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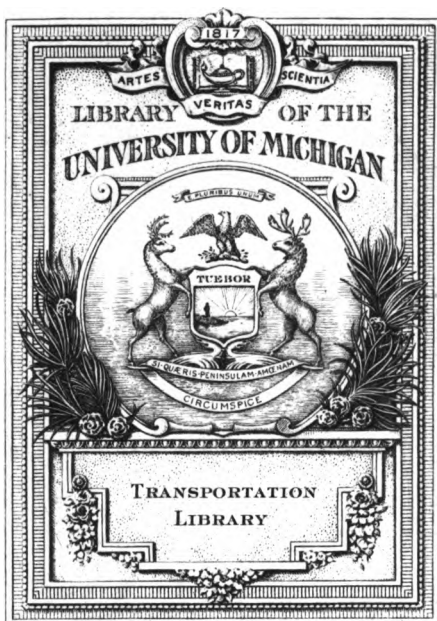
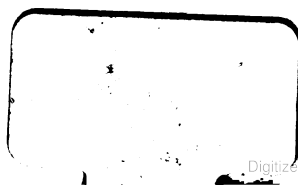
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INDIAN RAILWAY & INDUS FLOTILLA GUARANTEES

EXAMINED AND FOUND TO BE DELUSIVE;

WITH

EXTRACTS FROM THE OFFICIAL CONTRACTS.

THIRD EDITION,

WITH

AN INTRODUCTION,

CONTAINING

A CORRESPONDENCE OF MR. W. P. ANDREW
WITH THE AUTHOR,

AND

REPLIES

TO

MR. W. P. ANDREW, AND MR. THOMAS WATT.

BY

JAMES MILLS.

LONDON:

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PREFACE

TO THE THIRD EDITION.

IN issuing this Edition, which has been for some time in type, it will be expected that I should explain for what reason its publication has been deferred until now.

Shortly after the publication of the Second Edition, Mr. W. P. Andrew, the Chairman of the Scinde Railway, called, I was informed, upon Messrs. Mann the original publishers, and also upon the printers of my pamphlet, with a person whom he represented as a solicitor. He appeared, as I am told, to be labouring under violent agitation, and he is stated to have denounced my pamphlet as libellous, and to have threatened with legal proceedings the persons concerned in its production and publication. Of course, Mr. Andrew was at once referred to me, as the author of the obnoxious pamphlet, and, I am informed, he called at my house to see me about it. But, as I happened to be from home, he sent to me the presumptuous letter quoted at the end of the introduction of this edition, which I understood to threaten that, if I did not withdraw my pamphlet from circulation,

legal proceedings would be taken against me. This threat I, of course, treated with the contempt it deserved. I gave Mr. Andrew the name of my solicitor, informing him, at the same time, that what I had written I was quite prepared to defend, and I stated also, that I would send the correspondence to the newspapers for publication, so as to show the influences which were at work to suppress discussion on the subject. Immediately after this letter was sent, Mr. Andrew's solicitor called upon mine. Although not professing himself to be then in a position to offer an opinion upon the construction of the guarantee, the solicitor said he was informed that my views on the subject were quite erroneous, and it was put to me whether I would continue to give currency to damaging representations, which, whether true or not, would, no doubt, inflict injury, when I had means of satisfying myself that the doctrines I propounded were fallacious. To this appeal, the obvious reply was, that if the fallacy of my statements was so demonstrable as was pretended, the fact of such fallacy could be easily shown. But to prove how sincere my desire was to avoid inflicting needless injury upon anyone, it was stated by my solicitor that I was willing that the points in dispute between Mr. Andrew and myself should be submitted to any impartial and recognised authority, who should declare whether my representations, or those of my opponents, were the most correct, I engaging to bow to the decision thus arrived at. My solicitor accordingly offered, on my behalf, that the points under controversy

should be left to the decision of the Committee of the Stock Exchange. But after a good deal of discussion and delay, this proposal was finally declined on behalf of Mr. Andrew, and the mediation having proved abortive, it now again becomes open to me to resume the discussion of the subject in another edition.

While the solicitors were still conferring together I received a second communication from Mr. Andrew, pitched in a key of still more imperial absurdity than the first, and I of course made it a condition of any submission of the matters under controversy, that this preposterous production should be withdrawn. As, however, Mr. Andrew refused to withdraw it, I print it in this edition. I did assume, as I believe I was warranted in assuming, that the question at issue between Mr. Andrew and myself having been placed in the hands of our respective solicitors, all further direct communication between us was at an end, and I refrained, therefore, from answering a letter which I stipulated should be withdrawn, and which, as it was a manifest indecorum to have written, it would also have been irregular to have answered. What my answer would have been, had I felt it to be consistent with propriety to have sent one, may be inferred from the few remarks appended to the communication in question. But I believe that every one who peruses these pages, whether upon other points he agrees with me or not, will at least acquiesce in this conclusion, that the matter in discussion between Mr. Andrew and myself having been ~~mutually~~

placed in the hands of our solicitors—men, not merely of professional eminence, but perfect gentlemen—it was both a breach of business decorum and of that proper etiquette which regulates the usages of society, to have simultaneously indulged in direct communication. If the amount of judgment and sensibility shewn by Mr. Andrew in this transaction is to be accepted as the measure of those qualities which is to be imported into graver affairs, the result, if unprosperous, need not excite surprise, as in every transaction or event, the results must necessarily be answerable to the antecedents.

I trust that these explanations, while accounting for the delay in the appearance of this edition of my pamphlet, will, at the same time shew, that in these discussions I have appealed only to considerations of truth and equity, and that I have treated Mr. Andrew with an amount of fairness and courtesy which he has shown no disposition to reciprocate, and that my representations, whether sound or not, are at least undisfigured by vindictiveness, pettiness, or sophistry. I despise and can afford to despise, all such suasories; but I equally despise the futile threats by which full and free investigation is sought to be arrested.

If my revelations have shaken confidence in the Scinde Railway Company or the Indus Flotilla schemes, the fault, I fear, rather lies with the authors of those schemes than with me. Judging, however, from the quotations of the shares in the market, no depression of their value has taken place. On the contrary, the shares appear

to have gone up, and what injury can be asserted in the face of such a manifestation? No doubt strange paradoxes are sometimes exhibited on the Stock Exchange, and it is whispered that in other enterprizes shares are sometimes raised or kept up by the nominal purchase of two or three for purposes of quotation, such quotations being subsequently used as one of the expedients to demonstrate the intrinsic value of the property! I cannot suppose that such influences are at work in the case of the projects with which Mr. Andrew is connected, and, no doubt, he will be able to explain how it happens that the more an enterprise is shaken in public opinion the higher the price of the shares shall rise. But as the explanation of such an anomaly is beyond my capacity, I must surrender the task to Mr. Andrew.

INTRODUCTION

TO THE THIRD EDITION.

Magna est veritas et prevalebit. This is the reflection naturally arising from the history of the slender pamphlet issued by me a few weeks ago, and which certainly could not have excited the commotion it has raised, but for the existence of a considerable amount of truth in the views it propounded. We have had various attempts to give a conclusive reply to my observations by persons who ought to know something of the matter. First, Mr. W. P. Andrew, the Chairman of the Scinde and Punjaub Railway and the Indus Flo-tilla Companies—and who is believed by many persons to be a great authority on such questions—ventured to try his hand. But his criticisms appear to have been so completely demolished by my Second Edition, that the work of confutation had to be begun by him anew; and we have since had a letter from the same gentleman in the *Times*, professing to rectify my misapprehensions. To this letter, I immediately sent an answer, *but it was not inserted.* We have also had statements from the Chairmen of the East Indian Railway and the Indian Peninsula Railway, and a pamphlet from Mr. Thomas Watt, Secretary of the Great Indian Peninsula Railway Company, all throwing

useful light on the question under controversy. But, notwithstanding all this expenditure of disquisition, I cannot feel that I have yet been answered. I believe I shall be able to make it clear to every unbiassed mind, that the views I before put forth are substantially just; and that the ideas heretofore prevailing, as to the absolute nature of these Indian Guarantees, are completely delusive. If I should succeed in shewing this to be so in any material point, I trust I shall stand excused, in the judgment of every rightly-thinking person, for having unsettled the public faith in the absolute character of these securities—a procedure which, if not justified by the most weighty evidence, would I admit be quite inexcusable.

