MUNICIPAL OWNERSHIP AND OPERATION: THE VALUE OF FOREIGN EXPERIENCE

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In all matters affecting municipal organization we have now reached a point at which it is possible to secure a calm, dispassionate discussion of the elements entering into the present situation, but the moment we enter upon questions connected with municipal activities, we seem unable to eliminate traditional prejudices. Whenever municipal ownership and operation are discussed, the only question in which we seem to be interested is: Does a particular argument or fact prove or disprove the desirability of this policy for American cities? We are not satisfied unless we can find some general principle applicable to all conditions and in all circumstances. It is clear that we cannot hope to arrive at any sound conclusion unless we are willing to apply the same methods that have gradually worked their way into the discussion of questions of municipal organization. We must be prepared to accept as final that there is no one general policy applicable to all the cities of the United States, and that the most we can do is to make a dispassionate analysis of the different elements that must enter into a final judgment on any local situation.

The experience of foreign countries is certainly one of the elements to which consideration should be given, but the way in which foreign experience is now being used bids fair so to confuse the public mind that, unless we are willing to deal with it in an entirely different spirit than heretofore, its use is likely to do more harm than good. The advocates as well as the opponents of the system are constantly citing European conditions, and each side is able to array a group of facts to support its position.¹

¹While preparing this paper I received two publications which illustrate the difficulties involved in the use of foreign experience. A work entitled *Municipal Ownership in Great Britain*, by Professor Hugo Richard Meyer (340 pages; Mac-

The advocates of municipal ownership point with enthusiasm to the reduction in the burden of taxation, the lowering of charges to consumers, the greater economy of operation through lower interest rates, the improved condition of employees, and the broader social policy directly traceable to the substitution of public for private ownership and operation. They emphasize the impossibility of securing from private companies the improvements that were carried out without hesitation as soon as the cities took over these quasi-public services, and they point with much satisfaction to the better co-ordination of municipal policy directly traceable to this extension of functions as well as the record of achievement in improving the social well-being of the population.

On the other hand, the opponents of municipal ownership point to the terrific burden of local indebtedness under which the cities which have adopted this policy are now staggering. They endeavor to prove that, instead of relieving the burden of taxation, the actual effect has been to increase it; they maintain that, owing to a faulty system of accounting, the profits reported are fictitious rather than real; and finally they draw a lurid picture of the extravagant increase in municipal employees since the inauguration of this policy. No wonder that the average citizen turns wearily from this mass of conflicting testimony, convinced that no guidance can be secured from these real or supposed facts, and resolved to settle the question without reference to foreign conditions.

It seems unfortunate that the self-interest and prejudice which have obscured the real issues involved in this great question should prevent us from availing ourselves of the mass of valuable experience that both British and continental cities have accumulated during the last twenty-five years. To make this experience

millan Co., 1906), is devoted to proving the thesis that municipal ownership and operation in Great Britain have been a failure from almost every point of view. On the other hand, a monograph by Frederic C. Howe, entitled *Municipal Ownership in Great Britain*—which is the result of a special investigation conducted under the auspices of the United States Bureau of Labor—is replete with evidence pointing to exactly the opposite conclusion. This monograph is published in the Bulletin of the Bureau of Labor for January, 1906.

valuable, however, it must be used with the greatest care and discrimination. The best introduction to a proper estimate of the value of foreign experience is an analysis of the causes that have led to the present movement for municipal ownership in European countries. It is both an interesting and a significant fact that the same combination of causes is everywhere apparent. The movement for the municipal ownership of gas and electric lighting, but particularly of street railways, is directly traceable to the failure of private companies to furnish the kind of service which the inhabitants of the cities demanded and had the right to expect. Particularly in Germany the history of the relation between municipalities and public-service corporations is one long story of crimination and recrimination.

