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Other People's Money

Being a Story of Municipal Speculation and Its Consequences

BY

ROBERT P. PORTER

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OTHER PEOPLE'S MONEY*

BEING A STORY OF
MUNICIPAL SPECULATION AND ITS CONSEQUENCES

By ROBERT P. PORTER



HE advocates of municipal ownership in the United States are threatened with a movement in England which may knock the underpinning from their structure and bring down the edifice with a crash. The epidemic of municipal trading and interference with private enterprise may be arrested by a Royal Commission, or Joint Committee of Parliament, which has been appointed to define the extent to which municipal trading shall be sanctioned by the Legislature. The contention of a large and influential body of Englishmen, who have become thoroughly alarmed at the present situation, is, that individual effort in England is being crushed and enterprise stifled by municipal interference; that unless a vigorous opposition is organized against these encroachments of the municipality the national consciousness will be choked in the coils of the boa constrictor bureaucracy as effectually as it has been in Germany.

*Municipal
interference
stifles
individual
enterprise*

The facts in relation to this important movement, which only crystallized six months ago, will come

as

*Reprinted from the N. Y. Times of October 31, 1899.

Other People's Money

*Conclusions
of half-baked
economists*

as a surprise to those in the United States who have accepted without question the conclusions of enthusiastic writers or half-baked economists in relation to the achievements of municipal trading in England. If only a part of the acts alleged as a basis for Parliamentary action and a halt in this tendency to State omnipotence be true, the disillusioning is likely to be as complete as it will be sudden.

*Englishmen
alarmed
at the
increase in
their local
debt*

The immediate cause for alarm and dissatisfaction on the part of taxpayers is the increase of local indebtedness and taxation since the inauguration of municipal trading. From 1878 to 1897 the local debt of England and Wales has more than doubled, and now represents the enormous sum of \$1,260,000,000, over half of which represents various trading plants which may or may not be worth the original capital invested therein. In the past twenty years the local debt of England has increased 120 per cent., and the annual amount of local taxation has increased 77 per cent., against an increase in the population—the paymaster who has to meet these increasing burdens—of only 23.6 per cent., and in the ratable value of his property of only 26.7 per cent. It is furthermore claimed, in a recent address by Dixon Henry Davies before the London Society of Arts, that while the imperial legislators have been devoting themselves to a systematic reduction of the national debt, local legislators, under the pretense of doing all sorts of things for the community

Other People's Money

munity which should be left to individual enterprise, have as steadily been augmenting the liabilities of municipal taxpayers.

Enormous as is the increase in local debt, there is, as Mr. Davies truly contends, no closing the capital account. He instances the case of electricity. Municipalities in England have hitherto only dealt with this great subject in a small and timid spirit. The total indebtedness under this head in the last published figures is only some \$15,000,000, due to the fact that about all the English municipalities have thus far done is to tie up this important and universal industry so that private enterprise is afraid to touch it. Experts declare that if the English authorities retain possession of the electrical industry and keep pace with the needs of the future, they will have to spend \$500,000,000 where they have at present spent \$15,000,000. "Surely," says the writer referred to above, "such a vista of capital commitment should give pause to the counsels of those adventurous spirits who, with vicarious enterprise, are so ready to land the ratepayers in further trading risks."

The most discreditable thing to municipal enterprise in England in this connection is the fact that in no less than 104 cases local authorities have obtained and are holding "provisional orders" granted by Parliament for electric lighting, etc., without doing any thing to carry the powers into effect. Dog-in-the-

The Dog-in-the-Manger tactics of English local authorities

manger-

O t h e r P e o p l e ' s M o n e y

manger-like, these powers have been taken to keep private and individual effort out, and the natural result is to retard enterprise and stop the progress of the towns.

That these encroachments of municipal governors into the domain of commerce restrict and repress individual enterprise there can be no doubt. Indeed, it is being loudly proclaimed in England that it has had the deplorable effect of enslaving the free energies of the nation, especially in the exploiting of electrical enterprise.

The facts presented to sustain the charge, it must be admitted, are of a startling character. Not only have municipalities obtained "provisional orders" in order to prevent individuals from entering the field of competition, but they have organized an opposition to all efforts on the part of private enterprise to extend the service or lower the price. The Electric Lighting act of 1888 provides that "the grant of authority to any undertakers to supply electricity within any area, whether by license or provisional order, shall not in any way hinder or restrict the granting of a license or order to the local authority or to any company or person in the same area." We are told that whenever electric stations belonged to private companies the local authorities have promptly taken advantage of this section. But what was sauce for the company goose was by no means sauce to the municipal gander. The

act

Other People's Money

act makes no difference, but the municipalities have always granted authority to competing companies in cases where private companies controlled, but have systematically refused where the plants were controlled by municipalities.

