

ECONOMICS  
OF  
PUBLIC  
UTILITIES

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## Preface

IF I were to say simply that this is a book about the economics of public utility services and their management, most readers would know or could imagine the general nature of the materials and the methods of analysis. In a broader sense, however, this is a study of a social conflict, a conflict between private enterprise and the public welfare that in our country is resolved either by public regulation or by substitution of public for private ownership and management. Since it systematizes American experiences with both private and public production of utility services, examines the relationships between public regulation and private management, and analyzes the economic and social consequences of regulated private management and of public ownership, the work is a study in social control.

A product of my teaching experiences, the book is designed primarily as a text for college courses in public utility economics—for courses that are concerned mostly with the water, urban transportation, gas, electric, and telephone industries. Students who are beginning this subject should find no difficulty with my development of the ideas, though it should be noted that in some chapters a knowledge of elementary economic analysis, particularly of market pricing, is assumed, while in a few others an understanding of elementary accounting principles is taken for granted.

Much new material, including new solutions for old problems as well as solutions for new problems, is introduced throughout the book. Among these additions are accounting, financial, and corporate-integration controls that now are far more important than formerly. In earnings control, the discussion goes beyond the history of judicial and administrative thought and centers on inducing reinvestments and new investments. Economic analysis of the relationship between private investments and reasonable returns (or reasonable depreciation allowances) is emphasized. And, because they may before long come in for either more regulatory action or more economic study, continuous, cyclical, and marginal-cost controls of earnings are examined. Radio broadcasting, presenting socially important problems of service control, is discussed in one chapter. Opportunities for private price fixing are summed up. Discriminatory pricing, a primary characteristic of public utility rates that usually is not understood by the regulators, is explained in several chapters; elasticity of demand, changes in demand, and marginal-cost behavior are the main

means of economic analysis here. Finally, public management, growing more significant as federal production of electricity expands rapidly and posing special problems of social control and economic analysis, is given a large amount of space.

Trying to hold the book to reasonable size, I omitted or gave only brief attention to topics and problems that may seem important, even vital, to some scholars and policy makers. Yet my choices are based, I hope, more on reason than on convenience. Nor can I always give explicit, final answers to regulatory and managerial problems. I do not attempt to define conclusively the reasonable earnings, reasonable investments, reasonable output rules, or reasonable price structures. For although the conditions of production are examined, the consequences of alternative policies considered, and the reasonable limits of action narrowed down, firmly fixed but still reasonable solutions often cannot be deduced from them. In a democratic environment the meaning of reasonableness is not completely relative, nor can it be determined for all times.

Writing in the social climate of the 1940's, I try to show how the general welfare is served by public regulation of private utility businesses. The case for public regulation is supported by the accomplishments of competent commissions. Yet, as an underlying condition of economic analysis, I do not conceive a wise regulatory policy to be something altogether separate from the money values of private business: it is controlled in part by the capitalistic rules under which the companies are managed. To realize maintenance, improvement, or expansion of services, commissions must recognize the private interest in profits and hold out some dollar inducements to the money-minded investors. Commissioners may deplore the acquisitiveness of private firms that already enjoy special public privileges, but they cannot afford to concentrate exclusively on reduction of prices and revenue. To be realistic, an examination of any current regulation must be made in a social context of private property, private investments, and private management.

I am not certain that public production of utility services results in better social effects than does public regulation of private companies. According to my social values, there is nothing wrong with the general idea of public ownership in a democratic society; in fact, I have a personal preference for public production even when its technical efficiency is somewhat below that of private production. And I should welcome more public production, particularly in the radio and electric industries. Yet I do not see factual evidence that under the same market and technical conditions every public undertaking is economically or socially superior to all regulated private production. While I observe that some public enterprises achieve more social efficiency than do private firms, I also find

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the reverse to be true. Lacking, therefore, the unyielding convictions of a true partisan, I fail to make an easy, absolute choice between public and private enterprise.

Going far back in my experiences I know that I owe a greater intellectual debt than I can ever record or repay to my colleagues, former teachers, and students. My heaviest current obligations are to several scholars who read parts of the manuscript and gave me valuable suggestions that I tried to use: Dr. Howard R. Bowen, Mr. Asel R. Colbert, Professor Clarence H. Danhof, Dr. J. Rhoads Foster, Professor Robert L. Hale, Professor C. E. McNicill, and Professor D. F. Pegrum. And I owe a large debt to my wife, whose encouragement has made my work possible.

*Detroit, Michigan*  
*January, 1947*

E. T.

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