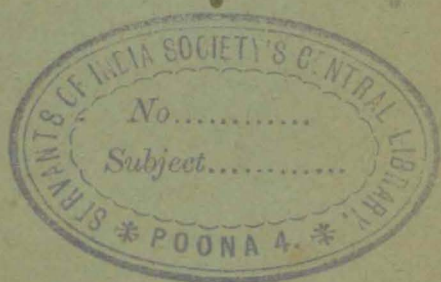


# THE FAILURE OF STATE RAILWAYS

BY  
HAROLD COX



X415:811.1  
F4  
4570

LONGMANS, GREEN AND CO.

39 PATERNOSTER ROW, LONDON, E.C. 4

NEW YORK, TORONTO,

BOMBAY, CALCUTTA AND MADRAS

1924

PRICE SIXPENCE

The failure of State Railways

by

H. Cox

X415:811.1  
F4  
004570

BY THE SAME AUTHOR

# ECONOMIC LIBERTY

A SERIES OF ESSAYS DEALING WITH  
PRESENT-DAY ECONOMIC PROBLEMS

*Morning Post*: "This invaluable book consists of a series of carefully-reasoned and lucidly-written essays, all of which are inspired with the one sane and sound purpose—the defence of economic liberty. . . . This is the best and most convincing book of the kind that has yet appeared."

*Aberdeen Free Press*: "He puts the matter in a nutshell in his preface when he says: 'Without liberty there can be no enterprise, and without enterprise there can be no progress.'"

*The Economist*: "Mr. Harold Cox is at his best in this volume of essays, and his best is hard to beat."

*Sunday Times*: "It is a most invigorating study, and its robust earnestness will make it a wholesome tonic" (HARTLEY WITHERS).

*Fortnightly Review*: "In these times of industrial unrest no more valuable summary of sound thought has appeared" (FREDERIC HARRISON).

*Westminster Gazette*: "Most liberally-minded people will find themselves in enthusiastic agreement with a great part of his argument."

*Journal of Commerce*: "It is impossible to make extracts, for the whole book bristles with points that we would wish to reproduce."

LONGMANS, GREEN & CO.,  
39, PATERNOSTER ROW, LONDON, E.C.4.  
NEW YORK, TORONTO, BOMBAY,  
CALCUTTA AND MADRAS.

Price 7/6 net.

*Messrs. LONGMANS, GREEN  
& CO. have much pleasure in sending  
the accompanying book for Review,  
and will be glad to receive a copy of  
the issue containing the notice as soon  
as it appears.*

*The price of the book is 6d*

*39, Paternoster Row,  
London, E.C.4.*

# THE FAILURE OF STATE RAILWAYS

Dhananjayarao Gadgil Library



GIPE-PUNE-004570

BY

HAROLD COX

EDITOR OF THE 'EDINBURGH REVIEW';  
AUTHOR OF 'ECONOMIC LIBERTY';  
'THE PROBLEM OF POPULATION,' ETC.

LONGMANS, GREEN AND CO.

89 PATERNOSTER ROW, LONDON, E.C. 4

NEW YORK, TORONTO,

BOMBAY, CALCUTTA AND MADRAS.

1924

**MADE IN GREAT BRITAIN**

# THE FAILURE OF STATE RAILWAYS

## CHAPTER I

### A TRIUMPH OF PRIVATE ENTERPRISE

ONE of the most prominent items in the programme of the Labour Party is a demand for the nationalisation of railways. Railways, like mines and banks, are declared to be 'ripe for nationalisation.' The question of railway nationalisation may therefore in a very brief period become an acute political issue.

In pressing their demand that the railways of Great Britain, which represent one of the most notable triumphs of private enterprise, should be appropriated by the State, the Socialists will be able to enlist the support of various groups of people who approach the problem not from the point of view of Socialist theories, but from that of their own private pockets. In particular, the railway employees as a body are convinced that they would get better terms out of the State than out of private companies, and their voting power is a considerable factor in our electoral system. There are also a certain number of traders who, when they are dissatisfied with the railway rates affecting their business, jump to the conclusion that under nationalisation their grievances would automatically disappear.

The Socialists in their campaign for railway nationalisation have this further advantage that they can point to the fact that in many countries railways already have been nationalised. The actual results of State ownership, as will be presently shown, are in every country where the experiment has been tried highly unsatisfactory; in some cases they have been financially disastrous. Nevertheless, the mere existence of these State-owned railways in other countries furnishes an argument to the advocates of railway nationalisation in Great Britain.

In the same way the existence in our own country of a Government postal service is used as a plea for a Government railway service. The plausible rhetorician exclaims: 'If the Government can carry letters and parcels, why not passengers and all kinds of goods?' The first answer is that the carrying of letters and sealed parcels, limited in size and weight, is an extremely simple task compared with the complications which arise when goods of every description have to be handled and have to be conveyed at rates which will encourage traffic without destroying profit.

The second answer is that the establishment of a Government postal service is largely a matter of historic accident. The postal service in England slowly developed out of the organisation established in Stuart times for the carrying of Royal despatches. It is by no means certain that a private company could not have undertaken the work equally well. As a matter of fact the first attempt to establish penny postage was made more than 200 years ago by a private company and was crushed by the Royal monopoly. More recently the express delivery of letters in London was first organised by a private company, which again was hampered in its operations by the Post Office monopoly.

It has also to be remembered that a large part of the work of the Post Office, namely, the conveyance of letters from one postal centre to another, is done by the railway companies. Indeed, even in the earlier years of road traffic, most of the roads used by the Royal Mail vans had been built by private enterprise. When we pass to telegraphs and telephones, the debt due to private ownership becomes more obvious. The telegraph system of England was invented and developed by private enterprise, and it was not until 1871 that the service established by private companies was taken over by the Post Office. The promise then held out to Parliament was that under State management the annual profits would be sufficient to pay off the whole purchase price in twenty-nine years, and that subsequently there would be a handsome surplus every year for the reduction of the taxpayers' burdens. As a matter of fact under State management the telegraphs have year by year involved a heavy loss to the taxpayer.

Incidentally the acquisition of the telegraphs by the State led to the establishment of a new Government monopoly which for many years seriously obstructed the development of the later invention of telephones. In spite of this obstruction private enterprise built up a very excellent telephone system which was taken over by the State in 1911. The financial results have been



less unsatisfactory than in the case of the telegraphs, but it is probable that the taxpayer would have done far better if the Government had continued to leave the telephones in the hands of private companies, contenting itself with the heavy royalty which it was levying on their profits. In the United States telegraphs and telephones are still in the hands of private enterprise, and the general opinion of most observers is that the service is much more efficient than that obtaining in Great Britain.

For these reasons the management of the postal service and of the telegraph and telephone services by the State furnishes no argument whatever for the nationalisation of railways. On the contrary it suggests that there are inherent defects in State management which would certainly be felt more severely if Government officials and politicians were placed in control of such a complicated business as railway transport involves.

The fact that in other countries railways have been nationalised furnishes by itself no necessary argument for the nationalisation of the railways of Great Britain. The conditions prevailing in the respective circumstances have to be taken into account before any inference can be drawn. It is important to remember that England is the birthplace of the railway systems of the world. It was on English soil that the first steam railway was built, and the development of railways in England, solely under the impetus of private enterprise, preceded the construction to any appreciable extent of railways in other countries. More than that, many railways abroad were from the outset very largely financed by English capital and their construction very greatly assisted by the labour of English and Scottish engineers. An enormous amount of English capital has been invested in railways in America and other overseas countries. As a particular illustration of this, it may be mentioned that the Canadian Pacific Railway Company in their last report state that 50.73 per cent. of their capital is held in the United Kingdom.

An interesting testimony to the way in which Great Britain has led the world in the development of railways by private enterprise is to be found in a book entitled 'Railway Transportation' by an American author, Mr. Charles Lee Raper, published in 1912.

Great Britain has been the world's pioneer in the introduction of this form of transportation; she has been its most perfect example of the strictly private railway corporation; she has been its greatest achievement of private ownership and operation. And it would be, to say the least, most unwise for the people of the

United Kingdom to exchange their comparatively complete and efficient system, which has been created and perfected by private enterprise, under the supervision of the State, for the system of government ownership and management, the efficiency of which for the British is at least problematic.