Nor is this the worst.

The most high-handed outrage so far perpetrated in the name of municipal ownership was the defeat in Parliament of proposals to supply large districts in the north of England with a thoroughly modern system of electrical transmission. When the means of insulating high-tension currents became improved, and other scientific appliances were devised, it was discovered, so says Mr. Davies, that the English parochial limits, fixed in the time of King Alfred, did not form a scientific division for confining a peculiarly elastic and transmissible force. Some parties therefore proposed, in full reliance on the section of the act of Parliament above quoted, to establish electric transmission systems on a much larger and more modern scale than has hitherto been known in England, but which would in no way be unusual either in the United States or Germany. They moreover proposed to subject themselves to a maximum charge, less than one-half the rate which the municipalities were authorized to charge, and were as a general rule charging for the electrical unit.

*A
big-
banded
outrage*

What did the friends of municipal ownership do?

Welcome

Other People's Money

Welcome and assist the company in the effort to establish modern methods in an important industry?

On the contrary, they organized a relentless, bitter, and, from the American point of view, unlawful opposition, and by concentrating the municipal political influence defeated the second reading of the bill in Parliament.

Yet no monopoly was sought for the company who, I am told on reliable authority, merely wished to trade in competition with any existing station, just as a new railway seeks power to compete in the carrying trade. The proposal was welcomed by the trading community. The Chambers of Commerce petitioned in its favor, and no one opposed the great enterprise except the municipalities. These organizations, with their autocratic town clerks, did not want the price of electricity reduced.

It has been proved by reliable testimony that this proposal would have practically supplied electricity from a central station on the coal fields over an area of nearly 2,124 square miles for lighting, power, and any purpose for which it would be used; and, having regard to what was being done in Germany, Austria, Italy, and our own country, it was quite certain that it could be supplied at something like one-fourth the rate at which it is sold at present.* At a meeting held

to

* Since the above was written in November, 1899, the writer has visited this district in Derbyshire, with Chesterfield as a center, and Sheffield, Derby, Nottingham, Doncaster and Barnsley as principal towns. He has also examined similar proposals in South Lancashire and

*Town Clerks
oppose
cheap
electric
power*

Other People's Money

to protest against the attitude of municipalities in relation to this and kindred enterprises, Mr. Graham Harris said: "The total area in that district, at present supplied by municipalities who were opposing the bill and stirring up opposition all over the kingdom, was under four square miles, and the whole work might be done by one small engine working continuously. They had 730 customers, but the whole population was counted by hundreds of thousands. The suggestion of the municipalities was that the company should be prevented from supplying that area, and that all the millions of people in the area, including their 730 customers, should be prevented having the electricity at the price the company were prepared to supply it at."

After reading the above, surely we must accord with another British authority, who declares that here we see the municipal trader in his true colors. He does not wish to trade in the same way that any commercial man trades, facing difficulties as they come, contending with his rivals, whoever they may be, adapting himself to new conditions, scrapping his existing plant as soon as it is superseded, and substituting more efficient plant, often at great sacrifice." "Your municipal trader," says Mr. Davies in his able
address

Cheshire, in Leicestershire and Warwick, and in Glamorganshire and Monmouth, South Wales, representing districts of 964 square miles, 1,265 square miles, and 1,034 square miles respectively. In each case the private proposal for supply of light, heat and power is far below the present cost.

Other People's Money

*If science
prove him
wrong, so
much the
worse for
science*

address before the Society of Arts, "won't hear of scrapping superseded plants. He wants protection for the ratepayers' trade. If science has shown that he is on the wrong lines, and has made an improvident investment, so much the worse for science, which must go to the wall (as it has in Glasgow and many other British cities) before the necessities of municipal trading. Science must wait until his machinery wears out. That will be quite time to introduce anything new."

