Should the Public Own Its Utilities?

The British Verdict

By Philip Chandler

(1) The General Problem.

In modern communities, water, gas and electricity supply, public transportation and communication services are considered essential utilities. For technical reasons, they are most efficiently supplied under monopoly conditions. Should they be owned by, and managed in order to make profits for groups of private investors? Or are they better supplied by public bodies—municipalities, State departments, or *ad hoc* public authorities? Should the public own its utilities?

The debate is an old one, and any discussion to-day revives the historic duels of thirty-five years ago, when Lord Avebury[1] and Mr. Shaw[2] contested the field, the London *Times* reviewed the problem[3], and the British Parliament itself displayed a lively interest in the question[4]. It is, perhaps, possible to condense the essence of the argument into a few sentences.

The case for private ownership rests on the conviction that, where private investors sink capital in a utility plant, and through effective direction look to profit from their investment, the management is likely to display enterprise, economy, and adaptability to consumers' needs. Against this it may be argued that private monopoly control of everyday necessities brings the danger of consumer exploitation, either through excessive price or inferior service, and governmental regulation of utility companies has not been able to prevent such abuses. Where, on the other hand, private ownership of utilities has operated under competitive conditions, the result has often been under-development and inadequate service.

The argument for public ownership turns on the belief that the public will be better served when the central purpose of management is, in fact, public service rather than private profit, and that economies in management and in the cost of capital will be possible. Against this it may be argued that, with ownership and risk-bearing diffused through the community, and without the spur of profit behind management, enterprise and flexibility will be lacking; that political considerations may distort policy; that the patronage created is an unhealthy element in a public authority; that if a department of local or central government, the form of organisation will not be well adapted to commercial direction; and that the managing committee, being elected representatives, are likely to be amateurs in the control of utilities.

These arguments could be (and have been elsewhere) elaborated at length; but a more fruitful discussion may emerge from an appeal to practical experience in Great Britain.

(2) British Utility Development.

Britain was the first country to develop the utilities, beginning with the growth of industrial towns more than a hundred years ago, though in later years progress was faster in the New World. Water and gas supply, main-line railways, telegraphs, street railways, telephones and electricity supply systems were successively introduced in the course of the last century, and this present century has brought omnibuses and radio broadcasting.

Every one of these utilities, except the main-line railways, has been developed

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1. Lord Avebury: *Municipal and National Trading.* (1906).
2. G. B. Shaw: *The Commonsense of Municipal Trading.* (1904).
3. "The Times": *Municipal Socialism* (Symposium, 1902).
4. *Parliamentary Return on Municipal Trading.* (1902-6). *Joint Committee on Municipal Trading.* (1903).

both by private and public ownership; some idea of the present division is given by the following figures relating to capital investment.

These figures show a capital investment in utilities approaching £2,500,000,000 (perhaps a quarter of Great Britain's industrial capital), fairly evenly divided, allowing for the "water" in the railway capital, between private and public control, though in the case of individual utilities, the balance is far from even.

Capital Investment in British Utilities

Utility	Investment by:			
	Private Agencies	Public Agencies		
	Joint Stock Companies £000,000	(1) Municipalities 000,000	(2) ad hoc authorities 000,000	(3) State £000,000
Water	25	100	50	...
Gas	140	80	...	...
Main-line Railways	1,000	...	...	...
Street Railways	20	80 /	100	...
Omnibuses	50	10 /		
Electricity	150	300	50	...
Telephones and telegraphs	.....	...	...	200
Broadcasting	.....	...	3	...
TOTAL	1,385	570	203	200

The present position was determined by certain historical factors. Gas and water supply utilities were developed from the beginning of the last century, before the municipal authority as we know it, came into being, by private companies, subject to governmental regulation. But regulation was found inadequate to prevent monopoly abuse, and after 1850 many local authorities sought and acquired legal authority to take over water, and, in fewer cases, gas supply. In the London area, no single municipal area was sufficiently extensive to take over the water supply from private ownership. For that purpose, a joint board of some sixty London municipalities, the Metropolitan Water Board, was constituted, and took over London's water supply in 1902.

Such dissatisfaction was felt towards private ownership as it had operated in the water and gas utilities, that in the case of electricity supply, developed from 1880, governmental regulation made the way easier for municipal, and harder for private enterprise. There was a big development of municipal ownership in this field, partly to counter the private control of gas supply, partly in consonance with the spirit of the times; but the most recent development has been the establishment in 1926 of an *ad hoc* public body, the Central Electricity Board, to carry through, on a national scale, what neither private enterprise nor municipal trading had been able to achieve—the integration of electricity generation and transmission in Britain.

