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## **On Municipal & National Trading**



# On Municipal and National Trading

BY

**THE RIGHT HON. LORD AVEBURY, P.C.**

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## CHAPTER I

### INTRODUCTION

THE portentous and rapidly growing increase of rates and of municipal debt has roused the anxiety of all thoughtful citizens.

In 1868, the date of Lord Goschen's Local Taxation Report, the local expenditure of the United Kingdom was about £36,000,000; but, in 1902-3, the latest year included in the statistical abstract, this sum had grown to the gigantic total of £152,000,000—more than four times the expenditure of forty years ago.

Perhaps it may be said that the sixties are rather too far to go back. Let us then take the year 1891-2. At that time the amount was £76,000,000; in the last complete year (1901-2) it was £144,000,000, so that in ten years it had risen no less than £68,000,000!

No sufficient reason can, I submit, be given for this portentous increase of expenditure.

No doubt in these years the population and rateable value have increased, but, as the Industrial Freedom League has pointed out, the average rate per head of population has risen in England and

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Wales, in the last twenty-four years, 83 per cent, the average debt per head has risen 118 per cent, and the average rate per £ of valuation 75 per cent. Moreover, as the assessment is increased, we are not only paying a higher rate, but on a higher assessment; so that the actual sum a man has to pay is raised doubly.

These figures are very grave, but they are not all. Though we are paying so much, we are not paying our way. The local authorities are running head over heels into debt.

But then we are told that a great part of the debt has been incurred for "remunerative purposes," and this may be true in some cases, but I fear I shall be able to show that, as regards most of them, "unremunerative" would be a truer, and indeed a mild, way of stating the case.

The duties entrusted to our local authorities are of great complexity, difficulty, and importance. Not content, however, with the functions necessarily falling within their province, some municipalities have of late years launched out into extensive commercial operations.

The objections felt to this new departure are not founded in any way on mistrust of, or opposition to, municipal institutions. We fully recognise with how much zeal and devotion the members of municipal bodies have fulfilled the arduous and important duties which are entrusted to them; and the wish that they should have time fully to think out the various problems which come before them is one of the

strong reasons which induce us to regret the course they have adopted. While, however, admitting to the full the abilities of those who belong to our municipal bodies, it does not necessarily follow that they have the special knowledge which is required to conduct manufacturing and business undertakings to a successful issue, nor, indeed, have they the time to do so.

The supporters of municipal trading often speak with great contempt of men of business. Mr. Birrell, for instance, speaking at Colchester, expressed the opinion that—

As far as the ratepayers were concerned, and he could only speak as one of them, he did not believe in any millennium for them. They must pay through the nose, either in the shape of rates or else in the shape of dividends to profit speculators.<sup>1</sup>

To my mind there is a wide distinction between legitimate enterprise and anything which can correctly be called "speculation." But if speculation is the right word, then I submit that speculative investments ought not to fall within the limits of municipal powers, or to be made with the ratepayers' money. But even if not strictly speculative, the development of new industries and the purchase of patents are attended with many risks. Trustees are very properly precluded from any such investments, and, though perhaps not technically, local authorities are essentially trustees for the ratepayers, and ought

<sup>1</sup> Mr. Birrell, K. C., in proposing "The Municipalities" at the Colchester Oyster Feast.—*Times*, October 24, 1902.

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not to embark on enterprises which necessarily involve considerable risk of loss.

There are many, no doubt, who honestly think that municipalities, by undertaking various businesses, may make a profit, and thus benefit the community in two ways—by supplying the necessaries and conveniences of life at low prices, and by reducing rates.

Others believe, on the contrary, that our municipalities have their hands full enough, that individual enterprise and the stimulus of individual interest enable private enterprise to work more economically than governments or municipalities, and that municipal interference will inevitably check the progress of discovery and invention.

Municipal trading is now urged in the name of progress, but it is entirely contrary to the old traditions of the Liberal party—to the teaching of Cobden and Bright, of Mill and of Fawcett.

That governments and municipalities should, as far as possible, abstain from entering into business, was also an axiom amongst economists when I was young. Cobden, for instance, in his great speech against governments and municipalities entering into commercial and manufacturing business, said—

I find that you can never make the conductors of these establishments understand that capital they have to deal with is really money. It costs them nothing, and whether they make a profit or loss they never find their way into the *Gazette*. Therefore to them it is a myth—it is a reality only to the taxpayers.

Since that time we have had a good deal of dear-bought experience, and it has quite borne out the wisdom of Mr. Cobden's views in this respect. Now, however, we are told, as, for instance, by Lord Monkswell at the London Chamber of Commerce dinner, that these great men were all "old fogies," and that *we* know better.

I am confident, however, that those best qualified to judge are still of the same opinion.

Lord Alverstone, for instance, when Chairman of the Council of the Society of Arts, as the result of his great experience, told us at the Society of Arts a short time ago that—

Whatever might be said as to the profit made out of undertakings, such as gas or tramways, worked by corporations, his belief was that the burden on the ordinary ratepayer was less where no such risks were undertaken.

Mr. Balfour Browne, the leader of the Parliamentary Bar, who also speaks with much authority on such a subject, has told us that—

I think, in this connection, it is obvious that, while it is wise and right that municipalities should incur debts for such essential matters as sewage disposal, street improvements, and water-supply, they should be prevented from entering upon speculative undertakings, in which in the case of success the gains may be great, but in which in the case of failure the loss would be deplorable. . . .

I know there is a new school which disbelieves in the efficacy of competition. We learn that, when a combination is possible, competition cannot be permanent, and many people are in favour of State regulation instead of the higgling of the market. I do not agree with them. I have seen a great deal—perhaps as much as any one—of attempts upon the part of

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the State to manage and regulate railways, and, after a not unprofitable experience, I pronounce these efforts to be a failure. . . . I believe that competition braces the producer to enterprise and caution, and that it is one great means of sending useless things to the scrap-heap, which would, in the hands of monopoly, still be continued in use to the detriment of society. I think fair competition is the fresh air of trade. But I do not think it is fair competition for a corporation with the rates behind it to compete in the open market with a private individual.<sup>1</sup>

The undertaking by municipalities of commercial undertakings is undesirable mainly on five grounds:—

Firstly, the legitimate functions and duties of our municipalities are already enough, if not indeed more than enough, to tax all their energies and fill up all their time.

Secondly, it has involved, and will involve, an immense increase in municipal debt.

Thirdly, it will involve municipalities in labour disputes.

Fourthly, as there will not be the same stimulus to economy and attention, there will be a great probability, not to say certainty, that one of two things will happen: either there will be a loss, or the service will cost more. The working classes will, of course, be the greatest sufferers.

Fifthly, it is a serious check to progress and discovery.

In subsequent chapters I will endeavour to give more fully the reasons for these considerations, and in the present will only say a few words on each by way of introduction.

<sup>1</sup> Speech at Mechanics' Institute, Dumfries, January 26, 1903.

On the first point it is hardly necessary to say a word. If a man gave his whole time and thought to the London County Council he could not get through the work. Hence it is becoming more and more difficult to find good men willing to serve, and the work is falling more and more into the hands of officials. I wish to speak in high terms of these gentlemen; I am not attacking them, but the system. Apart from the duties properly devolving on municipalities, that the number and variety of enterprises contemplated or undertaken by municipalities is increasing no one, I think, will deny. They comprise, for instance, tramways, railway management, steamboats, fire insurance, electrical fittings, clothing, motor omnibuses, parcels delivery, confectionery in schools, brickmaking, tailoring, the supply of milk and eggs, and various other undertakings.

In Devonport the Borough Council have adopted a scheme for receiving sums of money payable at short notice on deposit at £3 per cent per annum. In a discussion on the proposal which was put forward by the Finance Committee, Councillor Stephenson moved an amendment to refer the matter back to the Committee. He said—

They would be competitors with the Union Savings Banks and the Post Office Savings Banks, as well as with the trading banks of the town. Ordinary banks were not paying on deposits as much interest as the Council proposed to offer, and, therefore, they would compete with the banks for business, quite as much as they would compete with the drapers of the town if they opened Corporation drapery stores. The most important matter, however, was that large sums on deposit

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would be payable on demand. This was contrary to all sound financial principles. All banks whose position was sound kept very large cash reserves. But in the proposal before the Council there was no provision for any reserve, nor was there any suggestion as to how repayment was to be made. There would be nothing to fall back upon in the event of an unexpected demand, and the municipality would consequently be placed in a position of considerable difficulty.

The principle of the scheme was, however, sanctioned.

The Glasgow Corporation has rejected, but only by 28 votes to 18, a motion to consider and report as to the advisability of purchasing or leasing coalfields, so that coal could be supplied for the use of the various departments of the Corporation and of the consumers within the municipal area. In 1900, during the high coal prices, Glasgow prepared a scheme for submission to Parliament, but the matter was not pursued as there was shortly a reduction in prices.

The Canal Traffic Bill, introduced by Sir John Brunner, M.P., to enable municipalities to take up the working of derelict canals and throw the burden of working them on the rates, has been considered by the Council of the Liverpool Chamber of Commerce. A resolution approving of the principle of the Bill was passed, but the opinion was expressed that nationalisation, and not municipalisation, of the canals was the best method of attaining the end desired. The feeling of the Chamber was that municipal indebtedness throughout the country had already reached alarming proportions, and that it would be a mistake to throw this additional burden



on the municipalities. These and other reasons apply, however, with equal force against the burden being thrown on the State.

The *Hastings Evening Argus* has recently called attention to another curious development. They had criticised the action of the Town Council in objecting to the publication of its proceedings "without official sanction." In an article on the subject the *Evening Argus*, after speaking of a threat made some time ago by the Town Council to local newspapers of refusal to give them advertisements if any announcements of the Council's intentions were made in advance of the meeting, continued—

The latest proposition, in brief and effect, is that in the event of a newspaper ascertaining something of interest to the ratepayers it shall wait upon the Town Clerk, at a time appointed by him, and take his instructions about its publication. The Town Clerk is to report to the Council "in Committee" any unauthorised publication; and the punishment for letting the ratepayers know what is going on is to be the withholding of all information thereafter "for such period as the Council . . . may determine." If necessary, the Council will hold a secret meeting to deal with the offender, and make "the punishment fit the crime."

That is indeed serious interference with the liberty of the Press in a new character, and one which I hope will not be adopted elsewhere.

The goal aimed at is shown by the following resolution, adopted by the Annual Conference of the Social Democratic Federation at Burnley :—

That this Conference is of opinion that Social Democrats should support all forms of municipal enterprise which tend to

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substitute socialisation for private capitalism ; it is of opinion, further, that at the present stage of economic development, municipalities will attain the best results by giving the best hours, wages, and conditions possible to their employees, and by supplying such utilities as can be charged for at prices which cover cost of production and sinking fund, and leave a surplus to be devoted to further extension ; but is of opinion that the using of profits to reduce the rates should be avoided as far as possible.

We see, therefore, that practically everything done by private enterprise ought, in the opinion of the Federation, to be carried out by municipalities.

Where, indeed, is it to stop ? Is it to stop at all ? We know the views of Socialists. If any one doubts the road on which we are entering—the inclined plane on which we shall find that every step makes it more difficult to stop—let me quote Mr. Burns, M.P., now President of the Local Government Board. In the discussion at the Society of Arts Lord Wemyss said : “ He should like to ask Mr. Burns whether it was his view that all private property, what he called the instruments of production, should be in the hands of the state or the municipality ? ” Mr. Burns replied, “ Yes.”<sup>1</sup>

It is sometimes said that the line should be drawn at necessaries. But if so, to light, gas, water, and tramways we should have to add bread, meat, fire insurance, clothes, salt, vegetables, paper, pens, etc. etc., while many would also add tobacco, tea, and beer.

I need not enlarge on the second point—the

<sup>1</sup> *Journal of Society of Arts*, No. 2413, vol. xlvii, 269, 270.

enormous increase in municipal indebtedness. In 1883-4 it was £193,000,000, even then a portentous amount; in 1903-4, the last complete figures we have, it had risen to £469,000,000, an increase of £276,000,000 in twenty years.

It is hardly necessary to repeat that this increase is far greater than that of the rateable value.

One result, naturally, is that the public are less disposed to lend. In consequence of the enormous sums borrowed for enterprises which the municipalities had better not have undertaken, ratepayers have to pay a higher rate of interest on the capital they require for objects which fall within their proper sphere of operations, and which they must necessarily undertake—such as drainage, burial-grounds, street improvements, etc.

The third point is equally certain. Many view with great apprehension the continual increase in the number of state and municipal employees. Autocracy is another name for bureaucracy. If the present tendency continues, as Mill said in his work on *Liberty*, in words which seem almost prophetic—

If the employees of all these different enterprises were appointed and paid by the Government, and looked to the Government for every rise in life, not all the freedom of the Press and popular constitution of the Legislature would make this or any other country free otherwise than in name. To be admitted into the ranks of this bureaucracy, and, when admitted, to rise therein, would be the sole objects of ambition. Under this regime, not only is the outside public ill-qualified, for want of practical experience, to criticise or check the mode of operation of the bureaucracy, but even if the accidents of despotic or the natural working of popular institutions occasion-

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the local branch of the Association held at East Ham on September 20, 1905, stated that—

There were, roughly speaking, 70,000 municipal employees in and around London, and if they were organised they would do almost anything. The County Council employed 30,000 men, but only a very small proportion belonged to this or any other union.

Mr. P. J. Tevenan, the organiser of the Association, said—

As municipal employees their numbers were going up to a matter of one million. Municipalisation, he held, was a means to an end; the end was to establish a principle of nationalisation in the very near future of all the industries of the country.

My fourth objection is often contested. It is alleged that profits are made. Of course, where municipalities have monopolies and can charge what they like, this is, in one sense, the case. They take what they choose out of the pocket of the ratepayers, and call it a profit. I doubt whether they ever make a profit where they have not a monopoly. We who are engaged in commerce know that success depends on close attention to details, on watching the turn of the market, on giving mind and thought to the business. It is impossible for the members of municipalities to do this, and, consequently, municipal management cannot be as economical or as successful as private management. But it is said that, as a matter of fact, profits are made. In many cases, at any rate, the profits are imaginary. Too little is allowed for depreciation,

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for rent, for legal and clerical expenses. In many cases in electric lighting an undue amount is charged to street lighting; in tramways too much is charged to street improvements; in housing schemes the cost of the land is sometimes taken below the cost price, and so on.

Still, taking the accounts as given,<sup>1</sup> the number of electric light undertakings which have been working for twelve months is 190. The capital expenditure has been £12,500,000, on which a loss is admitted of £11,707. The amount put to depreciation, moreover, was only £20,000, which is absurd; if we add the amount of capital repaid—£205,000—the amount is still under 2 per cent, which is certainly too little to write off in such a business. The accounts of 48 municipalities working tramways show that only 13 make any contribution to the rates, 17 make no depreciation allowance, and only 11 over 2 per cent. We all know how disastrous the steamers of the London County Council have been, and continue to be.

It is no answer to say that private companies also make mistakes and lose money. No doubt they do: it is inevitable, and is an additional argument, not for, but against, municipal trading; but the difference is that in one case they are losing their own money, in the other that of the ratepayers. Even the *Municipal Journal* itself, a great advocate of municipal trading, admits that “the machinery of municipal bodies is not constituted

<sup>1</sup> Sir H. H. Fowler's Return, 1902, No. 398.

in such a manner as to render it an efficient instrument in the direction of making profits. Could any company properly conduct competitive business if the public were admitted to its board meetings? . . . In most commercial transactions secrecy during their progress is an essential towards their being brought to a successful issue, but leakage of information is a constant difficulty with local authorities, and there is no efficient safeguard against it."

That is a strong reason, but not so strong as the absence of time, the lack of continuity, and the fact that they are not working with their own money, but playing with that of others.

As regards the fifth point, all economists from the time of Adam Smith to Fawcett have strongly urged that interference by states or municipalities with trade is economically a fatal mistake. Lord Goschen, speaking of the London County Council, has said—

Extravagant expenditure, accumulation of debt, the invasion of field after field of private enterprise, consequences which I feared for the Executive Government, have dogged the footsteps of municipal administration. In no directions have blows more serious been struck at the very foundations of private enterprise.

What are the causes which have brought us to the present state of things? One is the practice of compounding, so that thousands of voters pay no direct rates, and do not realise that they have any interest in economy. Another—almost as important—is that the greatest ratepayers have no votes. For instance,

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the Midland Railway pays one-eighth of all the rates of Derby ; one shipbuilding company pays one-sixth of all the rates at Jarrow, and yet they neither of them have a single vote. Thus, while thousands who pay no rates have votes, those who pay thousands in rates often have none. In our biggest cities companies pay a third of the rates, and yet have no vote.

Governments and municipalities cannot work as economically as private enterprises, and it follows that municipal trading must increase our rates more and more, while at the same time it raises the price of necessaries, so that it cuts down incomes with one hand, and with the other makes life more expensive. In the long run, as I shall be able to show, the artisans and labourers will be the greatest sufferers : the check to enterprise will mean less demand for workmen and lower wages, while everything they require will cost them more.

In the following chapters I will endeavour to make good these propositions.

There is another objection which we cannot altogether ignore, though I am reluctant to dwell on it—the danger of corruption. With some few exceptions, we hope and believe that our municipalities have so far resisted temptation. But we have the case of some great American cities before us as a warning which we shall do well and wisely to take to heart.

Mr. Lecky tells us that

. . . the New York Commissioners of 1876 probably understated the case when they declared that more than half of all



the present city debts in the United States are the direct results of intentional and corrupt misrule.<sup>1</sup>

### In Chicago

. . . quantities of street repairing were paid for and not executed. Saloons, gambling-houses, and dens of ill-fame were protected by aldermen and allowed full play, and the Civil Service laws were violated with shameless contempt.<sup>2</sup>

Major Darwin, in his work on *Municipal Trade*, sums up this part of the question that

. . . with the example of the United States before us, the danger of its degenerating into downright corruption ought to tell heavily in the balance when weighing the arguments for and against the municipalisation of any industry.

It has been a surprise to many that, while our commerce is undoubtedly flourishing, the distress this year should have been above the average. Is not one reason the crushing weight of taxes and of rates? We are paying £68,000,000 a year more in taxes, and about the same more in rates, than we were ten years ago, so that between the two we are paying £130,000,000 a year more. Under these circumstances we can hardly wonder if employment has been less. We may for the moment hope for a reduction in our national expenditure, but unless some serious effort is made, and a great change is carried out in our policy, both national and municipal, not only can we not hope for any permanent diminution of rates and of taxation, but we must be prepared for continuous additions to our present very heavy burdens.

<sup>1</sup> *Democracy and Liberty*, i. p. 118.

<sup>2</sup> J. W. Martin, *Contemporary Review*, December 1899.

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Amongst the significant signs of the times may be mentioned the decision recently taken by the Committee of the House of Commons in regard to the Plymouth Corporation Bill. The disclosures concerning the finances of the Corporation were so extraordinary that the Committee insisted upon the accounts of the Corporation being in future audited by a Local Government Board auditor. And how did the leading local government journal regard this important decision? It said—

This is, undoubtedly, one of the hardest blows that municipal corporations have received in recent years, and the action of the Committee is no doubt the outcome of the general agitation against large municipalities which the anti-municipal trading faction have brought about.

It was in a similar spirit that the advocates of municipal trading have opposed the recommendations of the Joint Select Committee, which was appointed to take evidence and report upon this question. Why should municipalities object to a proper audit of their accounts?

Even, however, if the accounts were right, even if the commercial undertakings of Government and municipalities were well managed and profitable, the system would be unwise.

John Stuart Mill well said that—

The true reasons in favour of leaving to voluntary associations all such things as they are competent to perform would exist in equal strength if it were certain that the work itself would be as well or better done by public officers. These reasons have been already pointed out: the mischief of overloading the chief functionaries of Government with demands on

their attention, and diverting them from duties which they alone can discharge to objects which can be sufficiently well attained without them; the danger of unnecessarily swelling the direct power and indirect influence of Government, and multiplying occasions of collisions between its agents and private citizens; and the still greater inexpediency of concentrating in a dominant bureaucracy all the skill and experience in the management of large interests, and all the power of organised action existing in the community, a practice which keeps the citizens in a relation to the Government like that of children to their guardians, and is a main cause of the inferior capacity for political life which has hitherto characterised the over-governed countries of the Continent, whether with or without the forms of representative government.

But although, for these reasons, most things which are likely to be even tolerably done by voluntary associations should, generally speaking, be left to them, it does not follow that the manner in which those associations perform their work should be entirely uncontrolled by the Government. . . . This applies to the case of a road, a canal, or a railway. . . . To make the concession for a limited time is generally justifiable, on the principle which justifies patents for inventions. . . . It is perhaps necessary to remark that the State may be the proprietor of canals or railways without itself working them, and that they will almost always be better worked by means of a company renting the railway or canal for a limited period from the State.<sup>1</sup>

Sir Robert Giffen, in an admirable article, has recently expressed his conviction that—

In local expenditure we have to do with a real disease of local government; with an expenditure that is partly extravagant and unnecessary, because local authorities are frequently bad managers even where they are not corrupt. They spend money on what is not really wanted; they spend more than they ought on what happens to be necessary; they incur liabilities and burden the future with a light heart. Ex-

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<sup>1</sup> J. S. Mill, *Political Economy*, vol. ii. chap. xi. § 11.

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penditure is pleasant to those who have a little brief authority and the increase of the number of urban authorities increase the number of those who may enjoy the pleasure. . . . The growth of expenditure in certain directions is disquieting in no small degree, and adds to the natural anxiety which must be felt at any encroachment that has occurred or is threatened upon the common fund of taxable resources on which both imperial and local expenditure must fall.

The late Lord Farrer had unrivalled experience having been for years at the head of the Board of Trade, and he commenced, as subsequent chapters will show, with a strong bias in favour of municipal as against private enterprise. Gradually, however his experience, and especially that on the London County Council, modified his views.

He was at first a strong advocate of the purchase of the London Water Companies, but in his evidence before the Labour Commission said that—

The action of the London County Council on the labour question had caused many to doubt the wisdom of transferring to it public undertakings, and it considerably damped his own ardour with regard to the water-supply, so that he was almost inclined to think with Sir John Lubbock that the water should remain in the hands of the Companies.

An opinion of that kind, coming from so high an authority, must have great weight. Moreover, in his work on *The State in its Relation to Trade*, he summed up his opinion formed on his great experience as follows :—

That there is a real danger to true freedom, and to the sort of character which it creates, in the constant demand for Government interference, I cannot doubt. Treat grown men

or women as incapable of judging and acting for themselves, and you go far to make them incapable. Our daily life is beginning already to be hedged round by inspections, regulations, and prohibitions. The coming democracy has much of promise in it; but one of its failings is impatience. . . . It is passionately benevolent, and passionately fond of power. To preserve individual liberty in trade, as in other matters, from the impatient action of philanthropy will probably be one of the great difficulties of the future.<sup>1</sup>

Our municipalities have most important duties to perform,—duties sufficient to occupy all their time and tax all their energies. They cannot both govern and trade. If they persist in embarking on commercial undertakings they will, I am persuaded, increase our rates, check the progress of scientific discovery, and stifle, if not destroy, that spirit of private enterprise to which in the past our commercial supremacy is mainly due.

<sup>1</sup> *The State in its Relation to Trade.*

## CHAPTER II

### THE DUTIES AND RESPONSIBILITIES OF LOCAL AUTHORITIES

HOWEVER able and painstaking municipal councillors may be, they are but human, and cannot do more than a certain amount of work, nor can that work be satisfactorily transacted unless time and attention are given to it. The duties necessarily devolving on municipalities are most important; the questions coming before them require careful consideration and, in the case of our great cities, are certainly sufficient, if not more than sufficient, fully to occupy their time and tax all their energies.

Above all is this the case with the London County Council.

In its early days, when the work was far less than it is now, before it had the tremendous responsibility of London education, before it worked the tramways, ran the steamboats, nominated members on the Water Board, etc., Lord Rosebery foresaw the danger ahead and wisely urged his colleagues not to undertake more than they could efficiently perform, or, as he well and pithily put it, that they "should not break the back of the Council."

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Mr. Dickinson, the Chairman of the Council in 1901, and himself a strong Progressive, in his last annual address, told us that

. . . the labours of councillors continued to be constant and all-absorbing. The meetings of the Council numbered 35, while those of committees had been 646, and sub-committees, 790. These figures represented a large volume of work. Excluding the holidays, they worked at an average of seven meetings on every one of the five working days of the week.

In the debate on the London Education Bill of 1902, Sir H. Campbell-Bannerman spoke of "the over-worked London County Council," adding that "the duties are more vast and more trying than those undertaken by any other such body on the face of the earth." In the same debate Sir Edward Grey said: "No man could touch the work of education in London and do it properly, and give any attention whatever to the other work falling within the province of the County Council."

Mr. Pickersgill, a Liberal, told us truly last July that—

The educational work of London was so vast that it could not possibly be properly performed by any other body than a body directly elected for the purpose. The educational work of London was at least double the whole of the educational work of Wales, and nearly equivalent to the whole of the educational work of Scotland. It was obvious that this work was not so much the education of a county as the education of a people. It was preposterous to put a work of that magnitude and importance on a body which was already heavily burdened with its proper municipal duties. It was impossible for the London County Council adequately to dis-

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charge its duty in connection with education, and the result had been that the work of London education had got into the hands of a centralised officialism.<sup>1</sup>

Dr. Macnamara, another Liberal, was of the same opinion. The education of London, he said,

. . . concerned 25,000 State school teachers, at least 1,000,000 of students, and a public expenditure of £4,000,000 a year. The finance alone was as large a concern as the finance of the rest of the County Council's operations. The educational work was equal to that of the whole of Scotland, though the latter was divided among 928 School Boards. The destruction of the London School Board had been a disastrous leap in the dark; and since then the work of education had become hopelessly bureaucratized. It was conducted behind closed doors and was in the hands of a powerful body of officials because the members had not time to attend to it. The purely official charges had gone up from £124,000 in 1904 to £300,000 in the present year. An important higher education sub-committee sat the other day to make certain important appointments.<sup>2</sup>

Mr. Birrell said "that it was his belief that the task imposed on the London County Council to superintend the teaching of 750,000 or 800,000 children was a task beyond their power."<sup>3</sup>

It is, therefore, no mere opinion of my own, and I can quote not only the Duke of Norfolk, Lord George Hamilton, Sir Melvill Beachcroft, and other Unionists but the leaders of the Liberals and Progressives, Sir H. Campbell-Bannerman, Lord Rosebery, Sir E. Grey, Mr. Birrell, and others, who have told us that the London County Council is overworked, from which it follows that they cannot, with any hope of

<sup>1</sup> *The Times*, July 24, 1906.

