

PUBLIC FINANCE

The Difficulties of the Railways

The Economic Study Association
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The Difficulties of the Railways
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Public Finance

Studies in Economics by

Ronald Burgess



Public Finance

Ronald Burgess practised as an economist for more than fifty years. His aim was to offer practical advice to government based upon study, research, discussion, and public speaking.

In 1993, with the support of the Economic Study Association, he published an original analysis of the principles of public finance in his book *Public Revenue Without Taxation*.

To make this approach more accessible to the general reader, the editors have prepared a set of four volumes of his lectures and seminars from the period 1971 to 1994 as listed below:

Volume 1

Economics Now, 1979-1980. Ten seminars setting out an approach to macroeconomics with particular reference to government policy.

Volume 2

Ten Public Talks, 1980-1983. A series of public lectures on topical issues such as monetarism, inflation, unemployment and taxation.

Volume 3

Spatial Economics (ten lectures) and *Normative Economics* (six lectures), 1983-1984. Original work on the relationship between the spatial aspects of macroeconomics and the role of the polity.

Volume 4

Further Work, 1971-1994. A collection of essays and public talks on such topics as privatisation, local government finance, and the economic position of Greece within the European Union.

ESA publications

The Economic Study Association (ESA) was formed in 1965 as an economics study, research and discussion group with the aim of formulating advice for government. It produced four publications:

Enquiry into Prices and Incomes, March 1968.

Local Government Finance, January 1970.

Fanfare to Action – Income Distribution as a Cause of Inflation, January 1973. Supported by the Wincott Foundation of the IEA.

Social Justice or Unbridled Government, May 1976.

Two further reports were produced by Ronald Burgess with the support of the ESA and other organisations:

Full Employment and Public Spending, August 1977. Published by arrangement with Aims for Freedom and Enterprise, an employers' organisation which later became known as Aims of Industry.

The Chance to Change, September 1977. Produced jointly with the Economic and Social Science Research Association (ESSRA), a predecessor of the Henry George Foundation of Great Britain.

After a further period of some fifteen years of study, teaching and research, members of the ESA also assisted Ronald Burgess with the production of the book *Public Revenue Without Taxation*, first published in 1993 (ISBN: 0-85683-135-2).

Prior to the formation of the ESA, Ronald Burgess produced a report with the title *An Inquiry into the Difficulties of the Railways*. This was based on a lecture given at the Royal Society of Arts in July 1962 as one of a series for the School of Economic Science in London. The earlier lectures in this series have not been found.

The Difficulties of the Railways

A lecture held at the Royal Society of Arts

25th July 1962

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Preface

This book contains the text of an illustrated lecture presented by Ronald Burgess to a public audience at the Royal Society of Arts in London on 25th July 1962. It describes research carried out into the apparent economic difficulties of the railways. The aim of the lecture was to influence the forthcoming Transport Act, which was widely expected to reduce the size of the railway network.

The lecture begins with a brief survey of the commercial history of the railways up to the preceding year, 1961. This is followed by a discussion of the effects of the Kent Coast railway electrification scheme on population and economic growth. The analysis shows that increases in aggregate rateable values were already more than sufficient to cover the capital cost of the scheme.

The third part of the lecture draws interesting comparisons with the circulation of the blood. Without taking the comparison too far, this suggests an alternative to the strictly commercial approach.

In conclusion, the practical effect of the government's proposed legislation is analysed, and an alternative approach is developed by which the railways would be enabled to 'pay their way'.

Three appendices deal with the effect of the railway on the town of Bromley, a survey of foreign railways, and continuing inquiries.

For clarity of presentation, all of the charts, diagrams and maps have been re-constructed from the original publication. Footnotes have been carried forward as found, and a bibliography of reports, legislation and other references has been added.

The lecture was originally published by the School of Economic Science in London under the title of *An inquiry into the difficulties of the railways*, and the editors are grateful to the School for its kind permission to reproduce the original material in this volume.

It provides a useful introduction to the work of Ronald Burgess on public finance and suggests an alternative approach to resolving the difficulties of the railways in Britain.

Historical note

Ronald Burgess (1923–2002) was first introduced to the study of economics at the Army Formation College in Perugia, Italy, in late 1945. The course instructors were former academic staff from the Cambridge University Economics Department, from whom he received a thorough grounding in pre-war Keynesian methodology.

During the late 1940s and 1950s Burgess pursued various lines of enquiry at the School of Economic Science, which at that time placed great emphasis on the work of Henry George (1839–1897) and the classical tradition of David Ricardo (1772–1823). His aim was to discover whether these approaches could be applied to the issues of the day using the system of national accounts for the UK.

Ricardo had suggested that, as an agricultural economy expands under the pressure of increasing population, land of poorer quality is naturally brought into use. Other things being equal this would lead to lower average yields, rising costs, higher food prices, lower wages, and progressively higher rents on the better quality land.

Henry George, writing some 60 years later, had postulated that even on land of uniform quality an increase in population would lead to a general depression of wages and higher rental values on central sites. George's proposed remedy was to establish a system of taxation based solely upon the economic rent of land.

Ronald Burgess had joined the School of Economic Science in 1947, and became its Treasurer. Some twenty years later, in 1965, he formed the Economic Study Association (ESA), and took up an offer of working with Colin Clark, the Director of the Agricultural Economics Research Institute (AERI) at Oxford.

Colin Clark was a competent statistician, and assisted Keynes with the preparation of some of his work for publication. He had also played a key role in the development of the system of national accounts. Over the following years Colin Clark gave both support and practical assistance to Ronald Burgess and the ESA.

The railways of Britain

The first commercial steam railway was built at the Middleton Colliery in 1812, where it was used for the movement of coal. The first passenger railway between Liverpool and Manchester opened in 1830. The line also carried freight, and reduced the journey time between the towns from two days' round trip by canal to just a few hours. It was highly profitable for the first few years.

These early projects were followed by a great many more-or-less speculative schemes, mostly constructed as independent lines, and each requiring fresh parliamentary authority for the acquisition of the necessary land – often in the face of determined opposition.

Over time the railways became a network of inter-connected routes, just as some promoters had envisaged, but the profitability of the first few schemes proved ever harder to maintain.

Many economists noted the significance of this development; transport infrastructure, whether by land, sea or air, changes the relative value of locations in ways which are not always foreseen.

Adam Smith had written in 1776 that 'Good roads, canals, and navigable rivers, by diminishing the expense of carriage, put the remote parts of the country more nearly upon a level with those in the neighbourhood of the town. They are upon that account the greatest of all improvements.'^a

This in itself, however, is not enough to determine whether the construction of a transport network constitutes a public good, and if so, in what respect; nor does it make clear how such a system should cover its costs, whether for day to day operation or for long term investment, or upon what basis it should pay its employees.

In 1888 the French economist Leroy-Beaulieu pointed out that: 'A new branch railway exerts a beneficial influence over a very wide sphere; it increases the receipts of neighbouring lines which it feeds, and augments the income not only of those who use the

a Adam Smith. *The Wealth of Nations*. London, 1776. Chapter 11, Part 1.

new line for the transport of their products, but also of those who do not send their products any distance away but simply bring them to the nearest market which is now less glutted.’

‘Thus the effect of the branch line is widespread, diverse and manifold; but the entrepreneurs cannot make all the beneficiaries contribute to the cost, since many of them derive no direct benefit from the new line nor even manifestly use it at all, simply stepping into the place of those who do use it.’

‘This is why many public works cannot be carried out for private account; they would ruin private entrepreneurs, while being highly remunerative for society as a whole.’^b

Over the last two hundred years railways in Great Britain have been operated under a variety of different organisational schemes without so far resolving the underlying financial difficulties.

The railway companies were necessarily brought under state control during the first world war, but this did not prevent financial failure. After the war, the Railways Act of 1921 amalgamated most of the railway companies into four large commercial groups which extended their activities into shipping, hotels, and road transport.

During the second world war the railways were again brought under state control and called upon to carry much greater amounts of passengers and freight whilst suffering from substantial damage and a lack of maintenance and long-term investment.

The Transport Act 1947 brought in nationalisation of both road and rail transport and merged the four railway groups into a single state-owned company, British Railways, overseen by a new public body, the British Transport Commission. The aim was to provide an efficient and integrated transport system, but this did not solve the underlying problems of financial viability and the urgent need for investment, modernisation and renewal. Competition from road transport, using a separately funded road network, worked against the railways, whose fares and rates were controlled by a system of Railway Rates Tribunals dating from the Railways Act of 1921.

b Leroy-Beaulieu. *Traité de la Science des Finances*. Guillaumin, Paris, 1888.

In January 1955 the British Transport Commission published its plans for the modernisation and re-equipment of British Railways, including the Kent Coast Electrification Scheme.

By this time British Railways employed some 475,000 people and was in need of substantial subsidies to cover its running costs. Modernisation and the phasing out of steam trains was expected to eliminate subsidies and reduce the number of people employed.

On 26th May 1955, after the retirement of Winston Churchill, a new Conservative government was elected under Anthony Eden.

A few days later, the railway unions initiated strike action in response to a pay settlement that had recently been determined by the Railway Staff National Tribunal. A state of national emergency was declared and the strike continued until 14th June. Although the disagreement related to pay differentials, the unions felt that prices had risen, whilst real wages had fallen below pre-war levels.

Eden resigned shortly after the Suez crisis of 1956, and Harold Macmillan became Prime Minister. In March 1960 the government set up an advisory group on transport under Sir Ivan Stedeford, but subsequently appointed Dr. Richard Beeching as its chief adviser.

Professor Guillebaud, a Cambridge economist and nephew of Alfred Marshall, was appointed to lead a Committee of Inquiry on Railway Pay and a substantial increase was agreed in June 1960.

The Transport Act of 1962 dismantled the British Transport Commission and Dr. Beeching was appointed as the first chairman of a new statutory corporation, the British Railways Board.

The first Beeching report was issued on 27th March 1963. It recommended widespread closures of branch lines and stations and the introduction of a system of container transport for freight.

A second Beeching report, published on 16th February 1965, identified less than half of the main lines for further investment.

The subsequent introduction of inter-city passenger trains and the freight-liner system tended to increase the economic potential of urban areas whilst reducing the prosperity of rural areas which had benefitted from the availability of the branch line network.

Modernisation, and the closure of approximately one-third of the railway network, did not improve the financial results. Service levels declined and the need for subsidies continued to increase.

