

CHAPTER III

CONTROL OF UTILITY RATES BY NATIONAL POWER PROJECTS

It is suggested that public utilities should be compelled to lower their rates by the development of national projects, such as the Boulder Dam, Muscle Shoals and the projected St. Lawrence combination canal and water power development. It is claimed that the government's representatives could and would say to the public utility monopolies that unless they furnished heat, light and power to their customers at fair rates the government would go into the field of distribution. This looks well upon paper and should be studied and developed, but only as a means to secure ultimate public ownership of utility plants at a reasonable price.

As already stated the idea of what is a fair rate in the minds of the representatives of the public who advocate this plan is that it should be based upon prudent investment or original cost. If the great power interests should submit to these terms, it would result in the wholesale deflation of the market price of their securities. This plan will therefore be resisted by all the power of these power trusts.

Regulation Incentive to Corruption of Government

This plan is open to the further objection that if it were adopted as a policy it would have the same result as has attended all other efforts to fix a reasonable rate. The representatives of the public when the time came to make the bargain, would be, if present conditions existed, secretly controlled by the very interests which are to be regulated, and the result would be that the law, and the contract made under it, would be filled with jokers, and if at all onerous the beneficiaries would wait until they were in possession of the government, and public interest had abated, when new terms would be agreed upon. This is exactly what is happening in the private development of government owned power sites in the West,¹ which were undertaken upon the express provision of the law that the rates should be based upon a return of say 6 percent upon the actual cost of construction.

After ten or fifteen years of experience those interested wake up to find that no appropriation has ever been made to keep track of original cost, and therefore it is now impossible to tell what was the original cost, and if any attempt is ever made to reduce rates on these projects the courts will protect the capital issues of watered stock by applying their present decisions. Nevertheless this is at the moment the most promising weapon in the hands of the public, but it should be developed with the idea of the public ownership and operation of competing distribution systems, as well as generating plants. Municipalities should be encouraged to establish local distribution plants, on a small

scale at first, to be publicly operated in competition with the power monopoly. The public monies now being handed out to favored banks and railroads could well be granted to municipalities willing to build competing distribution plants, such loans to be repaid out of earnings. Public ownership of utilities is the only method by which we shall ever get rid of insidious corruption of our public life by these monopolies, which if not abolished will destroy the republic.

Regulation of Bus and Truck Transportation

It is suggested that bus and truck transportation be subjected to national regulation. The reason advanced for this idea is that because railroads are regulated other transportation agencies should be regulated. This is a non-sequiter. Railroads and utilities are regulated because they are the grantees of public franchises which give them monopoly privileges, such as the right to condemn lands, and to collect reasonable rates, and subject them to the public right to uniform service to all patrons. No such reason applies to bus and truck transportation.

The real reason sometimes frankly avowed, is that it is necessary to do something for the railroads, and that the principal cause of the shrinkage in railroad receipts is truck and bus transportation. Little is said about competition by airplane, but it is very plain that this competition will greatly increase both in freight and passenger traffic in the coming years.

Railroads Ruined by "Banker Management"

It is true that the decreased earnings of the railroads are due in part to the competition of these new services,

and that this competition may and probably will result in further decreasing the earnings of the railroads. A part of the decrease however is due to the general shrinkage in trade, and another part is due to what Justice Brandeis calls "banker management" of the railroads. The bankers have controlled the principal railroads for more than a generation, and in plain words they have "milked" them with excessive commissions, reorganization fees, failure to provide sinking funds for bonds out of earnings, and the issuance of watered securities, far beyond the power of the roads to earn a commercial return. These are notorious facts exposed over and over again by public investigations. The way the bankers robbed the New Haven Railroad, perhaps the most prosperous in the world, and drove its stock from 260 down to 30, is a conspicuous illustration. The directors responsible for this, some of the most eminent men in America, were indicted for this crime, and why they were never tried has always been a mystery.

Taxation as Method of Regulation

The only way that regulation of competing transportation can help the railroads is by levying a tax upon these transportation agencies. The standard method of regulation, fixing rates by a commission, can not be resorted to in the case of either trucks, busses, private cars or airplanes, because the yardstick of actual cost or prudent investment approved by Governor Roosevelt and all impartial students of this problem, would decrease rather than increase the present charges of these competitors. The cost of these new methods of transportation is bound to be radically decreased

with the construction of new roads and the marvelous improvements in the gas engine, and the cheapened cost of fuel.

This leaves taxation as the only method of increasing rates of these competitors.

