

CHAPTER XIII

MUNICIPAL OWNERSHIP IN AMERICA

MUNICIPAL ownership is the alternative to private operation under a grant from the city. As we use the term it is confined to the street-railways, gas, electric-light, water, and telephone services. These enterprises are recognized as natural monopolies; they have certain features in common which distinguish them from most other businesses.

Mr. Tom L. Johnson, for ten years Mayor of Cleveland, and prior to his election one of the largest street-railway operators in America, analyzes these features as follows. He says:

“There exists, I believe, a safe rule to apply as a first test to an enterprise in order to determine whether it is a fit subject for municipal ownership. It may be stated as follows:

“No enterprise should be considered a subject for municipal ownership unless it (1) rests upon a public grant or franchise, bestowing a special privilege; (2) is of such a nature that competition cannot enter with benefit to the people at large; (3) requires a very large expenditure of capital for a plant and equipment; and (4) contemplates a performance of its functions for a long period of time.”

Dangers of Political Corruption.

A danger frequently urged against municipal ownership is that of corruption and an increase in

the power of the political machine. Doctor John R. Commons, of the University of Wisconsin, who was a member of the special commission of the National Civic Federation to study public ownership, says on this point:

“Private corporations are compelled to get their franchises and all privileges of doing business and all terms and conditions of service from the municipal authorities. And in carrying out their contract with the municipality they are dealing continually with municipal officials. Consequently it is absurd to assume that private ownership is non-political. It is just as much a political question to get and keep honest and business-like officials who will drive good bargains with private corporations on behalf of the public and then see that the bargains are lived up to, as it is to get similar officials to operate a municipal plant. We do not escape politics by resort to private ownership—we only get a different kind of practical politics.”

Mr. Robert G. Monroe, former commissioner of water-supply, gas, and electricity, under the Low administration of New York, says:

“Neither has New York’s municipal water supply proved a political menace. Surely today it is neither a pregnant source of official corruption nor a potent adjunct to any political machine. Under the civil service laws municipal employees are practically less subject to political control than the employees of the average public service corporation, which is constantly compelled to make and give places to political workers.”

As a matter of fact, the most serious criticism of private operation is the political activity of the public service corporations. Not only is this the chief cause of corruption in the city, but the employees of the private corporations are quite as active in city politics as are those of the municipality itself.

Capitalization.

An investigation of public ownership by the National Civic Federation showed the extent of overcapitalization by private companies as compared with municipal plants. The outstanding securities of the private electric-lighting companies in 1902 amounted to \$271.51 per kilowatt-hour unit, while the capitalization of the 815 municipal plants was only \$111.89 per kilowatt-hour unit. Much of this excess capitalization in the private plants is fictitious, it is monopoly or franchise value. It is a capitalization of the exclusive grant given to the company by the community. And as the city grows the earning power of the company responds to its growth. This, in turn, permits still further increase in capitalization and dividends. Under municipal ownership, on the other hand, growth in population, with the consequent increase in earning power, permits a reduction in rates or improvements in the service. The social value is returned to the community itself.

Similar comparisons of private and public water plants would disclose the same overcapitalization of the former as would a study of gas and street-railway companies.

Municipal Water Works.

The water-supply has been generally municipalized in the United States. An investigation by the federal government in 1905 showed that 113 of the 154 cities of over 30,000 inhabitants owned or operated their plants, while in 1912 of a total of \$839,205,681 invested by cities in business undertakings \$475,544,000 was invested in water-works. Nearly all the large cities, with the exception of Indianapolis, New Haven, Omaha, Denver, and San Francisco, own their water-supply, and within the last few years Omaha, Denver, and San Francisco have decided to either take over the existing companies or construct their own plants. There is no tendency to return to private operation in any of the cities; in fact, the propriety of public ownership in this field is rarely disputed.

Municipal water plants generally charge lower rates than do the private plants; they are more permanently constructed, offer better fire and domestic service, while the health of the cities owning their plants is generally better than where the private plants obtain.