The indictment against the public-service corporations was none too strong, and fully justified the step taken by the leading municipalities in these two countries. In order, however, properly to interpret the situation, we must know something of the conditions under which these private companies were operating. The original franchise grants were made for relatively short terms, ranging from twenty-five to forty years, and were usually accompanied by the requirement for payment into the city treasury of from 3 to 8 per cent. of the gross receipts. The relatively large financial return, combined with the comparatively short franchise period, discouraged the companies from taking any large risks, especially as regards extension of the service into new and relatively sparsely settled sections of the city. This natural conservatism has been interpreted as an indication of the inability of the companies to meet the requirements of the local service.

The faith in private ownership was further weakened by the reluctance of the companies to make the change from horse to electrical power. In both Great Britain and Germany, but particularly in Germany, the introduction of electrical traction came toward the close of existing franchise grants, and it is not surprising that the companies refused to make the large capital investment which the change required, unless they were assured either of an extension of the franchise period or of adequate reimburse-

ment for the capital outlay. It is, therefore, manifestly unfair to ascribe all the shortcomings of corporate service to defects inherent in corporate management. In fact, the most important are directly traceable to the stringent conditions under which franchises were held and the unwillingness of the municipalities to make further concessions to the companies.

This experience contains a valuable lesson for American municipalities, and furnishes an indirect and somewhat unexpected argument for the advocates of municipal ownership. The universal experience of European countries has been that as the terms of franchise grants are made shorter and the financial payments for such grants are made larger, the service performed by private corporations deteriorates, while the initiative and enterprise which lead them to experiment with new methods and devices are stunted, if not totally destroyed. The willingness of American corporations to take great risks, and even to sacrifice considerable invested capital for the purpose of ultimate economy, is due very largely to the fact that until recent years they have been permitted to plan for a service upon which no time limit was placed.

If the reform in the method of franchise grants becomes general, as it bids fair to do, we are likely to experience a marked change in the policy of the public-service corporations. The short-term franchise to the highest bidder assures to the city an adequate money return for the privilege granted, but tends to discourage the companies from incurring large risks in the extension of the service. It is not unlikely that municipal ownership will come all the more quickly because of the difficulties and antagonisms that are certain to grow out of this more careful safeguarding of public franchises.

From these facts several lessons may be drawn :

First : In the adjustment of the relation between public-service corporations and municipalities there is constant danger of over-emphasizing financial considerations to the detriment of the larger social ends which all these services must, or at least should, perform. This does not mean a reckless granting of franchises, but rather a clearer perception of the fact that money payments are

not the only, and in fact not the most important, form in which the community may receive an adequate return for franchise grants. European cities have overemphasized the financial return, and the same danger confronts our American cities. It is true that most American communities have received a totally inadequate money return for the valuable privileges which they have granted, but it is equally true that the inhabitants of our cities have profited to no small degree by the spirit of enterprise and the readiness to make sweeping improvements in equipment which have characterized the policy of the larger public-service corporations in the United States.

Secondly: Inasmuch as most of our American cities are now committed to a policy of short-term franchises, the experience of every European city teaches the necessity of inserting in the grant a reserve power on the part of the municipality to require the companies to make certain definite extensions of service each year, or at least to fix the minimum requirements for such extensions.

Third: Even with all these precautions, it is more than likely that American cities will repeat the experience of European communities. The antagonism between the local authorities and the public-service corporations arising out of the interpretation of the reserved power of the municipality will develop to such a point as to make municipal ownership the only possible solution. The pending controversy between the city of New York and the Inter-Borough Metropolitan Company is but one of a multitude of instances illustrating this danger.

Another series of lessons to be drawn from European experience relates more particularly to the effect of municipal ownership on local finance. Much has been said and written on this question, and the testimony presented by the advocates and opponents of municipal ownership is of the most conflicting character. The opponents of this policy have drawn a depressing picture of the extraordinary increase in municipal indebtedness and the inordinate increase in taxation in those countries in which municipal ownership has been tried. As a matter of fact, in all the European countries in which municipal ownership has received general

recognition, but particularly in Germany and Great Britain, the increase in municipal indebtedness caused by the adoption of the policy of municipal ownership does not represent a real burden on the community, as both the interest and the sinking-fund charges of this portion of the debt are defrayed, with very few exceptions, from the receipts of the various services. The increase in taxation is traceable to public improvements, such as the betterment of school facilities, repaving of highways, improved organization of police service, etc., from which services no direct money return can be secured.

