

THE ZERO-VALUE FRANCHISE.

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In the last twenty years there has been a gradual but almost complete turn-about in the public view regarding franchises. This is an evident fact perhaps, but nevertheless, one that is often forgotten in these days of criticism of public service corporations when even the best are thought to have deceived the people into giving away enormously valuable rights. In the early days, the street railway and telephone, electric light and gas plants were institutions to be courted and encouraged. Cities were proud to be able to attract venturesome capital to provide these evidences of civic growth and wealth. Unfortunately for the freedom of the venturesome capital, all these public services required the use of the streets either above, below or on the surface, and the changes in public opinion have been easy and gradual from a belief in regulations and restrictions because of the use of the streets, to a belief that pretty nearly all the success and profit of these enterprises has been due to the people, and that, therefore, the profit belongs of right to the people.

It is interesting to speculate as to the attitude there would now be toward the coal business, for instance, or the ice business, or milk business, or oil business, if it had been necessary in the distribution of these necessities to put permanent structures in the streets. It was a narrow escape for these businesses, for if the coal wagons, or ice wagons, or oil wagons, or milk wagons, needed ever so slender a wire above the street in order that they might move, they would ipso facto be public enterprises and the profits of the business

would belong to the public that made them possible. As it is, the coal and the oil with their potential energy that will produce power and light and heat, are moved without regulation or restriction over the pavements paid for by the people (and the street railway), and this coal and oil are looked upon only as products of strictly private business; but units of electric energy, with their potential power and light and heat, are carried along unheard and unseen on a wire overhead or underground, and these units of energy by modern reasoning, are the product, not of private business, but of public service and the nominal owners of the business are to be considered as the trustees of public assets. This different view arises, of course, because of the assumption that enterprises requiring permanent structures in the streets are monopolies while others are not. Monopoly is assumed in all discussions of the duties of public service corporations, but it is rarely conceded legally and is not a condition practically. These enterprises are accused of extortion when they make the profits of competitive business, and, on the other hand, are not allowed the security of monopoly.

It would be interesting to speculate on what the present views would be if electrical development had been in the direction of distributing storage batteries in wagons or if telephony had from the first been wireless, but it is of little moment because the question is the value of public franchises, and for the street railway, and gas company, and electric light and telephone, all of which must have permanent structures on public property, no academic discussion of the value of the service rendered is admissible. The public has complete power and will use it - the only question of any importance is

how much the public can take out of these enterprises without killing them or preventing their growth. And as one gets down to the real question of franchise values, he finds that after all there is no such question - the real point is the sort of arrangement that will make the franchise itself of exactly zero value to the grantee. If a franchise has value, that value is something the public might have had for itself and it will feel wronged - if the franchise has less than zero value, the enterprises will not be carried on.

Men are not urged by irresistible desires to devote their money, time and thought to public service enterprises. Businesses with their rewards compete for money, time and thought, and investment and endeavor will go where the assured returns are the greatest. With any enterprise there is a rate of return, depending upon conditions, at which the savings of men will be attracted for investment. If the rate of return in a public service enterprise is cut down to a rate that will not attract savings, the franchise for such an enterprise is obviously worth less than nothing and the service will not be undertaken, or, if already undertaken, will not be extended. If the rate of return is just enough to attract capital, the franchise will be worth exactly nothing, while if the assured rate of return, or possibility of return, is very attractive, the franchise will have a value, because capital will compete for it and a bonus would be paid for the right to invest. Most of the attempts to get back from public service corporations the value of the franchises have been crude efforts that indicate a feeling on the part of the people that it is just about as good to prevent a corporation from making money as it is

to get something from the corporation. One city furnishes an amusing illustration of this: The street railways wished to have their rights more clearly defined so that the stability of investment would be assured, but members of the Council objected because it was "simply a scheme to enable the street railways to sell their bonds"! They evidently were counting in some indefinite way upon that non-existent, irresistible desire to furnish money for such enterprises. There can be no satisfactory settlement of the relations between municipalities and the public service corporations until each side recognizes clearly the limitations under which it can act. Corporations cannot expect to have franchises of value granted to them for nothing. They will have to come to the realization that there are but two things possible, either a franchise of exactly zero value, in which case the customers of the corporation get the advantage of the arrangement, or a franchise of value for which the municipality as a whole must be paid the full value. The municipalities on their part cannot do the best for themselves or the customers of the corporation unless they realize that public service enterprises cannot be extended unless there is assurance of sufficient return to attract capital; that the more they can help the Company to operate efficiently and economically and the more stable and assured they can make the investment, the lower rates and better service they can exact. If they can relieve the Company from expense by refraining from useless regulations and restrictions; if by refraining from interference, they can leave the operating force free to devote their abilities to the efficient running of the business; if, in addition, they will allow the Company to be secure from menaces so that the investment

will be stable, then it will be found that the earning power of the enterprise will be a maximum and new capital will be attracted at a low rate of return. Under these conditions charges for service can be reduced by regulation to a minimum.

A public service corporation has an established part of its business, but it also always has, (if it is progressive), business that is not well established -- business that may be lost at the first sign of commercial depression. There is, moreover, always prospective business that must be reached out for, that requires advance construction and investment. It is an easy matter for the people, in an attempt to prevent profits to the corporation, to injure a part of themselves, for, if they insist that the rate of return on the investment be so small as not to attract capital for the semi-speculative extensions, the corporation is obliged, not from innate cussedness, but because of the laws of economics, to limit its field of operation to the assured business. If a city insists that the life of a franchise shall be short, capital cannot be attracted by the rate of return that would be satisfactory with the same enterprise with a perpetual franchise. Investment with the short franchise can be attracted only in case the rate of return is sufficient to provide the satisfactory rate for a perpetual franchise plus a return that would pay for insurance against loss in case the plant had to be sacrificed at the end of the franchise period. A short term franchise is a needless menace and there is no way to prevent the public from paying for the waste.

If a franchise is exclusive, the corporation does not have to purchase the security of its investment from those given the right to attack it, and the public can save to itself the amount of these

purchases because with immunity from this menace, investors will be satisfied with a smaller return. The effectiveness of competition in bringing unprogressive corporations to their senses, will always make municipalities slow to allow the exclusive feature in franchises, but it should not be forgotten that the cost of retaining this club cannot possibly come from any one but the patrons of the corporation, for regulation of rates cannot force the rate of return so low.

The satisfactory franchise has yet to be adopted, but when it appears, it will be a zero value franchise. It is probable that it will be preceded throughout the country by all sorts of endeavors to formulate rules as to how the investors are to raise their money and just what form their securities are to take, thereby adding another factor that the public has finally to pay for, as it must pay for all friction and menaces and limitations; but as the problem becomes confined to the essential questions -- How much real money is invested in the enterprise? and, How can investors be made to accept moderate rates of return and yet be induced to give good service and the widest extension of service? -- the people will get all that it is possible to get, the investor will have the feeling of security he is willing to pay for, and the manager will be able to devote himself wholly to public service.

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