Mr. Robert G. Monroe says of the rates and charges of the New York water-supply:

“Had the water supply been in private hands, financed upon parallel lines and similar business methods to those pursued by the private lighting monopoly, the citizens of New York would be paying between eighteen and twenty million dollars a year for water, instead of between five and five and

a half million, the annual cost under public ownership.”

One of the most ambitious water-supplies of any city is that of Los Angeles, Cal., which city is constructing a 240-mile aqueduct to bring the supply to the city, at a cost of \$24,500,000. The mains skirt 130 miles of the Mojave Desert and will irrigate 135,000 acres of dry land. Practically all of the work has been done by the city itself, by the direct employment of labor under the direction of competent engineers. The water power will be used to develop an electric-power plant estimated to produce 120,000 horse-power, to be delivered at the city limits for domestic and business uses. This is also to be operated by the city. The undertaking was approved by a referendum vote of the citizens in 1905.

Electric Lighting.

Municipal ownership has developed rapidly in the field of electric lighting. In 1885 but 9.5 per cent. of the electric plants were under municipal control, while in 1906 24.4 per cent. were publicly owned.

In 1902 there were 815 municipally owned electric-lighting stations and ten years later there were 1,562. In the former year the income was \$6,965,105, and in the latter \$23,218,989, or an increase of 233.4 per cent. During the same period the horse-power generated increased by 249 per cent. The total number of private consumers of the public plants grew in the same time by 347.4 per cent.

Among the large cities maintaining plants are

Chicago, Detroit, Cleveland, Memphis, Allegheny, Grand Rapids, Seattle, and Pasadena. Cleveland has recently authorized \$2,000,000 in bonds for the erection of an electric-lighting plant in connection with its water station. Prior to the erection of the public plant in Detroit a private company offered a ten-year contract for street lighting at \$122.20 per arc light. The Detroit commission gives the cost of municipal operation, including taxes, interest, and depreciation, at \$55.28 per lamp.

In addition to water and electric-lighting plants the cities of New York, Baltimore, Boston, Philadelphia, and several of the Pacific coast cities have constructed municipal docks. New York City has invested immense sums in its subways and maintains ferries connecting the boroughs. Some of the smaller towns maintain theatres. Gas plants are owned by a number of cities, while public garbage plants are maintained by a few. Cleveland, Toledo, and Detroit have been prevented from entering on the ownership of the street-railways by restrictions in their charters and the limitations on their borrowing powers. In each of these cities municipal ownership will probably be undertaken at no distant date. A number of western Canadian cities own their street-railway systems, and the next few years will undoubtedly see a rapid increase in this field of municipal activity.

San Francisco Street Railways.

San Francisco is the only American city that has ventured into the field of municipal ownership of

its street-railway system. In 1913 it opened the Geary Street line, with over seven and one half miles of double track. The same year \$3,500,000 was voted for extensions. When the present construction work is completed the city will be in possession of a total of about nineteen miles of track. The first year's operation was necessarily experimental, but it showed a net income, over and above operating expenses, of \$153,000. From this was deducted the interest on the debt and taxes, while \$80,000 was set aside for depreciation and accidents. Describing the first year's experience of operation, a writer in the *National Municipal Review* says:

“The municipal service has not had any noticeable effect in eliminating the strap hangers. It remains true of public as of private roads that the standing passengers pay the profits. The employees, however, are polite and accommodating, and there is an evident effort in the management of the road to suit the public convenience. The men appear well content, receiving a wage of three dollars a day for eight hours of work. The rate paid on the private road is from twenty-five to thirty cents an hour, depending on length of service. The men are selected by civil service examinations and hold during good behavior. They may, however, be dismissed without trial. Altogether, the people of San Francisco are well pleased, thus far, with their experiment in municipal ownership of street railroads. It has not proved the gold mine that some of its overenthusiastic promoters promised. But it has improved service, bettered the condition of the

working force, paid its way, and given promise of securing the extensions that could not be secured under the regulations imposed on private ownership.”¹

Regulation.