In the case of street railways, beginning 1870, governmental regulation made private development so onerous that almost all extensive systems were built by municipal authorities. The position contrasts strikingly with that of the main-line railways, where, because no local authority area was sufficiently extensive, and no national statesman (except Mr. Gladstone) sufficiently interested, development right through the past hundred years has been exclusively by private enterprise—by a diverse multitude of companies which were in 1921 amalgamated, under governmental pressure, into four great company groups.

Different again has been the course of omnibus development in this century. Here municipal enterprise was retarded

partly by the technical question of size of area, and partly on account of local authority capital investment in street railway systems. In the London area, however, competition between privately-owned buses, underground railways, and publicly-owned street railways grew to such an uneconomic degree that all were taken over and amalgamated six years ago by a vast *ad hoc* public body, the London Passenger Transport Board.

Telegraph, telephone and broadcasting systems were all cradled by private enterprise in Great Britain, and then converted to public ownership. The telegraph system was bought from private companies by the General Post Office, in 1869, to ward off the threat to the postal revenue, as well as to end monopoly abuses; the telephone system was then developed by private enterprise in competition with the G.P.O.'s telegraphs and so, in its turn, was bought up by the G.P.O. (1912). Radio broadcasting began nearly twenty years ago, and after five years operation by a private company, was transformed into the British Broadcasting Corporation of to-day, an *ad hoc* public body.

The result of these developments is a rich variety of utility organisations in Great Britain to-day, and from this variety it should be possible to draw conclusions on the issue of private versus public ownership, of some significance outside the British scene.

(3) Results in Great Britain.

It would be convenient to set down a page of statistics based on this experience, which would settle the question of public versus private ownership of utilities for all time. This has been done—often, with results equally convincing for both sides.

The fact is that such comparisons, whatever industry has been applied to the investigation, and whatever ingenuity used in "correcting" the figures, are of little general validity. If results are compared for a single utility undertaking, before and after public acquisition, they are likely to be similar in the short run, but to differ over a long time, on account of factors independent of the nature of ownership and form of organisation. If results are compared even for large and representative groups of publicly and privately-owned utilities, operating in what appear comparable conditions, at the same time, conclusions are usually rendered of little value by a variety of extraneous factors. Laboratory conditions are simply unattainable, though striking results have been reached by partially isolating individual specimens!

Those who have most carefully studied these problems are forced to make cautious judgments. Douglas Knoop, after a thorough investigation thirty years ago concluded:

> "Taking all the attendant circumstances and conditions into consideration, municipal trading in itself cannot be regarded as a desirable institution; the management of industrial undertakings is not really a suitable sphere of activity for a local authority. Nevertheless, in certain cases it may offer a reasonable prospect of serving the general public better than private enterprise, and in consequence, the municipalisation of particular industries may be justified. These industries are such as have a strong tendency to become local monopolies, which is generally true of the tramways (street railways) and of water, gas and electricity supply undertakings."[5]

A Committee appointed by the British Government, to report on the trade and industry of the country after 1920 wrote that "the trading activities of the public authorities...have not lagged behind, and in some cases have outdistanced private enterprise in the rate of progress, as tested by ordinary criteria."[6]

The two conclusions, made by very different observers, nearly twenty years apart, serve to emphasize the inappropriateness of any single and simple answer to the question at issue.

(4) Conclusions.

Perhaps some more positive conclusions may be drawn from the British experience. It is clear that the most lurid predictions on either side have not materialised. There have been cases

5. D. Knoop: *Principles and Methods of Municipal Trading.* (1912) p. 382.
6. *Committee on Industry and Trade: Report on Further Factors in Industrial and Commercial Efficiency.* (1928) p. 40.

of monopoly abuse by private companies, and instances of corruption and slackness among municipally owned utilities; and there have been very many successful examples of each.

Broadly speaking, public ownership of utilities in Great Britain has a creditable record for honest service to the public, and it certainly proved, in many instances, during the last century, a means to end the depredations of private monopolists. It is, however, worth reviewing certain characteristic difficulties and limitations which have appeared from time to time.

Public ownership has somewhat failed in developing a wholly satisfactory conception of "public service". It has striven to imitate private enterprise and present a good balance sheet for individual utilities, rather than to maximise service to the public by equating social with financial considerations, or by co-ordinating different utilities. A notable and topical instance is the case of gas and electricity, where the respective departments of a single municipality often work in quite uneconomic competition, and local authorities will sometimes cheerfully sell their gas undertakings to private companies, in order that their electricity departments may compete even more freely!