<sup>2</sup> *Ibid.*

<sup>3</sup> *Ibid.*



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success, and ought not, undertake municipal trading, or, indeed, any work which it is not their absolute duty to carry out.

The Council, as a whole, however, have always ignored Lord Rosebery's wise advice.

Many, at any rate, of the councillors thirst to undertake the whole water-supply of London, burn to supply it with gas, think they can erect houses more cheaply than the London builders, manage tramways more satisfactorily than the tramway companies, carry on fire insurance more economically than the fire insurance offices, supply workmen's dwellings—at the cost of the rates—better than the industrial dwellings companies, set up lodging-houses, run the Thames steamboats, carry on the pawnbrokers' shops, slaughter-houses, and I know not what else. I do not know what they would leave for individual enterprise, what trade or business they would not undertake and monopolise.

This policy seems to me a dangerous mistake, and one which must inevitably lead to a crushing increase in our municipal burdens, and raise the price of all services and commodities.

I thought at one time that the most convincing proof I could give of the overwhelming amount of work which the London County Council, taken as a type of our great municipalities, has to transact, and the utter impossibility that the members can give sufficient time and thought to their multifarious and most important duties, would be to print an average weekly agenda paper, showing the work which has

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to be got through at an average weekly sitting. Certainly to have done so would have proved the contention dealt with in the present chapter up to the hilt.

I have been precluded from doing so, however, by the simple fact that the average agenda paper is more voluminous than the present little work. Sir Melvill Beachcroft has kindly sent me the agenda papers for the meetings of July 1906. These consist of over 100 folio pages each, one indeed of over 200. I will briefly epitomise that of the 31st, because it gives the best idea of the work of the Council, but with the remark that the programme is about twice that of an ordinary week.

1. First comes the Report of the Finance Committee, containing 13 resolutions, most of them very important, and involving large sums of money. No. 3, for instance, authorises payments amounting to over £2,250,000; No. 10 sanctions loans to various Borough Councils amounting to over £90,000; No. 13, one of £20,000 to Hackney Union for Poor Law purposes; No. 15, one of £32,000 to Kensington, etc.

2. Next comes the Report of the General Purposes Committee with 11 recommendations. The first proposes increases of salaries to several of the chief officials. The third recommends alterations in the rules relating to rates of wages and hours of labour. The fourth deals with the manner in which central charges are in future to be allocated to the different services.

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3. The third is another report from the General Purposes Committee, dealing elaborately with a revised scheme for the Superannuation and Provident Fund—a very complicated and intricate matter.

4. A report from the Finance Committee on the same subject.

5. An adjourned report from the Improvement Committee as to how the frontage in the Strand between Wellington Street and the Law Courts could best be dealt with.

6. A report of the Education Committee recommending a vote of £28,500 for additional land for the Berner Street School.

7. Another report of the same Committee recommending that provision should be made for 800 probationer scholarships instead of 1200. It had, however, been anticipated that these scholarships might have been discontinued.

8. Report of the Finance Committee on the same subject.

9. Report of the Establishment Committee recommending that they be authorised to obtain plans for the new County Hall on Westminster Bridge site.

10. Highways Committee. 5 recommendations for expenditure of about £150,000 under various heads.

11. Highways Committee. Recommendation as to the rates of pay and allowances of the tramway officials.

I must, however, hurry on more rapidly.

12. Main Drainage Committee.

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13. Public Health Committee. To be postponed.

14. Education Committee. 36 recommendations as to various new schools, involving an expenditure of £90,000 ; a new scale of salaries, etc.

15. Education Committee. 343 paragraphs, involving over 270 recommendations.

16. Asylum Committee. Recommending additional accommodation.

17. Building Act Committee.

18. Building Act Committee. 12 recommendations, besides a large number of resolutions assenting to those passed by Borough Councils.

19. Establishment Committee. 16 recommendations relating to salaries, etc.

20. Establishment Committee.

21. Fire Brigade Committee. 15 recommendations.

22. Highways Committee. 34 recommendations, dealing with the management of the tramways, the system of electric traction to be adopted, and other important matters.

23. Highways Committee. Proposing 21 new lines of tramways. Probably to be postponed.

24. Joint Report of Highways and Improvements Committees. Proposing a new tramway from Lewisham to Lea Green, and an improvement at High Road, Lee.

25. Housing of the Working Classes Committee. 6 recommendations, involving over £5000. To be postponed.

26. Improvements Committee. 8 recommendations, involving an estimated expenditure by the

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Council of over £1,200,000. Probably to be postponed.

27. Improvements Committee, No. 2. Referring to the north frontage of the Strand between the two churches.

28. Improvements Committee, No. 3. 15 resolutions.

29. Local Government Committee. 3 resolutions, relating to the conduct of elections, the registration of electors, and appeals at Quarter Sessions for higher assessments.

30. Main Drainage Committee. 24 recommendations dealing with the management of London drainage.

31. Parks and Open Spaces Committee. 22 recommendations relating to the management of the London parks.

32. Parliamentary Committee. Report on allotments.

33. Parliamentary Committee, No. 2. 4 recommendations, one protesting against a resolution of the East Riding of Yorkshire with reference to the distribution of the Education Grant.

34. Public Control Committee. Report as to 19 by-laws regulating the employment of children, and as to street trading by persons under the age of 16 years.

35. Public Control Committee, No. 2. 6 recommendations.

36. Public Health Committee. 3 recommendations.

37. Rivers Committee. 11 recommendations.

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Showing a deficiency for the year on the working of the steamboats of £51,205. The report contains some important suggestions as to dealing with Thames floods.

38. Stores Committee. 9 recommendations as to purchase of stores and the reorganisation of the staff.

39. Theatres and Music Halls Committee. 8 recommendations as to the construction, etc., of various buildings, and of the proposed "British Empire" Exhibition.

40. Officers' Superannuation Committee. 3 recommendations.

41. Teachers' Superannuation Committee. 2 recommendations.

42. Local Government Records and Museums Committee. 2 recommendations, suggesting by-laws "for the good rule and government of London."

43. Finance Committee. Report as to certain capital estimates, amounting to nearly £200,000.

There are also 18 notices of motion.

Of course it must be remembered that the recommendations had been considered by Committees, but this, while it must be taken into consideration as regards the Council meeting, does not diminish the work devolving on councillors. Again, as already mentioned, the agenda paper of July 31 is about double the usual length.

Without counting the reports which were to be postponed, and which were merely, and very properly, printed, so that the Council might have time to con-

## The Duties of Local Authorities 31

sider them, there were 38 reports of Committees and over 500 resolutions to be passed by the Council in one afternoon! I say passed, for they cannot be considered, but are and must be rushed through. Many of them were most important; many raised questions of great intricacy and difficulty; they involved millions of the ratepayers' money, but they had to be "got through."

But even this is not all. There are several most important bodies on which the County Council nominate many of their members. I need only mention the London Water Board and the Thames Conservancy.

And who are the men on whom these terrific responsibilities, involving the health and happiness, the well-being, and even the solvency of London, are thrown?

They are no doubt men of great position, of high character, of great ability. They are one and all most anxious to discharge their duty to their constituency and their country, many of them have devoted their lives to the service of London, and whether we agree with them or not, we must frankly and unreservedly recognise the debt we owe them.

But this does not weaken—it strengthens our argument. Who are they? Two are Cabinet Ministers. The Minister for Agriculture has his hands full enough. Surely the business of his own department and the general policy of the Empire are enough for any man. Apart from other considerations, the President of the Local Government Board

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ought surely not to be a member of any local authority.<sup>1</sup> Several are peers, about 30 are Members of Parliament, others are lawyers, merchants, etc. They are very busy men, and can only devote part of their time to municipal work. It is no doubt a great advantage that such men should be on the Council and give it the benefit of their experience and ability. But then the Council should not have so much work forced on them, and assume so much which they need not undertake. Under the circumstances it would be ridiculous, were it not so serious, that they should work tramways, set up electric generating stations, run steamboats, and undertake other commercial undertakings involving millions of the ratepayers' money.

It is obvious that the work is not really done by the Council ; it is not even done by the Committees ; it is really done by the staff.

The London County Council is the most striking case, but in all our great municipalities we are building up a gigantic bureaucracy.

They are welded into a great organisation, the Municipal Corporations Association, which, as we shall see in a subsequent chapter, has, with the best intentions I fully admit, already done much to hamper and impede the progress of the nation.

This, however, I shall deal with subsequently, and I will on this part of the question only point out that, as the demand on their time increases, it is becoming

<sup>1</sup> It is said that neither Lord Carrington nor Mr. Burns intend to stand for the London County Council at the next election.



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more and more difficult to secure good candidates for seats on municipal bodies, and especially on the London County Council, and that it is absolutely impossible for councillors to give that time and attention without which their gigantic business undertakings cannot be profitably and successfully carried out.

## CHAPTER III

### THE INCREASE OF MUNICIPAL DEBT

It is unnecessary to enlarge on the enormous increase in municipal debt. The facts speak for themselves. In 1883-4 the amount was £193,000,000—even then a portentous amount; in 1903-4, the last complete figures we have, it had risen to £469,000,000, an increase of £276,000,000 in twenty years, and is still rising more rapidly indeed than ever.

No wonder that Lord Goschen, Sir Henry Fowler, and other high financial authorities have called attention to the gravity of the position. The late Chancellor of the Exchequer (Mr. A. Chamberlain) found it necessary to give the country a solemn warning. In his Budget speech he called attention to the fact that, in ten years, from 1880 to 1890, the outstanding loans in England and Wales increased by £62,000,000.

In ten years, from 1890 to 1900, the amount was further increased by £95,000,000, while in the two years of 1900-2 the amount was increased by no less a sum than £49,000,000. That is to say, the present rate of increase is two and a half times as great as it was in the period between 1890 and 1900, more than four times as great as between 1880 and 1890. In the twenty years between 1880 and 1900, while in England

## The Increase of Municipal Debt 35

and Wales the local indebtedness increased by £157,000,000, the gross capital liabilities of the State were reduced by £132,000,000. In the three years ending March 31, 1902, the local authorities of the United Kingdom borrowed over £103,000,000.

I wish we could say in the last two years that the State has reduced its liabilities, but, as we all know, that is unfortunately not the case. Lord Welby, as Chairman of the Finance Committee of our greatest municipal body, fairly called attention to the enormous increase of taxation.

Let the Chancellor of the Exchequer, he said, take the beam out of his own eye before he looks after the mote in the municipal eye.

There may be a doubt which is the mote and which is the beam. I fear there are two beams. I wish the Chairman of the Finance Committee would take the beam or the mote, whichever it is, out of the Chancellor's eye, and the Chancellor would take the other out of the Chairman's eye. Unfortunately we have to pay heavily for both.

Some local authorities, however, are much more prudent than others. County Councils (excluding that of London) have borrowed much less than our great cities, and the money market now discriminates more and more between the stocks of different local authorities. The *Financial Times*, in an article on "Municipalities and the Money Market," on May 26, pointed out that within the space of a week three issues of stock of a municipal character, all being securities of the trustee class, presumably

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undeniable, and bearing the same rate of interest, were put on the market at 84 per cent,  $88\frac{1}{2}$  per cent, and 92 per cent respectively, namely, West Ham and Croydon and the Surrey County Council. The article states—

It would appear from the wide range in prices exhibited by these loans as if a distinction in credit were beginning to be established—in other words, as if certain municipal stocks, although bearing the hall-mark of the trustee stamp, were coming to be regarded as more speculative than others; and, if we accept this theory, it is not a little significant that the municipality which, perhaps, of all others has imposed the greatest strain upon its ratepayers should be that whose stock is put on the market at the lowest price.

The *Financier* again says—

The 3 per cent stock of the London County Council, quoted last year at over  $97\frac{1}{2}$ , and in 1902 at  $101\frac{1}{2}$ , now stands at only  $88\frac{1}{4}$ . If the Council wished to issue 3 per cent stock now it could scarcely get more than 85 for it, so that its ability to borrow on a 3 per cent basis, as formerly, has been lost, and future loans can only be obtained on terms which render it practically impossible to make expenditure on municipal trading enterprises remunerative.

At present the difference in price between West Ham and good county stocks is fully 10 per cent.

It was considered, and I think most will agree wisely, that two years' borrowing of the assessable value, and two years' borrowing alone, ought to be permitted, and the only way in which the municipalities can get further powers should be by going direct to Parliament. When, however, the application is for some really necessary purpose, refusal is difficult or even impossible. Thus Huddersfield

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has borrowed an amount not of two years', but seven years' assessable value; Stockton, seven years; Halifax, six; Blackburn, five and three-quarters; and in many other important cities the debt exceeds the rateable value more than four times over. London is so far the one exception, but if London continues at the rate she has been borrowing lately, she will not remain in that position much longer.

Moreover, as Sir Alexander Henderson recently pointed out<sup>1</sup>—

We find that as the debt increases, that debt almost invariably increases with the view of prosecuting municipal trading, and the fact that where we find the borrowing greatly exceeds two years of the assessable value, so do we find the rates in the £ steadily advance. I have before me a list of seventy-eight principal towns. In eleven of them what is called the reproductive debt, that is the debt borrowed for the purposes of electric lighting undertakings, tramways, markets, water, and so on, is less than 50 per cent of the assessable value, and there we find the rates in the £ are the lowest—they are 5s. 2d. (exclusive of Poor Rate). As the percentage increases, so you find a steady increase in the amount of the rates. For instance, I have given you eleven towns where the borrowing is less than 50 per cent of the assessable value. In sixteen cases the debt represents over 50 per cent, and less than 100, and immediately the rate goes up to 5s. 5d. in the £; in the case of twenty-five the debt is between 100 and 200, and the rate goes up to 5s. 8d.; and in the other twenty-six cases the debt is over 200 per cent, and there we have the highest rate in the £, namely, 6s. Therefore, if we can get a restriction in the trading of the municipalities we should almost certainly find that the rates would decrease correspondingly.

· Fortunately there are signs that Government and the public are becoming alive to the danger

<sup>1</sup> Annual Meeting of the Industrial Freedom League, June 1905.

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of bankruptcy which the municipalities are some of them running.

In Glasgow the Corporation proposed to add to its immense debt three-quarters of a million upon a housing scheme, but the Scotch Commissioners refused to sanction the proposal. At West Ham the Public Works Loan Commissioners refused to lend the School Board £27,000, because the rates were no less than 10s. 2d. in the £, while the London County Council only a few days ago administered a severe rebuke to the Fulham Borough Council in regard to its heavy indebtedness. In 1898 Fulham had a debt of £103,685. In the following year the Borough Councils were created, and to-day its indebtedness is £515,580; the debt has increased by a far higher ratio than the rateable value. In many places during the last few years the amount of debt has risen far more than the rateable value.

How far we have gone beyond other nations in this piling up of debt is clearly brought out in the following table given by Major Darwin<sup>1</sup> :—

STATISTICS OF MUNICIPAL DEBTS.

Country.	Year.	Debt per Head.
England . . .	1898 . . .	£8 8
United States . . .	1890 . . .	2 9
France . . .	1899 . . .	3 14
Italy . . .	1889 . . .	1 9
Belgium . . .	1880 . . .	4 4

It is unfortunate, however, that the figures cannot be given for the same year.

<sup>1</sup> *Municipal Trade*. The English amount had risen in 1903 to £11 : 16s.

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It seems, therefore, a moderate estimate that the great increase of municipal debt has lowered the price of municipal stock some 10 per cent. In this case all great loans for whatever purpose will cost the ratepayers one-third per cent more interest, and this involves a substantial increase of expense, which must, of course, be deducted from the supposed profit of the so-called "remunerative" investments.

London County Council stock ought to be the premier municipal security in the world, but it stands below City of London stock, below Waterboard stock, below (if only slightly) many County stocks, and even those of towns whose credit, it is no disparagement to say, one would not have expected to stand on a par with, and even slightly higher than, that of London. I may mention, for instance, Chichester, Nottingham, Oxford, Portsmouth, Tynemouth, and Tonbridge Wells. It is very creditable to them, but somewhat mortifying to a Londoner.

## CHAPTER IV

### LABOUR QUESTIONS

THE next objection is that the more governments and municipalities embark on commercial undertakings, the more they will become involved in labour problems.

Any one who at all realises the difficult questions which are continually cropping up between capital and labour must agree that this is eminently undesirable, and that it is extremely important that our national and local authorities should be kept as clear as possible from all disputes of this kind.

Probably the majority of workers in all departments honestly think they are underpaid. This is true not only of artisans, but of lawyers, clergymen, officers in the army and navy, and we might almost say of mankind generally. Questions of salary and wages, moreover, involve many considerations: the pleasantness or unpleasantness of the work, the length of hours, the strain upon mind or body, the social position, are all points to be considered.

The wages of our national employees already raise many difficult questions for Government, the House of Commons, and municipalities.



Mr. Sims gives a good illustration—

A country shepherd earning 16s. a week came up to London some time ago, and, having a letter of recommendation to a borough councillor, was put on as a road-sweeper, and given 28s. 6d. a week.

A clerk, a man of education employed privately by the councillor whose influence had obtained the shepherd the job, encouraged by this generous transaction, asked for a rise of salary. He was getting 25s. a week, and he asked for 28s. His request was curtly refused. He thought the situation over, and suggested that perhaps his employer would get him taken on as a road-sweeper, as that would mean 6d. more than the rise he asked for. He received a fortnight's notice for "impertinence."<sup>1</sup>

In Manchester out of 120,000 parochial electors over 18,000 are in the employment of the Corporation. In Plymouth the municipal employees are equal to five per cent of the voters. In Australia the *Melbourne Argus* tells us that "the State servants already constitute almost a clear majority of the names on the electors' rolls."

In the House of Commons, on March 23, on the subject of wages in Government factories and ship-yards, Mr. Balfour said—

One of the dangers to which that House and also the municipalities were exposed, was that electoral pressure might be brought to bear upon them to modify the rate of wages, possibly to the advantage of *employees*, but on the whole to the disadvantage of the great body of the workmen in the country. He thought there was extreme danger in the growth and increase of direct employment by the State. He did not like the system, and he feared from the speeches which he had heard that night, despite their moderation,—with the substance of

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<sup>1</sup> "The Bitter Cry of the Middle Classes," by G. R. Sims, *The Tribune*, July 24, 1906.

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which he agreed,—that this danger was more imminent even than he had anticipated.

He also pointed out, very justly, that

. . . there is an attractive simplicity about the abstract theory that the State should do nothing, but a real danger in the opposite doctrine that the State should do everything.

I confess I do not altogether share Mr. Balfour's view. I am not afraid of the State doing everything, but I am very much afraid that the State and the municipalities of the country will do, or try to do, a great deal too much.

It is clear that governments, and still more, municipalities, are placed in a difficult position when employees demand, even if unreasonably, higher wages.

Many view with great apprehension the continual increase in the number of State and municipal employees. Autocracy is another name for bureaucracy.

Mr. Taylor, General Secretary of the Municipal Employees Association, at a meeting of the local branch of the Municipal Employees Association, held at East Ham on September 20, stated that

. . . there were, roughly speaking, 70,000 municipal employees in and around London, and if they were organised they would do almost anything. The County Council employed 30,000 men, but only a very small proportion belonged to this or any other union.

Mr. P. J. Tevenan, the organiser, said—

As municipal employees their numbers were going up to a matter of one million. Municipalisation, he held, was a means

to an end; the end was to establish a principle of nationalisation in the near future of all the industries of the country.<sup>1</sup>

The Report of the Eleventh Annual Conference of the Municipal Employees Association, held last year, contained the following statement :—

Mr. Keir Hardie said that as a Socialist he was naturally strongly in favour of organisation among municipal employees, and was pleased to see the marvellous progress this Association had made. In going through some Parliamentary papers the other day he came across one which fairly astounded him, for from it he learned that in this country there were over 2,000,000 municipal employees. As the total of wage-earners numbered 14,000,000, this was very interesting. He had also found that in 1903, when there was a reduction in wages all round, the wages of municipal employees had alone increased—he might say, had doubled.<sup>2</sup>

This statement seems very suggestive. The enormous influence which municipal employees can and do exert at local elections for purely personal objects is not a matter which the community can afford to regard with equanimity. The Municipal Employees Association offers as an inducement to municipal servants to join it, the “wonderful influence at municipal elections” which they would be able to exercise.

Before the Joint Committee on Municipal Trading, Mr. James Kelly, a magistrate for Glasgow, quoted from an election circular issued by Mr. Ferguson, the leader of the local Independent Labour Party, supporting candidates who had voted for, and opposing candidates who had voted against, resolutions to raise

<sup>1</sup> *East Ham Echo*, September 21, 1905.

<sup>2</sup> *Lloyd's Newspaper*, May 28, 1905.

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the wages of labourers and others employed by the Glasgow Corporation.

In some places the municipal employees amount to 5 or even 8 per cent of the voters, and it must be remembered that, feeling themselves to be personally interested, a larger proportion of them vote than of ordinary electors.

Town councillors will have to regulate the wages of their electors. Just think of the tendency to set the wages against the votes. Our municipal governors will be placed in a difficult, if not an impossible position. Is this an imaginary danger? Look at New York. The defenders of Tammany deny that there is actual corruption, but the electors support candidates who will support them, who will multiply posts and appoint their nominees. Must not this have a tendency to deter honest men from coming forward as candidates?

The inevitable result must be that instead of the employees being controlled by the Council, the Council will be controlled by the employees! In fact, the workmen will not be employed by the Council, but the Council by the workmen.

The working of railways by Government affords an instructive object-lesson. In Victoria, for instance, the working of the railways by the State proved so disastrous that the Government appointed a Board of Inquiry, which reported—

That the service is disorganised, and that political influence is noticeable throughout. It recommends the complete separation of the railways from the State, and the placing of them under a

board of five trustees with a general manager. If this is done, the report states that an annual saving of £365,000 is indicated, including a general reduction in wages.<sup>1</sup>

The loss, indeed, was in six years over £2,000,000, and the Committee reported that it was due to the employees being overpaid and over-numerous. For the reasons to which I will shortly allude, no adequate reforms were made and the loss continued. Indeed, the working of the Australasian railways generally has been unremunerative, and has resulted in a large loss to the State. For the year 1901-2 the figures were—

In Queensland,	a loss of	£450,000
Victoria,	„	291,000
New Zealand,	„	123,000
Tasmania,	„	116,000
South Australia,	„	74,000
New South Wales,	„	33,000
		£1,087,000
Against which was a profit in West Australia of . . .		12,000
Leaving a net loss for the year of no less than . . .		£1,075,000

In the case of the Victorian railways, to which I have already referred, the Board of Inquiry, appointed by Government, reported in favour of various economies, which are mentioned in an instructive article in the *Economist*. But the writer says—

It is already clear that these proposals will meet with the strenuous opposition of the employees, who, unlike the department

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<sup>1</sup> *Times*, September 18, 1895.

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itself, which is described as "disorganised, if not demoralised," are closely organised. The Board report in connection with this matter that there are seven associations established amongst the employees, the avowed object of the members of all being to protect their rights and privileges. Against the deadweight of the associations, including in their ranks the very men who ought to give effect to the railway policy of the country, but who take side against every attempt to reform, which may mean the curtailment of fancied rights and privileges, the Government will contend in vain, unless it has the courage to risk a general strike. The Secretary of the Association (an engine-driver), in the course of a long speech, denounced the report of the Board in unmeasured terms, calling its statements "lies"; that a "principal and valuable witness was a cast-off expert in another colony"; that the Board had proved "an abomination and a shame," and so on. All this stuff was punctuated by "loud and prolonged cheering," etc.; the Speaker of the Legislative Assembly assured the audience that, "as ever, the working classes of the colony had his full sympathy"; and "other Members of Parliament talked ambiguously, one inciting the men to prepare for the ordeal that would be sure to come."<sup>1</sup>

So serious has the evil proved that the Victorian Government has proposed to disenfranchise all Government employees—creating for them, as I understand, a special constituency.

It is significant that in February 1904, two weeks before the date set for the London County Council elections, the Council issued as a public document a return which recorded the increases in the wages of the London County Council employees in the period from 1899 to 1904. The Council at that time itself carried out many public works instead of letting

<sup>1</sup> "Victorian Railway Administration," Melbourne correspondent, *Economist*, Nov. 9, 1895.

contracts to contractors and builders. Therefore the list contained a large number of instances of increase of wages to men in the building and engineering trades. The list showed increases in the aforesaid trades rising to 16, 33, and 38 per cent. Upon these increases *Engineering*,<sup>1</sup> a journal of the highest standing, commented to the effect that the Board of Trade returns showed that since 1899 the general rate of wages in the engineering and building trades had not increased 1 per cent.

The late Lord Farrer said—

Finally, the service, excellent as it is, has not avoided one peril, which makes cautious statesmen unwilling to extend their industrial functions, viz. the difficulty of dealing with a large class of servants. No one who has watched the pressure which the services can bring to bear on Government through the medium of Members of Parliament, will undervalue this danger.<sup>2</sup>

“What possible excuse,” says Major Darwin, “can there be for taxing workmen either as ratepayers or consumers, and thus reducing their available income to a certain level, in order to raise above that same level the available income of a comparatively small number of workmen who are living in the same locality and doing the same class of work? Why should the private workman be damaged in order to benefit the municipal workman? The wish to see the lot of the municipal workman improved, which all of us must feel, affords no justification whatever for such a proceeding.”<sup>3</sup>

“The final result of our present policy,” says Herbert Spencer, “will be a revival of despotism. A disciplined army of civil officials, like an army of military officials, gives supreme power to its head—a power which has often led to usurpation,

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<sup>1</sup> February 26, 1904. *Municipal Ownership in Great Britain*, by H. R. Meyer.

<sup>2</sup> *The State in its Relation to Trade*.

<sup>3</sup> *Municipal Trade*.

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as in mediæval Europe and still more in Japan—nay, has thus so led among our neighbours, within our own times.”<sup>1</sup>

Finally, Mr. Lecky, speaking of the pressure put on Members of Parliament to raise the wages of public employees, says that

. . . it would be scarcely possible to conceive a habit more calculated to demoralise constituencies to the core, and more certain, if it spreads widely, to destroy all sound patriotic feeling in the nation.<sup>2</sup>

<sup>1</sup> *Democracy and Liberty.*

<sup>2</sup> *The Man versus the State.*



## CHAPTER V

### THE HOUSING OF THE WORKING CLASSES

IN some cases it seems clear that the action of municipalities has had the very opposite effect from that which they intended to secure.

