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By Alfred Emanuel Smith

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June 26, 1907? see another LTE, headed "Railways and Taxation."

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THE TAXATION CURE

Your comprehensive editorial in a recent issue upon the State Control of Public Utilities affirms that the Hughes Bill "is well worthy the study of publicists, editors, and economists," and, again, that "to put into law a plan for State control of all public utilities is a great undertaking." The latter statement appears to me to be painfully true, because, like the President's proposals for arbitrary limitation of fortunes by death rates, or an arbitrary fixing of railway rates, such a plan well-nigh savors of the impossible, in that, instead of being an automatic regulation, it is an attempt to divide between corporation and State administrative duties which naturally should be performed by one party, either the corporation or the State.

The conviction appears to be rapidly gaining ground that one of two things must come; viz., either public utilities must be owned by the State, or they must be regulated by the State. It is respectfully submitted that the best if not the only effective regulation possible is through the agency of taxation, which can be made to extract from the corporation that part of its profits directly contributed by the public, leaving all its improvements, in other words, its plant — the capital devoted to its industry — free of taxation. The astonishing thing is that economists, legislators, and newspapers, in their opposition to ownership of certain monopolies, do not suggest and discuss, even if they are not ready to advocate, the compromise alternative to ownership. How else can the opposition to public ownership head off its coming better than by advocating taxation in its stead? and why not be as persistent in experiments of taxation as of ownership, thus contributing to the only possible solution—experimental test and demonstration—the survival of the fittest? The true system when found will be the one which bears the supreme test of furnishing a maximum service at a minimum cost.

Public ownership, it is said, may be all right under comparatively pure civic conditions, but it is not safe where there is graft. Of taxation it can be asserted that it is safe and sane, graft or no graft. The essence of any graft exterminator must reside in taxation—the taxation of special privilege.

For one, I do not incline to ownership of transportation; but I do not pretend to be wise enough to decide between the two, nor does it appear to me immediately necessary to make such choice. There is one way easily open for its determination; viz., the comparative test of time. That the use of taxation, an instrument ready made and close at hand, is wise, I have not a doubt. It must be admitted that legislative regulation, being uninformed and uninspired, cannot be otherwise than arbitrary, unaccommodating, undiscriminating. Taxation is neither of these, but is elastic, self-adjustive, self-operative, and admittedly corrective.

Do we always analyze in our own minds what is meant by public utilities, quasi-public corporations, semi-public functions? We mean, do we not, that a part is public business and a part is private business; that one part represents public capital, another part represents private capital; one part is public function, one part is individual function; one part is franchise, the other part is equipment and operation?

If these constituent parts can be separated, why not treat them separately? Why, in order to control the public agency, is it necessary to assume the private agency? Why not, through taxation, assume gradually the public's right to the franchise, and let improvement and operation remain in private hands? If not quite sure that it is wise to take over both, why not take the franchise first and observe the effect? If persuaded that it is wise to take both, why not, in the natural order, take them over one at a time— the franchise first? Then, instead of a legislative reduction of rates once in ten or twenty-five years in the face of a formidable lobby, there would be an annual regulation of the rate, or of the corporation tax, or both, by the board of assessors, or the board of equalization, in the light of an honest, expert public accounting, to secure all the benefits which could be claimed for public ownership without the dangers which would attend the latter.

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[Taxation may serve to secure to the public its share of the wealth secured through a public franchise; but it has no effect whatever to secure either just or equal rates for passengers and shippers, none to prevent stock-wafering and corporation-wrecking, and none to guard against accidents produced by underpaid or overworked employees or false economies.—The Editors.]