

MINUTES OF EVIDENCE.

TUESDAY, 25TH APRIL, 1882.

Present: Mr. Baxter (Chairman), Mr. H. R. Brand, Mr. Salt, Mr. Shaw, Colonel Walrond.

Sir EDWARD W. WATKIN, Bart. (a member of the House), examined.

1. *The Chairman.*] You have been connected with railways for some thirty or forty years, have you not?—I have.

2. And you have a recollection of the railway mania of 1844–45?—Yes; I remember the mania for making railways, the large premiums, and the excitement, followed of course by great reductions of price and very serious losses, and public calamity, in fact.

3. That collapse produced great loss and misery?—Very great.

4. In your opinion was that owing to the excessive making of railways?—Of course it was owing to the excessive making and the excessive projections combined; and that making was stimulated by the practice which existed at that time of paying dividends out of capital.

5. Dividend was not paid out of profit?—They paid dividends before they earned anything to divide. For example, take a railway of which for many years I have been chairman, the Manchester and Sheffield Railway. That was a very costly railway; it had a tunnel of three miles and a quarter, or something like that, in length; it took a long time to construct, and during construction they paid 5 per cent. out of capital to their shareholders. The effect of that was to assist in raising the price of the shares to £140, which is £40 premium; and on the great collapse that followed I think they were sold as low as £10, and a great many people were ruined.

6. The Government and Parliament feeling this at the time to be a great evil, it was felt necessary to provide a remedy, and that was the origin of this Standing Order 167, was it not?—Yes; I think Parliament saw that an artificial value had been given to the securities by this practice; that it had had the effect of stimulating all kinds of adventures. In point of fact it was simply allowing people to eat a joint of their own tail. I think it was in 1848—but of course the papers before the Committee will show that—that Parliament decided that in all future Railway Bills there should be a clause practically prohibiting that practice.

7. Then I understand you to be in favour of the Standing Order as it at present stands?—I know what objection can be made to it, but I think myself that it is a conservative measure which does not damage anybody. At the same time it no doubt prevents the prosecution of schemes that otherwise would be prosecuted. It may be said, of course, that everybody can take care of himself. The President of the Board of Trade told us the other day that people should practically take care of themselves. If you repeal the Statute of Frauds and put down the Public Prosecutor, I have no objection; but as a fact people cannot take care of themselves. When I say “people,” I mean of course the class of small investors, who are generally persons of limited knowledge, and who are very easily deceived by a flaming prospectus. They ought to be protected, in my humble judgment.

8. And in your opinion has this Standing Order 167 been effectual in protecting persons from deception?—I think so. I think it has been a very useful measure. I said a moment ago that I could see where the objection to the Standing Order was; but of course we must look at it a little closely. Undoubtedly interest upon dead capital is part of the cost of the thing you make. If I build a mill costing £50,000, and it takes me two years to build it, clearly I must add to cost, say, 5 per cent. as the interest upon my dead capital; and therefore, as a matter of account between partner and partner, it is right enough to add to capital the interest upon the dead outlay. But that is a totally different thing from paying back to your butler or your housekeeper 5 per cent. upon the £50,000 during the time it is laid out, to pay butchers’ bills and household expenses with. There is, in my opinion, a broad distinction between the two cases. I cannot deny that, as a matter of account, the interest on outlay during construction is an addition to the cost of the work you make.

9. Will you explain to the Committee why this distinction is imposed only in the case of railways and tramways?—I do not know; I suppose we never had a great gas panic or a great water panic, or anything of that kind; but I suppose the Standing Order was a remedy of a drastic character applied to meet a disease which had arisen for the first time, and which has not cropped up again.

10. Then we are told that this Standing Order, after it was passed, was systematically violated by parties concerned: is that so, in your opinion?—After the Standing Order was passed, there was a general impression that it only applied to any undertaking which had no net revenue; that it did not apply to an existing company with a net revenue; that that existing company could, as a matter of account, not pay back money to its shareholders out of capital, but add on in their accounts to the capital cost the amount of the dead interest. That was the impression, and that impression was entirely upset by several suits in the Courts of law. I recollect two or three. There was the case of *Bloxam v. Metropolitan Railway*, and *Salisbury v. Metropolitan Railway*, some fourteen or fifteen years ago. Then, more recently, there has been the well-known *Hull and Barnsley* case, *Fisher v. the Hull and Barnsley Company*. In all those cases the Courts have held that it is illegal to pay interest out of capital in any form. In answer to your question I may say that the forms of evasion adopted have been these: First of all, there has been an actual payment back to the proprietor, which, obviously, everybody can see is illegal. Then, there have been arrangements made with contractors, and they put on, say, £100,000, or whatever it was, to the sum of their contracts, and then handed cheques back again to the companies, which cheques were used to add on to dividend. Now, in the *Metropolitan* case, what was done was this: A contract was made originally with Messrs. Peto and Waring, subsequently with Messrs. Lucas; and they put on to their contracts a sufficient addition to pay interest for a certain number of years out of capital, and they handed back to the company cheques for those amounts, and then the company enlarged their dividend by using this part of practically their own capital; and the only thin dis-