

costly work of the Inner Circle is finished. I do not think that the power to charge this interest should be for a period longer than the period of the construction of the works. And then I think that there should be a limit to that period also; so that if the works were not done by that time the parties who have received this act of grace might come to Parliament to show cause, if they could, for an extension of it. It should not be allowed to degenerate into the setting-up of a fund out of which dividends could be unhealthily augmented.

36. In fact, I am to understand that you would, as far as possible, absolutely limit the power of payment of interest in this particular way to the time of the construction of the works?—Yes, quite so; with a limit as to that time in order to prevent abuse.

37. You would, of course, have to put a limit in order to arrive at that?—If you were to say “till the works are finished,” dryly in those words, it would always be possible, if the directors wished to make *couleur de rose* dividends, that the work would take a very long time to complete.

38. I want to ask you a question on another point. The detail in this matter is very important. Is there any other point of detail which suggests itself to your mind with respect to the protection of the public as investors in the case of the capital being raised in that way?—I think you can do nothing to warn the public but by thorough publicity, and there is the danger that you cannot thoroughly enlighten everybody. I am speaking now not of an existing work which has to render not merely its capital account but also its revenue account, and in the statutory form, which is very easily followed as regards the revenue. I am speaking more of a new concern with no revenue, where everything is problematical.

39. Am I right in supposing that the reason why you draw such a strong difference between capital raised for entirely new undertakings and capital raised for an undertaking which is to be carried out by an existing company is this: that in the first case the investor may have his interest during construction for one or two or three years, and then arrive at no dividend whatever; but in the second case the probability is that, if the condition of the existing company is fairly good, the dividend will be more or less continued?—Yes, that is the line of thought generally.

40. There is a broad difference between the two cases in that respect?—Yes; in the one case, whether complete results or not, they are definite results; and a man says, for instance, “This is a railway of 100 miles, having a revenue of £100,000, or whatever it may be, its working expenses so much, and the net profits so much”—all shown in the uniform statutory account. In the other case he has a hope—that is all—that this hundred miles of railway may do as well as the other, or better.

41. In the one case it is a complete speculation, in the other case there is a tolerable amount of certainty?—There is a tolerable amount of certainty in the one and uncertainty in the other.

42. Do you attach great importance to what you have suggested to the Committee as to the necessity of protecting the investor in these cases?—I think so, so far as Parliament can. At all events, I think that Parliament should do nothing the tendency of which is that he may be deceived. There is a broad distinction between the two. If you had an Act of Parliament to say, “Nobody must be deceived,” it would not be worth very much; but if you have a Standing Order or an Act of Parliament which facilitates the getting-up of hopeless schemes, and which puts the shareholder for a certain number of years—three or four, or whatever the number may be—in a kind of fools’ paradise, from which he awakens when too late, Parliament becomes, it seems to me, a party to an unsound system.

43. Is there any reason why Parliament should exercise paternal care over investors in railways more than over investors in other enterprises?—No, I do not think there is. There are the two opposites. Parliament may do nothing positive; but Parliament should not facilitate a system which, as I contend, Parliament itself put an end to after the crash of 1845.

44. Now, is it not the fact that by some means or another it has been almost the universal custom to pay interest upon unproductive capital during the building of a railway?—No, I think not; I think it has been the exception. Of course there are two or three ways in which you may meet a dead outlay; at least you might have done so, and people did before the legal decisions. An existing company, for instance, charged the interest upon their dead outlay to the capital account. The effect of that was that until the new piece of railway was opened the whole net profit was attributable to the productive capital. Then, if the new work was an eminently productive one, by the time it was opened everything equalized itself; but, if the new outlay turned out to be a bad speculation, then clearly the dividends had been enlarged beyond the bounds of prudence. Then, there is another way in which it has been done, and very frequently done. It has been done by the Great Northern and by several other companies. When they have had a work of importance they have issued to their shareholders a stock the dividend on which would commence a year or two forward. It may be said to be adding interest to capital in that form: certainly it does *pro tanto* relieve the net revenue account. But I will take the case of the North-Western or the Midland Company. Those are companies always laying out a large amount of capital in new works. The North-Western Company at this moment must have four or five millions of unproductive capital—three or four millions, certainly. All that interest—every shilling of the dead interest—is charged against revenue. Take, again, the Manchester, Sheffield, and Lincolnshire Railway, for this last dozen years, certainly. They were also to some extent under the delusion that they were right in charging interest to capital as a matter of account. For that dozen years they would have generally one, two, or three millions of capital perfectly dead. Every shilling of the interest has gone against revenue. Take the case of the Metropolitan Railway Company. The Metropolitan Railway Company, by their own capital, are rapidly finishing the piece of the Inner Circle Railway which extends from High Street, Aldgate, to Tower Hill—Trinity Square as it is called. There is a dead outlay there of nearly half a million of money, less some amount of rents of those houses which have not been pulled down. All that has gone against revenue. Therefore I should