The failure to distinguish between the two types of municipal services—the financially productive and the financially non-productive—has befogged the real issue, and has in some cases prevented the consideration of the question of municipal ownership on its merits. The experience of European countries points to the necessity of distinguishing between that portion of the city's indebtedness which represents investments in reproductive enterprises, and that portion which is used for financially non-productive services. Our present constitutional limitations on local indebtedness, because of the failure to make this distinction, are hampering the normal growth of American municipalities. They served their purpose in checking that spirit of speculation and wildcat enterprise which for a time threatened the stability of our system of local finance. This danger is now happily past, but the perpetuation of the old restrictions hopelessly ties the hands of our municipalities and places them to a very large extent at the mercy of the public-service corporations. It is not at all likely that we can secure the repeal of these constitutional limitations, but it is imperative, if this question of municipal ownership is to be dealt with on its merits, that a distinction be made between productive and non-productive enterprises, and that the limitations on that portion of indebtedness incurred for reproductive enterprises be removed. This plan was proposed by the Committee on Municipal Program of the National Municipal League, and the wisdom of this proposal is making itself more apparent each day.

The most serious objection advanced against the policy of municipal ownership and operation in the United States is the lack of

an administrative organization, and particularly of a civil-service system, adequate to bear the additional burden which such extension of function would involve. The picture of extravagance, corruption, and misrule which is held up to us as the inevitable accompaniment of the extension of municipal powers has done more than anything else to check the spread of sentiment in favor of municipal ownership. On this point the experience of the municipalities of Great Britain and Germany is particularly suggestive and valuable. The first thing that is impressed upon every student of foreign municipal institutions is the small number of elective administrative officers, as well as the relative permanence of tenure of the heads of executive departments. In the United States we have proceeded on the assumption that popular government means short terms of office and, to a certain extent, rotation in office. We are but beginning to appreciate the fact that there are certain portions of our political system in which the plan of popular election and short tenure defeats rather than promotes the real intent and purpose of popular government. Considerable sections of the country have already become convinced of this fact so far as the election of judges is concerned, and in our largest cities the application of the elective principle to heads of administrative departments is being gradually restricted, although in no case have we yet reached the point at which the management of a great city department is looked upon as a career to which a man may give the best years of his life with the assurance of permanent employment. Under our present system the term of office is so short that the head of a municipal enterprise hesitates to propose large plans for improvements, because of the relative certainty that he will be unable to carry these plans to successful conclusion.

The American people must, sooner or later, develop a new concept of popular government, in which the prominent factor will not be the election of officials, but rather that control of organized public opinion over the administration of public affairs, which is, after all, the essential element of a vigorous democracy. On this point the lessons of foreign experience are clear and unmistakable. The administration of executive departments in the Ger-

man, and particularly in the English, cities shows a sensitiveness to every stirring of public opinion which is in marked contrast with the apparent indifference so often shown in similar departments in our American municipalities. The fact that a head of department is staking his career on the successful management of one branch of the public service is in itself sufficient to create in him a sensitiveness to every public demand. It is clear, therefore, that if our American municipalities are to extend their functions through the management of such quasi-public services as street railways, gas and electric-light supply, etc., we must be prepared to accept an organization of executive departments under which such heads will hold office during good behavior.

It is also evident that, if these services are to be efficiently performed, we must develop an organization of the civil service on a basis similar to that of European cities. That there is no insuperable obstacle to the attainment of this end is sufficiently attested by the rapid strides of the civil-service reform movement in most of our large cities.