During this period the motorway network continued to expand. Freight moved steadily from rail to road, whilst the railway system increasingly concentrated on moving commuters in and out of the main centres of employment in London and other urban areas.

In 1972 the UK withdrew from the European Free Trade Area and joined the customs union of the European Communities (EC).

Twenty years later the government of John Major set in motion the privatisation of the railways in line with EU Directive 91/440, which required the separation of services from infrastructure. This, however, did not end the requirement for rail subsidies, which had reached £2.9 billion for the year 1992/93 and continued to rise.

Under the Railways Act 1993, Railtrack was formed as a state-owned company to own and operate the track, stations, signalling systems and land, and was then sold to the private sector in 1996.

A system of franchising was introduced for passenger services from 1996 onwards, under which train operating companies made payments to government based on a forecast of ticket revenues.

In October 2000 a serious accident arising from a cracked rail led to emergency maintenance checks across the railway network, and within a few months Railtrack effectively became insolvent.

In 2001 the government transferred the assets of Railtrack plc into Network Rail, a new company owned by the Department of Transport. In December 2013 it was re-classified as a public sector body, and its accumulated debt had by then reached £34 billion.

Twenty years later, in May 2021, the government announced the formation of a new public body, Great British Railways, to take over the assets of Network Rail from 2023 onwards. The new body will also control fares, timetables, contracts and revenue collection for passenger rail services in most of England. The expectation of government appears to be that subsidies met from general taxation will still be needed and that the level of debt will continue to rise.

The Difficulties of the Railways

PART 1: THE FINANCIAL BACKGROUND

The previous public lecture in this series gave an historical introduction to set the framework in which the railways in this country grew up and operate today, and this evening we shall be putting forward some practical suggestions for dealing with the present difficulties.

Our railways enjoyed a privileged position in the 19th century by virtue of their obvious advantages over the alternative means of transport by horse-drawn carts or barges, and also by virtue of being fashionable at the time. In the absence of any serious competition the railways became, and still are, partly engaged in local passenger traffic and small-consignment freight traffic, and a dense network of routes was developed with stations serving an average radius of only 2½ miles.

Railways are by their nature particularly well suited to provide cheap, safe, speedy and regular transport for people in large numbers and goods in bulk, preferably over distances, and with the minimum of congestion in urban areas.

Even so, despite these significant advantages, the vast majority of the many hundreds of railway companies formed by private Acts of Parliament during the 19th century could not pay their way as commercial undertakings, and they were soon either taken over by larger companies or abandoned.

One of the relatively successful large companies was the Great Northern Railway, which was formed at the height of the railway mania in the mid-19th century and survived into the 20th century.

Figure 1 below illustrates the financial position of this company in its heyday. The working expenses include wages, train operating costs, maintenance of permanent way and rolling stock, signalling, etc. and amount to roughly half the gross receipts. After deducting interest charges, there is a “margin of profit” available for payment of dividends on ordinary shares. During this period it amounted to some 20% of gross receipts.

At first sight, it seems that the company was doing quite well, but over £12m capital had already been spent by 1860, and further substantial capital expenses were being incurred each year. This heavy expenditure could not be afforded by the company, as the dividend on ordinary shares took up almost all the surplus of gross receipts over working expenses and interest charges. The benefit of this capital expenditure was not being received by the company in the form of higher profits, hoped for by the shareholders. At this time, safe gilt-edged investments yielded a return of around 5%, while the return on capital invested in the Great Northern Railway was only half as much, and the risk was far greater.

Moreover, by the end of the 19th century, the financial position of the company had deteriorated considerably. Figure 2 covers the period leading up to the First World War, and shows that working expenses amount to a much bigger proportion of the gross receipts, and that the “margin of profit” had now halved. The total of capital investment was well over £30m at the turn of the century, and further substantial capital expenditure was still being incurred with even less benefit to shareholders. Indeed, during this period, after the payment of dividends on ordinary shares, the company was frequently trading at a loss, even disregarding capital expenditure.

At the time of the First World War, the rapid development of the internal combustion engine, coupled with improvements to road surfaces, made road haulage a more practical proposition, and the railways were confronted with serious competition in the field of transport. Shortly after the war all the principal railway companies were grouped into four vast combines – the GWR, LMSR, LNER, and SR – whose trading results follow a roughly similar pattern, up to the Second World War.

The LNER accounts shown in Figure 3 cover the period from the creation of this combine up to the start of the Second World War. After taking into account the interest on loans, and dividends paid out on preference stock, the company was trading at a loss in every year except 1929.

The reason there seems to be no loss for the last few years is that the company either reduced or entirely cut out the dividend on preference stock; note also that very little capital was being spent.

From the point of view of a commercial undertaking, the picture is one of hopeless insolvency. The total capital expenditure was by now over £300m, and whoever may have benefitted from this vast effort, obviously it was not the LNER or its shareholders.

At no time between the wars did these large combines reach the standard yearly revenue of £50m envisaged by the Railways Act of 1921. Indeed, according to the NUR, railwaymen were compelled to contribute to railway finances by deductions from their wages totalling over £28m.

In 1948 the railway system was nationalised under the British Transport Commission, after having been run to its capacity by the government during the War with the minimum of maintenance and considerable bomb damage. The railways were now commercially worthless as a going concern, yet the Commission paid out over £1,100m in compensation in the form of British Transport Stock at fixed interest. In 1961, this interest alone amounted to over £45m.

The financial position of British Railways since nationalisation is shown in Figure 4. After taking into account interest charges, there has been a loss in every year, and a steady and substantial worsening of the position. Indeed, since 1955 working expenses have exceeded gross receipts by an ever-increasing amount. The Minister of Transport recently said in the House of Commons that the loss for this year, estimated at £160m, was “intolerable”, but even this figure does not reflect the fact that deferred interest falls due next year on very large loans already made to the railways by the government and amounting to hundreds of millions of pounds. On top of this, capital expenditure is running at over £100m yearly.

In recent years, the railways have borrowed from government in order to pay interest on previous loans – as if a man borrows £100 from a money-lender at 10% interest, and when the year is up, has to borrow another £10 to meet the interest on the original loan.

Historical evidence shows that our railways as a whole have never been commercially profitable, and are now in a worse state than ever before, from a commercial point of view. They have generally been able to pay for working expenses out of freight and passenger receipts, but they have never produced sufficient income to meet interest charges and capital costs.

This historical evidence of the peculiar financial position of the railways in Britain seems to have been ignored by the Transport Act of 1947, which required the British Transport Commission to provide an efficient, adequate, economical and properly integrated system of public transport for passengers and goods, and at the same time to 'pay their way', taking one year with another, and set up general reserves.¹

Politically, a decision must be made between an efficient and adequate service for the nation, or a railway undertaking which shows a commercial profit. The nation has tried to ensure both, by Act of Parliament, and as a result the Transport Commission has been unable to provide either.

In making the political decision, the inescapable conclusion from the financial history of the railways in this country must be taken into account. If an efficient and adequate railway service is to be provided for the nation, then the railways must at least be equipped, free of interest, by the nation.

This leads to a practical financial question, which is: does the benefit accruing to the nation from an efficient and adequate railway service cover the cost of providing the service?

¹ This was the Act which set in motion the nationalisation of the railways from 1st January 1948 (10 & 11 Geo. 6 c. 49).

