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A STUDY OF SASKATCHEWAN TELECOMMUNICATIONS

BY

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Dallas W. Smythe

for the

Department of Communications,  
Government of Canada

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Introduction

The Saskatchewan telecommunications system is unique in Canada in important respects. Organized as a crown corporation with monopoly powers over telephony, it operates "autonomously" except for the process of obtaining investment capital which entails negotiation with provincial cabinet. The present modest study was funded by the Department of Communications, Ottawa, to throw some light on the evolution and development of the character of this unique telecommunications regulatory system. It was to be historical in approach (but not to produce a history of SASKTEL). With small funds (\$5,000) and no provision of technical assistance, it was limited to what could be learned through the efforts of several graduate students and one professor. At the outset in the summer of 1973, Mr. Roy Bushfield (DOC) came to Regina, introduced the author to the senior officers of SASKTEL and invited their cooperation to make possible a thorough, scholarly study. They assented, but in the event, the management of SASKTEL took a passive, defensive attitude which effectively limited the study to what could be learned from outside SASKTEL. Provincial archives, libraries, newspaper files, etc. were the main source of materials.

After a brief statement of theoretical principles this report deals with its task by raising and considering four topics:

1. How were telegraph and telephone used prior to the creation of Saskatchewan in 1905?

2. Why did the new Provincial government take over telephone when it did in 1908?

3. How and why was Saskatchewan's telephone activity organized differently than those of Alberta and Manitoba?

4. Toward the "self-regulating", "one stockholder", "autonomous", telephone "industry".

#### Some Theoretical Essentials

Government rests on the consent of the governed. Telecommunications operation, management and regulation is a subset of this general process. The familiar mode for conducting decision-making in the production and delivery of telecommunications service in the United States and eastern Canada is the private monopoly corporation subject to some form of government regulation. Government regulation in this sense does not exist in the three prairie provinces where public corporations conduct telephony in significantly diverse ways. The basis of government regulation of the private monopoly telephone corporation is the real conflict of interest which exists between the private profit-seeking corporation and the public interest in equitable, reasonable rates for service from a dynamically innovative plant and organization. But does a conflict of interest exist between a public telecommunications production organization and the public interest? If there is such a conflict of interest, why does it arise? How may it be managed? Clearly such conflict of interest cannot rest on an interest in corporate profits. Rather it can rest on the self-survival tendencies of any bureaucracy when it is isolated from the insistent probing of

the institutional environment in which it exists and which it was created to serve.

The disciplinary tools required to cope with "regulation" of the public corporation operating telephony are obviously somewhat different than those appropriate to the ritual of rate and service regulation in a setting where the regulatory authority of the State is applied to the chartered corporate agent of the State.<sup>1</sup> In instances like the present case, we find that it is necessary to look coolly at the political process in the Province, and at the politics of complex organizations (i.e. bureaucracies, whether publicly or privately owned). And especially is it necessary to analyze the policies employed regarding information about telephony, and the organizations involved in financing and operating telephony. Essentially we are dealing here with problems which can best be appreciated and solved in terms of the proposition: Information is the basis of political power and its control confers such power. But apart from, concepts such as cross-subsidization, marginal and fully-allocated costs, overhead and direct costs, etc., the economic concepts so familiar in the regulation of private industry have not been useful in the present preliminary study of the problem of policy and organization for publicly owned telecommunications.

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<sup>1</sup> See Smythe, Dallas W., The Relevance of United States Legislative-Regulatory Experience to the Canadian Telecommunications Situation. Ottawa: Queen's Printer, 1971.

I

How Were Telegraph and Telephone Used Prior to 1905?

Any review of the period from Confederation to the creation of the Province of Saskatchewan clearly reveals the dependence of political power on communications. In the 1870's and 1880's the hegemony of Anglo-Saxon Canadians on the prairies hinged on limiting United States military forces to the official border, enforcing their control of the territory as against native peoples and Metis, and preparing the transportation and communication system to accommodate a vast flood of European migrants who would occupy the land. The Royal North West Mounted Police, the Canadian Pacific Railroad, and the allied Dominion telegraph system were the means to those ends. The latter had reached through Saskatchewan to Edmonton by 1876. Its strategic political value was evident in relation to the suppression of the Riel Rebellion of Metis and Indians in Saskatchewan in 1885. The telegraph enabled prompt reporting of news about it to the East, while news from the East encouraged the settlers and mounted police to stand fast, knowing that army help was on the way. As J. S. MacDonald says:

"But it was the Rebellion which proved the incalculable value of the telegraph line and abundantly justified its construction....Without the wire, the conditions of affairs throughout the whole northern country would have been absolutely unknown outside, for the police were too few and too much occupied to establish a patrol to the newly built railway to the south."<sup>2</sup>

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<sup>2</sup> MacDonald, J. S., The Dominion Telegraph. Excerpt in Provincial Archives.

