

principles looking to the fair treatment of both the rate-payer and the owner has also been of benefit in a large way to the factory, and to all the great industrial establishments of the country, because it points the way to a closer approximation of the actual cost of production, thereby establishing a better basis for fixing the sale price of the output.

The discussions in the following pages are necessarily directed mainly to the valuation of public service properties and to a discussion of the procedure to be followed in determining what are reasonable earnings, but the general fundamental principles are equally applicable to the private concern.

Value must be ascertained when the ownership of property is to be transferred from one person to another as in the case of a sale; it must be ascertained when the property is capitalized as a basis for the issuance of securities, and, too, for taxation purposes. When rates or prices to be charged for service or commodity output are to be fixed, it is necessary to know the amount of capital which is properly invested — to know, in other words, what the amount is which should be taken into account as a “rate-base.”

Depreciation and Withdrawal of Capital. — The practice is altogether too common of treating every earned depreciation allowance as equivalent to a withdrawal of invested capital and of assuming that any of the various methods of estimating present value are equitable, regardless of the past history of the plant under investigation. So, too, there is sometimes a too rigid construction of the generally recognized requirement that only those parts of a property which are actually in use or which are useful elements are to be considered in valuing the property for rate-fixing purposes. This has occasionally worked a hardship upon the public service corporation and may therefore be regarded as one of the factors which have caused a demand for large allowances for all kinds of intangible and more or less indefinite elements of value to offset losses and unproductive investments.

Every private industrial establishment, too, has its depreciation