It is important in this connection to examine the experience of foreign cities on one of the points most strenuously urged against municipal ownership and operation. We are told that this policy means a dangerous increase in the number of municipal employees. The danger that is pointed out is twofold. In the first place, the increase in employees introduces an element of political danger, because of the activity of these officials in the civic life of the community. Although foreign cities have suffered to a very slight extent from this cause, it must be kept in mind that the immunity has been due largely to the fact that their civil service has been organized on a permanent basis and administered under the merit system. The opponents of municipal ownership also lay much emphasis on the fact that the extension of municipal functions will mean, not only a corresponding increase in the number of offices, but that the extravagance which characterizes municipal operation will lead to the addition of a great number of unnecessary employees to the city's pay-roll. It is often charged that this has taken place in the English cities, but all the available evidence shows conclusively that this charge is unfounded.

A third and equally serious question connected with the municipal employment of labor is the influence of organized labor in securing from municipalities better conditions than they can secure from private corporations and individuals. It is pointed out that unskilled labor under municipal ownership enjoys a position of special privilege which is unfair to the great mass of the laboring population. The experience of every European city shows that the change from private to public ownership and operation has always been accompanied by a betterment of labor conditions, and that this improved condition has set a standard to which other enterprises of a similar character have been gradually forced to conform. This sensitiveness to the demands of labor organizations may place municipal industries at a certain disadvantage when in competition with private companies, but the ultimate effect on the labor situation is salutary rather than otherwise. In but few instances have unreasonable demands been complied with, and even where this has been done the situation has usually corrected itself by subsequent readjustments.

Another financial lesson of equal, if not greater, importance, and as to which foreign experience speaks with no uncertain voice, relates to the system of municipal accounting. In every British and continental city each public work is regarded as a separate industrial enterprise, and the accounts are kept accordingly. In fact, if not in law, the accounts of the municipal undertaking are kept in exactly the same way as if the enterprise were under private management. Until all the charges for repairs, depreciation, interest, and liquidation are met, there is no thought of profits. The result has been that the municipal industrial enterprises in both German and English cities have been maintained at a high point of efficiency. The besetting danger of municipal operation in the United States has been the desire to reduce the tax-rate through the profits of industrial enterprises. This temptation has been so great that in a number of instances the efficiency of the municipal plant has been destroyed by the desire to make a large part of this gross income available for general city purposes. The most notable instance is the Philadelphia gas-works, whose decline was not due so much to technical misman-

agement as to the refusal on the part of the city council to permit it to be managed on a business basis. Gross profits which should have been used for repairs and renewals were used for general city purposes, and the council persistently refused to make the appropriations necessary to keep the plant in good condition. Unless our American municipalities are prepared to make their system of accounting as businesslike as that of European cities, there is little or no hope that municipal ownership and operation can be successfully carried out.

A final financial lesson, of a negative rather than of a positive character, relates to the policy to be adopted in fixing the cost of service to the consumer. It has been pointed out time and again that the industries usually referred to as public-service industries occupy an exceptional position because of the special franchises or privileges necessary for their operation. While this is true, a far more important fact is often lost sight of—namely, that these industries are capable of subserving certain broad social purposes, and that it is within the power of the municipality so to adjust the cost of service that these larger social ends will be attained. It is one of the commonplaces of social economy that the transportation service is the best means of relieving congestion of population, and that the gas supply can be made one of the most effective means of influencing the habits and customs of the people. In the transportation service the plan adopted in most of the large European municipalities has been to adjust the fares under a zone tariff, thus increasing the cost of service with the increase in the length of ride. Although this has given satisfactory financial results, it has prevented the municipalities from performing their greatest service to the social well-being of the community, namely, to induce the population to move into outlying and less-congested sections of the city. It is true that the uniform fare of our American cities is unnecessarily high, and is no doubt a considerable tax on the short-distance passenger, but it is a tax which ultimately redounds to the social welfare of the community in contributing to that more equal distribution of population so necessary to the social advance of the community. In this matter of the adjustment of transportation rates to the attainment of

social ends, German municipalities are considerably in advance of the English, but they have all much to learn from the conditions prevailing in our American cities.

