

## CHAPTER XI

### MUNICIPALIZATION AND NATIONALIZATION

“Then there is the question of conservation. What is our fear about conservation? The hands that are being stretched out to monopolize our forests, to prevent or pre-empt the use of our great power-producing streams, the hands that are being stretched into the bowels of the earth to take possession of the great riches that lie hidden in Alaska and elsewhere in the incomparable domain of the United States, are the hands of monopoly. Are these men to continue to stand at the elbow of government and tell us how we are to save ourselves,—from themselves? You can not settle the question of conservation while monopoly is close to the ears of those who govern.” WOODROW WILSON, *The New Freedom*, Chap. III, page 77.

THE question of the municipalization of public utilities has always been of very great interest to a large number of people who are opposed to State Socialism. There are, besides, numbers of people who favour the policy of municipalization of public utilities who will not give their support to schemes for nationalizing railways, canals, mines, and oil fields. There seems to some inconsistency here. Often enough, the socialist is puzzled when a supporter of municipalization repudiates the gospel of Socialism. Why, it is asked, if you favour municipalization do you oppose nationalization? Now economically and politically there is a slight difference

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lying between municipalization and nationalization. Let me attempt to make as clear as possible what this difference is.

What are the services that are to be municipalized? They are electric light, gas, water, local rail and trolley systems. The coal and milk supply have been suggested as fit services for municipalization, but these and other industries of a like nature I will not consider here, because they differ fundamentally from those services I have mentioned above; for local public utilities of the class I have referred to can be operated only by using a public franchise. It is impossible for the individual to make his own electric light, his own gas, to supply himself with water, or provide himself with all the facilities of transport. And it would be impossible for a company of individuals to supply the community with these necessities without using the streets and foot-paths for wires, pipes, and rails. Therefore the individual, being unable to return to a primitive method of supplying his wants by his own exertion, has to rely on company enterprise to serve him. But no matter whether the company service be good or bad, or prices be comparatively high or low, it must be recognized that the services could not be operated unless a legal privilege were granted to use the roads and foot-paths for laying conduit and rail. It is this legal privilege which enables these privately conducted companies to levy a toll over and above the value of the service, from those who avail themselves of the service. Competition being excluded where a public franchise is used, places the user of it in a position to extort monopoly values from the public. Hence the demand to municipalize these undertakings. This, of course, would not be necessary

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if the community charged the company the full monopoly value for the use of the roads and foot-paths, and if this were done competition would follow and the public would gain in quality and quantity of service. So there is a difference between municipalization and nationalization, and that difference is that the roads used by the purveyors of electric light, gas, water, local railways and trolleys, already belong to the people; the roads are their roads; they pay for the making of them, and the extension and upkeep of them. Max Hirsch in *Democracy versus Socialism* deals with the principle in this way:

“ Even where the legal right to use the streets is not exclusive, but merely privileged — as, for instance, in gas, electric light, and similar companies which have been accorded the right to lay their mains and cables below the public streets — the impossibility of granting the same privilege to every member of the community acts as a deterrent to competition, and therefore produces monopoly values. This tendency is increased through the fact that wherever competition is limited combination is feasible. The certainty that similar privileges cannot be granted indefinitely enables competing companies for the supply of gas, water, electricity, and similar commodities, as well as competing railway companies, to amalgamate or pool their receipts. The limitation of competition arising from privileged use thus ultimately results in the elimination of all competition, and in the establishment of the same monopoly and the creation of the same monopoly charges and monopoly values as where the legal privilege is exclusive. All such legal privileges, therefore, are more or less of the nature of toll-gates; their value is not a sign of the existence of any real capital, but consists merely of the capitalized value of a tribute which the possession of such legal privileges enables their owners to exact from others, without rendering service or adequate service in return.”