Herbert Spencer, in his *Man versus the State*, has given numerous instances showing how often laws have defeated the very object for which they were enacted: how usury laws have raised, instead of lowering, the rate of interest; how laws intended to lower prices have, on the contrary, raised them; how others designed to regulate prices have stopped the supplies altogether, and so on; how much of the work of Parliament has consisted in repealing mischievous legislation.

Other instances will be given in Chap. VII., and I will here only allude, very briefly, to the important question of the housing of the working classes.

Municipalities have power either to close unsanitary dwellings or to erect dwellings themselves. When in making improvements workmen are displaced, local authorities are bound to rehouse them, and in such cases, therefore, have no option.

We are all anxious to see better accommodation

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for the working classes in our great cities, but I am afraid that the action of some of our municipalities has in this respect had an unfortunate result, and that very opposite of that which they themselves intended.

The same thing is going on on the other side of the water. The New York State Tenement House Commission has recently issued a very interesting report. The Commission states that

. . . it is not prepared to recommend such an enlargement of municipal functions (the erection of model tenements by the municipality). No good purpose could be thereby served. At most, such public buildings would better the living conditions of a favoured few, who had sufficient influence to secure apartments in them, and even these would better their living conditions at the sacrifice of self-dependence.

The article is very interesting, and gives a great deal of information.

In an article on "The Law and Public Health," by Mr. John Foot, Chief Sanitary Inspector of the Bethnal Green Borough Council, it is stated that the Housing of the Working Classes Act, 1890, has altogether failed to provide housing accommodation within the means of any but the higher-paid class of workers or better-off foreigners. Little or no effect has been made in the reduction of one-roomed tenements.

A return of the Metropolitan Board of Works dated December 21, 1883, shows that up to the previous September it had, at a cost of a million and a quarter to ratepayers, unhoused 21,000 persons and provided houses for 12,000—the remaining 9000, t

## Housing of the Working Classes 51

be hereafter provided for, being, meanwhile, left houseless.

The immense expenditure which has been incurred, and the comparatively small result, is well shown in the last report of the Housing Committee of the London County Council.<sup>1</sup> The amount, they say,

. . . expended on capital account up to March 31, 1905, in clearing insanitary areas, amounted to £3,381,281:4:7, while the receipts derived from the sales of land, the appropriation of sites for the erection of working-class dwellings, and contributions from local authorities towards carrying out Part II. schemes, amounted to £849,682:3:1, thus leaving the net expenditure at £2,531,599:1:6. The aggregate expenditure up to March 31, 1905, in connection with the provision of dwellings under the Housing of the Working Classes Acts, amounted to £1,390,487:10:9, and under Improvement Acts to £634,737:5:11. The total sum, therefore, which has been expended on capital account under the Housing of the Working Classes Acts up to March 31, 1905, is £3,922,086:12:3.

The result of this great expenditure is that

. . . the total number of persons for whom accommodation has been provided by the Council, calculated on the basis of two persons per room, is 31,339. The accommodation consists of 5929 tenements of one to six rooms each, in block dwellings and cottages, and 1147 cubicles in Parker Street and Carrington Houses.<sup>2</sup>

Some of these were carried out under statutory obligations. This, however, only throws the responsibility on Parliament. I am not criticising the Council, but the policy.

<sup>1</sup> Annual Report of the Proceedings of the London County Council for the year ended March 31, 1905, p. 128.

<sup>2</sup> Annual Report of the Proceedings of the London County Council, 1905.

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London has a population of over 5,000,000. To provide 16,000 rooms in twenty-five years is only dealing with the fringe of the question. If we are really and thoroughly to carry out a policy of housing, it is easy to see what a gigantic sum would be required.

Lord Rosebery recently went to Shoreditch to open some workmen's dwellings, erected by the Borough Council, and made, as he always does on such occasions, a charming and interesting speech. He complimented the Borough Council, but his speech, if carefully read, was a crushing indictment of their policy. "You have," Lord Rosebery said "accommodated 300 families, dispossessing perhaps many more than that." The actual number of persons, it appears, who were displaced was 533 and those who were provided for was 472. This is a curious way of "housing the poor"; dishousing would seem a more appropriate expression. It is evident that the more poor are "housed" under this system, the more would be houseless. But did the 472 who were housed belong to the same class as those who were displaced? Not at all. Lord Rosebery went on to say, "You build admirable buildings, but the inhabitants of those new dwellings are not the people you dispossessed. . . . These buildings are so superior, that in some cases they are occupied by a class for whom they were not intended." That is to say, under this curious plan of housing the poor they turned out 533 poor people and housed 472 people, many of whom were richer and better off.

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That, again, can hardly be called "housing" the poor. But Lord Rosebery went on to say that "there would have been in those buildings *none at all of the class for whom they were intended*, if the Borough Council had not exercised a wise discrimination in refusing tenants who offered much more than the rents which you are prepared to accept." That is to say, the Borough Council has spent thousands of pounds of the ratepayers' money in building houses, and then has exercised a wise discrimination in letting them below their value. Such a system offers a wide vista of jobbery and corruption.

Lord Rosebery went to bless, but surely his speech was a scathing condemnation of the policy adopted, no doubt with the best intentions, by the Council.

That policy, moreover, ought not to masquerade under a false name. It would be less tempting if it were called what it is—a policy, not to house, but to dishouse the poor. Perhaps then it would not be quite so attractive. The facts at least, I think, show that the subject requires very careful consideration, and that with the best intentions the Councils and municipalities may defeat the very object they have in view.

But even that is not all. When the London County Council proposed to adopt this policy, I wrote to the great companies which had housed thousands of the working classes, and asked them what would be the effect upon their operations. They said that they should erect no more dwellings if the County Council were going to do so; they should stop. My belief is

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that if the London County Council had not put up any buildings at all, there would be at the present moment just as many, or even more, workmen's dwellings than is actually the case. On the other hand, if what has been done by the London County Council and the Borough Councils is right, it is a mere tinkering with a vast subject. London has a population of 5,000,000, of whom a large proportion are very poor, and to house a few thousands of them is really nothing. If it is to be done, it should be done thoroughly, and as it cost £4,000,000 to house 31,000, it is easy to see what a gigantic sum would be required to carry out such a policy. It must also be remembered that the Council, which would fix the rents, would be elected by the tenants who would have to pay them. The system seems to be one that would be fraught with disastrous results. Lord Rosebery went to bless, but the effect of what he said was to condemn the policy.

*Mutatis mutandis*, the above remarks apply to other local authorities.

Miss Octavia Hill, who speaks with so much authority on such a subject, in a letter to *The Times*, has pointed out that—

1. The work will be done expensively. No body like the London County Council can be an economical one. The cost must be met in one form or another. Why should we prefer to pay in rates rather than in rent? The mode of payment by rates will press heavily, being inexorable and not elastic.

2. The London County Council, which ought to be the supervising authority, will itself be pecuniarily interested in the houses to be supervised.

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3. The electorate will be, in large measure, composed of tenants of the body to be elected.

And she adds—

I doubt if the duties of a landlord, or of a governing body, can be fulfilled under such circumstances.

Every one who knows about the matter is aware that the good building companies and the good builders are not proceeding to meet the need of dwellings as they were doing before municipal action was talked of; their work has been arrested. This is natural, when a public body, which has the power of drawing on the rates, goes into a business; no private person dares to embark in it.

This view is supported by Mr. Ernest Noel, the Chairman of the Artisans' Dwellings Company, who recently told the shareholders that in his opinion

. . . the Council's building schemes would have an injurious effect on the more efficient housing of the poor.<sup>1</sup>

Several of our municipalities have also provided Model lodging-houses on a large scale. It may well be doubted whether it is really in the interests of the poor to encourage them to substitute a cubicle for a home.

<sup>1</sup> *Charity Organisation Review*, July 1901, p. 12.

## CHAPTER VI

### LOSS AND PROFIT

THOSE who are engaged in commerce and manufactures know very well that the difference between profit and loss depends on close attention to details, on the careful selection of the staff, on the devotion of labour, thought, and time to the business. It is impossible to suppose that Governments or municipalities can give the same amount of attention as those whose income and prosperity, and the welfare of those near and dear to them, depend upon the success of their exertions. It is evident that in work done by the Government or by local authorities there is not the same stimulus to exertion and economy, so that one of two things will almost inevitably happen—either there will be a loss, or the service will not be so good. There are other reasons which tend strongly in the same direction. While men in business are trained to their work, municipal councillors are chosen partly on political grounds, partly because they are popular or good platform speakers, or for a variety of reasons—in which their special aptitude for the work by no means, in all cases, plays any important part. Again, while the higher members of the staff are sometimes



underpaid, the labourers, as a rule, have shorter hours and higher wages than those in private employment. This benefits a fraction of the working classes at the expense, to some extent, of the rest.

Every one must have noticed how lazily and perfunctorily the street cleaners in the employment of vestries and borough councils go about their work. Their object seems to be to do—not as much as they can, but as little as they need. If this is the case even under the very eyes of the public, how much more is it likely to be the case elsewhere?

There are many, no doubt, who honestly think that municipalities, by undertaking various businesses, may make a profit, and thus benefit the community in two ways—by supplying the necessaries and conveniences of life at low prices, and by reducing rates.

Others believe, and I think rightly, that our municipalities have their hands full enough, that individual attention and the stimulus of individual interest enable private enterprise to work more economically than Governments or municipalities, and that municipal interference inevitably checks the progress of discovery and invention.

The supporters of Government and municipal trading speak contemptuously of “private speculators.” To my mind there is a wide distinction between legitimate enterprise and anything which can correctly be called “speculation.” But if speculation is the right word, then I submit that speculative investments ought not to fall within the limits of municipal duties, or to be made with ratepayers’

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money. But though not strictly speculative, the development of new industries and the purchase of patents are attended with many risks. Trustees are very properly precluded from any such investments, and local authorities are essentially, even if not perhaps technically, trustees for the ratepayers, and ought not to embark on enterprises which necessarily involve considerable risk of loss.

Moreover, I should like to ask whether it is intended to buy up every business which pays three per cent, and if not, why some and not others? Bread is necessary as well as water and gas, and bakers make far more than three per cent.

There are two ways in which we may bring the subject to the test: (1) by general considerations; and (2) by figures and statistics. The accounts are so complex that the former argument weighs most with me, but the figures also point very clearly to the desirability of restraining municipal trading within the narrowest possible limits.

Of course, I do not doubt that in some cases profits have been made. When a municipality has had a monopoly, and has been able to charge what it likes, it is easy to show a profit on paper. The municipality takes what it chooses out of the pockets of the ratepayers and calls it a profit.

I may give, for instance, the following illustration. It has been stated that "Manchester reduced its rates in 1900-1901 by 7d. in the £ through municipal trading. The *Times* has pointed out that this is the way it was done. The corporation wanted a subsidy

of £50,000 in relief of rates from the gas undertaking, and, as there was no surplus, the price of gas was raised 3d. per 1000 feet in order to yield it. This is quoted as a profit." It has been urged in reply by Mr. Donald that the committee acted wisely in so doing. That, however, does not answer the argument. The *Times* was pointing out that it is a misnomer and most misleading to call this a profit.

The Town Clerk of Liverpool at a recent meeting said—

Municipalities have been encouraged and assisted by Parliament to borrow large sums of money for electric lighting undertakings, and it has always been on the understanding that there should be no competition.

Monopolies are bad, but especially Government and municipal monopolies, because they are the most difficult either to regulate, control, or abolish.

I doubt, moreover, whether the paper profit which municipalities claim to have made has any real existence. I do not, indeed, for a moment suggest that there is any intentional inaccuracy in the accounts. There is, however, a general impression amongst experts that the accounts are misleading. In the first place, it is believed that a considerable amount of clerical, legal, and accountancy work, and some of the rent of the head office applicable to the various undertakings, is, in many cases, charged to the general municipal account. This work corresponds to what in a company is paid for the secretary, solicitor, and accountants, and a portion of the rent, and it is obvious that a proper allowance must be

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made for these items before the real profit, if any, is arrived at.

In the second place, the amount allowed for depreciation seems much too small.

The Joint Parliamentary Committee, which was appointed to inquire into the subject, made some valuable recommendations, including one for an independent audit. One would have supposed that this would have been welcomed by the believers in municipal trading, but, on the contrary, they have strenuously opposed it. The fact that those who support municipal trading have successfully opposed the adoption of these recommendations, and resisted any further inquiry on the subject, shows that they dread the light. I have little doubt that examination by competent accountants would show that there has been a loss instead of a profit. Nor is it clear that allowance has been made for the rates which would have been received if the property had been in private hands. For these reasons, the statements we often see of supposed profits made by municipalities appear to me absolutely untrustworthy.

Perhaps it may be well to give some illustrations in order to show how difficult it is to unravel the figures. In 1901 the London County Council bought some land in and near Long Lane and handed it over to the Housing Committee. The Improvements Committee reported that it was worth £2875, but it was charged to the Housing Committee at £1432.

I am not charging either the Council or the Committees with any fraudulent intention. The

Committee gave the following explanation. They said :—

The value of the land was £2875, and the Housing Committee could afford only to pay £1432 for it. Rehousing was a statutory obligation, and ought to form part of the cost of the improvement. Under those circumstances the Improvements Committee had agreed to let the Housing Committee have the land at the reduced price of £1432, in order to remove the estimated deficiency from the housing account and to make it a charge upon the improvement account.

They recommended—

That the action of the Improvements Committee in fixing the value of the necessary land for rehousing purposes at £1432 be confirmed.

Another case reported on the same day is even more extraordinary—

The Improvements Committee further reported that the Council had acquired a site in London Fields, Hackney, for rehousing about 486 persons who would be displaced by the Mare Street Improvement. The value of the land was £1250, but the Housing Committee could not afford to pay anything for it; and, for reasons similar to those in the Southwark case, the Improvements Committee recommended the Council to fix the value of the land for rehousing purposes at nil.

On July 24, 1906 (*Times*, July 26), at the weekly meeting of the London County Council, Sir T. Brooke-Hitching stated that

. . . the Council purchased a brewery in the Clerkenwell Road for £200,000 for working-class dwellings. They, however, handed over the site to the Housing Committee for £45,000. He thought that the most satisfactory course to adopt would be to have the Council's accounts audited by a chartered accountant.

Again, at the London County Council on August

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1, 1905, Mr. Collins said, in regard to the building of dwellings to rehouse some of the persons displaced by the construction of the Rotherhithe Tunnel, that

. . . when it was found that far from being self-supporting, these dwellings would show an annual deficiency equivalent to a capital sum of £9585, it was resolved that instead of charging the value of the land—£3050—to the dwellings account, the site should be transferred free of charge; and further, that the dwellings account should be subsidised to the extent of £6535, that sum being charged to the capital account of the Rotherhithe Tunnel. After this juggling with the figures, there was an estimated annual surplus of a little over £9.<sup>1</sup>

When accounts are thus handled it is easy to show a paper profit.

*The Times*, July 26, 1906, says—

The Local Government Board auditor called attention to the manipulation of the Working Class Dwellings Act, the object of which presumably is not to disclose the whole truth to the ratepayers. The cost of the site of Brightlingsea buildings at Rotherhithe was £12,000, and for rehousing purposes the valuer put it down at £1000. But the Housing Committee obtained the site for nothing, and when the buildings were put up the Committee found that they would never yield a profit, and that upon this particular branch of municipal trading there would be a loss to the rates of £397 a year. Instead of charging this loss against the buildings they were subsidised year by year out of the capital account. The Finance Committee calls attention to the case of the Bekesbourne buildings at Rotherhithe, which has not yet been before the auditor. The Council gave the committee the site, valued at £3050, for nothing, and

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<sup>1</sup> *The Globe*, Aug. 2, 1905. Mr. Bruce, who has given a great deal of time to the Housing of the Working Classes Committee, maintains that Mr. Collins is all wrong, and does not understand the question. I confess it seems to me to be that Mr. Collins is right, and that Mr. Bruce has not understood the force of his objection. Such also, as will be seen, is the opinion of the official auditor.

in addition credited the housing account with a capital sum of £6535, "to preserve equilibrium." And yet London is told week after week that the Progressives are making a profit on municipal housing, and when their leader is pressed for facts he retorts that "he is not to be bullied."

In his last report on the London County Council audit, Mr. Cockerton, the official auditor, says<sup>1</sup> that

. . . during the year to March 31, 1905, the Council appear to have departed in certain cases from this practice, and in these cases to have charged to erection of dwellings account amounts which, in their estimation, will enable the Council to erect and carry on the buildings without a charge on the rates. In two of these cases, where the commercial value of the land was £4500, and the value for the erection of working-class dwellings as recommended by the Council's valuer £2250, nothing was charged for the land to the erection of buildings account. In a third case, a sum of about one-fourth the commercial value was so charged. The auditor points out that the difference between the amount charged to the erection of dwellings account and the actual value of the land becomes a charge on the improvements capital account, and that with regard to joint improvements, such as the Mare Street improvement, to which the Hackney Borough Council contribute one-fourth of the cost up to £125,000, the contributing authority is adversely affected. He states that he has passed the accounts relating to these matters as submitted to him, but he expresses the hope that the Council will give instructions for transfers representing full housing value to be made between the different accounts, as it would appear that the dwellings capital accounts have been considerably undercharged.

Again, as regards tramways, in his last report on the London County Council audit, he says<sup>2</sup> that

. . . sums amounting in the aggregate to £89,305 have been charged to the tramways account in respect of expenditure on street widenings in connection with tramways. In twenty-three

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<sup>1</sup> *The Times*, Aug. 21, 1906.

<sup>2</sup> *Ibid.*

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cases the Council had decided that the tramways account should bear a proportion of the cost, and in one case the whole of the cost. The total sum estimated to be chargeable to the tramways account in these cases is £377,620. The proportions vary, but are for the most part one-third of the net cost of the improvement. The auditor points out that the Council do not appear to have had before them any data when fixing these proportions, which seem to him to be of a somewhat arbitrary character.

It has been urged over and over again that the central charges have never yet been properly distributed between the different departments. So far as London is concerned, this is at length admitted, and it is impossible to doubt that the same omission occurs in the case of other municipalities also.

The Finance Committee of the London County Council, in their report of June 26, 1906, expressed the opinion

. . . that the time had arrived for the Council to make regulations providing for a more complete apportionment of the charges in question, and accordingly asked the Council to refer it to us to prepare and submit to the Council a standing order and lay down the regulations as to the allocation of "establishment charges."

But why has the time only now arrived? The Committee, indeed, anxious no doubt to minimise the omission, state that the sums allocated, though not enough, are "tolerably full." It is, of course, difficult to say what is "tolerable," but the statement seems difficult to justify if we consider the following facts stated by Mr. H. P. Harris, now Chairman of the Council. Mr. Harris said<sup>1</sup>—

<sup>1</sup> *The London Argus*, July 21, 1906.



We are not here to deal with the proportion of street improvements which may be charged to Tramways Sinking Fund. We are here to consider what proportion of establishment charges, including committee work, office accommodation, office charges, parliamentary costs, etc., have not been charged to revenue-producing undertakings. I venture to think that the suggestion as to the proportion of establishment charges to be allocated to these new undertakings is the most preposterous ever put forward. Establishment charges are increasing by leaps and bounds. There are some very interesting tables given in the report of the Comptroller to the Finance Committee. I find that the total salaries and wages of the staff appointed by the Establishment Committee amount to £281,000 in round figures. Of that, £56,700, in round figures, is charged to the education department; £61,400 to other accounts, and £163,100 is charged to what is called general establishment. A great deal of that charged to general establishment ought to be charged to some of these revenue-producing undertakings. It is proposed that it shall be charged in the future, but only from next year. We ought to know, before any talk goes on about our revenue-producing undertakings earning profits, what ought to have been charged to them in the past. In order to give us what we should secure if we had a proper audit, we ought to know what the true condition of these revenue-producing undertakings is. Then as to the cost of the Central Office, which these revenue-producing undertakings are fortunate enough to find ready for their use free of charge, I find that the cost of the Central Office amounts to a total of £59,200. Of that, £13,800 is charged to education, and how much do you think is charged to other accounts? £575! £44,835 is charged to that very convenient item, "general establishment." When we come to what are called office charges not charged direct as part of the expenditure on particular services, I find a total for printing and other things of £66,200. £36,500 is charged to education. How much is charged to other accounts? £720! And the amount chargeable to general establishment is £29,050.

It is perfectly clear that we have not in the past charged the proper proportion to establishment charges. It is clearly in the interests of the public that we should know what has

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been charged in the past, and we ought to know the proper amount to be charged in the future.

There is obviously much force in the view thus clearly stated by Mr. Harris.

At a meeting of the Brighton Corporation on April 21, on the consideration of the minutes of the Works Committee, objection was taken to the expense of renovating ornamental arc light columns being charged to the Works Committee instead of to the electric undertaking. It was pointed out that the system tended to show false profits, and made the net results of the trading returns misleading. Mr. A. Beazley, in a criticism of the Cardiff Corporation accounts, states in regard to the electric lighting works, that nothing whatever has been charged for depreciation, if we except the sum of £500 set aside as reserve fund in the year ended March 1903, although some £200,000 has been spent. The indebtedness now amounts to nearly £3,350,000. Mr. J. P. Elms, Secretary of the Newport Ratepayers' Association, states that in this borough there are electric light works owned by the municipality costing about £100,000, which at 4 per cent would give a net rateable value of £4000. The actual sum entered in the rate book is £432, but it is sought to assess the local gas company, which is a private concern, and with which the municipal electric light is of course in competition, at twenty times as much!

Mr. Arnold Wright, speaking of municipal electric light undertakings, states<sup>1</sup>—

<sup>1</sup> *Financial Review of Reviews*, July 1906.

At Bermondsey, Southwark, and other centres, the heavy costs of opposing Bills in Parliament in the interests of the local electric lighting undertaking are charged to the general account. But the most serious form which the attempts to manufacture a "profit" take, is the placing of an excessive burden upon the community in respect of the lighting of the streets and public offices. Bermondsey, for instance, pays £123:1s. per mile for the lighting of its streets with electricity, while the adjoining district of Camberwell is splendidly lighted with incandescent gas at a charge of only £90:8s. per mile. Some months since the Education Committee of the West Ham Corporation passed a recommendation in favour of an electric light installation at a cost of £500, though it had an estimate before it of £200 for an equally effective incandescent gas lighting system.

I do not for a moment impute any intention to deceive, still it is obvious that when accounts are thus dealt with it is difficult to draw conclusions from them.

Mr. Schooling, in the *Windsor Magazine* for January, gave the amounts set aside for depreciation per £100 of capital as follows:—Water-works, 11½d.; gas-works, 8d.; electricity, 3s. 2½d.; tramways, 10s. 4d. He states in regard to the 1029 reproductive undertakings given in Sir Henry Fowler's second *Return of Reproductive Undertakings*:—

I suggest that, looking at the nature of the undertakings and at the fact that by far the largest amounts of capital are invested in undertakings that involve great wear and tear to machinery, a yearly allowance of 5 per cent on the capital invested would be a most moderate allowance. Upon this basis I proceed to rectify the nominal profit and loss account as follows:—

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Capital invested . . . . .	£121,170,000
5 per cent on this for yearly depreciation is . . . . .	£6,058,500
Yearly allowance for depreciation by Corporation is . . . . .	193,274
Extra for depreciation which should be set aside yearly is . . . . .	£5,865,226
Deduct net profit stated by Corporation which now vanishes . . . . .	378,281
Making the net loss yearly upon the 1029 "reproductive undertakings" . . . . .	£5,486,945

I do not pretend to be an authority as to what percentage ought to be written off for depreciation, but Mr. Schooling has had a long experience in such matters, and is well qualified to judge. The figure actually taken certainly seems too low, and the difference would convert the small nominal profit into a substantial loss.

Take again the Works Department Committee of the London County Council. Surely there should be some good and clear advantage before the ratepayers' money is used to interfere with the building trade.

This amateur Committee carried out for the year ending March 31, 1905, works amounting to £662,000, and have others on hand estimated at £1,352,000. The average number of workmen employed was 3382, and the amount of wages was £278,000.

Here is an immense business, controlled by gentlemen who are already much overworked, and who are taken from other more important duties. Some time ago the then chairman was asked how many bricks were laid by a London County Council bricklayer in a day. He said he would inquire. When pressed again, he said the question was difficult to answer, but it was something over 300. In America, the

average number per day is, I am informed, often as much as 2000. No wonder the Works Committee often greatly exceed the estimates.

The Council, indeed, claim to have done the work for £23,700 less than the estimates, and it is alleged that this is a clear proof of the advantage of the direct employment of labour.

But who made the estimates? The Council. They make the estimates; then they do the work for less, and claim that they have made a profit for the rate-payers! It is really absurd. It would be laughable if it were not so serious.

Sir Melvill Beachcroft, formerly Vice-Chairman of the Council, and now Chairman of the London Water Board, in an address on August 1, 1906, said—

Of the Works Department it is not possible for me to speak, because I know nothing of the methods adopted by the Works Committee in dealing with estimates and tenders. The Committee is a close borough; no representative of the Moderate Party is permitted to become a member, and we have therefore to accept the "savings" and "profits" on the uncorroborated assurance of that Committee.

If you make your own estimates and put them high enough, it is easy to do the work for less. Let me give a case in point. The following letter is from Mr. R. Clutton, the great land agent. He writes:—

DEAR LORD AVEBURY—Referring to our conversation the other day, the facts as to the estimate given by the Works Department of the L.C.C. for constructing vaults at Knightsbridge in connection with the widening there, are as follows:—The estimate of the Works Department for the brick-work for these vaults was £28 per rod (on cement). The Office of Works' jobbing contract for the same description of work,

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whether in the basement or on the top of a high building, is £19:2s. per rod. This, in my opinion, would make £18 per rod, a very good price for vaults, but even taking the £19:2s. as a basis, the difference is quite absurd.—Yours very truly,

RALPH CLUTTON.

: 9 WHITEHALL PLACE, LONDON,  
*December 24, 1902.*

Several of the Committees have, at different times, called attention to the excessive cost of the works undertaken by them by the Works Committee. For instance, the Parks Committee, in their Report of November 13, 1894, complain that

. . . under the old system of contracts the Committee knew exactly how much money would be expended on any work it ordered, or had the means of limiting the amount of such expenditure, but under the present system of the works being carried out by the Works Department the Parks Committee has no control whatever over the expenditure.

It appears that the Works Committee had performed seven works for the Parks Committee, and in every case the estimates had been exceeded, and the Parks Committee, after giving all details, say—

From this statement it will be seen that the seven works which the Works Committee undertook, and with the estimates for which they reported to the Council that they were satisfied as to their sufficiency, have actually cost no less than 36·14 per cent above the estimate. Looking at all the circumstances, we think we are justified in calling the special attention of the Council to the cost of the works as executed by the Works Committee.

