

The Economic Club of New York

84th Meeting

Public vs. Private Ownership and
Operation of Water Power Resources

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Hotel Astor
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MR. ELY: Our president, Mr. Walker Hines, was called out of the city. In his absence it gives me pleasure to present as our presiding officer Mr. Francis H. Sisson, member of the Meetings Committee.

Introduction

Mr. Francis H. Sisson

Fellow members, those of you who enjoy the great American game of baseball may have recalled that in the far city of Weiser, Idaho, a famous pitcher by name Walter Johnson first saw the light of day and made that town famous in the eyes of the sporting world, and tonight we are to add another distinguished citizen from that far off community to our Hall of Fame. I am very sorry to have to announce that the speaker that we had expected to have open our program tonight, President Arthur E. Morgan of Antioch College, who has undertaken one of the great educational experiments particularly in the field of economics today, and about which I know you would be glad to hear, is still on board ship somewhere between here and San Francisco and has been unable to get to shore in time to appear before us tonight. But we are honored to have with us another Western college president, an empire builder and a pioneer in that vast country which has produced so much of the world's wealth and in which so much of the world's power and wealth still lies concealed.

President Edward A. Paddock of the Inter-Mountain Institute located at Weiser, Idaho, in the year 1900 and he has been the head of that institution ever since. Fifty years ago this splendid old patriarch, now eighty-five years old, went out to that far Western country and along with Jim Hill and others made it the empire that it is today, and while I do not wish to cast any reflection upon the well earned reputation of Walter Johnson, I feel that in introducing President Paddock I am not belittling the dignity of the little community which he represents. He was raised, he tells me, in a lumber camp in Wisconsin, and he has been engaged in religious work on our Western frontier ever since those early days. He was in Colorado and Idaho and other points in that mountain country carrying his message to lumber camps and mining camps and farming communities for many years. His institution is a co-educational institution attended by students from the sparsely settled regions of the Northwest. His school is established for young people of both sexes, who must depend upon the labor of their hands to meet the cost of their education, and so he does represent an economic factor of high importance and we are honored to have him here today for what he has done and for what he is. President Paddock. (Applause)

First Speaker

President Edward A. Paddock

Inter-Mountain Institute

I think I can make you all hear without getting up here. You people think that our country is tough, and you call it sometimes the wild and woolly West. Now it is not because we are tough,

but we raise millions of sheep in that country and that is the reason we are woolly. Your factories are run by the wool that comes from our sheep. I doubt not that the overcoats that you wore coming to this place were galloping over the hills of Idaho not very long ago. (Laughter) So we read in the good book about the cattle on a thousand hills. Now we go it better in Idaho. We have a thousand cattle on one hill, and we have also the greatest scenery in the world. You need not go to Italy to see wonderful scenery. We have it there in Idaho. You may know that because of that it gets its name. The Indians loved to see beautiful things and when the sun came up over the mountains and goes down behind the mountains, they cry out "I-da-ho." What does that mean? The sheen of the mountains, the halo, the glow of the mountains, and so we love to think that it gives the name to our State, the Gem State.

We don't have rain. We have 300 days of sunshine in the year, and when we get our land irrigated we could feed all the people of the United States. You have just eaten some turkeys, and I doubt not those turkeys were catching grasshoppers among the sage-brush of Idaho not very long ago. (Laughter) And so we are a wonderful state in the means that we have, and in the people that we have, and in the people we expect to have. Now, of course, whether we like it or not, we raise Borahs out there. You have already heard that the prince of ball pitchers was found in Weiser, Idaho, and taken to Washington by a man that came out on purpose because he had heard he was such a pitcher. He stayed there during all his pitching days and he is now at the head of another company, and so we have a wonderful country and you are invited to come to see it. We regale our guests with all this natural scenery, and we have any amount of it out there,