When the socialist says that he cannot understand why one should be in favour of municipalization and

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opposed to nationalization, he certainly feels there is little or no difference in principle between the two schemes, and that the principle of nationalization, as he considers it, is already granted. It seems so, but the trouble with him is that he has not looked very deeply into the question. The question of control and management is of vital importance in either scheme, and, in the case of municipal ownership of public utilities, control and management can be better regulated in the interests of the community than can schemes of nationalization under a highly centralized body, where criticism might not reach the national directors, or if it did, be ignored by them. There are to be found in Great Britain many instances of municipal success in owning and operating certain local services, where experience has shown that the local body is quick to act upon public opinion, and that the public take a most intelligent interest in the conduct of their local undertakings. Besides, the very fact of the local community knowing that the roads are theirs is sufficient, it is held, to keep them in touch constantly and directly with the departments. How would it be under a system of nationalization? Why, there is no comparison so far as interest and control are concerned! The present experiment with the railways is an excellent lesson to be learned in this respect.

In giving further consideration to schemes of nationalization let us turn our attention to mines, oil fields, forests, and water-power, before we deal with land transportation. Let us again point out the danger of the policy of getting Socialism increment by increment. This insidious method is particularly effective; we are being socialized without our consent. There is, or there was, a separate body ad-

vocating a separate scheme of nationalization for these industries. In Britain there were societies quite distinct from one another advocating the nationalization of mines, the nationalization of railways, and the nationalization of canals. These were not socialist bodies; indeed numbers of worthy Liberals and Radicals gave their support to these objects. A well-known English socialist referred to this state of affairs and said with a chuckle, "we socialists preach the full gospel, and you Liberals make it easy by giving us homeopathic legislative doses." His meaning was clear enough though his metaphor seemed a little mixed. Nevertheless, to nationalize the mines in Great Britain or here will be no easy task. In the first place it is going to be very difficult to arrive at a real valuation, and as no one seems to have stated clearly what is meant by the term "mine," or "mines," there must be some earnest thinking done before the process of valuation is begun. What is to be valued? The working "mine" or "mines"? Are the plant, the company's rails, cars, locomotives, etc., together with the coal, mined and unmined, the royalties, dead-rents, way-leaves, etc., to be valued? Or will some expedient such as was suggested in relation to railways in England be adopted? The basis of purchase in Mr. Gladstone's Railway Act of 1844, which gave the State power to buy railways, constructed after that date, was, "twenty-five times the average annual profit during the three years preceding the date of the giving of the aforesaid notice"—three months notice was required. Such an expedient would be an utterly iniquitous thing to adopt. Let us ask whether any important body of business men would agree to State purchase on such a basis. Still, if the

public were so unreasonable as to agree to these terms, what would the public get for their money? The working mines and the capital of the companies? Are these all we have to consider in a scheme of nationalizing mines? Certainly not. The most important economic factor in the whole business is entirely left out of consideration. And that is the coal areas that are at present unproductive. According to the report of the United States Geological Survey there were recently 1,992,979,000,000 tons of easily accessible coal still available, and 1,153,225,000,000 tons of available coal accessible with difficulty. A few years ago the total area underlaid by coal measures amounted to 496,776 square miles. Now if coal is to be nationalized in the interest of the people of the United States, a valuation act is imperatively necessary, for there should be no half-measures taken if the scheme is to be put through — it must be all or nothing. It must be for the benefit of the people as a whole. But the socialist sees only so far as the labour and capital factors in this matter. He does not see the economic effect upon wages of vast areas of coal withheld from production. When, however, he does realize the economic effect of the power to limit supply, by withholding areas not yet mined, he will demand a valuation act of all coal areas, mined and not mined, and when the valuation is made and agreed upon he will probably see that it is better to tax the monopoly value, which the act will clearly indicate, than bother about his scheme of nationalizing working mines on a purchase basis.