And I would wish at the outset to disclaim all attempts to shake public confidence in the eligibility of enterprises of such a sterling character as the East Indian Railway and Indian Peninsula Railway are known to be. It would be a matter of regret to me, and would be quite in opposition to my own convictions, if anything I have written or may write, should have such a tendency. But, in point of fact, I believe that the very opposite result will ensue from my revelations. Enterprises, which are in their own nature sound and attractive, are rather injured than benefited by resting their pretensions on an indiscriminating guarantee, of which the tendency is to confound all projects, whether good or bad, in one uniform superficies of mediocrity.

It is undoubtedly the indication, both of justice and of common sense, that good enterprises should

stand out above the general level, and bad ones should sink beneath it; just as they would do if there were no guarantee in existence. While, therefore, it is manifestly to the interest of unsound projects to stickle for the sufficiency of the guarantee, and to make that the common ground of reliance—just as in trades' unions bad workmen wish that all men shall be paid alike—enterprises which are confessedly good have, in their own intrinsic merits, a far better ground on which to rest their pretensions, and can afford to treat the question of the validity of the guarantee with comparative unconcern. Although, then, it appears that the convictions which have heretofore subsisted, as to the absolute nature of the guarantee, can be shewn to be a delusion, it does not, in my opinion, follow that public confidence will be diminished, or ought to be diminished in those guaranteed undertakings, which are, in their own nature, sound and reliable. Those which are of an opposite character, and which have hitherto hung their weight upon the rest, will, no doubt, fall in general estimation. But is this, on public grounds, to be considered a misfortune? Is it even an injury to the shareholders in those enterprises to understand their real position? It is better for investors to know the truth at the beginning than at the end; as in this knowledge lies the only chance of obviating the loss by which they may otherwise be overtaken.

I further disclaim all wish to attribute blame to the Government, for not making the guarantee better than it is. On the contrary, I think that

the Government have, in all their concessions, shewn a remarkable amount of liberality—more, indeed, than I believe would have been necessary had the real merits of the several undertakings been put forward more prominently, instead of the guarantee having been made the main ground of reliance. Other Companies have been able to get up capital for Indian objects without a guarantee, and why not these? I quite admit that to import English capital into India, to accomplish works of public improvement, inducements ought to be held out of a liberal character. But to afford this inducement in the form of a guarantee, which, whether absolute or not, has been believed to be so by many investors, has this evil, that it takes away the main inducement to enquire into the real merits of the undertaking before embarking money in it, and the material condition, then, is considered to be—not whether the enterprise is promising or not, but whether it has obtained a guarantee from the Government. Such a form of protection, or supposed protection, stifles enquiry, prostrates effort, and leads to enormous complication. Whereas, if the Government had given whatever encouragement was deemed requisite, either in the form of a subsidy, or in some other direct shape, which would have terminated further responsibility, and dispensed with further interference, the benefits would have been equally attained, and the mischief would have been avoided.

The double government of the Railways is a bad imitation of the double government of the

India House and Board of Control, and the withering effects of such a system are as damaging to the Railways themselves as to the public at large. While, therefore, no one can blame the Government for want of liberality, it may fairly be regretted that this liberality has assumed a form so objectionable as that of the existing guarantee. The Government, of course, saw plainly enough that if they had consented to make the guarantee absolute, they would have incurred *an indefinite responsibility*, and they manifestly regarded the chances of loss which — notwithstanding the guarantee — by the contract rested on the Shareholders themselves, as a salutary stimulus to induce them to look after their property. But the Government did not calculate on the amount of popular misconception on this subject, which has been created, and I cannot think them altogether excusable for allowing it to grow up without the application of some remedy. I am unable, however, to agree with the Money Editor of the *Times*, as to the responsibilities cast upon the Government by this omission. He says that the conditions of the guarantee “have been so often recapitulated during the past ten years, that they may be considered to have acquired a force of moral interpretation that is stronger than legal technicalities” — by which, I presume, we are to understand, that because the Railway Companies have misstated the nature of the guarantee, the Government, from not having put forth a contradiction, is bound to accept such misinterpretation. This remark, coming from such a source, will be suffi-

cient to shew the Government what dangers it was on the verge of encountering, and in which it would, no doubt, have before long been involved, but for the discussion I have accidentally raised.

The exposition of the nature of the guarantee, given by Mr. W. P. Andrew in his letter to the *Times*, is too vague and oracular to convey any distinct idea to the mind of any one. For the benefit of those who wish to try their penetration upon it I introduce what is facetiously termed his *explanation* of the conditions:—

“ ‘ Sir,—Attempts are being made by ignorant or interested persons to misrepresent the nature of the guarantee or other privileges granted to Indian railways, and, as I have been a party to no less than three of the contracts with the Secretary of State for India in Council conferring those advantages, I beg the favor of your allowing me to give, in as few words as possible, what I believe is accepted, both by Government on the one hand and the companies on the other, as the intent and meaning of the reciprocal engagements entered into.

“ ‘ The guarantee of a *minimum* rate of interest on the capital is for 99 years, with lease of the land necessary for the railway and works for a like period free of charge.

“ ‘ On the opening of a Line all net profits exceeding the rate of interest guaranteed are to be divided ; one-half of the surplus is to go to the Shareholders, and the other half to the Government, in liquidation of the interest they have advanced.

“ ‘ When the interest advanced by Government has been repaid, the entire surplus profit goes to the Shareholders.

“ ‘ The Government reserve a right to regulate the trains and fares, and, as soon as the dividend exceeds ten per cent., to lower the fares, but not so as to reduce the profit below that rate.

“ ‘ The Government also reserve power, after the first twenty-five or fifty years, to purchase a Line at a price equal to the

average market value of its shares for the three preceding years. On the other hand, a Railway Company has the power at any time, after a Line or any portion of it has been three months in work, to require the Government to take it off their hands at six months' notice and repay them the whole of the capital expended.

“ ‘The contract of the Indus Steam Flotilla is as similar to that of the Railways as circumstances admitted, due provision being made out of profits for the renewal and insurance of the vessels.

“ ‘The Companies cannot borrow on mortgage, but the debentures of the Railways and the Indus Steam Flotilla have these words on the face of each bond:—“Payment of principal and interest is guaranteed by the Secretary of State for India in Council,” and this is authenticated by the signature of the Under-Secretary of State.

“ ‘The guarantee of the Indian Government is only second to that of the Imperial Government. Its security rests on the revenues of India ; but to preserve them, as you lately remarked, the whole force of the empire would be used. When we lost India it would be high time for the fundholder to put his house in order.

“ ‘It is very easy to find fault with any arrangement, but I should like those who would attempt to decry the liberal terms and conditions granted to Indian Railways and the Indus Steam Flotilla to point out any Government guarantee so advantageous as the one in question.

“ ‘The several contracts of this Company with Government, and the Acts of Parliament of the Company, are open at this office for the inspection of those who are desirous of more detailed information.