and we raise with irrigation the crops that are wonderful, sometimes fifty, sixty to seventy -- I had heard one or two people reported eighty bushels of wheat to the acre. We used to think up in Wisconsin if we got twenty it was pretty good, and we get with alfalfa hay and irrigation, we get from five, six, seven, eight -- I have known ten -- tons to be gotten on an acre, with three clearing of alfalfa. And our State is large enough -- I was staying on an old farm in New England, and I had seen that day, somehow or other, a table of areas which showed that Connecticut had about 4,800 square miles. I knew our county was 100 miles long and 50 miles wide, that would be 5,000 square miles. I said, "Our County is larger than your whole State by some 200 square miles." He looked at me as if I was never able to tell the truth and he said, "You fellows live out there in a rarefied atmosphere, and your ideas are inflated about everything. I don't believe a word of it." (Laughter) I said "that is the way I like to hear you talk, if that is what you believe. Have you got an atlas? Yes, suppose you get it. Take the table of areas." He did. "Read New England." I took it down. Main, New Hampshire, Vermont, Rhode Island, Connecticut, and he went all through the New England States. Now, I said, turn to Idaho. He did. And then it was my turn to be surprised. We found that that three-cornered State would contain all of New England and there was enough left to cover more than half the State of New York. Well, he said, "There is nothing the matter with that geography." (Laughter) So we raise our cattle and we raise our sheep and we raise our hogs, but we do not get much for those things. I wonder, when I see you people paying forty or fifty cents for a leg of mutton and our fellows selling sheep for three or four dollars apiece, I wonder where the prices goes. But that is the fact in the case, and I suppose the bread you ate perhaps grew out there in Idaho not very long ago. And not only that, but we

are raising men and women, and we are raising splendid people to come in and take our places, having physical strength, having mental strength that we are going to give them, and having the sound characteristics that will make them men of mark, and men that will help you in all your economic business.

I found one of the graduates of our school at Columbia University the other day. He is studying for a degree, and he never paid a cent, but he worked five hours a day for his schooling and that is the way the boys are willing to work out their salvation with their own hands.

And so we have young people that are growing up, and they are sons and daughters of your people. We have very few that have come from the other side now. They are the sons and daughters of New England and the Middle West. And so we are giving them an opportunity, and we can safely say that they will be of as pure character as the air that they breathe. And so when you people see the difficulties that you have here and when you see the corruption everywhere, and we all see it from the highest to the lowest, and when we see our laws scoffed at and trampled underfoot, even disregarded and talked against by as high a person as the president of a university, clear down to the bootlegger, when we see these things we say, and you all say, and I doubt not that every one of you have wished you might repeat the prayer that J. G. Howell made once so beautifully, and so much need now:

“God give us men. The time demands;

Strong minds, great hearts, true faith, and willing hands;

Men whom the lust of office does not kill;

Men whom the spoils of office cannot buy;

Men who possess opinions and a will;

Men who have honor; men who will not lie;

Men who can stand before a demagogue;

And dare his treacherous flatteries without winking;

Tall men, sun-crowned, who live above the fog;

In public duty and in private thinking.”

(Applause)

MR. SISSON: I am sure we will all agree that if at eighty-five any of us can deliver the goods as enthusiastically and as appropriately as our good friend, the guest of honor has, we will be willing to go to Idaho and live. (Applause)

I think perhaps I might, without impropriety, relate a story that he may take back to Idaho with him in regard to one of Idaho's distinguished citizens whom he mentioned. Last year a dinner was given at which Senator Borah was guest of honor. Our own Irving Cobb was toastmaster and in introducing Senator Borah, after paying him a very nice tribute, which he well deserves, of course, Cobb said that there was one thing about Senator Borah he wanted to say. He was the most consistent man in American public life -- he was always wrong. (Laughter)

Our subject for discussion tonight, “Public vs. Private Ownership and Operation of Water Power Resources,” is easily one of the paramount issues of our day. Its pressing importance is illustrated on all sides, and while it may not actively touch the lives of many of us, indirectly it touches the lives of all of us. Muscle Shoals, boulder Dam, the tidewaters of Maine and the flood-waters of Mississippi, the waters of our own St. Lawrence flowing to the sea, - all are calling to us for intelligent application of the powers that they command. President Coolidge has told us that we should dispose of Muscle Shoals because our Government has found it impossible to use the forty-two million dollars which is invested there profitably in private enterprise. Only a small fraction of the power that is generated is now being used, and yet we have the constant insistence that those great powers can best be developed and be managed in the public interest by Government agencies and that only in unity of operation and unity of control in what is after all a natural monopoly can it be successfully operated.