By the early 1880's, the art of telephony was being experimentally introduced by at least one large farmer in Saskatchewan.<sup>3</sup> But the first common carrier use of telephone in Saskatchewan was offered in 1884 in Regina when the Bell Telephone Company of Canada began serving nine customers. A Bell exchange in Moose Jaw began in September, 1893 with 23 customers.<sup>4</sup> Shortly after it became a province, in 1905, there were some 3,250 telephones in Saskatchewan which then had a population of about 300,000, or 1 per 100 inhabitants, as compared with more than five in the United States.<sup>5</sup> About half of them were operated by the Bell, and of these about half were in Regina. The Bell long distance lines ran 166 miles from the eastern border to Regina and thence to Lumsden. It was not until 1906 that Bell offered long distance service from Regina to Winnipeg. Bell operated 13 exchanges in the Province in 1908, of a total of 22. An independent commercial telephone company, the Saskatchewan Telephone Company operated about 254 miles of pole lines with long distance service radiating from Moose Jaw: East to Regina; west to Mortlach; north to Tuxford and High Pound Lake; southeast following the railroad to North Portal.

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<sup>3</sup> A Major W. R. Bell (no relation to Alexander G. Bell or George Bell of Saskatchewan Government Telephones), with a nine square-mile farm near what is now Indian Head, used a telephone circuit on a single wire on a barbed wire fence. His system connected his house with his foremen's houses and a hotel on his property. Report to the British Parliament by the Royal Agricultural Society, 1885. The SGT, monthly newsletter of SaskTel, January-February, 1964, p. 4.

<sup>4</sup> Patten, William, Pioneering the Telephone in Canada, 1926, p. 7.

<sup>5</sup> Dagger, F., Report, to the Premier, March 25, 1908, p. 1.

Other smaller independent companies operated one exchange each in Saskatoon (225 subscribers), Yorkton (220 subscribers), Wapella (40 subscribers), and the Alberta Government telephones had entered Lloydminster with 30 subscribers. Dagger estimated 310 other, rural telephones in the Province.

In Saskatchewan as generally throughout Canada at that time, except where Bell was engaged in rate cutting to oust independent companies, Bell rates were substantially higher than those of independent companies. In Regina, in 1905, residential telephones cost \$20 a year, business telephones \$35, and desk telephones, \$38. For the Yorkton company which had been giving "highly satisfactory" service for seven years, residential rates were \$12, business \$25, and about one third of their customers were on rural lines.<sup>6</sup> A review of the Mulock Royal Commission hearings reveals that similar differentials between Bell and independent company rates existed nationwide.

The policy of the Bell company was clearly adverse to extension of service to rural and farm populations. The Mulock hearings are replete with testimony of Bell refusal of interconnect with independent telephone companies except rarely and then on conditions which limited market expansion of the connecting company, and which required purchase of equipment from the Bell manufacturing affiliate, Northern Electric. Further there was testimony of Bell use of litigation, bribery of public officials, manipulation of public opinion through influence on

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<sup>6</sup> Mulock Committee, Vol. I, p. 172, 96-7.

the press, etc. to harrass independents. Beginning in 1891, contracts between the Bell and all railway companies provided mutual exchange of service, access to railway rights of way and bridges, and the obligation on the railroads to refuse to allow telephone instruments of independent telephone companies on their premises.<sup>7</sup> Despite the clear prohibition on exclusive contracts between railways and telephone companies in the federal Railway Act of 1903, such contracts were still effective in 1905. The president of Bell Telephone Company of Canada, Mr. C. F. Size, stated their policy toward serving broad masses of the people with brutal candor to the Mulock Commission:

"If it is a question of erecting an exchange in one large place and of giving a service needed by 1,000 people, we certainly, and quite properly, in doing that give preference to the needs of a large number rather than to a lot of farmers' lines. There is a much better return from the expenditure of money on that work than there will be from the expenditure of the same money on smaller lines.

