaching when the stocks of some railway companies may lose their rank as trustee securities. When this happens, they will at once fall in price to a level corresponding to their intrinsic value; and when this once begins and the general public realizes the position, the débâcle will have begun.

Although this pamphlet is not a financial work, I have dealt with this subject at some length, because it is so little known that probably not one railway stockholder in a thousand is aware of it.

Until, however, this crisis does occur (and the general run of railway directors are not sufficiently perspicacious to realize its imminence), I do not anticipate that the railway boards would agree to nationalization.

It is true that according to Act of Parliament it is not necessary to obtain the acquiescence of the railway companies at all. Mr. Gladstone's Act of 1844, passed by a Conservative Government, gives the Government power to purchase the railways constructed after that date, at three months' notice, the purchase price being twenty-five times the average annual profits for the three years prior to the purchase; but, while in the ordinary way it would be presumptuous and insulting to assume that laws on the statute book could not at once be carried out if the country desired it, the presence in Parliament of some sixty railway directors does not encourage the belief that this Act could be put into force without considerable difficulty.

How it is proposed to overcome, or at least to deal with, this difficulty will be made clear farther on in this publication.

How much do the Owners want, and how much less will they take?

Strictly speaking, it is not a question of how much do the owners want, for, as already stated, an Act of Parliament passed in 1844 (7 and 8 Vict. c. 85) clearly defines the terms of purchase, viz., twenty-five years' profits, based on the average annual profits of the three years prior to purchase. It will be seen, therefore, that the apportionment of the purchase money between the different classes of debenture and stockholders is not a matter for the decision of the Government as purchasers, but for the companies themselves, which would have to determine, in the case of certain railways, what compensation they would give to the holders of those ordinary stocks which have never received, and are never likely to receive, a farthing dividend, and are really mere gambling counters.

Although some years' experience in high finance has shown me the justification of the second question in the sub-heading to this paragraph, I am afraid that the railway interest is so strong, both in and out of Parliament, that the question should rather be: "How much more will they succeed in wringing out of the nation?" And then one hears of the political corruption that might occur from nationalizing the railways and making a large body of voters State employés! But even the railway interest can hardly grumble if one

takes the market price of railway stocks as the basis of purchase, and this, it will be seen, is part of the following proposals.

The final question, viz.,

**By what Financial Combination can the Purchase Money
and further Working Capital, if required, best be
raised?**

will be fully dealt with in considering the definite scheme now to be formulated.

**A Comprehensive Scheme of Railway Nationalization
Impracticable.**

Having occupied a considerable amount of space in endeavoring to show how the nationalization of the whole of the British railways is a perfectly businesslike proposition, let me now state clearly, once and for all, that I do not for one moment think that any comprehensive scheme of railway nationalization is in the present state of affairs likely of accomplishment. I am, however, of opinion that it is possible to devise some scheme whereby the State might acquire by purchase *one* railway system, which scheme would raise the *minimum* amount of opposition, and might thus have a real chance of becoming law; and the operation by the State of one railway system could be regarded as a serious experiment, which, if successful, could form the nucleus of a larger national system. Ce n'est que le premier pas qui coûte.

To avoid strangulation at birth, such a scheme must not clash with the interests of the majority of railway companies. The trial State railway system must not compete with any one of the big railway companies; it must be homogeneous, serving the whole of a defined area. For obvious reasons, therefore, it would be futile to suggest the nationalization of, say, the London and North Western Railway, the Midland Railway, or the Great Western Railway. We do not want to commence by nationalizing the best managed railway companies. What we require is to find a company or companies having the monopoly of railway transit in a well-defined geographical area, which are notorious for the lack of facilities they offer as regards the transport of both goods and of passengers, which are handicapped by a lack of working capital and whose credit is so bad that they can only raise further capital on onerous terms.

Fortunately (or is it *unfortunately?*) one has not far to look to find railway companies answering these requirements in every respect. The foregoing description is probably true of quite a number of companies, but it fits a certain group of companies like a glove, and perspicacious readers will already have murmured to themselves "South Eastern and Chatham," while some of those thousands of people whose acquaintance with the London, Brighton and South Coast Railway extends over more than a Pullman car between London and the South Coast, will be inclined to urge the claims of that company to the distinction named.

The conditions of travel on the South Eastern and Chatham Railways are such that the very name has become a by-word. I would like to be able to say that there have been improvements, but frequent journeyings on this line between London and the Kentish coast resorts render this impossible. Most of the carriages are filthy, the condition of the stations is even worse than that of the rolling stock, and if one keeps the carriage window open, one gets covered with blacks and dust from the execrable small coal that appears to be the specialty of this line, which operates as a penalty on fresh air. As to goods traffic, the goods-yard equipment is hopelessly out of date, and the charges and general management are such that, where possible, producers and manufacturers along the route have combined to organize road motor services. If we travel along this line from London to the sea, we notice that the only places in which signs of industry or activity are apparent are such districts as Erith, Rochester and Sittingbourne, where there are facilities for water transit, and traders are to some extent independent of the railway.