On the other hand we have the American theory that private enterprise and private initiative should always be given their chance and the less Government we have in business the more fortunate we will be, and we have had the question of government efficiency in the handling of the railroads, ships and Post Office and parcel post day in and out, and yet we have reached no conclusive decision in regard to these matters. So it is very interesting to have before us tonight two men who have given this subject thought, an engineer and a Senator. The assumption is they will present quite different points of view. The engineer today sees in the use of hydro-electric

power a giant service for the benefit of American business and American industry. We find that already two-thirds of the machines of the United States are operated by electrical power of one sort or another. We find further that mass production of industrial efficiency can only be secured by the use of the great agency. And furthermore we find that in competition in the markets of the world in which we will be thrown today more and more, in the recovery of Europe, it will be necessary for us to conserve every ounce of power that God has bestowed upon us and that our intelligence can command to meet the active competition of lower wages and perhaps a more frantic search for business. So it is highly important to all of us in the business world that everything that we have in the way of natural resource shall be developed and shall be conserved in the public interest. Where that public interest lies is for each of us to decide for himself and for our various forms of State and National Government to decide for them probably, and our interests, presumably.

The fact that our Government is so highly decentralized, and that it is far spread, that it has this far spread of Government interest and bodies, making it difficult to coordinate its activities, is stated as one of the arguments against Government control and operation. The further fact that these giant monopolies are sometimes best conserved and best developed by public agencies may also be stated in rebuttal, and so I feel that I can lay the subject before you with the first speaker taking the theme which he knows so well, in the person of Colonel Hugh L. Cooper, the man who harnessed the waters of the Mississippi at Keokuk, the man that conserved the vast flow of

our Mississippi waters, and one of our foremost hydro-electric engineers. He has designed and built....

*****Several Pages Missing*****

*****Colonel Cooper's Presentation is Missing*****

MR. SISSON: Colonel Cooper gave us a splendid illustration of a hydro-electric machine in his presentation and his patronage of the water glass. Perhaps we ought to view with alarm the fact that this great water power problem is not only an economic problem but a political problem. Nevertheless, that remains the fact, and as long as our systems of rivers are under the control of our Federal and State Governments, that factor cannot be eliminated and so it is only fair and right, in discussing this subject, that we should have the political aspects presented as well. We cannot get away from that eternal issue of votes which Colonel Cooper so gaily discarded when he would reduce the Federal force 75% in the interest of efficiency, nor can we avoid the inference that must be made that with the influence of practical payroll legislation and patronage corruption would be inevitable in any Government operated industry. That, fortunately, is not true in its entirety, but, nevertheless, that is a subject which warranted discussion and which we are delighted to have presented to us in the person of a man who has served not only as a United States Senator and as a practical politician of character and ability and outstanding position, but also as a practical engineer in this very field of operation. It is unusual that that combination should be found and so in the person of Senator Robert Beecher Howell of Nebraska we have this combination which the subject seems to demand in a most interesting degree.

Senator Howell is a graduate of the United States Naval Academy, and those of you who know the work of our Naval Academy know how sound is its instruction in engineering. He was State Engineer of Nebraska, City Engineer of Omaha and later for two years a member of the Senate of the State of Nebraska. He found time to study law, so he has an all around equipment and training that brings added advantage to the discussion of this subject. He was afterwards appointed a member of the Water Power Commission of Omaha and later was appointed Water Commissioner of that city. As State Senator he conceived the legislation which resulted in establishing public ownership of Omaha's water plant and for eleven years he carried on the management of that plant. He also established the municipally operated Omaha ice plant and became a member of the United States Senate from Nebraska in the year 1923, so his term expires then in 1929. His interest in this subject and his opportunities for observation and his high-minded attitude towards public service in general makes us particularly fortunate in having him here to discuss this subject and I take pleasure in introducing Senator Howell.