"On the same principle, if a line is required from Toronto to Montreal to give a service to the businessmen, to the mercantile community of Montreal and Toronto, and on the other hand the same amount of money is required for farmers' lines that will give little or no return, on any proper business principle anyone would say: Build the long line, and give the service to the greatest number of people to whom it is of the greatest value."<sup>8</sup>

The mercantile community and upper class residences hardly dominated the Saskatchewan scene. In the area that was to become

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<sup>7</sup> All of the contracts were spread on the minutes of the Mulock Commission. The contract with the Canadian Pacific is at Vol. I, p.47.

<sup>8</sup> Mulock Commission, Vol. I, p. 622.



Saskatchewan, the population in 1901 consisted of 73,729 in the rural areas, and 17,550 in urban areas.<sup>9</sup>

The testimony of F. Dagger, telephone expert employed by the Mulock Commission, was obviously applicable to Saskatchewan in 1905 when he said, referring to all Canada:

"It will thus be seen that the small towns, villages, and rural districts have hitherto been almost entirely left out of consideration by those upon whom the duty of supplying telephonic facilities has been delegated, and this is further emphasized by the fact that in some districts the people themselves have made feeble efforts to provide their own service."<sup>10</sup>

Overall, he found "telephonic facilities" unsatisfactory "from the standpoint of the public good" in four respects:

- "1. High rates in large cities.
2. Disproportionately high rates in cities of from 25,000 - 60,000 inhabitants.
3. High long distance rates.
4. Lack of rural communication."<sup>11</sup>

One may fairly conclude that the answer to the question, how were telegraph and telephone used prior to 1905 in Saskatchewan, is that the telegraph had been used adroitly as an indispensable aid to staking out hegemony on the prairies for the white Canadian, but that telephones had been used by monopoly capitalists for their own ends

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<sup>9</sup> Census of Canada, 1911, Vol. 1, Areas and Population, Ottawa, 1912, pp. 527-30.

<sup>10</sup> Mulock Commission hearings, Vol. 1, p. 8.

<sup>11</sup> Ibid., pp. 7-8.

which quite failed to meet the needs of the burgeoning prairie population of farmers. Their response to this failure provides the substance of the answer to the next question.

II

Why Did the Provincial Government Take Over Telephones in 1908?

It was a necessary part of the superstructure of the new Province. By 1905 when the Dominion Act created Saskatchewan and Alberta out of the former Northwest Territories, the hegemony of the Anglo-Saxons on the prairies was no longer threatened by Americans or native people. The population in what became Saskatchewan was rising rapidly. Between 1901 and 1906 it almost trebled, from 91,000 to 257,000.<sup>12</sup> Its further growth was limited by lack of development of essential features of the superstructure: Transport, credit, and communications. The perennial grievances which the agrarian society of the area expressed against the eastern centers which controlled the railways, the banking system, and the communications system are hard evidence of the need for these superstructural developments. Ample attention has been paid by historians to the railway and banking problems; little to the significance of communications. A fourth deficiency in the superstructure was the absence of provincial government apparatus. And because the British model of government depended on the existence of political parties, Saskatchewan lacked the party organization necessary to conduct government. Party organization required some means of linking the widely dispersed population of the province with the government in power or with a party seeking to take

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<sup>12</sup> Census of Population and Agriculture of the Northwest Provinces, Ottawa, 1907, p. xviii.

over government power. Such a linkage meant in practical terms providing political-economic rewards for the local centers of party organization, and at the same time a substantive political programme plus budget to finance it stemming from the provincial Capital. This deficiency in Saskatchewan (and Alberta) was evident from the fact that in the preceding Territorial legislature, members were mostly independents, uncommitted to political parties.