Perhaps, however, it may be suggested that the architect's estimate was too low. The Parks Committee went carefully into this question. They prepared a return of all the works carried out by contract, and the result was as follows :—There were eighty-two

works, the officer's estimates were £52,000, and the actual amount paid to the contractors was £49,000.

This was very creditable to the late architect, Mr. Blashell, and his staff, and the net result was that work for the Parks Committee which was done by contractors cost us 6 per cent less than the estimate, that by the Works Committee so much—in some cases even 36 per cent more!

Again, the Fire Brigade Committee, on November 22, 1894, felt it necessary to call the attention of the Council to the Works Department. They mentioned a number of cases where there had been a large excess, and added that they "are unable to understand why the work has cost so much." And at the last meeting of the Council in 1894, the Corporate Property Committee, referring to the construction of a wall, reported that "it appeared to us that the charge was excessive." They referred the matter to the architect, who reported that he could not account for the excess, but that the bricklayers appeared to have only laid on an average twenty-three bricks per hour! The Works Committee was defended by its Chairman, by Mr. Crooks, and Mr. Goodman. Mr. Ward denied the statement of the architect, and assured the Council that the number of bricks laid per hour was at least double. Mr. Crooks said that the excessive cost was not the fault of the workmen, but was due to the fact that the Committee employed ten times too many officials. Lastly, Mr. Goodman, feeling, no doubt, the dangerous character of such pleas, assured the Council that it was not the

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fault of the workmen, or of the officials, but of the bricks, which were very bad and ought never to have been used. The bricks could not defend themselves, and the matter therefore dropped, but one naturally asks, why did the department pass bad bricks ?

For my own part, I do not share the difficulty felt by the Fire Brigade Committee in understanding why the work should cost so much. The Works Committee has no doubt done its best ; it is only fair to admit that its members have devoted much time and attention to the subject. It is not their fault, but it is impossible that amateurs, however zealous and enthusiastic, can do building works as cheaply as those who have made it the business of their lives. I have seen many a firm brought to ruin and the bankruptcy court by going out of its own business. But there are some doctrinaires who regard it as the cornerstone of progress that every one should do some one else's business. If the electors return to the County Council those who support this policy, they must make up their minds to a continued and rapid increase of the rates.

These illustrations must convince any one, and I need not do more than refer in a single sentence to the reckless speculation in the London steamboats, by which the London County Council imposed on the unfortunate ratepayers a loss in one year of over £50,000 !

As regards national trading, one of the latest defenders of this policy, Mr. Donald, says<sup>1</sup>—

<sup>1</sup> *Contemporary Review*, August 1900.



The reason why the post office telegraphs have been a loss is because the State very foolishly allowed vested interests to be created, and had to buy up useless systems and pay premiums on inflated capital.

As a matter of fact, however, the loss for the last twelve months was £439,000, so that if we had paid nothing for the telegraphs, including all the additions—if they had been a free gift to the nation, there would still have been a heavy loss last year on the working.

Of course this is partly owing to the reduction in tariff; but if the telegraphs had not been purchased, we might probably have had the reduction without the loss. The deficit on the telegraphs up to last year was over £10,000,000.

I will now proceed to deal briefly with those cases which are generally put forward as affording the strongest illustrations in support of the supposed advantages of municipal management, namely, tramways, gas-works, and water-supply—treating them, however, for the moment only from the point of view of the profit and loss account.

#### TRAMWAYS

It is often maintained that tramways should be in the hands of municipalities, because the roadway should be exclusively in the control of the local authority. On the other hand, it is probable that the streets would be “up” for a shorter time, and the public, therefore, put to less inconvenience if the lines were

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constructed and repaired by companies, because they do their work more expeditiously, and if they were dilatory they would be pressed on by the local authority. But who shall hurry a municipality?

Even, however, if the lines are made by the local authority, that is no reason why they should work the tramway when made. When Mr. Shaw-Lefevre (now Lord Eversley) introduced the unfortunate Tramway Bill of 1870, he told Parliament that it would authorise local authorities to make tramways, "but not of course to work them."

The history of the London tramways has always seemed to me to constitute an admirable object lesson. It will be remembered that the Courts attributed to the Acts of Parliament, under which the tramways were constructed, a meaning which had never been foreseen, and the unfortunate shareholders found that they did not really possess the rights on the belief in which their money had been invested. The result was that the London County Council became possessed of the property for a sum far below its real value.

Under these circumstances, and having come into a great property for a sum far below its real value, they could hardly fail to make a profit. The question then arose whether it was wiser to lease the tramways to a company, or for the Council itself to work them.

Eventually the tramways north of the river were leased to a company, while the Council determined itself to work those of the south. The capital value was approximately the same: £850,000 on the north,

£896,000 on the south, but the mileage on the north is about eighteen miles greater.

In 1900 the profits on the northern side were £39,000, and on the south were stated at £43,000; in 1901 they were on the north £40,000, on the south £14,325; in 1902 they were on the north £39,000, but those on the south had fallen to £9000, and in 1905-6 to £2000. The diminution since 1903 was, however, no doubt partly due to the electrification of the lines.<sup>1</sup>

The *Statist*, which is, I need not say, one of the very ablest of our financial journals, in a careful article on the London Tramways recently, said—

Since 1900 the Council claims to have earned on the southern system, which it has worked itself, £23,900; while from the northern system, which has been leased to a Company, the ratepayers have received £191,600. The amount of loss

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<sup>1</sup> Before the Parliamentary Committee to consider the Thames River Steamboat Service Bill of the London County Council, on May 13, 1902, Mr. H. E. Haward, their controller, stated that the London County Council started the South London tramways with a net profit of £64,000. —*The Times*, July 14, 1903.

The loss on the southern system for the year ending March 1903 has since been stated to be £2250—

	Northern System	Southern System
	Rental.	Profits.
	£	£
1900 . . . . .	39,000	51,774
1901 . . . . .	40,151	14,325
1902 . . . . .	37,450	9,062
	<u>          </u>	<u>          </u>
Total . . . . .	£118,601	£75,161
	75,161	<u>          </u>
Balance on Profit on Leased System . . . . .	£43,440	
	<u>          </u>	

The *Electrical Review* discussed the question in a careful article (July 17), and said that the figures “conclusively prove the case put forward by Lord Avebury.”

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to the ratepayers from working the southern system is at least £170,000.

Even if we admit that the falling off since 1903 is partly due to the electrification, still the fact remains that the great bulk of the profit has resulted from the tramways which the County Council did not themselves work.

But even the modest sum of £23,900 claimed for the five years' working will not bear examination.

It was estimated by the Council that 1d. per car mile was a fair amount to allow for renewals. Lord Welby, however, in the London County Council estimates for 1906-7, points out that "for the three years during which cars have already been worked by electric traction the surplus on working has not been sufficient to enable the full produce of 1d. per car mile to be set aside for future renewals, and about £45,000 is still required to bring the provision up to this standard."<sup>1</sup>

I have no means of ascertaining how much of this should be debited to the Northern and how much to the Southern London Tramways. Probably about half to each, and this is quite enough to sweep away the imaginary profit claimed on the working of the Tramways.

But this is not all. In 1905, "the Central Staff Offices of the London County Council—omitting the additional burden involved in the administration of the Educational Act, cost £205,527. Seven years

<sup>1</sup> P. 43, London County Council Tramway Accounts to March 31, 1906, No. 968.

ago, when the Council first took over the tramways, it was £136,718. Let us take the middle year, 1902-3. Then the cost was £174,671. In that year the Clerk of the Council's Department cost £23,264. The tramways paid none of that, nor did they pay one penny until July 1906, when they contributed the absurdly small sum of £500. Nobody can deny that the Clerk's Department must have much to do with the tramways, especially when we consider that it includes the Parliamentary branch, which looks after the Council's numerous tramway Bills.

"In 1902-3, the Solicitor's Department cost £15,513; the tramways subscribed £500. The Comptroller's Department cost £16,506; the tramways were charged £300."<sup>1</sup>

But even this is not all. In his report for 1904-5 the auditor very properly objects to the insufficiency of the fund set aside for tramway renewals, and to the method by which only one-third of the cost of the street widenings for tramways is charged to the tramway accounts, which are, in this respect, misleading. Since his Report, however, it has been discovered and is now admitted that nothing like one-third of the amount was in reality debited to the tramways. According to Captain Swinton the real amount was only one-twelfth.<sup>2</sup>

But even this is not all. Mr. Schooling has pointed out that the rate of interest charged by the Council to the Tramways has been  $2\frac{1}{2}$  per cent, while

<sup>1</sup> London County Council Election, 1907. *Facts and Arguments*, vol. i. p. 22.

<sup>2</sup> Meeting of the London County Council, Oct. 16, 1906.

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they themselves have to pay 3 per cent. He estimates the additional amount which ought to have been debited to the Tramways up to the end of 1905 at £65,000.<sup>1</sup>

It is evident, therefore, that while the lines that were leased gain over £190,000 in relief of rates, those that were worked by the London County Council have resulted in a heavy loss, and I cannot but express my surprise that accounts so misleading should have been issued by the Tramways Committee.

If the Council were dealing with their own money, the result of their dear-bought experience would certainly be that they would abandon working the southern system themselves, and lease it to a company. Instead of this they have taken the opposite course—by terminating the lease of the northern system, and working it themselves!

### LIGHTING <sup>2</sup>

I now come to the question of lighting. Lighting is on a very different footing, say, from water-supply, because, although we cannot expect any very great improvements in the matter of water-supply, the case of light is very different. We have seen candles replaced by gas, and gas to a great extent supplemented by the electric light. It is reasonable to hope that we may see fresh discoveries and continued im-

<sup>1</sup> London County Council Finance.

<sup>2</sup> Sir G. Livesey has been kind enough to look through this and the following pages relating to gas.

provement. If our municipalities had been interested in the sale of tallow and wax candles, that would have caused considerable difficulty in the introduction of gas; and so I believe the existence of gas undertakings managed by the municipalities has led to serious difficulties in the introduction of electric lighting, although, of course, it is hardly a matter which is susceptible of proof.

Still the facts are very suggestive. It must be remembered that most of the corporations which carry on the manufacture of gas are large manufacturing towns, with a heavy consumption of gas, and in coal districts, while the gas companies are much less favourably situated. In reality, the Gas Companies of Bristol, Bath, Liverpool, Newcastle, and Sheffield are the only ones which can fairly be compared with such cities as Manchester, Birmingham, or Nottingham.

Now let us compare the prices,<sup>1</sup> always taking 1000 feet.

CORPORATIONS.		GAS COMPANIES.	
Nottingham . . .	2s. 6d.	Bristol . . . . .	2s.
Bolton . . . . .	2s. 6d.	Bath . . . . .	2s. 1d.
Manchester . . . .	2s. 4d.	Newcastle . . . .	1s. 9d.
Leicester . . . . .	2s. 4d.	Sheffield . . . . .	1s. 4½d.
Carlisle . . . . .	2s. 3d.	Plymouth . . . . .	1s. 9d.
Oldham . . . . .	2s. to 2s. 3d.	Portsea . . . . .	2s. 4d.
Salford 1s. 11d. to	2s. 3d.	Rochester . . . . .	2s. 9d.
Bradford . . . . .	2s. 1d.	Brighton . . . . .	2s. 10d.

All near coalfields.

Near coalfields.  
Far from coalfields.

Of course, the great manufacturing cities situated on or close to coalfields cannot fairly be compared

<sup>1</sup> They are taken from Field's Tables, and include all the provincial prices given.

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with Metropolitan and Southern Companies, where coal is more expensive. Nevertheless, it may be mentioned, and says much for private management, that the South Metropolitan Gas Company only charges 2s., or 4d. less than Manchester, notwithstanding the difference in the price of coal. The Commercial Gas Company charges 2s. 5d., and the Gas Light and Coke Company 2s. 11d., without, however, any charge for meters, and for gas of a high candle power.

If the South Metropolitan Gas Company charged the same price as the Manchester Corporation, their customers would have to pay £208,000 a year more than they do at present; and if the Manchester Corporation charged the same price as the South Metropolitan Gas Company, their customers would pay £79,000 a year less; and taking the so-called profit at £66,000 a year, this would be converted into a loss of £13,000.

The "profits" claimed by these cities are—

Manchester . . .	£66,000	Carlisle . . .	£1,400
Nottingham . . .	24,000	Oldham . . .	5,130
Bolton . . .	21,000	Salford . . .	26,000
Leicester . . .	22,000	Bradford . . .	2,300

If to these we add

Birmingham . . .	£23,000	Burnley . . .	£11,000
Chester . . .	13,000	Lancaster . . .	26,000
Stockport . . .	10,000	Wigan . . .	12,000
Blackpool . . .	10,000		

we find that, omitting the smaller figures, twelve great manufacturing cities near coalfields supply over



£260,000 out of the £307,000, which, as Mr. Row Fogo shows, is the real balance, taking the figures as shown in Sir H. Fowler's return. This does not leave much margin for the other 160 Corporations owning gas-works. But if the Corporations of Manchester, Nottingham, and Bolton charged the same as the Gas Companies of Newcastle, Bristol, or Sheffield, where would the profit be? The Corporations charge heavily for the gas and then call it a profit!

The figures clearly show that in places supplied by companies, gas is substantially cheaper than where it is in the hands of the municipality.

So far as I can judge, Nottingham and Sheffield give a fair test. In Nottingham it is supplied by the municipality, in Sheffield by a company. Fifteen years ago the price was the same in both; in Nottingham it has gone up, and in Sheffield it has gone down, till now it is in Nottingham, on an average, about 2s. 6d. per 1000 feet, and in Sheffield only 1s. 4½d. ! Sir G. Livesey has also called my attention to the case of Manchester and Salford. They are practically one city. Yet Manchester charges 2s. 4d. a thousand feet, Salford on an average 3d. less.

The case, moreover, is not so simple as it might seem. Besides the price of gas there are several other points to be considered. All gas has not the same illuminating power. For instance, that of Manchester, I am informed by Sir George Livesey, is 19 candle power, while that of Liverpool is 20 candle-power, and, he considers, so much more rigidly tested

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that the difference is equivalent, not to one candle, but more nearly to three candles.

Again, most of the companies are subject to severe restrictions as to testing, while, on the contrary, out of over 200 corporations, very few are under any such restrictions. Where municipalities take over gas-works they almost invariably succeed in getting these provisions removed.

It is, I think, an important consideration that where the gas is supplied by companies, the municipalities watch jealously, I do not say too jealously, over the quality; but where it is supplied by the municipality we have no such guarantee.

In Sir Henry Fowler's return the profit on Municipal Gas-works is given as £395,000, the net profit on the whole of municipal trading being £378,000; so that but for the gas there would be an admitted loss of £17,000. Obviously, however, the profit (if so it can be called) claimed for gas is much too large.

Mr. Row Fogo has carefully analysed the accounts as presented, and has clearly shown that, apart even from the above considerations, a considerable part of the profit claimed is quite imaginary. For instance, it includes "Reserve or Sinking Funds, for Purposes other than Repayment of Loans, £55,816; Renewal and Additions, £7640; Depreciation, £11,152; Income Tax, Repairs, etc., £2491." It seems to show considerable confusion of mind to regard depreciation and income tax as profit!

The following tables, compiled from figures

given by the London Municipal Society,<sup>1</sup> show how much higher the cost of lighting the streets is when effected by the Municipalities, than when they contract with Companies :—

LIGHT SUPPLIED BY MUNICIPALITIES.				LIGHT SUPPLIED BY COMPANIES.			
Borough.	Street Mileage.	Cost of Public Lighting.	Cost per Mile.	Borough.	Street Mileage.	Cost of Public Lighting.	Cost per Mile.
		£	£			£	£
Islington . .	124	32,170	259	Paddington . .	59½	10,472	176
Hackney . .	104	16,215	156	Bethnal Green	40	4,797	120
Poplar . . .	65½	12,702	192	Wandsworth . .	176	17,681	100
Southwark . .	65	11,398	175	Lambeth . . .	148½	13,573	91
Hampstead . .	57	11,658	204	Camberwell . .	130½	11,752	90
St. Marylebone	60	11,924	198	Lewisham . . .	108	7,809	72
Fulham . . .	56	10,858	194	Deptford . . .	52	3,847	74
Hammersmith	55	8,374	152	Greenwich . .	58	4,616	79

Sir Courtenay Boyle, then Secretary to the Board of Trade, after carefully comparing the charges of Municipalities and Companies, admitted in his evidence before the Joint Committee of both Houses on Municipal Trading that,

... on the whole, the returns do not suggest that in like circumstances there is any great balance of advantage to the consumer, as regards the price charged, in being supplied by a local authority instead of by a company.<sup>2</sup>

The sliding scale system, which is that adopted in London and several other places, seems better for the ratepayers than that of municipal management.

Under this system a sliding scale of price and dividend has been adopted, under which, starting

<sup>1</sup> London County Council Election, 1907. *Facts and Arguments*, vol. i. p. 35.

<sup>2</sup> Report from the Joint Select Committee on Municipal Trading, 1900.

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from a given point of price and dividend, the gas companies are enabled for every penny per thousand feet by which they reduce the price of gas to add a quarter per cent to their dividend, so as to divide any additional profit they may make between the companies and their consumers. As regards capital, gas companies coming to Parliament for power to raise money are required to put up to auction all the fresh capital they require, so that any premium upon the shares goes into the plant and stock of the company, and not into the pockets of the shareholders. This plan not only gives the consumer a share in increased profits, but also gives the companies a motive for economy. It has been adopted in London and in several other towns.

### WATER-SUPPLY

The supply of water is perhaps the strongest case for municipal enterprise. Water is a necessity for every community, and the only question is how it can best be obtained. I venture to submit that every case should be examined on its own merits, and I quite admit that in some cases municipal management is desirable. When, however, the supply by companies is pure and cheap, it is surely wise to let well alone.

What a city requires in the matter of water is, first, that the supply should be as pure as possible, and, secondly, that it should be as cheap as is compatible with purity.

In the case of London, those who advocated and

have carried the purchase of the Water Companies did so mainly on three grounds. They maintain—

1. That in the hands of a public body the supply would be more certain and more pure.

2. That the consolidation of the eight Water Companies would result in great economy.

3. That the purchase of the Water Companies would be a good investment.

As regards purity, there is one important point in which purchase is a distinct disadvantage. The purity in many cases depends on filtering, which requires constant care and watching.

Formerly, in the case of London, the purity was watched over first by the officers of the companies, and, secondly, by the officials of the London County Council. We had, therefore, a double guarantee. But now that the Companies are abolished, the responsibility rests with the London Water Board, and *quis custodiet ipsos custodes?* I submit that the guarantee of purity has clearly been weakened.

As regards the second point, the arguments generally put before the ratepayers have been that purchase would “mean, to begin with, a more generous supply of water at lower prices, and that the community, instead of paying 10 or more per cent in perpetuity to water companies, would wipe the original capital out of existence in fifty or sixty years.”

Of course, if the capital on which 10 per cent is paid could be bought at par it would be a very good business, but every one ought to have known that we should have to buy at a valuation which would give

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the shareholders about their present income. To talk of 10 per cent is, therefore, most misleading. Lord Landaff's Commission has been quoted as being in favour of purchase. Their report is a very curious document, but their conclusion was that, even without "the more generous supply" or "the lower prices" which have been promised, the result of purchase would be "a deficit in the income," which could "only be met by increasing the water charges or coming on the ratepayers."

That has been my contention, and I have, therefore, always opposed purchase. Why we should take a course which must involve either a higher rate or a higher charge for water I cannot see. The future, however, is always to some extent a matter of doubt. The past, however, is a matter of history. In 1879 Mr. Smith was deputed to negotiate with the Water Companies, and he had actually arranged a price. I opposed the purchase then, as I do now. Eventually it was rejected, and what has been the result? The Water Committee of the London County Council in 1891 went carefully into the figures, and in a report, signed by the late Lord Farrer, they say: "The aggregate of Mr. Smith's annuities to the shareholders from 1880 to 1890 would have been £9,555,719, whilst the actual profits earned by the same shareholders during that period have been £8,498,180," so that if that purchase had been carried out there would have been a loss to the ratepayers of £1,057,539.

Moreover, as the Parliamentary Return shows,

consumers occupying small houses in London paid a lower rate than in great towns where the supply is managed by the municipality. For instance—

	RATEABLE VALUE.		
	£10	£20	£30
Manchester .	£ s. d. 0 11 0	£ s. d. 1 1 0	£ s. d. 1 11 0
Liverpool .	0 13 6	1 5 11	1 17 2
Birmingham .	0 10 0	1 10 0	2 10 0
London .	0 9 9	0 19 7	1 9 8

The advocates of purchase seem to me to have overlooked two very important factors in the case. In the first place, the 10 per cent dividend applied only to a small part of the capital invested.<sup>1</sup> The interest on the debentures was, of course, much less. Moreover, as regards the ordinary shares, any surplus over the 10 per cent had to be devoted to reduce the price of water. They had, however, the right to make up the back dividends to 10 per cent. In the second place, four of the companies were already paying 10 per cent, and three more were very nearly able to do so. Perhaps the simplest way of regarding the case is to take a single company. Look, then, at the West Middlesex Company. It was paying its maximum dividend. The shareholders are entitled to no more. If the profits increased, the directors were bound to reduce the price of water. Indeed, they had already done so to some extent.

<sup>1</sup> Perhaps I should add that there was some doubt as to the legal position of the New River Company.

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In fact, therefore, the so-called shareholders were preference shareholders. The ratepayers had a valuable property in the company. All additional profit already belonged to the ratepayers, but the shareholders had a responsibility from which purchase has relieved them. The shareholders of the companies were under an obligation to supply water. If a new supply were required the expense would have fallen on them ; now it will fall on the ratepayers. Why, then, should the ratepayers have bought ? All additional profit was theirs already, while any deficiency would fall on the shareholders. What we have really bought has been the chance of a loss. What, then, should our policy have been ?

In preference, then, to the policy of "purchase," I ventured to advocate that of "control," combining the experience of the Railway Commission and of the Indian Railways, where, as in the case of our Water Companies, the public have a large, though generally contingent, interest.

The London Water Board has now been some time in operation, though not, I admit, long enough to enable us definitely to judge as to the result of the policy. It is a strong board, and they have been fortunate in securing a very able chairman—Sir Melvill Beachcroft. The water is, of course, the same. There has been no reduction in price ; indeed, two of the districts have been deprived of reductions which they would have enjoyed. So far, then, no one can say that London has derived any advantage from the purchase of the Water Companies, and already two of the eight districts are paying more than they would have



done if the Water Companies had not been bought up.

#### SIR H. H. FOWLER'S RETURN

Sir H. Fowler's well-known return,<sup>1</sup> purporting to show the financial result of municipal trading, is a very interesting, but a very misleading document. It suggests, indeed, a profit of £378,000 on a capital of £100,000,000—a miserable return surely on so great an investment. Moreover, the loss of Manchester on the Ship Canal is omitted. Again, as the so-called profit on gas amounts to £395,000, it is evident that on the other services there was a balance on the wrong side of £17,000. But in the case of gas the municipalities have a monopoly, and can charge what they please. They take what they choose out of the pockets of the ratepayers and call it a profit. Coming to the accounts themselves, it is quite obvious that many additions, and still more deductions should be made.

The loss on Baths and Wash-houses, £125,000, and on Burial-grounds should, perhaps, in fairness be omitted. On the other hand, the amount received from the Tramway lines which are leased must, of course, be deducted from any estimate of profit on municipal trading. On the accounts, therefore, as given, and with the proviso that a careful examination, such as that which Mr. Row Fogo has given to the gas accounts, would,<sup>2</sup> if applied to the other accounts, show many deductions which ought to be made, the account would stand as follows:—

<sup>1</sup> 1902, No. 398.

<sup>2</sup> *Economic Journal*, 1901.

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Balance in favour shown in return . . . . .	£378,281	
Add loss written off on Baths and Wash-houses . . . . .	124,952	
"    "    Burial-grounds . . . . .	63,784	
		<hr/>
		£567,017
<i>Deduct</i> Gas Sinking Fund . . . . .	£55,816	
Renewals and Additions . . . . .	7,640	
Depreciation . . . . .	11,152	
Income Tax, etc. . . . .	2,491	
		<hr/>
		£77,099
Rent on Tramway Lines leased . . . . .	16,240	
		<hr/>
		93,339
		<hr/>
Leaving . . . . .		£473,678

This is less than  $\frac{1}{2}$  per cent on the capital of over £100,000,000, and surely no one can seriously maintain that it was worth while to run the risk, and throw so heavy a burden on municipalities for so exiguous a return. But this is not all. We do not know what amounts have been written off for depreciation, office charges, law, etc.

For instance, as regards the electrical ventures, involving a capital of over £12,500,000, the amount written off for depreciation is only £19,970. On Water-works, with a capital of £57,000,000, only £27,000 is allowed; on Gas-works, for a capital of £24,000,000, only £80,000; on Tramways, with £9,750,000, only £50,000; on Piers and Harbours, with £5,400,000, only £4500; on Markets, with £6,180,000, only £500; on Baths and Wash-houses, with £2,000,000, nothing at all; and on Working-class Dwellings, with £1,253,000, nothing at all. This is absurd, and if proper amounts had been allowed they

would have turned the supposed profit into a heavy loss.

It is sometimes said that it is unnecessary to write off much for depreciation because of the sinking fund, but when we are told that the sinking fund will eventually hand the property over to the municipalities free from any charge, this entirely depends on whether the amount written off for depreciation is sufficient.

But even this is not all. In the case of London it is now admitted by the County Council, and in other cases it cannot be doubted, that increased amounts should have been written off for clerical, office, and other charges.

The city of Glasgow claims to make a large profit on its tramways, but the city of Boston (U.S.A.), with a smaller population, receives a much larger sum from the tramways which it does not work.

Again, let us compare, for instance, Glasgow and Dublin. The population of Glasgow is 750,000; that of Dublin is only 353,000. But, as Mr. Dixon Davies points out,<sup>1</sup>

. . . Ireland is in the fortunate position of not being subject to the Tramways Act of 1870, which compels all English and Scottish tramway companies to be started on a leasehold interest twenty-one years only. This Company pays about £20,000 a year to the Corporation for their wayleaves. Glasgow, which is three times as populous, and at least ten times as wealthy, had in 1901 only 44½ miles of tramways, as against Dublin's 52 miles, and for that year the Glasgow trams contributed to the Corporation £12,500 only. As to the fares, in Glasgow they charge ½d. for a half-mile stage; in Dublin

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<sup>1</sup> "The Cost of Municipal Trading," *Jour. Soc. of Arts*, 1903, p. 200.

