THE FINANCE

OF

RAILWAY NATIONALISATION

1945

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BY

HAROLD WILSON

March, 1945.

THE FINANCE OF RAILWAY NATIONALISATION

a Report to the Executive of the RAILWAY CLERKS' ASSOCIATION

by

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SALIENT POINTS

from a Memorandum on

THE FINANCE OF RAILWAY NATIONALISATION:

a Report to the Executive of the RAILWAY CLERKS' ASSOCIATION

ASSUMPTIONS, AND METHODS OF ACQUISITION

1. It is assumed
   (a) that the Railways, either together with, or ahead of, the other sectors of the transport system of the country, are to be taken over by a Railway Board or National Transport Authority, being a specially created Public Corporation established for the purpose of taking over and operating the system in the public interest and irrespective of present ownership and control;
   and (b) that compensation will be paid to existing holders of Railway stock and shares, but that this compensation should be limited to the minimum compatible with fairness and political practicability in order to avoid placing an excessive debt and interest-burden on the new Authority or Board; (paras. 1-3)

2. There are four main methods of acquisition: -
   (i) payment to dispossessed shareholders in cash;
   (ii) payment to them in special stock, created by the Authority or Board;
   (iii) payment to them in special stock, created by the Government, but used for a number of nationalised industries;
   (iv) a combination of (i) and (ii), or (i) and (iii); (paras. 4-6)

3. In any event special State or Authority borrowing will be necessary, for a loan would be required to raise the cash used in the first method. (para. 4)

4. There is little to choose, on economic grounds, between the methods listed. There are, however, strong political and psychological arguments against perpetuating a class of persons who could be regarded as railway shareholders, no matter how impotent they would be in the matter of control; (para. 7)

5. Under no circumstances should the Authority's stock, if such be created, contain any "equity" element (similar to the London Transport "C" Stock and varying with the "profitability of the industry"); all interest payments should be fixed and, (subject to ultimate redemption or conversion), invariable;
(para. 7 and Appendix II)

ALTERNATIVE METHODS OF ASSESSING COMPENSATION

6. Compensation could be paid either by creating a special "right-to-income" and paying that in perpetuity, without making any capital valuation, or by a capital valuation. For the latter there are four main bases:-

(i) total nominal capital,
(ii) valuation of physical assets taken over,
(iii) current (or recent) Stock Exchange valuation of railway stock and shares,
(iv) valuation in terms of a number of years' purchase of current net revenue, or preferably, "reasonable net maintainable revenue". (para. 9)

7. If the "right-to-income" method were adopted this would find its own market value. The need for assessing capital value in this case would disappear, but the need to settle on a fair yearly income would remain. The factors to be taken into account in making such a settlement are discussed together with method (iv) (years' purchase); (para. 9)

Nominal Capital

8. The present nominal capital of over £1,100 millions cannot be contemplated as a basis for compensation. Quite apart from the question whether it still contains watered capital, which is discussed, it certainly contains capital representing inflated land and Parliamentary costs, useless, uneconomic, or wastefully competitive and duplicatory lines, as well as investments which, even if justified when undertaken, cannot yield an adequate return in days of road competition. Present nominal capital represents the 1921 conception of the capitalised value of the annual income expected at that time, when, clearly, monopoly conditions were expected to continue. Past capital expenditure is irrelevant to current value: the Socialist Government, like the capitalist Stock Market, must define a fair price in terms of the capitalised value of current and prospective earning-power; (paras. 10-15)

Value of Physical Capital Assets

9. Similar objections apply to the valuation of physical assets taken over. Many have little or no earning-power under modern conditions, whatever their original cost or replacement

value might be. Moreover, the cost and difficulty of valuation and, possibly, arbitration for each of the thousands of assets taken over, would be prodigious; (paras.16-19)

10. Powers should be reserved, however, to take over certain assets (e.g. road undertakings, light railways, or properties leased by, but not belonging to, the Companies, of which it might be desirable to acquire the freehold). (para.18)

Stock Exchange Valuation

11. This represents the value which capitalism places on the Railway system. It is closely related to the "years' purchase" method, being in fact the market's evaluation of future prospects of maintaining a given revenue; the only difference lies in the fact that in the one case the market makes the evaluation, in the other it is done by negotiation between the Companies and the State or by arbitration by a special Tribunal; (paras.20-21)

12. Room for controversy (perhaps requiring reference to a Tribunal) is created by the necessity of an arbitrary choice of dates or periods for which the Stock Exchange valuation is to apply. Variations in recent periods show considerable fluctuations round the general figure of £750,000,000; (paras.20-21)

Capitalisation of Net Maintainable Revenue

13. This method, first proposed in Gladstone's Option-to-Nationalise Bill of 1844, - as well as the right-to-income method, which is considered with it - raises the question of settling what the net maintainable revenue is likely to be. Standard Revenue as laid down in the 1921 Act is totally inadmissible. Arguments can be advanced for various bases, e.g. the average of the last ten peace-time years, 1935-7, 1936-8, 1937, 1938, etc. Wartime rental is also possible though this is above market expectations of post-war income, as shown by discount of present prices and high consequent yields; (paras.22-23)

14. The basis chosen should be the net revenue which would be maintainable under private ownership; after allowing for changes in economic activity, the proportion of total traffic likely to be carried by rail, the level of charges and competitive power as determined by State policy, and the level of costs following the war. In fact, most of these being political decisions, the question is insoluble. Net maintainable revenue will be what the State allows the Railways to earn. But no prospective gains or savings arising from nationalisation, and other improvements incidental to nationalisation (unification), co-ordination with other forms of transport etc. should be taken into account as prospective revenue; (paras.24-27,29-30)

15. Whether an income-right is to be the basis, or a capital-value is to be attempted, the net maintainable revenue should be discounted to take account of the greater security of an income deriving from State sources; (para. 28)

16. This discount should apply to each class of capital in accordance with the risk-element in each. The allocation of income or capital rights between classes of capital should preferably be done by the Companies or representatives of the stockholders, subject to approval by the Tribunal or State; (paras. 31-34)

A POSSIBLE PROCEDURE

17. Supporting the right-to-income method if practicable, but in any case recognising that reference to a Tribunal will almost certainly be necessary, the writer suggests that consideration be given to the establishment by a Socialist Government of a "Compensation Claims Tribunal" to deal with all the industries passing into public ownership. Delays in settling the basis of compensation resulting from pressure on the Tribunal in a period when a number of industries were being socialised could be met by payments on account; (paras. 35-37)

18. It is further suggested that consideration be given to the creation of a new State loan - "National Industrial" or "National Development" Stock - to provide capital for all nationalisation schemes. This would probably cheapen terms of borrowing, would allow raising of capital to be timed at the most opportune moment from the financial point of view (as well as facilitating "tap" issue), and would avoid the psychological disadvantages of perpetrating a race of railway, coal etc. stockholders; (para. 38)

19. The funds thus raised could be administered by National Debt Commissioners or other statutory bodies, and advanced to socialised industries both for financing nationalisation and for further capital development (on analogy of Local Loans scheme). The question whether, and on what terms, money could be provided for "controlled" (privately owned) industries, and, also, relation of this body to proposed National Investment Board are outside scope of this Memorandum, but require careful consideration; (para. 39)

20. Redemption of Transport Stock could be provided for by sinking funds, or by national "profit-sharing" ("ascertainment") scheme laying down proportions of increased revenue to go to debt-redemption, railway servants and public - by

improved service and reduced rates and fares - respectively. General redemption by taxation policy would apply to the whole deadweight national debt, and be determined as national policy, outside the scope of this Memorandum. (para. 40)

THE APPENDICES

21. Four appendices are added giving brief analyses of the Railways' financial position, pre-war, wartime and post-war; of the financial provisions of other nationalisation schemes; and of the considerations affecting ancillary undertakings. A digest of the principal relevant statistics is also appended.

(paras. 41-68)
(Tables XV-XXIII)

Oxford, March 1945 H.W.

THE FINANCE OF RAILWAY NATIONALISATION

A Report to the Executive of the Railway Clerks' Association

by

Harold Wilson O.B.E., M.A.

I

INTRODUCTION: SCOPE AND ASSUMPTIONS OF ENQUIRY

1. In December last I was invited by your Secretary, on behalf of the Executive Committee, to prepare a Memorandum on the economic aspects of the acquisition of the main-line railway companies by a public Board or Transport Authority, as proposed in the Labour Party's policy for Transport. I was to outline the principal methods of acquisition and the implications, financial and economic, of each; I was further left free to commend any one method, or combination of methods, to the favourable consideration of the Executive. In preparing this Report I have had full access to papers and documents in the library of the Association, including the evidence of Mr. A.G. Walkden M.P., former Secretary of the Association, before the Royal Commission on Transport, 1928-29, which is a natural and most helpful starting-point for any such enquiry. At the same time I have not discussed the subject of the enquiry with any present or former officers of the Association, or of other sections of the Labour movement, as it was considered desirable that this present Report should be an entirely independent approach. Thus, although it will contain much which those with greater industrial and political experience of the subject will consider elementary, misguided or even wrong, it is aimed at presenting a free and independent review, committing no-one, whether in an official or private capacity, except its author, and it is hoped that the faults and errors due to inexperience of the subject can be corrected when it is considered by those whose life and work have been devoted to the problem.

2. It is assumed, in accordance with the decision of the Labour Party Conference, that the railways, together with all other transport undertakings (with the exception of "C" licensed goods transport), will be acquired by the proposed National Transport Authority; "the existing owners to be compensated on a fair and reasonable basis". *) At the same time, if for political reasons it is possible in the first instance to nationalise only the railways, without the rest of transport (because "in the matter of priorities the public ownership of the coal-mines and the railways is a matter of immediate urgency,

*) Labour Party "<u>Post-War Organisation of British Transport</u>", 1944, p.23.

which should on no account be delayed" *), the methods of financing such nationalisation, considered in the Report, should be appropriate to such a scheme also. Whatever the extent of the scope of nationalisation, however, it is assumed that, so far as railways are concerned, it is complete, and that the railway system will be in the hands of an authority who, to quote the Labour Party document, "would be responsible to the representatives of the people and not to private shareholders", and whose "primary consideration would be the provision of a service to meet public needs and not the return to the shareholders".‡)

3. It is further assumed, in accordance with the Labour Party scheme, the T.U.C. Report and the R.C.A. Report on "Socialisation of Transport"☆) (1935), that compensation to displaced shareholders and not outright confiscation will be the policy of the Government responsible for the acquisition of the transport system. Though a diminution to the point of extinction of unearned rentier incomes may be the ultimate aim in a Socialist system, that aim should be achieved by a general policy, and not introduced at the point of nationalisation of a single industry. As Herbert Morrison said, †)"... Apart from the fact that public opinion, including working-class opinion, so far favours compensation, it is unjust that one body of capitalists should have their property confiscated because they happen to come first in the process of socialisation, while other bodies of capitalists should be left in possession of their property because their turn has not yet arrived." "...rent, interest and profit for private advantage will have to go in a fully socialised community...But if a Socialist Government of the future wishes to deal with the problem, as I am sure it will, it must deal with it by means of death duties (which strictly should be used for capital rather than revenue purposes), or inheritance tax, or by a comprehensive adjustment of accounts in a substantially socialised society. It cannot expect to solve the general problem of rent, interest and profit at the point of the socialisation of individual industries, and it would not be fair for it to make the attempt." The methods of reducing the debt burden, whether generally by a system of capital taxation, or in the case of particular stockholders by conversion to stock bearing a lower rate of interest, or by redemption and the operation of a sinking fund, are touched on below in paragraph 40: nevertheless it must be regarded as an essential to keep the amount of compensation as low as is compatible with fairness and with practical politics, for although socialisation of transport will yield great economies and

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*) T.U.C. "Interim Report on Post-War Reconstruction", 1944, p.9, para. 33.

‡) Labour Party document, p.9.

☆) Considered at the Folkestone Conference in that year.

†) Socialisation and Transport (1933) pp.245-7. Compare also Mr. Attlee, addressing the British Railway Stockholders' Union, January 1937. - "...I believe you here are among the first whose property should be taken over by the State; but I would not penalise you because of your priority. There are people who think you can do the double process - take over the railways and 'sock' the shareholders good and hard at the same time. However much I may wish to 'sock' him, I think it is better done by a separate process, in which I should have regard, not to the fact that he was a railway stockholder, but to the amount, rather than the character, of his holding." (Quoted in Railways, Roads and the Public by Sir Charles Stuart-Williams and Ernest Short, 1938, p.136).

"dividends" in terms of more efficient organisation and working, it would be dangerous to saddle it with a penny too much debt charge to hamper its working. *)

II

METHOD OF ACQUISITION

4. It is assumed that the socialising Government will have a free hand to decide on the method of acquisition, and to prescribe such method as it considers appropriate in the legislation taking the railways over. It is impossible to lay down in advance what will be dictated by financial circumstances. In theory, three methods are open to it:-

(a) Purchase of stock or shares for cash, at such value as is determined for them (see below, paras. 9 to 37);

(b) Exchange of Government stock for railway stock or shares at some prescribed rate of exchange, stock for stock;

(c) Creation of a new class of Transport Authority (or Railway Board) Stock, and the exchange of this, at prescribed rates for individual classes of private railway stock and shares.

Method (a), purchase for cash, was used in the nationalisation of coal royalties 1942-45, under the Coal Act of 1938. The total value of the royalties having been determined (see below, para. 28 and Appendix II, paras. 63-64), owners were bought out by the Coal Commission in cash, the money being raised by the creation of special Coal Commission Stock which was taken up by the National Debt Commissioners. That is, the Coal Commission, the statutory body charged by the State with the ownership of all coal royalty rights, paid the dispossessed owners in cash, and raised the money by borrowing it from the National Debt Commissioners, who, in turn, raised it in the ordinary way, by Government borrowing from the banks or on the money market. In so far as the dispossessed owners chose to invest their newly-received cash in Government loans (or lent it to the banks, who in turn lent to the Government, either by buying Government long-term securities, or short-term Treasury bills, or lent to the Treasury by Treasury Deposit Receipts etc.), this method would have the same effect as if method (b), the direct exchange of

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*) Compare Herbert Morrison, Socialization and Transport, p.261:- "Parliament determines the amount of compensation to be paid to wage-earners for loss of wages during periods of unemployment in the form of unemployment benefit, or in the case of the Poor Law, the Public Assistance authorities in the form of scales of relief. The railway companies strongly objected to the principle of compensation at all in the case of workers displaced under the pooling schemes between the railway companies. The capitalist mind has had fairly strict standards in the matter of compensation for the working classes, even in the case of compensation for industrial accidents under the Workmen's Compensation Acts (long resisted by employers!). Conservative-minded capitalists can hardly, therefore, object if I, who am not an unkindly person, desire to enforce reasonably strict safeguards for the public interest when we are compensating private undertakings about to be socialized."

Government stock, had been used. The only difference is that the new cash receivers might not wish to invest in Government securities, and method (a) thus gives them more freedom of choice. An alternative method would be to give the choice between cash and Government bonds, though this in fact would always exist, as the cash-receivers are in any case free to buy Government bonds. Method (b), the exchange of general Government stock, has not been used in any of the few cases of nationalisation so far effected. In practically every case, some variant of method (c), the creation of a special stock, has been applied. It is a rare thing for the State to have any spare quantities of its existing loans (consols etc.) available for such purpose, and it would be likely to wish to create, or to authorise the Transport Authority to create, a special new stock. The main question is whether it would be a special Government loan, or a stock issue by the new Corporation. Thus in the case of the Metropolitan Water Act of 1902, holders of both fixed interest stock and equity shares in the water companies taken over in the Act, received specially created Metropolitan Water Board Stock, on extremely generous rates, as is pointed out below (Appendix II, para. 56). The Port of London Authority, established under the Port of London Act in 1908, similarly created new stock of a total nominal value of £22.194,733, and this was exchanged, roughly £ for £, for the loan and share capital of the dock companies taken over. The classic case, of course, was the London Passenger Transport Board (see below, Appendix III, paras. 58-61), which created three main classes (and certain subsidiary groups), the 'A', 'B', and 'C' stock, to replace the debenture, preference and ordinary capital respectively. In the Nationalisation of Mines and Minerals Bill, tabled in the House of Commons in November 1936, by nine Labour M.P.s, it was proposed that compensation should be paid in Guaranteed State Mines Stock, a special new stock created by the Treasury for the Coal Corporation. In this case the stock was "Guaranteed", though the Bill did not lay down any provisions whereby the guarantee was to operate.

While method (c) is the one most commonly advocated, there are certain psychological disadvantages in creating special Railway or Transport stock, and hence Railway Stockholders, however powerless these might be in the matter of controlling the system. In the case of the coal mines, the present writer, in a book shortly to be published, has rejected the idea of special coal stock, simply to avoid the psychological reaction on the miners of retaining any form of "coal-owner" or coal stockholder. Similar considerations may apply in the case of the railways. *)

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*) Compare the T.U.C. Interim Report on Post-War Reconstruction, p.12, para.44, saying. "the actual payment of the compensation could be made in several ways. In general the scale of the transaction would be too great for cash payment, and the former owners would be recompensed with stock carrying no powers of control. This might be stock issued by the new Board itself, entitling the owners to receive interest at fixed or variable rates out of the proceeds of the industry, with or without a State guarantee. We are of the opinion that bonds issued as compensation should be divorced entirely from the industry and that normal Government stock shall be issued, carrying a fixed rate of interest.

5. A possible compromise between method (b) and (c) might be undertaken by a Labour Government embarking on a policy of nationalising a number of industries (as the Labour Party Conference has decided shall be the programme for the Party if successful in gaining office at the next election). If the financial circumstances were appropriate it might float a large loan (or create "tap" facilities as in war-time) of, say, £1,000,000,000-£2,000,000,000 for the purpose of financing the nationalisation of particular industries. If this were done, displaced stock - and shareholders might be compensated in this new "National Industrial" (or "Nationalisation") stock. Alternatively, if the financial circumstances were such that the State could safely raise the necessary amount by short-term (low-interest) borrowing, that might be done, and the money used <u>either</u> to pay cash, <u>or</u> to create Railway Board Stock (taken up entirely by the National Debt Commission), <u>or</u> to create "National Industrial" stock, <u>or</u> to provide some combination of these methods.

6. To sum up, <u>either</u> the State, by long-term or short-term borrowing could raise the capital to provide

(i) cash
(ii) Railway (or Transport) stock
(iii) National Industrial stock; or
(iv) a choice of (i) and (ii) or (i) and (iii),

<u>or</u> the Railway (or Transport) Authority could itself be given borrowing powers and create its own capital, which again could either be exchanged with dispossessed shareholders for their existing stock, or provide the cash to buy out those shareholders who preferred cash to stock, if the grant of such a choice were thought proper. The choice between long- and short-term borrowing would be dictated entirely by financial considerations: the choice between cash and "National" stock on the one hand, and special Transport stock on the other, by political and the psychological considerations referred to above, though as is pointed out in para. 38, there are additional financial reasons for avoiding the creation of special Transport stock.

7. The important question whether, if special Transport stock were created, any of it should be subject to a variable rate of interest, fluctuating with the "profitability" of the new Transport system, is referred to in the discussion of the L.P.T.B. (Appendix II, para. 60-61). It should be said right away that any "equity" stock of the kind referred to is regarded by the writer of this report as a thing to be shunned like the plague: there are strong theoretical and political arguments against it, even if the infamous London Transport "C" stock had not existed to point a stern warning to those who might be tempted to toy with the idea.

8. It is therefore assumed that, whatever the method of compensation, the stock will be acquired for (borrowed) cash or for some fixed-interest bearing State or Transport Authority stock. It now falls to consider what alternative bases might be used for assessing fair, but not excessive, compensation.