It may be, and indeed has been, said that the results of the amalgamation of the South Eastern and the Chatham Railways have not been such as to encourage the idea of closer union between railway companies. This is, however, largely due to the fact that the two companies named are so weak financially. The spectacle of one company lending money it has not got, to another company in even worse plight, which hopes at some future date to borrow elsewhere the money wherewith to pay such a loan, would be humorous if the results were not so serious to the community. Anyone who would study the most scathing indictment that has probably been formulated against the management of a railway company should read the remarks of Mr. Drucker, Sir Robert Perks, Lord Weardale, and others, in the verbatim (not the official) report of the proceedings at the half-yearly meeting of the South Eastern Railway held on 29th January, 1909, issued by the shareholders' committee (hon. sec., J. C. J. Drucker, 24 Grosvenor Street, London, W.).

The London, Brighton and South Coast Railway is financially better circumstanced than its neighbors in adversity, but its management is atrocious. Its local services are nearly as bad as those of the South Eastern and Chatham lines, and under the present brilliant management the Company has been more successful in piling up its capital indebtedness than anything else, its mileage having increased during the last ten years by just thirteen and a half miles and its capital by £4,342,625!

What other Countries have done.

Let us glance at what other countries have done in the way of nationalizing their railways. Germany, which is so often held up to us as an example in matters of this sort, is not of much help to us, except on the general principle of State ownership, because that far-seeing statesman, Prince Bismarck, had the good sense to carry through a nationalization policy long ago on terms much less onerous than would have been the case had he left it as long as we have. It will

be better if we look at countries confronted with a task more similar to our own.

What France did in 1908.

France, for several years past, has had a State system of railways, some 1,855 miles in length. It was composed of a lot of bankrupt lines in the South, which none of the big companies wished to acquire, as it was obvious they would not pay for years; so the Government had to choose between leaving certain portions of the country unprovided with railway services, and itself working these isolated systems. Handicapped as it was by the impossibility of earning profits, the State administration did well. It was the first French railway system to heat the third class carriages (South Eastern, Chatham, and Brighton Railways please copy), to put third class carriages on express trains, and to introduce other improvements.

Now, the French railway system as a whole, is the best planned in the world. It was not based on the idiotic competition theory, but on a geographical system; and as the railways revert to the State when the concessions expire about the middle of the present century, France will come into an asset equal in value, it is claimed, to the whole of its national debt. It is noteworthy that with the examples of both systems before it, viz., railways operated by companies (some of which, as is well known, run the fastest services in the world) and systems operated by the State, that both the French people and the French Government should in 1908 have determined upon a great extension of the State operated system by the immediate purchase of the Western of France Railway without waiting for the expiry of its concession. Every means to prevent this State purchase was employed by the interests concerned. The papers teemed with examples showing how much the country and the public would lose thereby (on occasions such as this, that same touching solicitude for the interests of the public to which we are accustomed in this country when any particular interest is threatened, is displayed in France); but the French people and M. Clemenceau's Cabinet carried through the deal, and purchased for the State the enormous Western Railway system, some 3,730 miles in extent. It did more than this. The Orleans Railway system cut the State system in two. An exchange of lines was effected between the State and the Orleans Railway (*negotiations for which were opened by the railway company*) whereby the State in return for certain concessions made a net gain of 588 miles of railway, with the result that from January 1st, 1909, the French Government worked 6,173 miles of railway out of a total railway system of 29,298.

It should be noted that in the case of France there was already a small State system in operation, an organization in existence, to which could be attached fresh systems as acquired.

What Switzerland has done.

The case of Switzerland is probably more analogous to our own than that of any other country. In a mountainous country the cost

of construction was naturally high, and the railways were entirely in the hands of private companies. In 1891 the Swiss people, by a majority of over two to one, decided against nationalization. In 1898 another referendum was held, when the people, by a largely increased vote, declared by a majority of over two to one in favor of State ownership. As a result, the Swiss Government has taken over all the trunk lines, the last one, the St. Gothard, on April 1st, 1909. The Swiss Government had to buy out the railway companies in much the same way as we should have to buy out ours. The conditions attached to the concessions were that the State could buy out the companies at the expiration of thirty, forty-five, sixty, seventy-five, ninety, and ninety-nine years from their formation, giving five years notice, on the basis of twenty-five times the average annual profit for the last ten years, if purchased before the seventy-fifth year. If purchase occurred at the end of seventy-five years, the multiple was reduced to twenty-two and a half; and if at the end of the ninetieth year, to twenty. It was stipulated that the lines should be in a satisfactory condition. It will be seen, therefore, that the basis of twenty-five years capitalization of profits laid down in Mr. Gladstone's Act has been adopted elsewhere.

How Switzerland raised the Money.