In 1905, coincident with the imminent creation of the Province, the Liberal and Conservative parties organized. The former party was populist in character, organizing farmers of all minority ethnic groups of European origin, and led by owners of land (urban and rural) whose personal fortunes depended on the growth of the Province. The latter party was based on urban businessmen and Orangemen and was identified with the Canadian Pacific Railway interests. The first provincial election in 1905 was distinguished by a high degree of acrimony and corrupt practices, and was won by the Liberals under the leadership of Walter Scott. In the four years of that Liberal government, as a Liberal party pamphlet said in 1908, the "...had been laying the foundations of our provincial institutions."<sup>13</sup> They determined that Regina should be the Capital, and perfected plans for an imposing Provincial government building there. They established a provincial University and located it in Saskatoon. "Governmental machinery has

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<sup>13</sup> The Scott Government's Record, Provincial Archives.

been organized and perfected. Business methods have been adopted in handling millions of dollars of public money. Never again in such a short period will any Government in the province of Saskatchewan be called upon to undertake so much useful and important work."<sup>14</sup>

In justifying his party's programme during its first term, Premier Scott mentioned these accomplishments. Further, he said, they had enacted legislation to aid farmers in marketing their wheat through a scheme for government-guaranteed railway bonds to finance rail extensions.

"I submit with absolute confidence that if we had had no Redistribution Act, and no new railway policy either, the Government had abundant justification for appealing to the people in July [1908] -- upon its other proposals -- upon the line we had mapped out on the liquor question, upon our several educational measures including the scheme of buying and distributing school books to the children free of cost, upon the proposed law creating Rural Municipalities, upon the laws we have passed to tax railways, banks, loan companies and the other corporations, and especially upon our telephone programme ....The telephone policy alone would have borne examination by the people in a general election. We proposed to link together all of the main towns in the Province by trunk telephone lines to be constructed and conducted by a Department of the Government. And in addition, we propose to assist the settlers to create their own telephone systems and link them up with our trunk lines. In a very short time under our policy there will be no community in Saskatchewan which really desires to have the telephone and whose people possess any enterprise at all that need be without the advantage of it....By offering to supply the poles free to every rural company that shows the enterprise necessary to go in for a local telephone plant we put within the ability of every locality in Saskatchewan the possession of its telephone system. The policy is the result of many days, yes even weeks of the most patient and anxious study by Francis Dagger, our expert, and the members of the Government. I am free to tell you that we literally sweated over the rural end of the problem many anxious hours. The scheme is our very own. We copied from nowhere because we could find

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<sup>14</sup> Ibid., p. 1.

no scheme in existence anywhere suited to Saskatchewan's conditions. It is our very own, and I am proud of it ....The telephone programme must involve large initial expenditures. We must construct several hundreds of miles of trunk lines. We must purchase the Bell system and the Saskatchewan Company's system which centres at Moose Jaw. And the rural development must mean a large outlay by the Government because we will buy and pay freight charges upon every pole set up in the Province.<sup>15</sup>

In addition to being a necessary part of the superstructure of the new Province, Government initiative in telephone operations was the only means by which the people of Saskatchewan could realize the advantages of a unique technique for overcoming their geographic isolation from each other. It could provide the farmer with instant communication with his market centre, and for social life it was equally valuable. As W. A. Mackintosh says, the telephone was second only to public rural schools as an object of investment of resources.<sup>16</sup> It offered a partial substitute for transportation and as a prominent Liberal put it, "Railroads had preceded or kept up with development, but the telephone business had not kept pace with the development of the country."<sup>17</sup> By 1905, the technique of telephony was already well established in the urban areas of Canada and had made considerable progress in the older settled rural areas of the eastern provinces. The Bell Telephone Company had pioneered in common carrier operation in the largest Saskatchewan cities, but its policy was resolutely opposed to the provision of small town, rural and farm telephone service.

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<sup>15</sup> Scott, Premier Walter, The Saskatchewan Provincial Election Campaign of 1908. Speech at Rosthern, August 26, 1908. Pamphlet in the Provincial Archives. Emphasis added.

<sup>16</sup> Mackintosh, W. A., Economic Problems of the Prairie Provinces, Toronto, Macmillan, 1935, p. 154.

<sup>17</sup> Morning Leader, April 7, 1908, p. 1.