Third Speaker

Honorable Robert Beecher Howell

Senator from Nebraska

Mr. Toastmaster, ladies and gentlemen of the Economic Club: I have no sentiment of public ownership. I have approached it and regard it as a cold practical method of a means to an end,

and that end is the lowest possible utility rates. In considering what policy we should follow respecting our water power resources, whether public ownership or private ownership, we should consider the two questions, at least; first, what are the advantages of public ownership, second; are those advantages operative in connection with hydro-electric power development? It is recognized, and recognized by you businessmen, that the public can borrow the money at about 4 $\frac{1}{4}$ %. It is a fact that as an average the public utility commissions of this country allow a privately owned utility to earn about from 7 to 8% upon the investment or the rate basis. In Quebec it is 8%; in Ohio it is 8%; in my State it happens to be less. Let us accept 7 $\frac{1}{2}$ % as an average. The difference between 4 $\frac{1}{4}$ % and 7 $\frac{1}{2}$ % is 3 $\frac{1}{4}$ %. This is the major financial advantage of public ownership.

Consider a plant valued at \$10,000,000; 3 $\frac{1}{4}$ % means a saving of \$325,000 a year, and \$325,000 a year invested at 4% compounded annually equals \$10,000,000 in less than twenty-one years. This is the first, as I have said, and major financial advantage of public ownership.

The second has to do with reserves for depreciation. A public utility plant consisting of diverse units dispersed over a considerable area like an electric plant, a utility of that character, it is easily possible to maintain its value at 100% out and charge it to maintenance. You as a businessmen know that. Therefore, if you are allowed to set aside a reserve for depreciation in addition, which every public utility is allowed to do, ultimately, if the plant is kept up to 100% out of maintenance, ultimately it finds its way into the pockets of the stockholders. Again, a plant

is allowed to earn a certain per cent upon its rate basis. Rates are made liberal so that it can earn that fully, and it always earns a surplus and, of course, that surplus belongs to the stockholders.

As an example, the Potomac Electric Power Company which serves Washington has accumulated reserve for depreciation amounting in 1926 to \$5,372,000 or 17 ½% of its rate base, not including the reserve for depreciation, and I have no doubt that that plant is well up to 100%. It is the managers business to keep it there. This last year they added to that reserve for depreciation \$778,000, so today it is \$6,150,000. In 1926, in addition, this utility in Washington earned a surplus of \$800,000 or 2.6% upon its value, not including reserve for depreciation. This last year it surplus was \$698,000. Ultimately that goes into the pockets of the stockholders.

However, if the plant is publicly owned, not only do you have the advantage of the 3 ¼% on the valuation thereof, but you have in addition whatever that reserve for depreciation ultimately amounts to, to the stockholders of a private company, and the surplus besides.

These are the three major advantages of public ownership to which I will call your attention, and now I will give you the results in actual practice. In 1912 the City of Omaha purchased its water plant for \$6,400,000. Its management went to a different corporation, absolutely separate and distinct from the City Council, identical in form and organization with a private corporation, and following the usual methods of corporate accounting. Fifteen and a half years have elapsed up to the 1st day of January of this year. During that period the saving in interest has amounted to the difference between 4 ¼% and 7 ½% or \$266,000 a year, because it borrowed its money at a

4 ¼% basis. During the same period there was covered into the reserve for depreciation \$1,878,000, and there never has been expended there from but \$96,000 for replacements. The average increment annually in its reserve for depreciation in 15 years has amount to \$1,115,000 during that same period. And the surplus, modest, has amounted to \$109,000 a year. As rapidly as the surplus increased rates were reduced, just as in connection with private utilities under public regulation. The sum of these three advantages of public ownership are about \$490,000 a year, which, if invested at 4% compounded annually, equals \$6,400,000, the price paid for that utility, within ten to eleven years.