“ ‘I am, Sir, your most obedient servant,

“ ‘W. P. ANDREW.

“ ‘Scinde Railway Company, Gresham-house,
Old Broad-street, Oct. 26.’ ”

Mr. Andrew has omitted here to state who — if the line of railway or of steamers is worked at a

loss—has to make that loss up; how the due provision is to be made for the renewal and insurance of the vessels of his Flotilla out of profits if there are *no* profits; and whether he is not so bound by his contract as to the points he shall work from and to on the Indus as to deliver him, tied hand and foot, to the tender mercies of an opposition. Then as to the debentures, are we to understand that the Government will consent to be responsible for the debentures without some equivalent security? Will not the vessels be pledged to the Government for the repayment of these debentures? And if the vessels are so pledged, *will it not be impossible thereafter to hand them over to the Government and demand back the capital as provided by the clause of surrender?* The vessels under the contract are to pay over 17 per cent. out of the nett profits to the Governor of Bombay to cover the charges of insurance and depreciation. Are the provisions of the contract to be nugatory? If the first earnings are to be thus impounded, how are the vessels to be kept running except by drawing upon the shareholders for any deficiency? And may not the whole 5 per cent., and much more than that, be consequently swallowed up? Can that be called an absolute guarantee of 5 per cent. where it is possible that the shareholders may not only receive nothing whatever, but have money to pay up for losses incurred in working? If the vessels do not work, must not the 17 per cent. nevertheless be continued to be paid? and how is it to be paid except by the contributions of the share-

holders, or by suffering it to accumulate as a lien on their property? Steamers depreciate equally whether running or standing still, and the deduction on account of depreciation being intended to give the Government an assurance that they should not hereafter be called upon to buy worn-out vessels at cost price without receiving, at the same time, an accumulated sum which will balance the depreciation, can the Government be expected, even though the vessels should not run at all, to dispense with this equitable condition? The depreciation is reckoned on the capital embarked in the vessels, and it would appear to me from the contract, that if half the vessels were running, and half lying up the depreciation having to be paid out of half receipts, would be virtually doubled relatively with the receipts, and if only the fourth of the vessels were running, it would virtually be increased fourfold. To maintain that an arrangement environed by so many perils is one which insures under all contingencies absolute immunity from loss, is an indication not merely of a penury of perception, but also, I fear, of other qualities which I am not ambitious to define.

Of Mr. Watt's pamphlet it is not necessary that I should say much, as the whole issue between us may be disposed of in a few words. The whole of his observations are intended to show that the interest paid during construction is to be paid out of revenue and not out of capital. But even accepting this interpretation, yet as this is only one of the items to which I referred, as involving possible loss, he is, even taking his own view,

nearly as far as ever from establishing the proposition which he undertook to prove. Mr. Watt says :—

“ It is of the highest importance in the interests of the state, of the public, and of the holders of Indian Railway Stocks, that no doubt should be permitted to exist as to the sufficiency of the Government Guarantee. It certainly has, as the author of the pamphlet alluded to observes, always been understood by the shareholders in guaranteed lines, that their capital was safe under all contingencies ; that by the very fact of being guaranteed, it was kept intact, and preserved from the possibility of loss ; and that, with the same security as a Government loan, it had the probabilities of profit should the undertakings turn out to be remunerative.”

And that this is a correct view of the guarantee, Mr. Watt endeavours to show. But as he limits his reply to one only of the points I mooted, the inference is that he finds the others to be unanswerable. I should have been glad to have learned from Mr. Watt how, even according to his own interpretation of the repayment of interest during construction, the capital of the Indus Flotilla can be considered “ safe under all contingencies,” or how the 5 per cent. interest “ has the same security as a Government loan,” and this is the whole question at issue between us. The Indus Flotilla is guaranteed equally with the Railways. But, if Mr. Watt should say that there may be special conditions in that case, which render it exceptional, I will take the Scinde Railway, which has the same form of contract as the others. Now, as the Government is in no case responsible for a larger payment than 5 per cent., it follows that if the Railway is worked at a loss, the shareholders must make good the loss, and this loss may swallow a part, the whole, or more than the whole of the

5 per cent. Is this the case; or is it not? And, if this be so, how can it be said that the Railway capital "is safe under all contingencies." It is idle to say that a railway cannot be worked at a loss. The maintenance of way, the wear and tear of machinery, the cost of wages and supervision, are all inevitable expenses, and, if the traffic is at the same time very small, and, if from competition of water conveyance, such as exists in the case of the Scinde Railway, the charges must be very low, it may be, and sometimes will happen, that such a work will not return its ordinary expenses. Again, in tropical countries such works as railways are liable to damage from floods. The Scinde Railway has already suffered serious injury from this cause; and, as the expense of maintaining the line falls upon the shareholders, heavy outlay may thus become necessary, the money for which the shareholders must find, or the interest will be impounded to make it up.

How can money invested under such conditions be said to possess "the same security as a Government loan?"

I do not by any means maintain that under no circumstances can money invested under such conditions be well laid out; my belief being precisely the contrary, in many cases. But it is the merits of the enterprises, and not the all-sufficiency of the guarantee, which affords the requisite justification; and all that I contend for is, that things should be called by their right names, and pretensions be rested on their right bases. The power of surrender to the Government is valuable or not,

according to the character of the persons to whom the administration of the Railway falls. But, that this surrender will be generally made, when found to be advisable, I have not the smallest expectation. Sanguine views and interested councils will, probably, in most cases prevail, until the losses, whether from deficient revenue, from injury by fire or flood, or from many causes which might be enumerated, have so dipped the enterprise, that only a portion, if any, of the capital will be recoverable when a sale comes finally to be made.

Here then I close this discussion relative to the character of Indian Guarantees, and whatever may be thought of the force of my representations, I believe that it will be at least conceded that I have performed a useful service in having brought this question to the sifting operation of public discussion, in spite of the embittered influences which have sought to defeat this salutary procedure. I am bound to say, and I do so with the alacrity and frankness which become an impartial though a resolute enquirer, that the documents cited by Mr. Watt render it uncertain how far that part of my argument relative to the repayment of interest during construction can be sustained, and although two views may be fairly held upon this particular point, it now seems to me that the balance of evidence is in favour of the view which Mr. Watt has adopted. In whatever way however this subordinate feature may be determined, my main positions have not only yet remained firm, but appear, in proportion as the mists are cleared away, to be more and more un-

assailable. Heretofore it has been supposed that the Government guarantee secured to the investors, in common with the investors in a Government loan, a minimum return of 5 per cent. on their money clear of all contingencies. Whereas the conditions of the contract I maintain to be such that the investors may receive no interest whatever. It is not to individual investors, but to individual *companies* that the 5 per cent. is paid, and the payment of it at all appears to be contingent on a favourable balance of account between the Company and the Government, which may or may not exist. If the companies do not get the money from Government, they cannot pay it to their shareholders; and it will signify little under what particular head the deduction may fall to be classed, if such deduction may actually occur. The *guarantee* is, in point of fact, a complete misnomer. In no case can the Government be called upon for more than 5 per cent. and therefore, should the loss be more than this, the shareholders will not only get nothing, but will be incurring a debt. The supposed outlet from this difficulty lies in the clause of surrender, about the efficacy of which different persons may entertain different views; and the further question arises whether the existence of debentures would not oppose an obstacle to the action of this clause, even if no other impediments existed? Finally, there is the risk of preservation after the work is opened, and the capital account closed. If damage occurs in any year to the extent of 10 per cent. on the capital, there may not only be no 5 per cent to

pay to the shareholders, but there may be a debt of 5 per cent. to make up; and this will equally have to be done whether the work is to be made over to the Government or not, as the Government will only take it after it has been put into a state of perfect repair.

