

The Basis of Earnings

of the Lincoln Traction Co.

When the consolidation of the two street railway companies was effected, the officers of the consolidated company announced in the press that they accepted the previous valuations of the two street railway properties by the Railway Commission as the basis of earnings. This position has been consistently maintained by the Lincoln Traction Company every day since the consolidation.

Every fair minded citizen concedes the right to a reasonable return on this valuation. Every intelligent citizen knows that such a return is necessary to invite capital to build new lines of railway. Every citizen knows that street railway activity is the most important factor in building the city.

When the United States Supreme Court fixed the basis of earnings of the New York Gas monopoly it paid no attention to the bonds and stocks. It held that it was confiscation to reduce the income on the valuation below the rate that capital commands in enterprises of a similar character. It treated the capital allowed as a basis of earnings as an entirety, ignoring the rate at which the company could borrow money by giving a first mortgage on its plant. It imposed no restrictions on the distri-

bution of the income, notwithstanding the fact that the par value of stocks exceeded the basis of earnings.

Affirming the same principle, the Minnesota Supreme Court says: "It is immaterial how the property has been split up into different rights, interests and claims. For the purpose of fixing rates, holders of all these stand in the shoes of the sole owner of the property unincumbered."

When the basis of earnings has been fixed the stock and bonds as between the public and the company operate merely to distribute the income allowed on the valuation. A fair and just return on this valuation is not rendered unfair and unjust by distributing it among stockholders even though the par value of their holdings exceeds the valuation.

The paramount problem in this city is the laying of an industrial and commercial foundation that will insure growth and prosperity. That foundation cannot be laid without the cooperation of every industry that is a factor in building the city. A policy that reduces the income of every large institution to the very margin of confiscation is not the policy that built Los Angeles, Seattle and Tacoma.

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