Now Switzerland is not a rich country, and foreign capitalists held a portion of the railway stock, so that the Government had to face the contingency of having to pay cash for a considerable part of the purchase money, as it could not rely so much on stockholders accepting Swiss Government stock, yielding a lower rate of interest, as it might have done had all the capital been held at home. The Swiss Government accordingly issued loans, and offered them for subscription at home and in one or two foreign markets. The credit of the Swiss Government is good, but, despite all the talk of the low price of British Consols, it is not so good as that of the British Government; for at the end of 1909 the Swiss three and a half per cent. debt was quoted at ninety-seven and English two and a half per cent. Consols at eighty-three, which is equal to a quotation of one hundred and sixteen for three and a half per cent. Consols. Nevertheless, the Swiss Government raised millions of pounds in the shape of a State loan yielding three and a half per cent.; and as it placed the issue at only a pound or two below par, the cost to the Swiss Government for interest on its railway debt is only a shade above three and a half per cent.

I have before me the prospectus of the Swiss railway loan, and a glance at the salient points reveals the reasons for which capitalists were pleased to lend the Swiss Government millions at three and a half per cent. in order to purchase the railways.

The prospectus points out that according to the law in virtue of which the railways were acquired, the purchase or construction money was to be paid for by the issue of Government debt, *the whole of which has to be redeemed according to a fixed scheme within sixty years of issue.*

The railway budget is to be kept quite distinct from the ordinary budget of the country, so that the financial position of the railways can be seen at any time.

The profits of the railways are first to be utilized for the interest and gradual repayment of the debt ; and of any surplus profit one-fifth is to be set aside as a special reserve fund until it reaches the sum of £2,000,000 invested separately. The remaining four-fifths of the surplus is to be used to reduce passenger and goods rates, and for extensions.

If the profits should not suffice to cover the interest on the debt, the deficit is to be made good from the reserve fund, and should that become exhausted the State must find the balance.

Now, as we have seen, British railway companies are continually raising fresh capital, and when they issue debentures they have to offer them at a price at which they yield between four per cent. and four and a half per cent., according to the credit of the particular company. Furthermore, they offer them to existing stockholders at some points below the market price, the difference representing a bonus to the present stockholders, but a permanent addition to the load of debt with which the railways are burdened. And the financial mismanagement of the railway companies probably reaches its acme in the fact that all the debentures are irredeemable—years may pass, money may become cheaper, circumstances may change altogether, railway directors may even die, but the debenture debt of the British railway companies goes on for ever.

Picture the British public overcome by a sudden wave of common-sense, and, like the Germans, the Belgians, the Japanese, the French, the Austrians, the Hungarians, the Italians, the Australians, the New Zealanders and South Africans, resolving to own, and, by means of competent managers, run its own railways, without the intermediary of directors representing the interests of shareholders. Imagine the British Government sweeping away all the rent charge stocks, the guaranteed stocks, the arbitration preference stocks, the ordinary stocks, the deferred ordinary stocks (the Great Central Railway Company actually has some twenty classes of stock), paying off each according to the market value, or paying a lump sum to the companies, as provided by the 1844 Act, and issuing a plain three per cent. or three and a half per cent. Government loan.

With the difference between the rate of interest at which the Government could borrow the money and that which the companies have to pay, *the whole of the loan required to buy them out could be paid off within sixty years*, and the nation would have an asset worth double the existing national debt, without any debt against it ! It sounds as incredible as a building society advertisement, but with this difference, that it is true ! This is due to the fact so little known and understood by those unconnected with finance, that decimal sixty-one per cent. of an amount, set aside annually for sixty years at three per cent., will redeem the principal sum at the end of that period. In other words, 12s. 2d. set aside annually for sixty years will, by the operation of compound interest, at the rate of three per cent., pay off

£100 at the end of that period, and this can be done either by a sinking fund invested so as to produce three per cent., or by paying off each year 12s. 2d. of debt, plus the amount saved in interest on the reductions already effected by these annual payments.

Let it be understood, also, that this has nothing to do with the question of whether State management is better or worse than private management, for even if the State left the railways exactly in the same hands as at present, not changing the system in the least, not dismissing or replacing a single director or official, this enormous annual saving, sufficient to extinguish the entire railway capital (we call it *debt* when the State or municipality is the owner, *capital* when a company is the proprietor) in sixty years would remain. It is simply a matter of the nation being able to raise money on much lower terms than the best situated private company. If one wants an object lesson of this fact, it is only necessary to look at the Cunard Company. The Government lent it £2,600,000, in connection with the construction of the *Lusitania* and *Mauretania*, at "cost price," viz., two and three-quarters per cent., whereas when, a year or two later, the company raised further capital without Government security, it issued £800,000 of four and a half per cent. debentures at 97. The significance of this partnership between the Cunard Company and the British Government does not seem to have been generally recognized.