What I have said of mining and coal areas may be said of ore and oil areas. There are six great fields containing oil of various compositions, and in

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1908 the known areas productive of oil contained a supply estimated at from 15,000,000,000 to 20,000,000,000 barrels. The National Conservation Commission has told us of the enormous loss through misuse. That there has been shocking waste is generally conceded by those who have studied the question of oil production at close quarters; indeed, there are people who advocate the nationalization of the oil wells of the country as a means of checking waste. Whether nationalization be considered for this particular purpose or any other, nothing can be done of value to the people without a valuation act. But before the question of valuation is considered there should be another searching survey of the whole of the country carried out by impartial experts.

Though the difficulties which face the nationalizers are great, when they set out to survey and value coal and oil regions, they should not overlook ore areas, ore of all kinds. Their task is going to be an exceedingly difficult one, yet I fully agree survey and valuation are absolutely necessary whether we nationalize or no. All lumber regions should be surveyed and valued and water-power should not be forgotten.

This lack of analysis of land and capital on the part of the socialist is fatal. Ignoring the passive factor in production, he is driven to fight against what he calls capitalism. He feels that there is a great injustice in the world of industry, and, because he will not look deeply into the subject of production, he imagines that injustice lies somewhere between labour and capital, the active factors in production. He argues that the labourer who produces does not get enough, and of that he has unimpeachable evidence in the condition of the people round about

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him. Therefore he imagines that the other active factor in production is to blame for the inequalities of the distribution of wealth, and that the capitalist withholds from labour an unfair share of the value of the product. Again let us point out a momentous inaccuracy in his reasoning. Capital does not pay labour, though to the socialist he seems to do so, when the agents of the capitalists give the workmen their pay envelopes. But it only seems so, *seems* because the pay envelopes contain a check, or bill, or coin, which are after all merely media of exchange. Labour pays capital interest, and interest is merely what labour pays for the use of that part of wealth, produced by labour, to assist in the production of more wealth. When the socialist sees clearly the difference between capital proper and spurious capital, then there will be some chance of getting justice done. Spurious capital in no way assists production for it is merely a legal right to tribute. Rights of debt and monopoly rights — legal enactments which grant privileges, these are the cause of the trouble, and the only way to remove this cause is to tax monopoly value. So long as the socialist carries on his war against the capitalist, labour will never get justice. Labour may strike, and strike again, and if the strike be successful he may get a rise in nominal wage and shorter working hours, but the cost of living will as surely rise against him as the sun will rise tomorrow. It should be evident to socialists by now that the policy of taking what they call more and more of the profit from capitalists by strikes and demands for shorter hours does not enrich labour generally nor impoverish the capitalist. Surely the history of strikes proves this: that strikes perpetuate strikes. And

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this must be, for rent and the cost of commodities must rise with each rise in nominal wage. There is scarcely an instance of any importance where this has not occurred. In recent years we have only to consider the effect of the railway strike in England, which took place before the war, when railway employes received an increase of nominal wage which was very soon swallowed up in the rise of the cost of commodities which followed the rise in railway rates, sanctioned by the Government. Railway legislation in the United States teaches the same lesson. But the same tendencies are to be found in indirect "benefits." Certain social reforms which are superficial and palliative have the effect of raising the cost of necessaries and rent: to wit, old age pensions and insurance for sickness and unemployment. All these hoary expedients should now be abandoned. The reduction in the cost of purchasing power is a pretty clear indication of the impossibility of enriching labour by palliatives and strikes, and low wage purchasing power has recently been hammered down almost to the vanishing point.

Let us now consider the question of the nationalization of railways. This is a subject which is engrossing the attention of millions of people in the United States and Great Britain. The war has brought the railway question into the arena of practical politics, and now it seems not so much a matter of whether railways should be nationalized, but rather how and on what basis nationalization should take place. It is said that it is not possible to return to pre-war conditions with respect to railways. This is another instance of the insidious method operating in favour of State Socialism. Owing to the emergency of having to take the railways over for

war purposes governments have suddenly, as it were, created a vast public opinion in favour of nationalization. There was before the war an undoubtedly large demand for the nationalization of railways both here and in Great Britain. It seemed to many people a fit service for government control. How often have we heard it said that as the State controlled the postal service there could be no practical reason why the government should not control all railways, telegraphs, and telephones? The postal service is the peg on which the socialist hangs any number of his nationalization hats. There is, however, a great misconception in relation to the postoffice which should be cleared up. Let it be said that the mail coach system was not at first a government service; it was begun and carried on successfully by Palmer against great official opposition. Rowland Hill, the English postal reformer, arrived on the scene very late in the history of the service. And as Herbert Spencer points out in *The Man versus The State*, the government did not step in until private enterprise had established a system which for service compares favourably with what we have today. Spencer says:

“Respecting the general question whether, in the absence of our existing postal system, private enterprise would have developed one as good or better, I have been able to say only that analogies like that furnished by our newspaper system, with its efficient news-vending organization, warrant us in believing that it would. Recently, however, I have been shown both that private enterprise is capable of this, and that, but for a legal interdict, it would have done long ago what the State has but lately done. Here is the proof:

““To facilitate correspondence between one part of London and another was not originally one of the objects

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of the Post Office. But, in the reign of Charles II, an enterprising citizen of London, William Dockwray, set up, at great expense, a penny post, which delivered letters and parcels six or eight times a-day in the busy and crowded streets near the Exchange, and four times a-day in the outskirts of the capital. . . . As soon as it became clear that the speculation would be lucrative, the Duke of York complained of it as an infraction of his monopoly, and the courts of law decided in his favor.—Macaulay, *History of England*, 1866, i., 302-3.

“Thus it appears that two centuries since, private enterprise initiated a local postal system, similar, in respect both of cheapness and frequency of distribution, to that lately-established one boasted of as a State-success.”

This is a point well worth remembering, for even in England, where the postal service is infinitely better than that of the United States, there are any number of people who believe it would have been better done in the hands of private companies. In considering these questions it is unwise to imagine the State initiated and perfected the systems which it controls. It is to private enterprise thanks are due for every service, whether conducted with efficiency or not, which the State controls. The State perhaps initiated only two services — both destructive: the army and the navy.

Therefore, I would emphasize the fact that private enterprise is not to be blamed for the deficiencies in the railway system. It is often said that government has made the railway system what it is. Interference and restriction, following a period when unwise and prodigal administrations neglected to take monopoly values, were to blame for so many of the evils which have arisen in connection with railways.

It has been said that the Government will have to meet this year an enormous deficit on railway

revenue. To meet this deficit another advance in freight rates seems necessary. That such an advance will increase the cost of living no one will deny. But if that be done a further advance in wages will very soon be necessary. Then it seems only a question of time when we shall have a bankrupt service on our hands, for it is not to be expected that there can be either much economy practised, or with a sinking purchasing power there can be any material increase in the volume of traffic. On the other hand, it is generally admitted that a reduction in wages is not to be thought of for a moment. To quote from an article by Mr. Arthur Sears Henning, it is estimated that the increase in the railroad payroll will reach \$1,000,000,000 a year. This is a very grave state of affairs, and those who think the way out of the difficulty is for the Government to keep the control of the railways, merely express a desire to be rid of a service which now seems to be beyond the power of private enterprise to conduct profitably. The war seems to have made it impossible for the Government to relinquish control of the railways, and it seems that the opportunity of placing the service on a productive basis conducted by private enterprise has passed. There was a possibility, so long as the railways remained in the hands of the directors and shareholders, of making a business-like deal for their purchase by the Government. Such a deal as I have in mind would not have satisfied the shareholders and employés, not at first; but it would have been a deal which would have insured the industrial future of the service, one indeed that would have met with the approval of the public, who in any event must be taken directly into consideration. The question of the nationalization of railways is