As regards the gas supply, it is evident that a reduction in the price of gas so as to permit the substitution of the gas-stove for the coal-stove is certain to have a far-reaching influence on the diet of the poorer classes. In this respect the British municipalities have done splendid service. The readiness with which food is heated on the gas-range, as compared with the effort to start a coal-fire, makes it possible to introduce a far larger proportion of warm, cooked food into the workingman's diet. The little that has been done in this direction is sufficient to show the tremendous power of the city in furthering social welfare.

These are but a few of the many instances in which the municipality, in the management of its public-service industries, is able profoundly to influence the industrial efficiency, the social welfare, and the general well-being of the community. European municipalities have all begun to appreciate the power which they can wield in this way. Although the sum-total of actual achievement is somewhat meager, the general principle involved is one of the greatest moment; the full import of which we have but begun to appreciate in the United States.

Whatever lesson may be drawn from foreign experience—and they are numerous and important—no one will contend that this experience can do more than throw an interesting sidelight on the problems that confront our American cities. The final choice between private and public ownership and operation must be made on the basis of our own peculiar conditions. In this choice, factors which are entirely absent in European countries will play an important part. We must recognize, in the first place, that the attitude of the American people toward the city is totally different from that which prevails in the countries of Europe. With us city government is a negative rather than a positive factor. We look to it for the protection of life and property, but it is with considerable reluctance that we accept any extension of function beyond this limited field. In Europe, on the other hand, the city is a far more positive factor in the life and thought of

the people. As new needs arise, the inhabitant of the European city looks to the community in its organized capacity for the performance of each service. With us in the United States the presumption is against any extension of municipal functions, and it requires considerable pressure to induce the population to accept an increase in municipal powers.

The immediate bearing of this contrast on the question under consideration is that municipal ownership in the United States is regarded as a last resort, to be used only after all efforts to secure efficient service through other channels have been exhausted. This of itself is an assurance that any experiments that may be made will be conservative. Whatever our attitude toward the question of municipal ownership and operation, the country as a whole is interested in having some experiments made. It is a grave mistake—especially on the part of the representatives of the public-service corporations—to decry such experiments as socialistic and as foredoomed to failure.

We must also bear in mind that in most of our large cities municipal ownership is practically impossible. Given the numerous constitutional restrictions, the financial resources of our cities are so limited that the repurchase of franchises belongs to the field of academic discussion rather than practical politics. It is possible that we shall find a way out of this difficulty through the Chicago plan of purchase-mortgage certificates, but it is evident that the sentiment of our American communities is still so strongly opposed to an increase in municipal indebtedness that even this plan is not likely to receive very general acceptance.

In spite of all these difficulties and dangers, there is every indication that the sentiment in favor of municipal ownership, and even of municipal ownership and operation, will acquire increasing force with each year, due primarily to the influence of one of the factors to which little attention has been given—namely, the growing opposition to monopoly. We are not concerned in this connection with the justification for this feeling. That it is an important factor in the situation is attested by the popularity of every political platform that emphasizes the opposition to monopoly. In order to gauge the strength of this feeling at its true

value, we must always bear in mind that the American inherited the opposition to special privilege upon which some of the most distinctive features of the common law rest. This feeling of opposition has been intensified in the United States by the gradual consolidation of the competing public-service corporations. Unless the signs of the times are fundamentally misleading, there is every indication that this opposition to monopoly will lead some of our American communities to override all the difficulties and dangers of municipal ownership and operation, in the hope of escaping the tyranny of local monopolies which, though not based on special legal privilege, as were the earlier monopolies that aroused the opposition of the English people, are none the less burdensome.

It is true that the experience with municipal ownership and operation in the United States has not been of the most encouraging nature, but it is also true that any experiments that may now be made will be carried on under more favorable conditions than at any previous period. Our cities are far better organized than they were fifty years ago. Their administrative system is more stable, and public opinion is far more exacting in its control over administrative departments. Municipal ownership and operation of the public-service industries involves some dangers and many new responsibilities, but it is not at all unlikely that in the effort to meet these new responsibilities we shall place the civic life of our American cities on a new and higher plane. Civic improvement in the United States has always followed in the wake of new responsibilities, and there is every indication that the experience with municipal ownership will prove no exception to the rule.