

# Monetary Times

Trade Review and Insurance Chronicle  
of Canada

Address: Corner Church and Court Streets, Toronto, Ontario, Canada.

Telephone: Main 7404, Branch Exchange connecting all departments.

Cable Address: "Montimes, Toronto."

Winnipeg Office: 1206 McArthur Building. Telephone Main 3409.  
G. W. Goodall, Western Manager.

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## PUBLIC REGULATION NOW BEING TESTED

UPON the decision of the Board of Railway Commissioners for Canada, in three cases before it this summer, depends to a large degree the future of three of the important industries of this country. In one of these cases, the application of the railways for increased rates, the Board has just made a commendable decision, which should mean that the burden of the national system will fall less heavily upon the shoulders of the taxpayer, and that the railways as a whole will be in a position to render efficient service. Good service cannot now be expected at old rates. The other two cases are the applications of the Bell Telephone Company and of the express companies for higher rates.

It is not merely the future prosperity of these industries that is in the balance, but the question of ownership itself. Judging by past experience, however, both alternatives which are open to the Board would seem to lead inevitably to public ownership. The public is certainly in no mood to pay higher rates for transportation and telephones in order that exceptional profits may be made by the companies, and a policy of too great liberality on the part of the Board towards the latter would result in a demand, which we doubt not would soon be put in force, that they be taken over by the government. Similarly, to refuse any increases in rates would mean, at present costs, that shareholders, and perhaps bondholders, would receive little or nothing, that new securities could not be sold, and, as a consequence, that further extensions and improvements in the services could not be made. How quickly such a condition leads to government acquisition we have already witnessed in the case of the railways.

To enable the companies to continue in business successfully, and at the same time to convince the public that the maximum service is being rendered, is the exceedingly difficult task now resting upon the shoulders of the railway board. Government control of industry is young in Canada, and it has not been entirely successful. In fact, it seems to be a half-way point between corporation freedom and public ownership. It has wavered between an over-liberality towards the companies and a too great zeal on behalf of the

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public, according to the sentiment of the day and the views of the regulating officials. So great has been the ardor of restriction in recent years that there is scarcely a railroad or a public utility company on this continent which has been able to pay even a moderate dividend upon its stock, and in many cases bond interest is in default. The zenith of economic prosperity finds industrial and financial institutions making profits greater than ever before, and individuals receiving high and still increasing salaries and wages, while these services which are essential to industrial and private life are starved for lack of adequate revenue.

What is to be considered a fair profit in these cases? If the dividends of the most successful corporations are restricted to six or eight per cent., no investor in his senses would buy their securities at par at a time like the present, when the same rate can be secured on good bonds and mortgages. For the profits from successful enterprises must be sufficiently large to compensate for the failure of the others, and the investor will not buy stock unless the possibility of loss is counterbalanced by the possibility of a return substantially above the assured return from an investment in which his principal will be unquestionably safe. There is, moreover, always the chance that one of these services, no matter how essential it may seem now, will pass out of use as the result of a new invention or great change in economic life. The vast properties of a telephone company might be made valueless overnight by the commercializing of wireless telephony. That such a vast change is not unknown in actual history is instanced by the immense canal system in the United States, built up in the early nineteenth century, but supplanted in the latter half by the railroads. These and other considerations must be taken into account in calculating a fair return upon an investment in shares of a railroad or public utility enterprise.

In estimating what rates would be fair, consideration must, of course, be given to real investment rather than to nominal capitalization. There is much merit in the proposal that the capitalization of the Canadian National Railways should be written down on a conservative basis. Having done this, it would then be necessary to see that earnings were sufficient to carry the system.