If after this exposition any reader doubts the ability or the credit of the British Government to raise the money with which to buy the railways—or some of them—let him reflect on the startling fact that so recently as 1907 the Swiss Government placed a three and a half per cent. railway loan *in London*, when British investors were pleased to pay £99 per £100 bond of the Swiss Government ; in other words, the British investing public was happy to lend the Swiss Government money at a shade over three and a half per cent. to buy out the railway companies, thus enabling the Swiss people to buy up their own lines out of the difference between the rate at which they can borrow money from *us* and the profits the railway companies used to get out of *them*, whilst we allow our own railway companies to go on raising capital on which they pay four to four and a half per cent., which means, of course, that the same mutton-headed public has to pay this larger sum in the shape of high passenger and goods rates. If the Swiss have a sense of humour they must enjoy the situation.

Strangely enough, there are still some people in this country who can only see in such a case that the national debt has been increased ; they cannot see that an equivalent amount of debt, i.e., companies' capital, is wiped out for each sum raised by the State, and that the position is exactly the same as that of a company increasing its capital for the acquisition of fresh assets. If one sees a company such as J. & P. Coats, Ltd., with capital and debentures exceeding £10,000,000, one does not deplore the condition of a concern owing its stock and shareholders such an enormous amount, but looks at the asset side of the balance sheet to see what property is represented

by this enormous sum; and if such a company were to increase its capital or indebtedness still further, one would only begin to criticize if it were seen that the assets acquired with the additional capital or debt were of less value than the sum of money thus raised. It is strange that this obvious fact is missed by so many people; and one hesitates as to whether it is more complimentary to doubt the powers of comprehension or the good faith of such objectors.

What the Purchase of the Proposed System would Cost.

The foregoing dissertation on sinking funds may appear to be somewhat of a digression, but full comprehension of this fact is vital to the consideration of this question, and is as applicable to the purchase of only a small railway system as to the acquisition of the whole railway network of the country.

The scheme here advocated, viz., the purchase by the British Government of the South Eastern and the London, Chatham and Dover and the London, Brighton and South Coast Railway systems is not a very ambitious one, these companies being small in everything except capital and indebtedness; but there are several reasons why it would seem desirable to make a commencement with them. Before stating these reasons we will, however, consider the finance of the matter in the light of the foregoing remarks.

Let us see what it would cost the nation to purchase these systems (a) on the basis of twenty-five years purchase of the working profit during the last three years working of the companies, or (b) by buying out the companies on the basis of the market price of their various stocks at a given date prior to the passing of the Act determining the purchase.

The following statement, compiled from the Board of Trade and the companies' own returns, shows that the average annual profit of the three companies during the years 1906-1908 was £3,106,999.

LONDON, BRIGHTON AND SOUTH COAST RAILWAY.

Miles	Year	Profit £	Average Profit £	Capital and Loans £
487	1906	1,449,906	1,405,127	28,337,193
	1907	1,371,076		
	1908	1,394,399		

SOUTH EASTERN AND CHATHAM RAILWAY.

629	1906	1,736,965	1,701,872	63,383,005
	1907	1,689,806		
	1908	1,678,846		

£3,106,999 £91,720,198

Capitalizing this average annual profit of £3,106,999 on the basis of twenty-five years purchase as laid down by the 1844 Act, we arrive at the sum of £77,674,975, which the nation would have to pay the companies for the acquisition of their properties.

Suppose, however, the 1844 Act were ignored and the Government were to buy out the companies, taking as the basis of purchase the middle Stock Exchange price at say December 31st, 1909. I have worked out the cost on this basis (after allowing for the dividends, which, according to the custom of the Stock Exchange, are included in the price), and find it to be about £80,000,000, not a very great difference from the amount that would be payable under the 1844 Act.

It will be seen, therefore, that for the round sum of £78,000,000 or £80,000,000, according to which basis of purchase is adopted, the nation could acquire 1,116 miles (about one twentieth of the railway mileage of the kingdom) of railway and all the assets pertaining thereto. This compares badly with the corresponding figures for Switzerland, which, leaving out of account the St. Gothard line, not settled for at the time of writing, has a railway debt of only £50,000,000 against 1,540 miles of railway. This higher capitalization of the British railways, as compared with some of the most difficult railways from a constructional point of view it is possible to imagine (it is hardly necessary to remind readers of this pamphlet that Switzerland is of a more hilly nature than even the Southern counties of England), is only another instance of the gross over-capitalization of our railways; but, seeing that we arrive at this high figure on the basis of twenty-five years purchase of the profits, ignoring altogether the capital or cost of construction, we find a compensating fact in the enormous profit per mile of the English lines as compared with foreign ones, the elasticity of our railway revenue having been extraordinary, as, indeed, it needed to be to keep anything like pace with the mismanagement of those controlling our railways.

It would not be sufficient merely to buy out the companies; their systems are already half starved on account of lack of working capital, because the directors, feeling that their first duty is towards their shareholders, pay out in the shape of dividends sums which should really be used for renewals and upkeep. It would be necessary, therefore, to raise a further amount for working capital and for improvements which, as will be shown, would soon result in greatly increased economies of working. Let us allow the liberal sum of £5,000,000 for additional capital. This would mean the raising by the State of £85,000,000.