*An
organized
lobby for the
suppression
of fair
dealing*

In these efforts to destroy all enterprise and obtain a complete monopoly for the British Town Clerk and his municipal contractors and friends, the Municipal Corporation Association has been formed. This body, I am told, raises its funds for such extraordinary and, happily in the United States, unheard of proceedings by a ratable levy over the whole of the affected towns, so that, although ostensibly preserving its local character, the opposition is centralized. This association, equipped with learned counsel and a well-organized lobby, becomes most powerful at Westminster. In the particular case referred to it called upon municipalities all over the kingdom to bring pressure upon their respective members of Parliament to defeat the bill. Thus the North of Scotland and South of Ireland are whipped into line to defeat measures which would be of immense value to Lancaster, York, and some of the Midland counties. As things stand at

the

Other People's Money

the present moment in England this powerful organization is the barrier against the initiation of individual enterprise, and the risk of having to face such an opposition practically debars even the attempt, except on some such scale as above described. It has aptly been described as a power organized especially to stifle new enterprise at its birth, not for the common good, but to protect selfish interests. No wonder the taxpayers and commercial bodies of England are up in arms against a scheme for the suppression of fair dealing by the unlimited enlargement of the functions of government. The nearest approach to this organization which we have in the United States is at the present moment advocating the repeal of the wise constitutional provisions in so many State Constitutions which limit the creation of municipal debt beyond a certain percentage of the assessed value of property.* Baffled by these wise provisions in their attempt to bring about the British condition of affairs in the United States, the American advocates of municipal trading have discovered that this obstacle must be removed before municipalization of profit-making industry is possible. While, therefore, the form the question is taking in the United States is a little different, the object sought to be attained is precisely the same.

These are some of the specific charges which will
be

* See "Vested Wrongs," by Robert P. Porter.

Other People's Money

*The
indictment*

be made during the next session of Parliament against what the English call municipal trading, but which we exploit under the term municipal ownership. The general charges are equally worth considering and should start those advocating these schemes for the United States thinking. These charges completely dispose of the four stock arguments of the municipal ownership advocates in the United States, which are, as is well known,

(a) That municipalities can borrow more cheaply than private individuals.

(b) That if a profit can be made out of the general supply of some commodity for the community why should not the community realize that profit for itself.

(c) That the motives of private adventure are self-seeking and sordid, and contrast unfavorably with the disinterestedness of the city Aldermen (New York, Philadelphia and Chicago, for example).

(d) That some of these enterprises are in the nature of monopolies, and that it is better that the Government should be a monopolist than a private person.

To this case of the municipal trader which I have put in a nutshell, the English opponent of municipal Socialism aptly and vigorously replies, sustaining his position with an array of data that confounds the college professor and socialistic clergymen who have rushed madly into the municipal ownership arena

and

Other People's Money

and want our cities to absorb alike all the lighting and street railway enterprises.

In the first place these English economists claim that the cost of borrowed money is a small element of cost in the success of municipal trading when there is a loss of 10 per cent. in cost of management when municipal is compared with personal talent in management.

*The
indictment
answered*

Commenting on the "profit to the community" argument, one of the speakers who took part in the discussion before the London Society of Arts, says:—

"We seem to have heard of this system before in "a remote island, where we are told the inhabitants "earned a precarious livelihood by taking in each other's "washing. The great danger of a municipality en- "gaging in a trade is to hold the balance evenly be- "tween the ratepayer as proprietor of the municipal "works and the ratepayer as consumer. The two are "not by any means identical."

Exactly! For example, the municipality of Nottingham, we are told, makes a large profit out of its gas, and last year a prominent manufacturer of that town spoke very bitterly of the feeling of the large gas consumers that they were charged unduly for their gas in order that the money so received should go to the maintenance of a technical school. This the manufacturers claimed was robbing the rich to give to the poor. Again, in Sheffield, the municipality, realizing

Other People's Money

*The point
of view*

a profit from the tramways, immediately reduced the rates by twopence in the pound. This has aroused the working classes who live along the tramway route. They say they are practically the sole users of the tramways; that a lowering of the district rates means hardly anything to them, but to the rich property owners. They have denounced this process as stealing from the poor to give to the rich. Should they decide in Sheffield to reduce the fare or in Nottingham to reduce the price of gas to the actual cost, the Councils of these towns would still be open to the criticism of the taxpayer who used neither gas nor tramways, upon whom, with his neighbor, this burden of debt and subsidized industry must fall. In fact, there is no reason why the entire community should be dragged into a large trading venture with a large capital.