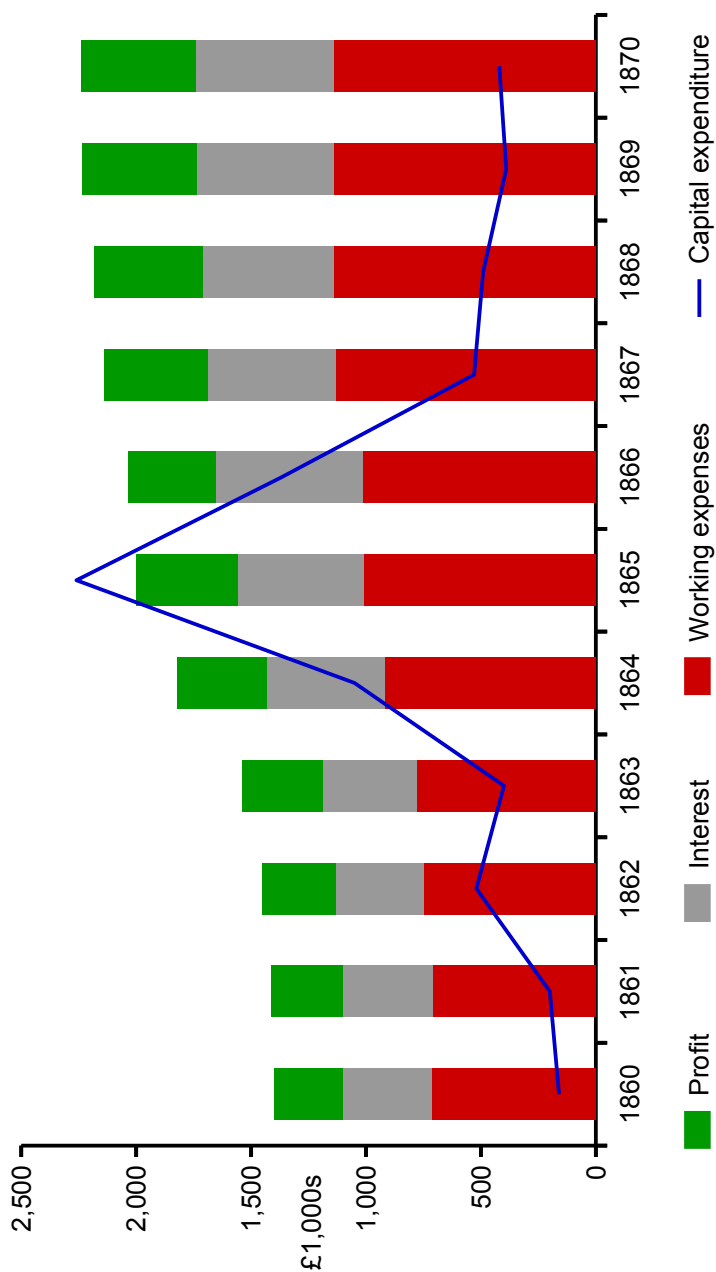


Figure 1
Great Northern Railway – 1860 to 1870

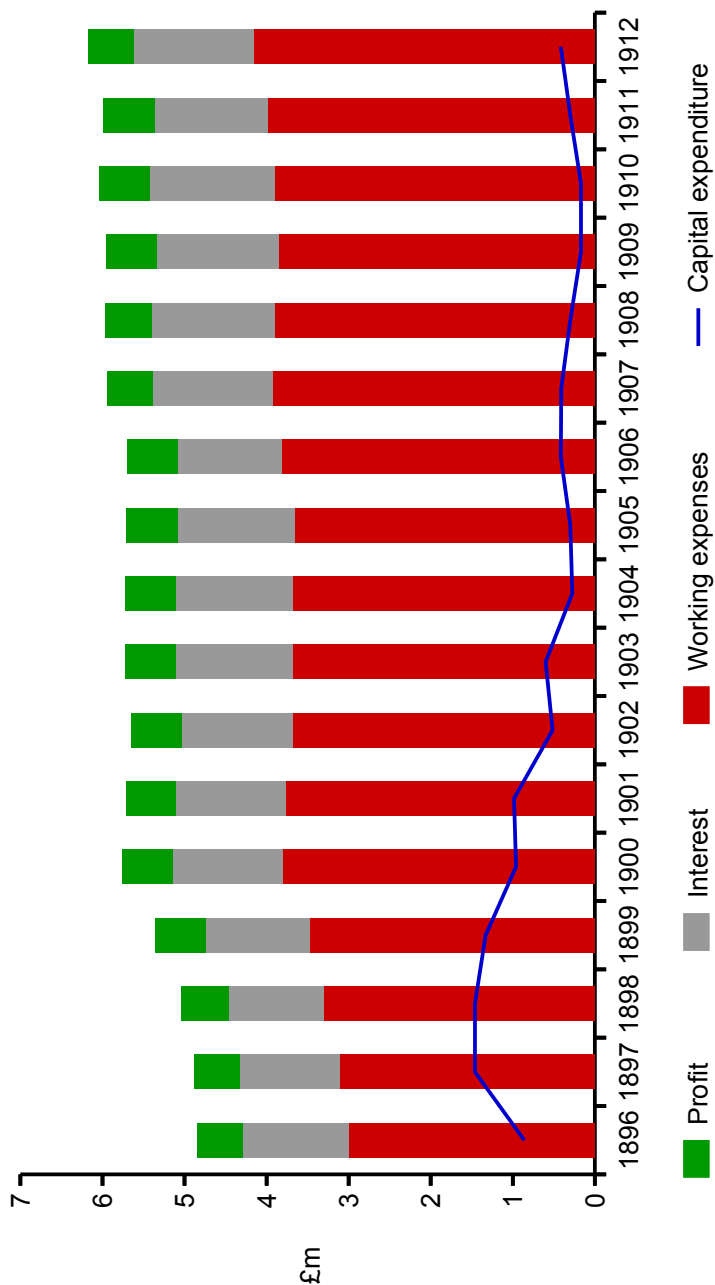


Figure 2
Great Northern Railway – 1896 to 1912

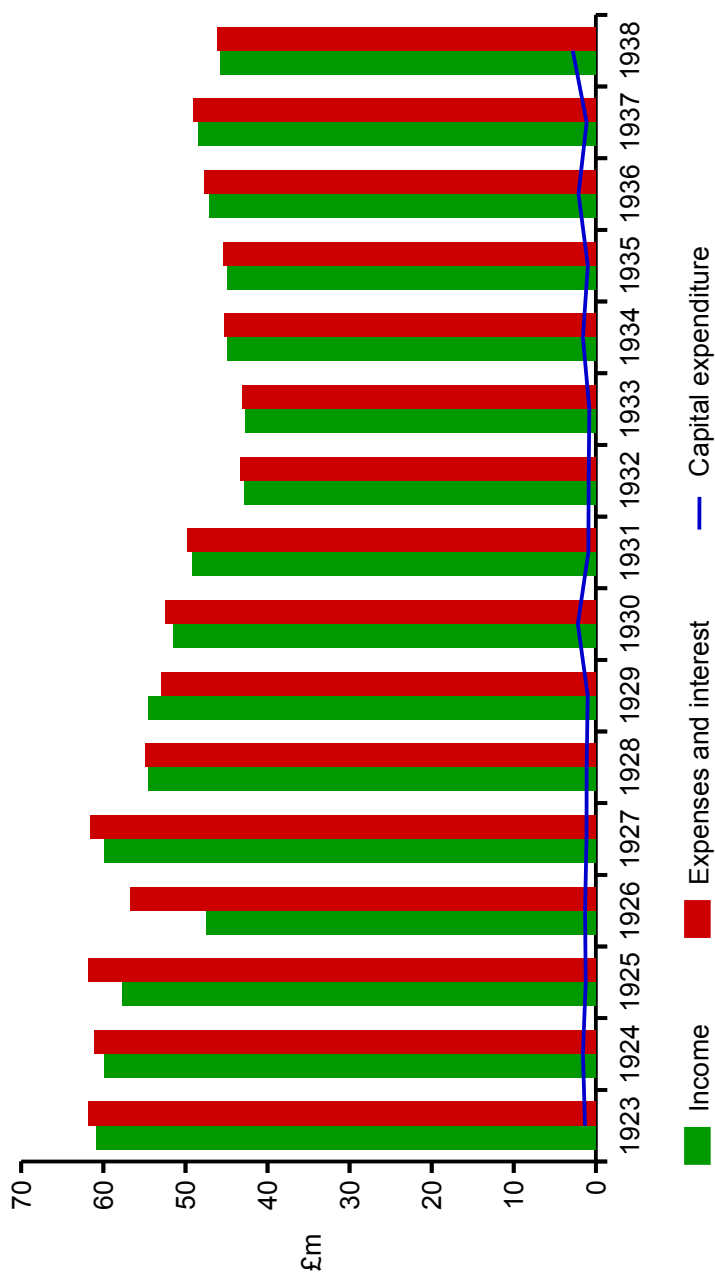


Figure 3
LNER – 1923 to 1938

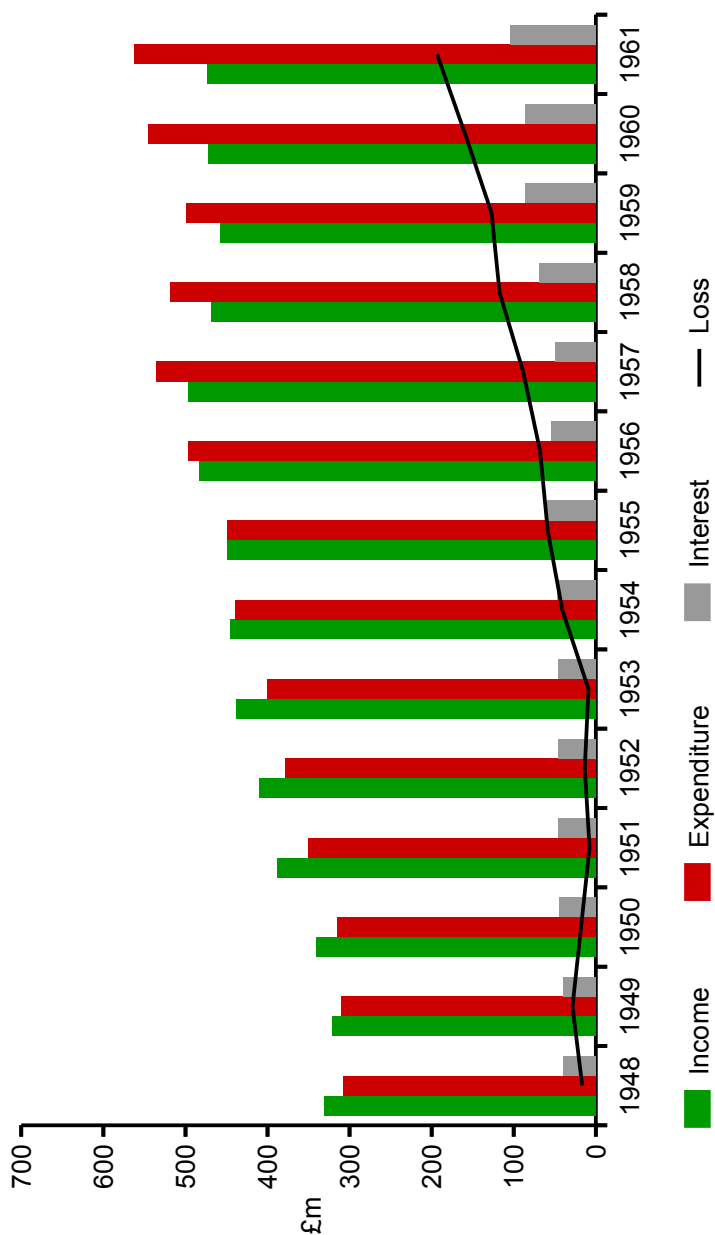


Figure 4
British Railways – 1948 to 1961

PART 2: THE PRACTICAL QUESTION

To pursue this question, let us first look at two examples to see the initial effect on a community of being served by the railways.

Figure 5 shows the population growth of Bournemouth during the past hundred years or so. A new branch line was constructed in 1841, and Bournemouth was provided with a station in 1870, after which there was a marked and rapid increase in population.

In 1891 Bournemouth was connected to the main railway line to London, and although the population continued its steep rise, more of the new arrivals began to live just outside the town. The growth of Bournemouth is directly related to the advent and development of the railway. In 1841, less than 30 houses stood on the spot, then known as the Parish of Holdenhurst. By 1961 the population of the Borough of Bournemouth alone was more than 150,000, including 18 members of the Chartered Estate Agents' Institute dealing with the property market, and many more resided in the wider district.

We recently wrote to the Borough of Bournemouth about the effect of the railway on the town and received the following reply: "There is no doubt that after the railway station was built, the influence of the railways was of paramount importance in the establishment of Bournemouth as a popular holiday resort and thus incidentally bringing into prominence its claim as a desirable place of permanent residence."

Taking Brighton as another example, the rise of the population has again a direct relationship to the provision of railway services. Figure 5 again shows that during the 1920s the growth of Brighton stopped, but with electrification of the line in 1931, coupled with cheap season tickets, the population began to rise again.

According to the Brighton Town Clerk, population growth from 1841 to 1881 was largely the result of improved communication with London, due to the railway line.