There is evidence of the attitude of the Saskatchewan people toward the issue. The Saskatchewan Grain Growers Association favoured public ownership and operation of telephones, as did the Union of Saskatchewan Municipalities, as early as 1905. In doing so they were in accord with the Dominion Grange Convention which voted in favour of "Federal operation of trunk telephone lines in order to facilitate municipal control of telephones" early in 1905 and the Union of Canadian Municipalities which petitioned the Governor-General declaring that "long-distance telephones should be owned and operated by the Dominion Government in the same way that the postal service is carried on."<sup>18</sup> Both parties included a plank in their election platforms in 1905 committing themselves to public ownership of public utilities. Curiously, except for separate brief statements from the city officers of Regina, Maple Creek, Prince Albert, Yorkton and Weyburn, the record of the hearings of the Select Committee on Telephone Systems (the Mulock Committee) in Ottawa in March-May, 1905 is barren of representations from the Saskatchewan government, parties, and farm organizations. It is possible that the Saskatchewan Liberal government, unhappy at the ideological position it would be caught in, preferred to avoid commitment on the telephone issue until it could get its own ranks unified on the issue. In any event, the point of view of C. W. Peterson, former Deputy Commissioner of Agriculture in the Government of the North West Territories adequately represented the point of view of Saskatchewan people:

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<sup>18</sup> The Canadian Annual Review of Public Affairs, 1905, p. 139. Quoted by Britnell, G. E., Public Ownership of Telephones in the Prairie Provinces. M.A. thesis, University of Toronto, 1934, p. 11.

"I have long maintained that the evolution of the ranch and farm requires generous use of all modern inventions. The telephone I believe is the most useful of the many modern devices for rendering farming easy and profitable. In the past few years I have called many meetings of farmers to discuss the subject of cooperative work in this direction, but in every instance we have been blocked by the Bell people. That we are being damaged, directly and seriously by the attitude of the Bell Company, I am certain."<sup>19</sup>

A third and crucial element in determining the Saskatchewan decision to take over telephones in 1908 was the policy of the Federal government. Originally favoured with a Dominion charter, Bell Telephone Company of Canada had come under serious attack which culminated in the appointment of the Mulock Committee (the Select Committee on Telephone Systems, 1905). On this Committee had focussed the pressures from across Canada, from rural and urban sectors, for government ownership of telephones in some form. The evidence taken by this Committee chaired by Sir William Mulock, then Postmaster General in many ways demonstrated that the Bell Company charged too much and was indifferent to the needs of the small town, rural and farm population; that independent companies charged much less than the Bell for comparable service but were hemmed in, denied interconnection with the Bell system, and denied access to railway offices as a result of Bell system policy. Mr. Francis Dagger, later to serve as consultant to the Manitoba and Saskatchewan governments, was the expert witness for the Committee. He proposed federal government ownership of the long lines and government control or ownership and operation of local exchange facilities.

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<sup>19</sup> The Canadian Annual Review of Public Affairs, 1904, p. 63. Quoted in Britnell, sup. cit., p. 11.



Failing that, he urged special legislation regarding rural service. He found that rural telephone service "...has in the past been absolutely neglected and discouraged in Canada by the existing companies for the reason that it does not prove such a lucrative business as the exchanges in the towns and cities."<sup>20</sup> He recommended legislation to (1) impose Dominion technical standards for all rural systems, (2) require interconnection to the nearest town and permit free calling from farms to towns, (3) permit rural systems to have free but not exclusive rights of way on all highways, (4) require sharing in the use of poles if more than one company used a highway, and (5) require railways, telegraph and telephone companies to interconnect with rural systems.<sup>21</sup> In his view commercial companies should not be encouraged to build or operate rural telephone systems: "I am decidedly of the opinion that this work should be done by the farmers themselves, at cost price, on the cooperative principle."<sup>22</sup>

Sir William Mullock's declared bias was in favour of government ownership of telephones. In May, 1905, while the hearings were still going on, it was found necessary for him to attend a Pacific Cable Conference in England and he thereafter attended no Committee hearings. The Committee concluded its work with no policy conclusions or recommendations. The following October, he left the Government on

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<sup>20</sup> Proceedings of the Select Committee on Telephone Systems, 1905, Vol. 1, p. 18.

<sup>21</sup> Ibid., p. 20.

