

A \$14,000,000.00 HORSE.

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Promoters of public utility corporations, not infrequently, have been financial pirates. The public has invested its savings in the stocks and bonds of street railway, gas and electric light companies, without a suspicion of the inherent unsoundness of these investments. It is not until franchises begin to expire that investors wake up to the fact that they have been the victims of misplaced confidence and that serious loss is inevitable.

Now what have investors a right to expect from those who manage public utility properties? They have a right to expect this, that when the franchises expire there will be enough tangible property to support at par both their bonds and stock.

In other words, any capitalization of the franchise itself, is a palpable fraud, for when the franchise expires the capitalization based upon the franchise must collapse.

Every dollar secured by the sale of bonds or stock should be put into the property and enough should be set aside from the revenues, to keep the property unimpaired, so that when the franchise reverts to the public the physical assets will equal in value all outstanding securities.

But this is never done. On the contrary, the universal practice has been to capitalize and sell, as though it were a permanent asset of the company the franchise, which is only loaned to the company, and which sooner or later must be returned to the community without compensation. Invariably these franchises are capitalized and sold and treated as a part of the property, with the inevitable result that when the franchise expires, there is financial chaos.

When the day of reckoning comes these companies have but one way of escape. They seek to have an extravagant valuation placed upon their physical property, and they try to prevent the public from understanding that this

extravagant valuation includes the capitalization of the franchise, which is no longer theirs.

Suppose the people of the little community of Fruit Hill where I live were so anxious to have some one run an express wagon into town that they would offer to loan me a horse for a year, if I would buy a wagon and engage in the express business.

What would be said of me, if, after accepting the loan of the horse and investing in a wagon, I should sell the horse together with the wagon as though they were both mine. They would call me a horse-thief, and the community to which the horse belongs would have a right to send and take it wherever it might be found.

But suppose, after having accepted the loan of the horse, I organized a stock company and sell stock to the value of both the horse and wagon. At the end of the year I would be compelled to surrender the horse and the investors would discover they had nothing but a wagon for the stock and bonds which had been issued for the full value of both horse and wagon. I would still be a horse-thief, would I not?

The franchise is the horse—the physical property is the wagon or a street car or other public utility corporation. The horse is loaned to the company and must be returned. But all such companies sell the horse. When the day of settlement arrives they all try to get a valuation put upon the old wagon equal to the value of both a new wagon and the horse. The grim joke of it is the public is usually stupid enough to pay the price.

In the Cincinnati street railway situation, the horse in the case is the legal right to charge five cents fare until April 22nd, 1916. The wagon is the physical property which the company has. In April, 1916, this horse must be returned. After this date the company has no right in the streets with its wagon, unless it will agree to a reduction in its fares so that it may pay interest in the future on the wagon without demanding any further interest on the horse.

We know by comparing the property in other cities, where physical valuations have been made, that in this case the wagon is worth from ten to fifteen millions. Fifteen millions would be an excessive price for it. The rest of the twenty-nine million capitalization is the horse--our horse.

The President of the Traction Company says there is not a dollar of water in the stock, but I submit that there is a fourteen million dollar horse in it.

That fourteen million dollar horse belongs to the people, or will belong to them in two years time. If the President of the Traction Company can cajole the people into paying him fourteen million dollars for their own horse which they loaned him for nothing, and which he is legally bound to return to them without compensation, that will be a horse on us. The jolly president will be entitled to enjoy his joke and also the dividends on the fourteen millions.

When the day of settlement comes, the court will have to say what the wagon is worth. Suppose the court finds it is worth fifteen millions. The company will protest that it should have fourteen millions more. "What for?" the court will ask. "Why for this horse," the company will say. Then they will bring the horse out and look it over. We will call the horse by the name of "Joey B," after a famous character in one of Dickens' novels. The horse is twenty years old. He is heavy, and spavined, sway-backed and stiff and thin. The poor old nag has been worked to a shadow. "Whose horse is that?" the court will demand. "Well, it is the city's horse now," the company's attorneys will have to admit. "But your Honor, we think it would be no more than fair for the city to pay the company for the horse, even though the horse now belongs to the city and not to the company."