In the ten years before the construction of the railway line, only 437 houses were built. In the next period of ten years 2,806 houses

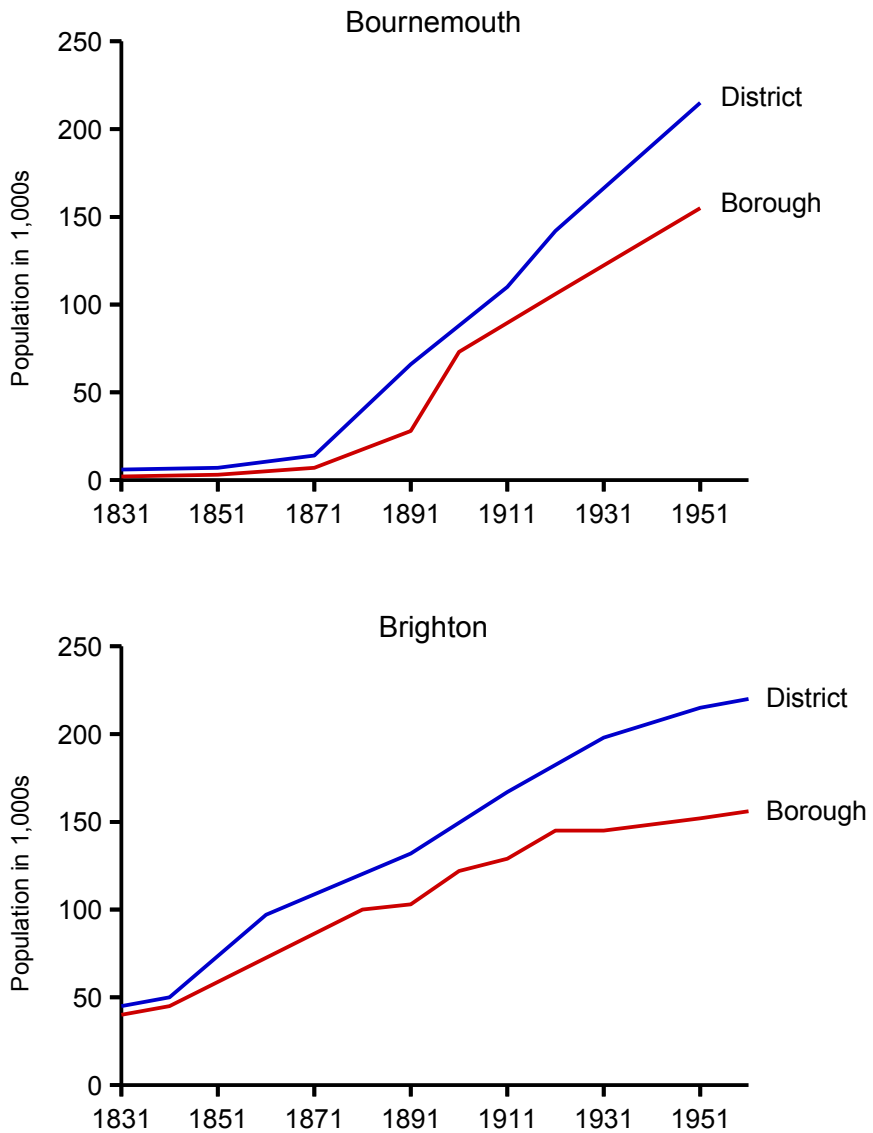


Figure 5
Growth of population – 1831 to 1961

were built, and in each of the two subsequent decades, over 2,000 houses were built. After the railway service was electrified, new houses were built at the rate of 900 a year, up to the War, and there was a considerable increase in holiday trade.

Historically, there can be no doubt that the original cost of constructing local railway lines has been covered many times over by the resulting increase in local prosperity, which was often quite dramatic.

This was realised at the time, and many of the early railway companies, and particularly their directors, bought property in the areas to be served, to reap the harvest they were then sowing. One example was Mr. George Burge, a contractor who took part in the promotion of the East Kent Railway Company, and also invested heavily in speculative building at the new resort of Herne Bay.

With these examples it has been possible to see the effect of the railways over a span of a hundred years. These examples could be multiplied throughout the country – Appendix A, for example, considers the case of Bromley. But all this is history, and does not provide an answer to the present difficulties.

For our question is simply: whether the communities which are now being served by a modern railway are benefitting directly as a result of this service.

To help us in answering this question, we have taken for an example the recent Kent Coast Electrification Scheme – Phase 1. This scheme is shown on the map in Figure 6.

The two main lines (coloured in red on the map) have only been electrified since 1959. Many stations have been much improved, and often the platforms have been extended or multiplied. In some cases, railway stations have been painted for the first time in years, and all-round improvements have been made to station amenities. The trains are new, frequent and fast.

The estimated cost of Phase 1 of this modernisation programme has been given as £25m by British Railways, and a further £20m is now estimated for the cost of Phase 2 (coloured green on the map).

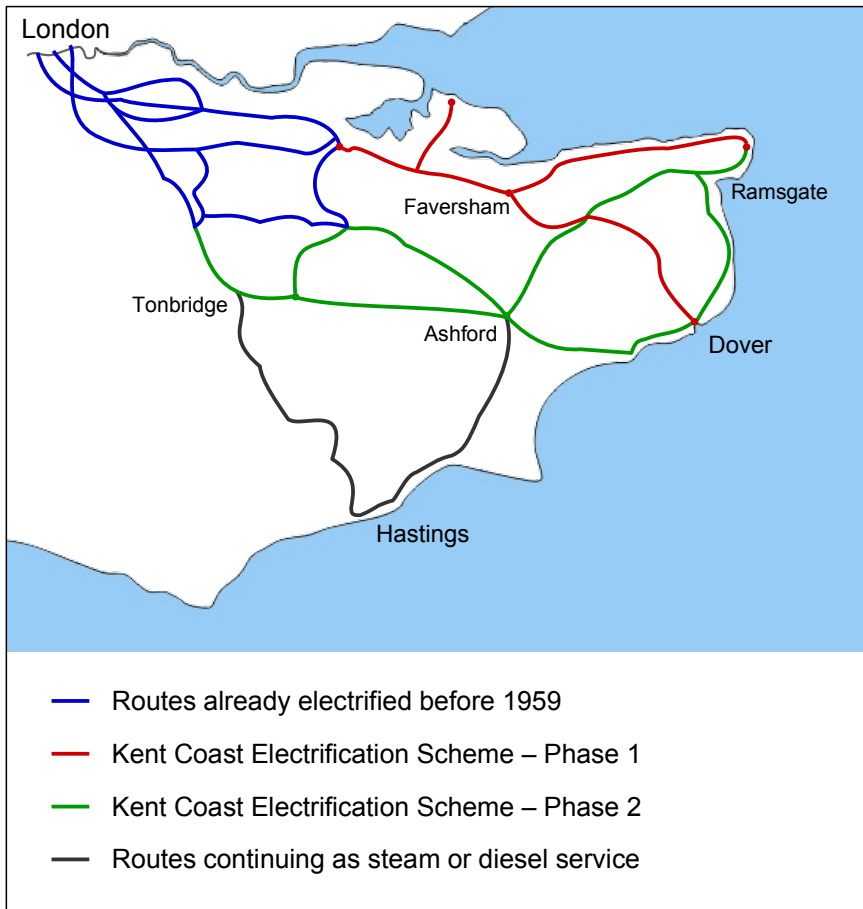


Figure 6
Kent Coast Electrification Scheme

In the North Kent area, one can see something of a modern railway and its cost. This is not a major industrial region, and the greater part of British Railways total receipts is provided by freight traffic. The area comprises the Medway Towns and the lines from Faversham to Ramsgate and Dover.

Are the local communities which are now being served by this railway benefitting directly as a result of this service? We decided to ask the towns themselves, through their Town Clerks and their principal estate agents, and so we wrote to them asking for any comments they would like to make on the current effect of the railways in their area. Here are some extracts from their replies.

BROADSTAIRS & ST. PETER'S

Clerk of the Council, 4th June 1962

Since the electrification of the railway between London and the Kent Coast towns there has been an increase in the demand for property in this area and an increase in the selling price of it.

CHATHAM

Estate Agent, 22nd June 1962

We can say at the present time that the Medway Towns as an area is very much sought after and has been for the last three years in particular by the commuters from south-east London, and we are finding in dealing with some 500 new properties each year that between 80% and 90% of the purchasers are commuters; this of course being made possible by the excellent railway facilities from Chatham to the London outskirts and the ability of these purchasers to buy property within the Medway Towns at very considerably cheaper figures than in the London area; the difference can be as much as £1,000 on properties up to £3,500 sale price in the Medway Towns.

Purchasers find that the acquisition of property in the Medway Towns has therefore to meet a much lower mortgage repayment, together with lower rateable values, but if travelling fares both on the railways and omnibuses are to continually increase, as they are at the present time, then the cost of travel will no doubt offset the other advantages.

DOVER

Town Clerk, 18th June 1962

The railway has, of course, played a very important part in the tremendous upsurge in recent years in tourist traffic to the Continent.

Estate Agent, 20th June 1962

During the last few years prices of land and property have increased in Dover but I am personally of the opinion that the electrification of the railways is purely coincidental to these increased prices.

When one considers the general inflationary trend and migration of people from North to the South, and the ever increasing influence of the London Metropolis, I think these have had far more influence than the British Railways.

So far as I can see very few people who are now paying a higher price for property in this area are commuters or users of the railways to any great extent. If any influence on prices is to be made by the railways, it might take place during the next decade, when people get used to the ninety minutes service to town, instead of the two hours taken up to now.

EAST ASHFORD

Clerk of the Council, 29th June 1962

There is no doubt that the presence of a railway station and goods sidings has led to the development of the fencing and sawmill industries, and that agriculture has and still does benefit from the railway service.

In the past the railway did lead to rises in land values and, no doubt, to the prosperity of the village. I think (fear, if you like) that this does not apply today to any very great extent. For what it is worth, I have little doubt that Chilham would suffer considerably if it lost its railway link.