Of course I recognized the fact that one example of this kind does not prove the case, but we happen to have another example. So successful was the public ownership of the water plant that in 1920 we took over the gas plant, refused to vote a franchise. We invested therein \$5,000,000. The three corresponding advantages to which I have referred resulting from public ownership have in connection with the gas plant amount to \$458,000 a year. Gas is very much more profitable than water and on that basis within ten, or nine to ten years, the \$5,000,000 paid for that gas plant could or might be paid off entirely.

You say, “Well, this sounds well.” Let me give you another example. In 1919, or during the war, the ice companies in Omaha raised the price of delivered ice from 50 to 70 and 80 cents. It resulted in building an ice plant in connection with the water plant, because as the Supreme Court of Georgia had held that the right to sell water included the right to produce and sell ice, as

ice was but another form of water. We invested \$700,000 in these ice plants and the proved the most effective regulation of prices that you could imagine. Delivered ice immediately dropped back to 50 cents a hundred and since then there are now fifty-two neighborhood ice stores, and they sell cash and carry ice for 30 cents a hundred in five cent chunks, if wanted. It is now 27 ½ cents, and these three advantages of public ownership paid for these ice plants completely within seven years. The policy adopted in connection with the water and gas plants was not to amortize the indebtedness in the shortest possible time. The policy was not to hold rates up so that the plants would earn 7 ½%, but to reduce rates and to utilize the annual surplus and the reserve for depreciation in expansion and improvements. As a result we have had to issue only \$4,098,000 so we only have \$498,000 small bonds outstanding that when we purchased the plant. We reduced rates. The maximum water rate was reduced to 52 ½%, and that the people might realize the fact we rendered the bills at the same old rate, calculated the saving which was effected, place it on the bill, subtracted it, so that the consumer could see what public ownership was saving him for thirty days. We have reduced the gas rates. The gas has been very profitable since 1920. You have had some gas melons here in New York and Brooklyn, and we have had some gas melons in Omaha. But they have accrued to the consumer, not to the stockholders. The rate for gas when we took over the plant varied from 90 cents to a dollar and fifteen per thousand cubic feet. The rate now varies from 70 cents to 90 cents. That you might understand and realize exactly what these results have been I might say that these three utilities have had spent thereon a total of \$19,908,000. There is of current assets, cash, investments and supplies \$4,387,000; a total, \$24,295,000; bonds outstanding and liabilities total but \$11,713,000. Those fifteen and a

half years of public ownership of the water plant, seven and a half years of the gas plant and eight and a half of the ice has resulted in an apparent net worth today of \$12,582,000 or about \$60 per inhabitant of the City of Omaha.

I hear someone say, “Well, how about taxes?” When a public utility pays taxes, for instance in Omaha, it pays the amount levied to the city and county treasure, which is one and the same person, and he distributes these taxes in various pockets, street cleaning, policy fund, fire fund, general fund, and it is only then it finally gets down to bond redemption fund. All these plants have maintained an increment in which goes all surplus equal to the taxes that they would have had to pay if the had been privately owned. They then paid his increment over every month to the County Treasurer, and he took this equivalent of taxes, but instead of distributing them into these various pockets, he just put them in one pocket, bond redemption itself. So remember, whenever a public utility publicly owned sets aside a sinking fund for its equivalent to taxes, it is doing for the people the same as paying taxes

Do these advantages of public ownership accrue; are they operative in connection with hydro-electric plants? The distinguished speaker, Colonel Cooper who preceded me told you something about the hydro-electric development of Ontario. The hydro-electric commission is an agency of the Government of the Province of Ontario. It has for a number of years, since about 1913, been acquiring and developing hydro-electric plants in Ontario and establishing transmission lines to deliver this hydro-electric energy to points of use. This commission now has twenty-two separate

hydro-electric plants. I might say that the hydro-electric commission confines itself so far as the distribution of electrical energy is concerned in delivering it to each of about two hundred and eight-four municipalities in Ontario at the switchboard, and each of those municipalities has its own publicly owned distribution system. In fact today there are only three privately owned electric plants in these various municipalities of which I know, and they are in competition with the publicly owned distribution systems in the same municipalities.