The third point against individual enterprise is well described as being based upon cant, or, at best, ignorance. The Town Council, at its best and cleanest, is no better than the private company—in some of our American cities it is much worse. Will Dr. W. S. Rainsford or Dr. Lyman Abbott or Dr. Albert Shaw or Professor Bemis please answer the question: "Where is the inherent beneficence or nobility in those who merely adventure other people's money?" There are just as many good, sterling qualities required in venturing your own money—courage,
steadiness

*Other peo-
ple's money*

Other People's Money

steadiness in adversity, tenacity of purpose, faith, and loyalty,—all necessary to steer great undertakings through troubled waters. To thus fence off by the staves of officialdom field after field of enterprise from the adventure of the individual capitalist is indeed to deaden commercial activity, and to atrophize those energetic faculties which hitherto have been the mainspring of industrial progress both in England and the United States.

The fourth and last point is, that in private hands such trades are monopolies. We hear it made on both sides of the Atlantic. A generation or more ago trunk railways were regarded as monopolies. Yet today there are practically five running from London to the north. So from New York to Chicago, and even to San Francisco. Had the Government undertaken these great industries we should have had one trunk line in each case, as on the Continent of Europe. Railway development would have been retarded and competition not near so keen. Instead of progress we should have had stagnation. Committing such enterprises to the unwise action of the Legislature discourages and restricts the enterprise of the capitalist and condemns promising industry to the sterile and monopolistic hands of municipal management.

Another element of danger has developed both in Manchester and Glasgow, where these cities, not content to manage their own tramways, are seeking power

*Additional
dangers*

to

Other People's Money

to inaugurate a system of tramways within from ten to sixteen adjoining districts, in which it is actually claimed by these municipalities that no company whatever should have a right to put down or work tramways. The municipalities of Manchester and Glasgow, bear in mind, do not say they will make all necessary tramways, but the contention is that only those shall be made which they approve.

All these arbitrary measures come before Parliament, so the opponents to municipal trading claim, promoted and lobbied by the aforesaid Municipal Corporation Association. It is said that no less than seventy municipalities are applying either to Parliament or the Board of Trade for power to trade in electrical fittings, thus coming actually in competition with private manufacturers, and in addition to that a large number of bills from municipalities seeking to become trading corporations. In all these enterprises the wretched ratepayer will be called upon to pay whether the business is successful or not. As in the case of a company, there would be no winding up.

The effect of all this on labor is most disastrous. The thousands of employees of these cities are all voters, and they are bound to vote for those who propose to take care of them, regardless of the poor beggars whose occupation is destroyed by the curtailing of individual enterprise. In a recent election for the London County Council, the borough of Southwark

*Bad for
labor*

Other People's Money

was treated to a poster to the effect: "Vote for So and So, who will pay the scavengers the wages of 25 shillings a week." Here was a serious element of corruption which will become bad enough in Great Britain, but unbearable in the United States. The London County Council is at this moment having serious trouble with their tramway labor. It will probably end by the taxpayers being saddled with the difference. Labor should receive the highest possible pay, and should use all legitimate endeavor to secure it. Wages dependent upon political elections, however, are bad alike for the employee and the body politic, whether municipal, state, or national.

In short, the claim is being made in England, and sustained with an overwhelming amount of facts, that in twenty years municipalities have not given so good an account of their stewardship as private enterprise would have done. In view of this an attempt will be made to impeach the whole category of municipal enterprises, and if possible to bring the administration of English municipalities once more to their original and legitimate moorings. The Royal Commission which will soon be announced has authority to inquire into the whole subject, and if it consists of fair-minded men will submit both interesting and important results.

For the benefit of American readers I have epitomized in a short space the conversations I have heard in many directions among intelligent men of affairs in

*Tried
and
found
wanting*

Other People's Money

a recent stay in London. Other facts have been culled from reports of speeches, debates, and newspaper articles in the leading London journals. The whole clearly points to a strong revulsion of feeling in England against municipal trading. This sentiment will, as I have said, crystallize during the next session of Parliament, as the fourth proposition, that relating to South Wales, will be pressed forward during the present winter. Meantime these facts are given as a warning to American taxpayers against the fiction spread all over the United States as to the gratifying results of municipal ownership in the United Kingdom.

Including Glasgow, there is not a single such enterprise in England which has given, or, under present conditions of operation, can give as good and as satisfactory results to the community as can be obtained by properly regulated industrial management.



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