

SUPPOSE that an entrepreneur with a sense of scenic beauty builds a million-dollar motel on the downstream side of a dam that harnesses a wild river for the needs of man. Shall the dam's owners, by reason of that motel, henceforth claim credit for \$1 million of annual flood damage prevention, and thereby justify further investment in the dam?

The Tennessee Valley Authority seems to figure that way. From the *Report of the Chief Engineer for 1963* we find that "at June 30, 1963, the estimated cumulative benefits from flood regulation of the Tennessee River system amounted to \$461 million. The total TVA investment allocated to flood control was \$184.8 million, and the cumulative expense of the flood control program was \$53.1 million." (p. 90)

The annual flood damage figure is calculated with the help of an appraisal curve that shows the recorded floods and the economic damage they would do if they occurred today without regulation by TVA dams. Every few years the curve is lifted to reflect new construction and higher values. Thus, the curve informs us that, according to 1961 values and state of development, damages averted in fiscal year 1963 amounted to

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TVA

some \$113 million at Chattanooga and other locations at the Valley and to \$4 million along the lower Ohio and Mississippi Rivers. Thus, multibillion-dollar spending by the Federal government is "justified."

The 1963 edition of *Facts about TVA Operations* further reveals that "the Federal government is sole proprietor of an electric system which at the end of the fiscal year 1962 had a net worth of \$1.8 billion, well over half a billion more than the \$1.2 billion Treasury investment in the system." (p. 2) The adjoining income statement reveals a net income of \$56.2 million for 1962, and \$51.6 million for 1961.

Let us assume that this net income figure is correct, although the statistical and bookkeeping procedures cast grave doubt on its reliability. Every student of accounting and every investor knows that the capitalized value

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of a company with \$56.2 million net income usually is less than \$1 billion. Even with an assumed yield as low as 6 per cent, the market value of the TVA power system would be only \$937 million. Yet, bear in mind that TVA's total investment for all programs amounts to \$2,581 million, including a "nonpower investment" of \$652 million. (p. 2)

A bit later in the same report we find that "in the Tennessee Valley the operating costs per kilowatt-hour for producing, transmitting, and distributing electricity are about half the average for the Nation's private utilities. *These costs are unaffected by taxes and interest* — factors sometimes given as the reason why rates are low in the Tennessee Valley." (p. 5, italics added)

The preceding page, however, had seemed to say the very opposite in enumerating the TVA benefits to the Federal govern-

ment: "Despite the fact that most of the power systems in the Tennessee Valley region are exempt from Federal income taxes, the total financial benefits the Federal government receives from power operations are probably greater in this area than any other. Nearly half of all the power TVA sells goes to agencies of the Federal government, primarily the atomic energy plants at Oak Ridge and at Paducah. TVA's low rates, and the exemption of these Federal power sales from taxation by the states and counties of this region, result in large savings to the government and to taxpayers in all parts of the Nation who support these agencies." (p. 4)

Taxes and Costs

But the main reason for TVA's low operating costs, we are told, is yet another: the wisdom of its managers to charge low rates which in turn reduce costs! Here is the explanation by TVA's Director of Information: "The region does, of course, have low-cost hydroelectric power. And large amounts of coal in or near the area. But more important are the economies that TVA and the distributors accomplish through the mass production that is achieved by giving primary concern and constant attention to keeping rates as low as possible to