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just now receiving much attention in Great Britain. The Government over there had to take over the railways during the war, and now that the war is over Mr. Churchill has told the people at the recent election that the Government had decided to nationalize them. The consequence of the Government running the railways for war-purposes has made nationalizers of railway shareholders by the thousand. A leading British weekly says, "they (shareholders) look to the public exchequer and the taxpayer to secure their property against the inroads made by labour with the consent and assistance of the Government, and have made up their minds that a handsome Government security will be better for them than the precarious ownership of railway shares." Now this is just what has happened in the United States. But in Britain there is a great public opinion which realizes that State control of the railways is only the beginning of a general scheme of nationalizing primary industries. It is said other schemes of nationalization are inevitable in the early future. Then a note of warning is flung out, a note which may come too late to warn Americans before they take the final step:

"Now, long convinced of the desirability of this large step in State Socialism, we have always urged the necessity of a close public scrutiny into the conditions under which the national acquisition of the railways should take place. The Government ought not to decide to buy the railways before Parliament has had ample opportunity to consider the terms of purchase. Not merely the question of the railways is involved. Other schemes of nationalization are inevitable in the early future. Under them large amounts of public money must be paid for the purchase of private properties and interests—in land, mines, public-houses, and other valuable assets. Unless we embark upon this business

with strong safeguards against a policy of plunder, we are lost. The strongly-organized private interests, commanding, as the railways do, powerful advocacy in both Houses of Parliament, will do their utmost to fasten upon the public ruinously high terms of purchase and of compensation. The first safeguard of the people is to insist that before any decision to purchase is announced, the various bases of valuation shall be examined, and the results placed before Parliament in such a form as to enable it to strike a fair bargain. When some years ago, Switzerland decided to consider nationalizing its railways, *it first passed a Valuation Act*, and then proceeded to an Act empowering the Federal Government to acquire the properties."

It is this essential Valuation Act that is required. In that way we shall be able to separate land and capital, and therefore estimate what the capital is worth to the people. The value of the land can be taken in taxation, and should be taken in taxation. Only in that way can labour, capital, and the public be treated fairly. No one has pointed out this difference in land value and capital of railways so clearly as Hirsch. He says:

"The capital of the undertaking consists of the present value of the road — improvements, plant, buildings, material, etc., less such wear and tear as they have undergone. Suppose any one were to offer to buy any English railroad on such a valuation, or even on the value for which all its capital might be replaced now, without deducting anything for wear and tear. The directors would certainly regard him as a lunatic. Yet if any one offered to buy an ordinary factory of similar age on such terms he would be received with open arms. Whence then the difference? It arises from the fact that the Legislature has given to the railway company a special privilege, i. e., the exclusive use of a narrow strip of land hundreds of miles long, unbroken by any roads or other rights of use. Having the exclusive right of use to this land, the railway company can charge more for carrying goods and passengers over it than if competing carriers were allowed to run trains over it. The difference

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between competitive rates and the monopoly rates which the company now charges is a toll on industry as much as the toll levied at the gates in the preceding illustration. Capitalized, this toll forms part of the value of every railway stock. The value of railway shares is thus composed, partly of the values of the capital employed in the undertaking, and partly of the capitalized value of the legal power to levy tribute."

Here the principle is stated, and the principle is the same everywhere where railways are operated by private enterprise, though there may be many important differences in the detail of running a railway here and in Great Britain. Let us, however, bear in mind the necessity of an *act of valuation* as the first step, whether the railways are nationalized or returned to the owners. There is a limit to the old method of raising wage and increasing rates. That is nothing more or less than the old scheme of robbing Peter to pay Paul. At the time of the railway strike in Britain, 1911, Government intervention took place, and wages were raised with Government consent. What was the effect? The companies immediately raised passenger and freight rates. Mr. Lloyd George then described the situation in this way:

"We (the Government) are simply giving the railway companies a right which is now extended to every business man in the country. . . . If there is a great settlement between colliery owners and their employees, or great cotton spinners, or in any other industry which involves a heavy increase in the labour bill, they pass it on, and they are entitled to pass it on."

There must be a limit to the policy of passing it on, and it seems to me that if we have not yet reached the limit, we are so near it that it makes not much matter.