Here I would willingly have closed these observations. But as, since the appearance of the last edition of my pamphlet, an attempt has been made by a threat of legal proceedings to stop my revelations, I think it right to reprint here certain letters which have been exchanged with reference to this incident. Those who agree with me, and those who disagree, will, I feel persuaded, equally join in condemning this attempt to shut free discussion up; and it is, in my eyes, a bad augury for railway interests, to see them confided to persons capable of such conduct as is here revealed:—

INDIAN GUARANTEES.

To the Editor.

Sir,—I invite you to publish the following correspondence:—

I lately put forth a pamphlet calling attention to the real nature of the Indian Guarantees. This pamphlet appears to have excited some attention, and at a late Meeting of the Scinde Railway and Indus Flotilla Companies, the Chairman, Mr. W. P. Andrew, referred to it in slighting terms, and maintained the opposite of the doctrines I had propounded. In a Second Edition I replied to Mr. Andrew, vindicating the views I had formerly expressed, and as my arguments appear to have been considered of weight in some quarters, a letter appeared from Mr. Andrew in the Money Article of the *Times*, of October 29th, reciting the main conditions of the Contracts with

the Government; and the topics I raised were also touched upon by the Chairmen of the East Indian and Indian Peninsula Railways at the recent Meetings of Proprietors, and have also been discussed with considerable ability by Mr. Thomas Watt, the Secretary of the Indian Peninsula Railway in a pamphlet he has lately published. To all this I can see no objection. My views, if they can be shown to be wrong, ought to be confuted. But in most of the main points, this confutation has yet to be given, and whatever may be thought of the strength of my positions, public opinion will be at least unanimous in the conviction that such questions can only be investigated by the aid of dispassionate discussion, and are not to be resolved by the bludgeon process of a legal threat. The letter which I forwarded to the *Times* in reply to that of Mr. Andrew, was not inserted. Intimidation I am informed has been used towards the publisher of my pamphlet, to frighten him against continuing the sale, and now the same species of illegitimate pressure is sought to be put upon myself—with what result the subjoined correspondence will shew. To what end all these attempts at suppression, if my views are so superficial and my arguments so destitute of weight as is pretended? When Mr. Andrew is able to shew that his Indus Flotilla Guarantees, which, on the strength of receiving 5 per cent. *from*, undertakes to pay 17 per cent. *to the* Government, is a species of security, which, in common with a loan, will return at least 5 per cent. interest to the investor under all contingencies, there may be some reason in seeking to attract the public attention to the nature of the guarantee given to this concern. But until he can perform this feat, the more he stirs the matter the worse must be the impression conveyed.

I am, Sir, Your obedient Servant,

London, November 1st, 1861.

JAMES MILLS.

Letter from MR. ANDREW to MR. MILLS.

Scinde Railway Office, Gresham House, Old Broad St.,
London, 31st October, 1861.

Mr. James Mills,

Sir,—As I have been unable to meet with you, I have to ask you to do one of two things, either give me up the name of the *real* author of the Pamphlet on Indian Railway and Flotilla

Guarantees published by Messrs. Mann Nephews, 39, Cornhill, London, or sign the enclosed note for publication,

I am, Sir, Your obedient Servant,

W. P. ANDREW,

Chairman, Scinde Railway Company.

[ENCLOSURE REFERRED TO.]

London, 31st October, 1861.

SIR,—I much regret having been misled into making false statements in the pamphlet on Indian Guarantees, published by Messrs. Mann Nephews, 39, Cornhill.

The further publication of the Pamphlet has been suppressed, and I hereby tender you my humble and sincere apology,

I am, Sir, Respectfully yours,

W. P. ANDREW, Esq., Chairman, Scinde Railway Company,
Gresham House, Old Broad Street.

Letter from MR. MILLS to MR. ANDREW.

London, 31st October, 1861.

"SIR,—I am greatly astonished at the unwarrantable liberty you have taken in addressing to me such a letter, and submitting to me such a proposal as I have just received from you. I presume I am at liberty to discuss any public question without asking your permission, and if you endeavour as you have publicly done, to controvert my views, I have yet to learn that it is not permissible in me to return such a reply to your criticisms as I am able to give. If in the heat of argument I have used any word or phrase which might be considered to be characterised by needless asperity, I should have been quite willing to rectify it on proper application having been made to me, and am still willing to do so in my next edition if such words are pointed out. But I am not to be moved by intimidation. You will find it as difficult to silence me by threats as you appear to have found it to silence me by argument, and I am quite astonished that such an attempt should be made by any one claiming the least title to self-respect. As it will suffice to show the public what influences are at work to stifle inquiries into the pretensions of these guarantees, I propose to publish your

letter, and this answer to it, and I have directed my solicitors, Messrs. Cotterill and Sons, Throgmorton Street, to attend to any further communications which you may wish to address to me, being quite prepared to defend whatever I have written,

I am, Sir,

Your obedient Servant,

JAMES MILLS.

Mr. W. P. ANDREW, Scinde Railway Office, Gresham House.

Letter from MR. ANDREW to MR. MILLS.

Scinde Railway Office, Gresham House, Old Broad Street,
London, 4th Novr., 1861.

Mr. James Mills,

It was natural for your contemptible employer to be insolent at the moment he claims the protection of his solicitor.

Be assured I will unearth and punish you both before I have done with you.

W. P. ANDREW.

To this last characteristic effusion I refrained, for the reasons mentioned in my preface, from sending any reply. Had I felt myself free to answer it, I would have informed Mr. Andrew that I was quite willing to leave the public to judge whether he or I occupied the most contemptible position in this correspondence—that I could discern but little courage in the bluster of noisy threats, from the prosecution of which, when confronted, he recoiled—and that the enterprise of *unearthing* a pamphleteer, who does not write anonymously, and who asserts that he is prepared to justify what he has written, would

appear to be a more superfluous process than that of confuting him, if it is felt that such confutation can be given. The insinuation that I have been *employed* to demonstrate the hollowness of Mr. Andrew's propositions I dismiss with the contempt due to all inuendoes, which are the last resort of controversialists who have been vanquished both in fact and argument; and I would merely suggest that, to make these demonstrations possible, the hollowness must exist. The plans of revenge which Mr. Andrew may meditate are to me of supreme indifference. My reliance upon my own strength would be small indeed, if I did not feel equal, at all times, to deal with such an antagonist; and, perhaps, he may discover that in these encounters he suffers more injury than he inflicts. It needs both a good case, and a sound reputation, to stand the shock of controversy, and the most imposing structure, if built up of flimsy and crumbling materials, is easily shaken down. I cannot suppose that Mr. Andrew's coadjutors, in the direction of the Scinde Railway Company, should have given their sanction to his letters to me. And if they did not give this sanction, is it not a grave indiscretion to have signed himself "Chairman of the Scinde Railway Company," in his marvellously indiscreet communication, as if that communication had received the warrant of official sanction?

If Mr. Andrew is enabled to write official letters without the knowledge and sanction of his own Board, he manifestly reduces the gentlemen of that Board to the condition of ciphers; and

those gentlemen, therefore, now stand in the dilemma of being supposed either to have sanctioned Mr. Andrew's monstrous letter, or of being reckoned a mere *nominis umbra*, in whom no expression of opinion is either expected or allowed.

INTRODUCTION

TO THE SECOND EDITION.

