COMMUNICATION.

PUBLIC OWNERSHIP AND LOW RATES

In the same country and under similar conditions otherwise than in respect to ownership and control, public ownership tends as a rule to make lower rates than private ownership. This tendency results from the fundamental difference of aim between the two systems. Private monopoly aims at dividends for stockholders; public ownership aims at service for all. A normal public institution aims at the public good, while a normal private monopoly aims at private profit. It serves public interest also, but such service is incidental, and not the primary purpose. It serves the public interest so long as it runs along in the same direction and is linked with private profit, but when the public interest departs from or runs counter to the interests owning or controlling the system, the public interests are subordinated.

The conflict between public and private interest is specially strong in the matter of rates. The rate-level that yields the greatest profit is much higher than the rate-level that affords the greatest service, or the greatest service without deficit, and since private monopoly aims at profit it seeks the higher rate-level. Public ownership aims at service, not at profit, and therefore gravitates to the lower rate-level, where traffic and service are greater.

The diagram will make the matter very clear.

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In the figure, L O is the rate line with zero rates at the bottom and at the top rates so lofty as to be prohibitive; T T T is the traffic curve expanding rapidly as the rates are lowered; E E E is the expense curve beginning with the minimum of fixed charges and operating cost which must be incurred even with the smallest traffic and expanding with the traffic, though not in the same ratio. A considerable traffic can be handled at a slight advance upon the minimum cost (the fixed charges being nearly the same with 60 passengers per car as with 1, while the operating cost is only slightly increased), and for the later ranges of the traffic curve the expense account expands at so much less a rate than the traffic that an enlargement of 100 per cent. in the traffic frequently increases expenses only 30 to 50 per cent., and sometimes scarcely at all, as when Hungary adopted the zone system in 1889. R R R is the curve of receipts, which is a function of the rate and the traffic, and can be easily platted from them; Y R N, the part of the curve of receipts that extends beyond the expense line, represents profits. H I is the rate-level that yields the greatest profit, and M N is the rate-level that yields the greatest traffic without incurring a deficit. It is the level at which the line of receipts crosses the expense line, so that there is neither profit nor deficit, but service at cost. M N, the line of greatest traffic without deficit, is always a considerable distance below H I, the line of greatest profit. As you go down the rate line from H the traffic increases and the profit diminishes, until you come to a point where the rates are so low that profit vanishes, and there you have the rate-level of greatest traffic without deficit.

Now, private monopoly aiming at profit tends to establish rates at the level H I, the rate-level for profit, while public ownership aiming at service tends to bring rates down to the level M N, the rate-level for service.

Private monopoly aiming at profit tends to put rates at H with the traffic H P and the profit X I, while public ownership aiming at service tends to put rates several flights of stairs lower down, at M, with the very much larger traffic M S and no profit. I say "tends," because actual rates may not be on the lines H I and M N—public ownership may place the rates above M N (though rarely or never as high as H I) or below M N, even down to the zero level, and private ownership may, through miscalculation, put rates above H I or below it (though rarely or never so low as M N). The significant fact is that *private rates gravitate to the high level H I with large profit and comparatively small service*, while *public rates gravitate to the low level M N, with large service and no profit*, and in later stages of development may seek a lower level still and even cultivate the zero line.

The curves in the figure would vary, of course, with the location and character of the business. Under some circumstances a 50 per cent. reduction of rates would double traffic and increase expenses 30 per cent. perhaps, while in another case a 50 per cent. reduction would increase the business 20 per cent. and the expenses 10 per cent. or 15 per cent. In some cases the traffic curve becomes concave toward the left as it nears the zero level, while in other cases it might be concave toward the northeast and strike the zero level at a great distance to the right. But through all the various phases of these curves the essential facts remain the

same, viz: (1) The rate level that yields the greatest profit carries a relatively small traffic and lies above the rate-level that yields the largest traffic attainable by lowering rates without incurring a deficit, and (2) private ownership seeks the high rate-level with maximum profit, while public ownership seeks the low rate-level with maximum service at cost.

A few illustrations of the vigorous manner in which this law works out in practice may be of advantage here:

The Hungarian Government at a single stroke in 1889 reduced State railway fares 40 to 80 per cent. Austria and Prussia have also made great reductions in railway charges. Belgium started in the thirties with the very low rate of four-fifths of a cent on her public railways. In New Zealand and Australia also the government managements have adopted the settled policy of reducing railroad rates as fast as possible.

When England made the telegraph public in 1870, rates were lowered 30 to 50 per cent. at once, and still further reductions were afterwards made.

When France took over the telephone in 1889, rates were reduced from \$116 to \$78 per year in Paris, and from \$78 to \$39 elsewhere, except in Lyons, where the charge was made \$58.50.

Private turnpikes, bridges and canals levy sufficient tolls to get what profit may be possible; but when these same highways, bridges and canals become public the tolls are often abolished entirely, rendering such facilities of transportation free, and when charges are made, they are lower than the rates of private monopolies under similar conditions, and generally reach the vanishing point as soon as the capital is paid off or before.

When Glasgow took the management of her street railways in 1894, fares were reduced at once about 33 per cent., the average fare dropped to about 2 cents, and 35 per cent. of the fares were 1 cent each. Since then further reductions have been made, and the average fare now is little more than a cent and a half; over 50 per cent. reduction in 6 years, while we pay the 5-cent fare to the private companies in Boston and other cities of the United States the same as we did six years ago, instead of the 2½ cent fare we would pay if the same percentage of reduction had occurred here as in Glasgow.

According to Baker's Manual of American Waterworks, the charges of private water companies in the United States average 43 per cent. excess above the charges of public waterworks for similar service. In some states investigation shows that private water rates are double the public rates.

For commercial electric lighting Prof. John R. Commons says that private companies charge 50 to 100 per cent. more than public plants.¹

We could offer many other illustrations of the law that public ownership tends to lower rates than private monopoly, but this discussion may be sufficient to indicate the complexion of the facts and put the reader upon inquiry, which is the purpose of this brief article.

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¹ See "Municipal Monopolies," p. 156.