III

ALTERNATIVE METHODS OF ASSESSING COMPENSATION.

9. Practically all the authorities *) which have considered possible bases for compensating railway shareholders have listed three or four main alternatives; viz.

(i) nominal (i.e. issued) capital;
(ii) a valuation of the actual physical assets taken over;
(iii) the current (or recent) Stock Exchange valuation of railway stock and shares; and
(iv) a valuation in terms of a number of years' purchase of current net revenue, or preferably "reasonable net maintainable revenue".

Before proceeding, however, to examine these four methods, it is important to schedule an entirely different (and far simpler) approach, on a different basis. All the above methods are based on the assumption that it is necessary to value the railways in a capital sense, in order that cash and/or stock of an equivalent capital valuation can be offered in exchange. That is, they imply that someone must value the railways at £x millions and that £x millions' worth of cash or stock be made available as the purchase price. But if, of the possible methods of purchase listed in section II, favour is given to that which gives State (e.g."National Industrial") bonds or Transport Authority stock, the capital valuation need not enter into it. The State or Railway Authority need merely be instructed to pay an annual sum of £y million, this being the income considered a fair exchange for the loss of privately-owned railway income. This would greatly simplify the whole operation, and would be more akin to the procedure with which railway stockholders are already familiar, viz. the settlement of the annual rent-charge for Government operation of the railways in war-time, though it would still require an assessment of "reasonable income", as discussed in the consideration of "reasonable net maintainable revenue" in paras. 18-30 below. Nevertheless the translation of the right to a given income into a capital sum, which may be one of the difficult problems, is avoided. The relation of this method to the capital-valuation methods, particularly the two most important, Stock Exchange value, and years'-purchase-of-net-revenue, is discussed below. At this stage, however, perhaps one possible objection should be met. It may be said that an individual may wish to sell his 'compensation-stock'; and that a mere right to an income has no market price. The answer to this, of course, is that it would not be without one for long: every right to an income rapidly achieves a valuation on the stock market.

*) E.g. the Labour Party's National Planning of Transport (1932), p.15, paras. 54-55; T.U.C. Interim Report on Post-War Reconstruction, p.11, paras. 41-43; Ernest Davies, How Much Compensation (N.F.R.B. 1937), p.15; while others, e.g. A.G. Walkden, A Practical Scheme for the Nationalisation and Co-Ordination of Public Transport (Evidence before the Royal Commission), 1929, p.29; G. Ridley, Railways - Between Two Wars, 1942, p.19; E. Davies, The State and The Railways (Fabian Society) 1940, p. 23, and the R.C.A. Minority Report on Socialisation of Transport 1935, p.21, tend to concentrate on one only, or two, of the four methods usually listed.

Methods of Capital Valuation

10. Turning to methods of valuing capital, as would be necessary if any form of cash purchase were contemplated, the four principal methods can now be listed and examined.

A. Nominal Capital, or the slight variant, Total Capital Expenditure less Depreciation.

11. The total authorised capitalisation of the railways excluding L.P.T.B., was, at the end of 1938, £1,264,769,048, of which £1,126,946,057 (including nominal additions) *) had been issued. Deducting the balance of nominal additions and deductions, (£44,579,344) the actual amount created was £1,082,366,713. The present figure of nominal capital, including both nominal additions and deductions, is £1,109,485,726. This total represents the aggregate of all issues by the main-line companies, including the amounts necessary to buy out the companies absorbed under the 1921 Act, but its market, (Stock Exchange) valuation at the present time is no more than £863,000,000, which even so, is more than £100,000,000 above the pre-war figure, due to the generous treatment of the Railway Companies in the war-time Agreement. The purchase of the railway system at its nominal capital value is unthinkable, and even the most optimistic railway shareholder would not hope for it. It is interesting to note that for certain purposes, calculations based on nominal capital have been used by representatives of the railway companies, e.g. in the wage arbitration just before the war, the railway companies submitted to the Railway Staff National Tribunal a statistical analysis made by the *Economist* covering 2271 typical companies in July 1937 and showing the dividends in terms of total issued capital, as follows:-

	General Industry	Railways
	per cent	per cent
Debentures	4.5	3.9
Guaranteed and preference	5.4	3.8
Ordinary Stock	9	1.46

Such a method of statement, of course, was purely a debating-point: railway shareholders have long ago ceased to regard the nominal capital as having anything more than historical interest.

12. The main arguments for rejecting nominal capital are almost too well-known to require repetition. The first and principal argument is the extremely wasteful expenditure, an unknown proportion of which is included in existing total nominal capital, which railways indulged in, particularly in the early years of their history. This was partly explained

*) For an explanation of the terms, see C.H. Newton, *Railway Accounts* (1930), and for a fuller statement of the figures of railway capital see the Statistical Appendix, particularly Table XXIII which sets out full details for each of the 40 categories of railway stock.

by high land costs *) and by the great expense of the Parliamentary bill procedure †), but not by any means entirely. In the drunken excesses of the railway manias of 1837 and more particularly of 1844, many lines were begun, and frequently constructed, for which there was no economic justification, yet the capital for which, frequently at a discount, passed into the capital accounts of railways into which they were amalgamated. In some cases the capital value at which they were taken over represented no more than the capitalised value of their earning power, and thus did not involve an inflation of capital value, but in many instances their nuisance value through competing with another company was such that the latter was frequently willing to pay far more than their capitalised earning power simply to secure a local monopoly. In the 'sixties and 'seventies this capitalisation of nuisance value became one of Britain's major rural industries, useless lines being constructed with the deliberate intent of selling out at the maximum figure to the company whose profits would suffer most by its competition. ⋆)

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*) To take four early companies, the London and Brighton's land costs averaged £8,000 per mile, the Great Western's £6,696, the London and Birmingham's £6,300, the London and South Westerns £4,000 - compare J. Francis, History of the Railways (1851) Vol.I,p.205,226, quoted in a forthcoming book by the present writer, The State and the Railways in Great Britain, p.34. The high land costs were partly due to the strong position which landowners had on the Parliamentary private bill committees, which made many promoters willing to buy them off at a high price instead of fighting them with the danger that the whole Bill might be lost. Some landowners made this a paying business; in other cases we hear of a fight by a landowner, or settlement at a high cost, and when the company wants to make extensions some years later, a demand by the owner for even higher compensation owing to the rise in the value of the land due to the railway.

†) Parliamentary costs for certain early companies were as follows:- Great Western £89,197, or £1,000 per mile: London and Blackwall, £76,673, or £14,414 per mile; London and Birmingham £72,868, or £650 per mile; London and South Western £41,467, or £650 per mile; and the Liverpool and Manchester £28,463, or £863 per mile - The State and the Railways p.24. In consequence of these and the land costs, British railways were the most highly capitalised in the world, being £54,152 per route mile (£64,453 in England and Wales alone) against £21,000 in Prussia and £13,000 in America.

⋆) In 1864, for example, Parliament passed 270 railway Acts authorising the parties involved to raise more than £47,000,000 of capital for the construction of over 1300 miles of railway, many of them useless. The Economist of the day, in a series of articles demanding that the State should take advantage of the twenty-one-year option-to-purchase clause of Gladstone's Railway Act of 1844, commented on these new companies:- "Everyone knows that there is no real desire on behalf of the public for most of these schemes. A railway is nowadays got up to sell, or at all events to promote. A lawyer and an engineer get together in a district where there happen to be two small towns unconnected by direct railway communication, and devise a railway to unite them. The engineer and the lawyer are pretty sure of their money. Out of the legal expenses, and the Parliamentary expenses, and the surveying expenses, they will fill their pockets. Whether the Bill pass or not is comparatively immaterial. The Committee and the preliminary expenses will be enough to pay them. They will be benefited even if no one else is benefited. Very commonly some one else is injured. The railway so projected, if made or authorised, is offered to two rival companies, and they are

Continuation of footnote on next page.

13. This historical digression is designed to serve a purpose, that of showing that a proportion of existing nominal capital is the result of capitalist rapaciousness in the past and deserves no consideration today. A further proportion, while not being what the Economist called "pure evil", represented misguided investment, e.g. lines in areas which failed to develop, or duplicated facilities, or small passenger lines which could never face road competition when that appeared. The capital of all these is included, at a smaller or greater discount, in the £1100,000,000 nominal capital of the railway companies of today. It might be argued that much of it was shed in 1921, at the same time that a considerable proportion of watered capital was squeezed out. It might be advantageous to consider these two questions together.

14. In 1921, the compulsory amalgamation of the companies made it possible to reduce the capital value of many of the smaller lines to something more nearly approaching its earning power. A company which had been constructed for blackmail or other frivolous purposes often found its capital taken over at a severe discount; similarly lines which had watered their capital by the issue of bonus shares or which for one reason or another had failed to pay a normal dividend, were taken over at a capitalised value bearing some relation to their prospective earning power. In general it is true to say that a considerable amount of water and other weak capital was squeezed out: estimates have put the amount of dehydration at something between £100,000,000 and £200,000,000. This did not mean that all bonus shares were squeezed out *): it meant that capital, watered or not, bore a rough market value to the earning power of the companies, which Parliament in its blindness and optimism related to the Standard Net Revenue based on 1913. Roughly speaking, the 1921 capital value, which is the basis of nominal capital values today, represented the capitalised value of the earning power that Parliament thought it was giving to the companies, having regard to their monopoly

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made to bid for it; each is told that the other must buy, that the other will invade their district, etc...In the end one or the other does buy. And in consequence the main line of great railway which pays well is tied to a 'branch' which will never pay, which is often a loss out of pocket. Any one such branch, or a few of them, main lines can stand, but the multitude with which they are now overcharged is weighing them down. The profit of the original bona fide railways is depressed by the losses of these lawyers' and engineers' railways...we have reaped the good of the competitive system, and what is now in progress is pure evil" - The Economist, 14th January 1865, p.36, quoted in the State and the Railways by the present writer (Jonathan Cape, about to be published), pp.187-8.

*) "For instance, one of the groups still has £50 million of capital which was never subscribed: it was a free bonus distribution". (Davies, State and the Railways, p.5). And even The Economist, a paper not given to extravagant or political expressions, could say, commenting on the fact that some L.N.E.R. capital failed to secure any dividend, even with war-time earnings,"...the watering of the 'Berwick' capital is particularly apparent...It is very evident that the reward given to the railways has little connection with the nominal value of their capital and that the latter ought to be radically adjusted...", 27th February 1943, p.273.

position and the rate control imposed *). The fact that the Stock Exchange valuation of the capital is now only £860,000,000, against the nominal £1,100,000,000, is a measure not of the water in the capital, but of the fall in earning power as compared with the optimistic estimates of 1921 †). It is current and prospective earning power, and not any sentimental or backward-looking considerations about past expenditure, and that alone, which forms the basis of true capital value. Capitalist economics rest on the assumption that when a capital asset has outlived its usefulness it is ruthlessly cast aside, no matter what its original cost nor what proportion of that cost has not been written off. The early railway companies bought up the canals at their then economic value in terms of their earning power in a railway age without regard to their original costs or balance-sheet capital; a Socialist Government would be guilty of over-burdening the community, if it showed any more tenderness to the railway companies than they showed the canals.

15. Two quotations may serve to sum up the case against evaluating the railways on the basis of nominal issued capital or on recorded capital expenditure. The first if from Herbert Morrison:-

> "...a considerable amount of railway capital was and is unproductive. The railway companies may quite properly contend that in the matter of much of the unproductive capital expenditure they were the victims of circumstances and that it was not their fault. That may be so, but it was not our fault either; in any case, it was one of the anti-social consequences of that competitive capitalism in which the railway companies believed. They have no right to ask the community to penalise itself financially because they were the victims of their own system. The railway companies must not complain if we adopt the standard of measurement employed by the stock market, namely, earning capacity. The market is very quick in writing down the value of a nominal £100 of railway stock to £70, £60, £50, £40, or whatever figure will produce a rate of interest which the investor regards as reasonable. Similarly, if I were proposing to acquire the railway companies for the State, I should have to tell them that I was not interested in their capital expenditure, but, like the capitalist stock

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*) The fact that railways are, or rather were, a monopoly and charge just what the State allowed them to do, is an answer to those who would argue that the uneconomic lines of the 'forties and 'sixties would ultimately find their own economic level in their capital valuation: when these were bought out at their nuisance value (very much higher than their earning power) the capital costs entered the capital of the purchasing company and, by and large, railway rates were fixed at a level sufficient to pay a fair dividend on that capital, however it had been accumulated.

†) Compare the quotation from The Economist in note)on p.14, ending, "It is very evident that the reward given to the railways has little connection with the nominal value of their capital, and that the latter ought to be radically adjusted..." Again, from the same paper,"...standard revenues for the railways fixed in 1921 have little more than formal relevance to present conditions. A standard revenue fixed for horse trams in the 'nineties would not be brought into account into transport discussions today; and the conditions of 1921 have changed almost as radically. As for the railways' capital, it is a very old principle that capital, once invested, is worth no more than the capitalised value of what it will earn. What sort of a revenue could the cotton industry claim if it were allowed 4.7 per cent on its capital investments?" 10th February, 1940, p.244.

market, in what the undertaking earned." *)

Or again, to take the Minority Report of the R.C.A. Committee on "Socialisation of Transport",

"...we do not think it will be seriously suggested by any Socialist that the sum of £1,126,721,053, which is the nominal capital issued by the Railways, should be paid for that portion of the Transport system. The Stock Exchange value of the capital, which might be termed the value the capitalists place upon the Railway industry at the present time, is about £740 millions, and we suggest that a Socialist Government should not contemplate a payment in excess of the amount which Capitalism itself sets as the value of the undertaking." ☆)

(B) Valuation of the Actual Physical Assets taken over.

16. This suggested method, which might be appropriate for the nationalisation of certain other kinds of undertaking, would involve valuing either the present value or the replacement cost of the various physical assets - permanent way, station and other buildings, works, locomotives, rolling-stock etc. - taken over.

17. The T.U.C. Interim Report comments on this alternative,

"This method would inevitably entail considerable costs in valuation and perhaps in arbitration, objections which are obvious when the method is applied to assets such as an occasionally used and semi-derelict railway station. It may however be necessary to use it where only part of an undertaking is being acquired."

The objection that it would entail cost and controversy in valuation and arbitration is clearly a strong one. But there are others, far more conclusive. There are physical assets which would have to be taken over under any nationalisation scheme and whose physical valuation or replacement cost might be quite high, and yet whose economic value might be very small. This might be true, for instance, of a little-used canal, or a redundant and little-used goods yard on an urban site. It would clearly be wrong to pay anything approaching the physical value or replacement cost of such assets: the most that could be considered is the scrap value of any realisable assets and site values, where these could be made available for other purposes. The argument against physical valuation is very similar to that against capital expenditure: we are not interested today in the cost or value of assets whose earning-power under modern conditions is low, even granting that these assets can be valued in any way other than their earning power. †) Moreover, for

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*) Socialisation and Transport, pp. 249-50. Italics in both quotations are mine. H. W.

☆) Page 21. The issue between the Minority and Majority Reports, of course, was not on the subject of finance, but on that of Workers' Control.

†) The problem of valuation other than in terms of earning-power or replacement cost is practically insoluble. Ernest Davies in How Much Compensation (N.F.R.B. 1937), p.16 ingeniously suggests "original cost adjusted to current prices less depreciation based on allowances for depreciation and obsolescence calculated according to the best commercial practice". But this, even if it could be done, does not meet the case, we are not interested in original cost, for reasons already given, and in any event the depreciation allowances made over the past century have clearly been closely related to earning power.

quite accidental reasons many stations in large towns, particularly London, have a site-value far in excess of their value in terms of earning-power, and it would greatly burden the newly nationalised system if these were to be paid for at present physical values. If current physical value is unthinkable, replacement cost is even more so, particularly as it has been estimated, by no less an authority than the late Lord Stamp, that the replacement value of the railway system in 1940 was some 60 per cent more than the capital expenditure in the books. *) Allowing for the rise in costs which has occurred since 1940, it is clear that, if Lord Stamp was right, the replacement value of the railway system would be at least £2,000,000,000. But there are large parts of the system which, if we were beginning anew, we should never contemplate replacing. The railway system must be judged, as the capitalist stock market judges it, by its earning power under modern conditions.

18. Before, however, totally rejecting this alternative, it is worth remarking that it may be desirable to include in the legislative scheme power to take over properties on the basis of a valuation of physical assets at present values. This might be desirable for the acquisition of certain light railways not included in the main scheme, or properties leased by but not belonging to the companies of which it might be desirable to acquire the freehold. It will clearly form part of the scheme for transport undertakings other than railways, e.g. bus services which have struck lucky or secured a profitable monopoly, and it might therefore be desirable to include such powers. +) Moreover, this may prove, after examination, to be the right basis for certain railway-owned road interests. The virtual monopoly powers assumed in some such cases might make earning-power the wrong guide: the "goodwill" of such undertakings, fostered as it was by State protection, is clearly not an asset the State should have to pay for.

19. The conclusion emerging from the discussion of this second alternative is therefore that a physical valuation would be costly and inappropriate, but that powers to use it in exceptional cases should be reserved in the scheme.

(c) <u>Stock Exchange Valuation of existing Share and Loan Capital</u>

(or, the price agreed between "a willing buyer and a willing seller").

20. We now come to the two ways most favoured by the authorities who have considered the problem of compensation, viz. Stock Exchange valuation, and capitalisation of prospective net revenue. Stock Exchange valuation has much to commend it: it represents, as Herbert Morrison and the R.C.A. Minority Report of 1935 both said, the value which capitalism itself places on the undertaking. It is also in line with the principle which has underlain most legislation dealing with compulsory purchase - the price equal to that which would have been agreed upon in the open market between a willing buyer and a willing seller. For instance

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*) L.M.S. Annual Meeting, 15th March 1940.