<sup>22</sup> Ibid., p. 20.

grounds of ill health and was appointed Chief Justice of the Exchequer Court of Ontario. His successor as Postmaster General was Mr. A. B. Aylesworth, who had acted as counsel for the Bell Telephone Company at the Committee hearings. The view expressed by Mr. Robert Borden, Opposition Leader and by influential newspapers was that Mulock's departure and the failure of the Committee to recommend any legislation was a clear victory for the Bell Telephone Company.<sup>23</sup> The plain message of all this to the governments of the prairie provinces was that they need not wait for the federal government to help them with their telephone problems. Any telephone takeover would have to be at the Provincial or Municipal levels.

The Saskatchewan Government did not act on telephones in its first session, while Alberta and Manitoba moved rapidly in 1906 toward government ownership of telephones.<sup>24</sup> Mr. F. W. C. Haultain, Opposition Leader of the Combined Conservative and Provincial Rights parties advocated public ownership of telephones and the convention of his party, March, 1907, demanded "Government construction, ownership and control of a Provincial telephone system."<sup>25</sup> In January, 1907 the Saskatchewan Grain Growers' Association made the same demand and urged "early consideration" of the subject. In June the Associated Boards of Trade convention urged that Saskatchewan follow the example of Alberta regarding government control and operation of telephones, and

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<sup>23</sup> Britnell, sup. cit., pp. 20-21.

<sup>24</sup> Ibid., p. 27.

<sup>25</sup> Ibid., p. 27.

in August, the Union of Saskatchewan Municipalities recommended municipal ownership of local exchanges with government operation of long lines.<sup>26</sup> On August 10, 1907, Mr. Francis Dagger was appointed by the Government to serve as expert adviser while somewhat later, Mr. S. P. Porter was named Deputy Commissioner of Railways and the telephone issue assigned to him. By December 9, 1907, Premier Scott told the press that "they had about decided to begin a long-distance service. He thought that 300 miles would be erected at once."<sup>27</sup>

Mr. Dagger's report was presented when the Saskatchewan legislature met early in April, 1908. His 50-page report recommended that the Provincial Government own and operate the long distance facilities, noting that the two largest privately owned companies (Bell and the Saskatchewan Telephone Company) had indicated their willingness to sell to the province. Initially, the long distance system should consist of 2,057 miles, linking the main population centers, at a cost of from \$250 to \$350 per mile. As in the Mulock hearings he recommended that municipalities be left free to deal with local exchange services.

"...in such a manner as local conditions necessitate. I believe that wherever a local telephone service is controlled by a municipality, whether by actual ownership or under a franchise agreement with a company, the people obtain a service best suited to local conditions both in regard to efficiency and rates."<sup>28</sup>

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<sup>26</sup> Ibid., p. 27.

<sup>27</sup> Ibid., p. 28.

<sup>28</sup> Dagger Report, March 25, 1908. Provincial Archives.

His arguments against provincial government ownership and operation of local exchanges were more pointed than in his Ottawa testimony. In Saskatchewan he argued that experience elsewhere demonstrated that where local conditions differ so much in the various cities, towns and villages scattered throughout the province, state or country, central management is too rigid to meet the different needs of different locations. He argued that cross-subsidization between localities would result from pressures for uniform rates.<sup>29</sup> Finally, he argued that provincial ownership of local exchanges would require "an amount of money much too large to be considered and that invidious pressures would force it to build local exchanges" not only in existing municipalities but also in those numerous towns and villages which will spring up along the lines of new railways now being rapidly extended through the province. He did, however, favour legislation providing for provincial control (to set standards and supervise construction) of municipal telephone exchanges.

Mr. Dagger's recommendations regarding rural telephone service began with the proposal that the Government construct complete rural

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<sup>29</sup> "Again, if the government owned the local exchanges there would be a strong tendency on the part of the people to expect a uniform rate for service in all towns and villages the populations of which most clearly corresponded. These towns would in many cases be several hundred miles apart and the variation in local conditions would be such that what was a paying rate in one exchange might entail the operating at a loss in another. This would make it necessary for the government to adopt a schedule of rates under which the subscribers in one exchange would be paying the profits [sic] on his own system and would also be contributing toward a deficit elsewhere. In other words it might be possible for the people in one city to be contributing \$5 a year more than cost per telephone in order that the citizens in another part of the province might have their telephones \$5 a year less than cost." Dagger report, p. 8.