This judgment is perfectly sound. The fact that other countries for various reasons have been induced to adopt State management of railways furnishes no argument whatever for the nationalisation of railways in a country where private enterprise not only led the way, but also has justified itself by building up a magnificently successful system of railway transport. As to the success of that system before the war, the best proof is to be found in the small number of complaints brought by the public against the companies. In a paper read at a meeting of the Royal Economic Society in 1908, Sir George Gibb pointed out that every facility had been afforded to complainants by the creation of the Railway and Canal Commission, but the number of complaints addressed to that court were so few that it was suggested that the possible expense of litigation acted as a deterrent. Therefore the Government went further and made provision for persons who had any complaint or grievance of any sort or kind to appeal to the Board of Trade, which would use its influence to secure an amicable adjustment of differences. Sir George Gibb went on to quote the report of the Board of Trade, showing that the total number of complaints against all the railways in the kingdom within the previous ten years was only 1529, or an average of 153 per annum. In comparison with the millions of transactions with which the railways are concerned in the course of a year this figure is altogether insignificant. It clearly proves that before the war the service rendered by the privately owned railways of the kingdom satisfied the wants of traders and travellers.

Nor did war conditions destroy the efficiency of private railway management. Conclusive evidence on this point is to be found in the Report of the Select Committee on Transport<sup>1</sup>, which sat in the latter end of 1918. During the war, as is well known, the Government assumed control of the railway system of the kingdom, but very wisely it left the whole work of detailed administration in the hands of an Executive Committee composed of twelve general managers from different railway companies, with the result that, in effect, private enterprise was still responsible for the

<sup>1</sup> H. of C. paper, 136 of 1918.

management of the railways. The report just referred to states that :

The changes which have been introduced and the high efficiency which has been witnessed in the working of the traffic by the railways during the war have been due far more to the patriotic determination on the part of all concerned to do their utmost to assist the country in a time of national emergency, regardless of corporate or personal interests, than to the direct imposition by the Government of its will upon the railway companies.

The report goes on to say that the success that attended the operation of the railways throughout the war 'has been superior to that witnessed in any other of the belligerent countries.' The Chairman of this Committee, speaking on the same theme in the House of Commons on July 8, 1919, said :

After all that has been said it must be remembered that we are always inclined to depreciate our own institutions. It is common ground among those who have knowledge of railway affairs that the management of English railways, far from being inferior, is superior to that of any other country of the world. English railways have led the world in efficiency of management.

When a system has produced such results as these, surely very solid argument indeed is needed to justify proposals for a complete change. It will be shown in detail in later pages, how unsatisfactory are the results achieved by State railways in other countries. In Great Britain not only has private enterprise built up a highly efficient service, but it has created this service at no cost to the taxpayers of the country. On the contrary, both taxpayers and ratepayers profit greatly by the revenue which the railways furnish to the national exchequer and to the local authorities. The only charge on the other side is the interest payable to shareholders. But this charge would not disappear under nationalisation, unless the policy of sheer confiscation advocated by the extreme communists were adopted.

As a matter of fact, railway shareholders have obtained a very small return upon their investments. A considerable number of lines have never paid a penny of dividend to the shareholders who advanced the money for their construction. Yet most of those lines still exist and are still of service to the nation. It is important to add that the cost of building our railways would have been appreciably less if private enterprise had been given fair play. In

the early days, railways were regarded with suspicion by landowners whose influence in the House of Commons was then dominant, and their progress was obstructed rather than hindered by parliamentary authority. The cost of passing Railway Bills through Parliament was terrific, owing to the long delays and to the high fees charged by parliamentary lawyers. In addition the companies were often compelled to pay exorbitant prices to owners of land in order to buy off their opposition to Railway Bills. The State, in fact, instead of helping to promote the most useful system of transportation which has yet been invented, acted as an obstructive agency. It is clearly unjust to blame private enterprise for the financial consequences of State obstruction.

Nor is it possible to argue that the private owners of the railways are obtaining an exorbitant reward for the services which their capital has rendered to the nation. In the year 1913 the total capital of the railways of the United Kingdom was £1,334,011,000. Some of this capital was earning no interest at all; a few portions were earning a moderately high rate of interest; but the average interest paid or payable on all classes of railway capital for the year 1913 was 4.27 per cent. That is not a high rate of interest on an undertaking, a large part of which was necessarily of a speculative character.

Since the war the railway system of Great Britain has been greatly affected both by legislation and by the administrative interference of the Government. In particular, while Government control of railways still continued the Prime Minister in 1919 dramatically intervened in the case of a railway strike and granted to the railway employees concessions which added very greatly to the cost of working the railway service. At the last meeting of the London and North Eastern Railway<sup>1</sup> the chairman of the Company stated that since 1913 there had been an increase of not less than 148 per cent. in the railway wages bill. In addition, there had been heavy increases in the price of coal and of most of the other commodities which the railways have to purchase to carry on their business. Yet in spite of this increased cost of working, railway charges only show the comparatively moderate increase of 50 per cent. as compared with pre-war figures. As the chairman of the London, Midland and Scottish Railway said, addressing the shareholders in February last: 'Very few traders to-day are selling their wares as low as 50 per cent. above pre-war rates.' It is interesting in passing to note that this increase of 50 per cent.

<sup>1</sup> *The Times*, March 15, 1924.

exactly represents the increased charge for letter postage imposed by the State-owned and State-managed Post Office.

The most important change made in the railway system of the kingdom by recent legislation has been the amalgamation of over 100 different companies, many of them small, into four great groups. This consolidation has furnished a fresh argument to the advocates of nationalisation. With the kind of plausibility that appeals to a popular audience, Socialists argue that if it is possible and desirable to combine 120 railways into four groups, it is also possible and desirable to combine the four into one, and to put the whole under the management of the State. This point is pressed by a prominent politician, whose intellectual acumen should certainly enable him to see the fallacy involved. In a little book called 'If Labour Rules,'<sup>1</sup> Mr. Philip Snowden, after referring to the amalgamation which had taken place, writes :

The transaction was carried through without interfering with the running of a single train. The shareholders in the companies absorbed were given scrip in the new company corresponding to the market value of their holdings. The procedure would have been just the same if, instead of amalgamation into four private companies, the railways had been formed into one company, and that company the State.

It is in the last five words that the fallacy is contained. There is a fundamental difference between amalgamating various commercial companies into one or more new commercial companies, and converting a commercial company into a State-owned and State-controlled organisation. Yet this is the ideal at which Mr. Snowden aims. A few lines later on, he says :

In all the undertakings and services I have mentioned as being ripe for public ownership, the capital is already subscribed, so to nationalise the ownership of these concerns it would only be necessary to put the State into the position of control now exercised by the directors.

That is the real issue involved—the transference of control from a board of directors to a Government department. A board of directors is responsible to its shareholders and must conduct its affairs on commercial principles. A Government department is

<sup>1</sup> The Labour Publishing Company, 1923.

responsible to a ministry, which in turn is responsible to an elected assembly, and must therefore finally be guided not by commercial but by political considerations.

The evils which in practice inevitably ensue are illustrated in the next chapter.

## CHAPTER II

### THE LESSONS OF EXPERIENCE

THE experience of other countries gives no ground whatever for the confident assumption made by Socialists and semi-Socialists that the nationalisation of railways will necessarily prove beneficial to the community. Take first the case of the United States.

#### UNITED STATES

The railway system of America was built up entirely by private enterprise, very largely assisted in the earlier days with English capital. The system of private enterprise continued to operate until the United States came into the Great War. The Federal Government assumed control of the railways by a proclamation dated December 28, 1917, and the then Secretary to the Treasury was appointed Director-General of Railways. The results of Government control were so unsatisfactory that with practically universal consent the railways were restored to private management in March, 1920. The financial result of Government control for twenty-six months, followed by a period of six months' guarantee, was a loss to the Federal Treasury of \$1,696,000,000.<sup>1</sup> It is not intended here to argue that any final conclusion with regard to peace administration can be deduced from war conditions, but the brief experience of nationalisation by the American people is certainly not encouraging to the advocates of nationalisation in this country. It is interesting to add that there are about 230 privately owned railways in the United States, with a mileage of 258,000 miles and an estimated value of £4,000,000,000. The shares are said to be owned by more than 2,000,000 people, in addition to the large army of debenture holders.

<sup>1</sup> See report by Mr. James C. Davis, Director-General of Railways and Agent to the President, dated January 8, 1924.

## GERMANY

Germany furnishes facts more relevant to peace conditions. Sir William Acworth points out in his report on the reconstruction of the Austrian State railways that when Prince Bismarck's great schemes of railway nationalisation for Prussia were first introduced in 1878 it was intended that the railways should have a separate budget, but this was not contained in the legislation as finally passed. Subsequently there were constant complaints of the interference of the Treasury in railway affairs. On the financial side, however, the Prussian Government achieved a striking success, which is frequently quoted by the English advocates of nationalisation as a proof of the advantages of State management. But this success was mainly due to two causes, which have no relevance to English conditions. In the first place the Prussian railways cost less to build than lines in Great Britain, because of the relative flatness of the country. In the second place, Prussia, before the war, was governed by a rigid bureaucracy unhampered by the political influences which in other countries have so gravely interfered with the financial success of the State-managed railways. Further, it is important to realise that the State railways in Prussia rendered less service to their customers in the way of collecting and delivering goods than is customary with English railways.