+) Compare the Labour Party's (1932) <u>National Planning of Transport</u>, p.15, para.54; "Capital Expenditure, less depreciation, would be economic for the community in the case of undertakings making large profits in relation to capital expenditure." The same argument applies to physical valuation, where possible. The Labour document draws a contrast between the railways with their very high capital expenditure and asset-value as compared with their earning power, and a profiteering bus company paying a 33 per cent dividend.

under the Acquisition of Land (Assessment of Compensation) Act 1919 this principle was laid down for land compulsorily acquired under the Act; wartime Defence Regulations have prescribed that when an undertaking has been taken over by the Government in order to improve its efficiency the purchase price should be equal to that which would have been paid by a willing buyer to a willing seller. *) With railways, the Stock Exchange value of all the various classes of capital at any one time is known beyond all doubt. The value placed on each class by the Stock Exchange represents the market's estimate of its earning power, paying due regard to the degree of certainty of its maintaining that earning power. For instance, at the present time when Great Western ordinary shares are paying a steady 5 per cent, their value stands at 58½. This means that an investor buying these shares would obtain a yield on his capital of 8,55 per cent, very much above the current market yield. At one time in the war the yield on railway ordinaries was as much as 11%. The extra yield demanded, and reflected in the relatively low prices paid for the shares, represents the market's evaluation of the risk, a measure of its lack of confidence in the railways to go on earning war-time net revenues and paying war-time dividends. The market has not felt that the companies would go on paying these dividends and hence has settled a price very low in relation to current earning-power. To put it in another way, the capitalists of the Stock Exchange consider that the net <u>maintainable</u> revenues of the railway companies are very much <u>lower than</u> current revenues, and thus have lowered the total value they were prepared to put on the shares accordingly. From this point of view, the distinction drawn between Alternatives C and D (Stock Exchange valuation and the capitalisation in terms of a number of years' purchase of net maintainable revenue) is somewhat unreal. <u>The Stock Exchange valuation is its capitalisation of its evaluation of net maintainable revenue</u>: if it has little confidence in its maintenance, its valuation is correspondingly low. Thus the only difference between taking a representative Stock Exchange valuation and, on Alternative D, entrusting to a Tribunal the task of assessing the correct global sum in terms of <u>x</u> years' purchase of net maintainable revenue, lies in the person or persons chosen to make the valuation. In the first case it is made by investors, speculators and the others who make up the composite personality of the Stock Exchange, with all their inhibitions, oddities and, on the whole, caution (at least in the matter of railways); in the second it is a hand-picked tribunal. Which is the better is arguable. <u>Provided that a reasonable date, or average of dates, is chosen, the Stock Exchange valuation has much to</u> commend it. At least whatever figure is paid can be regarded as capitalism's own estimate, and in fact capitalism is so pessimistic about the future (especially the political future) of railways, that such a method of valuation would not prove too costly. Even the best tribunal would be making a pure subjective value-judgment: if it settled on a figure higher than the Stock Exchange valuation it would be overburdening the new Authority and giving a pleasant surprise to the railway shareholders; if it chose a lower figure it might lead to political controversy. The Stock Exchange value at a given date is, provided the date is reasonably chosen, a relatively safe figure to use. The importance of the right date is caused by

*) This formula was used in connection with coal royalties, though, of course, there was no Stock Exchange figure to be taken for the purpose, as royalty rights are not Stock Exchange securities. The Treasury Minute appointing the Valuation Tribunal gave it the task of determining "the amount which the fee simple of all unworked coal and all mines of coal in Great Britain and certain rights agreed to between the parties as being ancillary thereto, might be expected to realise if sold in the open market by a willing seller."

the immoderate fluctuations in Stock Exchange values, particularly in the "marginal" stocks. While these have kept fairly steady of late there have been substantial fluctuations at various times. For instance, when the over-generous financial agreement of February 1940 was made, the market had such a pleasant surprise that marginal stocks increased by a half and as much as three-quarters of their value in a few days. The following table shows the fluctuations in certain marginal stocks in a single month. The lowest figures recorded in 1939 are added for comparison:-

Table I

Fluctuations in the Price of Certain Marginal Stocks, February 1940.

Stock	(Low 1939)	11 Jan. 1940	31 Jan. 1940	6 Feb. 1940	8 Feb. 1940	14 Feb. 1940
L.M.S. Ord.	(9¼)	13⅜	14½	15¾	17¾	24
L.N.E. 4% 2nd Pref.	(7½)	13¼	15½	16	17½	22
G.W. Ord.	(21½)	37½	39¼	41½	44½	51¼
S.R. Def. Ord.	(7)	13⅜	13⅝	14⅜	16½	20¼

Thus the figure for 14th February was in the case of two companies almost three times, and for the other two companies two-and-a-half times, the 1939 "low", and, as between the two bases shown the capital value of this part of the railway companies' capital might vary as much as 170 per cent of the lower figure. Supra marginal stocks, from debentures downwards, varied much less, of course. Obviously no one would contemplate taking the figure for 14th February 1940, when the market was in its flush of excitement over a financial agreement which proved to be so over-generous that it had to be dropped a year later. Nevertheless variations do occur, even in more settled periods. Table II shows the variations in the values (not the high and low extremes) at a single date at the beginning of each of the past four years, when dividends have not varied greatly and when any change has simply reflected the varying confidence of the market in the railways' ability to maintain those dividends after the war. The figures of actual dividends are shown in brackets.

Table II

Values of Six Junior Stocks at 1st January 1941-44

Stock	1941	1942	1943	1944
L.M.S. Ord.	13½ (2)	19 (2½)	28 (2½)	34 (2½)
L.N.E.R. Pref. Ord	3 (-)	4 (-)	9 (-)	10½ (-)
Def. Ord.	1⅝ (-)	2⅞ (-)	4⅜ (-)	5 (-)
G.W.R. Ord.	32½ (4)	45 (4½)	57 (4½)	62 (4½)
S.R. Pref. Ord.	45½ (5)	63½ (5)	74½ (5)	76 (5)
Def. Ord.	10½ (1¾)	16 (1¾)	22¾ (2)	25¾ (2)

Here again variations have been considerable, sufficient in the case of these six stocks alone to represent the difference between £44.6 millions and £94.5 millions, as between the 1941 and 1944 prices. This represents a difference of about £1½ millions in the annual interest charge on the railway system, i.e. enough to represent the ability to pay 9d. per week to all railway employees, or 8 shillings a week to all members of the R.C.A.

21. The analysis of Stock Exchange valuations in terms of the railways' financial position is inappropriate in this section, but is dealt with below. But it can be seen that war-time dividends have been cautiously capitalised because of fear that they are only temporary. We should not be unfair to the capitalist therefore in adopting his valuation and, once we had decided which date or year was a fair one, to settle on the Stock Exchange valuation appropriate to that period. If the railways were nationalised tomorrow and any higher basis than the current Stock market valuation given there would be windfall gains to the present shareholders.

(D) Capitalisation of Net Maintainable Revenue.

22. The method of assessing compensation in terms of a number of years' purchase is not a new one. Gladstone's Railway Bill of 1844, which was designed to reserve the right to the State to purchase the railway system at the end of a period of years, laid down that purchase price of each company should be 25 years' purchase of its annual divisible profits, with a maximum of 25 years' purchase of a 10 per cent rate of profit.*) The Act was never put into force, of course. If a method on these lines were proposed the most important and difficult problem to be solved would be that of deciding which net revenue should be taken. There are, in fact, two separate problems, first, that of settling the appropriate net revenue, and secondly, that of deciding the number of years' purchase to be applied to that revenue. These can now be discussed separately, though it is possible that if the matter came to be settled by negotiation or by a Tribunal's arbitration, the two would be taken together and, for instance, any generosity in the fixation of the fair net revenue be counterbalanced by a corresponding severity in the number of years' purchase allowed.

23. In considering what should be the net revenue, it is worth remarking that here we are not merely discussing the settlement of a fair revenue for the years' purchase method, but are also considering the problems which would arise if the income method (without capital valuation) mentioned in para. 9 were adopted. What is the appropriate net revenue? No doubt the Railway Stockholders Association would make a last-ditch attempt to secure the recognition of the Standard Net Revenue laid down in the 1921 Act.+)

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*) The power of the railway interests, led by the notorious Hudson, was such that the Bill as finally enacted, emasculated the Bill, and it was provided that if the profit were less than 10 per cent, the company could refer the question of compensation to arbitration, 10 per cent thus coming to be regarded as the standard, not the maximum, figure.

+) Happily for British Railway stockholders there exists a basis for compensation which has already been laid down by Parliament. The Standard Revenue. This furnishes a scale to the profits properly payable to railway stockholders, and therefore may equally properly be regarded as a basis of compensation should British railways be taken over by the State or absorbed into a greater entity embracing all forms of public transport." - Railways, Roads and the Public (1939) by Sir Charles Stuart-Williams and Ernest Short. The same theme runs through Railways and the State by Ernest Short, with a foreword by Sir Charles Stuart-Williams (1937). These two were still at it six years later. The Times records that at the annual meeting of the Great Western Railway on

Continuation of footnote on next page.

This Revenue, amounting to about £51,000,000 for the four main-line railways, represented broadly the net revenue earned in 1913 (a year of peak prosperity), plus 5 per cent interest on capital invested since that date or, though invested earlier, not fully effective by that date, plus one-third of the economies resulting from amalgamation. It was to be the guide to the Railway Rates Tribunal in fixing charges, for Section 58, Sub-Section 1 of the 1921 Act laid down that the charges were to be such as, together with other sources of revenue, would "in the opinion of the rates tribunal so far as is practicable yield with efficient and economical working and management an annual net revenue hereinafter referred to as the standard revenue". In fact, the standard was never reached, owing to the growth of road competition and the statutory and endemic inability of the railway companies to compete with the roads, particularly on goods transport, together with trade depression in 1930-34, and again in 1938. The best year was 1929 (another trade-cycle peak *). In that year, net revenue was £44,983,000, a deficit of £6,376,000 on standard. In the three relatively prosperous ☆) years 1935-7, average net revenue was £35,518,000, representing an average deficit of £15,838,000. Even in the best year in the 'thirties, 1937, ⁑) revenue was no more than £37,901,000, a deficit of £13,458,000, while in the more depressed 1938, +) net revenue fell to £28,985,000, almost as low as in the years of the Great Depression, the deficit being £22,374,000. Table III shows the actual net revenue, and the deficit on the slightly varying standard, for the eleven years before the war.

Table III

Actual Net Revenue and Deficit against Standard

(£ thousands)

Year	Net Revenue †)	Deficiency against Standard.
1929	44,983	6,376
1930	37,716	13,643
1931	33,371	17,988
1932	26,425	24,934
1933	28,804	22,555
1934	31,481	19,878
1935	32,922	18,437
1936	35,730	15,629
1937	37,901	13,458
1938	28,985	22,374

footnote contd. from previous page... 7th March 1945, Sir Charles moved and Mr. Short seconded a resolution expressing extreme dissatisfaction with the Government's refusal to revise the Control Agreement. Mr. Short "said there was a body in the House of Commons who were willing to fight for a revision of the second agreement, not only now but at what seemed to him would be a far more important time, when the final agreement with the Govenernment was negotiated. He believed that the standard revenue was the sheet anchor of railway stockholding, and, unless they insisted that it had been abrogated by that agreement, as it had, they would lose the advantage of that sheet-anchor."

*) Unemployment in that year was 10.4 per cent, against 14.2 per cent for the whole period 1921-38.

☆) When unemployment averaged 13.1 per cent.

⁑) Unemployment 10.8 per cent.

+) Unemployment 12.9 per cent.

†) Including "net receipts from joint lines" and "net miscellaneous receipts".

Wartime net revenues as earned, with Government traffics and the paralysis of road competition, have reached and exceeded £100,000,000 per annum, though the State has allowed the companies to retain only a proportion of this, (see paras. 46-50 below). Clearly the net revenues which might be taken have an extremely wide range. Table IV gives a number of alternative possible bases:-

Table IV

Basis.	Average net revenue. (£ thousands)	Net revenue capitalised at 15 years' purchase (£ millions)	20 years' purchase (£ millions)
Average, '36-38	34,205	513	684
Average, '35-37	35,518	533	710
1937	37,901	569	758
1938	28,985	435	580
Average, 1929-38	33,832	508	677
Average, 1929-36 *)	33,929	509	679
War-time rental (actual net revenue inc. non-Pool items) approx.	40,100	602	802

As between the extremes (excluding war-time earnings) there would be a difference of £140-180 millions on the capital value as estimated on the basis of 15 or 20 years' purchase.

24. But the figures set out above are of purely historical interest. Fair compensation is not a dole based on past earnings but compensation for loss of earnings which would have accrued if nationalisation had not taken place. The concept of "net maintainable revenue", i.e. the revenue which would have occurred and could be maintained under peace-time conditions without nationalisation, is clearly the one to be adopted in any years'-purchase basis. In attempting to assess it it is necessary to make some estimate of the railways' financial position after the war. As a guide to this, a discussion of the railways' financial position pre-war and in war-time is undertaken in Appendix I below, but even the most careful economic appreciation can be no more than guess-work. It is necessary to answer four questions: three economic and one political.

First, what will be the total volume of goods requiring transportation (including passenger traffic) by all forms of transportation, as compared with, say, 1938?

Secondly, given this, what proportion of this would be carried by the railway system (we are assuming no nationalisation and no improved co-ordination of the transport system), on their present or pre-war competitive powers?

Thirdly, what permanent increases of costs have occurred since pre-war days? (This will include wages, fuel, costs of materials and equipment and will involve an estimate of the extent to which war-time increases are likely to be lasting).

Fourthly, what increase in the competitive power of the railways and what freedom to increase rates and fares in forms of traffic not vulnerable to road (and air) competition would the

*) i.e. one complete trade cycle period.

State be likely to grant, and be right in granting, if the railways remained under private ownership?

25. The first three questions are difficult, almost impossible to answer; the fourth is a purely political judgment. The extent of the Square Deal the railways would and should get after the war if not nationalised depends on largely political considerations. As is shown in Appendix I, the idea that there is some economic level for railway rates and charges and some right degree of freedom to compete with the (not unregulated) road hauliers, is completely fallacious. Railways are a State-controlled monopoly and public service: what they are allowed to charge is a matter for political decision, in the interests of all parties, not of supply and demand.

26. This then throws some doubt on the idea of net maintainable revenue. The Railways' net maintainable revenue is what the State would allow them to maintain. In practice it is more than likely that if the years' purchase method were adopted it would be done in terms of an attempt to get a fair (but not more than fair) deal for the railway stockholder. This is what was done in war-time, as is pointed out in Appendix I. After the market had shown some uneasiness lest the railways' maximum should be the average for 1936-38, it was vastly relieved by the Chamberlain Government's settlement of February 1940, which gave it a certain £36.5 millions, a probable £39.7 millions, and a possible £51.7 millions (equal to the 1921 Standard Revenue). This over-generous agreement was abrogated in 1941, and a standard rental of £43 millions (i.e. £38.2 millions, excluding uncontrolled revenues, to the main-line companies) substituted. The reasoning underlying this agreement (if there were any reasoning behind what was really a compromise between the railway stockholders and the community) was probably as follows: - The railway stockholders should not be allowed to profiteer out of war conditions, which are due not to their efforts but to Government traffics and to the virtual cessation of road competition, and strictly speaking they should receive no more than their pre-war earnings. But since the Government, in agreeing in principle to the granting of their Square Deal demands, in May 1939, had said that the railway stockholder had not had the earnings to which he was entitled, something higher than immediate pre-war earnings should be paid. A figure of £43 millions to the five undertakings was therefore agreed on, and the important question of the allowance for wear and tear left until after the war (perhaps because it was hoped to be able to settle it without the political complications arising from the existence of a Coalition Government of which one important party had strong views about the conscription of wealth).

27. It is more than probable that a post-war settlement of either the net maintainable revenue for purposes of nationalisation, or the standard revenue to which the rates system should be related if private competition existed, would be done in a similar way. The Treasury and the companies would attempt to agree on a figure, and if they failed the matter would probably go to arbitration. And the arbitration tribunal itself, since tribunals are human and cannot decide these matters as though they were judicial questions, would probably take into account such factors as the war-time rental and perhaps the Stock Exchange's valuation of railway capital. The fact that, with war-time earnings, the Stock Exchange has valued marginal railway stocks so low as to provide a yield (i.e. current interest as a percentage of the e money actually invested in stock at current prices) varyin

from £6. 9. 0 per cent (Southern 5% Preferred Ordinary) to £8.11. 0 (Great Western Ordinary*, yields far in excess of those on ordinary shares in other industries (even steel, coal and aircraft)**, and that the yields have recently been as high as 10 and 11 per cent, might impress the tribunal with the knowledge that the Stock Exchange had little confidence that anything like the war-time rental would continue, and the tribunal might or might not act on that knowledge.***

28. The mere assessment of the net maintainable revenue is, however, only part of the task. The next problem, if we are taking the years' purchase method, and not merely a guaranteed income as suggested in para. 9, is to decide on the number of years. This, following the analogy of coal royalties, is clearly a job for a tribunal. In that case, a figure to represent net maintainable revenue was agreed between the Treasury and the royalty-owners; the tribunal came in purely to determine the number of years' purchase. Such a decision naturally means taking into account a number of factors, particularly current financial circumstances and the rates of profit on other forms of investment. Before considering those factors, however, two important points should be made. While the instructions given by the Act or other instrument to the Tribunal should be as few as possible - for it is far better to get a good tribunal and leave it fairly free than an indifferent one and attempt to hem it in with quasi-judicial instructions - two instructions should certainly be made. The first is, that if it is proposed to substitute guaranteed State bonds (whether on a "capital" or an "income" basis) - or for that matter, cash, the figure of yearly revenue should be discounted to take account of the greater security, certainty and "saleability" of State bonds. The second is that no credit for the improved yields resulting from nationalisation should be made, either in the yearly revenue or in the number of years' purchase of the same. The first of these, discounting for the additional security, can be done in either of two ways, which both come to the same thing in the end. Suppose, for example,**** a figure of £37 millions had been settled as the yearly revenue which the railways might have expected if left in private ownership. An annual income of £37 millions of State-guaranteed income is a far, far better thing than £37 millions from private and fallible sources. The Tribunal should therefore decide what discount is appropriate for this greater

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* March 1943. The calculation for G.W. Ord., to take an example, is as follows. G.W. Ord.s are paying 5%: their market price is 58½. Thus £58.10 would buy £100 of stock paying 5%, hence the yield is 5 on 58½ or 8.55%.

** Taking all industrial shares quoted in <u>The Economist</u>, (excluding those not paying dividends), current yields average about £3.16. 0 for Breweries; £5. 0. 3 for Iron, Coal & Steel; £3.10. 3 for Textiles; £3. 7. 3 for Electrical Manufacturing; £3.19. 7 for Gas & Electricity; £5. 0. 0 even for Motors and Aircraft; £4.10. 4 for Shipping; £3. 5. 6 for Oil, and £3. 4.11 for "Miscellaneous".

*** Compare <u>The Economist</u>, 24th February 1945, p.254, commenting on the 1944 railway results:- "The market's prime concern now is with events after the war, about which one man's guess is as good as another's. The fact, however, that the marginal junior stocks of all the main line companies are still priced to yield anything from 7 to 9 per cent, suggests that the market's approach to post-war possibilities remains definitely pessimistic."

**** These figures are given purely for illustration and are entirely without prejudice to a proper examination by the appropriate Tribunal.

security; it might decide that State-guaranteed stock producing, say, £33 millions is equivalent to £37 millions of railway stock. Then £33 millions is the figure to which x years' purchase should be applied. Alternatively the discount could be made in settling the number of years' purchase. If, let us say, 18½ years had been decided as the appropriate figure, in the light of all the financial and other circumstances, then the discount might be applied to this. The Tribunal might consider that 16½ years' purchase of a given figure if paid for in guaranteed stock was equivalent to 18½ years' of private stock. Then the calculation would be 16½ times £37 millions, which gives the same result as 18½ times the £33 millions taken on the alternative basis.

29. The second instruction also is important. There is little doubt that nationalisation should produce considerable economies in working, and hence an increase in the net revenue that would have been earned under private ownership. The assurance of these economies and of more efficient operation is the very kernel of the case for nationalisation, and there is no necessity to go into it in any detail here. But when allowance is made for the increased efficiency resulting from professional management of the system by those who know the job, and not amateur direction by part-time directors whose interest is more in finance than efficiency; for the economies of closer working of the four companies when unified into a single system*; for the integration of the railways into a co-ordinated transport system; for the removal of duplication and unnecessary costs in the administration of joint lines; for the reduction of purely inter-company financial accounting through the Clearing House; for the removal of competitive advertising and canvassing; and for a hundred-and-one other improvements; there can be no doubt that the saving, measured in net revenue, will be considerable.** But the prospective yield from such savings should under no circumstances be taken into account in determining the purchase price. These savings are the results of socialisation, not private capitalism, and the private capitalist is not entitled to a penny on account of them. The compensation due to him is limited to the amount the railways are worth at the time of taking over, i.e. under private ownership.***

* It is not necessary to remind anyone who has had experience of the railway system in war-time that R.E.C. control has done little or nothing to break down the separatism of the individual companies.

** Compare the <u>Evidence</u> of Mr. A.G. Walkden before the Royal Commission on Transport 1929, pp.31-33, also the late George Ridley's <u>The Railways - Between Two Wars</u>, pp.10-18. The statement of Mr. William Whitelaw, the then Chairman of the L.N.E.R. in 1937, is also important:- "My reasons for wishing to see State Ownership are as simple as would be the actual transaction. Perhaps the chief advantage would be the elimination of wasteful competition. Some of this has disappeared, but we still see the running of unnecessary trains, the maintenance of unnecessary works and shunting sheds and depots in the same towns, and the competition between road and rail systems, which is often detrimental to both interests."