EASTRY

Clerk of the Council, 6th July 1962

Prior to 1926 there was no village of Aylesham. The township was planned by Sir Patrick Abercrombie and came into being as the result of the establishment of the nearby Snowdown Colliery. The railway station was provided in connection with this development and today it plays an

important part in the general prosperity of the surrounding area.²

The Kent Development Plan contemplates only a gradual expansion of Aylesham, but the Kent County Council has consistently supported its immediate expansion to a Town Development Scheme. Pending further consideration of such a scheme, the Council is endeavouring to attract industry to the available Council-owned sites in the village. In all these projects, the existence of the railway is of course a key factor.

FAVERSHAM

Town Clerk, 8th June 1962

With regard to the railway playing any part in local development, it is difficult to give any definite information on the subject, but it has been noticed that since, and just before, the electrification of the Kent Coast line, a large number of people who work in London and elsewhere are now residing in the town.

Two fairly large new housing estates are being developed by private enterprise and quite a substantial proportion of the residents of these are working out of the Borough.

Estate Agent, 21st June 1962

With regard to the year 1959, the coming of the railway has of course pushed up the value of houses as demand has increased, but it is difficult to separate this effect from the national inflationary trends generally. As an example, in 1959 new houses were selling at £2,350 which now sell at about £2,750.

HERNE BAY

Clerk of the Council, 9th July 1962

I can say that the electrification of the main line from London in 1959 has resulted to my mind in an increase in the rate of local development. Values of properties have increased, and more properties have been built with the advent of a fast electric service to London.

2 The Snowdown Colliery was the deepest pit in Kent, and was situated beside the Canterbury to Dover railway line, near Aylesham. It opened in 1912, and was closed by the National Coal Board seventy-five years later in 1987. The Aylesham settlement was built to accommodate the mineworkers' families.

MARGATE

Town Clerk, 7th August 1962

In June 1959, the railway was electrified resulting in a more frequent and faster train service. Consequently there has been a steady growth in the number of commuters. There has been a considerable increase in the value of land and property and in the general prosperity of Margate.

Estate Agent, 8th June 1962

In general, I would say that values of land and property are closely allied with the cost of season tickets, and the withdrawal of the red line concession will adversely affect the number of season ticket holders, i. e. residents who commute to London. The number of cheap day tickets probably affects only a limited number of traders. The freight rates will affect our small but growing industry. Further increases may well cancel the benefit of electrification especially when the new road programme is completed.

RAMSGATE

Town Clerk, 12th June 1962

The S. E. Railway line to Ramsgate in 1846 had done little to increase this (building) industry in Ramsgate, but following on from the opening of the London, Chatham and Dover Railway to Ramsgate in 1863, large scale development followed.

The Ramsgate fishing industry increased with the general growth of the century. Catches, before the introduction of the railways, had been taken to London markets either by boats or coach. The coming of the LC & D Railway in 1863 was a great shot in the arm for the industry, which continued to increase, and reached its peak between 1890 and 1914.

Losses sustained during the 1914–18 War literally decimated the fleet and though some carried on after that date for some years, the industry has now gone from Ramsgate.

Estate Agent, 3rd August 1962

In reference to the year 1959, the introduction of electric trains in that year brought a faster train service between London and Ramsgate, and this resulted in a noticeable increase in land and property values.

ROCHESTER

Town Clerk, 19th July 1962

I do not know whether the railway has had any greater influence on the development of Rochester than it has had on any other comparable town, but in any case, the recent industrial growth of Rochester has been phenomenal and it is now probably the most heavily industrialised area in South-east England.

SITTINGBOURNE

Clerk of the Council, 8th August 1962

The electrified railway to the North Kent coast has undoubtedly had a marked effect upon population, and it has been estimated that in the new housing estates being developed approximately 50% of the new residents there come from outside the town, many of them from the London area, who still travel daily to work.

An industrial estate of some 27 acres, in the first instance, is just at present being established in the district, which will offer opportunities for local industry and employment. One of the major factors which, I understand, has influenced the decision of the developers is the improved accessibility from London to this district. This new accessibility has in general increased land values and the demand for residential land. It is generally accepted that the coming of the railway to Sittingbourne in the 1860s began a new phase in the development of the town, and the recent improvements appear to be influencing a new stage and impetus in the development of the district.

Estate Agent, 19th June 1962

The effect seen in 1959 with the electrification of the railway service beyond Gillingham was to stimulate the demand for residential property in Sittingbourne and district, and enquiries were received for this class of property greatly in excess of that previously experienced. The result was that a large proportion of the residential property in the area was sold to newcomers to the area, and in the main these newcomers were employed in the metropolis.

This also led to greater interest in shop premises in the peak shopping area and was in some measure responsible for the development of three

supermarkets. One of these supermarkets was opened some three to four months ago, the second will be opened in the next three months, and the third is now in the course of construction. It is true to say that shopping facilities have improved and continue to improve.

The improved rail facilities also resulted in the stimulation of demand for industrial accommodation and land, and for land for development for residential purposes.

This tendency continues to operate with regard to 1962 but there is a further development which I now find is making itself apparent, in that train users are definitely concerned about the rising cost of railway fares. In several instances I have known of cases where people have decided to dispose of their houses in this area with a view to moving nearer to the metropolis. They are now apparently balancing up the time involved in travelling, and the increased cost of travel, and accepting the fact that these two factors are not now sufficiently attractive to warrant the lower capital cost of house purchase in this area. I would emphasise that these are isolated cases, but it is a tendency which was not present in 1959.

TANKERTON

Estate Agent, 7th June 1962

The advent of a railway to an area must, of course, have an initial effect, and there is little doubt in my opinion that the electrification of this line recently has also had some small effect on the property market, but I would also express the view that this effect would have been much greater had there not come with it an increase of fares which may, to a very large extent, have offset most of the benefit that would otherwise have been derived.

We also asked each of the Town Clerks to provide the following details: the population of the town, the aggregate rateable value of the district, and the number of houses, to see the increases since electrification in 1959. The information we received was that both the rateable value and the number of houses had increased in every case, and that the population had increased everywhere, except for Chatham and Gillingham, where there had been a decrease – the naval dockyard having closed last year.

Here is a cross-section of the percentage increases covering the villages, towns, ports and cities affected by Phase 1 since 1959.

It is reasonable to assume that some increases had taken place previously, merely as a result of the announcement of the Scheme.

PERCENTAGE INCREASES SINCE 1959

	Population	Number of houses	Rateable value
AYLESHAM	Not given	3.8	5.5
BROADSTAIRS	3.7	4.1	9.4
BROMLEY	4.5	4.8	9.2
CANTERBURY	2.6	2.5	6.8
CHATHAM	-4.3	Not given	13.3
CHILHAM	1.4	1.2	6.5
FAVERSHAM	4.5	1.9	7.2
GILLINGHAM	-5.2	4.5	7.5
HERNE BAY	4.8	10.5	7.3
MARGATE	7.5	Not given	4.8
RAMSGATE	2.5	Not given	6.5
ROCHESTER	4.7	8.1	6.9
SITTINGBOURNE	1.2	5.5	11.2
WHITSTABLE	14.8	7.6	8.4

Rateable values are not always kept up to date, but the increases in these cases are nearly all considerably more than the national average of less than 4½% for England and Wales.

There is a rough rule of thumb in the property market that a house in reasonable condition may be expected to fetch around 100 times its rateable value. On this basis, the increase in property values for these few examples alone amounts to well over £50m, and the equivalent figure for Kent as a whole would be £150m.

The estimated cost of Phase 1 and Phase 2 of the Kent Coast Electrification Scheme is covered several times by the increase in local property values, according to these figures.

Estate agents, whose livelihoods depend on their knowledge of the property market, have in their replies given some indication of the part the railways are playing in this increase. Property in these areas, according to these local estate agents, is much in demand. Advertisements for property sales appear daily in the national and local press, stressing “how many minutes to the local station, how good the service is, and how soon you will arrive at some London terminal or other important centre.”

The communities served by the railways benefit directly from this service, and an improved service at once increases the benefit. But as a number of estate agents have mentioned – without being prompted in any way – if railway fares are continually increased, as they have been, then the cost of travel will no doubt offset the advantages of the service. Increased fares will lead to a decrease in service and benefit, and the examples given show how an increase in service brings an increase in benefit.

Where does this benefit manifest itself? It does not manifest itself in the receipts of British Railways. The more capital outlay on modernisation, the more loans required, the bigger the interest charges payable, and the bigger the “losses” made by the railways.

But the railways, if they are to be a commercial undertaking, have got to cover the money spent on electrification and other modernisation, and it seems to them that they have no choice but to increase fares. However, the recent 10% increase in fares for the whole of British Railways is expected to yield only £6m of extra receipts for the whole of the railways – only an extra £6m to add to total receipts of £475m, to match an expected “loss” of £160m.

Clearly, increasing the fares will not answer the difficulties. It is evident that the communities we have considered which are served by a modern railway are prospering, and that an improved service brings an increased benefit.

This benefit is manifested within the communities for all to see, for all put a value upon it. It shows most simply in the price people pay for property served by a modern railway.

These examples, close at hand in Kent, are repeated up and down the country, wherever there is a modern railway. Of course, this area is influenced by London, because with a modern railway, the capital city is almost on the doorstep of the people of Kent.

Whilst the so-called “drift to the south-east” may perhaps be the manifestation of forces much greater than those within the view of this lecture, the timing and extent of the drift seems to be directly connected with the railway service.

The question is whether the communities now being served by a modern railway benefit directly as a result of this service, and whether the benefit covers the cost of providing the service. All the evidence supports an affirmative answer.

The communities themselves acknowledge this for quite simply the sites are in demand. The increase in benefit to the community, which is manifested in the increase in the price of property, clearly covers the cost of providing a modern railway many times over.

But this harvest is not reaped by British Railways, and only partially by the community. It is reaped individually by the owners and occupiers of property served by the railways.

Editors’ note:

The population, number of houses, and aggregate rateable value of the town of Whitstable rose quickly after electrification of the railway line to London.

The Rating and Valuation Act of 1961 required rateable values to be updated by comparison with open market property rents. After a delay, due to the lack of properties for comparison, the new valuation list took effect on 1st April 1963.

During 1963 the Rating and Valuation Association completed its own survey of Whitstable based on the principles of the London Rating (Site Values) Bill of 1938/39 – the market value of the bare unimproved site, excluding buildings – in order to demonstrate the feasibility of an alternative method of valuation.

Whitstable Urban District Council was abolished under local government re-organisation in 1974, and the town is now administered as part of Canterbury.