The other States of Germany showed less satisfactory results from nationalisation than Prussia, and there were frequent suggestions made for amalgamating all the railways into one central federal system. These proposals were partly realised after the Great War, and for a brief period the railways of the German Reich were worked as one State concern. They are now to be handed over to a Company which is to be partly controlled by Germany's creditors. The broad fact stands out that the loss on State railways since the war is one of the main causes of the financial collapse of the German Government. A well-known writer, Mr. Robert Crozier Long, states in the *Fortnightly Review* for April, 1924, that between April 1 and November 15, 1923, the whole revenue of the German Government was 678 thousand billions of paper marks and the expenditure 178 million billions. Nearly two-thirds of the expenditure was due to the losses on railways and posts. Nor have the railway troubles ended with the creation of the Rentenmark. There have been fresh railway strikes as recently as March, 1924, and in April the German Cabinet agreed to the demands of the



railwaymen's union for a further increase in wages.<sup>1</sup> It is specially interesting to note that this decision was made *by the German Cabinet* in April. Yet as far back as February the German railway system was nominally freed from political control and placed under an independent business organisation.<sup>2</sup>

## FRANCE

The general idea of railway organisation in France before the war was the division of the country into railway regions, each assigned to a separate railway company, but all subject to considerably more State control than prevailed in England. Most of these railway systems, like the P.L.M. and the Nord, carried their own burdens and paid their own way. The Chemin de Fer de l'Ouest, however, never succeeded under private management in fully covering its expenditure, and the State had to bear an appreciable annual loss for the guaranteed interest on the original capital. In the hope of getting rid of this loss the French Legislature in 1908 passed a measure for the nationalisation of the Chemin de Fer de l'Ouest. The transfer to the State took place on January 1, 1909. The loss which the State had to make good as long as the company was privately managed averaged for the ten years ending December, 1908, £580,000 a year. By 1913 the annual charge upon the public revenues to make good the losses on this railway had risen to £2,900,000. One of the causes of this heavy increase in the annual loss under State management was the growth in the number of officials due to political pressure, and to the introduction of bureaucratic methods of management. Within three years after the Government took over the control the number of employees in the central office increased from 1526 to 2587. Under company management only one copy was made of documents; under State management all documents were kept in triplicate. As a particular illustration of bureaucratic methods Professor Leroy Beaulieu quotes a letter from a stationmaster which was read to the Chamber of Deputies :<sup>3</sup>

In the time of the Western Company, we stationmasters had orders to use the rolling stock as quickly as possible, and to send to a given station all that we did not ourselves require. Under the State all is changed. Every stationmaster is forbidden to load any

<sup>1</sup> Vide *The Times*, April 9, 1924.

<sup>2</sup> Vide *The Morning Post*, February 16, 1924.

<sup>3</sup> 'State Railways in France.' Paper read by Professor Leroy Beaulieu at the Congress of the Royal Economic Society, January 11, 1912.

wagon without the orders of the distribution bureau of the district. This bureau is, as is well known, a new creation specially designed for the purpose of finding situations for so many more bureaucrats. Recently, having received two wagons loaded with horses, accompanied by an order to send these wagons to Caen after they were unloaded, I thought to do well by loading in these two wagons 200 sacks of grain which had been waiting in the shed for several days to go to Caen. But alas, I did not know the bureau of distribution. The next day I saw my two wagons return, and I received at the same time an order to unload them. I was reproved into the bargain for excess of zeal. I had to obey the order. That evening I sent the wagons empty to Caen. Next day I received two others, also empty, into which to load the grain.

Englishmen who may be tempted to argue that such follies as this could not occur in their own country may usefully be reminded that exactly similar follies did occur during the war when the Government took control of the distribution of coal and otherwise interfered in commercial matters.

#### BELGIUM

Most of the railways in Belgium had for many years before the war belonged to the State, and a striking condemnation of State management was formulated in March, 1914 by the Comité Central Industriel de Belgique, a body representing most of the principal industrial and commercial organisations in Belgium. In a letter addressed by this body to the Minister of Railways a long list is given of detailed defects in the working of the State railways, and the Government is charged with having failed to adopt any consistent scheme of management.

According to the fancy of the moment, during the past ten years we have seen succeeding one another a Director-General, a Council of Administration, a Committee of Management, and then this series of transformations started all over again. The Government has centralised, decentralised, and recentralised.

The Minister is reminded that he himself had said that 'from the top to the bottom of the scale political and electoral influences and intrigues play an intolerable part.' Finally, a contrast is drawn between the excellent service rendered by a private railway company, the Nord-Belge, and the corresponding but utterly inadequate services rendered by the State railways.

Further information with regard to the methods prevailing in the administration of the Belgian State railways before the war is to be found in Mr. Pratt's 'State Railways.'<sup>1</sup> Dealing specially with the question of political interference, Mr. Pratt states, on the authority of M. Peschaud, that railway officials recommended by members of the majority party in the Chamber of Deputies were sure of rapid promotion, whereas those suspected of holding views opposed to the Government of the day were regarded with administrative disfavour. Reciprocally, political parties laid themselves out to secure electoral support from the railway employees. In the discussion on the railway budget in the Belgian Chamber in 1904 sixty members took part in the debate, two-thirds of them with a view to securing increased pay for the railway workers. On this occasion the budget was discussed in the Chamber for a period of five weeks. Mr. Pratt also reproduces a circular issued to electors by the Catholic party which was then in power. After stating that the Catholic candidates intended to support the demands of the railwaymen for increased pay and other privileges, the circular went on to say :

You ought for this reason to vote for the Catholic candidates. In what way will it benefit you if you vote for the Liberals ? They have no standing in the country, and will not be able to obtain anything for you. Nor should you vote for the Socialists. How is it possible for them to get for you what you want ? Not for another twenty years, at least, are they likely to come into power.

Sir William Acworth, in one of his many valuable books on railway problems, gives another illustration from Belgium of the way in which the administration of railways by the State helps to corrupt politics.

On the occasion of the elections in June, 1912, as a result of orders direct from the Cabinet of the Minister himself, increases of wages were granted and paid to a large number of men on the very day before the vote was taken, and these increases were made to date back to the previous January 1. The Minister was accused in Parliament of having ordered these increases by telegraph ; he replied that the accusation was not true. He was quite accurate in this statement. The order had been given by telephone.<sup>2</sup>

In 1923 it was decided to establish a separate administration or *régie* for the railways, to be partially independent of the Govern-

<sup>1</sup> P. S. King & Son, 1907.

<sup>2</sup> *State Railway Ownership*, p. 100.

ment, and early in 1924 the Belgian Government, in view of the unendurable railway deficit, took energetic measures to put an end to the continued disorganisation of the State railways. Among other reforms, sixty-two officials of various grades were dismissed, and a Director-General of Railways was elected from the ranks of private industry. What the result will be remains to be seen.

## ITALY

In Italy during the nineteenth century various plans for railway development were tried at various times; it was not until 1905 that the Italian Parliament finally resolved to take over the railways for the State. In his book on 'State Railway Ownership' Sir William Acworth points out that though there was an improvement in the service in the succeeding years, there was simultaneously a very great increase in expenditure. He states that the demands of the staff, which the railway administration found itself powerless to resist, in the eight years 1906-13 increased the annual expenditure by £3,000,000. Not only were the wages of the staff increased, but more men were employed per kilometre of road work. He also states that in 1906-07 the net yield of the railways to the Treasury was £1,960,000, representing roughly 1 per cent. on the capital invested. Eight years later, though the capital had grown very considerably, the net yield had fallen to £1,080,000, returning only two-thirds of 1 per cent. on the investment. An attempt was made in 1909 to raise rates, but the Ministry failed to carry their proposals through Parliament, and went out of office—an interesting illustration of the results of parliamentary control over a commercial service.

After the war the Italian State railway system practically fell into chaos. An attempt has recently been made by the Fascist Government to restore order and decent working. Testimony to the conditions previously prevailing is given in a report on the Italian State railways issued with the approval of the Italian Government in 1923. This report states that 'The public has not yet forgotten the wanton destruction, the damage, and the thefts which were daily committed with the consent of the staff or as a result of its negligence.' As an example of the way in which the railways had passed under the domination of the railwaymen's syndicate, this report mentions that express trains, travelling only a few miles more than the maximum of 150 miles fixed by the

union, were compelled to stop at intermediate stations to change their staff. The actual hours of working for the men did not exceed four to five per day, inclusive of the time spent in getting under way and in stopping.