The court will probably inquire with some surprise why the city should be expected to do any such thing. "Your Honor," the company's attorneys will say, "because the company has already sold the horse." "What! sold a borrowed horse--sold a horse that did not belong to

the company?" "Well, if your Honor please," the attorneys would say, "that is not just the way we would express it, but something of that sort has been done. In short, the company borrowed the horse of the city--but after it borrowed the horse the company capitalized and sold the stock. At the time, your Honor, a transaction of this sort was not considered reprehensible any more than it should be considered reprehensible for a United States Senator to receive Standard Oil Trust certificates in return for legal services. Now, if your Honor please, we think you should let bygones be bygones. The fact is, the horse has been purchased by innocent parties, and these innocent parties should be protected."

At this point, as may be imagined, the Judge inquiring with some heat why their client should not be prosecuted as a horse-thief, the learned counsel would very promptly and truthfully reply: "Your Honor well knows that it is the custom to put men in jail for stealing a twenty dollar horse, or a fifty dollar horse, or a hundred dollar horse, but if your Honor please, there is no precedent and no authority anywhere for taking criminal action against a man who steals a fourteen million dollar horse. The horse is so valuable, your Honor, that the very suggestion of any guilt in the theft is preposterous."

Of course, this court scene will never happen. Not in just this way. What will happen is this. When the public utility commission gets to work valuing the street car property, the company will employ experts of its own to make a valuation; but the company's experts will be hired not to value the property, but to hide the horse. They will be hired to hide that fourteen million dollar horse, so that the city can be induced to pay for its own horse without knowing it. Disguising horses of this kind has come to be a highly scientific and profitable business. The horse will be so successfully concealed in a mass of figures

that to the untrained mind its presence would not be suspected. The horse will not be seen, it will not be heard, perhaps we should not say that it will not be smelled, for Bion J. Arnold made a valuation of the street car property in Kansas City and the Mayor of the city declared that it smelled of dead mules.

One of the tricks of hiding the horse is to get a name for it that does not sound a bit like a horse name. They will not call this horse "Joey B." They will not call it "Charley" or "Clarence" or anything of the sort. One of their favorite names is "Overhead charges." They sometimes call it a "going concern." "Obsolescence" is a favorite pet name for the nag. "Good-will" is still another. Yes, and the lawyers will tell you solemnly we must expect to pay something for the HISTORY of the company; that is yet another name for the horse.

During the coming year in Cincinnati as this work of valuing the property proceeds, much will be heard of these names, but whenever the learned counsel speak of "overhead charges, going concern, obsolescence, good-will," the public should be advised that what they are really talking about is this horse, this fourteen million dollar horse of our own, and that these fancy names are invented for the purpose of fooling us into paying for our own property.

Some of this old horse will get into the valuation, in spite of anything anybody can do; such is the deference that is paid to well capitalized wrongs. Besides it is so easy to take pennies from poor people to pay millions to rich people.

To get a valuation without some horse in it—that is too much to hope for—but probably we shall not have to pay within many millions as much for this horse as we should have paid a few years ago.

If the people of Cincinnati want to pay fourteen million dollars to somebody else for a horse which is already theirs, that is their privilege. All we insist upon is that this horse shall not be done up in packages and marked "overhead charges, going concern, obsolescence, good-will," and

sold to us under false and misleading labels. The people have a legal right to give the company authority to collect from future street car riders enough money in addition interest upon their property to pay for this horse, but insist that these packages shall be marked "dead horse" and that the people shall know what they are getting for their money.

But we shall make it our aim to see that just a little of the people's money is squandered in this way. For this we shall be called hard names, but the millions that we save we shall lighten the burdens of tired people, from whose poverty the burden should have to come. We are under no delusion. Not even those who are saved the burden of the taxes will remember long or care. But we cannot escape the conviction that it matters much to us both now and in the eternal years, that we should do our part without hope of praise and without feeling of hate, to promote justice and fair dealing among men. Whether there be few with us or many, whether we be weak or strong, we can at least fight a good fight and keep the faith to the end.