*** Compare the London Transport Bill (as introduced), Clause 11 (1) (b), stipulating that the Valuation Tribunal "shall not, in the case of an undertaking, or part of an undertaking..... take into account so much of the value of the undertaking as is attributable to the possibility or probability of the undertaking being amalgamated with or purchased by or being made the subject of an arrangement with some other undertaking working in whole or in part within the London traffic area."

30. It is impossible to deal in advance with the financial circumstances the Tribunal would take into account in determining the number of years' purchase to be allied to the net revenue. There is no good precedent to study, for the Coal Royalties Tribunal wisely refused to put on record the factors they had considered in coming to what was, in any case, a question of personal judgment, or a question not of fact or of law but of fairness: their report consisted of the one word "Fifteen". Clearly the Tribunal would take into account financial circumstances, particularly the present and prospective rates of interest on gilt-edged investments generally, perhaps the character of railway investors, the amount of railway capital held by charitable institutions, etc. Beyond that, there is little of a factual character to consider.

31. The task of the Tribunal might not be limited to the settlement of the yearly revenue and the number of years' purchase. There is the question also of the apportionment of that revenue, or that capital, between different classes of investors. In the past, variations in net revenues have always fallen on the holder of ordinary shares (except in heavily over-capitalised companies and in years of bad earnings, when total revenues were not enough to cover debenture and preference issues), in accordance with the principle of capitalist finance that debenture stock, representing loans made to the company, are a prior charge on the company, while ordinary shares, often preceded by the preference stock and representing participation in the ownership of the concern, take the balance of earnings, high or low, generally in the case of railways in recent years, low. Thus when earnings have been high, debenture stock has earned its steady 4 or 5 per cent and ordinaries perhaps 2, 3, or 5 per cent; in bad years, debentures have still had their pound of flesh, ordinaries receiving little or nothing. This is illustrated by the well-known table in the late George Ridley's <u>The Railways - Between Two Wars</u>*, reproduced as Table V.

<u>Table V</u>

<u>L.M.S.R. Interest and Dividend Payments</u>

	1928	'29	'30	'31	'32	'33	'34	'35	'36	'37	'38
4% Debenture	4	4	4	4	4	4	4	4	4	4	4
4% Guaranteed	4	4	4	4	4	4	4	4	4	4	4
4% Preference	4	4	4	4	3	3½	4	4	4	4	4
4% Preference (1923)	4	4	4	4	-	-	1⅝	4	4	4	4
Ordinary	3½	4½	2	¼	-	-	-	-	1¼	1½	-

To take the figures for all companies we have the following Table showing total net revenue, interest and dividends paid on all capital (including ordinary shares), and lastly that on ordinary shares with the same expressed as index numbers.

* p.12

Table VI

Net revenue, and dividends and interest paid on (a) all capital (including ordinary shares) and (b) ordinary shares only 1929-38 with index numbers (1929 = 100)

Year	Net Revenue £ '000	Net Revenue Index No.	Interest and dividends paid on all capital Per cent	Interest and dividends paid on all capital Index No.	Dividends on ordinary shares only Per cent	Dividends on ordinary shares only Index No.
1929	44,983	100	4.08	100	3.91	100
1930	37,716	84	3.64	89	2.20	56
1931	33,371	74	3.16	77	0.95	24
1932	26,425	59	2.59	63	0.57	15
1933	28,804	64	2.76	68	0.76	19
1934	31,481	70	2.97	73	0.86	22
1935	32,922	73	3.08	75	0.96	25
1936	35,730	79	3.26	80	1.44	37
1937	37,901	84	3.43	84	1.79	46
1938	28,985	64			0.58	15

Thus total interest and divident payments (including those on ordinary shares) fell in the depression less than the net revenue, owing to the heavy element of fixed-interest debentures and guaranteed stock: dividends on ordinary shares fell as low as 15% of the 1929 rate, in 1932, and again in 1938, and even in 1937 rose only to 46% of the 1929 figure. The cut of total net revenues taken by debenture, preference and ordinary shareholders respectively varies considerably from company to company. The following table shows for 1942 (1943 and 1944 would not be very different) the amounts and percentages of total net revenue absorbed in prior charges.

Table VII

Net Revenue and Apportionment, 1942
£ millions or percentage

Company	L.M.S.R.	G.W.R.	L.N.E.R.	S.R.	Total
Net Revenue	£15.6m.	£6.9m.	£10.7m.	£6.9m.	£40.1m.
Nominal Capital	£413.8m.	£149.8m.	£376.7m.	£169.3m.	£1109.5m.
Net Revenue as Average Percentage of Nominal Capital	3.7%	4.6%	2.8%	4.1%	3.6%
Interest and Dividends					
on Debentures £ m.	4.4	1.6	4.2	2.2	12.4
do. as % of Net Revenue	28.3%	23.7%	39.4%	32.5%	....
on Preference Sh. £ m.	8.5	3.3	7.2	2.7	21.7
do. as % of Net Revenue	54.4%	48.2%	67.3%*	39.8%	....
on Ordinary Sh. £ m.	2.4	1.9		1.3	5.6
do. as % of Net Revenue	15.3%	27.9%	....	18.5%	....
on Deferred Ord.Sh. £ m.				0.5	0.5
do. as % of Net Revenue	....	....	....	7.9%	....

* Total charge, which exceeds actual payment.

Thus the whole debenture and preference charge is covered some 1.4 times over for the Great Western and Southern, only 1.2 times for the L.M.S., and is not fully covered for the L.N.E.R. The Economist comments on the above table: "It is very evident that the reward given to the railways has little connection with the nominal value of their capital and that the latter ought to be radically adjusted ...."*

32. Under nationalisation, with a total yearly revenue less than would be earned under private ownership, because of State security, the question arises as to the apportionment between different classes of stockholders. Suppose the total revenue were £x millions: would the debenture holders continue to receive their £12.4 millions and the preference shareholders £21.7 millions, leaving £x minus 34.1 millions for the ordinary shareholders? The answer should almost certainly be "no". While it is true that, as the Economist has said,

> "If, as is not improbable, railway shareholders are to be given some form of fixed return after the war, it is to be supposed that the allocation to individual classes of stock will take full account of the potential variations in its return under competitive conditions which correspond to their present capital structure",**

there is no justification for debenture-receivers continuing to receive the full extent of their present annual dividends. To convert the 4% and 5% debentures to something nearer the current longterm market rate would probably not be practicable: it would be considered an act of bad faith with the investors. Even though considerable quantities of 4% and 5% capital was issued below par, it would mean confiscation if that were now compulsorily converted to 3% or 2½% stock, for many present debenture holders bought the stock at something like its present prices (say 120), for this stock rose in price when the general longterm interest rate fell after 1932. In this respect we shall have to pay the price for continuing to keep, in the inter-war period, the luxury of a railway system which was so bankrupt that it could not raise capital on anything like reasonable terms,*** and which failed to reserve the right of redemption should interest rates fall, as they did. - That failure will ultimately cost us tens of millions, gone into the pockets of those who were holding railway debentures when the long-term interest-rate fell.

33. But though a radical conversion is not practicable, there is no reason why railway debentures should be made permanent at a yield considerably above the market rate. The capitalist justification for a yield higher than that on State loans (of a given or corresponding date for redemption) is the risk-element, the danger that interest-payments will not be made. Although railway debentures are pretty safe, they are not held to be as safe as, say, consols, and have a higher yield. The following table shows the yield, at a date in March 1945, of particular railway debenture and guaranteed stocks, compared with Government stocks of equal freedom from redemption:-

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* The Economist, 27th March 1943, p.272.

** The Economist, 27th February 1943, p.273.

*** Cf. the late George Ridley, The Railways - Between Two Wars.

Table VIII

Stock		Price	Yield (per cent)
G.W.R.	4% Debentures	116½	3.43%
...	5% Guaranteed	132¾	3.77%
L.M.S.*	4% Debentures	107⅝	3.72%
...	4% Guaranteed	103	3.89%
L.N.E.R.	3% Debentures	85¼	3.52%
...	4% Guaranteed	101¼	3.95%
Southern	4% Debentures	115½	3.46%
...	5% Guaranteed	133	3.76%
Consols	2½%	83	3.01%
Local Loans	3%	95¾	3.13%

Clearly the risk-element in the yield, which can be measured by the excess of the yields over those on State Loans, should not be perpetuated once all risk disappears with the assumption of a State guarantee. The same applies, to a greater extent, to the preference shares.

34. The Tribunal, therefore, in deciding what security-discount to apply might be asked to consider the question by classes of stock, a small discount being appropriate for debenture stock, a larger one for preference shares, and a very much larger one for ordinary shares. Whether the Tribunal should be charged with the duty of considering each of the forty-odd main classes of railway stock and of securing justice - or mercy** - for each, is arguable. It would be better if it were to consider the broad categories of stock in deciding the total amount to be paid and then, having decided on a fixed revenue, or lump-sum, to leave the apportionment of it to representatives of the companies and/or shareholders, subject to approval of the final scheme by the Tribunal.***

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* All the L.M.S. stocks for example, as shown in Table V, paid the quoted figure right through the depression, even the 4% Preference, which fell to 3 in 1932, and 3½ in 1933, returning to 4% in 1934 and subsequently.

** Particularly in the case of the pathetic £78 millions of L.N.E.R. stock which has failed to pay dividends not only in the "prosperous" year 1937, but even in war-time.

*** This is necessary in the interests of justice: the companies are, of course, controlled by the ordinary shareholders, who also overweight the Shareholders' Association: some protection of the other classes, including minorities, is necessary and could be secured by making the apportionment subject to approval by the Tribunal, giving all interested and aggrieved parties the right of making representations before it.

IV.

A POSSIBLE PROCEDURE.

35. The four main ways of evaluating total railway capital and the possible alternative, that of giving merely a right to an income without attempting to set a capital value on it, have now been surveyed and it is possible to draw certain conclusions from the discussion.

(i) There is a great deal to be said for burking a capital valuation (unless payment in cash is regarded as a political necessity). This could be done by settling merely the net maintainable revenue which is considered fair and, having discounted it for the extra security which State-guaranteed income provides, giving to each shareholder or stockholder an entitlement to a given fixed income. This method will require a settlement of the size of the yearly revenue and of the security-discount, but not of the capital value. This latter can be left to the market, as a right to an income, with definite guarantees as to its security, will always carry its appropriate capital valuation. As between this method, the issue of State or Transport Stock to a certain capital value, and payment in cash, there is little to choose in terms of the technical aspects of the transaction; in any case it is virtually certain that it will be necessary for the State to float a loan.

(ii) If a capital valuation is insisted on it could be done either by taking the Stock Exchange values at a given moment or their average over a period, or assessing the net maintainable revenue and applying a number of years' purchase to it. The Stock Exchange valuation has the advantage that the system is bought out at the value which, at the time taken, the capitalists themselves place upon it, no more, no less, but it has the disadvantage that the decision as to the date for taking over is a purely arbitrary one. A possible basis might be the average for the year 1943, a year in which the market was valuing the railways in terms of their future (post-war) prospects, and yet approached that valuation in a spirit of not unreasonable caution. But the settlement of the date or year chosen might have to be left to an arbitration tribunal, and it is possible that the tribunal itself could not proceed except by forming its own views about the net maintainable revenue and attempting to see whether the market's implied views of that revenue, at particular times, were reasonable. The settlement on the years'-purchase basis would almost certainly require reference to a tribunal, to determine both the yearly revenue and the appropriate number of years' purchase. At the same time the State should reserve the right to purchase individual properties at a valuation of their physical assets.

(iii) If reference to a tribunal were necessary it would be advisable to make the instructions to that body as few and as simple as possible; it might in practice be left to take the war-time rental and to decide by what figure this should be increased or decreased to take account of probable net revenue under post-war conditions. The tribunal should, however, be instructed

(a) to discount the agreed net revenue to allow for the increased security of a State-guaranteed income, and

(b) to disregard any savings or gains resulting from amalgamation or any other development incidental thereto.

In practice the tribunal should be asked for its final figure in millions sterling, with no details of the factors (i.e. maintainable revenue and years' purchase) which entered into it, as any statement of the tribunal's arguments or calculations would lead only to controversy and criticism. It could be provided, or the tribunal could be trusted to ensure, that the current Stock Exchange valuation should be a maximum. The only danger in making such an instruction would be that when a figure is stated as a maximum it often becomes a minimum too, and any reference to Stock Exchange valuation might lead to a feeling that that was a fair price: this might even cause optimism on the Stock Exchange and cause some increase in the valuation.*

36. The above considerations lead to certain practical conclusions. Whatever method is followed, i.e. whether "income" or "capital", and, if the latter, whichever of the possible bases is adopted, it is virtually certain

(a) that a tribunal will be required; and
(b) that special stock will have to be issued.

37. The certainty that a tribunal will be required raises the question whether the Socialist Government, on beginning its career of nationalisation, would not be well advised to appoint a full-time standing "Compensation Claims Tribunal" to deal with all industries nationalised on a fair and comparable basis and, by its personnel and establishment, to command the fullest public confidence. It should probably consist of a high judicial person - a law Lord or Lord Justice of Appeal - , one or more King's Bench or Chancery Judges, and a fair-minded accountant, together with one or two (not more) other persons whose duty it would be to represent the public interest.** The danger that the Tribunal would become a bottleneck through having to deal with a number of industries at a time could be avoided by provisions in the Nationalisation Acts that nationalisation should go ahead, compensation to be settled by the Tribunal in its own time. Provision could be made for payments on account, e.g. payments to the existing companies*** on the war-time rental basis, or small capital payments, to be adjusted against the final compensation.

38. Similarly, the Government might be well advised to create a general class of stock (to be called "National Industrial"

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* An ingenious idea is contained in the Minority Report of the R.C.A. Committee on Socialisation (1935), p.21, para.20 (note). This suggests that the purchase price should be taken as the lowest Stock Exchange valuation over a certain period, this providing an insurance against, and penalty for, any Stock Exchange panic when Labour comes to power. The only difficulty about this might be political: the Party might be chary about making an announcement of such a policy before a General Election. Afterwards it would be too late, at least as a means of <u>preventing</u> a panic.

** The Coal Royalties Tribunal consisted of Lord Greene (then a Lord Justice of Appeal, now Master of the Rolls), Mr. Justice Clauson, and Lord Plender (a well-known accountant).

*** These, of course, would no longer exist as operating companies, but the financial mechanism might continue for a short period to complete the winding-up. This mechanism might be responsible for maintaining "on account" payments to individual investors.

or "National Development" Stock perhaps) on a sufficient scale to cover the capital requirements of the nationalisation programme. Most studies of nationalisation have proposed the creation of a special class of railway (or transport) stock, coal stock, land stock, etc., but there are strong arguments for rejecting this idea. As suggested above (para.5), there are psychological reasons for avoiding the creation and perpetuation of a class of railway-shareholders, coal-shareholders, etc., no matter how impotent they might be in the matter of control. A second reason is that the cost is likely to be greater if the capital is raised piecemeal. The time of the nationalisation of the railways might not be opportune for the raising of several hundred millions of capital; moreover, as long as the loan is specifically associated with transport, or coal, or some other industry whose investment record in recent years has been an unhappy one, there might be some unwillingness to lend money in respect of that industry except at an excessive rate of interest. In the case of the railways this feeling, however irrationally, will be reinforced by memories of the unfortunate L.P.T.B. "C" stock. There is, therefore, everything to be said for a State loan on a general basis. This could be issued from time to time as market conditions permitted and might also be on tap, as war bonds have been, so that it could be bought up at any time when there were funds, large or small in quantity, on the market seeking investment. It is probable that by these means the necessary money could be raised more cheaply than by the creation of separate classes of National Corporation stocks. The only factor which might raise the cost - and this would apply equally to individual National Corporation stock issues - , would be a state of affairs in which investors as such had no confidence in the Government or its policy and were unwilling to lend. Should such a "strike of capital" occur, that is, should a state of affairs exist in which financial interests were attempting by unconstitutional means to resist the will of the country as declared in a democratic General Election, then we should clearly have a crisis in which drastic action would be necessary and justifiable. But it is less likely to occur on the method suggested above: given strong control of the capital market, as exists today and as a Socialist Government must continue and develop, the market could be made hungry for investment by temporary ban on other loans. Moreover, experience immediately before, and more particularly during, the war have shown that the amount of capital seeking investment at low rates of interest (provided the investment is secure, as State loans are) is virtually limitless, as long as the Government is creating income and putting money into circulation either by its spending policy or by other means. In the post-war period, given rationing and control of investment, there should be considerable quantities of money seeking an outlet, as long as income was maintained by full employment, by State spending, etc., and particularly if shareholders of nationalised industries were to any extent paid in cash. If industry X were nationalised and the shareholders were paid in cash (raised by short-term borrowing by Treasury Bills or Treasury Deposit Receipts), they would probably queue up to invest in a long-term State loan at, say, 2½ per cent, which would pay off the short borrowing - if financial circumstances justified funding - ; or be available for another industry, if they did not.

39. The funds raised by the "National Industrial Stock" would be managed by the National Debt Commissioners, or other special body, who could then use them for particular industries, (a) for financing nationalisation, (b) for making

available the additional capital necessary for improving the efficiency of the industries concerned.* The question whether, and on what terms, money could be provided for industries not yet nationalised raises a much wider issue, as does its relation to the National Investment Board.** These subjects are outside the terms of reference of this Memorandum. But the more limited policy proposed above is one very similar to that now proposed for Local Loans. Money will be raised by the State, at the cheap rates which State loans can command, and made available to local authorities at rates much lower than they could secure on the open market. So it might be with industry. It would be the duty of the National Transport Authority and the Boards of the other nationalised industries to make a fixed payment to the Debt Commissioners or Investment Board, and this would be the industry's only interest burden. The terms would be fixed by the authorities concerned, but they would involve a much lower capital charge than is borne today.*** They might or might not include provision for repayment by means of a sinking-fund; as long as new capital investment, i.e. new borrowing from the Debt Commissioners was continuing, a sinking-fund would be uneconomic, but from that time forward, a healthy amount of repayment, combined with a progressive reduction of rates and fares, an improvement of facilities, and an increased standard of remuneration for railway servants (and other transport services) should be provided from the mounting revenues of the Authority, as efficiency increased and the gains from unification of the railway system, co-ordination with the rest of the transport system, and other advantages of nationalisation were reaped.

40. Redemption of railway debt would thus proceed on two fronts, first, by repayment out of net revenues, secondly, by such steps as the Government might be taking nationally, by the instrument of taxation, for reducing the national debt and the unearned-income burden. The second of these again raises wide issues of national, political and economic policy which have no place in this Memorandum, and in any case it would reduce only the State's debt to bondholders, not the Transport Authority's debt to the State. Not until reduction of the entire National Debt were under way would it be possible for the National Debt Commissioners to contemplate remission of the Transport Authority's debt to them. But the question of redemption out of transport net revenues raises the issue whether

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* It has been estimated that something like £200-300 millions will be needed for new capital investment in the mines, and a similar figure for the iron and steel industry.

** Compare the Labour Party Executive's Report on Full Employment and Financial Policy (accepted by Conference, December 1944), pp.3 and 6; the Fabian Society's "Prevention of General Unemployment - Evidence presented to Sir William Beveridge" (1944), pp.4-13 and Appendix II, pp.17-20. The idea of a National Investment Board is also put forward in Sir William Beveridge's Full Employment in a Free Society, pp.177-8.