At Niagara Falls, in the vicinity of which this hydro-electric energy is developed, it is sold by the Hydro-Electric Commission to the City of Niagara Falls for 2.9 mills a kilowatt hour. Thereupon Niagara Falls Ontario distributes this energy and here are some of the results. The average domestic use in Niagara Falls Ontario is 208 kilowatt hours per domestic consumer, and the average bill for 1926 was 2.54 or at the rate of 1.2 cents a kilowatt hour. A domestic bill, I have one for Niagara Falls, New York -- of 161 kilowatt hours for a month would cost in Niagara Falls Ontario 2.26 cents. Across the river in Niagara Falls, New York a plant obtaining its energy from the Niagara River, privately owned, distributes energy to the citizens of Niagara Falls, New York, and the same bill under legal regulations costs 6.21 cents. I have the bill.

It is urged that domestic consumers are largely voters and hence they are given an advantage, while here in this country the power users are treated more liberally. I have a bill also for small power in Niagara Falls, Ontario, service charge for 23.7 horse power; use for the month 1,536 kilowatts, bill \$35.44. In Niagara Falls, New York the identical bill was \$41.47 or 17% more. So

far as bills of that kind are concerned you will note no advantage was given to the residents of Niagara Falls, New York.

Now a large power bill. I have one rendered in Niagara Falls, Ontario; the service charge for 622.5 horse power; consumption for month 99,460 kilowatt hours; bill \$1090.48. The identical bill in Niagara Falls, New York is \$1,296.90 upon a scale that I doubt would be used, because that is a minimum, no matter how much power they use.

Somebody may say, "Well, how about taxes?" In Washington the electric light plants serving that city paid in taxes last year 3 mills upon each kilowatt hour sold. I pointed out to you that in Niagara Falls, Ontario the domestic rates for 161 kilowatts was 2.26 or 1.4 cents a kilowatt hour. Add your three mills and it makes 1.7 a kilowatt hour. But the charge for the same bill in Niagara Falls, New York was 3.9 cents.

But let us take another example. In Ontario, at Niagara Falls, the Hydro-Electric Commission sells electrical energy to Niagara Falls, Ontario for 2.9 a kilowatt hour. It transmits it from Niagara Falls to Toronto, about ninety miles distant, and sells it to Toronto for 1.1 mills, or on the switchboards 4/10 of a mill, or delivered in Ontario 4 mills, I should say. Here is a Government agency developing this water power at Niagara Falls distributing energy to Toronto. In the United States we have Muscle Shoals upon which the Government has spent in the neighborhood of \$50,000,000; \$42,000,000 to \$50,000,000. The Government today is operating

Muscle Shoals and it is selling energy at Muscle Shoals not for 2.9 mills paid by Niagara Falls, Ontario, but for 2 mills, nine-tenths of a mill less, to the Alabama Power Company, and the Alabama Power Company has a transmission line connecting with its lines in Birmingham, Alabama, owned by a subsidiary there. Now if the energy costs 2 mills at Muscle Shoals, and the hydro-electric commission transmits energy for 1.1 mills from Niagara Falls to Toronto, it is reasonable to suppose that eh Alabama Power Company can transmit its energy for a cost of 2 mills additional, with some profit to Birmingham, making the cost at the switchboard at Birmingham identical with what it is in Toronto, both cities being about the same distance from the source of power, both power plants developed by the Government. But in one case they have the advantage of public ownership, and in the other they have the luxury of private ownership. Let us see what the results are by comparison of bills. For domestic consumption in Toronto, the average in 1926 was 94 kilowatts per month. The average bill therefore was \$1.63. I have a domestic bill rendered by your New York Edison Company for 66 kilowatts for a month. That bill rendered in Toronto would call upon the consumer to pay \$1.41 for the month or at the rate of 2.1 cents. In Birmingham, Alabama that 66 kilowatts would cost \$5.05. In one case the advantage of public ownership translated into lower rates; in the other case the luxury of private ownership under legal regulations that had prevailed in this country.

