

## American Economic Association

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Source: *Publications of the American Economic Association*, 3rd Series, Vol. 7, No. 1 (Feb., 1906), pp. 133-143

Published by: [American Economic Association](#)

Stable URL: <http://www.jstor.org/stable/2999969>

Accessed: 31/12/2010 12:34

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## MUNICIPAL OWNERSHIP

WINTHROP M. DANIELS

The present is in many respects an opportune moment to enlist recruits under the banner of municipalization. The many recent exposures of criminal conspiracies of corporation managers and promoters who have long masqueraded as business men have fairly whetted the public appetite for municipal experimentation. Moreover one must be peculiarly slow of heart not to perceive that the air just now is vibrant with keen hopes of restoring to our democracy in city and state something of its original vigor. Among the exponents of this wholesome political reaction are found many who advocate municipal ownership and operation as the surest means of purifying our municipal politics. Whereas the plea for municipalization was formerly based on the ground of protecting the citizen's pocket; it is now urged as the only adequate guarantee of honesty in city politics. I desire merely to point out in passing that this plan of driving private corporations entirely out of city politics by entrusting to the city the direct administration of public service enterprises is a remedy whose logical application reaches far beyond the municipal domain. The possible betrayal of the public interest is not confined to the corrupt grants of franchises by city governments. Not a tariff measure is framed by Congress, not an appropriation bill is passed, not a contract is awarded by federal, state, or local governments where the same possibility of evil does not lurk. A consistent extension of this doctrine would charge these branches of the government with an infin-

itude of industrial tasks, to preclude the chance that they may violate their trusts at the instigation of dishonest corporations.

I do not deny the transcendent importance of the political phase of this issue, if once its necessity is convincingly established. But pending a decision upon the political issue, I desire to signalize the far-reaching character of the economic aspect of the case. There can be no doubt that when a city undertakes an industrial enterprise, the financial test of its affording the service at a self-sustaining price is a narrow—in some instances even a misleading—test of the success of the experiment. Without subscribing to the paradox that “the desirability of municipal trading is actually in inverse ratio to its commercial profitableness,” there is much truth in the other contention that “the balance sheet of a city’s welfare cannot be stated in figures,”—or in figures alone. The character of the service rendered, the comparative price at which it is furnished, the prompt suiting of service to the changing needs of the people, the prompt introduction of improved material apparatus, and the search for new expedients, to say nothing of the wider range of healthful social changes, if any, must all be weighed in balances with other weights than dollars. But granting all this, I still contend that our somewhat matter-of-fact electorate will wisely insist on attaching primary importance to this consideration:—is the city able to render equally efficient service as a private corporation at a really self-sustaining price lower than can be expected from the private corporation? That this is the first and most serious question with the reflective American citizen is handsomely exemplified in my opponent’s recent book, “The city, the hope of democ-

racy." After his enlivening analysis of the cause of our political ills, he discovers in municipal ownership the way out, and thereafter immediately entitles his next chapter "Does municipal ownership pay?" It is to a consideration of the evidence on this point that I would direct attention.

When we remember that the whole urban population, and not any special class of that population, is our client; that the industrial functions to be assumed are not the hereditary functions of civil government; that the investment to be made will reach literally into the thousands of millions; and that ill-success will be registered in heavier taxes and damaged public credit, a very strong preponderance of evidence ought to be forthcoming that such enterprises will pay before we advise the assumption of the risk. What is the character of the evidence offered in support of this claim? My opponent, in the chapter previously mentioned, is content to rest his case for the financial success of municipal trading upon the experience of Great Britain, and chiefly upon the statistics of municipal trading collected by the Local Government Board. It is manifestly impossible within the limits of this paper to attempt anything like a thorough-going analysis of the evidence in question. But certain broad aspects of the matter are indisputable. In the first place the evidence, especially of the statistics compiled by the Local Government Board, has failed to convince a considerable number of careful inquirers that municipal trading in Great Britain has been a success even from the narrow financial standpoint. The margin of apparent profit in the aggregate has been so narrow on the capital investment as to leave it a disputable point whether, with adequate allowance for de-