Private ownership under regulation is frequently urged as a means of securing the advantages of municipal operation without the attendant evils, such regulation to be either by the city or by the State public service commissions. Experience has shown, however, that it is the attempt to regulate that lures the corporation into politics, and the more complete the regulation the greater the effort to control either the city or the commission. In addition, orders when made are not obeyed. They are objected to at hearings and when finally entered are resisted in the courts on the ground of confiscation or unreasonableness. The courts are filled with cases of this kind, many of them carried to the Supreme Court of the United States, and, even if the ruling is finally upheld, years of delay are secured during which time the prevailing rates and charges are maintained. Moreover, regulation can deal only with a limited number of questions, and, most important of all, it cannot experiment. And it is through the freedom to experiment that economies and efficiency are brought about.

The conflict of motive between private operation interested in profits and public operation interested in service cannot be harmonized by regulation any

¹ *National Municipal Review*, July, 1914, by E. A. Walcott.

more than by competition. This is the experience of European cities where private operation under exacting regulation was exhausted before the policy of ownership was entered upon.

Cleveland Experience.

The city of Cleveland has had prolonged experience in the effort to regulate private ownership of the street-railways. For nine years the effort was made to reduce street-railway fares from five to three cents. Ordinances were passed by the council which were immediately carried to the courts, where they were delayed for years. In all, over fifty injunction suits were filed against the city and a score of elections held before a compromise was reached under which the company accepted a valuation of the property upon which dividends of 6 per cent. only were to be allowed. Rates of fare were fixed first at three cents, with the right to increase them if this did not produce sufficient income. The settlement was finally reached in 1910, and during the intervening years the fare has remained at the initial rate agreed upon, three cents, although an additional charge of one cent for a transfer was made for a short period. As a result of the reduction in fare, car riders have been saved \$2,500,000 a year. Similar reductions in fares have been made in Toledo and Detroit, in which cities the community has refused to renew the franchise on any terms, preferring to wait for municipal ownership rather than accept any terms which the company has offered.

Ethical Gains from Ownership.

The most important gains from municipal ownership are not financial but political and ethical. Through ownership the city will be freed from the conflict of interest which now divorces much of its talent from the public service. This conflict remains even under regulation; it becomes most acute when regulation is most efficient. Partisanship is kept alive to be used against an administration which interferes with these interests, while the press is subsidized and the agencies of public opinion controlled to maintain the invisible powers referred to in the preceding chapter. And this conflict can only be terminated when the cause of it is removed and the city itself is possessed of the privileges in whose preservation the wealth and power of the city is interested. Then the talent of the city will be free to want good government. Men will then be in a position to aspire to public office and promote the city's well-being. In addition the city will become such an important agency, the activities which it owns will be of such transcendent interest, that men of power will desire place not only in administrative positions but in the council as well. Further than this, a city which serves its citizens in many ways, which touches their lives daily and hourly, will awaken interest on the part of all classes. There will be an economic and social nexus between the voter and the city which will supply the strongest possible motive for good government.

Summary.

Municipal ownership in America is almost limited to water and electric-lighting plants, although a number of cities own their gas-plants. Advocates of municipal ownership claim that the capitalization of the municipal plants is lower than that of private plants and that the construction work is generally more permanent; that the rates and charges of the public plants are lower than those of the private plants and that the water service is better. Nor has municipal ownership led to the creation of a political machine among municipal employees; rather, ownership has taken these services out of politics.

Nor has regulation succeeded in eliminating the evils of private ownership. In many cases it has intensified them. For it is the fear of regulation in some form or other that has lured the public service corporation into politics and led to the corruption described in the previous chapter.

The most important gains from municipal ownership are in the field of politics. Through it the city is freed from a conflict of interest, and all classes of the community are enabled to devote themselves to the city's welfare and the non-partisan promotion of its interests.