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ld. for a two-mile stage. The wages and conditions of the men also show a comparison quite favourable to Dublin. The greatest advantage of Dublin remains to be stated. Electric tramways and this cheap system of fares were started by private enterprise there in the year 1896. The Glasgow electric tramways were not running until 1901.

The London County Council has since 1900 received £191,595 from the tramways north of the Thames, which it has leased. We shall see whether the ratepayers get as much now that the County Council is going to work them.

I question whether any man of business will doubt for a moment that if our municipalities would lease their gas-works, tramways, and electric lighting concerns, and without any increase of charges, it would be a substantial boon to the ratepayers, and do much to reduce our rates.

It seems often to be thought that it must be a good business if a municipality borrows money at, say,  $3\frac{1}{4}$ , and buys at par shares which pay 5 per cent. But why do the public take  $3\frac{1}{4}$  per cent municipal stock at par, and only take the shares at price which pays 5? It is because the risk is greater; and the municipality which undertakes such an operation may or may not make a profit, but is certainly taking a risk.

It is often said that, while directors have to be paid, councillors work for nothing. But, as Major Darwin says,<sup>1</sup> "The majority of business men will, I believe, agree in thinking that gratuitous management does not, on the whole, make for economy or efficiency in trading enterprises."

<sup>1</sup> *Municipal Trade.*

## CHAPTER VII

### THE EFFECT OF MUNICIPAL TRADING ON PRIVATE ENTERPRISE

IN the last chapter I have attempted to show that the alleged profit on municipal trading is quite imaginary, and that, on the contrary, there has been a serious loss. :

I will now endeavour to show how paralysing an effect municipal trading has had on private enterprise, and what heavy losses it has already inflicted on the country. I will confine myself to four cases—

1. Tramways.
2. Telephones.
3. Electric Light.
4. Electric Energy.

Mr. Meyer, formerly Professor of Political Economy at the University of Chicago, has recently published an excellent work<sup>1</sup> on this subject, which should be studied by every one interested in the question, and to which I am much indebted.

<sup>1</sup> *Municipal Ownership in Great Britain*, by H. R. Meyer.

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### TRAMWAYS

Apart from their obvious convenience within our cities, tramways are of great importance in relieving the congested central areas and carrying workmen to the suburbs, where they can be better and more cheaply housed, and live under healthier conditions.

The report of the Royal Commission on the means of locomotion and transport in London says that the price of land "a few miles out is still sufficiently low" to admit of the building of houses for the working classes, and the renting of such houses "at rents which the tenants can afford to pay . . . if means are provided to enable workmen to get in and out of London quickly and cheaply." The Commissioners add "that a large proportion of workers in the overcrowded parts of London do not need to live near their work," and "that where facilities for locomotion have been afforded, the population does, in fact, take advantage of them to live outside London."

In 1900, Alderman Southern, who for twenty-two years had been a member of the Manchester City Council, testified as follows before the Joint Parliamentary Committee on Municipal Trading:—

Now we have, of course, outside the city, plenty of useful building land, where, if these workmen could get to and from their work cheaply and quickly, no doubt a very large proportion of our congested population would be moved outside the city. . . . The real key to that question of overcrowding lies in quick and rapid transit to the suburbs.<sup>1</sup>

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<sup>1</sup> Report from the Joint Select Committee on Municipal Trading, 1900.

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From this point of view the check to private enterprise in the direction of tramways is especially deplorable.

On the other hand—

In the Glasgow City Council, says Professor Meyer, it has been argued repeatedly that the city of Glasgow ought not to extend the street railways into suburbs that are not a part of Glasgow, as such action would cause people and industries to move out of Glasgow proper, and thus decrease the taxable value of Glasgow proper.<sup>1</sup>

The first attempt to obtain a Bill for the Construction of Tramways was in 1858. It was, however, thrown out at the instance of Sir Benjamin Hall, at that time Chief Commissioner of Works. In 1860 Mr. George Francis Train, with the consent of the local authority, but without any Act of Parliament, built a tramway in Birkenhead, and subsequently in one or two other places. In 1861, 1865, and 1868, Parliament again rejected Bills for Metropolitan tramways. In 1869, however, three Bills were passed authorising 41 miles of Metropolitan tramways, mostly in the suburbs.

In 1870 Mr. Shaw-Lefevre (now Lord Eversley) passed the Tramway Act, which Mr. Vesey Knox has characterised as “on the whole the most disastrous legislation experiment in England during the last half-century.”<sup>2</sup> It has proved unfortunate in two ways.

In the first place, it gave the local authority the

<sup>1</sup> *Municipal Ownership in Great Britain*, by H. R. Meyer.

<sup>2</sup> “The Economic Effect of the Tramways Act of 1870,” *Economic Journal*, 1901.

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right of purchase in twenty-one years "upon terms of paying the then value (exclusive of any allowance for past or future profits of the undertaking, or any compensation for compulsory sale, or other consideration whatsoever) of the tramways, and all lands, buildings . . ." <sup>1</sup>

The late Mr. John Morris, of Ashurst, Morris, and Co., who had great experience in the establishment of tramways, pointed out to the Parliamentary Committee that this period was too short, especially having regard to the terms of purchase. His warning was, however, neglected, and British capital was driven to build tramways in foreign countries, where the municipalities were more far-seeing.

If, indeed, the interpretation which the Law Courts eventually put upon the clause, and which came upon investors as a ruinous surprise, no tramways at all could have been constructed. Even as the clause was understood, in ten years only 386 miles were built, and in 1890 tramway building by private enterprise practically ceased.

The second reason for the disastrous working of the Tramways Act, 1870, was the power of veto conferred on the municipalities. . . . The consent of the local authority was required by the Act of 1870, because it was thought that the local authority might wish to build the tramways itself. The Government had no intention to enable the local authorities to make money by selling their assent that a Provisional Order be given to a company.

<sup>1</sup> 33 & 34 Vict. c. 78, s. 43.



. . . In fact, however, the local authorities rarely gave their assent to a Provisional Order to a company; they almost invariably made it a matter of bargaining.

The provision is quite unreasonable.

For instance, between Leeds and Bradford there is a strip of about 2 miles which is under another local authority. Surely a proviso which enabled this body to veto the construction of a line between Bradford and Leeds is absurd.

In 1902 Mr. John Burns, a Member of the House of Commons, as well as of the London County Council, and now President of the Local Government Board, spoke as follows :—

In three sessions of Parliament thirty-eight proposals for extensions and improvements of tramways (proposed by the London County Council) have been vetoed by the Borough Councils in London. In nearly all those cases the veto, in my opinion, was unreasonably exercised. Some of the vetoes by Borough Councils of County Council projects have been unreasonable; some have been factious, and some have been almost on the verge of blackmailing the tramway authorities (the London County Council) for local street improvements, to an extent the Borough Councils ought not to have been guilty of. . . . That is a very serious condition of things, and it can only be got over by tolerant and more harmonious relations between the County Council and the Borough Councils.<sup>1</sup>

Where would our railway system have been if it had been necessary to obtain the consent of every local authority through whose area the line passed?

The late Lord Morley, Chairman of Committees

<sup>1</sup> Hansard's *Parliamentary Debates*, May 15, 1902, p. 447.

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in the House of Lords, felt very strongly on the subject. Speaking in 1901, he gave numerous striking illustrations of the manner and spirit in which the local authorities either had sold their consent, or had withheld it entirely. He said—

This has actually happened in London within the last year. A tramway company got its bill consented to by one of the London municipalities, through whose area it was to run, and immediately afterwards it went for the consent of the London County Council—which was only remotely interested, and only interested as the owner of a (competing) tramway in another part of London, and they refused their consent.

He concluded as follows :—

It is not expedient or in the public interests that you should give to the local authorities such a strong power of exacting conditions that may be very onerous upon an important national industry, and also that you should encourage the promoters of these undertakings to bribe the local authorities in some way or other. When I use the word "bribe," I desire distinctly to explain that I do not mean money bribe, I mean bribing by offering some advantage in order to get the consent of the local authority.<sup>1</sup>

Eventually Mr. Chaplin, then President of the Local Government Board, in May 1902, moved an amendment, giving Private Bill Committees power to examine whether the consent of the local authority had been unreasonably withheld, and to report accordingly in the event of unreasonable withholding of consent. He said that improved means of locomotion were absolutely essential to giving effect to the Housing of the Working Classes Act, 1900—

<sup>1</sup> Hansard's *Parliamentary Debates*, July 11, 1901.

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There is no doubt in the world that the extension of the tramway system is a matter of the first importance in connection with the great problem of the housing of the poor. At the same time, this extension, as matters stand now, is hindered, hampered, and checked by the existing provisions of the Standing Order, or by the action taken by certain local authorities under it, to a degree which few people are aware of. . . . What the local authorities would describe as conditions are regarded by the promoters, and very often, no doubt, with good reason, as neither more nor less than blackmail. I could give many instances to show to what extent that has been carried on. This has been the subject of great complaint for years, to which I may say that no one is more alive than the Chairman of Committees, both in this and the other House of Parliament, and I do not think that I should be going too far if I said that on several occasions it has led to considerable scandals.<sup>1</sup>

Sir Albert K. Rollit, at the request of the Municipal Corporations Association,<sup>2</sup> led the opposition to the amendment. He rested his case upon the argument that the municipalities would become involved in great expense by the necessity of appearing against the numberless applications for charters that would follow the repeal of the veto of the local authorities.

Mr. Chaplin had the support of Mr. Lowther, then Chairman of Committees, and now Speaker, but the Municipal Corporations Association was too strong, and he was obliged to withdraw his amendment.

The next steps in the development of tramways

<sup>1</sup> Hansard's *Parliamentary Debates*, May 15, 1902.

<sup>2</sup> This association in 1905 had a membership consisting of 296 municipal corporations. (*Municipal Ownership in Great Britain*, by H. R. Meyer, pp. 50, 51.)

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were the use of steam, and subsequently of electricity, as the motive power. These also, as Mr. Meyer shows, were opposed and retarded by the influence of municipalities.

Early in 1877 the Edinburgh Street Tramways Company conducted some experiments with the use of steam. General Hutchinson, Inspector of the Board of Trade, witnessed the experiments, and found that the steam tramways were "very manageable," and could be operated with safety to the passengers as well as the occupants of vehicles drawn by horses. The members of the Edinburgh Town Council refused to witness those experiments or to send the city engineer to witness them. Later in the year the city of Edinburgh sent its Lord Provost, Sir James Falshaw, to London, to argue before a Parliamentary Committee that the Edinburgh experiments with steam had not been successful.<sup>1</sup>

In 1877 there were applications from Birkenhead, Dublin, Edinburgh, Glasgow, Galway, Ipswich, Leeds, Leicester, London, Bristol, Dewsbury, Nottinghamshire, Sheffield, Swansea, and Wolverhampton, and Mr. Raikes, Chairman of Committees of the House of Commons, moved for a Committee "to consider how far, and under what regulations, the employment of steam or other mechanical power may be allowed upon tramways and public roads."

The Select Committee was granted; and it reported in favour of the use, experimentally, of mechanical power. On May 11, 1877, the Government brought in a Bill based on the report of the Select Committee, but the opposition of the muni-

<sup>1</sup> *Municipal Ownership in Great Britain*, by H. R. Meyer.

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icipalities was such that the Government withdrew it on June 28.<sup>1</sup>

The opposition of the municipalities to the introduction of steam was subsequently renewed in the case of electricity, and the paralysing effect upon our electrical industries may be estimated by the fact pointed out by Major Darwin,<sup>2</sup> that while the United States in 1900 had 15,000 miles of electric tramways, Great Britain in 1899 had only 210!

How persistently the municipal authorities set themselves in opposition to private enterprise is strikingly shown in one case mentioned by Mr. Meyer.

The deadly Tramways Act, 1870, does not extend to Ireland. In 1894 Mr. Murphy proposed to the city of Dublin to equip his street railway for electric traction, if the city would give him a blanket franchise for forty-two years from 1894; the city to have the right to purchase at the end of that period, at cost of replacement, plus 33 per cent for good-will allowance. In addition, Mr. Murphy offered to make certain annual way-leave payments, which now amount to \$70,000 a year for 100 miles of track. As soon as the adherents of municipal ownership in England and Scotland heard of the proposal, they sent their agents to Dublin to work up a public sentiment against the adoption of the proposal, and thus prevented Mr. Murphy from getting the approval of the city before late in 1895. In 1896 electric traction was begun in Dublin.<sup>3</sup>

Mr. Cunningham, the General Manager of the

<sup>1</sup> Hansard's *Parliamentary Debates*, Feb. 27, 1877; April 23, May 11, and June 28, and Feb. 5, 1878.

<sup>2</sup> *Municipal Trade*. He does not give, and I have been unable to ascertain, the figures for Great Britain in 1900.

<sup>3</sup> Report from the Joint Select Committee on Municipal Trading, 1899.

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Central London Railway, has expressed the opinion, and I believe he is right, that—

Perhaps nothing has done so much to prevent the relief of overcrowding and congestion as the Tramways Act of 1870. Its provisions in rigidly limiting the term of the concession to twenty-one years, and practically fixing the price at which the municipality may take over the undertaking at something far below its value, have effectually checked the growth of electric systems.

As the meaning of the Act of 1870 came to be understood, the construction of tramways in Great Britain gradually ceased, and

. . . in 1890 street railway building for the time being came to an end in the United Kingdom. In the five years ending with 1895 there were opened in the United Kingdom only thirty-four miles of street railway—horse, cable, and electric.<sup>1</sup> While the municipalities, in 1870, brought pressure to bear upon Parliament to secure the enactment of an Act which practically paralysed street railway building, so far as private enterprise was concerned, they did not themselves, in the years following 1870, step in to fill the void created by the paralysis of private initiative.

In the meantime, says Professor Meyer, the men who had met with rebuff after rebuff from Parliament, nothing daunted, had turned to the Continent; and in the period of 1864 to 1871 they had built street railways in Copenhagen, Brussels, Paris, Bordeaux, Geneva, Madrid, Genoa, Vienna, Berlin, Barcelona, St. Petersburg, and Constantinople. This record of persistent appeals to Parliament of repeated building of street railways in Great Britain, with no lawful public authority for such building, and of building street railways on the Continent, where the people were much poorer than in England, and were therefore less likely to ride upon the tramways, should be sufficient

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<sup>1</sup> Current issues of the Annual Return relating to Street and Road Tramways, etc., issued by the Board of Trade.

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answer to the misinformed or disingenuous persons who are in the habit of telling us that the municipal ownership of the street railways in Great Britain had its origin in the unwillingness of private enterprise to afford adequate transportation facilities.<sup>1</sup>

In 1904 the Tramway Companies united in an attempt to obtain compulsory running powers, and the municipalities combined to defeat them.

The Tyneside Tramways and Tramroads Company Bill, establishing this principle, was passed unanimously by the Committee of the House of Lords, also unanimously by the Committee of the House of Commons; in the House of Commons it was supported by Mr. Bonar Law, Parliamentary Secretary to the Board of Trade, but it was rejected in the House of Commons by 178 votes against 142.<sup>2</sup>

The attempts of corporations to secure themselves in their monopolies received a further illustration in 1905. The North-Eastern Railway Company sought powers to run motor omnibuses, and the Corporation of Newcastle offered a strong opposition to the proposal on behalf of the municipalities owning tramways. The Committee of the House of Commons granted the powers under certain restrictions, but the opposition sought to prevent the Company from picking up passengers *en route*, and thereby becoming competitors for traffic which the Corporation desire to monopolise. The question came up on report, when it was frankly admitted by the supporters of the municipalities that they objected to the Company being given powers to establish services in urban

<sup>1</sup> *Municipal Ownership in Great Britain*, by H. R. Meyer.

<sup>2</sup> *The Municipal Journal*, 1904, and Feb. 10, 1905.

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districts where they would enter into competition with municipal tramways. Mr. Bonar Law, the Parliamentary Secretary of the Board of Trade, in opposing the restrictive amendment, said that

. . . the municipal drum had been beaten again, as in the case of the Newcastle running powers. It was a question to what extent municipal authorities, because they were engaged in a particular kind of trade, should be allowed a monopoly which would not be given to anybody else engaged in the same trade.

He concluded by stating that—

It was beginning to be a question whether the House should direct the municipalities or whether the municipalities should control the House.

When the vote was taken the proposal to impose further restrictions was defeated by 127 votes to 110.

Railway companies carry on their undertakings under stringent statutory regulations in regard to the safety of the public and of their employees, and as to the charges they may make. They have expended vast sums of money in laying out their systems and in acquiring land for their lines and stations. It is true that they originally had a monopoly, though that argument can hardly be sustained now, owing to competing lines and tramways which not only carry passengers, but goods as well. The municipal tramways, on the other hand, have been constructed without any payment for the roads along which they run ; they have even been carried outside the district of the authority which operates them. They have become serious competitors with the railway companies, but yet they ask for protection which no one



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for a moment would contend should be granted to private enterprise.

Next came the Light Railway Act.

At the close of 1903 the Light Railway Commissioners had dealt with 244 applications for Provisional Orders for tramways on streets and roads.<sup>1</sup>

The Light Railways Act was enacted for a period of five years, which expired in December 1901. In February 1901<sup>2</sup> the *Municipal Journal*, the organ of the believers in municipal ownership, wrote as follows :—

An attempt is to be made, we learn, to give that legislative anomaly, the Light Railways Act, a permanent place on the Statute Book. . . . The Government is stated to be “satisfied with the experiment.” They are not the only folk who have derived a measure of satisfaction from the Act. There are the astute tramway promoters, who have found the measure a very effective means of evading the restrictions of the Tramways Act, 1870, and of freeing themselves of the burden of the purchase clauses.

Mr. Gerald Balfour, President of the Board of Trade, in April 1901, gallantly brought in a Bill to amend and to continue for five years the Light Railways Act. In August, however, he withdrew the Bill, “simply and solely because it would have given rise to a large amount of discussion.”<sup>3</sup> In other words, because it was opposed by the Association of Municipal Corporations.

Since 1901 the Act of 1896 has been renewed each year for a period of one year.

<sup>1</sup> *Municipal Ownership in Great Britain*, by H. R. Meyer.

<sup>2</sup> Feb. 22, 1901.

<sup>3</sup> Hansard's *Parliamentary Debates*, April 1, 1901, and August 14.

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The result of the policy pursued by the municipalities, or rather, perhaps, by the Municipal Corporations' Association, is shown if we compare our position with that of the United States.

In 1890 the cities of the United States, having 50,000 and more inhabitants, had 3205 miles of first main track of street railway. Had the corresponding cities of England and Wales had a proportionate mileage, they would have had 3190 miles of first main track. As a matter of fact, England, Wales, Scotland, and Ireland had an aggregate mileage of 948 miles only.<sup>1</sup>

In 1896 the United States had 10,000 miles of electric tramways : in this country we had 20!<sup>2</sup>

In June 1902 there were, in the United States 16,652 route-miles of street railway and 22,589 track-miles of street railway. Not less than 14,000 track-miles thereof were located within urban limits. The United Kingdom has practically the same urban population as the United States ; therefore it should have about the same urban street railway track mileage, namely, 14,000 miles.

In March 1904 the total urban and interurban street railway route-mileage of the United Kingdom was 1840 miles, while the track-mileage did not exceed 3200 miles. From these figures it follows that the people living in the cities and towns of the United Kingdom have at their service less than one quarter of the street railway facilities that the people have who live in the cities and towns of the United States.

<sup>1</sup> *Municipal Ownership in Great Britain*, by H. R. Meyer.

<sup>2</sup> Darwin, *Municipal Trade*.

Thus

. . . the paralysis of private enterprise under the application of the doctrine that the profits to be made out of the so-called public service industries that use the public streets belong to the general public and not to "private speculators" has been complete and permanent. Equally complete and permanent has been the failure of the municipalities to fill the void which they had created by paralysing private enterprise.<sup>1</sup>

#### THE TELEPHONE

As the Telephone Company has been finally purchased by the Post Office, I will only deal briefly with this part of the question. The Government having purchased the telegraphs, have from the first regarded the telephone with the utmost jealousy. They could not in decency deprive Mr. Edison and his associates of all participation in the advantages of his remarkable invention. They insisted, however, on being paid one-tenth—not of the profits, but of the gross receipts. What would have happened to our railways, I may ask, if they had been so treated?

Finally, they determined to buy up the Company and work it in conjunction with the telegraph. This is surely an extraordinary and most unfortunate policy.

The country has lost over £10,000,000 by Government management of the telegraph. Last year the deficit was £439,000,<sup>2</sup> and adding the loss of interest on the amount laid out by the country, for which £200,000 would be a moderate estimate, we get a loss of £640,000, so that if we had been presented with the system as a free gift we should still have lost

<sup>1</sup> *Municipal Ownership in Great Britain*, by H. B. Meyer.

<sup>2</sup> Report of the Postmaster-General, 1906.

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heavily. It is sometimes said that this is due to the lowering of the charge from a shilling to sixpence. But the Committee appointed by the Treasury reported that the loss was mainly due to more expensive working.

As regards the telegraphs, it is sometimes said that though we have paid dearly for it, at any rate we have a most effective system. This is, of course, a matter of opinion, but is it clear? My belief is that competition would have given us an even better system. This cannot be proved, but I may give an illustration. Messrs. Cunningham and Co., of Liverpool, having important business in London, telegraphed to London both direct and at the same time *via* New York, requesting their London friends to do the same. The answer *via* New York both ways came a little sooner than that which went both ways direct.

The sum paid over to the Government by the Telephone Company for its licence now amounts to over £200,000 a year, and is steadily increasing. Yet we have done everything we can to check and discourage the Company which is paying us this magnificent annuity, and have now decided that the business shall be conducted by the Post Office. We are stopping the system which gives us a large and growing profit, in order to develop that which leaves us a heavy loss. The minister who was mainly responsible for this was Mr. Hanbury. Now what did Mr. Hanbury say himself? In 1889 a deputation waited on him on the subject, and here is the report of what he said—

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Mr. Hanbury hardly thought the deputation had given full weight to the serious difficulties in the way of nationalisation. He doubted whether it was expedient to increase the amount of work done by the State generally. The Post Office was being over-burdened with work in every direction, and he did not think that it was capable of taking this enormous additional burden. If the telephone service was cast upon the Post Office it would be to the detriment of both the postal and telegraph services. Then, again, it would increase enormously the Government staff. He need only appeal to the Members of Parliament present to say whether they would like to have the weekly appeals for increase of wages from those State servants still further extended.<sup>1</sup>

There we have his opinion. But what did he do? Exactly the reverse. He did the very thing he so clearly condemned. I fear we shall pay dearly for the course which has been adopted.

We often hear complaints that our telephone system is backward. Why is this? The *Times*, in an interesting article, pointed out that

. . . the action of the Post Office has been so directed as to throw every possible difficulty in the way of the development of the telephone and of its constant employment by the public. We say, advisedly, "every possible difficulty," because the regulations under which licences have been granted to the telephone companies are, in many respects, as completely prohibitory as an absolute refusal of them. . . . It appears that the telephones can only be under restrictions, which are as absurd as they are vexatious. . . . The conduct of the office, although not legally dishonest, is, at least, morally indefensible. There can be no just ground for a claim to possess the telephone, by virtue of words introduced into an Act of Parliament before the telephone was thought of; and the effects of this claim are nearly as disastrous to the country as to the inventors and owners of the instruments.—*Times*, June 13, 1884.

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<sup>1</sup> *Times*, May 4, 1899.

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### THE ELECTRIC LIGHT

I now pass to the history of electric lighting. The municipalities had invested heavily in gas plants, and they now feared that the electric light would seriously impair the earning power of their municipal gas plants. They succeeded in persuading Parliament to introduce into the general Electric Lighting Act of 1882 the twenty-one year compulsory sale clause of the Tramways Act of 1870.

I pointed out at the time that it would be as fatal in the case of electric light as it had been in that of tramways.

Sir F. J. Bramwell, D.C.L., LL.D., F.R.S., one of the most eminent engineers of Great Britain, also said—

I have not said it before, but I should like to say it now. Imagine an industry of this kind competing with an established industry—gas—and being gravely told that they may charge such a price as to enable them to get back their capital in that limited time (twenty-one years). It is clear to my mind that those who suggest that cannot understand what the difficulties are. The electric lighting companies will have to go down to the lowest prices to obtain their custom. . . . I would say, and it is no use making any secret about it, that I attribute the failure to make greater use of electricity in this country entirely to the character of the Act of 1882.<sup>1</sup>

It is, however, fair to admit that one or two of the electric lighting companies expressed themselves at the time as satisfied with the terms. On

<sup>1</sup> Report of Lords Committee on the Electric Lighting Act, 1882, Amendment Bills, 1886.

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further consideration, however, they changed their minds; at any rate they did nothing. The industry was paralysed, and in 1889 only one single charter—that for Chelsea, was in existence. At length, in 1886, the term was extended to thirty years.

It was no doubt their possession of the gas monopoly which made so many municipalities regard the electric light with apprehension as a formidable competitor.

In the Parliamentary inquiry into the Electric Lighting Bill of 1886 Lord Rayleigh put some very pertinent questions to the Secretary of the Board of Trade.

Your suggestion comes to this, he said, "that the undertakers ought to run the risk of failure, and the public ought to have the benefit of success!" The Secretary of the Board of Trade replied: "It is not necessary for the undertakers to take it up." Lord Rayleigh queried: "When you say it is not necessary for the undertaker to take it up, you mean that it is not necessary that the public should have the electric light?" The reply was: "The local authority may take it up." Lord Rayleigh continued: "Supposing the local authorities do not see their way clear to taking it up, what then?" The reply came: "Then I suppose it would be postponed for a period." Lord Rayleigh: "The whole of your argument seems to come to this: that it is less important that the public should have the light, than that the companies should not make the profits."<sup>1</sup>

Mr. E. Chandos Leigh, since 1883 counsel to the Speaker, and the Chairman of Committees of the House of Commons, giving evidence before the Joint Select Committee of the two Houses on municipal Trading in 1900, said—

<sup>1</sup> Report of Lords' Committee on the Electric Light Act, 1882, Amendment Bills, 1886.

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Taking gas, local authorities, to the number of 250, already hold the supply of gas in Great Britain, and in practically the whole of those cases the gas undertaking has been originally founded by a company, and subsequently purchased by the municipality. In fact, one may say broadly, municipalities never invented or initiated anything, either with regard to tramways or gas, or electric lighting, and yet when a company has become flourishing they have been rather forced into a corner to sell their undertaking. . . . Then I think I may go a little farther, and say I know of no case in which a municipal body has sought to acquire a gas undertaking which was not in a flourishing condition. They have not come in for the purpose of helping the (consumers in a) municipality when a gas undertaking is being badly carried on, but they have pounced upon gas companies when they are paying their full dividend. . . . Then, I may add, in a great many cases efforts have been made to acquire gas undertakings which, having struggled through a long period of unprofitable working, are now on the eve of success. I know of no less than four cases in the last two sessions of Parliament, three of which were thrown out by Parliament, and the other was passed where, just as they were turning the corner, the (municipal) corporation had pounced upon them.