preciation, any real financial profit whatever has emerged. Major Leonard Darwin in his analysis of the average returns made by Reproductive Undertakings to the Local Government Board for the four years ending March 31, 1902, estimates that on gas-works, as yet the most profitable branch of such undertakings, municipalities should expect to make a profit on new municipal gas works of a little over one-half per cent. for thirty-two years, and 5.4 per cent. for ever afterwards." (Municipal Trading, p. 216.) And his final conclusion as to the direct financial results of municipal trading is "that the net result to the nation will be neither a considerable financial loss nor a considerable financial gain." (p. 283.) The British evidence is clearly disputable. In the second place the reliability of the statistical data has been and is seriously questioned. The Joint Select Committee of the Lords and Commons in their Report of 1903 declare that so far as all County Councils, London Borough Councils, and Urban District Councils are concerned (all of them subject to the Local Government Board audit) that "the auditors are not accountants, and are not, in the opinion of the committee, properly qualified to discharge the duties which should devolve upon them." The findings of the committee as well as its recommendations as to a more accurate auditing system go far to discredit any undue reliance upon the returns.

Moreover there is no evidence to substantiate the allegation that municipal trading has, as a general thing, lessened the burden of local taxation in England. It is to be conceded that in particular instances, profits from municipal trading have been turned over in aid of the rates. But the careful statistical inquiry of Miss Alice Lee, an abstract of which was published in Vol. XIII of

the *Economic Journal*, stands as yet to the best of my knowledge unrefuted, that "the increase of loans for remunerative public works is associated with an increase of rates,"—be the connection causal or not,—and that at the present time municipal trade has no very material effect on municipal taxation in England. That this is the case would seem to be corroborated by Mr. Bernard Shaw's significant contention that "the relief of the ratepayer, whose burdens are heavy enough to crush all enthusiasm for municipal schemes that threaten to raise the rates, should be accompanied by taxation of income, heavily graduated and differentiated against unearned income." (Municipal Trading, p. 99.)

It is perfectly true that in certain cases municipal industries in particular cities appear beyond question to be eminently successful. The Glasgow and Liverpool tramway systems may serve as good examples, and many others there doubtless are. But to offer British experience as evidence of a strong balance of probability in favor of the financial success of municipal trading in this country is to blink the fact that the British statistical data now available are largely the reports of town governments desirous of making a good financial showing, whose accuracy is fairly questionable. It is to blink the fact that the narrow margin of presumptive profit shown even by these data has not proved convincing to many careful investigators in England; it is to blink the fact that hitherto municipal trading has produced no general lessening of municipal rates in England; and finally it is to neglect the manifold differences in municipal politics here and abroad.

As to whether it pays in this country to municipalize public service industries the testimony hitherto adduced,

whatever be its other qualities, does not lack for variety. We had first the roseate reports of the early explorers, the Marco Polo's and De Soto's, of this hitherto undiscovered country. Then followed the anathemas of the inquisition of mechanical and engineering experts. This early period of strife was not fruitless, for despite its failure to issue in agreement as to the main question, the mutual criticism of the contestants eliminated certain crudities of statistical comparison which had characterized both parties at the outset. The evidence was next overhauled by such higher critics as the expert accountants, whose verdicts when made public (for in many cases these examinations were made for private parties) failed to arbitrate the moot points to the satisfaction of both parties. Finally the government, and in particular the federal government, has undertaken comprehensive surveys of the field; particularly in the fourteenth annual report of the Commissioner of Labor (1899) upon water, gas, and electric light plants, and in the special reports just issued by the census bureau on central electric light and power stations and on street and electric railways.

Commissioner Wright in the preface to his report of 1899, while conceding that it does not settle conclusively the merits of the two systems of management—private and municipal—remarks significantly that the “facts disclosed” are “indicative and strongly so.” I think I should not be unwilling to expend more time than I already have upon the brave columnar array of figures with which the report is crammed, if I felt sure that—once through the statistical morass—my feet would eventually rest upon solid ground. But the pledge of secrecy under which the data were

gathered makes concrete verification in the case of individual plants impossible. Moreover in this statistical Slough of Despond I have been mocked by certain Worldly Wisemen, in particular by two competent expert enquirers, one favoring and the other opposed to municipalization, who assure me that the absence of uniform and adequate accounting systems in plants public and private makes results based on this jumble of data meaningless. The recent bulletins of the census bureau are in many respects informing and excellent, but even the experts by whom the bulletins were compiled would, I feel sure, not claim that the facts disclosed or illuminated by their researches settle even remotely the disputed question of public versus private management.

Finally if further proof were required of the absence at present of satisfactory evidence in this matter, the recent resolution of the National Civic Federation to prosecute both in this country and abroad a detailed and thorough-going investigation into the subject may well be cited. This, or some future inquiry may establish the general financial success of municipal trading; but the character of the testimony at bar at present will justify no other than the Scotch verdict "not proven".