Again, let us consider small power. I have a bill, service charge for 8 horse power; use 1,355 kilowatts, bill \$18.54 in Toronto. The same bill in Birmingham, Alabama, would be \$69.11. \$18.54 in Toronto, \$69.11 in Birmingham.

Again, I have a bill for large power; service charge for 657 horse power; use per month 22,300 kilowatts; net bill in Toronto \$1,717.65. The same bill in Birmingham, Alabama, \$2,329.50, and here in New York City the same bill on the primary power lighting schedule which I took to be the lowest, would have been \$4,576.88. The Brooklyn Edison would have supplied it for \$3,455.50. But in Toronto the bill, the actual bill, was \$1,717.65.

Something of the kind is going on. If it were not, how could the booming of electric sureties go on as they have been going on? The people of this country have been developed into a habit of paying extravagant rates for electrical energy, and you know there are said to be two great mainsprings of human action, desire and fear. But there is a third, habit. Desire and fear operates spasmodically. Habit pulls all the time, like gravity. The people of this country have been developed into a habit of paying these tremendous rates.

Your might say that it was hardly fair for me to compare the rates here for power in New York with the rates in Canada, but do you remember I called your attention to the fact that Toronto paid for energy delivered in Toronto from Niagara Falls 4 mills. I haven't a doubt, that your latest modern steam plants in the City of New York is developing electrical energy and putting it upon the switchboard, including all cost and capital, at 5 mills. The use of pulverized coal has tremendously changed the situation with reference to the cost of developing of electrical energy. But five or six years ago, before using pulverized coal, they could put it on the switchboard for 7

mills a kilowatt hour, including every cost. Doesn't that call your attention to the fact that we can expect little difference in charges for electricity used in domestic service at a reduction of rates, we will say, from 6 mills down to 3 mills or 4 mills? Why, you would not notice it in your bill.

What are we to conclude from these facts? First, that a public utility, publicly owned, if operated identically as a private utility is operated as a rule throughout this country will pay for itself in twelve years. (Applause) These conclusions seem to be inevitable: First, that inasmuch as the difference between the cost of hydro-electric and steam electric energy seldom exceeds 4 mills per kilowatt, it is evident that so far as effecting domestic rates in this country is concerned this difference is of comparatively small moment.

Second, that public ownership and operation of hydro-electric power plants will avail the public little or nothing if the installation and operation of transmission lines to points of use are to be left to private enterprise.

Third, that we cannot expect to enjoy electric rates comparable with those obtaining in Toronto without adopting public ownership of local distribution systems, as well as of power plants and transmission lines.

Fourth, that the development by the public of large modern steam electric plants and the transmission of the energy developed to points of use, as done with hydro-electric energy in

Ontario, will enable large sections of the country to enjoy rates nearly comparable with those obtaining in Ontario, notwithstanding the lack of water power possibilities.

We are warned against the great disadvantages and dangers of public ownership. We are committed to public ownership in this country. Nearly every city in the country owns its sewage system, and it is nothing for a public utility. Some cities have granted franchises for sewage systems, but if anyone would go and suggest that the city sewage system of New York be sold and be given all the efficiency of management that private ownership would establish, people would not think of it. Why? Habit of thought; you say, “Of course we ought to own our sewer system.” When I was a boy, a young man just coming out of school, the promotion of water plants was as popular, nearly, as the promotion of electric plants was as popular, nearly, as the promotion of electric plants today. The first gentleman that I worked for as an engineer had built and promoted, or rebuilt some twenty water plants, but there is no money in water plants. Capital ceased to interest itself in water plants, and today there are only two cities in the United States, major cities that do not own their own water plants and no one would think of turning them over to private capital for operation.

The distinguished speaker preceding me called attention to irrigation. Why, a long time ago capital decided that irrigation bonds were irritation bonds -- they did not pay, and whenever anything does not pay you turn it over to the Government at once. There is a canal through Cape Cod which was losing about \$1,000,000 a year. Those who built it built it for profit. It resulted in

being a lemon and the Chief Engineer of the Army on the stand testified that the preceding year the canal did not pay 6% on \$1,800,000, but they came there and sold it last year to the United States for eleven and a half million dollars. Do you think for one moment they would have thought of selling that plant to the Government of the United States if it had been paying 10% interest?