PART 3: ANALOGY OF CIRCULATION

In the last few days the British Transport Commission has published two maps showing the density of freight and passenger traffic in the railway system, as shown in Figures 7 and 8.³

Being careful not to carry the analogy too far, there are several interesting comparisons between the national railway system and the circulation of blood through the heart, arteries and veins.

Our medical authority is Professor McDowall. In his *Handbook of Physiology and Biochemistry*, he states: "Blood, the red fluid of the blood vessels, is the transport medium of the body."

Our railway authority is Dr. Beeching. In his *Notes for Press Briefing* issued on the publication of the two railway maps, one of freight and one of passenger traffic density, Dr. Beeching has said: "Considered in relation to combined freight and passenger traffic, 50% of the rail mileage carries 92½% of the traffic."

Professor McDowall: It has been calculated that 5/6 (or 83⅓%) of the total blood is in the heart and larger vessels at any one time.

Dr. Beeching: The passenger traffic map shows how people travel on British Railways during a normal week. It does not take into account the holiday peak. The main routes between the more important cities over which the majority of express trains run, are those which are most used. The prospect of concentration upon a lesser number of routes emerges.

Professor McDowall: The main factor in the circulation is difference of pressure. Although produced in the first instance by contraction of the heart, some of the pressure is stored up in the elastic arterial walls, the recoil of which keeps up the circulation during the periods when the heart is resting. All the blood of the body is not in active circulation. Some is circulating slowly or may even be stagnant in parts. It is, however, readily available should necessity demand.

3 The maps were issued by the Commission on 11th and 18th July 1962.

Dr. Beeching: The striking disparity between the heavily loaded and the extremely lightly loaded lines is evident. From the purely economic point of view, it is obvious that the removal of the grossly under-used lines would help to reduce the railway deficit.

Professor McDowall: Physiological studies have made it fully apparent that death occurs, both in animals and in man, from progressive circulatory failure. This may be initiated by any procedure which brings about a fall in arterial blood pressure and thereby impaired peripheral circulation. The rate of the blood flow through a part is more difficult to measure, and it is really much more important than the amount of blood in it.

Dr. Beeching: The information collected about freight and passenger movement on which the maps have been based will be studied in combination. Clearly, the future of many railway lines and stations will have to be carefully considered.

We shall be formulating plans for reshaping the railway system as for a commercial undertaking towards the end of this year. It will be a political decision as to how far they are implemented and to what extent alternative provision for the public will be made.

The trade unions will be kept informed through the normal consultative machinery. The maps are merely a presentation of facts. They represent the way in which the system is being used, and speak for themselves.

The following passage has been taken from the *Encyclopaedia Britannica*, Volume 3, 1959 edition, page 740:

“Considerable loss of blood may take place without serious ill effects, but if volume decreases beyond a certain point, the blood pressure commences to drop and a condition of shock supervenes. The general principle on which the chemical life of the body is conducted is that each living cell carries out in its own substance all those chemical processes necessary to its existence. Throughout the whole body a system of transport is therefore necessary, with which every living cell is in intimate contact.”

And finally, Professor McDowall states:

“In performing the bodily functions, the organs themselves are arranged in groups which are, by convention, known as systems. There are really no hard-and-fast boundaries to any system, as they all work together for the benefit of the whole body.”

Our research so far has been largely confined to the railways, and this analogy would of course be better made with the transport systems of the country as a whole, but all the same, we thought it worth-while introducing at this stage, though we hope you will not take it too far.

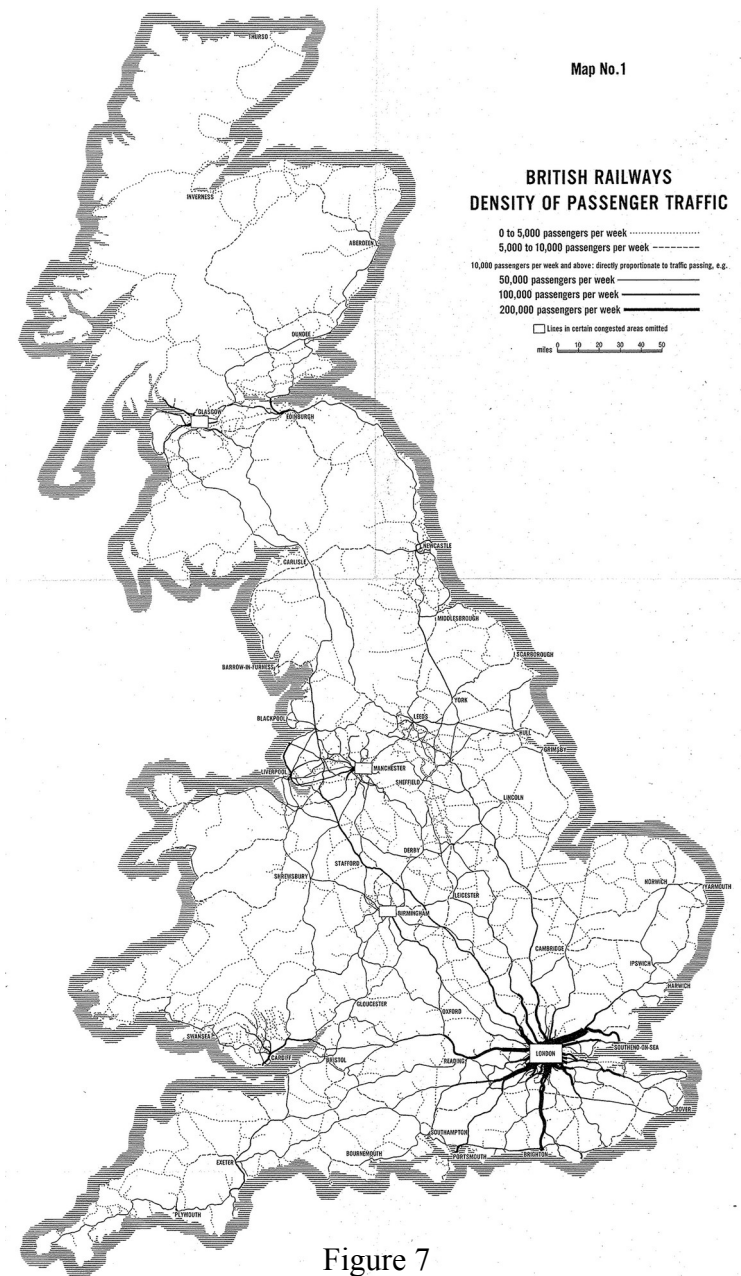


Figure 7

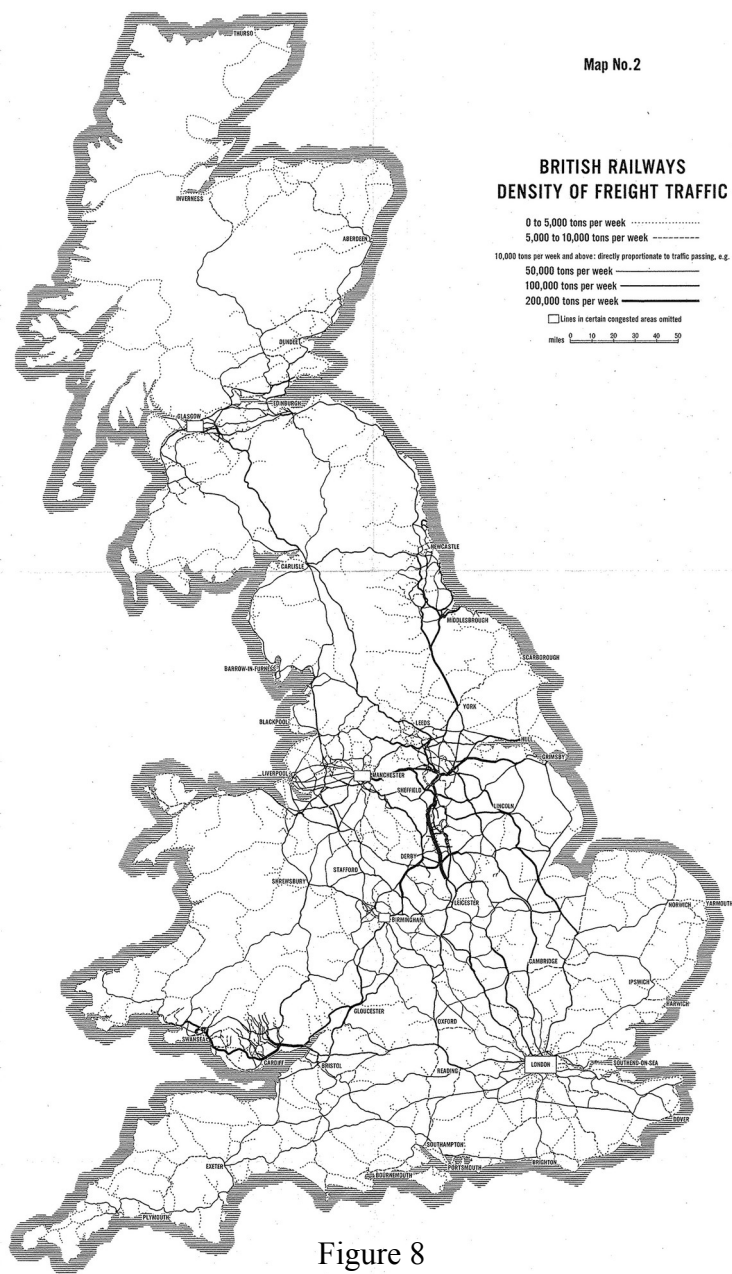


Figure 8

PART 4: CURRENT PROPOSALS

Let us now consider the current proposals for dealing with the difficulties of the railways.

Although we are primarily concerned with British Railways, it is interesting to note that the situation in this country is also quite common to foreign railways.

Many countries have complete state control, while in others, control is divided between the state, the municipal authorities, and private enterprise. But whatever the system of control, working deficits and state subsidies are general, and in no case have we discovered any railway system which operates profitably from the point of view of a commercial undertaking. Some useful examples are given in Appendix B.

The rigidity of railway systems, the need for unified control in the interests of speed and safety, and the vital part played by the railway network in the life of the nation, all support the general view that the railways are best run as a nationalised undertaking or under some other form of state control.