Mr. W. L. Madgen stated, before the Joint Committee of 1900 on Municipal Trading, that—

A company notified Milton-next-Sittingbourne of its intention to apply for a Provisional Order. Thereupon the Town Clerk wrote: "My Council have directed me to state . . . that as the gas works at Milton belong to the Council they will, at the proper time, take the necessary measures for opposing the proposed issue for a Provisional Order for supplying electricity for public or private lighting within their district."

Mr. Slagg, M.P. for Manchester, also admitted this; he said—

His honourable friend who had just spoken had complained of the way in which electric lighting companies were to



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be treated under the Bill, being tied down by the compulsory sale of their undertakings. But he took this view very strongly in regard to the establishment of electric light companies in districts where gas was already supplied by local authorities, who must necessarily be the best judges of what was good in such matters as lighting. He did not deem it to the public interest necessarily that outside companies should be invited to come in and make an exploitation ground for an area which had already been supplied (with gas) on the most favourable and economical terms by existing local authorities. Why should they encourage any outside body of people to come and abstract a profit already made by a local body (and) applied to local purposes in the matter of rates? On that ground, he considered that no encouragement was due from that House of Legislature in getting private persons to invade towns where corporations (municipalities) had already discharged their duty to satisfaction.<sup>1</sup>

Under these circumstances, it was only after the electric lighting industry had been completely paralysed in Great Britain for six long years—as we had foretold, that Lord Salisbury's Government introduced the Electric Lighting Act, 1882, Amendment Bill, 1886.

Inquiry showed, however, that municipalities would not consent to more than the thirty years' extension, and made it clear also that electric lighting could not, and would not, be extensively undertaken on that basis.

The Government therefore abandoned the effort to amend the Electric Lighting Act, 1882.

Rather than ask its supporters in the House of Commons to offend the powerful Association of Municipal Corporations, the Government concluded to let the people of the United

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<sup>1</sup> Hansard's *Parliamentary Debates*, July 15, 1882.

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Kingdom go without the electric light. In 1887 and 1888 the Board of Trade issued no Provisional Orders or Charters. In the last-mentioned year, Lord Herschel, who had been a member of the Government responsible for the Act of 1882, felt justified in saying in the House of Lords: "He believed that in the South Sea Islands the electric light was more used than it was in London."<sup>1</sup>

In 1888 the Government introduced another Bill, which was carried. In the House of Lords Lord Thurlow introduced the Bill with the words:

The object of the Bill was to remove what had proved prohibitive restrictions upon an industry which deserved every support. . . . In almost every large town in Italy electric lighting was making rapid progress. It was only in England that the science was comparatively at a standstill.<sup>2</sup>

Another remarkable fact is that in many cases local authorities took out Provisional Orders, so as to block out private enterprise, and then did no more.

At the close of 1904 no supply was available under fifty-four Provisional Orders. Acton, population 38,000, had been sitting on its charter for fourteen years; Bacup, population 23,000, had been doing the same; Llanelly and Waterford, with populations of respectively 26,000 and 27,000, had been sitting on their charters for thirteen years.<sup>3</sup>

In 1889 the Corporation of Birmingham consented not to oppose the application made by a private company for a charter, on condition that it should be limited to a very small area in the centre of the city. When the company proved a success it was bought up by the Corporation, and the plant was transferred to the city in January 1900, and thereupon the

<sup>1</sup> *Municipal Ownership in Great Britain*, by H. R. Meyer.

<sup>2</sup> *Hansard's Parliamentary Debates*, March 5 and 12, 1888.

<sup>3</sup> *Municipal Ownership in Great Britain*, by H. R. Meyer.

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Corporation took steps to supply current to the whole city.

Thus the city of Birmingham for fully eighteen years prevented the people outside of the "very centre" of the city from having the electric light.<sup>1</sup>

Mr. Ritchie, afterwards Lord Ritchie, then President of the Board of Trade, said—

It is true, I think, that the electrical enterprise of this country is in an exceedingly backward condition; it is inferior with regard to light, and certainly with regard to the conveyance of power, to many European countries, and it is greatly inferior to the United States and Canada. It may almost be said that there are villages in the United States which are in possession of advantages in connection with electricity which some of our largest towns do not possess. It cannot be doubted that there is a great demand for something to be done. . . . It must be remembered that it was the Act of 1882 which more than anything else had delayed and hampered the development of electrical supply.

In 1898 the Joint Select Committee on Electricity Generating Stations reported—

The Committee consider that the provisions of the Electric Lighting Act, 1888, which require the (provisional) consent of the local authority as a condition precedent to the granting of a Provisional Order, should be amended. In their opinion, the local authority should be entitled to be heard before the Board of Trade, but should not have, so to speak, a provisional veto, only to be dispensed with in special cases by the Board of Trade.

Four years after this report had been made, in June 1902, a deputation from the Institution of Electrical Engineers waited on Mr. Gerald Balfour, President of the Board of Trade, and asked that the

<sup>1</sup> *Municipal Ownership in Great Britain*, by H. R. Meyer.

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recommendation of the Joint Select Committee of 1898 be given effect. Mr. Gerald Balfour stated that a Bill had been prepared with that object. For reasons which can easily be divined, however, the Bill was never introduced.

### ELECTRIC POWER

Finally, we come to the action of municipalities as regards the supply of electric power.

It is unnecessary to dwell on the importance to manufacturers of cheap power. Moreover, there are a great number of industries which require comparatively small amounts of power, and which can be most satisfactorily and economically supplied from central generating stations.

In 1898 a number of manufacturers formed a company bearing the name of "The General Power Distribution Company," and asked Parliament for authority to supply current in an area of 210 square miles, including Sheffield and Nottingham. The region to be covered was one of the most important manufacturing districts in England; it had a population of 1,000,000, but there were only 1546 firms or persons who were customers of electric current. Local authorities and companies had taken out charters covering 66 square miles of the area in question, but only in 4-5 square miles was current available. This was in the centres of Sheffield and Nottingham—

In Sheffield a company had been supplying current since 1893 under restrictions that had been imposed by the Corpora-

tion of Sheffield, and were so onerous as to compel the company to charge 10 cents per Board of Trade unit. In Nottingham the city had been supplying since 1894; but in 1898 it had only 482 customers in a population of about 220,000. The city, which owned the gas plant, was charging 6 cents to 12 cents per unit. The General Power Distribution Bill fixed the maximum to be charged by the proposed company at 8 cents per unit for the first 200 hours in each quarter, and at 4 cents for the remainder of the quarter.<sup>1</sup>

The Bill was referred to a Joint Committee of both Houses of Parliament. The evidence in its favour was very strong.

Mr. H. D. Davies, Secretary of the Chamber of Commerce of Chesterfield, pointed out to the Joint Select Committee that the manufacturers of the district were exposed to severe competition from foreign manufacturers who already enjoyed the advantage of cheap electrical power, and that the Bill was, therefore, of great importance to the prosperity of the district.

The Committee reported in its favour, and it was passed by the House of Lords; but before it could come before the House of Commons, the Lord Mayor of Manchester called a conference of the Municipal Corporations of Lancashire and Cheshire, by whom it was decided to oppose the Bill, and though it was supported by all the Chambers of Commerce in the area affected, the House of Commons, under the dictation of the municipalities, threw it out by 164 to 132.

Mr. Bromley Davenport, who was in charge of the Bill, complained strongly and naturally of

<sup>1</sup> *Municipal Ownership in Great Britain*, by H. R. Meyer.

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. . . the combined and concerted influence of the Association of Municipal Corporations which is brought to bear on an individual member of this House, for the purpose almost of compelling him to vote for or against a Bill, which, as a matter of fact, possibly may not concern, even in the remotest degree, the constituency which he represents. That is the kind of influence which, during the past few weeks, has been brought to bear upon honourable members of this House, and, while I resent it, I recognise its force, and I recognise that it is likely enough to be successful.<sup>1</sup>

He was quite right, and the Municipal Corporations' Association succeeded in throwing out the Bill.

In 1900 a similar Bill—the Lancashire Electric Power Bill—was introduced to supply electric power throughout Lancashire.

In this measure certain concessions were made which it was hoped would have conciliated the Municipal Corporations' Association. Mr. Macdonna, who had opposed the previous Bill, moved the second reading. He said—

There is a feeling in the country that the municipalities are organising themselves into a gigantic monopoly with a view to strangling private enterprise in regard to the supply of electricity at the moment of its birth. . . . There is also a feeling in the country that fair-play has not been accorded to private commercial enterprise in this matter in its competition with the municipalities.

The Municipal Association was, however, implacable. Sir James T. Woodhouse, their representative in the House of Commons, seconded the rejection of the Bill, and said—

<sup>1</sup> Hansard's *Parliamentary Debates*, July 12, 1898.

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The promoters of the measure were not a public authority seeking public rights at the hands of the House of Commons, but a body of private speculators primarily desirous of pecuniary gain, but presenting their case as one of public policy and as satisfying a great and pressing public demand.

Parliament, however, was becoming alive to the importance of the issues involved and the Bill was passed, though with some unfortunate modifications. In 1901 the Derbyshire and Nottinghamshire Electric Power Bill was passed, though opposed, as usual, by the principal local authorities.

Another important measure was the Yorkshire Electric Power Bill. This was opposed by Leeds, Bradford, and Sheffield, even though the company, in hopes of avoiding opposition, had agreed not to supply power in those cities. The municipalities evidently foresaw that the companies would supply power more cheaply, and that the manufacturers within their boundaries would naturally complain of being placed at a disadvantage — as indeed has happened.

Up to 1904 twenty-four supply companies have been authorised, and I fear it must be admitted that in the case of power companies the Board of Trade continued its "policy of throwing its great weight on the side of the municipalities and against private enterprise."<sup>1</sup>

Early in 1903 the British Institution of Electrical Engineers appointed a committee of twelve to report upon the legislative policy toward the electrical industries. The committee com-

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<sup>1</sup> Meyer, *Municipal Ownership in Great Britain*.

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prised, among others, Lord Kelvin, in the field of electricity the first scientist of Great Britain, and perhaps of the world; John Perry, F.R.S., a past President of the Society; and S. P. Thompson, F.R.S., and past President of the Physical Society.

The committee met eleven times, took evidence, and passed nine resolutions, "setting forth that the electrical industry had suffered greatly from restrictive legislation . . . from the veto exercised by the local authorities . . . and from the regulations imposed by the Government departments."

In 1898 the House of Lords appointed a Committee on Electricity Generating Stations and Supply. The Committee made certain recommendations, and the late Government made three attempts (1903-4 and 5) to carry them into effect, but were prevented doing so by the opposition of the Municipal Corporations' Association.

In June 1904, when the Bill passed the second reading in the House of Lords, *The Municipal Journal* wrote—

So far as we know, no journal, except our own, has yet drawn attention to the dangerous abrogation of principle which is at the back of this measure. . . . Corporations already possessing their electricity supplies are entirely wrong in assuming that the measure does not affect them. It will affect them very materially. When in the course of time urban districts are able to obtain their current at about half the price at which municipal corporations can manufacture it, the consumers in the large cities and towns will no longer be content to pay the larger figure. They will want to be placed on equal terms with the outside districts, and they will have justice at their backs. What then will become of our city and towns' (*i.e.* municipal) electricity supply systems? <sup>1</sup>

But we may well ask, why should manufacturers

<sup>1</sup> *The Municipal Journal*, June 17, 1904.



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be compelled by mistaken devotion to municipal trading to pay twice as much as they would otherwise for electrical power? and if they are compelled to do so, how are they to compete with foreign manufacturers? If they are to do so successfully, it is absolutely necessary that they should be able to obtain power as economically and cheaply as can possibly be arranged.

I need hardly point out that whatever promotes manufactures must increase the demand for labour and benefit the working classes. I will, however, deal with the question as it affects their interests in a subsequent chapter.

As regards the unfortunate interference of municipalities with private enterprise, many other illustrations might be given. When Blackpool had bought up the tramways they refused any longer to issue licenses for omnibuses.<sup>1</sup>

When gas was in its infancy the development was almost entirely due to private enterprise, Manchester being, I believe, the only exception.

Mr. Meyer expresses his conviction that

. . . the advocates of municipal trading are responsible for the backwardness of Great Britain in every branch of the electrical industries but one—the ocean cable industry, which uses the bottom of the high seas, and has not yet been regulated by Parliament.<sup>2</sup>

“Finally,” as he justly observes, “there is reason to fear that the Tramways Act, 1870, and the Electric Lighting Acts, 1882 and 1888, have caused England to repeat the words of

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<sup>1</sup> Darwin, *Municipal Trade*.

<sup>2</sup> *Municipal Ownership in Great Britain*, by H. R. Meyer.

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one of England's most brilliant mechanical engineers, the late Sir Frederic J. Bramwell,<sup>1</sup> 'to lose for ever her proper position in the manufacture and supply of electrical machinery.'

The result of the action of the municipalities has, in fact, been that whereas in 1902 there were in the United States 3620 central electric stations, in the United Kingdom we had only 457!

Mr. Davies has pointed out<sup>2</sup> that

. . . while foreign countries derive much of their railway plant from this country, where railway enterprise is free, the municipal interference with electricity has so stifled electrical enterprise in this country that we are mainly dependent on America and other countries, where electricity has had fair-play, for our electrical plant. As *The Times* justly said a few days ago (November 12), but for the opposition of local authorities, and the fear of tampering with too many vested interests, London might have led the way with underground trams, as it did with tunnel and tube railways.

Professor Bastable observes that

. . . the dealings of State agencies with new inventions are the worst blots on public administration, and it seems that there is this risk in the State telegraphs that, though they are quite up to the standard at their inception, they almost insensibly fall behind as it advances with growing knowledge.<sup>3</sup>

Mr. Porter<sup>4</sup> has shown that in the United States tramways owned and worked by private companies contribute more to the rates, and yet carry passengers at cheaper fares than any of our municipal tramways. That municipal trading deadens enterprise, he says, there can be no sort of doubt, and it is equally

<sup>1</sup> *Journal of the Society of Arts*, January 30, 1903.

<sup>2</sup> *Traction and Transmission*, vol. ii.

<sup>3</sup> Bastable's *Public Finance*.

<sup>4</sup> The Hon. R. P. Porter, "Municipal Trading," *Traction and Transmission*, vol. ii.

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certain that it must entirely alter the character of our municipal bodies. No one will be able to enter any of our town councils who is not prepared to devote his whole time to it, and even then the work cannot possibly be thoroughly and carefully considered.

We often hear complaints that our telephone system is backward. Why is this? *The Times*, in an interesting article, long ago pointed out that—

The action of the Post Office has been so directed as to throw every possible difficulty in the way of the development of the telephone and of its constant employment by the public. We say, advisedly, "every possible difficulty," because the regulations under which licences have been granted to the telephone companies are, in many respects, as completely prohibitory as an absolute refusal of them. . . . It appears that the telephones can only be used under restrictions, which are as absurd as they are vexatious. And further on, it says: The conduct of the office, although not legally dishonest, is, at least, morally indefensible. There can be no just ground for a claim to possess the telephone by virtue of words introduced into an Act of Parliament before the telephone was thought of, and the effects of this claim are nearly as disastrous to the public as to the inventors and owners of the instruments. . . .<sup>1</sup>

The late Lord Farrer quoted with approval the following remarks:—

In France the initiative and direction of these works (i.e. harbours, internal navigations, roads, bridges, railways) belongs to the central authority, acting by means of a numerous and expensive body, the engineers of roads, bridges, (ingénieurs des ponts et chaussées). . . . The result of this régime is that in respect of works of this character the spirit

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<sup>1</sup> *Times*, June 13, 1884.

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of enterprise is wholly discouraged. . . . Thus none of the great improvements in artificial channels of communication, or in means of transport which have been introduced within the last fifty years, have originated in France—macadamisation of roads, railroads, locomotives, suspension bridges, steamboats, etc., all are the work of the free and independent engineers of England and America. The monopoly of our official engineers is as little adapted to improve and utilise inventions as to start them. And although our country is one of those in which industry is most highly developed, and in which a multiplicity of the most perfect channels of communication, *e.g.* of railways, is most necessary, we have remained in this respect far behind the United States, England, Belgium, etc.<sup>1</sup>

In a later chapter I will endeavour to show how much the interests of the country have been injured, and especially how seriously those of our working classes have suffered from this systematic discouragement of private enterprise.

<sup>1</sup> From an article on monopolies in the French *Dictionnaire d'Économie Politique*. (Coquelin et Guillaumin, Paris, 1854, vol. ii.) Quoted in Farrer's *The State in its Relation to Trade*.

## CHAPTER VIII

### RAILWAYS

“LET the country make railways,” said George Stephenson, “and the railways will make the country.”

It is, then, of vital importance to consider under what system railways will be best made and most effectively worked. Various systems are in operation, but for our present purpose we have to consider company management *v.* State management.

It is, of course, clear that in any country which adopts the State management of railways the number of State employees and the power of the bureaucracy must be greatly increased.

Moreover, as we shall see, it brings the numerous questions connected with diverse and conflicting commercial interests into the sphere of politics—a result which will necessarily be injurious to both.

As regards the railways themselves, every one who has travelled much on the Continent must have been struck by the extraordinary difference between British railways, which are managed by private companies, and continental railways, which are mostly worked by, or, as in France, controlled and financed by the State.

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Our trains are more numerous, quicker, and cheaper; there is an air of briskness and of life, while on the Continent there is an atmosphere of lassitude and indifference; here the object seems to be to save time, there to lose it; our officials are quiet, courteous, and obliging; they try to help passengers, while foreign officials order them about. So much is this the case that a private company, the Comp. International des Wagon Lits, has actually been started, and is working most usefully to supplement the official service and give quick trains which State railways have not provided. In fact, English travellers to whom time is an object, if travelling to Switzerland or the East, seldom travel by the trains of the State railways, but generally choose those thus provided by private enterprise.

We owe to Messrs. Foxwell and Farrer a work on British and foreign railways,<sup>1</sup> with special reference to the quick trains. The part relating to Britain is by Mr. Foxwell, the continental portion by Mr. (now Lord) Farrer. In the first place, they point out that an express train here means one which goes at (including stoppages), or over, 40 miles an hour, and on the Continent at, or over, 29 miles. The number of trains here is far greater than when the State owns the railways. Between Liverpool and Manchester there are 100 in a day, which do the 35 miles on an average in 44 minutes, or at a speed of 47 miles an hour. From London to Edinburgh there are over 20; from Paris

<sup>1</sup> *Express Trains, English and Foreign.* By E. Foxwell and T. C. Farrer, 1889.

to Marseilles, 7, of which, moreover, only 2 take third-class passengers; from Berlin to Cologne, 5, of which 2 only take third-class passengers.

Along the Riviera, between Marseilles and Ventimiglia (the Italian frontier), there was only one train labelled "express," "which does the journey at the magnificent speed of 18 miles an hour!" If the express from Paris to Marseilles had gone at the same speed as our Edinburgh expresses it would have reached Marseilles five hours sooner. In fact, all over France, and indeed the Continent generally, there are very few expresses, and those there are for the most part considerably slower than ours. For instance, the best express from Paris to Germany only ran at 38 miles an hour, including stoppages.

Lord Farrer gave<sup>1</sup> the following table, showing the "number of hours which would be saved over the quickest existing service between London and the principal capitals of Europe, *via* Calais, if trains abroad went at a speed of 40 miles an hour, including stops:—

Berlin . . . . .	8 hours.	Madrid . . . . .	6 hours.
Berne . . . . .	7 "	Rome . . . . .	11 "
Brussels . . . . .	2 "	Vienna . . . . .	10 "
Lisbon . . . . .	13 "		

Look, again, at the Indian express to Brindisi, which moreover, is run not by the railways, but by the P. and O. and the Wagon Lits Company.

Lord Farrer gave the following rates:—From London to Dover, 43½ miles an hour; from Calais

<sup>1</sup> *Express Trains, English and Foreign.*

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to Paris,  $30\frac{1}{2}$ ; Paris to Modane, 32; Modane to Piacenza,  $22\frac{1}{2}$ ; Piacenza to Brindisi,  $30\frac{1}{2}$ , taking 52 hours, an average, including stoppages, of 26 miles,<sup>1</sup> that from London to Dover being 43.

As regards third-class passengers the difference is particularly striking. The allowance of luggage on foreign lines is less, and, as a rule, the so-called expresses take first and second class passengers, or even first-class passengers, only.

Out of 50 expresses from Paris only 4 took third-class passengers, and 12 were for first-class only.<sup>2</sup>

Lord Farrer gives<sup>3</sup> an instructive table, from which I extract the following particulars relating to Great Britain, Germany, Austria, and France. The third-class fares per mile were almost exactly the same in the first three, and a trifle higher in France.

Express Fares in Pence, per Mile, approximately.			COUNTRY.	Population from Whitaker's Almanac, 1888.	Express Mileage.			Average Speed.		1 Expre Mile per Dien followi Number Inhabita
					Third Class.	% of Third-Cl. to Total.	Total.	Including Stops.	Excluding Stops.	
2·00	1·25	·95	Great Britain (at 40 miles per hour)	32,700,000	57,207	93	62,574	41 $\frac{2}{3}$	44 $\frac{2}{3}$	52 $\frac{1}{2}$
1·70	1·31	·94	North Germany .	32,180,000	18,607	72	25,798	31 $\frac{2}{3}$	34 $\frac{1}{3}$	1250
1·70	1·31	·94	South Germany .	11,713,000	2,567	28	9,085	31 $\frac{2}{3}$	33	1290
1·80	1·33	·90	Austria . . .	39,000,000	6,297	46	13,832	30	32	2820
1·91	1·43	1·05	France . . .	38,000,000	11,263	27	41,130	32 $\frac{2}{3}$	36 $\frac{1}{3}$	920

I have taken these particulars from Messrs. Foxwell and Farrer's book as being the standard authority, but as it is some years old, having been

<sup>1</sup> This has now been improved, but is still several miles an hour slower than the English part.

<sup>2</sup> *L.c.* p. 107.

<sup>3</sup> *L.c.* p. 95.



published in 1889, I subjoin the following table, showing that we still retain our pre-eminence :—

	Miles.	Rate per Hour, including Stoppages.
<b>English—</b>		
London to Bristol . . . .	118	59
"    York . . . .	188	57
"    Birmingham . . . .	113	56
"    Leicester . . . .	99	56
"    Salisbury . . . .	83	55
"    Liverpool . . . .	201	55
"    Southampton . . . .	79	47
"    Holyhead . . . .	263	47
"    Aberdeen . . . .	523	47
Manchester to Liverpool . . . .	36	54
<b>Foreign (not including Wagon Lits trains or Trains de Luxe)—</b>		
Paris to Bordeaux . . . .	364	51
"    Havre . . . .	141	43
"    Geneva . . . .	388	41
"    Marseilles . . . .	536	39
Berlin to Hamburg . . . .	177	50
"    Hanover . . . .	158	43
"    Dresden . . . .	117	42
"    Breslau . . . .	224	41
"    Cologne . . . .	358	38
Brussels to " . . . .	140	30

As regards goods, Mr. Acworth gives<sup>1</sup> a number of cases, showing that the rates on English are lower than those on continental railways. It will also be agreed that in many, and indeed in most, classes of goods, quickness of delivery is as important as cheapness of transport. Our railways generally deliver within 48 hours, and perishable articles, such as fish and milk, much more quickly. As

<sup>1</sup> *The Railways and the Traders.*

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regards continental railways, Mr. Acworth gives the following table.<sup>1</sup> On similar distances the time would be :—

	German.	French.
London to Aberdeen . . .	7 days.	9 days.
London to Penzance . . .	5 "	7 "
Birmingham to Edinburgh . .	5 "	9 "
Leeds to Northampton . . .	4 "	4 "
Birmingham to Coventry . . .	3 "	3 "

The day on which the goods were delivered to the company in each case not being counted.

Passing now from these few general observations to particular countries, and beginning with Germany, Lord Farrer told us, and gave ample evidence, that "the acquisition of the private (railway) companies by the State has had an exceedingly bad effect."<sup>2</sup> From Berlin to Frankfort the service used to be "the finest on the Continent, and quite equal to any in England. But now in England our private companies have been steadily progressing in speed and cheap accommodation, whereas the German Government railways remain with the same speed and with the same accommodation (as far as cheapness goes) as before."

The out express from Berlin to Cologne travelled at 36 miles an hour only, including stops. This is 9 miles an hour less than our Edinburgh expresses at the same date, and is slower than it used to be in 1879, when it was worked by a private company. From Berlin to Hamburg the best express went at 37½ miles an hour, which again is slower than when the

<sup>1</sup> *The Railways and the Traders.*

<sup>2</sup> *Express Trains, English and Foreign.*

line was under private management. The International Mail Express to Russia was even slower—32 miles, including stoppages. Take again the express from London to Berlin—the average was  $28\frac{3}{4}$  miles; the English portion 43 miles. If the continental part were at the English rate the journey would be 10 to 12 hours shorter.<sup>1</sup>

Passing to Saxony, “the slowness of Saxon Government administration is almost incredible.”<sup>2</sup>

Mr. Acworth<sup>3</sup> quotes with approval from Mr. Foxwell,<sup>4</sup> that “not only are the trains faster, but there are more of them, the accommodation for passengers of all classes is remarkably improved, and the proportion of expresses, which still exclude third-class passengers, has now become more infinitesimal than ever.”

Lastly, it must be remembered that the accommodation given is not so good.

So much for the question of speed and convenience, but there are other factors which have to be taken into consideration, and which have been well brought out in a recent work by Mr. Meyer. We will take the case of Germany first.

### GERMAN RAILWAYS

In 1878 Bismarck persuaded the Diet to buy up the Prussian railways, on the plea that he would be able to lower rates, and thus benefit and decentralise

<sup>1</sup> *L.c.* p. 128. <sup>2</sup> *L.c.* p. 145.

<sup>3</sup> *The Railways and the Traders.*

<sup>4</sup> *Express Trains, English and Foreign.*

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commerce. The effect proved to be the very reverse.