The importance of expert management has often been inadequately appreciated by municipal authorities, which is particularly dangerous when the formal control of management rests with a body of elected representatives, rather than a board of directors, more likely to have some expert knowledge and longer experience of utility matters. In some cases, the danger of the amateur in control has certainly materialised, usually in the form of indifferent management but sometimes of brilliant schemes, which, though pleasantly spectacular, would not be justified by any balanced consideration of economic and social advantage. There have been, also, many instances where commercial enterprise has been choked by administrative procedure, and the bureaucrat has subordinated the utility manager. Finally, technical development in the utilities has made the area of a municipality increasingly less adequate as a unit for supply purposes; some attempt has been made to meet this problem by constituting joint utility boards from neighbouring municipalities, but such experiments have been few, and not notably successful, except, perhaps, in the case of the Metropolitan Water Board.

There has not, however, on account of such factors, been any retreat from public ownership. Very much the reverse. Recent utility developments have been, in the main, towards public ownership: what has happened is that the form of public ownership has changed. Experience has shown that the size and organisation of both municipal bodies and State departments render them far from ideal for dealing with the technical and commercial problems of a utility, but the idea of public ownership is firmly established. The net result is that the most recent developments in the utility field have been in the form of public corporations, semi-autonomous bodies, usually financed by loan capital, and with a directorate appointed by the central government, for the purpose of administering the utility concerned in the public interest.[7] Such are the British Broadcasting Corporation (1926), the Central Electricity Board (1926), the London Passenger Transport Board (1933), and now the civil airways and radio-cable communication authorities. Perhaps a public corporation owning all the main-line railways, possibly dominating also road haulage, and even road passenger transportation, may emerge from the present war. Perhaps the proposals of the McGowan Committee on Electricity Distribution (1936) will be implemented, with public corporations ultimately controlling all electricity supply utilities in Great Britain. When that stage is reached, it would be surprising if gas utilities did not pass in some meas-

7. The best discussion of these new developments is in Lincoln Gordon: *The Public Corporation in Great Britain.* (1938).

ure, under a similar control. This is speculation; but the tendency is strong to-day, and may be strengthened in the reorganisation which will inevitably follow the present conflict.

Perhaps the development of the public corporation is just another example of British compromise (though similar tendencies have appeared elsewhere)—an attempt to combine the merits of commercial enterprise and public control; at any rate it seems to be the contemporary British answer to the question of public ownership of utilities.

Newfoundland and Its Fisheries

By Raymond Gushue

IN writing on a subject such as the present, a statistical service at one's elbow is a great temptation. It is one, however, which must be avoided lest the proverb, "L'appetite vient en mangeant", be illustrated. The use of statistics is often like concocting a cake, which, while easy to mix, is hard to digest.

When a visitor from outside first arrives in Newfoundland, he is enjoined with mock over-emphasis, to avoid the pit-fall of speaking of "fish" unless he is thinking only of cod. If he wishes to discourse of other denizens of the deep, he must particularize. And this illustration gives, in miniature, the story of our fishing industry through the centuries,—the story of salt cod. The Grand Banks, off the South Coast of Newfoundland are known internationally as one of the greatest fishing areas in the world, and fishermen from many countries have frequented these waters in season—the Gloucesterman, the Lunenburger, the Basque, the Portuguese, the Spaniard and others, in common with the Newfoundlander. Less well known internationally, but familiar phrases to Newfoundlanders are the "Labrador fishery" and the "Inshore fishery". The former witnesses a seasonal migration of hundreds of vessels and thousands of men to the Labrador Coast, while the Inshore fishery is prosecuted on every portion of the Coast of Newfoundland, principally by the fishing population of each settlement, although some go farther afield. All these men are engaged in the production of salt codfish, of which Newfoundland waters have, over a long period of years, been the world's greatest source of supply.

The predominant part which the salt cod industry plays in Newfoundland's economy has already been indicated. There are other fisheries, such as salmon, herring, halibut, smelts, turbot, etc. the sum total of which does not approach that of the salt codfishery, in terms of employment or production. There is no country which has been more dependent on its fisheries than Newfoundland, and no country in which, up to the present, the salt codfishery has so completely dwarfed all others. That is why, in the depressed state of the industry, Newfoundland has felt the pinch more than other countries. For the salt codfishery has fallen on evil days and for some years has been in a depressed state. This is a world condition, and one which has produced some remedies which, while of temporary benefit, may lead to unfortunate results. In this regard, each producer is much less likely to blame himself than his neighbour. Let us examine some of the causes of the condition, as seen from Newfoundland's angle.

1. Salt codfish is not a luxury article. It might be said that it is not generally in demand among urban populations. This factor has its effect on demand and

EDITOR'S NOTE: Raymond Gushue, LL.B., is Chairman of the Newfoundland Fisheries Board. His contribution and that of Mr. A. N. McLean continues the series of articles on the Atlantic fisheries published in the June and August issues. Further articles will follow.