It will not be supposed that the exposure which this Pamphlet has given of the delusive nature of Indian guarantees should have been otherwise than unwelcome to those who have hitherto misled public opinion on this subject. I observe that at a late meeting of the Scinde Railway and Indus Flotilla Companies, the Chairman referred to this question as having been recently agitated. But, instead of attempting to confute what I have advanced, he contented himself with referring to a former explanation of the nature of the guarantee which he had put forth; and he further referred to a brief resumé of the nature of the Contracts concluded between the several Companies and the Government lately given by Mr. Danvers, as containing all the information on this subject which it was necessary Shareholders should have. Certainly Shareholders must be easily deluded, if they can rest satisfied with such an evasion of the important question I have put before them. In every statement I have made I have quoted chapter and verse, not in any paraphrase or epitome, but in the Contracts themselves. That those quotations are correctly given, every one has the power of judging for himself, as the

original papers from which the quotations have been taken are accessible to all the world. The question to be resolved is, whether such stipulations are in the Contract or not; and to this Mr. Andrew replies that they are not in a certain abstract or description of the several Contracts which was not made for the purpose of illustrating this or any other similar point, but which was merely intended to give a popular view of the nature, extent, and leading features of the several undertakings to which guarantees had been given. The omission of these particulars from such a brief outline does not expunge them from the Contracts, and what it behoved Mr. Andrew to state was whether such provisions existed in the Contract of the Indus Flotilla or not; and if so, how he reconciled that fact with his own flaming panegyrics of the value of the guarantee his Steam Company had obtained. In the first place, he is limited under his Contract to ply between the two points of Moultan and Kotree, *and cannot go anywhere else beyond those points*. If, then, the cargo is intercepted by other vessels before it reaches those points, how are the vessels of his Indus Flotilla to be supported? It is quite idle to say that the Government would in any case pay the 5 per cent. to the Shareholders. I know that this is the impression heretofore prevailing, *but it is quite incorrect*, as will be seen by a reference to the Contracts; and what I recommend is, that every one interested in this subject should refer to the Contracts themselves, instead of taking any man's glosses or constructions of them. He will

there see, as I have stated, that 17 per cent. is to be appropriated by the Governor of Bombay, as a first charge on the money received from the earnings of the Flotilla vessels, and he will also see that the losses of the speculation *must be borne by the Shareholders*. If, then, the restriction as to the limits within which the vessels are entitled to ply necessarily entails loss, and if this loss has to be borne by the Shareholders, how can it be maintained that such an arrangement is an eligible one? If Mr. Andrew thinks he can resolve this mystery, why does he not do it? And is not the manifest evasion of this momentous question a presumption, at least, that the scheme is intrinsically unsound, and that it is felt that a confutation of my views cannot be given?

The rejoinder made by the *Money Market Review* to the First Edition of my Pamphlet had manifestly its inspiration in the same source as the remarks offered by Mr. Andrew—the tenor of the observations being so nearly identical. I immediately, on seeing these remarks, wrote a letter to the Editor reviewing his arguments, and shewing that they had no force; and I invited him to show that I was in the wrong, if he thought he could do so. This invitation has not yet been accepted, though my letter was inserted in his paper. This letter was as follows :—

“ To the Editor of the ‘ MONEY MARKET REVIEW.’

“ SIR,— If the revelations given by my pamphlet as to the delusive nature of the Indian Guarantees should be proved to be a ‘ mare’s nest,’ it must be by a greater force of reason than you

have been able to exhibit in your remarks on the subject. I see nothing whatever in the short *resumé* of the main arrangements subsisting between the Companies and the Government given by Mr. Danvers that is in the least degree inconsistent with my averments. Mr. Danvers' statements do not profess to set forth every point with all the minuteness and formality of a legal document, but it seeks merely, by way of preface to the Report, to give a popular exposition of the most prominent points of the engagements into which the Government and the Companies had mutually entered. Mr. Danvers, at the commencement of his Report, says:—'A form of agreement, embodying the various conditions of the contracts entered into by the Railway Companies and the Government, is appended. It will be sufficient here to state the principal conditions'—and which he thereupon proceeds to do in the words you have recited. It is plain from this, that Mr. Danvers considered himself to be dispensed from the necessity of going into details by furnishing a copy of the agreement itself, for the benefit of those desiring precise information. It is plain also that Mr. Danvers did not himself consider that there was any inconsistency between the agreement and his explanation of it. But the form of agreement referred to by Mr. Danvers is identical with the contracts I have referred to in my pamphlet, and corroborates the accuracy of every statement that I have put forth. Thus, in Clause 12 of this form of agreement, it is provided that the working expenses and the cost of maintenance shall be paid out of revenue, 'including any interest to be received from the Secretary of State in Council, as hereinafter mentioned,' and in Clause 16 this interest is mentioned as being a certain sum payable yearly on the capital for ninety-nine years. But in Clause 21 it is provided that in the event of the sale of the works to the Government, 'the Secretary of State in Council shall be at liberty to retain out of any monies payable to the said Railway Company, the amount of all claims and demands of any sort then existing against the said Railway Company on their revenue account, in respect of their said Railway, and which shall not be shown to be fully satisfied and discharged.' Now, if interest is to be paid out of revenue, and if the charges on revenue are to be reckoned as a lien on the line, how can your intimation be correct, that the shareholders can call upon the Government to return to them the whole capital expended upon those undertakings, without the deductions specified? Where is the authority upon which you make such an assertion? Then, again, as to depreciation, there is to be set aside on this head such sum as the Government think fit, and may go far to swallow the interest up.

"I have no wish or object in this matter except to remove the mystification hitherto so studiously preserved, and to get the truth,

whatever it may be, made clear to all. This is obviously the duty of independent journalists. But if the sentinels of public opinion neglect their functions, others must endeavour to perform them as they best can. I invite you to publish this letter, with any reply to it you are able to give.

"I am, Sir, your obedient servant,

"JAMES MILLS."

39, Cornhill, September 27th, 1861.

Here then this question now rests. I have quoted Official documents in support of any statement I have made, and, although several persons have attempted to answer me, they have in every case evaded the main question at issue, and their answers consequently have not even the virtue of plausibility—much less of truth.

Surely it is material that in so important a question as the validity or otherwise of these guarantees there should be no room for doubt! Nor is this necessity rendered the less conspicuous by the manifest and breathless puffery to which some of these projects resort to uphold their waning reputations. In the Scinde Railway and Indus Flotilla Companies these expedients of a mock prosperity are particularly glaring and incessant; and the reports which they publish, and the paragraphs in newspapers which they insert, indicate a fertility of imagination to which praise would be imputable if it was in the realms of fancy, and not of fact, in which commercial enterprises had their proper theatre.