How to Finance the Operation.

The obtaining of this sum by the British Government would be a matter of no great difficulty. Those people whose proud boast it is (or used to be until the exigencies of party politics rendered the decrying of home securities desirable) that British Consols were the premier security of the world, will have to admit that the new issue here proposed would be even a finer security; for like our two and a half per cents., it would be an obligation of the nation, and in addition, *it would have the special security of the revenue from the railway system purchased with the proceeds.*

During the worst period of depressed prices these last few years the two and a half per cent. Consols have not been lower than eighty and three quarters per cent., at which price they gave a return of 3·1 per cent. Let us be pessimistic and assume that for this new loan, better in security than the two and a half per cents., the Government could not get more than ninety-five per cent. for a three per cent. loan, at which it yields £3 3s. per cent., not counting the bonus of £5 per £100 on redemption, for, unlike Consols, this loan would be redeemable at par by annual drawings within a fixed period. This, it may be pointed out, would render the loan still more attractive to the investor.

To raise the sum of £85,000,000 on these terms it would be necessary to issue £89,473,684 of three per cent. stock, the annual interest on which would amount to £2,684,210. By a further annual payment of £545,789, commencing say five years after the loan was issued, the whole of the £89,473,684 would be paid off and extinguished in sixty years, by which time the railways would stand in the nation's books at nothing.

It might be asked whether so large an issue as this would be taken by the public, and if it would not depress the price of other securities. It must be borne in mind, however, that the creation of this new stock to the nominal value of nearly £90,000,000 would be utilized to wipe out existing railway stocks of a similar amount, many of the holders of which would, as a matter of fact, be pleased to exchange one for the other; and if deemed desirable, the Government could hold out some inducement to stockholders to do this by offering them the option of receiving payment in cash or in Government railway loan, whereby holders would not have to pay brokerage on their Government stock, and might even be given some further advantage in the shape of a little accrued interest. By granting a commission to banks, financial houses, solicitors and others who lodge railway stock for conversion into Government railway stock, the conversion of large quantities of the former would be secured; it must be recollected that large parcels of railway stocks which are trustee securities are held in trust by executors and others whose concern is safety rather than the rate of interest.

As a matter of plain business, the British Government would not have the slightest difficulty in placing £90,000,000 of railway three per cent. stock, without taking into account the various technical details referred to; and if home investors for the first time in history looked askance at a British Government issue, there are thousands of French and German capitalists who, being driven by the Socialistic schemes and the "vindictive" taxation of their Governments to find outlets for their capital abroad, would be delighted to place their money at ninety-five per cent. in the three per cent. Government loan of so conservative a country as the United Kingdom!

How it would work out Financially.

Now let us see how this scheme for the purchase of the South Eastern, Chatham and Brighton railways would work out financially.

The annual sum required for interest on a loan of £89,473,684 would be £2,684,210, and, commencing with the fifth year, the further sum of £545,789 per annum would be required for sixty years in order to pay off the whole loan during that period.

The average profits of the three companies during the years 1906-1908 were, as already shown, £3,107,000, or more than sufficient to cover the interest on the suggested loan, with an appreciable instalment of the sum that would be required for the redemption of the loan. And this, remember, *after having provided for interest on and redemption of £5,000,000 additional capital*, and not allowing for any additional revenue arising out of the expenditure of that large sum, nor for the saving of a single sovereign through the economies to be effected by centralized management. So great are the effects of the power of the State to raise money more cheaply than any private undertaking.

And this brings me to consideration of the main arguments in favor of the three companies named being the most suitable to form the

Nucleus of the British State Railway System.

The London, Brighton and South Coast and the South-Eastern and Chatham railway companies control a well-defined geographical area, and conflict with other systems at one or two points only, principal among which are Portsmouth, Reading and Guildford, the last two, however, not being on a direct main route. On this account, therefore, a proposal for State purchase would meet with the minimum opposition on the part of the railway interests generally—far different from what would be the case if it were proposed to nationalize one of the great trunk lines serving, say, Manchester or Liverpool.

The companies named are among the most unpopular in the country, and it is doubtful whether they have any friends in high places. The boards are singularly uninfluential. Partly as the result of their inferior financial power, the station accommodation and the services of these companies are so atrocious that even if it made every effort to worsen them, the State administration could hardly fail to improve matters. After all, it requires no particular ability to whitewash a waiting room ceiling once in twenty years, to clean the seats of a railway carriage once in ten, or to prop up the falling roof of a London terminus if you have the money with which to do it.

The scheme here put forward provides for fresh working capital of £5,000,000. Think what this would mean in the way of improvements and economies!

Some Obvious Economies.