As another illustration of the way in which syndicates, or trade unions, are in practice devoid of that spirit of public service which Guild Socialists attribute to them, this report mentions that the consumption of fuel and lubricants had increased very greatly under Socialist administration owing to the abolition of the reward formerly paid to engine crews for all savings effected. This reward for economy was abolished in 1920 because the railwaymen's syndicate had insisted that the money should be added by the Government to the regular wage, thus removing the previous personal inducement to save public money.

One of the reforms which the Fascist Government has aimed at establishing is the separation of the railway budget from the general budget of the kingdom. This was also the object in view when the Italian railways were first definitely nationalised in 1905. An interesting account of the failure of the 1905 scheme is given in an article published by the *Corriere della Sera* on March 26, 1924. The article states that the intention was then to find something intermediate between direct State management and management by a private concession. The authors of the project were particularly anxious to avoid the losses which they saw would inevitably follow from bureaucratic administration, and also to avoid the dangers of parliamentary interference. It was therefore proposed that the railway administration should have financial independence and live upon its own earnings like a private company. If it wished to extend its operations, it was to raise additional capital by borrowing with the aid of State credit. In this way it was hoped that the railways would be carried on altogether outside the interference of the State, and would not be in any way 'defiled by the typical defects of public undertakings.' For a few years this nominal autonomy continued; but, according to the *Corriere della Sera*, it was only nominal. The article well sums up the essence of the situation by saying: 'To speak of an autonomous State administration is in itself contradictory; if the administration belongs to the State it cannot be autonomous.'

The present Italian Government is engaged in trying to reorganise the railway administration so as to get rid of the enormous deficit. According to the statement made by Signor Manzi-fé at the meeting of the British Italian Banking Corporation on

March 18, 1924, there was in 1921-22 a deficit on the Italian State railways of 1260 million lire—roughly £12,000,000. He stated that the deficit had been reduced to about a sixth of that figure, and that the number of employees had been reduced by 47,836 men. The latter point may be commended to those members of railway trade unions who imagine that under nationalisation they would be absolutely secure against the risk of discharge. The railway vote is certainly a powerful instrument for the protection and the advancement of the private interests of railwaymen; but there are sometimes strange upheavals in politics.

#### AUSTRIA

That the Austrian railways should under post-war conditions show a heavy deficit on working is not a matter for surprise. One of the effects of the war was to deprive the Austrian railway system of its outlet to the sea, with the result that it necessarily lost a large part of its previously most profitable traffic. Financial difficulties were therefore in any case inevitable, but undoubtedly these difficulties were greatly enhanced by the special difficulties which attend State management. A Socialist ministry temporarily came into power and immediately set to work to create jobs on the State railways for its political supporters. The result was that the staff was expanded beyond all reasonable needs and the cost of working grew proportionately. In his report on the reconstruction of the Austrian State Railways, issued in 1923, Sir William Acworth contrasts the numbers of the staff in different branches of work on Austrian and on English railways. He states that the staff employed by the maintenance of way department in Austria per kilometre is considerably more than double that employed on the London and North Eastern Railway, with a vastly greater traffic. In the same way the Austrian State railways, in order to conciliate local feeling, maintained no less than nine repair shops, whereas the Great Western Railway of England does almost all the heavy repairs to a much larger rolling stock in a single place, and also builds there all the new rolling stock required. On the administrative side there is a similar contrast. The administrative staff of the Austrian railways was at the time of Sir William Acworth's report 5700. He states that the Great Western Railway of England controls a service *four times as great* with an administrative staff of 4552 persons.

In addition to pressure from railway employees and from different localities, the State railways of Austria are further handicapped by departmental controversies. The Post Office and the Railway Department, according to Sir William Acworth, though under one ministry are constantly wrangling with one another. Not only does the Post Office refuse to pay adequately for services rendered by the railways ; but, being in effect subsidised out of railway finance, it is able to offer lower charges for parcels. Sir William Acworth describes how he and his colleagues at Salzburg saw the railway Express Goods Office almost empty, whereas at the neighbouring post office they saw sets of ten or a dozen parcels, each under 20 kilos in weight, containing the same articles consigned from the same consignor to the same consignee, but packed and labelled separately so as to obtain the benefit of the postal tariff.

#### SWITZERLAND

• The nationalisation of railways in Switzerland has been less unsuccessful than in most other European countries, and advocates of nationalisation are specially fond of pointing to the Swiss example. If, however, the facts be examined in detail it will be seen that Swiss experience confirms the general law that the illusions which attract so many people to the ideal of nationalisation are in practice not realised. The Swiss people decided in 1898, by a referendum vote, that the railways should be acquired by the State. They had been told that as a result of nationalisation wasteful competition would be removed ; a better train service would be secured ; there would be reduced fares and rates. More specifically the message from the Federal Government to the Swiss people advocating nationalisation stated that by uniting in one hand the different branches of the service it would be possible to reduce the personnel, and in consequence the expenses. As a matter of fact, both expenses and personnel increased subsequently to nationalisation.

A special point was made when the railways were taken over that the railway budget must be kept separate from the general budget of the Federal Government, and Switzerland has more than once been congratulated on this fact by Sir William Acworth and other writers. But as far as can be gathered the separation of the budgets has not secured the removal of political influences in the administration of the railways. For example, in 1908, the President

of the Council of Administration of the Federal Railways officially complained of the pressure brought to bear upon the administration by the cantonal and Federal authorities. In addition to this official pressure there was a constant pressure from the public and from the railway employees. The public had been given to understand by the Federal Government that nationalisation would mean a better service; and simultaneously the railway employees had been encouraged to believe that they would get better wages. Both were disappointed, and the administration more than once placed on record the difficulties it had to deal with in meeting the demands of the public on the one hand and the demands of the employees on the other. Both groups seemed to assume, as is always the case with State enterprises, that the State has a bottomless purse from which everybody can draw as much as ever they like.

In 1920 the situation of the Swiss Federal Railways was so financially unsatisfactory that a series of articles appeared in the *Journal de Genève* demanding drastic reform. In these articles it was pointed out that the number of officials was excessive, and that the army of railway employees had become a power in the State compelling the administration constantly to increase railway wages in order to satisfy the demands of railwaymen. In one article it was strongly urged that the railways should be handed over to an independent administration. The financial situation of the Swiss State railways is still unsatisfactory.

#### AUSTRALIA

Outside Europe the most complete example of railway nationalisation is to be found in Australia. Not only have all the separate States of Australia their separate nationalised systems, but the Federal Government also has railways of its own. An account of the working of Australian railways before the war is to be found in a book called 'The State Railway Muddle in Australia,' by Mr. Edwin A. Pratt (Murray, 1912). His indictment turns not on the financial losses, but on the inadequate service provided by the Australian State railways. For example, he refers to the failure of the Government railways in New South Wales to provide sufficient facilities for moving livestock. He quotes on this point the *Pastoralist Review*, March 15, 1912. That journal after describing in detail the sufferings inflicted upon the animals says: 'If



private firms were to blame they would be rightly hounded out of business ; but because the Government own the railways and the Sydney Council own the yards nothing is done.' Mr. Pratt also lays stress on the way in which the New South Wales Government, in order to conciliate the voters of Sydney, had refused to do anything to assist the development of rival ports by extending railways to them. Another interesting point to which he calls attention is the jealousy prevailing between the different Australian States. There are, he says, 'New South Wales lines on the Victorian border and others on the Queensland border, which stop short of those borders for the express purpose of keeping to the State of New South Wales the traffic that arises therein.'

In a somewhat similar spirit, the various State Governments when planning the railways allowed themselves to be influenced by political considerations, and concentrated the railway service on the towns that had considerable voting power instead of trying to develop the country generally. As another illustration of the influence of politics, it may be mentioned that early in 1912 there was a great shortage of locomotives on the New South Wales railways, and the Chief Commissioner of Railways urged that twenty locomotives should be ordered from an English firm. The Chief Commissioner's demand came before a meeting of the Cabinet, which refused to sanction the placing of the order on the ground that it would involve an interference with the declared policy of the Government only to buy locomotives made by local labour.

Particulars of the recent financial situation of the State railways of Australia, together with those of New Zealand, are contained in the *Economist* of March 8, 1924. After allowing for the cost of interest, the aggregate deficit for Australia and New Zealand in 1920-21 was £4,926,000 ; in 1921-22 it was £4,437,000 ; and in 1922-23 the deficit fell to £2,923,000. In this last year some States made a definite profit. To quote the *Economist*, 'New South Wales obtained a surplus of £84,000 and South Australia a surplus of £5769, after meeting interest, thus breaking the monotonous record of deficits for several years past.'

In the case of Victoria, the official report for the Victorian railways for the year ending June 30, 1923, shows a nominal surplus for that year of £20,183. But when later pages of the report are examined, it appears that no less than £108,569 had been appropriated by Parliament and paid to the department for losses incurred in connection with certain non-paying lines, so that in

reality the Victorian State railways in 1922-23 incurred a loss of nearly £90,000.