At the time at which I write, the Indus Flotilla Company are straining every nerve to get their debentures taken up, which I presume they find

to be a difficult achievement; and this difficulty need not excite surprise, seeing it is notorious that most of their vessels are so far failures, and that after nearly six years' gestation they have not yet an efficient vessel at work. Under the most favourable circumstances, the money lent on such perishable security as that which river steamers afford cannot be supposed to be very favourably laid out, unless there be some such return in the shape of very large interest as to compensate in some measure for the defects of the security. But in the case of the Indus Flotilla vessels the Debentures can hardly be supposed to rank as a *first charge* upon the capital, seeing that 17 per cent. per annum is, *in the first place*, to be paid out of the earnings to the Governor of Bombay, and any arrear of this payment must consequently rank as a first charge on the whole Capital of the Company which is pledged for the liquidation of the stipulated amount. Any one reading the Contract of the Indus Flotilla Company with the Government, will at once perceive that the fact of such an arrangement having been already concluded reduces any debentures now negotiated to the condition of a *second mortgage*; and if the Government should engage to see these Debentures repaid, there is no alternative but that they must either lose the money for which they thus become responsible, or that some reservation exists in the Contract which will transfer the loss to other shoulders. There is always the greatest difficulty in obtaining repayment of

money advanced by way of mortgage, in cases in which the security held is not equal in value to the money advanced. If the security is good enough without any mortgage, why is a mortgage made? If the mortgage is essential, why should the value of the property on which the mortgage is given, be inadequate to reproduce the sum advanced? The security afforded by these Indian guarantees is, in my judgment, of a most doubtful character. But in the case of most of the railways, the works and stock form a species of permanent property which give some species of security for repayment of the Debentures. In the case of river steamers, which soon wear out and lose their value, the state of affairs is widely different; and, although the 17 per cent. paid to Government which is intended to compensate for this depreciation, would, if it were regularly realized and paid, form some solid ground to fall back upon, yet upon this fund the Government has the first claim, so that it is already appropriated should it ever be collected. If Mr. Andrew had condescended to illustrate some of these difficult points, the benefit would have been greater than can ever be accomplished by all the devices of advertisement and panegyric which he so well knows how to use. But belief is not always accorded to the boldest declamation or to the most laudatory forms of persuasion. Nostrums the most vaunted are not always the most prized; and, although, I have no reason for doubting that this persevering gentleman is himself a believer in

the wares he offers for public acceptation, the public faith in their genuineness would not be diminished if he should succeed in shewing their soundness in those points in which they have been so seriously impugned.

INDIAN RAILWAY AND FLOTILLA GUARANTEES.

THE Money Article of the *Times* having recently drawn public attention to the great waste of money which has taken place, in carrying out railways and other guaranteed enterprizes in India, I have been induced to enquire into the nature of the contracts subsisting between the several Companies and the Indian Government.

The result of this enquiry is, the startling discovery that the Government guarantee which has been granted to the Railways and some other undertakings in India, is of no value or efficacy whatever ; that it gives no assurance to Shareholders that their Capital is not wasted, or is preserved in greater security than if such a guarantee did not exist ; and that it is, emphatically, “ a mockery, a delusion, and a snare.” It has always been understood, by the bulk, at least, of the Shareholders in guaranteed lines, that their Capital was safe under all contingencies :—that, by the very fact of being guaranteed, it was kept intact, and preserved from the possibility of loss ; and that, with the same security as a Government

Loan, it had the possibilities of profit, should the undertakings in which these various persons had embarked their Capital, turn out to be remunerative. The interest paid by the Government to the Shareholders, on the money advanced by them, was supposed to be paid for the present use of the money, just as in the case of a Loan to the Government; and no one supposed that the interest paid to the Shareholders, during all these years, was accumulating as a charge on the Capital, which would, in time, swallow it up altogether; or that this interest was a mere return of a part of the Capital which the Shareholders had advanced. It turns out, however, that all the money expended in these several undertakings—all the money which the *Times* represents as having been recklessly squandered—and all the payments of interest which the Government has advanced, from the commencement of these several undertakings to the present time, have to be made good by the Shareholders, and by them alone. The Government carefully guards itself, in its contracts, against having to bear any part of the expenses or losses of these projects; and, while it reserves to itself the right of absolute control over the works, and stipulates that it shall fix the fares charged for passengers, and the freights charged for goods, it takes care to exempt itself from any participation in the losses, however occurring. No doubt the Government undertakes to purchase the Railway or other work, when required to do so. But it provides that the Line or Work shall previously be put

into the most perfect state of repair, at the expense of the Shareholders, and that all losses which have occurred in working the Line, and also all sums advanced as interest, shall be deducted from the purchase-money, — and the works are held in security for this repayment. With such an arrangement as this, to talk of a guarantee, as being given by the Government, is an absurdity. It is by the *Shareholders*, that any guarantee is given, which exists in the case. The Railway or Steam-boats of the Companies stand pledged to the Government, in repayment of their advances of interest, and constitute a material guarantee to the Government, of an efficient character. In the case of the Indus Flotilla Company, it is not merely the interest which has to be repaid. There is, besides, a fund to be set aside, of 10 per cent. on the Capital, for insurance and contingencies; and 7 per cent. for depreciation; making, with the interest, an amount of 22 per cent. per annum, which is to be deducted from the purchase-money, should a sale of the Vessels to the Government take place, so that, in between four and five years, the whole Capital would be eaten up by these accumulated charges, supposing that the vessels pay their expenses in working, which it is very doubtful if they will do. I understand that, in this Flotilla, as in the Railways, much money has been squandered. I hear that its vessels, or most of them, are failures, and are not likely to return their expenses. But supposing they are not failures, and that they do just return their expenses, the capital will, nevertheless, be

swallowed up in a few years. The only possible way by which the Shareholders in guaranteed undertakings can escape, without enormous loss, is, by pressing the Government to purchase them immediately, before the accumulated interest and other charges has completely eaten them up. As a preparatory step to this, Shareholders should insist upon knowing the exact profits made, and the exact amount of lien upon their enterprizes, in the shape of accumulated interest or otherwise. Heretofore the Shareholders in guaranteed undertakings have supposed, that they sustained less risk of loss than in the case of undertakings not guaranteed, and they have, therefore, been less strict in their enquiries, supposing that they were sure of the 5 per cent., in any contingency. But it is now high time that they should survey their real position, and, if a retreat appears to be their safest course, they should compel their Directors to make it without delay, as every day added to the duration of the existing state of things, increases the weight of the load already on their necks.

It is provided in the contracts between the Railway Companies and Indus Flotilla Company and the Indian Government, that there shall be a Capital account and a Revenue account in those undertakings; that those sums shall alone rank as capital of which the expenditure has been sanctioned by the Government; and that all charges arising out of the working of the lines, or the carrying on of the several undertakings, *including any interest received from the East India Company,*

shall be reckoned as charges on revenue ; also that if the Company wishes to surrender the line, the Government shall be at liberty to retain out of the money payable to the Company the amount of all claims or demands of any kind then existing against the Company on account of revenue. That this is the true intent and meaning of the contract will appear from the following citations from the contract with the Scinde Railway Company.

At page 138 of the Blue Book, No. 259, for 1859, paragraph 11, it is stated—

“ That all the expenses of the said Railway Company shall from time to time be stated and submitted to the East India Company for their sanction and approval, and as between the said Railway Company, and the East India Company, shall be allowed so far only as the same shall from time to time have been sanctioned and approved by the East India Company.”

The following is the provision as to the Capital and Revenue accounts, as appearing in paragraph 12 :—

“ That a Capital account relating to the construction of the said line of railway, and the works, conveniences and telegraphs thereto belonging, and relating to the original cost of engines, carriages, and the plant and machinery, shall be kept by the said Railway Company, to which account all moneys paid by the said Railway Company, the expenditure of which shall have received the sanction and approval of the East India Company, shall from time to time be carried; and when and so soon as the said railway and works shall have been completed and furnished with the necessary rolling stock and plant, the said Capital account shall be made up, and a statement shall be furnished to the East India Company, of the aggregate amount of capital which according to such account shall have been expended; and such amount shall, by examination of such account, be ascertained and certified by the East India Company; and thenceforth, and from the opening of the said line of railway, the cost of maintaining it, with its machinery and stock, in good working condition, shall be payable by the Railway Company, out of the revenue of the said railway, *including any interest to be*

received from the East India Company as hereinafter is mentioned; but upon any additions, alterations, or improvements, such as shall properly be chargeable to the Capital account, being thereafter made with the sanction and approval of the East India Company to, of, or in the said railway, or the works, conveniences, or telegraphs thereto belonging, or the engines, carriages, and other plant and machinery, the cost necessarily incurred in executing such additions, alterations, or improvements, shall be added to the said Capital account; and the said Capital account shall from time to time be made up, and stated afresh as occasion shall require, and be ascertained and certified accordingly."