Competition has already been eliminated to some extent from the working of two of the companies, but owing to the lack of funds probably not half the economies have been effected that are possible. For instance, at Catford there are two stations separated only a few yards one from the other, one belonging to the South Eastern system, the other to the Chatham system. The traffic in

each is not very extensive, but there are two separate station staffs, separate signal boxes, etc. The only excuse for the fact that the two stations have not been converted into a joint station is a difference in level, for the adjustment of which capital expenditure would, of course, be necessary. There is no doubt, however, that such capital expenditure would amply pay for itself, and this is only one of a number of similar instances which could be given. If to this were added the Brighton system, with which there is at many points real competition, we would arrive at a very large number of economies. Both at Victoria and London Bridge we have separate termini side by side without an expeditious means of intercommunication (such as the obvious expedient of taking a few bricks out of the dividing wall), and with the diabolical invention of transfer porters. It is unnecessary here to enter into all the arguments in favor of unity of management. It is sufficiently obvious that by doing away with the separate existence of small companies considerable economies could be effected in parcels and ticket offices and goods stations (often side by side again, as, for example, Bricklayers' Arms and Willow Walk in South London). An eminent railway manager has placed the economies likely to result from centralized working at twenty per cent. of the present expenditure.

Likelihood of Increased Traffic.

Another reason in favor of the scheme here submitted is that these railways cover a district eminently suitable for experiment. There are no great industries in the district, but its description "the garden of England," is sufficient to prove its fertility.

From the point of view of revenue, goods traffic is usually more important to the railways than the passenger traffic, the proportion over the whole of the railways of the kingdom being 49·12 to 43·09 per cent., the remaining 7·79 being made up by miscellaneous receipts. In the case of these Southern lines, however, the receipts from passenger traffic are nearly three times those produced by the carriage of goods, so that these are more passenger lines than the majority of the systems of the country. The possibilities of development, if only the necessary money is spent on improvements and a more enlightened management is introduced, are enormous. It must be remembered that these railways have the monopoly of the service between London and a whole line of popular seaside resorts. When one bears in mind that the population of Greater London is larger than that of Holland or Belgium, and twice that of Switzerland, and that, with the exception of Southend, the resorts served by these companies are the nearest seaside towns to London, one may get an idea of the potential traffic from a really good and fast service at reasonable rates. Already, obeying the tendency of the time, which is to live as far as possible from town, a large number of people reside at some of these seaside towns and come up to London daily. This, however, holds good only of a few specially favored places, and the number of season-ticket holders would be multiplied many times if more facilities were given everywhere.

The Main Route to the Continent.

It should also be noticed that, with the comparatively insignificant exception of the South Western route via Southampton and Havre, the proposed State system would control the whole of the traffic between London and Paris. The number of passengers between these two capitals, the two most important cities of the old world, with a combined population of about 10,000,000, is insignificant compared with what it would be if proper facilities were forthcoming. It should be almost as easy and as cheap to go from one to the other as from, say, London to Manchester. Why, in the name of common sense, the three companies concerned have not issued cheap week end tickets from London to Paris and back passes all comprehension. Up to the year 1909 these facilities have been limited to Sunday in Paris for twenty shillings third class, involving the loss of two nights sleep, and fares that are much too high. Another point: is it to be supposed that if these railways had been under State management we should have had to wait all these years pending the construction of the Channel Tunnel, for the introduction of train ferries similar to those which have been in use for years between Germany and Denmark, Sweden, etc., and have answered so well for much longer passages than the short one across the Channel? Those who claim that State management is conservative and hinders reforms might consider this example—only one out of many given in the writer's "Nationalization of Railways."*

Military Advantages.

From the patriotic point of view it would seem desirable that the British Government should control the principal routes to the Continent. It may be pointed out that now that the French Government operates the Western of France system, British Government systems would link up with the State owned railways of Belgium and France. There is a further argument from the patriotic point of view, viz., that our most important military and naval depôts, such as Woolwich, Portsmouth, Dover, and Sheerness, all lie upon this system.

Displaced Labor.

From another point of view, it is desirable that in trying State ownership and working of the railways in this country, a beginning should be made with a comparatively small system only; this is on account of the possibility of a certain amount of labor being displaced by the more economical working that would result from the elimination of unnecessary competition and from the centralization of management. A large number of the men thus displaced could be utilized for other work on the railways, by reducing the hours of labor and doing away as far as possible with overtime, and it is quite possible that, as has been the experience of other countries, with improved management and cheaper services the growth of traffic would be so great from the very beginning as to require more instead of fewer

* A. and C. Black, London; 1s. net.

workers; but it would be better to put this to the test on a small scale, as here suggested, than to start off with a more ambitious scheme.

An Experimental System for Reforms.

On a small homogeneous State system having a real monopoly over a well-defined geographical area, it would be a much simpler matter to make experiments and to introduce innovations, copying the best from foreign railway administrations, while retaining the good points of our own, than on the complex systems of the large companies, the general managements of which dare not introduce anything that does not show an immediate prospect of increasing the profits or capturing the traffic of an opposition company. One can easily see how a small State-owned system, enjoying the great advantage of being able to raise working capital one per cent. to one and a half per cent. more cheaply than the railway companies, could be looked upon as an experimental system on which many new ideas in management, fares and goods rates, handling of traffic, etc., could be carried out. If successful and *remunerative*, they could be copied at a safe distance by the private railway administrations; if unsuccessful, the railway interests could point out that State management of the railways in this country was a failure, so that they would get some satisfaction out of it either way.