*** Compare the late George Ridley's Railways - Between Two Wars, p.13, as well as other authorities, on the poor credit of railway companies, the high rates they have had to pay for capital, and their ultimate breakdown, resulting in the State's becoming responsible for their borrowing, with the Railway Finance Corporation Act, 1935.

any special provision for repayment should be made in the Act. Some enacted and proposed nationalisation measures have provided an allocation of revenues, making specific provision for a sinking-fund.* If instructions are to be contained in the Act, however, they should provide not for an order of priorities but - once operating costs, depreciation, necessary development and the annual interest-charge were covered - for a "profit-sharing" formula, to divide the excess of net revenues over a certain figure, between reductions in rates and fares and improved services, increased wages and salaries and reduction of debt, the last-named representing a lowering of future costs through reduction of the interest charge.** The parties concerned in the transport service, as in any other nationalised industry, - namely, the consumers and the workers engaged in the industry - would thus share in the gains from nationalisation in such measure as the community might decide. But more important than instructions and legislation is the securing of a Board or Authority whose members, chosen for their knowledge of the job and ability and competence in administration, have their heart in the job of making the transport system adequate to national needs and of giving to railway-users and to railway servants the Square Deal - the New Deal - which private ownership has failed to give them.

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March 1945.

Harold Wilson.

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* For instance, the London Transport Bill, as amended in Committee, contained the following provision for allocation of revenue.

Clause 45 of Bill as amended in Joint Select Committee.

"45. (1) The revenues of the Board in any year shall be applied in defraying the following charges and in the following order:

(a) working and establishment expenses, and expenditure on or provision for the maintenance and renewal of the undertaking and the execution and performance of the powers and duties of the Board (including the remuneration and salaries of the members and officers and servants of the Board and payments on account of pensions, super-annuation allowances, and compensation to officers and servants) properly chargeable to revenue account;

(b) interest on any temporary loan raised by the Board;

(continued on page 35

(end of note *, p. 34)

(c) the amount to be transferred to the Tramway Debt Liquidation Fund and the amount of any sums payable to local authorities by way of annual payments in respect of the interest on loans raised by them for the purposes of transferred undertakings;
(d) interest on the 'A' Stock, 'T.F.A.' Stock, 'L.A.' Stock, and 'B' Stock respectively and any arrears of interest thereon in the order specified;
(e) any sum becoming payable by virtue of any guarantee given by the Board under section eighty-eight of this Act;
(f) interest for that year on the 'C' Stock at the standard rate; and
(g) any sums required under this Act to be transferred to any sinking fund in connection with the 'A' Stock, 'T.F.A.' Stock, 'L.A.' Stock, and 'B' Stock.

"(2) The balance, if any, arising in respect of each of the first two years after the appointed day shall be transferred to the reserve fund established in accordance with this Act.

"(3) The balance, if any, arising in respect of any subsequent year shall, subject to the repayment to the reserve fund of any sum which may have been transferred from that fund and applied for the purpose of defraying the charge mentioned in paragraph (f) of sub-section (1) of this section, be applied up to one moiety thereof to the payment of additional interest for that year on the 'C' Stock at a rate not exceeding one-half of one per cent, and the residue of the said balance shall be transferred to the reserve fund established in accordance with this Act."

Similarly the Nationalisation of Mines and Minerals Bill (1937) contained the following provisions:-

"17. The revenues of the Corporation in any year shall be applied in defraying the following charges and in the following order:-
(a) working and establishment expenses, and expenditure on or provision for maintenance and renewal, and the execution and performance of the powers and duties of the Corporation (including the remuneration and salaries of persons employed by the Corporation) properly chargeable to revenue account;
(b) interest on any temporary loan raised by the Corporation;
(c) interest on stock;
(d) the establishment of a sinking fund; and the balance (if any) shall be transferred to a reserve fund."

** Compare the "ascertainments" system in the coal-mining industry, and, a better parallel, the scheme for a "national ascertainment" and division of coal profits between consumers and mineworkers, proposed by the National Union of Mineworkers.

APPENDIX I

THE FINANCIAL POSITION OF THE RAILWAY COMPANIES

41. It is impossible to form any definite views on the issues touched on above without some consideration of the financial position of the Railways, - pre-war, war-time and post-war. The real analysis of this subject would have to be made by the Tribunal, and the ensuing paragraphs do no more than outline the kind of problem they will have to consider. It does not in any case purport to give all the facts and views on which a judgment might be based.*

The Pre-War Position

42. The salient facts about the pre-war position have been set out in Table III to paragraph 23, which listed the net revenues in the 10 years before the war. In 1929 (a year of good trade, and as yet incompletely developed road competition), net revenues amounted to nearly £45 millions, and ordinary shares paid 3.9 per cent. After that year the slump hit the railways in common with other industries and services, and net revenues reached a record "low" with £26.4 millions in 1932. From that time recovery was slow but steady as economic activity recovered, but all the time there was an increasing loss to the roads. Thus by 1937, when economic activity and employment had recovered, (the latter being, indeed, above the 1929 level), railway net revenues were only £37.9 millions, some 16 per cent below the 1929 figure. Table VII shows the increase in economic activity as measured by

(a) total national income; (Professor Bowley's estimates)**;

(b) an index of industrial activity; (as calculated by Sir William Beveridge in work on which he and the present writer were engaged before the war);***

(c) an index of industrial production; (London and Cambridge Economic Service);

(d) the total numbers employed.

Railway net revenues are shown alongside for comparison.

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* Such an ambitious project would require several volumes; an introduction can be found in such works as Gilbert Walker's Road and Rail (1942) and the final chapter of the forthcoming book by the present writer, The State and the Railways (to be published by Messrs. Jonathan Cape).

** Studies in the National Income, 1924-1938 (1942), p.81.

*** Full Employment in a Free Society: the lower figures as compared with the L.C.E.S. and employment indices are due to the fact that the Beveridge index is a continuation of his 19th-century index taken into the inter-war period to test its accuracy. For the present purpose, the L.C.E.S. and employment indices are much better.

TABLE IX

Year	(a) National Income		(b) Industrial activity Index No.	(c) Industrial Production Index No.	(d) Numbers employed		(e) Railway freight traffic (General merchandise classes 7-21)		(f) Railway Net Revenues	
	£mns	Index No.			Thousands	Index No.	Mn. tons	Index No.	£mns	Index No.
1929	3926	100	100	100	10916	100	57.6	100	45.0	100
1930	3812	97	90	90	10337	95	53.2	92	37.7	84
1931	3438	88	73	80	9966	91	47.6	83	33.4	74
1932	3327	85	68	79	9881	91	42.5	74	26.4	59
1933	3533	90	75	85	10377	95	42.5	74	28.8	64
1934	3713	95	83	93	10798	99	45.2	78	31.5	70
1935	3919	100	83	96	11066	101	45.3	79	32.9	73
1936	4151	106	84	102	11679	107	48.3	84	35.7	79
1937	4351	111	88	104	12311	113	50.3	87	37.9	84
1938	4362	111	76	93			44.3	77	29.0	64

It is clear from the table that although railway revenues improved with the increase in industrial activity, the improvement was not in proportion: ground was being lost to the roads. Gilbert Walker in Road and Rail has made a calculation of the ground lost by taking indices of industrial production from the Board of Trade's Census of Production 1907, 1924, 1930 and 1935, and assuming that, in the absence of road competition, general merchandise traffic by rail would have increased proportionately. He calculates that in the middle and later 'thirties the loss of gross receipts through road competition was of the order of £46 millions.*

43. The issue came to a head in 1938. As long as trade was improving, rail traffics, net revenues and the dividends on ordinary shares were improving too, and in 1937 seemed to augur some hope for the future. When the level of trade turned down, with the beginning of another cyclicale depression in 1937-8, however, the full extent of the depredations of road competition became clear. With industrial production only 7 per cent below 1929, general merchandise traffic (classes 7-21) was 23 per cent; railway net revenues 36 per cent and the dividend on ordinary shares 85 per cent below the figures for that year. It was against this setting that the railway companies in 1938-39 came out with their demand for a "Square Deal". The causes for this demand, and the extent to which it was justified are subjects which lie outside the scope of this Memorandum, and they have been adequately discussed elsewhere.** Briefly, the

* Road and Rail, pp.122 ff. To some extent the value of this estimate is reduced by the fact that no allowance is made for increased costs and their consequent effect on net receipts: at the same time the figure is perhaps an under-estimate because the "receipts per ton" for the lost traffic is taken as the average receipts per ton for traffic not carried. Since the loss was principally on the cream of the traffic, the "receipts per ton" would be higher than the average.

** Notably in Gilbert Walker's Road and Rail. The last chapter of the present writer's forthcoming The State and the Railways also reviews the question.

Railway Companies' case is that the undue preference legislation, the requirement that all charges be published, the limitations on the use of special rates, etc., and the rate structure severely limiting charges on the heavier traffic, impose intolerable handicaps to their competing with the railways. The whole legal structure dates from a time when the railways had a monopoly, and was appropriate to such conditions. Railway revenues were based on charging what the traffic will bear, and this presupposed higher charges on the less bulky, more valuable traffic to offset the low rates on the heavier goods. With road competition this compensating balance was lost; the road hauliers, untrammelled by restrictive legislation, skimmed the cream off the traffic by carrying the more remunerative goods, leaving railways with the heavier traffic on which the lowest charges were recovered. The statistical effect of this is shown in Table XX in the Statistical Appendix. In 1929-37 (two years of peak trade) general merchandise (classes 7-21) fell by 10 per cent; minerals and merchandise (classes 1-6) by 8.2 per cent; and coal, coke and patent fuel by 9.1 per cent. But the serious fact was that not only do the classes 7-21 carry easily the highest rates per ton, but the average rates on these fell, while those on others generally held their own or even increased, as the following table shows:-

TABLE X

Company	Average receipt per ton on classes of traffic General Merchandise (7-21)		Minerals and Merchandise (1-6)		Coal, Coke and Patent Fuel	
	1929	1937	1929	1937	1929	1937
LMSR	13 8.98	12 8.78	4 2.25	4 2.85	3 4.18	3 5.59
LNER	11 7.56	11 3.65	3 9.73	3 7.85	2 11.94	3 0.49
GWR	11 10.36	11 3.07	4 4.30	4 2.62	2 4.48	2 6.64
SR	12 4.05	10 5.66	4 3.25	4 1.39	4 0.87	3 10.43

Thus while goods traffic (all classes) measured in tonnage, decreased by 9.1 per cent (and measured in ton-miles by a much smaller figure) between 1929 and 1937, gross receipts from goods traffic fell by over 11 per cent, and since costs did not fall in proportion, net revenues fell heavily, being, as has been said, 16 per cent less in 1937 than in 1929. It is interesting to note that in spite of the private motor-car and the 'bus, rail passenger receipts were well maintained. Passenger journeys actually increased from 870 millions to 907 millions (4 per cent); and the average fare was fairly well maintained. Total passenger receipts in 1937 were thus not much below the 1929 figure. Moreover, part of that which was lost to the roads (viz. to road omnibus services) found its way back to the railway companies, as rail participation in road passenger services has been extensive and successful.*

44. The Railway Companies, in their Square Deal demands, claimed the repeal of the existing statutory regulation of charges, including the undue preference legislation, classification and publication, and demanded freedom "exactly like

* Railway companies' capital investments in omnibus services totalled £9,622,470 at the end of 1943.

other forms of transport .... to decide the charges and conditions for the conveyance of merchandise which they are required to carry".* The Minister, "inclining" to the view that there was a prima facie case for some material relaxation of existing statutory regulations, referred the claim to the Transport Advisory Council, which appointed a Committee to consider it. Meanwhile railway representatives entered into discussion with the trading and other transport interests concerned. Agreement was finally reached on terms which provided:-

(a) While the statutory obligation on the railways to provide reasonable facilities and through rates was to remain, the classification, standard charges, exceptional rates and agreed charges, disintegration, the "Equality clause" and undue preference legislation were to end.

(b) In their place there should be voluntary conferences to consider proposals by the railway companies for any general increase of charges, with provision for submission to a Tribunal, who would be required to consider, among other questions, the effect of the proposed increase on the public interest and on the financial position of the parties concerned, the degree of competition, charges to other traders for the carriage of similar merchandise, and variations both in costs and in the value of money.

(c) A Central Consultative Committee was to be established, consisting of representatives of road and rail interests, to "co-ordinate" charges by voluntary agreements.

Agreement was not reached, however, on the question of publication of rates.

45. In May 1939 the Minister announced his acceptance of the proposals and the way was clear for the introduction of legislation in the ensuing Parliamentary session. On 1st September, however, the day on which Hitler struck at Poland, the railways passed into Government control for the duration of the emergency, and the Square Deal was left to the indefinite future. It is important, however, from the point of view of net "maintainable" revenue, to note that the acceptance by the Government of the Railways' Square Deal proposals - modified only to a limited extent - implied that the Government considered that the railways' competitive powers prior to 1939 were inadequate. Thus revenue in, say, 1936-8 or any similar period, unless it were regarded as abnormally high because of the exceptionally good trade, was hardly a fair basis for later valuation, whether in war-time or after the war. Another point to be noticed was that the railways' financial position in 1939 showed a considerable improvement over 1938. After an exceptionally bad first quarter, recovery began in the summer, and was well advanced before the outbreak of war. The improved results for 1939, therefore, though powerfully aided by war traffics in the last four months of the year were already in sight before the war. The main explanation, of course, was the reversal of the trade depression due to re-armament and near-war conditions.

Railway Finance in War-time.

46. The principal interest of the market so far as railways were concerned in the first few months of the war was speculation (in both senses of the word) on the method and basis of

* Memorandum submitted to the Minister of Transport by the Companies, reprinted as Appendix I. of the Report by the Transport Advisory Council on the Proposals of the Main Line Railway Companies to the Conveyance of Merchandise by Rail.

financial control. The first question was whether the railways would be taken over, as in 1914-18, for a fixed rent charge, or whether there would be some minimum and maximum earnings allowed; if the latter, what basis would be fixed, and what freedom would there be to raise rates and charges as costs increased? On the whole the market was cautious; it had little hope that the railways would be allowed to profiteer out of the war,* and was prepared for some form of guaranteed earnings perhaps equal to the average for 1936-38.** It was later learnt*** that in the negotiations between the companies and the Government on the guaranteed net revenue, the Government wanted 1936-37-38 as the basis, the companies 1935-36-37. On this the companies gained their point. On the other hand the companies wanted net revenue to increase in proportion to the volume of traffic handled: the Government saw that this would be inflationary and would in any case reduce the incentive to efficiency.

47. In February 1940 a White Paper was issued on the financial arrangements made between the Government, the four Main Line Companies and the L.P.T.B.**** It provided that, as from 1st September, 1939, all revenue receipts and expenses of the controlled undertakings were to be pooled. From the pool there would be paid to the undertakings a guaranteed annual sum***** (amounting to about £40 millions) equal to the average net revenues, 1935-36-37, for the main line companies, and to the L.P.T.B. net revenue for the year ended 30th June, 1939. The payments were to be paid to the companies in fixed proportions as follows:-

TABLE XI

Company	Per cent.	(Approximate net disposable revenue, including uncontrolled receipts from other sources). £mns.
L.M.S.R.	34	13.9
L.N.E.R.	23	9.6
G.W.R.	16	6.4
S.R.	16	6.6
L.P.T.B.	11	4.5
	100	41.0

* The political argument was well expressed by The Economist in 1943: "True, in terms of the nominal capital of the railways, the return seems meagre, less than 4 per cent; expressed as a percentage of the effective capital employed - the only real basis of comparison - it may show a different picture. Whatever the war-time service of the railways - and war-time service is only common duty - their stockholders could hardly expect to derive special gains from Britain's emergency, especially as, for the most part, they are not identical with the officials and operatives who are actually doing the job.

** This The Economist (14th October 1939) described as "the most popular suggestion".

*** Disclosure by Lord Horne to G.W.R. annual shareholders' meeting, February 1940.

**** Government Control of Railways, Cmd. 6168 of 1940.

***** This was exclusive of "any net revenue derived from investments in road transport undertakings and from ownership of and investments in railways in Northern Ireland or Eire". (Clause 6). These excluded revenues are referred to in the statistical tables as "non-controlled" or "uncontrolled" revenues.

The guaranteed net revenues for the main-line companies thus amounted to £36.5 millions. In addition it was provided that the five undertakings were to receive the whole of any earnings up to £43.5 millions (excluding the miscellaneous uncontrolled receipts of about £1.1 millions), and that from that figure, any increase in earnings was to be divided equally between companies and Government (to the former in proportion to guaranteed net revenues) until total payments ex pool amounted to £56 millions, a total equivalent to the standard net revenues for the main-line companies, plus the net revenue necessary to enable the L.P.T.B. to pay the standard rate of interest on its 'C' stock. If any company reached and passed its standard net revenue before the others, the excess over that standard should go to the other companies. The effect on the earnings of the various companies in Stage I. (guaranteed net revenues), Stage II. (the additional £3½ millions), and the various phases of Stage III. (as each company received its 1921 Standard) is well summarised in Table XII, reproduced from The Economist.*

* 10th February, 1940, p.254.

TABLE XII

Division of Net Revenue
£ millions

	Stage I. (Guar.min. with addition of non-controlled net revenue.	Stage II. Do. plus £3½ millions up to £43½ millions	Stage III:- Excess from £43½ millions to £60½ m. (plus uncontrolled net revenue divided equally between Govt. and undertakings.				
			At SR max.	At LPTB max.	At GW max.	At LMS max.	At LNE max.
Disposable revenue	£41	£44.6	£46.6	£54.1	£60.3	£67.6	£69.7
LMS							
Share Ord.	£13.9 1%	£15.1 2.3%	£15.5 2.7%	£17.0 4.3%	£18.4 5.8%	£20.6 8.1%	£20.6 8.1%
LNER							
Share	£ 9.6	£10.4	£10.6	£11.7	£12.7	£14.1	£15.2
2nd Pref.	1.2%	2.5%	2.8%	4.0%	4.0%	4.0%	4.0%
Pref.Ord.	...	...	...	0.6%	2.9%	5.0%	5.0%
Def. Ord.	...	...	...	...	...	1.7%	4.7%
GWR							
Share Ord.	£ 6.4 3.3%	£ 7.0 4.6%	£ 7.1 4.9%	£ 7.8 6.6%	£ 8.5 8.1%	£ 8.5 8.1%	£ 8.5 8.1%
SR							
Share Def. Ord.	£ 6.6 0.8%	£ 7.2 2.7%	£ 7.4 3.2%	£ 7.4 3.2%	£ 7.4 3.2%	£ 7.4 3.2%	£ 7.4 3.2%
TOTAL: 4 MAIN LINES	£36.5	£39.7	£40.6	£43.9	£47.0	£50.6	£51.7
LPTB							
Share 'C' Stock	£ 4.5 1.5%	£ 4.9 3.1%	£ 5.0 3.5%	£ 5.5 5.5%	£ 5.5 5.5%	£ 5.5 5.5%	£ 5.5 5.5%
TOTAL	£41.0	£44.6	£45.6	£49.4	£52.5	£56.1	£57.2
Exchequer Share	†	...	£ 1.0	£ 4.7	£ 7.8	£11.5	£12.5
TOTAL	£41.0	£44.6	£46.6	£54.1	£60.3	£67.6	£69.7

† Contingent Govt. liability if minimum not earned.