telephone systems in each of three or four sparsely settled districts at a cost per system of not more than \$25,000 as an "object lesson". The experience thus gained would provide the government a safe and reliable basis upon which to establish standard specifications and conditions for the development of farm telephone service at the lowest cost, either by the rural municipalities, local companies or mutual associations. He then proposed that the rural municipal councils be empowered to build and operate telephone systems within their municipality and to grant rights for the same purpose to companies incorporated under the laws of the province -- always under provincial controls as to standards and operating practices. He also suggested that the government assist "municipalities and farmers' companies, operating for personal profit," upon request by (1) furnishing information and expert advice, (2) furnishing at cost skilled labour to superintend the construction of lines and install equipment, (3) furnishing equipment and supplies at cost, (4) furnishing at cost reliable men to make periodical inspections of rural systems and execute repairs.

He proposed that the Government assist "rural telephone undertakings" in regard to the availability and cost of capital, either by issuing provincial bonds and out of their proceeds advancing necessary capital to the municipalities, taking in return municipal bonds as collateral, or by endorsing municipal bonds and guaranteeing their interest and principal, of which he preferred the former. Municipalities, he suggested, could materially help develop rural systems by lending a certain proportion of the capital necessary for construction, repayable over five to ten years;

such loans, however, should be limited to non-profit cooperative ventures by farm telephone developers, provided the coop members were personally liable pro rata for their shares of the loan. He concluded his report by advising the Government that to make a success of Government operation it would be necessary to recruit officials who in addition to being competent in telephone were "consistent, if not enthusiastic, believers in the principle of public ownership....Great care is therefore necessary at the inception of any government ownership undertaking to select the right class of men."<sup>30</sup>

The basic structure of telecommunications in Saskatchewan was set when the Legislature approved on 12 June, 1908 a package of three bills. The first, the Railway and Telephone Department Act (Stat. 8 Edward VII, 1908, Chap. 5), created a department of that name headed by a Commissioner. His office was given authority to purchase, construct or sell and to operate telephone systems. Those which he operated were to be termed "the public telephone system" -- a confusing usage of the term. Debentures (up to 40 years at 4 per cent) were authorized to be issued by the provincial treasurer for the purposes of this Act and the Rural Telephone Act. The Commissioner was empowered to enter into joint operation, interconnection with any rural, private, foreign, or municipal telephone system. He was authorized to use public highways and streets for telephone purposes, and to take property by eminent domain. His staff was empowered to inspect the construction, operation and management of any

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30 Ibid.

municipal or rural telephone system and to inspect books and records. He was authorized to determine standards for the construction, equipment and maintenance of municipal, rural or private telephone systems operated within Saskatchewan, and to prescribe rules and regulations for the keeping of books and accounts of all receipts and expenditures for municipal or rural telephone systems. Persons operating municipal, rural or private telephone systems were required, when demanded by the Commissioner, to transmit all information he might require concerning rates, rentals, tariffs, tolls, schedules and charges for supplying telephone service. If in his opinion such rates, tolls or charges were unreasonable or discriminatory, the Commissioner should investigate and thereafter order any alteration of the rates which he may deem advisable. Annual or more frequent reports must be filed by every person operating a telephone system regarding the cost, receipts, operation and management of such systems, subject to financial penalty. Section 22 of this Act gave the government the right to appoint a Commission of not more than three members "to take over the construction, maintenance, operation and management of public telephone systems". Under this Act and subsequent amendments to it, the operation of what came to be known as Saskatchewan Government Telephones was conducted until 1947.

The second Act in the package was the Municipal Telephone Act (Stat. 8, Edward VII, 1908, Chap. 6). This Act, modelled on one in Manitoba, authorized city, town, village or rural municipalities to construct, operate, maintain, buy or sell a telephone within the boundaries of the municipality. It provided for financing by the municipality

through debentures it might issue, for their approval by the electors of the municipality, and their terms. The municipality was authorized to interconnect or jointly operate with any private, foreign, rural telephone system, and to call on the Commissioner to enforce such rights. It might make and enforce rules and regulations for the operation of its telephone system and in collecting charges for its service. It was required to maintain books and accounts concerning the telephone operations separate from other municipal books and accounts. Five municipalities were to operate under this Act prior to its effective repeal in 1911. Of the five, all but two had been absorbed by SGT in 1925, and all but one in 1933.