The following are the conditions relative to the surrender of the railway, or its purchase by the Government. They will be found in paragraph 21:—

"That after any portion of the said line of railway shall have been finished, and in work for three calendar months at least, it shall be lawful for the said Railway Company then, or any time thereafter, to give notice in writing of their intention to surrender and relinquish the said railway and works to the East India Company on any day to be mentioned in such notice, so that such notice be served at least six calendar months before that day, both on the East India Company in London, and also on the Secretary of Government at Bombay; and in case of such notice being given, the said Railway Company shall at the expiration thereof, surrender and relinquish the said railway and works accordingly, together with the telegraphs (if any), and shall, with all convenient speed, sell any lands in Great Britain which may then be held by the said Railway Company, for the purpose of their business, and pay the clear moneys to be produced by such sale to the East India Company; and shall deliver to the East India Company the engines, carriages, stock, plant, and machinery belonging to the said railway and works, and all plans, surveys, sections, printings, writings, drawings and documents whatsoever connected with the undertaking and affairs of the said Railway Company; and the East India Company shall be bound to accept the premises to be so surrendered and delivered; it being expressly agreed that the said railway works, telegraphs, engines, carriages, stock, plant, and machinery shall, at the time of such surrender and delivery, be in good working order, according to the covenant in that behalf hereinbefore contained, on the part of the said Railway Company; and immediately upon such surrender and delivery being made, the East India Company shall be bound to pay to the said Railway Company the capital

expended by the said Railway Company upon the said railway works and premises so to be surrendered and delivered, such expended capital being ascertained and certified in the manner hereinbefore mentioned, together with such parts (if any), of the capital of the said Railway Company as shall remain in the hands of the East India Company; and to discharge and indemnify the said Railway Company from all debts and liabilities incurred with the sanction of the East India Company, and thereupon the aforesaid covenants for payment of interest shall cease as from the day upon which the East India Company shall be bound to accept the said railway and works, and all claims by the East India Company on account of interest or otherwise, on the said Railway Company, shall also cease, except that the *East India Company shall be at liberty to retain out of any moneys payable to the said Railway Company the amount of all other claims or demands of any sort then existing against the said Railway Company on their revenue account in respect of their undertaking, and which shall not be shown to have been fully satisfied and discharged until the same shall have been shown to be so satisfied and discharged. Provided also, that the East India Company shall not be liable to refund any sum expended in the maintenance or working of the line after the same shall have been opened, which sum is to be provided by the Railway Company, out of the revenues of the line and interest, as hereinbefore provided or otherwise.*"

By the following clause, it is provided that if the Railway Company fails to keep the line in proper order, the Government may enter and execute any necessary repairs, the cost of which shall be deducted from the revenue :—

" That if default shall be made by the said Railway Company after the line, or any portion thereof, shall have been opened, in their covenant to keep the said railway and works, or such part thereof as shall have been opened, in repair and condition for the space of one calendar month next after notice in writing in that behalf from the East India Company to the said Railway Company at Bombay, it shall be lawful for the East India Company by their agents to enter on the railway and works, and to do and execute all such works as may be required for fulfilling the said covenant, and to charge the expenses of the same against the said Railway Company by setting off the amount of such expenses against any monies then payable or which shall thereafter become payable by the East India Company for interest in manner hereinbefore mentioned, which interest shall in such case, to that extent be considered as paid and satisfied by such

set-off or retainer, and shall for all the purposes of these presents be regarded and considered as interest actually paid by the East India Company to the said Railway Company in pursuance of their covenants in that behalf hereinbefore contained, and if such expenses shall not be satisfied by such set-off and retainer as aforesaid, then the East India Company may set-off and deduct the same against and from all or any part of any other monies which shall on any account whatsoever be or become payable by the East India Company to the said Railway Company."

While, however, the Railway Company is burdened with the risks and losses of the undertaking, the Government claims to determine when they shall run trains, where they shall run them to, what fares they shall charge to the public, and, in fact, stipulates for such powers of interference, that no line can have the assurance of being rendered profitable, when the whole control is thus surrendered. In fact, under the existing arrangement, the Railway Shareholders spend their money in such way as the Government directs; and they are thereafter deprived of the power over their own capital, so that they can have no certainty of making a profit from their undertaking, however excellent may be its intrinsic merits.

In the case of the Scinde Railway, as it runs from the one end to the other through a desert, its intrinsic merits cannot be supposed to be very great, and it is said to have lately suffered from floods to an extent which it is reckoned it will take a quarter of a million to repair. But however good the line might have been, and however auspicious the process of construction and preservation—though the capital is now twice greater than was supposed would be required under the original estimate—yet, seeing that it is the interest

of the Government, as the owners of the land, that the fares and freights should be very low, so as better to develop the resources of the soil, the constant tendency is to press prices down below a remunerative point, and the Railway Company has no power to hinder this, while they are responsible for all the losses thus produced. The provision as to the fares to be charged for passengers and goods is to be found in paragraph 8, and is as follows:—

“ The said Railway Company shall and will allow the use of the said railway to the public on such terms as shall be approved by the East India Company; and the said Railway Company shall be authorised and empowered to charge such fares for the carriage of passengers and goods, and such tolls for the use of the said railway as shall have been approved by the East India Company, and shall not in any case charge any higher or different fares or tolls whatsoever without such approval being first obtained, but such fares or tolls shall, when such net profits as are hereinafter mentioned shall in any year have exceeded 10 per cent. upon the outlay, be reduced in accordance with any requisition of the East India Company in that behalf, but only with a view of limiting the said fares and tolls so far that the net receipts shall not exceed 10 per cent. as aforesaid.

This concession, however, is not enough to satisfy the Government. It provides also that the mails shall be carried free, and that Government goods and passengers shall be conveyed at a reduced rate. This provision is set forth in Article 19, and is as follows:—

“ That the said Railway Company will, at all times during the said determinable term, convey on the said railway the Government mails and post-bags, and the guards and other servants of the post-office in charge thereof, free of charge; and when they are on duty, all officers and persons in the administration of the post-office also free of charge; and will also convey on the said railway, when they are on duty, the troops, both horse and foot, as well those of Her Majesty as those

of the East India Company, and all other persons to whom the provisions of the Mutiny Acts for the time being in force for the Queen's forces, and for the East India Company's forces respectively, shall be applicable; and all artizans on the business of the East India Company. The officers, and persons of similar station in life, to be entitled to travel in first-class carriages at second-class fares; and the troops and European artisans in the second-class carriages at the lowest fares; and all other persons at the lowest fares. And will also convey on the said railway all general stores belonging to the East India Company, and all guns, ammunition, horses, and other animals, used for military purposes; and all military stores, carriages, waggons, camp-equipage, and equipments whatsoever, at the lowest rate for the time being chargeable for the carriage of such animals, goods, and merchandise, the several privileges of conveyance and carriage hereby stipulated for, being at all times to be used and enjoyed in preference to and priority over the public use of the said line of railway for conveyance and carriage."