Provision was made also for the settlement of the finance of maintenance, war damage, and the requisitioning of privately-owned wagons. It was also provided that, "Rates, fares and charges will be adjusted to meet variations in working costs and certain other conditions arising from the war..."* while the Minister, or the Companies and the Board jointly were to be free after the end of the year 1940, to propose a revision of the arrangements for any cause of a major character, and if agreed, the arrangements were to be revised accordingly.**

* Clause 10

** Clause 11

48. This agreement was a pleasant surprise for the railway shareholders and the market: their reactions have been shown in Table I. of paragraph 20, which showed the bull movement in certain marginal stocks in the few days following the publication of the Agreement. The Economist described it as

> "a compromise ... which is unmistakably favourable to the companies and their stockholders ..."* and commented,
> "... It is not a question (as in the last war) of compensating them for loss of revenue, but of deciding how much of their increased earnings should go to the State, whose acts (chiefly that of going to war) are responsible for the railways' good fortune ... Their present and prospective extra earnings are due very largely to the handicaps imposed by war conditions on their competitors."**
> Then, after commenting on the complete inapplicability of 1921 Standard Net Revenues to present conditions, on horse trams and cotton mills,*** goes on,
> "... It is impossible not to conclude that the railways have been treated too generously (the delighted surprise of the Stock Exchange is a proof). The figure fixed for the guaranteed minimum is acceptable; so is the principle that in return for a guarantee the railways should hand over part of their present increased earnings. But the proportion they should retain and the maxima to which their revenues can rise have both been fixed too high. And it is deplorable that no protection seems to be interposed between the public interest in cheap transport and the railways' desire to earn a 'standard revenue' which is no longer of more than historical significance."****

49. The terms of the Agreement did all that was expected of them, and net revenue accruing to the five undertakings in 1940 (including uncontrolled revenue, which was a net debit), amounted to £43.4 millions, only £1.2 millions short of Stage II. revenue. Costs were increasing rapidly, and in accordance with Clause 10, charges were increased twice during the year by 10 per cent in May, and 6 2/3 per cent (excluding certain traffics) in October; amounting to about 15 per cent in all. The contribution of this provision for increasing charges to the inflationary spiral was soon recognised and there was a growing demand for a revision of the Agreement. In the summer of 1941, the Government took advantage of Clause 11, and claiming that the decision to place all public utilities on the same footing as regards war damage, and the Government's new policy to stabilise the cost of living, constituted "causes of a major character", secured a revision of the Agreement.***** It was now settled that fixed annual payments amounting to £43 millions should be made to the companies as follows:-

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* 10th February, 1940, p.254.

** Ditto, p.243.

*** This highly significant passage is quoted in a note to para.14.

**** Page 244.

***** Government Control of Railways: Cmd. 6314 of 1941 (September)

TABLE XIII

	£
G.W.R.	6,670,603
L.N.E.R.	10,136,355
L.M.S.R.	14,749,698
S.R.	6,607,639
L.P.T.B.	4,835,705
	£43,000,000

All surplus above that figure was credited to the Government. Thus while the guaranteed net revenue was increased to the Stage II. figure, there was no provision for the railways to secure any gains from increased traffics and revenues beyond that figure. New provision was made for dealing with maintenance and war damage, and it was arranged that the levels of rates, fares and charges should be determined by the Government during the period of control, the provision for automatic increases being abrogated.* It was further laid down, in a Clause which has been much quoted of late, that,

> "Control will be continued for a minimum period of one year after the cessation of hostilities. Before control comes to an end (i.e. before all statutory rights and obligations as they exist at that time again apply to the controlled undertakings, time will be given for the operation of any statutory machinery governing the level of charges."**

50. The remainder of the financial history of the Railways in war-time rests on the framework of this Agreement. Interest and dividends were well maintained above the best immediate prewar figures. In fact criticism was made that dividends were excessive:-

> "In view of the fact that most of the lines are overcapitalised by peace-time standards, and that all have from time to time been short of ready money for new construction, the extremely liberal distribution policy is to be deplored. It clearly rests on the belief that the Government will provide, and so places a potent weapon in the hands of those who maintain that transport should be State-owned."***

Yet in spite of the relatively high dividends, the prices of railway stocks failed to rise, and yields on certain ordinaries were as high as 11 per cent in 1941-2, this showing, as has been commented, that the market took a jaundiced view of the ability of the companies to maintain war-time revenues and dividends after the war. The dizzy heights (£105.6 millions in 1943) reached by the net revenue received by the Pool (though not by the companies) have not been taken as indicative of the earnings which could be expected in peace-time. The increase in costs, however, (272.2 millions in 1943 against £163.3 millions in 1937) has had a sobering effect, taken in conjunction with prospects of maintainable revenue. A few optimists in Parliament and outside have hoped that the Government would agree to revise the 1941 Agreement, because of such a major cause as the entry of the U.S. into the war, and the carrying of operational traffic; but this was never a serious possibility. The 1941 Agreement has remained, and will remain, for the period of control.

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* Clause 10.

** Clause 11.

*** <u>The Economist,</u> 27th February, 1943, p.273.

Post-War Prospects.

51. Since about the beginning of 1943 the market's attitude to the Railways has been related much more to post-war prospects than to war-time earnings. One factor has undoubtedly been the political: will the railways be nationalised? And if they are, what treatment can the equity-holder expect? As has been suggested above, he should expect treatment no better and no worse than he would have had if private ownership continued, subject to the substitution of a lower guaranteed income for a higher but more precarious one. And the prospects under private ownership depend, as has been said, partly on the level of economic activity but much more on the rate of profits the State allows the railways to earn. Given a definite scale of rates and charges and a definite panoply of competitive power, e.g. that now existing, earnings of course will depend to a very large extent on the rate of economic activity and on the development of other forms of transport. The prospects as regards economic activity are touched on below; but it should be pointed out at once that with any foreseeable volume of traffic, (and clearly nothing like the war-time volume can be expected), some increase in charges to cover increased costs will be necessary. The only question is how much will be necessary and how much will be granted. In fact the amount granted will be that which the State calculates would give a fair net revenue of £x millions, for it is on the level of rates and charges and the degree of Square Deal given in the statutory regulation of freedom to compete, that earnings will depend. Railway earnings will depend on the extent to which they are free to charge low rates (and rates using other weapons of competition that were cheaper) on goods subject to road competition, and to charge higher rates than hitherto on traffic for which they possess a virtual monopoly. The State's decision on these questions will be a compromise between the interests of the trader (with some regard to the interests of other forms of transport) on the one hand and those of the railway shareholder; and it will almost certainly be settled on the basis of a "standard" net revenue. The idea of "net maintainable revenue" under conditions of private ownership as some calculable figure independent of politics thus has virtually no meaning. It is the result of a political compromise, giving a greater or lesser degree of co-ordination between the various forms of transport.

52. The principal economic factors facing the railways at the end of the war will be:-

(a) the level of economic activity;
(b) the distribution of this as between different classes of traffic, e.g. heavy or light merchandise;
(c) the development of competing forms of transport and their competitive power, given no change in the Railways' ability to compete;
(d) the extent to which the railways power to compete on marginal traffics and to charge higher rates on monopoly traffics is increased;
(e) the increases in war-time costs which remain, in whole or in part, after the war.

The level of economic activity will depend principally on the success of the Government in maintaining "a high and stable level of employment". The assumptions made by the Government for their Social Security calculations give a rate of unemployment of 8½ per cent (new style), equivalent to the figure in 1937. But since more people will be seeking work, and productivity has increased, it might not be unreasonable, assuming success in the maintenance of the high and stable level, to take an increase of 10 per cent above 1937 levels as a fair estimate. If there were success in reaching the Beveridge level of "full employment" (3 per cent unemployed), it might be 20 per cent higher.* On present charges this would give total receipts of £264 millions and £228 millions respectively, against £202 millions in 1937 and £382 millions in 1943. Costs are now £272 millions against £163 millions in 1937; and allowing an increase equivalent to half the increased traffic they would be £257 millions to £269 millions, leaving net revenues of only £7-19 millions. Thus some increase in charges would be required: the only question is, how much?

53. The change in the relative proportions of particular traffics under full employment in post-war conditions is again difficult to estimate. The 1937 boom was based on rearmament, with heavy movements of steel and other materials. Post-war full employment, particularly in the immediate post-war years, will be closely related to the building and civil engineering programme. This should be to the advantage of the railway companies, but it is impossible to say to what extent. Coal class traffic is likely to be lower than pre-war, certainly for a time, and probably for a decade or two. The increase in lighter merchandise, perhaps following the extension of the light engineering and light metal industries should be marked; here it is a question entirely of the Railways' ability to compete with the roads, and perhaps with the airways.

54. In the matter of costs it is worth remarking that 1937 net revenues were achieved only by the aid of extremely low wages. With anything like a Square Deal for railway servants, towards which progress has been made in war-time, the net revenues would be less. It is impossible to forecast, on the hypothesis of private ownership which we have made, whether the present wages-bill would decrease, increase or remain about constant. With other constituents of costs, such as fuel and materials, it is safe to say that costs will be reduced somewhat, though not in any foreseeable time to anything like the 1937 figures. We are therefore thrown back on the earlier statement that some increase in charges will be necessary,** and that in practice this will be done by reference to some idea of a fair maintainable revenue. Whether a Government considering the question on the assumption of continuing private ownership would revise the charges on the basis of "competitive power" or on that of increased co-operation and co-ordination between the transport services, it is impossible to say. The probability is that the kind of Government likely to proceed on such an assumption would not only work on out-of-date notions of competition, but would also aim at a maintainable net revenue far higher than is reasonable, and this is in itself an overriding argument for nationalisation in the interests of the community and for the return to power of a Government likely to secure it.

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* Very similar estimates are made in The Economist, 10th March, 1943, pp.317-18. The remainder of the analysis follows The Economist.

** Railway Chairmen have recently "ventilated" this matter. One of them said that a 50 per cent increase over pre-war (against the present figure of 15 per cent) would be necessary to give pre-war revenues, and an increase of 60 per cent to give the old 1921 standard.

APPENDIX II.

SUMMARY OF PROCEDURE ADOPTED IN EARLIER CASES OF NATIONALISATION OR UNIFICATION

55. The following account of the procedure adopted in a number of earlier cases is given as a guide to the problems likely to be met with and, in part at least, as a warning against mistakes which marred earlier efforts. It is not meant as a full account of the earlier schemes, which would require hundreds of pages, and for a full account reference should be made to the two works on which this Appendix is principally based, viz. Public Enterprise (edited by W.A. Robson) and How Much Compensation by E. Davies*. Five cases are taken in chronological order:- the Metropolitan Water Board, the Port of London Authority, the London Passenger Transport Board, the British Sugar Corporation, and the "unification" of Coal Royalties. The B.B.C. and B.O.A.C. do not form a significant parallel to the railway problem, whereas all the five cases taken above had some problems in common with those of the socialisation of rail transport.

(1) The Metropolitan Water Board.

56. This Board was created by the Metropolis Water Act of 1902 to absorb all the private water companies operating in the London area, companies having in all some £22,900,000 nominal capital. The private shareholder was to be compensated at terms to be settled "by agreement", though recourse to arbitration was provided for. Municipal undertakings taken over were to be paid for in cash. Against the nominal capital of £22,900,000, compensation in specially-created M.W.B. Stock amounted to over £46,900,000. All stockholders, whether owning fixed interest or equities were compensated by equivalent amounts of the fixed-interest bearing M.W.B. Stock, on terms which, roughly speaking, guaranteed an income equivalent to that paid in interest and in dividends in the last year prior to unification. Equity shareholders, in fact, who normally as in most businesses, received a fluctuating income varying with the profitability of the company, received a guaranteed right to a fixed income equal to the amount they had received in their last year of existence - and a good year at that. As Davies points out**, it is practically certain that the companies could not have continued to pay the immediate pre-unification dividends owing to various charges, including adiminution in the rate of increase of both population and the number of consumers, and an increase in the number of private wells, in addition to a growth of rates and taxes combined with a decline in rateable value. Yet the pre-unification revenue was made permanent. Davies has commented*** that the M.W.B. operation "illustrates the disadvantage of substituting only fixed interest bearing stock for the total capital of the acquired concerns." It would be fairer, however, to criticise the way in which it was done. There is nothing objectionable in substituting fixed interest bearing stock in exchange for ordinary, variable-interest bearing shares: indeed, the only alternative is the far more objectionable creation of variable-interest bearing stock, with dividends varying with the "profit" of the new nationalised undertaking. The important question is the rate of exchange adopted.

* Both published by the New Fabian Research Bureau, later absorbed in the Fabian Society.

** How Much Compensation, p.28.

*** P.27.

In the M.W.B. case, approximately £1 of fixed interest income was guarenteed in exchange for £1 of dividend on ordinary stock in a good year. Clearly the amount of income guaranteed should be based on an average over a period, not on a single year, and the amount then determined should be discounted for any of the factors (such as those referred to above) which make current revenue not maintainable, and for the greater security of a fixed income. Secondly, the M.W.B. operation in addition to saddling the new Board with an excessive interest-charge was based on an unsound capitalisation of that interest charge. Instead of creating a small amount of capital but with a high rate of interest, with freedom to convert to a lower rate if circumstances became suitable, an inflated capital was created with the low interest of 3 per cent, Class 'A' stock (issued in return for debenture stocks) not being redeemable till 1936/2003. and Class 'B' stock (replacing Share capital) not until 1934/2003. In any case the low interest made conversion impossible: had a total capital of say three-fifths the actual amount been issued bearing interest at 5 per cent (redeemable), the interest charge could have been substantially reduced at the first favourable moment. In fact the fall in long-term interest rates after 1932 would have made possible a most successful conversion.

> "The generosity with which shareholders were treated lay not in the rate of interest paid, but in the nominal amount of capital substituted which resulted in the permanent over-capitalisation of the London water supply system. Far better it is to err on the side of too high interest rates, provided that early redemption is made possible, than on too large an amount of capital. The one can later be rectified, the other cannot."*

(ii) The Port of London Authority

57. The Port of London Act 1908, which created the P.L.A., prescribed the amount of compensation in the Act, leaving nothing to agreement or arbitration. The total P.L.A. stock was £22,194,733 replacing £22,736,986 nominal capital of the three dock companies taken over, but since the average interest paid was higher, the interest charge was £862,030 against £778,035. paid at 3 per cent on the 'A' stock and 4 per cent on the 'B' stock, both redeemable at any time between 1929 and 1999. (In fact, the 4 per cent stock was converted to 3½ per cent in 1934, saving £64,000 per annum). As with the M.W.B., interest payments were a first charge on revenue, and the Authority was permitted to increase charges in order to balance its budget. It had, however, definite powers to accumulate a reserve or cushion, up to £2,000,000, which can be drawn on in bad years. The M.W.B. had such powers only up to £250,000: after that was reached, charges had to be reduced.

(iii) The London Passenger Transport Board.

58. The L.P.T.B. is the most famous case of nationalisation yet carried out, and has been the subject of unceasing discussion and controversy.** The controversy has not extended to the

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* Davies, p.29.

** In addition to the two books referred to, the bulk of Herbert Morrison's Socialisation and Transport deals with the history of London Transport, while there is a useful short discussion in the late George Ridley's Railways - Between Two Wars. For the financial history of the Board its Annual Reports provide a wealth of information.

subject of London Transport's success in "bringing order out of chaos",* co-ordinating transport undertakings, improving working conditions, for in these respects it has had all the success for which its Socialist sponsors hoped. It has been on the financial provisions which Herbert Morrison as Minister of Transport in a minority Labour Government had to accept as the price of getting the Bill through at all, that discussion has been principally concentrated.

59. The London Passenger Transport Bill, introduced by Herbert Morrison in 1931, and brought to fruition by the "National" Government which ousted Labour in that year, was designed to bring under a single control the 5 railways, 17 tramways and 135 'bus and coach undertakings operating in the London area and between them covering "227 route miles of railway, some 2,400 miles of 'bus and coach route, 327 miles of tram route, and 18 miles of trolley 'bus route". To operate the system a single Board consisting of a Chairman and six other members** was appointed and in this Board, ownership and control of London's transport undertakings were vested. The financial provisions, apart from one exception, that creating a special class of equity and stock, followed the lines of earlier measures. They were far from satisfactory, seriously overcapitalising the Board from the start. In this respect a comment of the late George Ridley is worth bearing in mind:-

> "Herbert Morrison is often blamed for this; but two things need to be remembered. In the preceding Parliament an attempt had been made to form a private trust which would acquire the undertakings of Local Authorities - in other words, to sell the L.C.C. trams to the Underground. Morrison meant to avoid this at all costs, and legislative speed was the very essence of things. He was operating in a 'minority' Government in a House where the majority in favour of the Bill was not too reliable, and rather than risk defeat and a return to the privately-owned Trust idea under a Tory Government, he negotiated agreements with the stockholders in the principal undertakings as to the basis of the new Board's financial structure. So some conditions were perforce accepted that otherwise would have been anathema."***

The result of these negotiated agreements was included in the schedule to the Act, for the Metropolitan, the municipal tramways and certain other interests. Agreement was not reached in the case of several coach companies, nor with Tilling's, and the compensation for these was left to the arbitration tribunal established by the Act, being "as a rule more generous than those reached by agreement and incorporated in the Act."****

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* George Ridley, p.16

** Though not strictly within the terms of reference of this Memorandum, it should be commented that the appointment of Chairman and members by a group of Appointing Trustees (the Chairman of the L.C.C., a representative of the London and Home Counties Traffic Advisory Committee; the Chairman of the Committee of London Clearing Bankers; the President of the Law Society; and the President of the Institute of Chartered Accountants) is not now regarded as a model to follow. Responsibility for appointment should lie unequivocally, as proposed in Herbert Morrison's original Bill, with the Minister concerned with the transport system.

*** George Ridley, p.17

**** Davies, p.32

The basis of the agreed compensation was the maintenance of the average net revenue of 1928, 1929 and 1930. In fact nothing like these amounts would have been earned under private ownership in the succeeding three or four years, owing to the economic depression. Compensation was given in the form of L.P.T.B. Stock bearing interest equivalent to the 1928-30 earnings to all debenture owners and preference shareholders. Debenture-holders received L.P.T.B. 'A' stock, carrying 4½ and 5 per cent, and redeemable in 1985/2023; preference shareholders received L.P.T.B. 'B' stock carrying 5 per cent (redeemable 1965/2023). The amounts given in exchange for the cancelled stock of the individual undertakings were sufficient to give the same income as the stocks previously held, no allowance being made for the greater security resulting from payment by a public corporation as opposed to private undertakings. In fact the 'A' and 'B' stockholders soon received a "capital bonus", for with the fall in long-term interest rates which occurred in 1932, when the cheap money era began, 'A' stock alone increased in value by some £14,000,000 or nearly 25 per cent in less than four years. This appreciation in no way affected the financial position of the Board, which had to meet the same fixed-interest charge, but it was a sign that if early redemption had been possible, a conversion to, say, 3½ per cent would have been practicable, and this would have saved over £480,000 per annum (equivalent to 1½ per cent on 'C' stock).*

60. In addition to 'A' and 'B' stock there were two special categories created, to exchange for corresponding classes of the stock of the companies taken over, viz. 4½ per cent "T.F.A." stock, exchanged for the 4½ per cent debenture stocks of certain Underground companies which had been guaranteed by the Treasury under the Trade Facilities Acts 1921-26, and 4½ per cent "L.A." stock, issued only to specified local authorities. The remainder of the capital was the famous 'C' stock, which was intended, with certain safeguards, to be a genuine equity stock, whose rate of dividend would vary with the profitability of the undertaking. £25,000,000 of the total of over £100,000,000 was 'C' stock. It had a standard rate of 5 per cent for two years, and thereafter at 5½ per cent, and to enable this standard to be earned, the Board could vary its charges. If the full rate were not earned in any one of three consecutive years, the 'C' stockholders had the right to apply to the High Court for the appointment of a Receiver. The intention was to create "a modified equity stock with a minimum and a recognised, but not fixed or guaranteed, minimum rate of interest".** In fact, the high capitalisation, increased costs and the effect of trade depression made the earning of a steady 5 or 5½ per cent impossible, and instead the Board is concerned only with the emergency payment of the standard rate one year in three. The effect of the attempt to create an equity stock, therefore, might be the creation of something approaching a fixed interest security paying, on the average, about 2 per cent per annum. In fact the 'C' stock has paid in the years ended 30th June:

		Per cent
1934	...	3½
1935	...	4
1936	...	4
1937	...	4¼
1938	...	4
and 1939	...	1½

* See Davies, p.33

** Herbert Morrison, <u>Socialisation and Transport</u>, p.269

In the latter year charges were raised in aid of revenue, but within a few months the country was at war and L.P.T.B. finances came under the general railway arrangements described in Appendix I.