It is only fair that the State system should be subjected to precisely the same legislative control as the railway companies, but within these limits the administration should be autonomous and have a free hand.

Some Suggested Reforms.

Weekly, fortnightly, monthly and annual tickets available over the entire system might be issued at reasonable rates, as in Belgium and Switzerland.* Not only would this result in a large revenue, but in so far as it would stimulate trade throughout the whole area covered by the system it would bring about a vastly increased bulk of goods traffic. To take one example only, the number of business men who would keep their families at the seaside throughout the whole summer if only a cheap and ready means of transit between London and the coast were provided, is enormous, and this alone would occasion large increases in both the passenger and goods traffic.

An improved time table, based on a geographical system like the new time table of the Belgian State railways, could be introduced, and could be on sale at all the post offices throughout the district. A little monotony in the shape of a fixed regular position for time tables in every railway station on the system, as on the German railways, which paste them on reading desks, would be pleasant.

* As soon as the Swiss railways were taken over by the State a fifteen-day ticket available over all the State lines, and some of the private ones too, in the whole country, was introduced, the cost of which is £1 16s. third, £2 12s. second, and £3 12s. first-class. In Belgium, a third-class season ticket available for five days over the whole of the railway system (2,900 miles) costs 9s. 5d.—less than the third-class return fare from London to Dover (157 miles the double journey) which costs 12s. 11d.

Fancy having to make such a suggestion seriously! But it is a fact that in scores of stations on the systems named one has to embark on a voyage of exploration to find the time tables. Sometimes they are on the platform walls, sometimes pasted on the outside walls of the station, and only occasionally on the walls of the booking offices and waiting rooms.

The German system of accepting goods, collecting payment on delivery, and remitting the amount to the consignor might be adopted. The German railways go even farther than this (these are matters one does not find in books attempting to disparage the working of foreign State owned railways) and, on consignments forwarded in this manner, will advance the consignor a certain proportion of the invoice value if it is seen that the goods are fully worth the sum.

Bicycles might be carried free.

Some new process of calculating goods rates would probably have to be adopted. Our present system, whereby each company positively has millions of different rates, and no man can tell beforehand what it will cost to send a consignment a distance of so many miles, will have to go; and a homogeneous State system is the ideal ground on which to make a commencement in the way of simplification. The German system of charging entirely according to distance, while comparatively simple and vastly superior to our own (which is indescribably chaotic), is not sufficiently elastic; and in view of the fact that the heavy terminal costs of working (putting on rail, unloading, etc.) are no more over a long than over a short haul, there is a good deal to be said for the adoption of one rate per ton for any distance, on the analogy of our postal charges, with perhaps one lower rate for short distances. The State system here suggested, covering the South Eastern corner of England, would lend itself admirably to experiments of this sort. Probably what is here outlined is too drastic a reform to be brought in at once; but the zone system of charges, so successful in Austria-Hungary, might, at least, be tried.

It is not suggested that all or any of these reforms would be carried out at once. Many of them, it should be pointed out, such as the free carriage of bicycles, involve practically no expense or loss of revenue—in fact, in all probability, will result in an immediate increase. Other reforms will be adopted gradually, as circumstances permit. An immediate reduction of goods rates and passenger fares there must be at once, and the wages of many of the grades of workers must be improved, but the savings in unity of management will be so considerable as to compensate fully for this. Further reductions in goods and passenger rates will depend upon the increase in the traffics that will inevitably result.

Management.

The question will arise, can the man or men be found with sufficient practical experience, combined with sufficient independence of thought, successfully to direct such a State system? The reply is

decidedly in the affirmative. An ambitious man would see his chance and would jump at the opportunity of being the head of a State system likely to extend. I imagine there would be considerable competition for the post.

The following is a suggested scheme of management, framed largely on the Swiss system, the idea being to create as autonomous an administration as possible, which shall be representative of all interests, and shall yet be provided with the democratic safeguards that modern ideas require.

There should be a Minister of Railways, a member of the Government, responsible in the House of Commons to the elected representatives of the people. Or the duties may be included in the portfolio of the President of the Board of Trade, or in that of the Postmaster-General, as in France.

The actual management of a railway system should be in the hands of a board of five experts, composed of the best railway man obtainable (a Sir George Gibb, if possible), a trained business organizer, a lawyer, a man versed in finance, and another individual designed specially to be the connecting link between the railway administration and the Minister of Railways. These five experts should be appointed for a term of years, and should retire in rotation. Three of them should be selected by the Railway Council (referred to in the following paragraphs) and two should be nominated by the Minister of Railways.