In Queensland there was a total deficit of £1,475,000. The official report for 1922-23 gives a long list of non-paying lines; some do not cover interest on capital; some do not even cover working expenses.

Even worse is the record of the Australian Federal railways. They have never even begun to cover working expenses. The official report on Commonwealth railways to June 30, 1923, somewhat pathetically remarks that the main Federal line, namely, the Trans-Australian railway, with a mileage of 1051 miles, which was specially constructed to carry passengers from Western to Eastern Australia, is very little used. 'Notwithstanding the high standard of comfort maintained, comparatively few passengers from overseas make use of the railway.' The report goes on to attribute the reluctance of passengers to utilise the Trans-Australian railway to the frequent breaks of gauge between the Federal line and the lines maintained by the separate States, which the Federal line links up. Regret is expressed that 'Conferences between the Commonwealth and the States have not so far resulted in a practical start to correct the gauge trouble.' Necessarily, this trouble affects goods traffic even more than passenger traffic. On this point the report says: 'The railway was built to standard gauge with heavy rails and easy gradients, and is capable of transporting a large goods traffic at low cost. But owing to the break of gauge disabilities there is practically no such traffic.' This example of inter-State jealousies may usefully be contrasted with the action of the English companies in voluntarily adopting a uniform gauge.

#### NEW ZEALAND

The State railways of New Zealand show a better record than most of the Government-owned railways of Australia. Year by year the receipts suffice to cover the working expenses, but the net revenue has seldom been sufficient fully to meet the interest on capital. In the year ending March 31, 1922, there was a heavy deficiency of £1,021,000, happily reduced in the succeeding year to £284,000. Incidentally the official report brings out the fact that the State railways of New Zealand, like the private railways of England, suffer from the competition of road motors. As an illustration, the Minister quotes the fact that special fares are

allowed to school children, resulting in an annual loss to the department of £25,000, and adds: 'In this connection it is to be noted that in some districts where trainloads of school children are daily conveyed to school at concession rates, parents travel by motor bus.'

## CANADA

A striking contrast to the failure of the Australian State railways is furnished by the brilliant success of the Canadian Pacific Railway Company. That Company has worked under more or less similar conditions to the State railways of Australia. It has been engaged in developing a new country and has been supplied with land free of charge. Its labour costs were probably not appreciably different. Yet this privately owned railway company has not only done a great public service in developing vast areas of Canadian territory, but it has also succeeded in earning for its shareholders a substantial net revenue, without imposing any burden upon the Canadian taxpayer. In the year ending December 31, 1923, the Canadian Pacific Railway Company paid a dividend of 6 per cent. on ordinary stock and 4 per cent. on preference stock, and after making these payments had in hand a net surplus for the year of \$1,633,346.

An account of the origin and growth of Government-owned railways in Canada is contained in the Canada Year Book for 1922-23. It begins with the Inter-Colonial Railway, built as a condition of confederation. Subsequently numerous other railways were built by the Government or taken over from companies, including in the latter category the Grand Trunk, which was finally taken over in 1922. The total capital expenditure on Government railways up to March 31, 1922, was \$489,607,104. So far as can be gathered, there has been no return whatever in the way of interest on this huge outlay. In almost every year the working expenses have exceeded the revenue, and the total net deficit on the period from 1868 down to 1922 was \$44,629,625. These losses, added to the loss of interest on capital, have necessarily to be met out of the pocket of the taxpayer.

In 1923 the administration of all the Government-owned railways in Canada was unified and Sir Henry Thornton was placed in charge. There has been a small financial improvement, but, so far, very small. The deficit which the Canadian Treasury had to meet in 1922 was \$58,000,000, and in 1923 it was \$52,000,000.<sup>1</sup>

<sup>1</sup> *Economist*, July 5, 1924.

## SOUTH AFRICA

The story of the South African railways is of peculiar interest because South Africa is one of the few countries in which the scheme for the separation of the railway budget from the general budget has had any prolonged trial. South Africa was consequently one of the countries on whose example Sir William Acworth laid special stress in urging that the plan of a separate railway budget should be adopted in India. When, however, the facts of the South African example are more closely examined, it will be seen that they lend no support to this attempted compromise between nationalisation and private ownership. In the first place, the separation of the railway budget from the general budget in South Africa is not due to an Act of the South African Legislature, but to an Act of the Imperial Parliament, namely, the South Africa Act of 1909, which laid down the constitution of the South African Union.

The South African Parliament has, it is true, power to repeal or alter—subject to certain conditions—any clause in the South Africa Act, but obviously no parliament would lightly undertake the repeal of so important a clause in the Act establishing the Union. It must be noted, however, that in one matter affecting railway administration the South African Parliament has already amended an important clause in the South Africa Act. Clause 126 of that Act provided that

the control and management of the railways, ports and harbours of the Union shall be exercised through a Board consisting of not more than three Commissioners, who shall be appointed by the Governor-General-in-Council, and a Minister of State who shall be chairman.

The same clause protects the members of the Board from the risk of summary dismissal. Thus the power of control rested with the Board. In 1916 this clause was amended by an Act passed by the South African Parliament. The amendment provided that control should be 'exercised through a Minister of State who shall be advised by the Board.' The change is significant. It means that the South African Legislature had come to the conclusion that the final word in railway administration must rest not with an independent Board, but with a political minister.

According to the Report of the General Manager of Railways and Harbours for the year ending March 31, 1923, the railways in

that year showed, after paying interest on capital, a substantial net profit on working. Harbours and steamships, which come under the same administration, also showed a profit on working; the aggregate for the three services being £817,083. But this profit was subject to certain charges which wiped it out altogether and left a net deficit of £31,137 for the year 1922-23. According to the report, the total accumulated deficit on the three services for the whole period of State management up to March 31, 1923, was £2,220,511. That is not a very large figure in comparison with the losses incurred on State railways in many other countries, and if the South African electorate could be relied upon to maintain the principle of non-political administration embodied in the Act of 1909, the situation of the South African railways might be described as fairly satisfactory. But recent events show clearly that it is impossible to exclude political considerations from the management of any undertaking owned by a government dependent on a popular vote.

In April, 1924, a critical by-election took place at Wakkerstroom and the Government candidate was defeated. As one of the causes of the defeat of an otherwise popular candidate *The Times* correspondent says (*The Times*, April 7, 1924): 'Apparently the Volksrust civil servants and railwaymen, many of whom are English-speaking, voted solidly for the Nationalist candidate as a protest against the Government's policy of retrenchment and taxation.' The defeat was regarded by General Smuts as so serious an event that a dissolution of parliament followed. In the course of the electoral campaign General Smuts announced 'a great programme of railway development and of support for local industries.' According to *The Times* correspondent, 'Critics fasten on the fact that these developments were not contemplated by the Government till they had to scour the country for votes' (see *The Times*, May 29, 1924). That is the essential defect of the State ownership of railways, that at any moment the politician can treat questions of railway management or railway development, not from the point of view of sound commercial principles, but as an instrument for buying votes for his party.

Events, however, proved that General Smuts had been too late in appreciating the importance of the railway and civil service vote. His party was defeated and he lost his own seat in Pretoria West. *The Times* correspondent in recording the principal results of the election states (see *The Times*, June 19, 1924): 'General Smuts' own defeat at Pretoria West was not unexpected and was probably

due to the railway vote, while other defeats in Pretoria clearly point to an anti-government move among civil servants.'

Thus the experience of the South African State railways furnishes an additional and a very striking demonstration of the danger of multiplying the numbers of government employees. The railwaymen and the civil servants voted against General Smuts because he, in the interests of the Union, had rightly been pursuing the policy of public economy. That policy conflicted with their private interests, and by throwing their weight into the scales against General Smuts they have contributed to a political change which may have far-reaching effects on the future of South Africa.

## INDIA

The railway system of India is in one respect in a separate category. The greater part of the railway mileage in India has been constructed by English companies working under a guarantee from the Indian Government. This system has involved a dual control: first, control by the railway company domiciled in England, and secondly, control by the Indian Government, exercised in the first instance by that Government in India, and in the final resort by the India Office in Whitehall. In the year 1920 a committee was appointed by the Secretary of State for India to inquire into the administration and working of Indian railways. The chairman of the committee was Sir William Acworth. Several of the other members of the committee were men who had held prominent positions in connection with Indian railways; others were representative of Indian opinion and of Indian commercial interests. This authoritative committee was unanimous in condemning the existing condition of those Indian railways that are directly or indirectly subject to Government control.