61. The experiment of creating an equity stock has not been a success, particularly in so far as it has been related to a standard rate, which the stockholder has come to regard as his right. As has been said, the income paid to previous equity holders, if in any way guaranteed, assured or protected should be related not to earnings in a short period but to average earnings over a longer and therefore representative period, and should be heavily discounted in proportion to the additional security. The "standard" rate, which imposes something of a guarantee and of a prior charge on revenues, robs the stock of its equity character, for the essence of an equity is that it takes whatever amount, great or small, is left when all working costs, prior charges, etc., have been met. To make it a standard is to rob it of its "residuary" character, and it might then as well become a fixed-interest charge. On the other hand, to create equity stock without any standard rate makes the yield very precarious, and it is thus very unattractive as a form of compensation. In fact equities are out of place in a monopoly and a public service, for they can, through control of rates and charges, be made to earn whatever rate the Authority chooses. Once this is so, a regular and smaller fixed income becomes the better form of payment.

(iv) <u>The British Sugar Corporation.</u>

62. It is very doubtful whether the British Sugar Corporation should be regarded as an instance of nationalisation: unification it certainly was, though it had more in common with a capitalist merger than with socialisation.* Perhaps it is as a warning of the kind of settlement that might be expected of a Conservative Government that it is most relevant. In 1936 the British Sugar Corporation was created to absorb the individual subsidised sugar factories. Provision for voluntary settlement of the terms was made in the Act, and the comparison took full advantage of it. The "compensation" was vastly in excess of the market values of the companies absorbed, and for the most part in the capital valuation full credit was taken for the continuance of subsidies, presumably regarded as the reward of private "enterprise". Furthermore, it was increased by credit being given for the economies which could be expected from unification; a direct contravention of the principle emphasised in the above pages that compensation should be for the loss of the income which would have continued had there been no nationalisation. As Davies said,

> "It would be difficult to find an example of compensation more generous to the shareholders and more harmful to the State than is here instanced. Compensation based on assets and earnings created with government aid; compensation given with the promise that government aid will continue; compensation with the assurance that economies resulting from the formation of the corporation will in part go to the shareholders."**

(v) <u>"Unification" of Coal Royalties.</u>

63. The nationalisation of coal royalties which, because it was carried out by a Conservative Government was given the

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* Perhaps the nearest parallel was the compulsory amalgamation of the railway companies in 1921.

** P.38

sweeter-sounding name of "unification", was the implementation, 12 years late, of one of the principal recommendations of the Samuel Commission. By the Coal Act of 1938, the mineral rights in coal were transferred from the private owners to the Coal Commission. The Government entered into negotiations with the representatives of the royalty-owners on the subject of compensation, but no agreement was reached. It was therefore decided to refer the case to arbitration, the royalty-owners agreeing in advance to accept the decision of the Tribunal, but the Government reserving its position until the decision was promulgated. It undertook, however, that if it did not accept the finding of the Tribunal it would not proceed except by agreement with the royalty-owners. Both sides had agreed that a global sum on the basis of a sale between a willing buyer and a willing seller was the principle to be applied, and they had further agreed that the annual royalty income, over the period 1928-1934 was £4,430,000. The Tribunal's task was therefore to determine the number of years' purchase, and was specifically instructed to take into account

> "Such variations, if any, in the amount of the net income as may reasonably be expected in the light of its source or otherwise."

It was further instructed to make no allowance for the fact that the acquisition was compulsory, or for any possible increase in value which might result from the transfer of the property to the State. The Tribunal, as has been said, made a thorough review of the problem, and promulgated its decision in the single word "Fifteen".

64. The nationalisation of coal royalties is clearly a good precedent to follow wherever the circumstances render it possible, though in many respects the settlement of a global sum was far easier in this case than in others where the maintainable net revenue is more difficult to estimate, or where it is dependent on the charging of such prices as the Government allows it to charge.

APPENDIX III.

NOTE ON ANCILLARY UNDERTAKINGS

65. The analysis in the main memorandum has related principally to the finance of nationalising the railway system proper. There is also the problem of the many ancillary undertakings in which the Railway Companies hold investments, or which indeed are fully owned by the Companies. These include the directly-owned hotels, laundries, steamships, and the road passenger and goods transport services in which the Companies own varying degrees of interest, not to mention the highly important Railway air services. Any method of acquisition based on a capitalisation of net revenue would, of course, cover the bulk of the directly-owned properties, for the net yield, positive or negative, enters into the calculation of the net revenue as defined for the wartime pooling and rental agreement, and for other purposes. The only sources of revenue omitted in those agreements are those "derived from investments in road transport undertakings and from ownership of and investments in railways in Northern Ireland or Eire." In peacetime, revenue from the Railway Air Services would be a further addition to the monies omitted from the net revenue, while of course steamships have been operating at less than peacetime capacity during the war, this no doubt being taken into account when the rental was settled.

66. This means that the problem of valuing hotels and similar properties will disappear if a guaranteed or capitalised net revenue is adopted, and the same applies of course to the Stock Exchange value, for this naturally takes into account the earning power of such assets. There is one point worth mentioning, however; in wartime the "other pool items" included in the pool but not in railway receipts, have shown a serious loss, for reasons connected with the war. Thus, although in 1937 they earned £3,385,000 net, in 1943 they showed a debit of £3,864,000; the "Pool net revenue" therefore, amounting to £105,568,000 was really made up of £109,432,000 on railway account, less £3,864,000 net debit balance on "other pool items". (Compare Appendix IV - Table XXI). It is possible, if, for instance, a National Hotels Corporation were set up, that the hotels might be transferred to it, and this would require special valuation. This would not be difficult, however, and such a contingency need not detain us. The principal problem would be the investments in ancillary road undertakings, the amount of which at the end of 1943 is set out in the following table, fuller details being given in Appendix IV, Table XXIII:-

Table XIV.

A. In Associated Omnibus Companies.

	£
L.M.S.R.	2,868,130
L.N.E.R.	2,348,532
G.W.R.	2,300,133
S.R.	2,105,675
	9,622,470

B. In Goods Hauliers.

	£
Carter Paterson, Pickfords, Hay's Wharf, (merged 1943: owned jointly by the 4 main-line Companies).	3,183,564
Currie (LNER)	84,805
Petrie	17,000
Wardie	142,939
J. Nall	135,049
	3,563,357

In addition, £4,714,805 is invested in Railway owned parcels and goods vehicles, and £2,764,398 in garages and stables, but these are assets of the Railway companies proper, not investments in road undertakings. Investments in road undertakings amount to £13,185,000, and represent a controlling interest in many, if not most, of the cross-country (and some town) 'bus services, as well as in the biggest national goods hauliers. It should be noted that Stock Exchange valuation naturally takes into account the net revenue received from such investments, since this naturally enters into the dividends paid by the Companies. Moreover, if the basis of a guaranteed income or capitalisation of net revenue were not "pool items" only, but "total net revenue, including non-pool items", these again would be covered.

67. The method of valuing these investments clearly depends on the method of socialising the transport system. If the whole system, including road undertakings, is taken at one bite, then whatever method is applied to road undertakings as a whole will apply to those in which railway companies have a greater or lesser interest. The companies would then in theory receive compensation for their loss of road transport investments, though, of course, the companies should not receive compensation twice over. (For instance, if the companies receive such compensation, the basis of compensation for other assets should be the income - or capitalised value of that income - accruing from pool items only.)

68. If the road interests are not nationalised at the same time as the railways then the new Authority or Corporation would be a stockholder in the still "independent" road undertakings, thus standing to them in exactly the same relation as the private companies today. This will hold good, too, of any investments in railway companies, e.g. in Eire (Northern Ireland may or may not follow the mother country in nationalising the railways), outside the area of nationalisation. The same would be true, at least pending a change in the Government's recently announced scheme for civil aviation, of the Railways' participation in air services, a point made clear by Sir Stafford Cripps in the House of Commons recently, as the following interchange shows:-

<u>Mr. Shinwell</u>:- Will my right.hon. and learned Friend say whether that nationalised railway system would have control of the internal air lines, and would play a smaller part as regards the European air services than is now proposed for the railway companies?

<u>Sir S. Cripps</u>:- That would depend upon the form of nationalisation that this House adopted. The hon. Member knows as well as I do that there are two different forms which can be adopted: you can either take over the whole of the shares of the railway company and put yourself into their position, or else you can expropriate all their physical assets. If you expropriate their physical assets, you do not substitute yourself for the railway companies in their ownership of the shares of this corporation; if you take over the railway companies as a going concern and acquire all their shares, you then put the Government in the position of the railways in this Air Transport Corporation.

APPENDIX IV.

STATISTICS RELATING TO THE FINANCE OF RAILWAY NATIONALISATION

Source:- "Universal Directory of Railway Officials and Railway Year Book" 1944-45, pp.19-30.

(a) **Total Nominal Capital of the Railway Companies**

Table XV

Total Loan and Share Capital at end of 1943 (including nominal additions and deductions)1

Company	£
Great Western	149,773,215
London Midland and Scottish	413,778,857
London and North Eastern	376,643,643
Southern	169,290,003
	1,109,485,716

Note: 1. For definition of terms see

(b) **Detailed Account of Share and Loan[1] Capital**

Table XVI.

Company	Category of Capital	Amount Issued £	Interest on Dividend in 1943	Market Price Range in 1943 Max.	Min.	Market Price Quotations at a single date (9.4.45)
G.W.R.	(a) Capital Stock					
	(i) Consolidated ordinary	42,929,732[2]	4½	65½	57¼	58¼
	(ii) 5% Rent-charge	7,706,241[3]	5	139½	124	[illegible]
	(iii) 5% Consol. Guaranteed	29,616,557[4]	5	135½	123½	133½
	(iv) 5% Consol. Preference Stock	29,427,984[5]	5	120½	108	121½
	(v) 5% Redeemable Pref. (1950)[6]	5,849,522	5	110½	106	105½
	(b) Loan Capital[7]					
	(vi) 2½% Debentures	1,727,097[8]	2½	77	73½	77½
	(vii) 4% Debentures	27,780,214[9]	4	117⅞	107½	116⅞
	(viii) 4½% Debenture Stock	1,009,494	4½	119	108⅛	118½
	(ix) 4½% Debenture Stock	4,629,317	4½	124½	116	123½
	(x) 5% Debenture Stock	4,851,655[10]	5	138	127	136½
L.M.S.R.	(a) Capital Stock					
	(i) Ordinary	95,202,441[11]	2½	$34\frac{15}{16}$	28	29¼
	(ii) 4% Guaranteed	40,692,916[12]	4	107	98½	103½
	(iii) 4% Preference Stock	118,908,762[13]	4	80½	73	78½
	(iv) 5% Redeemable Preference Stock	9,699,132	5	109⅛	102	104
	(v) 4% Preference Stock 1923	40,133,987[14]	4	66½	58	59½
	(b) Loan Capital					
	(vi) 4% Debenture Stock	101,791,069[15]	4	109⅞	103½	109½
	(vii) 5% Red. Deb. Stock (1952)	7,350,550	5	111½	108	109⅞

Company	Category of Capital	Amount Issued £	Interest on Dividend in 1943	Market Price Range in 1943 Max.	Min.	Market Price Quotations at a single date (9.6.45)
L.N.E.R.	(a) Capital Stock					
	(i) 5% Preferred Ordinary	42,360,925[16]	–	12⅜	7½	7½
	(ii) Deferred Ordinary	35,923,810[17]	–	5⅜	3½	3½
	(iii) 4% 1st Guaranteed Stock	33,066,831[18]	4	102⅜	94	102½
	(iv) 4% 2nd " "	27,696,989[19]	4	97½	85⅜	96½
	(v) 4% 1st Preference	48,222,669[20]	4	66½	57½	58
	(vi) 5% Redeemable Preference (1955)	4,014,400[21]	5	99½	93	102
	(vii) 4% 2nd Preference	66,142,180[22]	2⅜	36⅜	30½	30½
	(b) Loan Capital					
	(viii) 3% Debenture	67,522,993[23]	3	86½	78⅜	86⅜
	(ix) 4% Debenture	41,432,276[24]	4	109½	101½	107
	(x) 5% Red. Debenture (1947)	7,740,570	5	106	102	101½
	(xi) 4½% Sinking Fund Deb.	2,520,000[25]	4½	108	103½	106½
S.R.	(a) Capital Stock					
	(i) Preferred Ordinary	27,586,601[26]	5	80	72½	77⅞
	(ii) Deferred Ordinary	31,490,242[27]	2	26⅜	20⅞	24⅞
	(iii) 5% Guar. Preference	5,328,162[28]	5	136	122	133½
	(iv) 5% Red. Guar. (1957)	7,000,000	5	117	108⅜	115⅜
	(v) 5% Preference	40,897,399[29]	5	119½	107	120⅜
	(vi) 5% Redeemable Pref. (1964)	2,000,000	5	119	106½	115½
	(b) Loan Capital					
	(vii) 4% Debenture Stock	39,452,044[30]	4	117	106	116
	(viii) 5% Debenture	3,019,621[31]	5	137	126	135
	(ix) 4% Redeemable Deb. (1962-7)	4,750,000	4	112	106	110
	(x) 4% Red. Deb. (1970-80)	7,500,000	4	112	107	111

Notes to Table XVI

1. The figures of loan capital are exclusive of certain special loans, annuities, etc. as follows:-
   - G.W.R. (i) £47,300 in respect of Ross and Monmouth Railway Co.
   - (ii) £7,095,958 from London Electric Transport Finance Corporation and Railway Finance Corporation.
   - L.M.S.R. (i) £8,311,364 from Railway Finance Corporation Ltd.
   - L.N.E.R. (i) £250,000 at 3⅜% being a Midland Railway (L.M.S.) loan.
   - (ii) £12,718,910 from London Electric T.F.C., and R.F.C.
   - S.R. (i) S.E. Railway (Reading) Annuities, £24,904. 8. 6d. p.a. on capital sum of £485,940.
   - (ii) £5,929,811 from R.F.C.
2. Less £5,246,805 nominal deductions.
3. Less £83,797 nominal deductions.
4. Including £1,972,726 nominal additions.
5. Less £2,018,025 nominal deductions.
6. Issued 1925 at 95%.
7. The difference between the total share and loan capital as shown here and as given in Table ... is explained by the £47,300 loan in respect of the Ross and Monmouth Co., see Note 1.

8. Less £77,112 nominal deductions.
9. Less £533,434 nominal deductions.
10. There are in addition annuities in respect of the Stratford Canal.
11. Less proportion of £6,903,676 net nominal deductions.
12. Including £7,451,573 nominal additions.
13. Including £3,309,199 nominal additions.
14. Less proportion of £6,903,676 net nominal deductions.
15. Less £5,239,349 nominal deductions.
16. Including £952,266 net nominal additions.
17. " £3,683,291" " "
18. " £3,124,862" " "
19. " £3,084,787" " "
20. " £2,625,868" " "
21. Offered 1925 at 96%
22. Including £21,923,830 net nominal additions.
23. " £12,858,129 " " "
24. " £3,875,888 " " "
25. Excluding £50,000 redeemed on 1st January, 1944.
26. Including £6,017,374 net nominal additions.
27. " £703,620 " " "
28. Less £370,324 net nominal deductions.
29. " £7,314,228" " "
30. Including £210,704 net nominal additions.
31. Issued 1925 at 99%

(c) Capital Issued and Gross and Net Receipts 1928-38
(All companies excluding L.P.T.B.)

Table XVII.

	Total Capital Issued (including Nominal additions)	Railways and Ancillary Businesses			Net Revenue
		Gross Receipts	Expenditure	Net Receipts (excluding "miscellaneous revenue")	
	£	£	£	£	£
1928	1,110,260,536	211,241,107	172,908,283	38,332,824	41,788,157
1929	1,112,209,652	213,209,575	170,938,419	42,271,156	45,815,108
1930	1,119,718,056	201,738,928	166,495,677	35,243,251	38,520,691
1931	1,119,624,324	184,880,905	153,951,634	30,929,271	34,162,830
1932	1,124,378,748	169,404,470	145,062,971	24,341,499	27,194,301
1933	1,126,721,053	169,579,169	142,646,849	26,933,320	29,589,089
1934	1,126,639,828	176,561,123	147,151,351	29,409,772	32,264,896
1935	1,127,079,585	179,233,350	148,304,741	30,928,609	33,695,058
1936	1,127,066,141	186,469,767	152,182,845	34,286,922	36,527,499
1937	1,127,020,707	195,427,770	158,966,183	36,461,587	38,684,383
1938	1,126,946,057	187,666,955	159,976,159	27,690,796	29,757,554

(d) Prices of British Railways' Ordinary Stock

Table XVIII

(Total amount issued)	L.M.S.	L.N.E.R. Pref.	L.N.E.R. Def.	G.W.R.	SOUTHERN Pref.	SOUTHERN Def.
	£96m.	£42m.	£36m.	£43m.	£28m.	£31m.
Prices at beginning of 1926	$77\frac{1}{4}$	$62\frac{1}{4}$	$21\frac{5}{8}$	$88\frac{3}{4}$	$77\frac{1}{4}$	$44\frac{1}{4}$
1927	$75\frac{1}{4}$	$51\frac{1}{4}$	$18\frac{7}{8}$	$88\frac{1}{4}$	$78\frac{3}{4}$	$44\frac{1}{4}$
1928	75	$43\frac{1}{8}$	$17\frac{3}{4}$	$95\frac{1}{8}$	74	$37\frac{1}{2}$
1929	$52\frac{1}{8}$	$23\frac{1}{2}$	11	80	75	31
1930	65	38	$12\frac{3}{4}$	91	72	$29\frac{1}{8}$
1931	33	$16\frac{1}{8}$	6	68	$65\frac{1}{2}$	$22\frac{1}{2}$
1932	$16\frac{1}{2}$	$11\frac{1}{8}$	$5\frac{3}{4}$	42	$37\frac{1}{8}$	10
1933	$13\frac{1}{8}$	$7\frac{1}{8}$	$4\frac{1}{4}$	$30\frac{1}{8}$	24	9
1934	$26\frac{1}{8}$	21	$9\frac{7}{8}$	$54\frac{1}{2}$	64	20
1935	21	$14\frac{1}{8}$	$7\frac{1}{4}$	51	79	22
1936	18	10	$5\frac{3}{4}$	60	83	21
1937	35	12	6	64	97	26
1938	30	$8\frac{1}{8}$	$4\frac{3}{8}$	$64\frac{3}{4}$	87	$20\frac{1}{4}$
1939	$13\frac{1}{8}$	$4\frac{1}{2}$	$2\frac{5}{8}$	28	58	$12\frac{3}{4}$
1940	16	4	$2\frac{5}{8}$	37	$66\frac{1}{2}$	14
1941	$15\frac{1}{8}$	3	$1\frac{5}{8}$	$32\frac{1}{2}$	$46\frac{1}{2}$	$10\frac{1}{8}$
1942	19	4	$2\frac{1}{8}$	45	$63\frac{1}{8}$	16
1943	28	9	$4\frac{5}{8}$	57	$74\frac{1}{8}$	$22\frac{3}{4}$
1944	34	$10\frac{1}{2}$	5	62	76	$25\frac{3}{4}$

Source:- "Railway Year Book" 1943-44 p.432 and 1944-45, p.430.