But while the evidence at hand is inconclusive on the main issue it is instructive and enlightening in important details. If I ventured to summarize a few of the points which seem to me least disputable I should recite the following:

1. Salaries for superintendence and managerial service no less than the opportunities offered for professional advancement, are less under municipal man-

agement than under corporate management: This, in my judgment tells against the economy of municipal operation. The higher pay which induces the Panama engineer to leave the government service for that of a private corporation, and the higher salary which attracts the master mind in the Glasgow transit system to Mr. Yerkes' employ are not paid for sentimental reasons. But public opinion will not as yet sanction the payment of similar sums to engineers on the public pay-roll.

2. Wages per unit of labor performed are greater under municipal than under corporate management—a point which, however gratifying in other respects, makes against economy of municipal management. Seeming exceptions to this rule as well as to the point first cited are well explained in the recent bulletin on central electric lighting stations.

3. Municipalities commonly borrow at rates slightly less than corporations can. But the reports of 635 municipal electric stations in this country show that their bonds bear on the average 4.5% interest whereas 795 private electric corporations reported an average of only 4.8% interest on their bonds. Moreover city bonds sold to equip public plants offer future taxes as a practical security, whereas corporate bonds rest solely on the property, the plant, and the prospects of the corporate enterprise.

4. The comparative cost of supplies, all things considered, is indeterminate. Standardized data are not as yet available to settle the matter.

5. Comparative prices for service, municipal and private, are, all things considered, indeterminate. I know that this will be challenged, but it is well to insist that any price comparison which is worth while is

a very complicated operation. My opponent in his recent book cites the average price charged by municipal gas plants in England as six cents per thousand feet less than the price set by private companies. But such an average *per se* is little more than meaningless until collateral evidence is scrutinized bearing on the average density of population served, the average price of coal, and many other factors.

Hitherto our argument has been wholly based on economic grounds, and has issued in wholly negative conclusions. That many municipalities in this country are likely to experiment with public ownership and operation there can be no doubt. That compromise devices may be hit upon, like the public ownership of subways in New York and Boston with corporate operation, which will afford the maximum public benefit obtainable is not at all unlikely. Our duty as economists is discharged when we give a true picture of results already attained and of the future risks involved. But if we may for a moment venture upon the province of politics, let us ask if there is no hopeful alternative to this plan of municipal ownership and operation for which the outlook on purely economic grounds is so sombre. If it were desired merely to prevent the corrupt disposal of franchises by the city legislature, even so crude a measure as the Cantor Act would suffice. This would auction off franchises, prescribing a certain minimum percentage of the gross receipts as the price to be paid by the company. But the possibilities of an enlightened franchise policy under an honest and capable city government go far beyond the prevention of the more flagrant forms of defrauding the public. I think there is good ground to believe that such a city government

could, by franchise provisions shrewdly drawn, secure from, public service corporations either in taxes or in abatement of prices a return commensurate with the fair value of the franchise grant, and could secure at the same time adequate service at a price that would yield nothing more than a fair profit to the companies. I venture to rest my hope on two facts; first on the fact that there is no necessary or causal connection between corporate operation under franchise and civic corruption. Those who ask us continually to admit the facts connected with British experience may well be faced with the question whether corporate corruption of city politics is found in those cities in Great Britain which do *not* have municipal trading? Is there any evidence that Darwin's statement is not true that "the corrupt influence of private companies on Municipal Governments is rarely exercised on this side of the Atlantic" (p. 132). My belief rests in the second place on the enlarged measure of success that has attended various efforts in this country to obtain more adequate compensation for franchise privileges, and more effective guarantee of efficient service. However much remains to be secured, there has been encouraging progress in this direction.

My opponent insists that an economic change in the direction of municipalization is the key to the purification of our politics. As a student of politics he finds the remedy for civic ills in an economic upheaval. In opposition to this claim I insist that the cure for our economic ills is to be found primarily in political reform. As I view the matter, there is no escape under a representative government from reposing responsibility in some person or persons. Let political responsi-

bility be undivided, and let it be located so clearly that concealment is impossible; let the task of cashiering the dishonest or the incapable administrator or legislator be stripped of all indirection or subterfuge, and reduced to the greatest simplicity possible, by a radical cut in the number of elective officials,—and the question of municipalization or a franchise policy becomes the comparatively simple question of the relative advantages of widening public control or of enlarging governmental administration.