The composition of this Railway Council should be as follows:—the County Councils of London, Surrey, Kent, and Sussex should each nominate two of their number as councillors; each county borough within the area served by the railways should nominate one councillor; every chamber of commerce and chamber of agriculture within the same area, having a membership of at least one hundred, should have the right to nominate one member; and the local branches of the Amalgamated Society of Railway Servants should have the power to nominate a certain number of representatives pro rata to the number of employes. The term of office should be three years; the members should be unpaid, but should travel free over the whole of the system during their term of office. Any railway servant serving on the council as representative of his union would be allowed time off for the purpose of attending the council and be paid for such period.

The railway budget must be kept separate from the ordinary budget of the country, and be presented once yearly to Parliament.

The actual management would be in the hands of the board of experts, who would be answerable to the Railway Council, which would exercise general control, and to which would have to be submitted all contracts, orders, and payments exceeding a certain amount. This council, which would really be a Railway Parliament, would also deal with complaints and suggestions from different sections of the community, for which, by virtue of its composition, it would be particularly suitable. In fact, except that the annual budget would have to be passed by Parliament, and that any alteration in

the conditions, wages, or terms of employment of the workers would also have to be voted by Parliament, the Railway Council would exercise the same general control over the State railway system as the Metropolitan Asylums Board, the Metropolitan Water Board, the Port of London Trust exercise over their respective undertakings.

Extensions of the State System.

Whether extensions of the State system of railways will be desirable or not will depend to a large extent upon the success or lack of success attending the operations of this first State system. If, contrary to the anticipations of the writer and other advocates of State purchase, the working of railways by the State in this country proves to be an abject failure, it will not be difficult to persuade Parliament to lease the system to a company specially formed for the purpose, which company will have the great advantage of a homogeneous system. If, as the writer thinks more probable, State management of the railway system proves to be satisfactory, and the means of bringing about on the State system cheaper fares, cheaper goods rates, and increased facilities generally, without throwing any financial burden upon the community, it could be left safely to the future for this principle to be extended. In Austria and Hungary the State operates many miles of privately owned railway, giving the companies a fixed percentage—usually about fifty per cent.—of the gross takings. This is found satisfactory to both parties, as the State on account of its centralized management is able to work the system more economically than the railway company itself, and the latter escapes all dangers of trouble with the employés. Some arrangement might be made whereby any railway company could, upon giving, say one year's notice, call upon the State to operate its system at some fixed proportion of the gross receipts; and it is quite conceivable that between increasing difficulties with the workers, the clamor on the part of the traders and public for cheaper rates, and the increasing difficulty of raising further working capital on easy terms, some of the railway boards would be pleased to get the Government to relieve them of their burden in this manner. Complete nationalization in the shape of purchase would probably follow in due course, and there is no reason why the conditions should not be amicably arranged. If profits of the State system allow, it might be permissible for the State system to invest each year a certain proportion of the reserve fund in buying up the stocks of other companies in the open market, thus acquiring some proprietary rights in these companies in a manner to which objection can be taken by none. It was by purchases of railway stocks that Mexico quite recently acquired its State system.

Conclusion.

It is impossible in a pamphlet of this length to give more than a mere outline of a scheme for the acquisition and management by the State of a railway system. There are many important omissions, but, as it stands, it represents a serious attempt to put forward a

workable scheme both from the financial and the administrative point of view for the establishment and control in this country of the State ownership and management of railways, a principle now so general throughout the world that it is time its application to this country was seriously considered.

There is in existence a Railway Nationalization Society, and readers interested in its aim should send their names and addresses to Mr. F. W. Galton, Trafalgar Buildings, Charing Cross, London, S.W.

LIST OF BOOKS, Etc., RELATING TO RAILWAY NATIONALIZATION.

- The Nationalization of Railways, by Emil Davies. 1908. A. & C. Black. 1s. net.
 A Paper read to the Royal Economic Society on Railway Nationalization, by Sir George S. Gibb, in November 1908. Published by the Society. 6d.
 Railway Nationalization, by W. Cunningham. 1906. Sold by the Fabian Society. 2s. 6d.
 Railway Nationalization, by Clement Edwards. 1906. Methuen. 2s. 6d.
 The Railways and the Nation, by W. Bolland. 1909. Fisher Unwin. 1s. net.
 *German v. British Railways, by Edwin A. Pratt. 1907. P. S. King & Son. 1s.
 *State Railways, by Edwin A. Pratt. 1907. P. S. King & Son. 1s.
 Board of Trade Return giving Particulars of Working of State Railways in the Colonies and Foreign Countries. No. 331. 1907. 7d.
 Railway Conference. Report of Board of Trade, including Report on Railways in Germany. Cd. 4677. 1908. 1s. 5d.
 Report of Board of Trade on Railways in Austria and Hungary. Cd. 4878. 1909. 10½d.
 Reports of Board of Trade on Railways in Belgium, France and Italy. Cd. 5106. 1910. 2s. 4d.
 The Railways of Europe. A series of articles in *Moody's Magazine*, April 1909—April 1910. *Moody's Magazine*, 35 Nassau Street, New York. 1s. per issue.

* These works present the case against Railway Nationalization.

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