(e) Financial Results of Four Main-Line Companies for Specimen Years 1929 and 1937-8 (compare paragraphs 42-45)

Table XIX

£'000

	L.M.S.			L. & N.E.			G.W.			SOUTHERN		
	1929	1937	1938	1929	1937	1938	1929	1937	1938	1929	1937	1938
Gross Receipts												
Railway receipts	73,195	67,234	64,212	55,561	49,087	46,656	31,028	28,111	26,829	22,993	22,114	22,012
of which Passengers	21,764	20,379	20,545	14,257	13,153	12,812	95,522	8,609	8,469	14,479	14,661	14,669
Merchandise (ex.Cl.1-6)	21,979	18,825	17,224	15,543	12,618	11,953	8,323	7,617	7,311	3,123	2,632	2,580
Minerals & Merch. (1-6)	6,830	6,518	5,414	5,692	4,908	4,086	2,827	2,565	2,009	833	809	504
Coal, Coke etc.	14,188	13,650	13,325	14,132	13,174	12,486	6,504	5,919	5,585	1,700	1,632	1,616
Ancillary receipts	8,466	8,622	8,241	7,734	7,343	6,910	5,156	4,476	4,211	3,514	3,467	3,456
Total Gross Receipts	81,661	75,856	72,453	63,295	56,430	53,566	36,184	32,587	31,040	26,507	25,581	25,468
Expenditure												
Railway expenditure	68,163	53,598	53,356	43,283	39,540	40,541	24,309	21,793	22,193	18,175	17,244	17,736
of which Maintenance of Way & Works	7,675	7,570	7,570	6,015	5,371	6,140	4,046	3,256	3,344	3,474	3,529	3,590
" " Rolling Stock	10,289	8,882	8,806	8,939	8,444	8,550	4,116	3,435	3,626	2,917	2,526	2,572
Loco running expenses	14,078	13,434	13,498	10,419	10,017	10,131	6,523	5,341	5,459	4,203	4,365	4,582
Traffic expenses	20,816	19,283	19,284	14,653	13,187	13,321	8,144	7,623	7,707	5,691	5,268	5,433
Ancillary expenses	8,715	8,392	8,294	7,612	7,259	6,999	4,900	4,329	4,196	2,739	2,720	2,691
Total operational expenses	66,878	61,990	61,650	50,895	46,799	47,540	29,209	26,122	26,389	20,914	19,984	20,427
Net Receipts	14,783	13,866	10,803	12,400	9,631	6,026	6,975	6,465	4,650	5,593	5,617	5,041
Net Revenue (a)	17,175	14,556	11,548	13,061	10,107	6,653	8,199	6,886	5,044	6,548	6,552	5,942
APPROPRIATION												
General and contingencies reserve	...	...	...	500	150	...	...	100	Dr.100	...	...	...
Interest on loans and Debentures	4,364	4,439	4,439	4,053	4,222	4,220	1,550	1,650	1,650	1,754	1,945	1,943
Rent charge and guaranteed stocks	1,628	1,628	1,628	2,428	2,431	2,431	1,578	1,576	1,576	466	616	616
Pref. stocks	6,847	6,846	5,241(c)	4,775	5,287(d)	Nil	1,771	1,768	1,767	2,135	2,135	2,135
Equity stocks - Earned	4,337	1,443	Nil	1,325	Nil	Nil	3,301	1,792	(b).51	2,193	1,558	1,246
Paid	4,284	1,428	Nil	1,271	Nil	Nil	3,220	1,717	215	2,167	1,851	1,379
Paid %	4½	1½(ord)	Nil	3(pf.ord)	Nil	Nil	7½(ord)	4(ord)	½(ord)	(pf. 5 (df. 2½	5 1½	5 Nil
Carried forward	212	94	131	81	84	86	186	152	87	162	227	95

(a) Including net receipts from joint lines and net miscellaneous receipts
(b) Before crediting £100,000 from contingency fund
(c) No payment on 4 p.c. pref. stock 1923
(d) Full payments on 4 p.c. first pref. and 5 p.c. redeemable pref. stocks, and 1¼% on 4 p.c. second pref.

Source:- The Economist 4th March 1939 p.450

(f) Goods Traffic 1929-38

Table XX

	1929	1937	1938	Fall 1929-37	Fall 1929-38
	Millions of tons			%	%
Merchandise (ex. Classes 1-6)	78.2	70.4	62.9	10.0	19.5
Minerals, Merchandise (Cl. 1-6)	79.4	72.9	59.1	8.2	25.6
Coal, Coke etc.	242.2	220.2	202.3	9.1	16.4
All Classes	399.9	363.6	324.4	9.1	18.8

Traffic

	L.M.S.			L.N.E.			G.W.			S.R.		
	1929	1937	1938	1929	1937	1938	1929	1937	1938	1929	1937	1938
GOODS												
Merchandise (ex.Cl.1-6)												
m. tons	32.0	29.6	26.0	26.7	22.3	19.8	14.0	13.5	12.4	5.5	5.0	4.7
per ton	13/6.98	12/8.78	13/3.15	11/7.56	11/3.65	12/0.96	11/10.36	11/3.07	11/8.98	11/4.05	10/6.66	10/11.96
per ton mile(d)	2.34	1.99	(2.01)	2.14	1.87	(1.91)	2.16	1.82	(2.01)	2.81	2.43	(2.52)
av. miles	70.37	76.68	(78.51)	65.20	72.60	(75.91)	66.30	74.88	(76.17)	48.49	52.02	(53.32)
Minerals and Merchandise (Cl. 1-6)												
m. tons	32.6	30.8	25.2	29.0	26.9	22.3	13.0	12.2	9.3	3.9	3.0	2.3
per ton	4/2.25	4/2.85	4/3.51	3/9.73	3/7.85	3/7.92	4/4.30	4/2.62	4/3.65	4/3.25	4/1.39	4/3.50
per ton mile(d)	1.03	0.97	(0.97)	1.16	0.97	(1.03)	1.15	0.93	(0.95)	1.31	1.01	(1.00)
av. miles	48.93	52.29	(54.43)	39.56	45.12	(48.06)	45.49	54.66	(57.78)	39.09	48.82	(51.10)
Coal, Coke, etc.												
m. tons	84.7	78.8	72.9	94.4	86.6	78.7	54.8	46.4	42.5	8.3	8.4	8.2
per ton	3/4.18	3/5.59	3/7.87	2/11.94	3/0.49	3/2.09	2/4.48	2/6.64	2/7.55	4/0.87	3/10.43	3/11.35
per ton mile(d)	1.06	1.05	(1.05)	1.07	1.07	(1.13)	0.92	0.91	(0.93)	1.36	1.32	(1.35)
av. miles	38.18	39.81	(41.69)	33.57	34.23	(34.39)	31.10	33.65	(33.93)	35.95	35.17	(36.59)
All Classes												
m. tons	149.3	139.1	124.1	151.0	135.8	120.8	81.8	72.0	64.3	17.8	16.4	15.2
per ton	5/9.10	5/7.27	5/9.55	4/8.22	4/6.24	4/8.68	4/3.79	4/5.62	4/7.66	6/4.44	6/11.22	6/2.05
per ton mile(d)	1.47	1.34	(1.36)	1.40	1.28	(1.34)	1.33	1.20	(1.28)	1.90	1.67	(1.73)
av. miles	47.62	50.56	(52.19)	40.53	42.83	(43.63)	39.57	46.08	(45.19)	40.59	42.84	(43.86)
Passengers												
Nos. carried (millions)*	315.7	330.5	308.7	213.6	213.8	196.1	132.3	113.3	109.1	208.8	245.8	236.5
Average fare	1/2.34	1/1.15	1/2.22	1/1.55	1/0.84	1/1.50	1/3.92	1/4.30	1/5.32	1/1.45	-/11.18	-/11.54

* Including workmen: excluding season ticket holders

(g) Receipts and Expenditure of the Controlled Railways and L.P.T.B. for 1940-43, compared with 1937.

Table XXI

(The Railways include the four Main Lines and six Minor Railways)

	1937 (Estimated)	1940	Index 1937=100	1941	Index 1937=100	1942	Index 1937=100	1943	Index 1937=100
	£	£		£		£		£	
Gross Receipts:-									
1. Passenger	105,869,000	104,786,000	98.98	132,106,000	124.78	163,544,000	154.48	186,281,000	175.95
2. Freight	94,550,000	104,498,000	148.60	158,826,000	167.98	176,658,000	186.84	190,908,000	201.91
3. Miscellaneous	1,664,000	2,709,000	162.80	2,903,000	174.46	3,285,000	197.42	4,490,000	269.83
4. Total Gross Receipts	202,083,000	247,992,000	122.72	293,835,000	145.40	343,487,000	159.97	381,679,000	188.87
5. Expenditure	163,256,000	203,480,000	124.64	226,636,000	138.82	251,715,000	154.18	272,247,000	166.76
6. Net Receipts	38,827,000	44,512,000	114.64	67,199,000	173.07	91,772,000	236.36	109,432,000	281.85
7. Other Items of Receipts and Expenditure included in the Pool (net) (Steamships, docks, hotels, collection and delivery of goods, rents, interest and other items)	3,385,000	Dr.1,749,000	51.67	Dr.2,074,000	61.27	Dr.2,646,000	78.17	Dr.3,864,000	114.15
8. Net Revenue of the Pool	42,212,000	42,763,000	101.31	65,125,000	154.28	89,126,000	211.14	105,568,000	250.09
9. Government Share	*	*	...	21,656,000	...	45,657,000	...	62,099,000	...
10. Controlled Railways and LPTB share	*	*	...	43,469,000	...	43,469,000	...	43,469,000	...
11. Net Revenue accruing to the four Main Line Railway Companies and LPTB (including non-pool items)	43,265,000	43,419,000	...	44,606,000	...	44,977,000	...	44,994,000	...
12. Standard Revenue	56,900,000	56,900,000	...	56,900,000	...	56,900,000	...	56,900,000	...
13. Capital Receipts	1,211,400,000	1,211,400,000	...	1,211,400,000	...	1,211,400,000	...	1,211,400,000	...
14. Net Revenue (accruing to the four Main Line Railway Companies and LPTB) per cent. of capital receipts	3.57%	3.58%	100.28	3.68%	103.08	3.71%	103.92	3.71%	103.92
15. Net Revenue (accruing to the four Main Line Railway Companies and LPTB) per £ of gross receipts	4s. 3d.	3s. 6d.	82.35	3s. 0d.	70.59	2s. 7d.	60.78	2s. 4d.	54.90

* Present agreement operated from 31st December, 1940.

Source: The Economist March, 1945.

(h) **Return on Capital Expenditure by Categories** (specimen years 1929 and 1937-38)

Table XXII

	L.M.S.			L.N.E.			G.W.			S.R.		
	1929	1937	1938	1929	1937	1938	1929	1937	1938	1929	1937	1938
Railways												
Capital expenditure (£mns.)	382.9	389.0	391.5	285.5	291.7	296.0	144.1	151.8	152.6	138.6	145.9	147.7
Net receipts (£000)	16,025.1	13,636.4	10,856.3	12,278.5	9,546.2	6,114.8	7,141.5	6,318.0	4,636.1	4,818.0	4,869.8	4,275.7
Net receipts as % of Capital	4.2	3.5	2.8	4.3	3.3	2.1	4.96	4.2	3.0	3.5	3.3	2.9
Steamboats												
Capital expenditure (£mns.)	3.3	2.7	2.7	2.6	2.9	2.9	0.5	0.4	0.4	2.5	2.7	2.8
Net receipts (£000)	208.2	304.3	206.7	131.5	49.0	Dr.17.9	Dr.1.2	20.0	23.5	432.2	337.6	397.7
Net Receipts percentage	6.5	11.3	7.8	5.2	1.7	...	...	4.8	5.8	17.6	12.3	14.4
Docks												
Capital expenditure (£mns.)	10.3	10.2	10.3	25.0	25.0	25.0	20.9	21.0	20.9	8.1	13.8	14.0
Net receipts (£000)	Dr.87.9	35.2	Dr.25.1	198.3	247.9	82.9	560.0	342.4	202.1	318.7	379.4	336.8
Net receipts as % of Capital	...	0.4	...	0.8	1.0	0.3	2.7	1.6	1.0	3.9	2.7	2.4
Hotels												
Capital expenditure (£mns.)	5.1	5.1	5.1	2.6	2.8	2.8	0.2	0.4	0.5	1.6	1.3	1.3
Net receipts (£000)	443.0	353.8	331.8	210.9	165.8	133.1	61.5	40.6	46.9	19.1	29.1	28.2
Net receipts as % of Capital	8.4	7.0	6.5	8.1	6.0	4.8	34.5	9.4	9.1	1.2	2.2	2.1
Non. Railway Land												
Capital expenditure (£mns.)	14.5	12.7	12.4	11.4	10.1	9.9	2.9	3.1	3.1	5.3	5.3	5.3
Net receipts (£000)	884.5	771.6	794.9	547.5	504.8	514.6	191.1	218.7	215.2	413.8	468.6	469.5
Net receipts as % of Capital	6.1	6.1	6.4	4.8	6.0	5.2	6.5	7.1	6.9	7.7	8.9	8.9

(i) Investments by Main-line Railway Companies in other Undertakings.

Table XXIII

Company (and total subscription)	Undertaking in which Investment held	Amount Subscribed
G.W.R. (£4,999,545	(i) Fishguard & Rosslare Railways and Harbours	£794,500 @ 3½% debentures; £220,994 @ 3½% preference; £500,000 ordinary.
	(ii) L.N.E.R.	£280,360 under Great Central Act, 1897 s. 67.
	(iii) Hammersmith & City Ry.	£56,500.
	(iv) Birmingham & Midland Motor Omnibus Co.	£411,500 ordinary.
	(v) City of Oxford Motor Services	£123,868 ordinary.
	(vi) Crosville Motor Services	£148,212 "
	(vii) Devon General Omnibus Co.	£62,945 "
	(viii) Hay's Wharf	£795,808 @ 6% preference and ordinary.
	(ix) Thames Valley Traction	£93,710 ordinary.
	(x) Western National	£1,263,378 6% preference and ordinary.
	(xi) Western Welsh	£196,520 ordinary.
	(xii) Penarth Pontoon Shipway & Ship-repairing Co.	£37,750 4% deb.
	(xiii) Swindon Water Board	£13,500 annuities.

Jointly with L.M.S.R., and S.R., owns 99% of capital of British & Foreign Aviation Ltd., and jointly with S.R., all capital of Channel Airways Ltd.

L.M.S.R. (£11,549,351)	(i) Dundalk, Newry & Greenore Railway	£383,915 shares and £133,200 debentures.
	(ii) G.N.R. (Ireland)	£4,629 4% debentures.
	(iii) G.S.R. "	£126,800 shares North Wall extension lines 1 and 2; £87,000 4% New Ross and Waterford Extension Railways guaranteed stock and £100,000 loan.
	(iv) G.W.R.	£85,000 5% pref. and £429 consol. ord.
	(v) L.N.E.R.	£250,000 loan, £33,300 4% 2nd pref., £16,650 5% pref. ord., and £13,320 def. ord.
	(vi) Whitechapel & Bow Rlwy.	£600,000 shares.
	(vii) County Donegal Railways	£491,091 capital.
	(viii) Midland & G.N.R. Jt. Cttee.	£884,269 capital.
	(ix) Somserset & Dorset Jt. Cttee.	£2,207,214 capital.

L.M.S.R. (contd.)	(x) Tottenham & Hampstead Jt. Cttee.	£127,183 loan and £1,191,804 capital.
	(xi) L.P.T.B.	£691,447 loan.
	(xii) David MacBrayne Ltd.	£199,940 capital.
	(xiii) Hay's Wharf	£795,992 pref. & ord.
	(xiv) Jos. Nall & Co.	£135,049 pref. and A and B ordinaries.
	(xv) Wardie & Co.	£142,939 B ordinary.
	(xvi) W. Alexander & Sons	£187,500 pref. & ord.
	(xvii) Birmingham & Midland Motor Omnibus Co.	£623,423 ord.
	(xviii) Crosville Motor Services	£412,502 ord.
	(xix) Cumberland Motor Services	£77,653 ord.
	(xx) East Midland Motor Services	£20,804 ord.
	(xxi) Eastern Counties Omnibus Co.	£31,896 "
	(xxii) Eastern National Omnibus Co.	£199,743 "
	(xxiii) Hebble Motor Servs.	£37,500 "
	(xxiv) Highland Transport Co.	£14,767 "
	(xxv) Lincolnshire Road Car Co.	£25,277 "
	(xxvi) North Western Road Car Co.	£246,156 "
	(xxvii) Ribble Motor Servs.	£384,726 "
	(xxviii) Scottish Motor Traction	£157,377 "
	(xxix) Trent Motor Traction	£149,335 "
	(xxx) West Yorkshire Road Car Co.	£125,591 "
	(xxxi) Yorkshire Traction	£65,075 pref. & ord.
	(xxxii) Yorkshire Woollen District Transport Co.	£88,855 ord.

Jointly with G.W.R. and S.R., owns 99% of the capital of British and Foreign Aviation Ltd.

L.N.E.R. (£4,227,144)	(i) W. Alexander & Sons	£187,500 ord and pref.
	(ii) Carter Paterson	£335,749 " " "
	(iii) Currie & Co. (Newcastle)	£84,808 ord.
	(iv) Derwent Valley Light Rlwy.	£5,000 "
	(v) E. Midland Motor Servs.	£41,606 "
	(vi) E. Yorkshire " "	£120,411 "
	(vii) Eastern Counties Omnibus Co.	£231,061 "
	(viii) Eastern National Omnibus Co.	£199,743 "
	(ix) Hay's Wharf	£459,991 ord. and pref.
	(x) Hebble Motor Services	£12,500 ord.
	(xi) Hull & Netherlands Steamship Co.	£184,004 ord. and pref.
	(xii) Hull South Bridge Co.	£10,000 " " "
	(xiii) Humber Graving Dock and Engineering Co.	£15,000 ord.
	(xiv) J.W. Petrie & Co.	£17,000 "
	(xv) King's Lynn Dock & Rlwy. Co.	£20,000 ext. cap. ord.
	(xvi) Lincolnshire Road Car Co.	£68,357 ord.
	(xvii) L.P.T.B.	£50,000 rent charge.
	(xviii) Metropolitan & G.C. Jt. Cttee.	£19,500
	(xix) North Western Road Car Co.	£123,078 ord.
	(xx) Northern General Transport Co.	£349,438 ord.
	(xxi) River Wear Commissioners	£74,050 funded debt.
	(xxii) Scottish Motor Traction	£157,376 ord.
	(xxiii) Sheffield & South Yorkshire Navigacion Co.	£540,000 "
	(xxiv) Sutton Bridge Dock Co.	£20,000 ord. and £35,000 mortgages.
	(xxv) Trent Motor Traction Co.	£74,661 ord.
	(xxvi) United Automobile Servs.	£514,967 ord. and pref.
	(xxvii) West Yorkshire Road Car Co.	£125,592 ord.
	(xxviii) Wilson's & N.E.R. Shipping Co.	£41,250 ord.
	(xxix) Yorkshire Traction Co.	£65,074 ord. and pref.
	(xxx) Yorks. Woollen Dist. Transport	£44,428 ord.
S.R. (£796,024)	(i) Carter Paterson	£335,749 pref. and ord.
	(ii) Hay's Wharf	£460,275 6% pref. & ord.

Jointly with L.M.S.R. and G.W.R., owns 99% of the capital of British and Foreign Aviation Ltd.

Through their interest in Carter Paterson and Hay's Wharf, now merged, the main-line companies control this group, including the associated company of Pickford's.

BIBLIOGRAPHY

Note: The following are the principal works of value on the subject of this Memorandum: others consulted have been cited in footnote references.

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