The evidence shows, to quote the words of the Report, 'that the failure to meet the needs of the country is not temporary and not confined to certain places or to certain periods, but universal and permanent.' The Report further says:

The defects mentioned in the last chapter are due primarily to the failure of the Government to provide the railways with adequate funds for capital expenditure on development and extensions, and even for the essential operations of renewal and repairs. They are the inevitable results of a paralysing system which has not been adapted and developed to meet the requirements of what is essentially a commercial enterprise of the first magnitude.

The 'paralysing system' here referred to is the necessary result of combining the management of a commercial concern with the ordinary business of government. The Indian Government cannot meet railway demands for additional expenditure without first considering the effect of such demands on the annual budget of the State. Of necessity a government approaches the whole problem of finance from a different point of view to that of a company. A company, in the words of this report, 'treats its business as a continuously going concern, with a carefully thought-out programme both of revenue and capital expenditure for years ahead, and with provisional financial arrangements calculated to correspond.' A government, on the other hand, is dominated by the yearly requirements of a yearly budget.

As an example of how this domination of an annual budget affects railway finance the Report quotes a letter, dated December, 1920, from the Government Railway Board to one of the guaranteed companies, the Great Indian Peninsular Railway, stating that 5 lakhs of rupees had been allotted with a view to making a commencement with the construction of a certain new line, and requesting the company to make arrangements that construction should proceed as quickly as possible up to the limit of this allotment, but adding: 'There is no expectation at present of any money being available for this line next year, and work may have to be temporarily suspended.' It is unnecessary to make any comment upon such a method of financing railway construction.

The Report declares that throughout the State-owned and State-guaranteed mileage of railways in India there are scores of bridges unequal to carrying modern train-loads, and many miles of rails, hundreds of engines, and thousands of wagons in need of repair. Yet these railways are yielding a substantial net revenue to the State. The explanation of the failure of the State to make good these serious deficiencies is that the Government of India prefers to use the railway revenue for other Government purposes, or for the avoidance of increased taxation.

This represents the alternative danger to that experienced in Australia. The Australian Government-owned railways have, with very few exceptions, ever since their construction involved an annual loss which has been met out of public revenues; which means that the taxpayer has been sacrificed for the benefit of the railways. In India in the present century there has been a profit on Indian railways, and this profit has been annexed by the Government for the purposes of the general budget; the railways

have been sacrificed for the benefit of the taxpayer. Neither of these evils occurs when railways are built and managed by private companies.

In face of the peculiar difficulties in India, the majority of the members of the Acworth Committee, headed by their chairman, came to the conclusion that it was politically impossible to hand over the railways to private enterprise. They therefore recommended that the Government should take complete control of the railways, but should entrust that control to a separate organisation with a separate budget of its own.

It is clear, however, from the Report itself that effective control would still rest with the Government. The Report states :

At the outset we wish to disclaim any idea that the railway organisation should be independent—an *imperium in imperio*. This is quite out of the question. The Indian Government owns the railways ; the Indian Government must control them. . . . The point is that the railway department, subject to the general control of the Government, once it has met its liability to its creditors, should itself regulate the disposal of the balance and should be free to devote it to new capital purposes or to reserve, or to dissipate it either in the form of reduction of rates or improvement of services.

Subsequently the Report adds :

It would be possible, however undesirable, for the Government to impose a surtax on railway traffic, such as is now in force, or even to call upon the railways for an emergency contribution to the necessities of the State.

This last paragraph gives away the whole case. If the Government can at any moment it chooses call upon the railways for a 'contribution to the necessities of the State,' the supposed separation of the budgets becomes a mere formality.

It is interesting to see how the proposals made by Sir William Acworth and his colleagues have in practice been treated in India. The Government of India has formally expressed its approval of the scheme, and in February, 1924, Sir Basil Blackett, the Finance Minister, in the course of his budget speech—referring to the Acworth proposal for the separation of the railway budget from the ordinary budget, said :

I know of no reform which offers greater attractions and greater benefits to our finances and our railways alike than a definite separation, if it can be achieved. The condition of affairs hitherto



prevailing has inevitably tended to an alternation between raids by the railways on the taxpayer and raids by the taxpayer on the railways.

After further pressing the advantages of separation he went on to say that after separation 'the Government of India and this Assembly will remain in complete control of the railway administration just as they now are.' But if the Government of India is, as Sir Basil Blackett said, to remain 'in complete control,' what is to prevent that Government from making raids on the railways for the benefit of the taxpayer, or, alternatively, from making raids on the taxpayer for the benefit of the railways?

Evidently, however, the Legislative Assembly was not satisfied with the promises dangled before it. When the formal resolution for the separation came up for consideration it was unanimously decided by the Assembly that the matter should be deferred till the autumn on the ground that the Committee which had been considering the matter had not been able to satisfy itself fully as to the effect of the proposal 'on the control by the Assembly over railway finance and policy.' The issue next came before the Assembly on September 1, and the proposal for the separation of the budgets was rejected. 'All Indians voted against the proposal.' (*The Times*, September 2, 1924.) The Indian Government then set to work to try to find a compromise. On September 17, the Assembly was informed that the Government, in order to meet the views of the critics of the scheme, would require the railways to contribute one per cent on their capital to the revenue of the central government, which meant a contribution of about £3,460,000 in the current year. A few days later the Assembly accepted this concession and the scheme was formally adopted. (*The Times*, September 22, 1924.) It is hardly necessary to point out that under such conditions the separation of budgets has already become nothing more than one of those make-beliefs so dearly loved by politicians. If the Assembly can extort from the Government a toll on railway revenues of £3,460,000 in 1924, it clearly also has the power to extort a larger toll in any subsequent year.

There is in fact no escape from the conclusion that if the railways are the property of the State no device can preserve them from the interference of the politicians and electors who control the State.

## CHAPTER III

### SOCIALIST PROPOSALS

THE facts given in the preceding chapter show how little support the experience of the rest of the world gives to the Socialist claim that the nationalisation of the railways of Great Britain would add to their efficiency. In every country that has tried nationalisation the results have been most unsatisfactory. Political influences have led to an unnecessary multiplication of the railway staff, and to the construction of lines for electoral rather than for commercial purposes: bureaucratic methods have clogged the administrative machinery. To avoid these palpable evils several countries have tried the experiment of separating the railway budget from the national budget in the hope that the railways could then be run on sound commercial lines; other countries have been recommended by a distinguished authority on railway problems to try the same experiment. But in very few cases has this separation of budgets materialised, and in no case has it secured the removal of political influences. Incidentally it must be noted that the very fact that this device for removing the railways from the direct control of the Government should have been tried, and should still be recommended, is in itself a confession that complete nationalisation has proved a failure. To that extent all schemes for compromise between commercial management and State management involve a condemnation of Socialist theories.

The Socialists seek no compromise. Their theory of life is that the only way to secure happiness for mankind is to bring every industry under the control of the State, and to appeal to the spirit of public service in place of the desire for personal gain. That is the broad general proposition which all Socialists unite in asserting. They differ, however, among themselves as regards important details. For example, most Socialists are in theory internationalists, and the logical result of Socialist theories would be that all railways—at any rate all railways on the continent of Europe—should be managed by an international

body to prevent the different national railways competing with one another.

From the purely English point of view the more important issue is how and by whom is the proposed State control to be exercised. What may be called the bourgeois type of Socialist still adheres to the view that the community is represented by Parliament, and these Socialists would merely add the railways to the many other services now controlled—with the aid of an all-pervading bureaucracy—by the party that can command a majority in the House of Commons.

The more up-to-date Socialists regard Parliament with suspicion and the bureaucracy with dislike. Their theory is that everything in the world belongs to the 'workers,' a word which, in their mouths, in practice means the manual labourer and the subordinate clerk. All the other members of the nation they regard as parasites, to be eliminated as soon as possible. They therefore demand not Parliamentary control but workers' control. The practical meaning of this policy was made clear in the Nationalisation of Mines and Minerals Bill debated in the House of Commons on May 16, 1924. This Bill, which received the support of the whole Labour Party, proposed that the control of all the mines in the kingdom should in effect be handed over to the Miners' Federation. If any losses occurred in working the mines they were to be made good by the State out of the pocket of the taxpayer. The miners, moreover, were to retain the right to strike whenever they choose.

A very similar scheme for the nationalisation of railways is outlined by Mr. J. H. Thomas in his book 'The Red Light on the Railways,' published in 1921. After saying that the railways would be 'placed under the Ministry of Transport, the head of which would always be responsible to the House of Commons,' he goes on :

There would have to be a National Board of Control and also local committees for local matters. This National Board would consist of an equal number of representatives nominated by the House of Commons and the Trade Unions.