For instance, in 1888 the landowners and farmers of East Prussia petitioned the Government to reduce the rates on agricultural produce, and especially on grain, which had remained the same since 1877. This would have been a great boon to the manufacturers and people of Central and Western Prussia, but it was strenuously opposed by the agricultural interests, on the ground that it would lower prices and thus affect their profits. Saxony, which lies about half-way between Eastern and Western Prussia, and other central States also opposed, and eventually the Governments of Saxony, Baden, Wurtemberg, and Bavaria notified the Prussian Government that their representatives in the Reichstag and Bundesrat would oppose the Imperial Bill authorising a commercial treaty with Russia, unless the proposal to lower the rates on grain from Eastern Prussia should be abandoned, and the Prussian Government found themselves for the time compelled to give way.

Again, the Railway Department commenced issuing cheap return tickets to labourers from East Prussia going to the Elbe district to harvest the crops. This was a great boon to the Elbe farmers, and also to the peasants, who obtained a welcome and much-needed addition to their scanty earnings. The landowners and farmers of East Prussia, however, objected that the system raised the wages they had to pay, and

the Government again found themselves compelled to raise the fares.

The difficulties of the State railway departments were, moreover, by no means confined to struggles between the agricultural interests of different districts. The manufacturing complexities were quite as great. There are many competing districts, and the question of rates is one of profit and loss, almost of life and death. For instance, the Ruhr district to the east of the Rhine, and north of Cologne, is one of the most important iron, steel, and coal regions on the Continent. About 220 miles to the south-west lie the great iron ore deposits of Luxemburg and the Saar. These produce a class of ores which are eminently suited to the Ruhr district. The Luxemburg and Saar manufacturers have, however, successfully opposed any reduction of rates which would have enabled the ores of their district to be carried to the Ruhr, and the Ruhr manufacturers are compelled to import ores from Sweden and Spain!

Contrast, says Mr. Meyer, the elasticity and adaptability of the American system of transportation, which permits such stupendous changes, with the German system. Recall the fact that since 1886 the Prussian Government has refused to make rates that would allow the iron ores of Alsace-Lorraine to move freely to where the best coking coal is produced, and that, consequently, of late years the iron industries of the Ruhr district have had to draw more and more upon the deposits of Spain and Sweden coming by water. Nor are the railways in Germany permitted to carry coke freely to the ores. The man who should propose to let the Ruhr coal, and the Swedish ores, and the Silesian coal meet at Danzig, would probably be looked upon as a most dangerous innovator—a public enemy bent on

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dissipating the State revenue and on subverting established industry.<sup>1</sup>

Mr. Meyer gives other illustrations, but the above are probably sufficient to show why it is that the State ownership of railways, far from lowering rates, tends to keep them at a high level.

Thanks to the comparative freedom of our English railways, we have here no such difficulties. Iron ore and coal are, of course, both necessary for the production of iron, and the richest ores are often some distance from the necessary coal supplies. Dr. Benmer, editor of *Stahl und Eisen*, has calculated that transportation charges in England are 10 per cent on the total cost of producing iron, as against 23 per cent in Germany.

Another evidence of the failure of the State management of railways in Prussia is the tendency to fall back on canals. Where railways are well managed they supersede canals (except in special cases), from their greater speed, and from the fact that they join and interlace. A branch line can join a main line, but a canal involves transshipment.

Apart from the commercial disadvantages, it is a serious evil that, as the Prussian Government has found to its cost,

... constituencies carry their grievances concerning the management of the railways into Prussian State politics, or into German national politics, to the extent of making the assent of the parliamentary representatives to measures of first importance proposed by the Prussian Government, or by the

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<sup>1</sup> Meyer's *Government Regulation of Railway Rates*.

Imperial Government, conditional upon what shall or shall not be done in respect to railway rates.

The debate on the Canal Bill precipitated a conflict of sectional and class interests that completely disillusionised many people who, under the influence of economists in reaction against Adam Smith, had persuaded themselves that the State could carry on the business of transportation, foster infant industries, and otherwise intervene in the money-getting affairs of men without reducing politics to "a seething and struggling aggregate of numberless localisms—rarely or never losing themselves in the stream of national feeling."<sup>1</sup>

M. von Miquel, the Finance Minister for Prussia, felt himself compelled to resign on account of the course adopted by Parliament with reference to the Canal Bill. Shortly afterwards he stated that

. . . if the railways of separate States should be transferred to the empire, the Reichstag could and would insist upon the right to make and revise the railway charges. The day on which that power should be given to the Reichstag would, however, mark the beginning of a great corruption of the German electorate. Already the character of the German voters was such that they sent to the Reichstag many representatives who asked not how a given measure would serve their common country, but how it would serve their particular constituents . . . the bestowal upon the Reichstag of power over railway rates would be nothing short of disastrous to the politics of Germany, as well as to the economic development of the country.<sup>2</sup>

The State ownership has many other disadvantages. For instance—

In Germany the State ownership of the railways has led to the establishment of the doctrine that no producer or trader may be deprived of the advantages accruing to him by virtue of his geographical position. In Germany they have no group

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<sup>1</sup> Meyer's *Government Regulation of Railway Rates*.

<sup>2</sup> Meyer's *Railway Rates*.

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rates on milk. And in the year of our Lord, 1902, the firm of von Bolle was stabling within the city of Berlin 14,000 milch cows, which supplied milk to 50,000 families. In addition, there were in the suburbs of Berlin hundreds of dairies, each one stabling a considerable number of milch cows.<sup>1</sup>

The disadvantage of being compelled to fall back on town milk is obvious.

The number of cows in all London is under 4500.<sup>2</sup>

Similar illustrations might be given of the effect of State management in Austria-Hungary, Saxony, and other European States.

In Russia

. . . there is the same paralysis of the railways through trade jealousies, with the resulting recourse to transportation by river. For example, upon the opening of the Siberian Railway, in 1896, the landed interests of Western Russia protested that they must not be exposed to competition from the wheat raised upon the cheap lands of Siberia. They succeeded in compelling the Government to place prohibitive charges upon the carriage of Siberian wheat, so that it has been impossible adequately to develop the enormous Siberian wheat resources. Wheat is exported from Siberia only in years of serious crop failures in the countries which ordinarily supply Western Europe.<sup>3</sup>

In France the railways, though not actually worked, are rigorously controlled by the State. They are not permitted to lower their fares without Government consent, and are compelled to keep them 20 per cent above those on the canals. The

<sup>1</sup> H. R. Meyer, *Government Regulation of Railway Rates*. (*Zeitung des Vereins Deutscher Eisenbahnverwaltungen*, Oct. 29, 1902.)

<sup>2</sup> Report of the Public Health Committee of the London County Council, 1904. Mr. Gomme, the Clerk to the Council, courteously informs me that this still holds good.

<sup>3</sup> Meyer's *Government Regulation of Railway Rates*.



French Government, moreover, has contributed some £200,000,000 towards the construction of railways, and is paying some millions a year in the form of guaranteed interest.<sup>1</sup> The railways being assured of their dividends, and having hardly any real competition, have, indeed, little inducement to lower the fares, to extend their systems, or to consult the convenience of customers. In the preceding chapter it has been shown how slow and how few their quick trains are compared to ours, and especially how few of them take third-class passengers. There is also the same unhappy interference of "politics," and representatives are expected to press Government to make lines that cannot pay.

The distinguished French statesman, M. Waddington, formerly Ambassador to Great Britain, in an official report on the French railway system, states "that French railways, which are not exposed to competition, give the public fewer advantages than English railways, and require a different treatment."<sup>2</sup>

As regards Austria,<sup>3</sup> Lord Farrer pointed out that the general service from Vienna to the north-west of Europe is very bad, and it is strange that there were no expresses to Frankfort and Cologne over this route, as the Austrians would get more mileage than they do now.

The rate of the best express on the St. Petersburg-Moscow line was 29 miles.

We often complain of our cross-country lines, but

<sup>1</sup> Acworth, *The Railways and the Traders*.

<sup>2</sup> *The State in its Relation to Trade*, Farrer and Giffen.

<sup>3</sup> Foxwell and Farrer, *Express Trains*.

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they go much oftener and faster than those of the Continent.<sup>1</sup>

In the United States the railways are all in private hands, but various States have appointed Commissioners to supervise rates, and it is remarkable that the efforts of the various Commissions have generally been, not to lower rates, but to prevent their being lowered. They have objected on various grounds: to protect canals, to protect one city against another, to prevent goods from being brought from a distance to compete with the produce of their own State, and so on. If they had had their way, railway fares in the States would have been distinctly higher than they are. Their decisions, however, have been often quashed by the Supreme Court as being contrary to law and in restraint of trade.

Passing to our own colonies, Mr. Meyer points out that in Australia

. . . the interests of a powerful class have prevailed to the detriment of the country at large; in America the interests of that same class had to yield to the interests of the country at large as a compromise between conflicting interests. Such a solution, however, can be secured only under that free play of commercial forces which is the distinguishing characteristic of those countries in which the industries are in the hands of private enterprise, and are subjected to the minimum of governmental regulation.<sup>2</sup>

I have already shown (see *ante*, p. 44) how the lines have been worked in the interests of the employees to the detriment of the general community.

<sup>1</sup> Foxwell and Farrer, *Express Trains*.

<sup>2</sup> H. R. Meyer, *Government Regulation of Railway Rates*.

The different colonies refuse to co-operate with its neighbours in the promotion of trade and industry.

The two most important colonies, Victoria and New South Wales, still maintain separate gauges; they raise materially the rates on freight sent from one colony to the other; and New South Wales refuses to connect its railway lines in south-western New South Wales with the Victorian lines, lest trade be diverted from Sydney to Melbourne.<sup>1</sup>

Messrs. Foxwell and Farrer point out that the best express in India, that from Bombay to Calcutta, only attained a speed of 24 miles, including stoppages.<sup>2</sup>

There was not long ago an interesting paper read at the Society of Arts by Mr. Horace Bell, of the railway department of the Government of India. He said that he was at first very much in favour of the management of railways by the Government, but the result of his experience was to convince him that

. . . the only means of introducing a new and vigorous life into Indian railways is by inducing a free and unrestricted flow of private capital to India, and that this implies the gradual, but eventually complete, abandonment of State administration.

He continues—

I have laid stress on what I should call the pernicious element of the present policy of the Government, i.e. the retention of the idea that the State must continue to exercise direct action in both the construction and working of railways. I have implied that this cannot co-exist with really vigorous life in private enterprise, and that it is the latter to which we should look as the ultimate and sole agency for such operations.<sup>3</sup>

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<sup>1</sup> Meyer's *Government Regulation of Railway Rates*.

<sup>2</sup> Foxwell and Farrer, *Express Trains*.

<sup>3</sup> "Recent Railway Policy in India." Horace Bell, M.Inst.C.E. (*Journal of Society of Arts*, No. 2671, xvi. 537).

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Sir Juland Danvers, who also acted for the Indian Government, as regards the railways, from their infancy, and speaks with perhaps unrivalled experience, in the course of the discussion expressed his opinion that

. . . the agency of companies was, upon the whole, the most satisfactory mode of carrying out railway enterprise. That seemed to be now the opinion of the Government. Railways, being commercial concerns, were better in the hands of those who could manage them on commercial principles. If the choice was between a State and a Company, the latter was, on the whole, most desirable.<sup>1</sup>

The results, indeed, have been so unsatisfactory that the Government recently selected Mr. Thomas Robertson to make a Report on the Administration and Working of the Indian Railways.<sup>2</sup> After an elaborate inquiry he came to the conclusion that

. . . the working of the Indian railways cannot be regarded as at all satisfactory. But I attribute this more to the system than to any particular individual action on the part of the railway or Government officers. . . . But after long and anxious consideration, the conclusion forced on me is that root-and-branch reform alone will be productive of lasting good, and that if the development of railways in India is not to be hampered, and if they are to render that full and efficient service to the country of which they are capable, they must be permitted to be worked more as commercial enterprises than they have in the past.

He points out that the average speed "is not as high as might have been expected"; that it "is so slow as seriously to interfere with the proper

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<sup>1</sup> *Journal of Society of Arts*, No. 2371, xlvi. 537.

<sup>2</sup> Report on the Administration and Working of Indian Railways, by T. Robertson, C. V. O., 1903.

development of the traffic"; and that "before the rates and fares in India can be regarded, relatively, as equal to those in England, the former will require to be lower than the rates now charged—for passengers, by about from 18 per cent to 40 per cent; for general merchandise, by about from 30 per cent to 60 per cent; and for coal, by about 40 per cent to 60 per cent." An even more important and unfortunate result is the effect which the Government policy has had in checking the construction of railways in India. Investors not unnaturally say that if a railway would pay it would be made by Government, and English capital therefore flows elsewhere.

As to the result of Government interference on the construction of railways, we have an object lesson if we compare India with Argentina, where the construction and management of railways have been wisely left to private enterprise. The population of India is (1904) over 290,000,000, and the miles of railway 27,000, or one mile to every 11,600 people. In Argentina the population is mainly Spanish, and the country is agricultural. The Government has been in great financial troubles. Nevertheless, with a population of four millions and a half, they have over 12,000 miles of railway (mostly made with English capital), or a mile to every 450 persons. If India had the same mileage of railways in proportion to population, she would have, not 25,000 miles of railway, but 644,000 miles. Now, why does English capital go to make railways in a foreign country, and not to India, a part of our empire? Because, as the Government

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interfere, others are deterred from entering the field. They naturally say, if any line is proposed by private enterprise, that, if it was likely to pay, the Government would make it. I cannot doubt that the policy of successive Governments in this respect has had a serious and unfortunate effect on the prosperity of India.

The Italian railways have recently been taken over by the State, and Signor Crispi tells us that the service has greatly deteriorated; there has been a heavy fall in the revenue, "to say nothing of the incalculable injury inflicted on the commerce and industries of the country by the delay of traffic."<sup>1</sup> As regards our Colonies, the paralysing effect of State ownership is brought out by the fact that in the last ten years the number of miles of railway construction has only been—in Victoria 400, in New Zealand 300, and in South Australia 28!

Mr. Meyer sums up his argument as follows :—

Contrast the elasticity of America with the cast-iron rigidity of Germany, where the fixing of railway rates by public authority has destroyed Bremen's import trade in petroleum, has prevented Bremen from building up an export business in sugar, the greatest single article of export from Germany, and has necessitated the duplication of the railway running from Stettin to Berlin, by means of a canal that shall carry 650-ton vessels. Contrast the situation in the United States with the situation in Australia, where the making of railway rates by public authority has concentrated in three sea-board cities the trade that, under the making of railway rates by the railways themselves, would have been distributed among half a dozen sea-board cities and numerous interior jobbing centres.<sup>2</sup>

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<sup>1</sup> *Times*, Dec. 10, 1906.

<sup>2</sup> Meyer's *Government Regulation of Railway Rates*.

Lord Farrer, in conclusion, tells us<sup>1</sup> that after his careful comparison

. . . it certainly appears from our figures that those countries which have given freest scope to private energy have obtained the fullest reward.

It is frequently forgotten that in questions of administration, Government officers are only human beings after all, and do not differ in kind from other individuals, while the able and original minded among Government servants are certainly more hampered—by quite necessary red-tape regulations—in carrying out fresh ideas than are the servants of private enterprise. The danger of this criticism developing into complete control is the rock ahead, for as soon as Government obtains control, private enterprise will wither.

Mr. Acworth concludes his inquiry as follows:<sup>2</sup>—

A careful study of the evidence has convinced me that in the long run State control ends in keeping down the best to the level of the worst, and that, taking them for all in all, the private railway companies of England and the United States have served the public better than the Government railways of the Continent or of our Australian Colonies, and—which is still more to the point—are likely to serve it better in the future.

The late Lord Farrer said—

The development of railway communication in Great Britain has been such as no government management, however good, could possibly have produced.<sup>3</sup>

No one, indeed, who looks dispassionately into the evidence can doubt that the State management of the railways has been a great misfortune for the Continent; and that our trade and commerce have benefited immensely by the energy and enterprise of our railway companies and their very able officials.

<sup>1</sup> *L.c.* p. 180.

<sup>2</sup> *L.c.* p. 7.

<sup>3</sup> Farrer and Giffen, *The State in its Relation to Trade*.

## CHAPTER IX

### THE INTERESTS OF WORKING MEN

#### THE EFFECT OF MUNICIPAL TRADING AND EXPENDITURE ON EMPLOYMENT, AND CONSEQUENTLY ON WAGES.

THE advocates of municipal trading no doubt believe that they are acting in the interests of the poor, and especially of artisans. It is therefore most important to consider how far they are justified in this view. If it be really the interests of the poor and of artisans, that business should be carried on by municipalities rather than by private enterprise, then I admit that private enterprise must give way. The interests of the many must take the first place, and the few must go to the wall, or transfer their energies and what may be left of their capital over the sea. It may be hard upon them, but the result is inevitable.

But what are the true interests of working men? I believe that they are bound up with those of private enterprise.

In Chapter VII. it has been shown that the effect of municipal trading and the action of its supporters in Parliament has not only done much to paralyse



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individual effort, but enterprise as a whole; not merely to deprive capital of much remunerative employment at home, and drive vast sums abroad, but to deprive thousands of English workmen of employment, and of wages which, if wiser counsels had prevailed, they would have received. Precluded from building tramways, constructing railways, and developing the electrical industries at home, energy and capital have been transferred abroad, and foreigners have received work and wages of which Englishmen have been deprived.

It has been already pointed out that if private enterprise had been allowed the same amount of fair-play in Great Britain as in the United States, we should have had four times the amount of tramways and light railways; that while in the United States in 1902 there were 3620 central electric stations, we had only 457; that the telephone service has been hampered lest it should have interfered with the telegraph; while one result of the discouragement and check to electrical enterprise is that so much of the electrical apparatus which is required has to be imported from America or Germany. Besides the general loss to the country of comforts and convenience we might have had, besides the congestion in great cities which more tramways would have alleviated—all this means less employment and less wages for British workmen.

Mr. Meyer in his interesting work has emphasised this by comparing the number of those employed on the telephone, on tramways, and in the electrical

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industry in the urban districts of the United States and in Great Britain.

In 1905 we had 13,000 persons employed on the telephone. In the United States there were 79,000. If we had developed it as much, we should have had at least 50,000 employed in the business, to their advantage, and to the great convenience of the public.

In 1902 the 3620 central electric light stations in the United States employed on an average eight persons each—in all, 30,300. Four years later, in 1906, we had in Great Britain 384! If we had been as well supplied as the United States we should have had 1260, employing 7000 more persons.

In 1902 the United States had 21,300 miles of street railways in their urban districts, employing on an average 6.5 persons per mile. In 1906 we had 3040 miles. In proportion, we should have had 14,000, and 71,500 more persons would have been employed.

Thus under a more enlightened policy there would have been employment in the telephone for 37,000 more persons, in electric lighting for 7000 more, and in street railways for 71,500 — making altogether employment for 115,000 persons more than at present in these industries alone. No doubt some allowances must be made, but, on the other hand, the manufacture of iron rails, of other appliances for tramways and telephones, for tramcars, and electrical apparatus, would have been stimulated and given employment to many thousands more.

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It is indeed deplorable how much our electrical industries have been hampered and harassed, and how the manufacture of electrical apparatus has been driven from this country to America or Germany.

In the chapter on Railways it has been shown conclusively, on the authority of our greatest experts, how far superior the railways managed by companies in Britain and the United States are to the State railways of the Continent, India, and elsewhere, alike in cheapness, speed, number of trains, and general convenience. This is, moreover, especially true as regards the working men. Third-class passengers have fewer and slower trains to travel by on State railways than on those in England or America. "Any one," says Mr. Acworth,<sup>1</sup> "who should attempt to argue that, in accommodation, in speed, in frequency of service, the third-class passenger is as well treated on the Continent as he is in England, would only succeed in making himself ridiculous."

Again, working men do not, I think, yet realise how much they suffer from the portentous rise in National and Municipal expenditure. It has risen £130,000,000 in ten years. Part, possibly the greater part, has been unavoidable, but a very large sum is due to unnecessary expenditure and extravagant methods of carrying out that which was necessary. It is evident that the more we have to pay in rates and taxes, the less remains to be spent in other ways, most of which would go in wages.

<sup>1</sup> *The Railways and the Traders.*

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As Mr. Sims, whose sympathy with, and work on behalf of the poor are well known, says—

The preposterous position is this: On the one hand the middle classes are having the burdens of taxation heavily increased, and, on the other hand, their opportunities of earning an income sufficient to meet the demands without feeling the pinch are being reduced.

In some of our most deplorably poverty-stricken areas the poverty is chronic. Industries which once employed thousands of hands have been forced to move away by the ill-considered methods of those who believed—and doubtless in many cases honestly believed—that they were championing the cause of labour. Thus a large number of the inhabitants have been left without work, or with work of a precarious kind, and have had to be aided by the rates. This has forced the rates up at a time when a large number of ratepayers, affected directly or indirectly by the trade trouble, have had their incomes reduced. Thousands of small ratepayers have been ruined or driven out of the locality, and the burden upon those remaining has become heavier still. What has happened in these areas is now threatened not only all over the capital, but in many parts of the kingdom.<sup>1</sup>

How can business flourish if ratepayers are drained of their income to the extent of many millions a year, and these millions are spent recklessly by those who look upon the middle classes, the classes upon whom the burden of taxation mainly falls, as their legitimate prey?

Sir J. W. Benn, M.P., who has from the commencement of the London County Council been one of the most able and active supporters of municipal trading and lavish expenditure, has recently admitted the disastrous effect of this policy.

Speaking on the Agricultural Rates Bill, he said that

<sup>1</sup> "The Bitter Cry of the Middle Classes," by George R. Sims, *The Tribune*, July 17, 1906.

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. . . the position of the London ratepayers had become critical. The increasing rates of London were driving away industries by the dozen. For the borough of Devonport, which he represented, he could quote figures which, on the smaller scale, were equally striking.

No wonder the building trade is depressed. If it had not been for the increase in the rates many a man would have improved his house, many a railway company would have enlarged some of their stations, or in other ways have afforded more accommodation to the public, and at the same time given additional employment to labourers and artisans.

If those employed by municipalities have the same wages, and work under similar conditions as with private employers, it cannot matter to them whether they work for a municipality, a company, or a private employer. On the other hand, if they have higher wages or lighter hours, the cost of production must be higher, and consequently a favoured class is created at the expense, to a great extent, of the working classes generally, who are rated to supply exceptionally high wages to the favoured few.

The real problem before us is not simply whether gas and tramways are to be municipalised. The supporters of municipal trading, as we have seen, wish to abolish private enterprise and replace it by socialisation.

It is from this view, therefore, that we must consider the question. If to abolish private enterprise would be a mistake, then every move in that direction makes it more difficult to retrace our steps.

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Socialists indeed say that they do not wage war on "capital," but on "capitalists." But if you drive out capitalists they will take as much as they can of their capital with them.

Moreover, "capital" does not think. Capitalists are to a great extent the brains of industry. Thinking is the hardest work a man can do. Even when, as has often happened, the workman of genius makes an important suggestion or an ingenious invention, he has always found the need, not only of capital, but of the capitalist. It is the capitalist who organises manufactures. Hargreaves and Arkwright made almost the same invention. Hargreaves found no capitalist to help him, and died poor; Arkwright found Strutt, and died rich. In fomenting conflicts between capital and labour, Socialists are in reality the most deadly enemies of the working man.

We must remember that we have a dense population to support within a comparatively small area. At present we receive in round numbers something over £90,000,000 a year from foreign investments, and £90,000,000 from shipping. This £180,000,000 is spent mainly in wages. If Socialists drive capital abroad there will be so much the less to be paid away in wages. The rest of what we require for the support of our people is paid for by manufactures. But our goods have not only to be made, they must also find buyers. Competition is very keen. Five per cent difference in price will make or lose a market. If Socialists have their way; if every one takes it easy; if the heads of businesses give less

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thought and attention to invention and discovery, to the improvement of machinery, to the design of new processes and patterns; if the workmen try to do as little as they need, instead of as much as they can,—it is impossible that we can hold our own in the markets of the world, and in that case it is impossible that we can maintain anything like our present population. Moreover, working men—and employers are working men as much, and often more, than the employed—will find that if, keeping their heart for even higher things, they put their back into their work, it will become not only more profitable, but more interesting also. Work that is scamped or shirked is tedious and dull; but strenuous and earnest work—work that is done with the will, as well as with the hands—soon becomes a pride and a delight.

Mr. Keir Hardie, speaking at Liverpool on September 6, 1906, frankly told us that the object he and his friends had in view was to “change from the strife and struggle of commercialism to the co-operate fraternity of Socialism.” We must all sympathise with Mr. Keir Hardie’s wish for a change from “strife” to “fraternity.”

But he makes two assumptions, neither of which is correct, though both have a certain modicum of truth. In the first place, individual enterprise does not necessarily imply strife or injurious struggle. Some struggle is a benefit, not an evil. To get anxious and excited is a mistake in business, as elsewhere.

I do not believe in the “strife” which Mr. Keir

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Hardie seems to regard as a necessary characteristic of private enterprise. On the contrary, to keep the brain cool and calm and peaceful is necessary for any permanent success. Among the most able men of business are many, in Keble's beautiful words,

Who carry music in their heart  
Through dusky lane and wrangling mart,  
Plying their daily task with busier feet,  
Because their secret souls a holy strain repeat.<sup>1</sup>

Putting England on one side, look at the Scotch. They are remarkably successful in business, and indeed in other things. They are cool and shrewd, painstaking and industrious, no doubt, but also a religious and God-fearing people. So far from regarding "strife" as a necessity for success, I should regard it as inevitably in the long run an element tending to failure.

Secondly, are we seriously to be told that in the co-operative fraternity of Socialism there will be no strife or ill-feeling, no jealousies and heart-burnings? Even in Socialism there will be grades and distinctions, questions of wages and salaries, of appointments and promotions. Do not these give rise to as many hopes and disappointments in town halls as in companies' offices?

By "struggle" he evidently cannot mean a struggle of man against man, for that would be the same as "strife." I suppose he means effort, but if he is going to abolish or weaken exertion, which I admit seems to me the inevitable result of Socialism,

<sup>1</sup> Christian year, St. Matthew's Day.



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so many men being by nature as lazy as they dare be, it is clear that the output of the nation would be much less than at present. Even with the present inducements many men prefer loafing to work. Diminish the inducements, and you will increase the idlers. It is not open to Socialists to say that though the produce would be less it would be more evenly divided, because capital would have already been confiscated or driven away. As a nation, then, we should have less of the luxuries, comforts, and even necessities of life, and artisans and labourers would suffer with every one else.