The policy of the British Government for our railways is:⁴

- (1) To write off almost half the present capital debt and to relieve the railways of interest on part of the remaining debt.
- (2) To support Dr. Beeching to the hilt in the proposals which he is to put forward later this year, from the viewpoint of a commercial undertaking.
- (3) To give the railways freedom to charge more, and to refuse to accept unprofitable traffic, such as small consignments of goods and local passenger traffic.
- (4) To give less emphasis to social obligations and more to the commercial performance of the railways so as to reduce the taxpayers' contribution.

4 As set out in Hansard, H. C. Debates, Vol 661 No. 563, 27th June 1962.

The Transport Bill now before Parliament is intended to give effect to this policy, and is due to be enacted later this year. If this happens, the railways will start the year 1963 with a capital debt of about £900m, and interest charges of about £65m per annum. This is quite similar to their position in 1948 upon nationalisation.⁵

Moreover, the interest burden will steadily increase as further government loans are made to finance modernisation, and £450m has already been earmarked for this purpose.

Other probable consequences are that closures of up to one half of the total route mileage will be proposed, together with further substantial fare increases; that fewer and fewer people will use the railways and pay more and more for the privilege of doing so; that road congestion and overcrowding of already highly populated areas will become even more severe; and that the natural growth and development of many other areas will be artificially restricted.

In short, the benefit of the railways to the nation will practically disappear. Further, if our analogy between the transport system of the country and the circulation of the blood in the body has any validity, since the drying up of half our veins would bring instant death, one could say that the closure of large numbers of branch lines – Dr. Beeching's pill – could be lethal.

The policy of the opposition Labour Party is the integration and co-ordination of road, rail and water transport, by putting back the clock to 1948, creating a comprehensive national transport system, and nationalising all the basic forms of transport, with state control of road haulage, restrictions on the operation of C-licence vehicles owned by private carriers, and public ownership of bus services.

In our recent talks with Labour Party representatives it seemed their policy was one of considerable state interference, and would lead to great bureaucratic inefficiency and extravagance. Such a policy has already been partially tried once without much success.

The National Union of Railwaymen agrees in the main with the Labour Party view, supports the modernisation plan, and advocates

5 In 1948 the capital debt was £1,100m and interest charges were about £40m.

that government loans to the railways should be free of interest and that the liability for British Transport Stock should be part of the national debt.

The government views the railways, primarily, as a commercial undertaking, while the opposition views them as a social service, but both government and opposition are seeking to devise means by which the railways may show a margin of profit in the ordinary commercial sense.

We suggest they are both missing the most important practical and financial questions, which are: whether the cost of providing an efficient railway system is covered by the benefits accruing to the nation, and if so, how should the nation pay?

As the evidence shows, there seems to be little doubt that the benefit accruing to the community from a modern railway service covers the cost of providing the service, many times over.

Therefore, the important political question which remains to be answered is the method by which those who receive the financial benefit should contribute to the cost.

It is not generally realised that by the Common Law of England the duty to repair highways was placed on the parish or the general public. This duty was transferred to local and county authorities by a series of Acts passed during the 19th century.

With the development of motor transport in the 20th century, the need for a national system of main routes was recognised, and in 1936 the Ministry of Transport was made responsible for the principal trunk roads in the country. County and District Councils remain responsible for almost all other roads, and the expense of maintaining and repairing these roads is charged to the general rate, though the Councils may receive grants from the Ministry.

Would it not be practicable to apply this system to our railways, so that the expense of repairing and maintaining the permanent way – i. e. the rail roads, with their bridges, tunnels, stations and signalling equipment – is met by the local and county authorities out of the general rate, with grants from the Ministry?

Finally, let us summarise our conclusions:

First, the railways are a vital and integral part of the national transport system, and like the roads – which are divided into trunk and arterial roads under the Minister of Transport, or county and secondary roads under county and local authorities – fall into two main categories. There are main trunk lines carrying heavy traffic, and branch and connecting lines serving more local needs.

Secondly, our railways cannot meet modernisation costs and interest charges out of their own resources, so if an efficient and adequate system is to be provided for the nation, the railways must be relieved of their interest burden and equipped by the nation.

Third, a modern railway system provides a direct benefit to the nation, which is reflected in higher property and land prices, and which more than covers the cost of providing the service.

Lastly, continual increases in railway fares reduce the benefit to the nation and also restrict the natural growth and development of communities.

These conclusions lead us to make the following suggestions:

- (1) That an adequate and efficient railway system be provided for the nation; that the cost of the modernisation plan be met from general government taxation; and that the railways be relieved of interest charges on loans and British Transport Stock by the government.
- (2) That a Railway Authority be made responsible for the operation of trunk lines, with local boards responsible for branch lines; and that a central committee be responsible for all freight traffic and for co-ordinating the whole system under the Minister of Transport.
- (3) That legislation be passed, placing the duty to maintain the permanent way of trunk lines upon the Minister of Transport, and of branch lines upon local and county authorities, with power to assess and charge the appropriate rate.

(4) That the expense of maintaining the permanent way be charged to the general rate with appropriate grants from the central government; and that the question of the closure of any particular part of the railway system be decided primarily by the local inhabitants through their representatives on the Councils concerned.

(5) That passenger fares be reduced from 3d. to 2d. per mile, and then maintained thereafter at a level which ensures that the community continues to enjoy the full benefit of the service; in other words, that fares are only varied in proportion to changes in the general level of prices. (More people than ever before used the railways in 1957, when the fares were 2d. a mile, and since then there has been a steady, substantial fall in passenger traffic by approximately 10%, while fares have risen by 50%, and receipts by only 14%).

(6) That the railways be freed from the legal obligation of common carriers to accept any traffic, however unsuitable; and that the Railway Authority and local boards be in the hands of public servants who know and love the railways, rather than in the hands of businessmen briefed to run the railways as a commercial undertaking.

The effect of these proposals in monetary terms, based on the latest available figures, would be as follows:

(a) Relieving the railways of modernisation costs and interest charges would, in theory, save them over £200m each year, but in practice would make no difference, as they have never been and would not be able to pay these charges in any case.

(b) Relieving the railways of the expense of maintaining the permanent way and structures would save at least £135m pa.

(c) Reducing passenger fares from 3d. per mile to 2d. per mile would cost the railways up to £20m per year.

The net result would be to transform the 1961 operating loss of £87m into a profit of at least £30m and would enable our railways to provide a better service and greater benefits to the community, to pay better wages to their long-suffering staff and also, strangely enough, to ‘pay their own way’ in the future.⁶

We trust you have seen how an issue can be clouded by a pre-conceived idea, as our research has clearly shown that no-one in this country has seriously questioned the original notion that the railways are a commercial undertaking, like any other, and must therefore make a profit.

Looking at the evidence we have uncovered, the most important conclusion is that the railways are not, and never have been, a commercial undertaking, but operate under a different set of laws. The precise formulation of these laws is a matter for further study.

Our special target, as economists, is that it should not be through ignorance of economic laws that men are prevented from realising their full possibilities.

⁶ The published accounts of the Transport Commission treat British Railways as a whole and do not give separate regional statistics, but Appendix C of this lecture indicates how these suggestions could work out in practice.

APPENDIX A: EFFECT OF THE RAILWAY ON BROMLEY

The following correspondence has been received in response to our inquiries concerning Bromley.

Town Clerk, 27th July 1962

... as to the part which the railways have played in the development of Bromley and in the general prosperity of the town, it should be borne in mind that Bromley is predominantly residential, and there is but little industry. It is an excellent shopping centre, and the fact that there are no less than six railway stations in the Borough serving the metropolis as well as a wide country area has no doubt contributed to its success in this respect.

Without doubt the high-class residential nature of the district, as well as the excellent railway service to London, has attracted many residents to the district and a large proportion of the working population travel to London daily to their place of employment.

The Council believe Bromley to be the premier shopping centre in North West Kent, as is evidenced by the large number of people to be seen regularly in the main shopping area on Thursdays (market day) and on Saturdays. The value of land and property is high, and appears to be increasing.

Another factor to be borne in mind is that the Bromley of today can offer up-to-date facilities for the de-centralization of London offices. A comprehensive re-development scheme will shortly take place in the Bromley South area; it is probable that when the developers submitted their offer for the lease of the whole site, which includes a large store, a shopping precinct and a tower office block, they had regard to the close proximity of Bromley South Station.

However, Bromley's historian, E. L. S. Horsburgh BA, Fellow of the Royal Historical Society, makes many references in his book "Bromley, Kent, from the earliest times to the present century" to the many radical changes which took place in Bromley after the coming of the railways.

This book is not now in print, but a number of extracts are enclosed with this letter to assist you in your research.

These extracts are reproduced overleaf.

Bromley, Kent, from the Earliest Times to the Present Century

The history of the town of Bromley during the last two centuries presents to the observer two distinct and clearly marked epochs, which do not by any means coincide with the centuries themselves, but which are separated, one from the other, by an event of the first magnitude in the general, social and economic development of the country. This event was the coming of the railway. Thus, the first epoch covers about one hundred and fifty years, roughly speaking up to 1860. The second epoch covers the period from 1860 to the present time.

Modern Bromley is the creation of the last seventy years. It has been called into existence by the coming of the railway. Before that period the only organised means of practical communication between Bromley and the outside world was the stage coach, which at the end of the eighteenth century ran twice a day between the town and the Metropolis.

But such is the paradox in human affairs that at this moment Bromley was on the verge of an unparalleled expansion. Between 1851 and 1861 the Census showed an increase of 1,738. The number of inhabited houses had risen in ten years by about 250. It was in this decade that the railway became actively operative in the Bromley district, and with the coming of the railway the modern epoch of expansion began. The development now becomes nothing less than extraordinary, and it can perhaps best be expressed by the bald figures of a statistical table:

<u>Year</u>	<u>Houses</u>	<u>Total population</u>
1861	1,090	5,505
1871	1,946	10,674
1881	2,684	15,154
1891	3,907	21,684
1901	5,131	27,397
1911	6,776	33,646
1921	7,586	35,070

In the meantime, the South-Eastern Company had constructed their line from Charing Cross, via Croydon and Tonbridge, to Ashford and Dover.