He then goes on to explain in detail the method by which the trade union representatives would be chosen, and insists that every one 'would have to be a *bona fide* member of one of those unions.' When it is borne in mind that the railwaymen's vote is an appreciable factor in Parliamentary elections, it will be seen that this scheme gives complete control to the railway unions; for it is certain that some of the representatives nominated by the House

of Commons would be railway union men. Even if only one of the nominees of the House was a union man, the railway unions would command a majority on the Board. Thus the control of all the railways of the kingdom would pass into the hands of a limited body of men who happen to be employed on the railways, and whose main interest is to obtain a higher wage for themselves and shorter hours of work.

The same proposition is urged even more bluntly in a pamphlet called 'Workers' Control for Railwaymen,' by Mr. G. D. H. Cole, the well-known literary representative of the Guild Socialists. Mr. Cole says: 'The right course is to entrust the whole of the railway workers with the complete task of administration and to put them "upon their honour" to manage the railways as a public service.' Dealing further with the composition of the 'Railway Executive' that is 'to consist solely of railway workers,' he says that 'at least half the representation should go to the manual workers alone.' He goes on to insist that promotion, except in certain special cases, should be by 'election from below,' but adds that precautions must be taken against summary dismissal. Thus a stationmaster threatened with dismissal by the rank and file workers under him should be able to appeal to an impartial tribunal. But in spite of thus providing for the complete control of the railways of the kingdom by the 'workers,' Mr. Cole recognises that Parliament is the 'ultimate financial authority.' That is the point on which all these Socialist schemes converge. With Parliament rests the power of taxation, and therefore if the management of the railways by the railwaymen results in a deficit it is to Parliament that they will have to appeal to foot the bill out of the taxpayer's pocket.

That a deficit would result from entrusting the management of the railways to the workers, either on the whole-hearted plan advocated by Mr. Cole, or on the half-hearted plan sketched out by Mr. Thomas, is certain. Human beings in the mass approach every problem from the point of view of their own self-interest. They cannot in the mass avoid so doing; it is the law of survival. There is no evidence whatever that railwaymen in this respect differ from the rest of humanity. Mr. Cole speaks of putting the railway workers 'upon their honour' to manage the railways as a public service. This suggestion shows how completely enthusiasts for any cause can shut their eyes to the facts of life—even to those facts which they themselves have for other purposes emphasised. Merely regarding the railwaymen as units, it is absurd to suggest

that any considerable proportion of the 600,000 men employed on the railways could be relied upon voluntarily to forgo part of their wages or to work longer hours in order to diminish the costliness or to add to the efficiency of the railway service.

That consideration by itself is sufficiently conclusive. It is immensely strengthened by the fact that the whole of the new organisation advocated both by Mr. Cole and Mr. Thomas is based on the railway unions, and every labour leader insists that the first duty of the worker is to his union. To abandon that principle would indeed mean the destruction of trade unionism. It follows that in any conflict between the railway unions and the general public the railwaymen and their leaders would deliberately ignore the public interest in order to stand by the unions. One need only go back to 1919 to see how completely the trade union spirit is at variance with the spirit of public service. In the autumn of that year the railways of the kingdom were temporarily taken over by the Ministry of Transport, so that the State then had direct control as well as complete financial responsibility. Yet the railwaymen under the leadership of a Privy Councillor, the Rt. Hon. J. H. Thomas, M.P., seized that occasion to engage in a strike, to the immense injury of the nation, solely for the purpose of improving their own position. Many of them, indeed, went to the length of deliberately breaking their contracts of service by ceasing work without due notice, so as to inflict the maximum of inconvenience and loss upon the general public. Drivers even abandoned their trains between stations. By thus holding the nation to ransom the railwaymen secured a privileged position for themselves as compared with the general body of their fellow-citizens. It is a fair deduction from this experience that if the management of the railways were handed over to the railwaymen, their main efforts would be directed to improving still further their own position, regardless of the general interests of the nation.

As a contrast with the proposals of Mr. J. H. Thomas and Mr. G. D. H. Cole to hand the railways of the kingdom over to the complete control of the railway workers, we have the State Socialist scheme advocated by the Fabian Society and other 'bourgeois' Socialists. In a pamphlet published by the Fabian Society in 1916, entitled 'A Public Service of Railway and Canal Transport,' the following scheme of management is outlined. The 'supreme control' would be vested in the Minister for Railways—who, of course, would be responsible to Parliament, and consequently liable at any moment to have his decisions upset by political

pressure. Subordinate to this Parliamentary Minister there would be a 'Central Railway Council . . . composed of the ablest General Managers and heads of the principal departments, all being whole-time salaried officers of the Department, with probably a representative of the Treasury.' To the governing Council thus composed, the Fabian Society suggests that there should always be added 'two or more representatives of the Trade Union organisation, representing (as will be subsequently explained) all the six hundred thousand manual working wage-earners in the service.' It will be observed that this scheme is totally at variance with the doctrine of workers' control advocated by trade union leaders and recently embodied in the Mines Nationalisation Bill.

Another notable difference between the Fabian conception of nationalisation and the policy of the working-class Socialists arises on the question of strikes. The miners made it clear when the Sankey Report was issued that they would not forgo the right to strike if mines were nationalised. The same point is emphasised in the Mines Nationalisation Bill. Further evidence of this mental attitude is to be found in a little book called 'Labour and Capital on the Railways,' prepared by the Labour Research Department. The authors of this booklet are mainly concerned with railway problems under present conditions of company ownership, but the arguments they employ clearly show that they are prepared at any moment to sacrifice the interests of the nation for the interests of the railway workers. They write: 'It is obvious that railwaymen, more than most other sections, are in a position to hold up production and distribution by a sudden strike.' They go on to urge the formation of a 'homogeneous Trade Union organisation,' because 'the success of any railway strike depends on its rapidity and completeness.'

On a later page this Labour pamphlet mentions with implied approval that:

The years between 1911 and 1914 are full of 'lightning strikes' (such as the Driver Knox and Guard Richardson cases),<sup>1</sup> where the men on any particular section took direct action to remedy an

<sup>1</sup> Driver Knox, of the North Eastern Railway, was convicted in Court of being drunk and disorderly, and was thereupon reduced to a lower grade. The North Eastern Railway men—but without the approval of the N.U.R.—struck work on the ground that Knox had only been drunk on a Saturday night and was not booked for duty on the Sunday. Guard Richardson was dismissed for disobeying the orders of his superior officer. His defence was that in his opinion the order given to him was at variance with the rules of the Company and involved danger to the public. 'Reinstatement was secured through the Union; but for several days a national strike seemed imminent.' See *Trade Unionism on the Railways*, pp. 33 and 34, by G. D. H. Cole and E. Page Arnot, published by the Fabian Research Department.

immediate grievance and invariably secured attention far more quickly than by any amount of conciliation.

Further, it is stated that railwaymen have 'struck against "tainted goods" in a number of cases, the most recent being in connection with the carrying of munitions for British troops in Ireland.' The question of 'tainted goods' is specifically dealt with by G. D. H. Cole and R. Page Arnot in their book on 'Trade Unionism on the Railways.' In reply to the argument that the railway companies are common carriers, who cannot discriminate between the goods they carry, these writers say: 'This argument has little weight; for if on other grounds the sympathetic policy is for the good of Labour, it should not disturb the railwaymen that their action might involve the companies in a breach of the law.'

In other words the opinion of a trade union as to what is desirable 'for the good of Labour' takes precedence of the law of the land. If that principle be accepted, its application clearly cannot be limited to privately owned railways. If, as these advanced Socialists argue, railwaymen have a right to strike whenever they choose, either for the purpose of remedying their own grievances or for the purpose of aiding other strikers, that right would not be affected by the mere transference of the railways from Company ownership to State ownership. This point is indeed made clear by the references in the Labour Research Department's pamphlet to the war period: 'Strikes had to be prevented wherever possible, and accordingly when the railwaymen presented wage demands, they were given by the Government an advance sufficient to keep them quiet.' These words can only mean that in the opinion of the Labour Research Department the railwaymen were justified in threatening to hold up the traffic and the industries of the country at a time of grave national danger in order to extort from the Government better terms for themselves. Yet it is proposed by Mr. J. H. Thomas and other advocates of railway nationalisation that trade unions, inspired by this mentality, should be placed in control of all the railways of the kingdom.

The attitude of the Fabian Society on this point is totally different. The Fabians, like the Roman general from whom they take their name, wish to move cautiously. They contend that the right to strike is inconsistent with nationalisation.

A general strike on the railways would stand revealed as an attempt to hold up the whole community in order to extort for a small minority of the manual working class better terms than the

public opinion of the whole class was prepared to concede. Leaving work without the agreed period of notice is on the railways (as under certain circumstances it ought to be) already a criminal offence. The proper course for any man who considered his services inadequately remunerated would be, as it is with the clerical Civil Service, on the expiration of his contract of service to resign his appointment and seek a new field of work.