It is argued by railroad officials that railroads pay large sums in taxes, and have large investments in rights of way, while the motor vehicles pay little or no taxes, and have the free use of costly roads built and maintained at public expense. To the extent that this is true, it is not the whole story. The President of the General Motors Truck Company points out that the total taxes, state and national, paid in 1932 by motorists reached the stupendous sum of one billion five hundred million dollars, 30 percent of which was paid by the trucks. This is more than the taxes paid by railroads and the interest on the actual cost of the roads.

The roads were built by and belong to the public, which has the obvious right to get its return in cheaper transportation facilities, resulting in the decreased cost of goods, and the consequent increase in the production of goods and the employment of labor.

All taxes on motor vehicles must be paid in the end largely by the consumers of goods, most of whom are of the non-proprietary class, and the benefit to the railroads would go exclusively to the holders of railroad securities, who are the proprietary class.

Higher Rates Mean Less Business

This increased cost of transportation would mean increased cost of the goods transported and of the ex-

pense of the transportation of passengers who are travelling on business, which is the bulk of the passenger traffic. This increased cost means a lessened output, and this means less men employed in production, which means increase of unemployment. This unemployment might be counterbalanced to some extent by increased employment of men in the railroad service, but at public expense.

Abolish Taxes on Transportation

It is remarkable that no responsible official has proposed to aid the railroads or the banks by an increased tax upon the incomes of the rich, or by a capital levy upon enormous fortunes, or by taxing land values created by the community, but everybody seems to assume that there is no harm in appropriating by new taxes a part of the wages of the vast mass of consumers, a huge majority of whom own no substantial amount of tangible property. These people are the "forgotten men" of our economic system.

The exact opposite of this suggested policy should be pursued. All taxes upon trucks, busses, airplanes, and upon the fuel used in their operation, should be abolished, and the public permitted to enjoy the fruits of the enormous public expenditures which have been made in the construction at public expense of the marvelous system of good roads all over the country. Railroads had no right to assume that the public would not use new and better and cheaper methods of transportation because such might decrease railroad earnings.

Every railroad in the country should be left to the natural process of reorganization through bankruptcy

or otherwise. Watered stocks should be squeezed out once and for all. If the banker management could be eliminated from the roads, and real railroad men actually permitted to operate the railroads as the private companies are operating busses and trucks, means would be devised in the next few years to utilize at a profit the enormously valuable rights of way possessed by the railroad. This is Ford's idea. The present system of railroad transportation is out of date. Heavy trains of great length are run at comparatively infrequent intervals. A management established under competitive conditions free from banker control would solve the railroads' problem along the lines of lighter units of transportation, both passenger and freight, and much more frequent service.

Some day the public will wake up to the perfectly enormous expenditures that have been made in the past in the attempt to carry out the theory of regulation, all of which has been wasted, except that we can learn something from experience.

So far as the remedies take the form of trying to regulate monopoly and privilege they are no more effective than were attempts to make the slaveholder treat his slaves better.

Private Ownership of Railroads and Other Public Utilities Creates Political Corruption

The private ownership of railroads and public utilities, and the trust control of certain trades, is the most powerful corrupting force in American politics today. It is a force which works steadily at all times. This is proved by numerous and notorious examples, such as

the bribery of the New York aldermen by Jake Sharp; the great fortune amassed by Richard Croker as the chief of Tammany Hall; the long continued corruption of the city government of Philadelphia by the Republican machine in the interest of the railroads and public utilities; the bribery of San Francisco officials by Patrick Calhoun, president of the local traction company, the corruption of Chicago and Illinois politics by Insull and other public utility magnates; the burglary of the officials of the street railway system of St. Louis in stealing petitions signed by citizens calling for an election to pass upon their franchises; the corrupt control of the legislatures of many important states in the interest of the railroad and public utility corporations; the reactionary decisions of our courts in cases where great property rights conflict, with human rights; the failure of the government to properly utilize the enormous resources of the Muscle Shoals development for more than twelve years; the delay in the St. Lawrence canal and power project, the scandalous action of the Conference Committee of Congress in placing the recently enacted sales tax of 3% on light and power bills upon the consumers in face of the fact that both Houses of Congress by a decisive vote had directed that this tax be placed upon the utilities; and the remarkable disclosures of the Federal Trade Commission investigation of the power trust.

Supervision of Securities

It is suggested that the government should prevent the sale of doubtful securities. In the next period of boom times, these remedies may have some mild effect

in preventing the swindling of well-to-do people and are therefore justified, but they can not make a single job, cheapen any product or enlarge its market, or increase the wages or reduce the living cost of the wage earner, or improve the conditions of the farmer.