It has been shown how heavy has been the price which the nation has already paid in order that municipal councillors might occupy their leisure moments in playing at municipal trade and manufacturers. But we cannot stop here. We must consider what the result would be if the policy is logically carried out. Socialists have been quite frank. They tell us openly that their object is "support all forms of municipal enterprise which tend to substitute socialisation for private capitalism."<sup>1</sup>

The Miners' Federation, at their Swansea meeting, resolved that all "the means and instruments of all material production, distribution, and exchange should be owned and controlled by the State."<sup>2</sup>

The Socialist programme for the forthcoming London County Council election includes municipal workshops, muni-

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<sup>1</sup> Resolution adopted at the Burnley Conference of the Social Democratic Federation.

<sup>2</sup> *The Times*, Oct. 6, 1906.

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cipal stores, municipal milk and bread shops, municipal dairy farms, municipal cottages, free travelling to and from work, municipal coal stores and collieries, municipal farm colonies for the unemployed, paid for by a direct tax on income derived from private industrial concerns, and municipal clothing factories. And these, they tell us, are but "stepping-stones in the Socialist programme."<sup>1</sup>

Now, it has, I think, been clearly shown that governments and municipalities cannot give the same care and thought and attention to details as private firms and companies; the services and products must be more expensive. The national output will be less. Wages, however, in the long run are governed and determined by international competition. The government and municipal cotton mills and iron-works could not raise their wages or they would ruin their markets. Moreover, as governments and municipalities would not increase their works, or adopt improvements so rapidly as private firms and companies, the demand for labour would be less. The difference could not then be thrown on private enterprise as it is now, because private enterprise by the hypothesis will have been done away with, or, rather, will have been driven over sea. With the same, therefore, or probably with lower wages, working men would have to pay a higher price for the necessaries of life.

But this is not all. At present they are free. They can choose their employer and their employment. Under the new system this would not be possible. They could not choose their employer, for

<sup>1</sup> *The People*, Sept. 30, 1906.

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there would only be one. Nor could they choose their employment. If the State or the municipality is to be responsible for them, workmen would have to do as they are bid. At present, if they do not like their work or their employer, they can change. That would be impossible under the new system which they will have created for themselves. Socialists frankly admit this. For instance, the Fabian Society says—

Every one should have a legal right to an opportunity of earning his living in the society in which he has been born; but no one should or could have the right to ask that he shall be employed at the particular job which suits his peculiar taste and temperament. Each of us must be prepared to do the work which society wants doing, or take the consequences of refusal.<sup>1</sup>

But who is to determine what "society wants doing"? Some superior official. I am indeed surprised that Socialists should be prepared to surrender their personal freedom and reduce themselves to the position of slaves! Bureaucracy is the worst form of tyranny.

The wages of cotton mills, ironworks, and other similar employments, would be those which the State or the municipality could afford to pay without losing the foreign markets, and would govern the rates generally, for I presume it would be intended to pay work demanding similar effort and a similar amount of skill as far as possible at the same rate. We should all, moreover, have to undertake the work allotted to us by authority, instead of choosing

<sup>1</sup> Fabian Tract, No. 127, *Socialism and Labour Policy*.

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for ourselves. In fact, we should be slaves to the bureaucracy, which would, under the circumstances, be far more autocratic even than that of Russia.

It is very important to realise this. As Herbert Spencer said,

. . . to dwell a little on the price to be paid. The officials cannot create the needful supplies : they can but distribute among individuals that which the individuals have joined to produce. If the public agency is required to provide for them, it must reciprocally require them to furnish the means. There cannot be, as under our existing system, agreement between employer and employed—this the scheme excludes. There must in place of it be command by local authorities over workers, and acceptance by the workers of that which the authorities assign to them.<sup>1</sup>

John Stuart Mill said truly that

. . . if the roads, the railways, the banks, the insurance offices, the great joint-stock companies, the universities, and the public charities, were all of them branches of the Government ; if, in addition, the municipal corporations and local boards, with all that now devolves on them, became departments of the central administration ; if the employees of all these different enterprises were appointed and paid by the Government, and looked to the Government for every rise in life, not all the freedom of the press and popular constitution of the Legislature would make this or any other country free otherwise than in name.<sup>2</sup>

The result to the working classes, then, would be less employment, lower wages, dearer necessaries of life, and—the direst misfortune of all—the loss to a great extent of the personal freedom which they now enjoy.

<sup>1</sup> Spencer's *The Man versus the State*.

<sup>2</sup> J. Stuart Mill, *On Liberty*.

## CHAPTER X

### REPRESENTATION WITHOUT TAXATION, AND TAXATION WITHOUT REPRESENTATION

It was in old days an axiom of the Liberal party that taxation and representation should go together, that those who paid the piper should call for the tune. Now, however, our statesmen have so arranged matters that the largest ratepayers have no votes, and that thousands of those who have votes pay no rates. Who can wonder that such a system has led to terrible extravagance. That one set of persons should pay the rates and another should spend them, inevitably leads to extravagance, and is most unjust.

The present system is almost as if the management of joint stock companies was handed over to customers and the employees on the ground that they were the persons principally interested, and shareholders were precluded from any voice in the management of the concern for which they supplied the capital. It is certainly most anomalous, and it does not need the gift of prophecy to foresee that if the present system remains unaltered, our rates will inevitably rise much higher.

Out of 700,000 assessments in London over

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300,000 were in respect of houses and tenements where the tenants did not pay the rates. Speaking roughly, then, in London between one-third and one-half of the electors are not direct ratepayers; the same is the case, more or less, in our other cities.

The Town Clerk of Birmingham, Mr. Edward Orford Smith, in his evidence before the Municipal Trading Committee in 1900, said "that from 70 to 75 per cent of the people of Birmingham were compound householders."

No doubt the rates affect the rent, and therefore in the long run fall on the tenants, who cannot, however, under existing circumstances, be expected to realise this, and consequently do not feel the need for economy.

"The tenants on our estate," Sir Richard Farrant, Chairman of the Artisans', Labourers', and General Dwellings Company, Limited, has stated, in regard to Noel Park,

. . . have hitherto paid their rent to our rent collector, and have never seen any tax collector. The consequence is that they have ceased to take any interest in public affairs. They do not care who represents them, what the rates are, or anything at all about the details of local administration.

The apathy which exists in the metropolis in regard to municipal affairs is a matter of notoriety, and the great increase of flats and of artisans' dwellings only tends to accentuate the evil. In Holborn, 56 per cent of the persons on the register do not themselves pay rates.

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The Local Taxation Commissioners say, very justly, that the system of compounding

. . . has been frequently condemned, on the ground that those who have the right to vote for their election, or become members, of local authorities entrusted with the raising and expenditure of money derived from rates, should pay rates directly themselves.<sup>1</sup>

Moreover, there is a marked tendency that the greater the proportion of the compound householders who pay no rates, the higher the rates are. Thus, the rates of West Ham are exceptionally high, amounting this year to 9s. 8d. in the £, and it is significant that out of some 48,000 hereditaments there are over 34,000 compounders.

In Scotland, on the other hand, there are no compound householders. Local authorities have this matter in their own hands.

One of the London Borough Councils, that of Lewisham, has no compound householders, and in their annual report for the year ended March 31, 1905, they say—

### COMPOUNDING WITH OWNERS FOR RATES IN RESPECT OF WEEKLY AND MONTHLY TENANCIES

This subject was under the consideration of the Housing Committee of the London County Council, and as Lewisham is the only borough in London which does not rate owners, the Committee were invited to prepare a return showing the number and rateable value of houses rated at £20 and under, and the actual losses of rates thereon during one quarter of the year. A detail return was accordingly made, from which it was shown that the actual loss for one quarter amounted to

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<sup>1</sup> Report, p. 51.

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£1500:17:5, or about £6000 a year, whilst if the average allowance to compounding landlords in other metropolitan parishes had been allowed, the loss would have amounted, approximately, to £14,400. The saving, therefore, to the parish of the existing system was no less than £8400 a year, or more than a 2d. rate, and this the Committee regarded as absolutely conclusive that compounding would not be to the advantage of the borough.<sup>1</sup>

It would clearly be well for the ratepayers if the other borough councils would consider whether they should not adopt the same policy.

Something, indeed, might be done by individual owners to bring home to their tenants their responsibility. Some of the artisans' dwellings companies have, I believe, made their tenants responsible for the rates of the tenements which they occupy. Mr. Albert Pell, for many years one of the Members for Leicestershire, who is himself a London property owner, some time ago told us that he sent to his tenants a rent-collector's warning that the rent had been increased by the sum of the increase in the rates, and recommended others to do the same. He said that if no rate collector called upon the tenants to remind them of what was going on, they became utterly careless. The experience of Miss Octavia Hill is of the same character, and she considers that the most merciful, as well as the most just, course would be to abolish the compound householder, and let those who paid the rates realise that they paid them. At present they do not understand how great a proportion of their rent is rate. If this were shown

<sup>1</sup> "London Municipal Notes," *The London Argus*, Sept. 1906.



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clearly to the tenants they would be able to see what was the result of giving their sanction to expenditure which involved an increase in the rates. It would also, it is to be hoped, increase their sense of citizenship, and induce them to take greater interest in the affairs of their municipality.

The evil, great as it is, is aggravated by the remarkable fact that, while so many who pay no direct rates yet have votes, the largest ratepayers have none. The law was, of course, framed before any one realised the remarkable development of the functions of local authorities. If this had been foreseen, it cannot be doubted that a very different arrangement would have been made. The North-Western Railway is one of the largest, if not the largest, ratepayers in the United Kingdom. According to Mr. Lawrence,<sup>1</sup> it pays no less than £600,000 a year; and yet it has no vote.

In several cases a railway has been rated in order to provide the funds for a tramway to run in direct competition with it.

Lord Stalbridge, the Chairman of the London and North-Western Railway Company, also called attention, in his last annual speech to the shareholders, to the fact that the increase in rates and taxes paid by the railway companies of the United Kingdom, not including Income Tax or Government duty, was as follows :—

The local rates and taxes paid in 1891 were £2,246,000, and in 1903 were £4,493,000, repre-

<sup>1</sup> Speech at Annual Meeting of the Industrial Freedom League, 1905.

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senting an increase of £2,247,000, or 100 per cent. Thus, in the course of twelve years the sum total has doubled, and is advancing at the rate of a quarter of a million each year, and yet the railway companies have absolutely no control over the expenditure to which they contribute so largely.

In 1898 the rates and taxes paid by the Gas Light and Coke Company were £220,000, and worked out at 2·51d. per 1000 feet of gas; in 1903 they had risen to £289,000, and worked out at 3·29d. per 1000 feet of gas. And yet the Gas Light and Coke Company have absolutely no voice in the expenditure of the rates to which they contribute so largely. These increases, of course, *pro tanto* diminish the amount available for dividend, so that we are hit three times, first by the increase of assessment, secondly by the increase of the rates, and thirdly by the reduced dividends received from investments.

West Ham is proverbial for high rates, high expenditure, and, as a consequence, high unemployment, if I may coin such an expression; yet the Great Eastern Railway, which is the greatest rate-payer, has no voice in the expenditure of the fund to which it is the largest contributor.

How unjust this is, is well shown in the following table, giving the amount and proportion of the rates paid in some of our largest boroughs by companies having no votes :—

[RETURN

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RETURN as to the boroughs of Birmingham, Leeds, Liverpool, Manchester, Sheffield, and West Ham; and the Metropolitan borough of Holborn, showing (1) the rateable value of the whole of rateable hereditaments in the boroughs, and (2) particulars of certain rateable hereditaments therein occupied by Corporations or Joint Stock or other Companies.

	Total Rateable Value.	That of Companies.	Proportion.
Liverpool . . . . .	£4,568,014	£1,480,421	32·4
Manchester . . . . .	4,119,315	1,317,360	32·0
Birmingham . . . . .	2,888,048	809,044	28·0
Leeds . . . . .	2,073,498	550,674	26·6
Sheffield . . . . .	1,784,489	537,181	30·1
West Ham . . . . .	1,292,744	449,297	34·7
Holborn . . . . .	1,030,852	315,737	30·6

Common justice requires that those who pay so large a proportion of the rates should have some voice in the expenditure.

## CHAPTER XI

### CONCLUSION AND RECOMMENDATIONS

THAT the burden of rates is not only excessive but is increasing cannot be denied, and unless some change is made they will continue to increase in the future.

The more energetic and able officials are, the more likely, as Major Darwin<sup>1</sup> says,

. . . will they be to view with favour new projects connected with municipal trade. Moreover, new municipal enterprises must often be accompanied by an increase in the salaries of the permanent officials ; and, when Parliament has to be approached, considerable fees have to be paid to the solicitors employed, many of whom also act as town clerks ; and it is absurd to deny that many men are consciously, or unconsciously, influenced in favour of any project which may increase their emoluments.

In local expenditure, says Sir Robert Giffen,

. . . we have to do with a real disease of local government ; with an expenditure that is partly extravagant and unnecessary, because local authorities are frequently bad managers even where they are not corrupt. They spend money on what is not really wanted ; they spend more than they ought on what happens to be necessary ; they incur liabilities and burden the future with a light heart. Expenditure is pleasant to those who have a little brief authority, and the increase of

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<sup>1</sup> *Municipal Trade.*

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the number of urban authorities increases the number of those who may enjoy the pleasure. . . . The growth of expenditure in certain directions is disquieting in no small degree, and adds to the natural anxiety which must be felt at any encroachment that has occurred, or is threatened, upon the common fund of taxable resources on which both imperial and local expenditure must fall.

As Mr. Sims says—

The process has been insidious, but deadly. One year it has been an increase of a penny in the pound, or three-halfpence in the pound for the School Board rate. The next year it was street improvements, or some new L.C.C. rate, which required a penny or so more in the pound. Then, perhaps, it was the county rate which was slightly heavier the third year; and the fourth year, maybe, it was new lunatic asylums. Then, on the top of all these extra calls upon the purse of the unhappy ratepayer came the quinquennial reassessment, which raised the whole of these for the next five years. As soon as the shock of that was over the "gradual" process began again: the rate for education was heavier one year; the rate for L.C.C. street improvements or tramway construction or purchase or something the next; and so on till the quinquennial year came again, when another skilfully planned operation sent up all these items again automatically for another five years. They have been ruined in order that municipal enterprises may be carried on with wanton waste and heavy loss, that Socialist guardians may boast that their paupers have the best that money can buy, and that they buy it regardless of cost.<sup>1</sup>

The surprising disclosures of Poplar and West Ham refer more to extravagance, mismanagement, and corruption than to municipal trading, but they afford a strong argument that in such hands commerce and manufactures cannot be expected to be prosperous and successful.

<sup>1</sup> "The Bitter Cry of the Middle Classes," by George R. Sims, *The Tribune*, July 19, 1906.

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The late Government felt so strongly the dangers into which we were drifting that in 1900 they appointed a Joint Committee of both Houses to consider and report on the whole question. The Committee took much valuable evidence, but, not having time to consider their report, recommended that they should be reappointed. This was opposed, and the recommendation was not adopted until 1903. Even then the Committee, from want of time, confined themselves for the session to one aspect of the question—that of audit.

Their recommendations were—

The Committee are of opinion that it should be made clear by statute or regulation that the duties of those entrusted with the audit of local accounts are not confined to mere certification of figures. They, therefore, further recommend that—

(a) The auditor should have the right of access to all such papers, books, accounts, vouchers, sanctions for loans, and so forth, as are necessary for his examination and certificate.

(b) He should be entitled to require from officers of the (local) authority such information and explanation as may be necessary for the performance of his duties.

(c) He should certify—

- (i.) That he has found the accounts in order, or otherwise, as the case may be ;
- (ii.) That separate accounts of all trading undertakings have been kept, and that every charge which each ought to bear has been duly debited ;
- (iii.) That, in his opinion, the accounts issued present a true and correct view of the transactions and results of trading (if any) for the period under investigation ;
- (iv.) That due provision has been made out of revenue for the repayment of loans, that all items of

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receipts and expenditure and all known liabilities have been brought into account, and that the value of all assets has in all cases been fairly stated.

The Committee accordingly recommend that—

(a) The existing systems of audit applicable to corporations, county councils, and urban district councils in England and Wales be abolished.

(b) Auditors, being members of the Institute of Chartered Accountants, or of the Incorporated Society of Accountants and Auditors, should be appointed by the three classes of local authorities just mentioned.

(c) In every case the appointment should be subject to the approval of the Local Government Board after hearing any objections made by ratepayers; and the auditor, who should hold office for a term not exceeding five years, should be eligible for reappointment, and should not be dismissed by the local authority without the sanction of the Board.

(d) In the event of any disagreement between the local authority and the auditor as to his remuneration, the Local Government Board should have power to determine the matter.

(e) The Scots practice of appointing auditors from a distance, in preference to local men, to audit the accounts of small burghs should, in similar cases, be adopted in England.

The Municipal Corporations' Association has opposed this, and succeeded so far in preventing any further inquiry. The recommendations as to audit are surely very reasonable. It will be remembered that the opponents of municipal trading have always contended that the accounts are misleading. Surely if the representatives of the municipalities believed in their own accounts they would welcome the opportunity of vindicating them.

The Committee also recommended

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. . . that it would be advisable to continue investigation into other branches of the subject of municipal trading in a future session of Parliament.

In vain have the Chambers of Commerce urged over and over again that the recommendations of the Joint Committee should be adopted. The most that could be extracted from Mr. Balfour's Government was a promise from Mr. Long, before he left the Local Government Board, in reply to several questions which were put to him in the House of Commons, to appoint a Departmental Committee to consider the question! Even this, however, was not done, and on May 31 Mr. Gerald Balfour informed Mr. B. L. Cohen, in reply to a question put to him, that the matter was receiving his attention, and that the appointment of the Departmental Committee would be made as early as practicable. When pressed by Mr. Cohen for a more definite statement, he said that he certainly intended that the appointment should be made, and that the Committee should get to work at once. I do not think I need dilate upon the great importance of a uniform system of accounts for local authorities in view, to quote the words of the report, "of the ever-increasing number and magnitude of municipal undertakings." It is only by this means that a proper comparison can be made, and accurate results be ascertained of the trading departments of local authorities. So far as I am aware, however, even the Departmental Committee has never been appointed.

The next suggestion which has been made is that



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companies should have votes in some reasonable proportion to the rates they pay. In our large cities they pay from a quarter to a third, and in some cases even more, of the whole rates. It is monstrously unjust that they should have no voice in the expenditure of the funds to which they contribute so largely.

Sir R. Giffen has suggested, and many will agree with him that

. . . the infusion into our present system of having the local bodies elected by the ratepayers, each person being counted as equal, a system of representation according to interest, the chief landlords of each district or town having a special representation. The suggested remedy is much against ruling prejudices, but, perhaps, the urgency of the evil may compel the consideration of drastic but effectual remedies, which are really in no way inconsistent with democratic ideas or ideals.

As regards compound householders, it is unfortunate from an economical point of view that those who pay no direct rates should have votes. At any rate it would be desirable that landlords, in making out their claims for rent, should specify how much is really for rent, and how much for rate. This requires no legislation, and though it would involve some trouble, any expense would be amply covered in the long run.

As a matter of fact, however, even the compound householders have no voice as regards much of the expenditure. The great Marylebone electric lighting scheme, for instance, was never submitted to them, and if it had been, I much doubt whether they would have sanctioned it. I would suggest, therefore, that

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no local authority be allowed to embark upon any scheme involving capital expenditure (not being a scheme for the provision of works directly connected with Public Health) unless and until full particulars of such scheme, together with estimates of the proposed expenditure, have been printed and circulated amongst the ratepayers of the district,—upon the security of the rates of which any capital required for such scheme would be raised,—and ratepayers (not being employees of the Council) whose assessments amount to at least (? one moiety) of the rateable value of such district have in writing assented to the proposed scheme.

As long as municipalities confined themselves to their special duties, their indebtedness could never be large in proportion to their rateable value. The security was therefore undoubted, and they were very properly included among the investments in which trustees might place the funds entrusted to them. Now, however, this is all altered. The stocks of some local authorities are much less safe than those of others. That this is recognised by the public, if not fully, at any rate to some extent, is shown by the differences in price. When the debt of a local authority exceeds the rateable value by a certain proportion, their stocks should, I submit, be removed from the list of trustee securities.

But while these, or some similar, modifications in our present policy are necessary if we are to avoid serious financial troubles in the future, it is also most important that we should realise that this is no

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question of class against class, or in the unfortunate phrase so often used, of "the classes against the masses." I am profoundly convinced, and have endeavoured, temperately I hope, to show that economy and the restriction of governments and municipalities to the duties of governing and controlling are as important, if not more important, to artisans and labourers as to any other class of the community.

The evidence seems clearly to prove that the more governments and municipalities embark in trade and manufactures the more they will lose, the more private enterprise will be checked and stifled, and the higher will be our rates and taxes. But this is not the whole of the question. There are even more important considerations. The policy would be disastrous, even if it were in the commencement profitable in a pecuniary point of view.

John Stuart Mill has well pointed out that—

If every part of the business of society which required organised concert, or large and comprehensive views, were in the hands of the Government, and if Government offices were universally filled by the ablest men, all the enlarged culture and practised intelligence in the country, except the purely speculative, would be concentrated in a numerous bureaucracy, to whom alone the rest of the community would look for all things: the multitude for direction and dictation in all they had to do, the able and aspiring for personal advancement. To be admitted into the ranks of this bureaucracy, and when admitted, to rise therein, would be the sole objects of ambition. Under this régime, not only is the outside public ill-qualified, for want of practical experience, to criticise or check the mode of operation of the bureaucracy, but even if the accidents

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of despotic or the natural working of popular institutions occasionally raise to the summit a ruler or rulers of reforming inclinations, no reform can be effected which is contrary to the interest of the bureaucracy. Such is the melancholy condition of the Russian Empire, as is shown in the accounts of those who have had sufficient opportunity of observation. The Czar himself is powerless against the bureaucratic body; he can send any one of them to Siberia, but he cannot govern without them, or against their will.

The more perfect that organisation is in itself, the more successful in drawing to itself and educating for itself the persons of greatest capacity from all ranks of the community, the more complete is the bondage of all, the members of the bureaucracy included. For the governors are as much the slaves of their organisation and discipline as the governed are of the governors.<sup>1</sup>

And again—

The worth of a State, in the long run, is the worth of the individuals composing it; and a State which postpones the interests of their mental expansion and elevation to a little more of administrative skill, or of that semblance of it which practice gives in the details of business; a State which dwarfs its men, in order that they may be more docile instruments in its hands, even for beneficial purposes,—will find that with small men no great thing can really be accomplished, and that the perfection of machinery to which it has sacrificed everything will in the end avail it nothing, for want of the vital power which, in order that the machine might work more smoothly, it has preferred to banish.<sup>2</sup>

It is not to the State, says Herbert Spencer,

. . . that we owe the multitudinous useful inventions from the spade to the telephone; it was not the State which made possible extended navigation by a developed astronomy; it was

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<sup>1</sup> J. Stuart Mill, *On Liberty*, p. 168.

<sup>2</sup> *Ibid.*, p. 172.

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not the State which made the discoveries in physics, chemistry, and the rest which guide modern manufacturers; it was not the State which devised the machinery for producing fabrics of every kind, for transferring men and things from place to place, and for ministering in a thousand ways to our comforts. The world-wide transactions conducted in merchants' offices, the rush of traffic filling our streets, the retail distributing system which brings everything within easy reach, and delivers the necessaries of life daily at our doors, are not of governmental origin.<sup>1</sup>

Perhaps I shall be told that these are the views of literary men—mere philosophers; let me then quote a practical man, a man of almost unequalled experience.

Lord Rothschild, in a speech delivered in Caxton Hall, Westminster, on February 3, 1904, said—

The large expenditure of the London County Council and other kindred institutions is met by the rates, and the rates are levied on the value of houses and of factories, and I ask those who preach up the credit of the London County Council, and talk of the rateable value of London and of other large centres of industry, where will that rateable value be when you have destroyed individualism, when you have destroyed private enterprise, and everything is carried on by the State, or, I should say, by the London County Council?

Mr. Meyer also concludes his work as follows:—

In the meantime, comparison of our (*i.e.* American) experience under the policy of the minimum of governmental intervention—the priceless heritage bequeathed to us by our forefathers—with the experience of Great Britain under the policy of the maximum of intervention, shows us that we have no ills that call for the heroic remedy of treaty, the public

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<sup>1</sup> Spencer's *The Man versus the State*.

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service industries, as industries, differing in any way from ordinary trading and manufacturing ventures. We have more street railway facilities, electric lighting facilities, and telephonic facilities than our British cousins; and we make more use of our ample facilities than our British cousins make of their restricted facilities. This shows that the prices charged to us by our companies under the stimulus of an enlightened self-interest are better adapted to our purses than are the prices charged to our British cousins by their city fathers.<sup>1</sup>

In the preceding chapters it has, I think, been clearly shown—

1. That local expenditure is increasing more rapidly than rateable property.

2. That local indebtedness is increasing more rapidly than rateable property.

3. That municipal trading cannot fail to give rise to awkward labour problems.

4. That profits are only made, if at all, when municipalities have a monopoly; they are confined to businesses such as the manufacture of gas, which has long been established and reduced to regular rules; that even in such cases the accounts have been so kept as to make it impossible to determine what the real result has been; that the profit, if any, has been but small; and that much more satisfactory and remunerative results might have been obtained if the works had been leased to private companies or firms.

5. That municipal trading has seriously interfered with private enterprise and our foreign commerce.

6. That the State management of railways is

<sup>1</sup> Meyer's *Municipal Ownership in Great Britain*.

## Conclusion and Recommendations 175

open to similar objections; that on State railways the fares are higher, the trains slower, fewer, and less convenient, and that to introduce questions of railway management into the domain of politics is open to serious objections.

7. That it is unwise to give votes to those who pay no rates, and unjust to withhold them from those who do.

8. That by reducing the demand for labour, while increasing prices and raising rates, it has not only injured the ratepayers generally, but especially the working classes; and that if carried to its logical conclusion, it will involve the loss of their freedom.

I trust I may be allowed once more to say, in conclusion, that I write in no spirit of hostility to municipalities or to the heads of Government manufacturing departments. Far from it. Having been Chairman of the London County Council, I fully recognise, and ungrudgingly admit, the great public services which the members of that body have rendered and are rendering to the country; their industry, integrity, and devotion to their public duties. It is not inconsistent with the sincere admiration I feel for them that I should differ as regards one portion of the policy of our municipalities. Nor is it in indiscriminate opposition to Socialism. Free Libraries are a part of the Socialist programme, and I have always done what I could to support them. The acquisition of open spaces, street improvements, the construction of baths and wash-houses, must, I agree, in each case, be judged on their own merits.

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Probably, in most cases, the expenditure has been wise and justifiable. The fact that the duties of Government and of the municipalities are so numerous, so difficult, and so important, is one of the strongest reasons why they would be wise to devote their whole energies to duties which necessarily devolve upon them.



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