Why, talk about your operation of the Shipping Board and the results. I happened to meet a former manager of the Shipping Board in the corridor of the Capitol not long ago and I said to him, “Will you tell me what is the matter with your Shipping Board, when you don’t have to earn a return on your capital, and then not more than 4%; if you were required to make a showing? Why is it that you cannot make it go? Is it because you are trying to operate a commercial business without hurting your competitors?” He said, “Well, Howell, it is a darn sight worse than that. It is trying to conduct a commercial business to aid your competitors.”

Can business succeed on that basis? If the public goes into business it ought to go into it and run it for blood, or quit and get out, and it can do so. It is possible. We have demonstrated that during the last 15 ½ years in Omaha, and there were no exceptional opportunities there. Why the result of that public ownership in Omaha not only reduced water rates 52 ½%, gas rates from \$1.15 to 90 cents, to 90 and 70 cents, but we put in a little electric plant at the water station. I found in 1914 that I could put electric energy on the switchboard then, with that small unit, at 3 ¾ cents a kilowatt hour and I proposed that we should immediately extend this plant. Next month they

came down from 12 cents to 11 cents. I went to the Legislature and secured the passage of a bill through both houses authorizing the Metropolitan Utilities District, this public corporation to which I referred, to submit the question to the people to be voted upon as to whether they would extend their small plant, electric plant, at the water station. But the Governor vetoed the bill. He said that it was unmoral of the public to compete with private agency, but immediately the rates came down to 8 ½ cents, and two years later when we appeared at the legislature again, the day before the Legislature went into session, that was in 1917, right in the war, the rates came down to 6 cents in Omaha, and they are now 5 ½ cents; the result of potential competition. (Applause)

I am not sure, Mr. Toastmaster, but public competition is better than public monopoly. That is what I always held in connection with ice plants. I insisted that we could bring the other fellow in and keep them good, and that they would keep us on our toes, and that is exactly what has happened. But, Mr. Toastmaster, when I listen to these objections to public ownership, - you know I kind of hear reverberations from the Roman Forum back in Caesar's time. There was a time when they did not have publicly owned fire departments. That was in Rome. Whenever a fire broke out the populace rushed to the point and by main force endeavored to extinguish the conflagration but the city of Rome at that time was composed largely of frame structures, and fire swept large areas, and it was the terror of the Imperial City, and yet real estate was quite as valuable as it is today, because a letter has been found recently where a provincial complained that he had to pay \$500 a month for three rooms for himself and his daughter during a three months sojourn in Rome, and they did not have any elevators in those days or central heating or

central refrigeration. There was a young man in Rome by the name of Crassus. He would have been a great industrialist in these days. He struck the idea of developing a private fire department. He trained a number of slaves and made them thorough fire fighters, equipping them with a number of apparatuses known at the time, and a few of his own inventions, and then he established throughout Rome lookouts to bring word of a conflagration in the quickest possible time back to the location of his fire department, and immediately the fire department was on the grounds, together with Crassus or his agents. Did they put out the fire at once? Oh, no. They looked up the owners of the adjacent property that was threatened and asked, “What will you take for it?” (Laughter) If the price was too high the laconic answer was, “Let her burn.” (Laughter) If the price was right, the order was, “Put it out,” and Crassus became not only the Astor of Rome, the greatest real estate owner, but the J.P. Morgan, the backer of Julius Caesar.

In time a tribune arose and said that it was an outrage to think that people should lose their property for a song when threatened by the fiery elements. Why not a publicly owned fire department?

I said I heard reverberations of the roman Senate, and I can hear them now, all the way down from that time. “What stifle private initiative? Why, a publicly owned fire department cannot be run as cheaply as a privately owned fire department, and they would not pay any taxes.” But you know that tribune triumphed finally and we have had publicly owned fire departments ever since throughout the world. History repeats itself. We own our public sewage systems, our water

Plants, our fire departments. Ontario owns its electric...

*****Transcript Ends Here*****