These words from the collective pen of the Fabian Society might well have been written by a mere individualist. But however persuasively the Fabians may on occasion plead for English fair play in preference to trade union tyranny, there is not the slightest evidence that the driving elements in the Labour Party are willing even for a moment to abandon their purely selfish policy.

It is also more than doubtful whether the views of the Fabian Society and of other moderate Socialists with regard to the terms of railway purchase would be accepted by the bulk of the men from whom the main pressure for nationalisation comes. The Fabians are emphatic that full compensation must be given to present owners. That also is the position taken up by Mr. Philip Snowden. He writes :

There is no idea of confiscating these properties, and forcibly dispossessing the present owners. . . . The very fear of confiscation would have disastrous results. Capitalists could not be expected to continue to produce, to renew their plant, and to improve processes, if the spectre of confiscation were before them. The more efficient the capitalist concerns were when transferred to the State, the better would be the prospects of the success of public management.

Mr. J. H. Thomas's attitude is less easy to discover. He is so concerned in his book with the interests of the railway workers that he touches very lightly on other aspects of nationalisation. That he is not very anxious to give fair play to the railway shareholders may be inferred from the way in which he deals with the Government guarantee of pre-war dividends when the railways were taken over during the war. He condemns this guarantee to the companies as unfair, and asks : ' Why should they have been wrapped in cotton-wool and kept immune alone among all businesses ? ' He fails to mention that in return for this war-time guarantee the railway companies agreed to charge nothing for Government services. If those services had been paid for at ordinary rates the cost to the Government would have been about



£17,000,000 more than the amount the companies received by virtue of the guarantee. Again, on p. 41 he makes the somewhat puzzling statement: 'We want to eliminate the interest of the investor. We consider that generally there are only two investors—the worker and the consumer.' He then proceeds with his argument as follows:

Here is a roundabout. You and I and a hundred others want to ride on the roundabout. But somebody owns it. It is perfectly true he has built it. Without him, maybe we should not have had it. But there it is—an established thing—the result of the genius of our race.

He then suggests that the people who use this roundabout—'the result of the genius of our race'—should buy it and run it themselves. That sounds fair; but he adds: 'If we own the railways, we, the community, should only pay for the service just what that service cost. We should not have to make profits for casual investors.' On a later page, however, he describes how the Government would pay for the railways by issuing Government stock in place of railway stock. But the Government would have to pay interest on this stock, and there is no reason to believe that this annual charge would be appreciably less than the total sum now paid in dividends to railway stockholders, or to use Mr. Thomas's phrase, 'in profits for casual investors.'

His argument on this critical question of finance ends with the cool assumption that the profits made by the Government would be so great that in a comparatively brief period all the railway debt would be paid off—and then the millennium for the railway worker and the railway traveller would arrive. That is the assumption always made by the advocates of nationalisation and never realised.

It is worth while here to mention that in the case of the railways of the United Kingdom, 'the man who built the roundabout' is represented by very many thousands of separate individuals, nearly all of them citizens of this country. There are indeed more owners of railway stock and of railway debentures in Great Britain than there are railway employees. Figures for one of the four great railway systems of the kingdom were given by the chairman of the London, Midland and Scottish Railway in his address to the shareholders as reported in the *Economist* of March 1, 1924:

We have 269,000 employees, and 250,000 shareholders with an average holding of under £1200 stock, and in addition 60,000 debenture holders.

Thus on this great railway the number of owners exceeds the number of workers by over 40,000. Very similar figures could be quoted for the other railways. It is important to add that many of these separate owners—for example, banks and insurance companies—are in effect trustees for thousands of other persons. So that the actual number of persons interested in the railways from the owners' point of view may easily be double the number of railway employees. Without the capital which these persons or their predecessors in title voluntarily subscribed, the railways, as Mr. J. H. Thomas admits, would never have been built. It is difficult to believe that Parliament would ever consent to a measure which proposed that this property, scattered through scores of thousands of homes, should be confiscated by the State.

If, on the other hand, as Mr. Philip Snowden emphatically insists, the owners of the railways are to have fair play the nation will have to assume responsibility for an enormous addition to the national debt. Interest upon this additional debt will have to be paid year by year, whether the railways are working at a profit or a loss. Under private ownership the risk of loss is borne by the shareholders; if the railway does not pay, there is no dividend. That involves no injustice to the shareholder; it is a contingency which he had to contemplate when he bought the stock. But under State ownership, however disastrous the results of working may be, the State will have to meet its obligations to the vendors and the final liability will rest upon the taxpayer.

What is the prospect for him?

The advocates of nationalisation are glib in asserting that under State management the economies of working will be so great that there will be increased profits for the benefit of the taxpayer, as well as an improved service for the public and better wages for the workers. These fanciful prophecies are in direct conflict with the experience of all countries that have tried railway nationalisation; they are in conflict with our own experience in the matter of telegraphs and telephones.

The successful management of railways requires a more elastic system of administration than any State bureaucracy is capable of providing. The bureaucrat, sure of his comfortable job and hide-bound by traditions of routine, proceeds in a leisurely way to carry out the rules of the service, when the need of the moment is a prompt decision based on the circumstances of the case.

An even more serious obstacle to the successful administration of the railways by the State is the inevitable operation of political

forces. Wherever the State becomes the direct employer of a large body of voters they are able to bring pressure to bear upon the Government through Parliament in order to secure benefits for themselves at the expense of the public treasury. It is only necessary to watch the proceedings of the House of Commons for, say, a couple of weeks in any session to detect the working of this political law. Members of Parliament who will make eloquent speeches in favour of the general principle of public economy will vote to a man in support of any particular expenditure that is pressed by a well-organised body of voters. The railwaymen are well organised and they can bring effective pressure to bear in scores of constituencies. Beyond all doubt, they would use their voting power—as indeed all electors tend to do—for the promotion of their private interests.

That this is the deliberate policy of the leaders of the railwaymen Mr. Thomas makes clear in this book. After saying (p. 95) that though he would support a strike unflinchingly to remedy injustice, he adds: 'I aim, and the most serious-minded of my Labour colleagues aim, at revolution through the ballot box.' This was written at a time when Mr. Thomas was at the head of the N.U.R. in a book addressed 'To that Gallant Band of Railwaymen of all grades to whose confidence and love I owe all.'

On the other hand, Mr. Philip Snowden, whose political traditions are national rather than sectional, in his book, 'If Labour Rules' (p. 28), says: 'The political danger of an electorate of public employees, who could bring their parliamentary votes to bear to gain concessions is one that must be resolutely faced.' He mentions that this difficulty had already been experienced by Labour administrations in conducting national enterprises in Australia. He might have given many other illustrations and some nearer home. The reader may be interested to learn what plan Mr. Snowden proposes for 'resolutely facing' this danger. His own words are: 'The only effective safeguard is the development of a social spirit among public servants.'

That is all. And that sentence by itself gives away the whole case for railway nationalisation. It is childish to imagine that some six hundred thousand railway employees will suddenly develop a spirit of social service when they begin to draw their weekly pay from the public treasury instead of from a private company. The postmen have been public servants for generations, but that has not prevented them from organising themselves to improve their own position, necessarily at the expense of the State.

Nor are they altogether wrong in so doing. One of the purposes of a vote is to enable the citizen to protect his private interests. The blame lies upon those politicians who create a system in which the private interest of the voter is in direct conflict with the public interest of the nation.

Apart from national defence the primary business of government is to secure fair play between the members of the community. That is impossible if the Government is itself a large employer of labour; for the political scales will then be loaded in favour of a particular group, and for the sake of that group the nation has to submit either to bad service or to financial loss—or both.

BY THE SAME AUTHOR

# THE PROBLEM OF POPULATION

SHOWING HOW OVER-POPULATION CAUSES  
DOMESTIC MISERY AND INTERNATIONAL STRIFE

*Daily Telegraph*: "This little book . . . ought to be in the hands of every thinking citizen."

*Liverpool Daily Courier*: "A valuable contribution to sociology by a master."

*South Wales Daily News*: "Mr. Cox's reputation as one of our ablest publicists will be enhanced by this masterly contribution to the study of a much neglected and much misunderstood problem."

*Jewish Guardian*: "This is a book no social worker or student can afford to do without."

*Sunday Times*: "In this little book Mr. Cox deals with an extremely old problem in a clear and convincing manner" (PROFESSOR MACBRIDE).

*Yorkshire Post*: "A noteworthy book, in which Mr. Harold Cox presents in a most lucid, fair and far-seeing manner the case for restriction of population."

*Glasgow Herald*: "Mr. Harold Cox has done a good service by publishing his readable, well-balanced, and thought-provoking volume."

JONATHAN CAPE,  
11, GOWER STREET, LONDON, W.C. 1.

Price 6/- net.