The provisions in the case of the Indus Flotilla Company are nearly the same in form as those existing in the case of the Scinde Railway, but much more unfavourable to the Company, as 17 per cent. per annum, in addition to the 5 per cent. interest, have to be charged against revenue, making in all a cumulative charge of 22 per cent. per annum against the Company, which, in a short time, must swallow up the whole capital. The following is the stipulation relative to the Capital account, and the repayment of interest out of revenue. They will be found in Clause 11, page 150:—

"That a Capital account relating to the original cost of the said steam-boats, and other vessels belonging to the Indus Steam Flotilla, and relating to the construction of the docks, quays, wharves, stations, and other works and conveniences aforesaid, shall be kept by the said Railway Company, to which account all monies paid by the said Railway Company, the expenditure of which shall have received the sanction and approval of the Secretary of State in Council shall from time to time be carried, and when and so soon as the said Indus Steam Flotilla shall have

been completely formed, and all necessary docks, quays, wharves, stations, and other works and conveniences shall have been made and constructed, or at any earlier time or times, if the Secretary of State in Council shall require the same, the said Capital account shall be made up, and in such Capital account the amount of capital expended on the said steam-boats and other vessels forming the said flotilla, and capital expended on the said docks, works, and conveniences, shall be separated and distinguished from each other, and a statement shall be furnished to the Secretary of State in Council of the aggregate amount of capital, which, according to such account, shall have been expended, distinguishing therein the amount of capital expended in respect of the said steam-boats and vessels, and in respect of the said docks, works, and conveniences, and such amounts shall, on examination of such account, be so ascertained and certified respectively by the Secretary of State in Council, and as so certified, shall be considered to be the correct amounts thereof for the purposes hereinafter-mentioned; and thenceforth, and from the time when the said flotilla, or any part thereof shall have been provided, the cost of maintaining the said flotilla for the time being, and the said works and conveniences in good working condition, shall be payable by the Railway Company out of the revenue of the said flotilla and works, *including any interest to be received from the Secretary of State in Council as hereinafter is mentioned.*"

The stipulation relative to the Insurance and Contingency Fund, and the Depreciation Fund, are to be found in paragraph 17, and are as follows :—

"That as soon as the said steam-boats and other vessels, or any of them, shall begin to ply on the river Indus, or the said works and conveniences shall begin to be used, and thenceforth, during the said determinable term of 99 years, the *net receipts* which shall be realised during any half-year, or from the commencement up to the first of the aforesaid half-yearly days, after deducting therefrom all sums which shall have been expended in the repairs and maintenance of such steam-boats and other vessels, and of the said works and conveniences, or have been duly apportioned to the account of the said Indus Steam Flotilla for the management and conduct of the said Railway Company and its affairs, and which shall have been allowed or sanctioned by the Secretary of State in Council, *shall be in the first place* applied in or towards forming two funds, to be called the Insurance and Contingency Fund, and the Depreciation Fund, respectively, in manner following, that is to say, on each of the

said half-yearly days in every year, there shall be reserved out of the net receipts of the half-year ending with that day, and to be set apart to the credit of the Insurance and Contingency Fund, a sum equal to £10 per cent. of the capital expended on the said steam-boats and other vessels as appearing by the Capital account, to be made up and certified as aforesaid, and the monies so reserved and set apart shall, from time to time, be applied under the sanction and with the approval of the Secretary of State in Council in making good all loss and damage to the said flotilla, occasioned by any casual or unforeseen events or emergencies, and subject to the formation of such Insurance and Contingency Fund as aforesaid. On each of the said half-yearly days in every year, there shall be reserved out of the net receipts of the half-year ending with that day, and be set apart to the credit of the Depreciation Fund a sum equal to £7 per cent. of the capital expended on the said steam-boats and other vessels as appearing by the said Capital account as aforesaid."

Now if it be the fact, as it certainly is, that steam vessels heretofore established on the Indus have barely returned their working expenses, and if 17 per cent. has *in the first place* to be deducted from the net proceeds, it is clear that the 5 per cent. advanced by the Government as interest, will not only be swallowed up, but that the shareholders will have to contribute 11 per cent. more to make up the losses. The responsibility of deducting the amount required by these funds rests with the Government of Bombay, as appears by Clauses 13 and 14, which are as follows:—

"That the said Railway Company shall in such forms and under such heads or divisions as shall be prescribed by the Secretary of State in Council, keep accounts of all receipts and payments whatever in respect of the said flotilla, or otherwise in respect of the undertaking to which this contract relates (other than such receipts and payments as properly belong to the Capital account hereinbefore agreed to be kept), and such accounts shall be called the "Indus Steam Flotilla Revenue Accounts," and shall be made up half-yearly to the 30th day of June and the 31st day of December in every year, or to such other days in the year as the Secretary of State in Council shall appoint, and shall be regularly transmitted to the Secretary of State in

Council, who shall be at liberty at all times in auditing the said accounts, to make any corrections therein which may be necessary."

"That all the earnings of and from the said flotilla and works received by or on account of the said Railway Company in India, shall be paid at such times and in such manner as the Secretary of State in Council shall direct, without any deduction under any pretence whatsoever, into the treasury of the Government at Bombay, to an account to be kept separately, and be called "The Indus Steam Flotilla Revenue Account;" and when any money shall be required by the said Railway Company for any purposes in connexion with the said flotilla and works properly chargeable to revenue, and sanctioned by the Secretary of State in Council, such money may be drawn from the said account by the said Railway Company, according to such arrangements as shall from time to time be made with the Secretary of State in Council for that purpose."

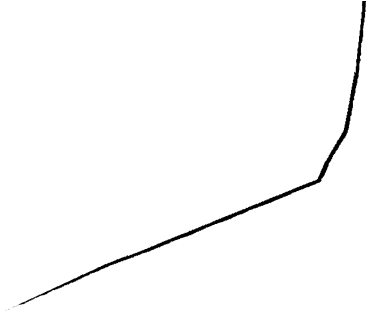
It has already been shown by Clause 11 that the interest paid by Government is to be refunded out of revenue, and otherwise remains as a lien on the Company's property. By Clause 21 it will be seen that the Government, should a sale of the property to the Government be made, will retain the accumulations of the 17 per cent. which has been lying in their hands:—

"Provided always, that the Secretary of State in Council shall not be liable to refund any sum expended in the maintenance or working of the said flotilla and works, after the same shall have been established and in use, which sum is to be provided by the Railway Company out of the revenues of the said flotilla, and interest as hereinbefore provided or otherwise. Provided also, that in case of such surrender and delivery as aforesaid, all sums belonging to the Insurance and Contingency Fund, and the Depreciation Fund, and the Sales Proceeds account, respectively, shall be paid over to the Secretary of State in Council, or as they shall direct for the purposes of the Government of India."

Such, then, are the real conditions of the contracts subsisting between the Indian Government and the several guaranteed Indian Companies. I cannot but think the directors of those companies most culpable for allowing such a vast

amount of popular misconception to exist as certainly *does* exist relative to the nature of the guarantee. Nor can I consider the Government blameless in the matter. It is quite true that the real nature of these contracts is revealed by the Blue Book published in 1859, from which I have quoted; but such books not being advertised when published, their existence is scarcely known to the public at large, and it is only within the last few days that I became aware of the accessibility of such information. It was, in my judgment, the duty of the Government to have assured themselves that every shareholder knew the conditions of the contract relating to that particular undertaking in which he happens to have embarked his money, and it is unworthy of a Government to wink at delusions which it must know entail serious injury upon a large class of persons, and may be productive of ruinous loss, merely because the discovery of the facts would render more difficult the collection of the capital which it wishes to have raised for the prosecution of these various undertakings. No doubt it is upon the directors of these guaranteed companies that the first burst of indignation will fall, for they could not be ignorant of the real nature of the contracts into which they had entered. But the public will judge the Government by a severer standard than they are wont to judge railway directors, and their faith will be weakened in the moral sensibility of any government which is capable of condoning such deceptions.

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