

been devised to secure control without the necessity for purchasing stock. But even where control is secured through the purchase of stock, the actual outlay represents but a small portion of the capital value of the system as a whole, inasmuch as it takes no account of the capital represented by bonds. It is evident then that there is no opportunity for determining the real worth or assessable value of public service corporations by the usual standards of market value for complete systems. Still less is it possible to determine in this way the value of any arbitrary sections of such systems which happen to lie within the area of this or that taxing unit, be it state, province or minor municipality. The portion of a railway or telegraph system which passes through a given municipality, or even a State or province, almost invariably derives a large proportion of its value, and sometimes almost the whole of it, from its connections beyond that area, or from its being but a link in a system whose chief revenue is derived from through traffic or transmission.

Neither is cost of production a fair test of value. Market value is the test which determines whether, in view of its cost, production should or should not be undertaken. It is, indeed, seldom proposed as a basis of valuation for public service corporations other than railways, and in their case it is proposed only because of the large proportion of tangible property required in their construction and operation. But even the most faithful advocates of cost of production, as a basis for assessment, admit that it may exceed or fall short of the full value of a system as a whole. How then is this variation from cost of production to be determined? The usual answer is, as given in Michigan, by ascertaining the general earning power of the system, from which is deduced the net earnings, which are then capitalized at some selected percentage, and this, it is claimed, will give the true capital value of the system. If now we deduct the cost of production from this true value, where it exceeds cost of production, we shall find what amount must be *added* to the cost of production in order to give the true value, which, however, was just the point from which we started. By a complementary process, where cost of production exceeds true value, we shall discover what must be de-