In 1868 a new and more direct line to these places, via Chislehurst and Sevenoaks, was constructed by them, but it was of small service to Bromley as long as no line existed connecting Grove Park with the Town. The branch line from Grove Park to Bromley, largely initiated by Mr. W. D. Starling, was completed and opened on January 1st, 1878, and thus a far more convenient access to their offices in the city was offered to business men. A construction which can only be called an apology for a station was hastily thrown together, and this served as the terminus at Bromley till 1926. But, however inadequate both station and the service might be, yet from 1878 onwards residents in Bromley could profit by two important lines of railway: the London, Chatham and Dover, and the South-Eastern, which between them afforded a convenient approach to almost any part of the Metropolis.

Bad, beggarly, and unpunctual as the service on both of these lines originally was, yet the fares were moderate, and, indeed, considerably less than they are at the present time. The price of a first-class return ticket from Bromley to London was 2s. 3d., the third-class fare for the same journey being one shilling less.

The effect of the new railway facilities was immediately apparent in the Census Returns. A reference to the table will show that from 1861 onwards the population leapt up by decennial increases of about five thousand, so that a population of 5,505 in 1861 had grown to 33,646 in 1911. Necessarily the whole face of things in Bromley and all the conditions of life underwent in those years a radical and profound alteration. In its structure, in its system of local government, in its general atmosphere, the Bromley of today bears little resemblance to the old and somewhat sequestered township of seventy years ago.

In the centre of the town itself the work of development was simultaneously in progress. In 1871-2 East Street and West Street were in the making – the Drill Hall was built, and the way was paved for those further extensions which naturally followed on the opening of the North Station in 1878. Between 1881 and 1891 Tweedy Road began to assume its present form, though nearly the whole area, to the north of it, now intersected by the various roads which lead towards Plaistow and to Sundridge Park Station, still retained for a few years its rural aspect.

This process of rapid expansion in the decades which immediately followed the coming of the railways had the effect, among many others, of very considerably increasing the value of land.

APPENDIX B: REVIEW OF FOREIGN RAILWAYS

In our research on British Railways we also investigated the structure of many foreign railways.

Most other countries have state-owned railways, and though it was often difficult, for example in the communist bloc, to obtain any figures, the following facts have emerged.

In Belgium, the early lines were State controlled, and all the remaining lines were nationalised in 1926. The 1959 figures show that for a country with the densest network of lines in the world, an operating profit of 4% was made. This does not include any details of capital expenditure, but it might be mentioned that the whole of the country's Marshall Aid was spent re-equipping the railways.⁷

The fares are generally much lower than in Britain, both for passengers and for goods.

The Belgians also have a system of light railways, which are often single-line tracks erected at low cost by the side of the road, with a total mileage of 607 miles, and the share capital is divided in the following way: 41% State, 28.6% Provinces, 22.8% Rural and District Councils, and the small remaining balance held among private investors. These light railways have for many years paid their way and fulfilled local needs.

In France, it is generally acknowledged that the State controlled railways are a great national asset, receiving a large government subsidy, though total track mileage is smaller than in Britain. With no liability yet due for interest payments to the pre-nationalisation stockholders, and only a small interest charge for public loans, the subsidy for 1962 amounts to £126.5m. This figure is broken down as shown in the table overleaf.

⁷ The Marshall Plan was introduced by the United States government on 3rd April 1948 and operated over a four year period from 1948 to 1952.

Operating deficit	7,000,000
Maintenance of lines at the request of military authorities	700,000
Track maintenance	53,000,000
Maintenance of level crossings	700,000
Contribution to pensions	35,500,000
Cheap fares for war veterans etc.	18,600,000
Interest charges on public loans	6,000,000
Reconstruction of war damages	5,000,000
	£126,500,000

The German State Railways, in 1959, made an operating profit of 2% without taking into account any capital expenditure. There are also 34 very small private companies which serve limited local and industrial needs.

In Greece, the railways were nationalised in 1920, and regularly make large deficits. In 1960, for example, they made an operating loss of approximately 33%. They attribute this still to the German war destruction and the large expense of refitting the tracks.

In Holland, a small operating profit is generally made by the state railways but we noted with interest that in 1951 the state paid off all debts, without leaving any liability for charges, etc.

The Japanese railways were originally financed by London merchants in 1869 and were first nationalised in 1906. Since 1959, a public corporation called Japanese National Railways (JNR) has operated 73½% of the railways and a great many ferry and motor transport services. To assist greater efficiency of local cooperation, six regional offices were set up in 1957. The railways showed an operating profit of less than 1% in the year 1960, without taking into account any capital expenditure. There are also twelve small railways serving local needs.

In Norway, the State Railways showed an operating loss of some 33% in 1960. A large part of the revenue is derived from iron ore freight traffic, which is carried at a great loss presumably in the national interest to keep the export price of ore to a minimum.

In the USA the railways are privately owned, and have been in very serious financial difficulties for the whole of their existence, notwithstanding the fact that the original railway companies were granted 215 million acres of land, free of charge, by the States and by the central government.

They are exempt from many taxes and carry government mail at high rates of carriage, yet they have dwindled over recent years in mileage and efficiency. They have never provided as extensive a service as in this country. The rail stop has been a regular feature of American life, often situated many miles from the nearest town.

In Canada, the two main companies are the Canadian National Railways and the Canadian Pacific Railway, which are both run with small operating surpluses (less than 5% in 1960), but it is freely admitted that any surplus comes from such diverse activities as running nationwide chains of luxury hotels, from telegraph and communication companies, air lines, shipping, etc. and not from railway activities.

APPENDIX C: THE INQUIRY CONTINUES

To put our suggestions into practice, it would be necessary to ascertain the cost of maintaining the permanent way and structures of each line, the aggregate rateable value of the area served, and the amount of government grant.

There would be no need for special administrative machinery to be set up, as the long established machinery for running our roads and assessing the local rates would be well able to undertake this work.

Assuming that government grants would amount to half of the total maintenance cost, the national average increase in the general rate would be less than 1/6d. in the pound.

Since this lecture was given, we have asked some estate agents in North Kent for their comments on the likely effect upon local property prices if: (a) rates were increased by 1/6d. in the pound, and (b) railway passenger fares were reduced from 3d. to 2d per mile. Some of the replies received up to the time of publication are given below.

CANTERBURY

Estate Agent, 8th August 1962

It is a somewhat unusual fact that at least in Canterbury the effect of electrification has not been as good as was expected. This is, no doubt, based on the difficulty of the journey from London to Canterbury in the past as it was necessary to change at Faversham. We feel, therefore, that Canterbury is not really a fair test for the question you ask.

Basically we find that a rise in rates of say 1/6d. has very little effect on values. On an average rateable value of say £40 this would mean a weekly increase of rates of about 1/3d. and personal economy is not usually so finely adjusted. We would, therefore, suggest that this would have no effect on property values.

If railway fares were reduced by as much as 33⅓% this would obviously affect the issue considerably but, as we have said, Canterbury is perhaps not a fair City to use.

Subject to the public being given some form of guarantee that the rail fares would remain static for a very long period, say seven years, then we feel that the already strong demand for property here would increase gradually to quite a heavy demand that, within the existing area of land planned for residential development, would soon outstrip the supply and result in a steady rise in price which would bring figures up to a limit comparable with Surrey and Sussex, and thus be up on existing figures by about 20 to 25%.

Such an eventuality would, of course, change the whole pattern of Canterbury, bringing in much needed industry etc. and that, with the University, would bring a much larger city.

SITTINGBOURNE

Estate Agent, 9th August 1962

I would say that if the General Rate were to be increased by 1/6d. in the pound, above the present figures now applying, and assuming that the 1963 valuation is implemented, then the effect on capital values of residential property would be a most marked fall in prices. The question is difficult as it involves a rate poundage which will probably vary greatly with the revaluation now proposed under the Rating Act.⁸

If railway fares were reduced by one third I would expect prices to harden, but no great increase could be anticipated in view of the inability of the railways to cope with any greater volume of traffic.

CHATHAM

Estate Agent, 9th August 1962

We consider that an increase in rates by 1/6d. in the pound would not have a material effect on local property values, but a reduction in fares by one third would, we believe, tend to increase local values as without question the cost of travel today to commuters is now becoming a very serious problem.

⁸ The Rating and Valuation Act 1961 anticipated that a new assessment would be carried out in 1963 and made adjustments to the basis of valuation.

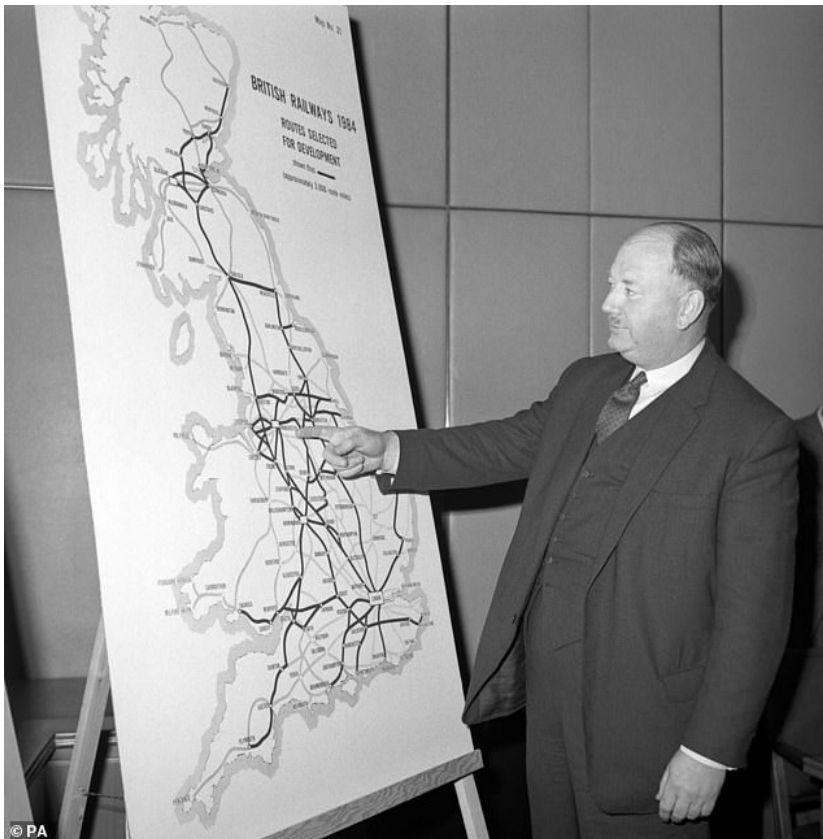
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