The third element in the legislative packet adopted in 1908 was the Rural Telephone Act (Stat. 8 Edward VII, 1908, Chap. 7). It established a variant on the Rochdale cooperative principle. Any five or more residents in a rural district might apply to the Commissioner to organize a rural telephone company "for their mutual benefit". Shares were priced at \$25 and a shareholder might own from one to 20. The amount of capital with which a company proposed to organize might not exceed \$150 per pole mile of line. An amount at least equal to \$20 per pole mile had to be paid for before construction might begin. The duty of the Commissioner upon receipt of a proper application (accompanied by maps and specifications of the proposed system) was to procure its organization, incorporation and registration under the Companies Act, without payment of fees therefor. Every such rural telephone system built and operated under this Act would be exempt from "all assessments, rates and taxes which might be imposed,



levied or collected by any authority under any Act." Such rural telephone companies were equipped with the usual powers to interconnect facilities with other telephone systems, to take what rights of way were required upon payment of reasonable compensation, and to acquire or dispose of any private or rural telephone system. It was required to maintain books and records of receipts and disbursements in a form prescribed by the Commissioner. At the end of each calendar year, if "after providing for all outstanding liabilities there remains a balance of cash on hand as the result of the year's operations, the company may declare a dividend of up to 8 per cent on the paid-up capital", and any remaining surplus should be plowed back into the system. While the Government's manifest intent was to provide a variety of forms of assistance to the companies, the only provision for outright subsidy in the Act (other than the relief from all taxes and incorporation fees) was the guarded provision for telephone pole subsidy: "For the purpose of encouraging and assisting the development and extension of rural telephone systems throughout the province, the commissioner shall have the power to furnish any company from time to time with the telephone poles required for the construction of its system; provided that the number of poles to be provided to any company and the conditions under which such poles shall be supplied shall be fixed by regulations approved by the Lieutenant Governor in Council." It is noted that the Act made no provision for loan capital assistance.

In the legislative debate on these acts the Government announced its intention to build 2,000 miles of long distance lines in the next few years (500 miles to be built that year) and to assist rural telephone companies at a cost of \$60,000. The Opposition Leader moved an

expression of regret that the Government had not applied government ownership to the rural service where the need was greatest. His argument was that the strong demand for telephones was not in the urban areas but in the totally unserved rural areas and that the latter would find it difficult to get service under the Government policy because of lack of resources. The Government responded that local cooperatives could construct and maintain telephone systems far cheaper than could the Government, by providing volunteer labour to do the work. Moreover, they quoted the General Manager of Bell of Canada to the effect that local and rural systems could be more cheaply built and maintained by local people because they would be satisfied with a much lower standard of service if they were supplying it themselves than if Bell or the Government was.<sup>31</sup>

The Government bills passed.

The Government moved quickly to mobilize its telephone programme. And a modest, conservative programme it was. In the platform it took into the General election in the fall of 1908, the Government summarized its position. Long lines were to be built by the Government, linking local exchanges which might be municipally or privately owned. Assistance to rural telephone companies organized by farmers would be provided.<sup>32</sup>

There was no pledge to buy out Bell or the other private municipal systems, nor to use Government resources for building and operating other municipal systems. It was in every sense a flexible posture, congruent with meeting

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<sup>31</sup> Journals, Saskatchewan, 1908, p. 59, as quoted by Britnell, sup. cit., p. 30; Newspaper "Hansard", Provincial Archives.

<sup>32</sup> Morning Leader, August 1, 1908, Suppl. p. 8.

farmers' expressed desires and minimal violation of Liberal free-enterprise ideological precepts.

The first budget for the telephone programme was \$250,000, and in June, 1908, Mr. J. A. Calder, Provincial Treasurer was named Commissioner of the new Department. Large contracts for equipment, wire and poles were let in July, and after a pause for a general election, construction of Government lines began in September, 1908. The Government's telephone policy was an important issue in that election. I previously quoted from Scott's campaign praise of the telephone bills. The strong identification of the Liberal party with the rural population is revealed in this passage from the same speech:

"[I]t is in the rural districts, in the 'back settlements', as is so often sneeringly said, where the Liberal strength lies....He may be a 'back settler', his hands may be roughened by hard work, but the eye of the average homesteader in this Province is not less clear or his vote less intelligent than those of the dweller in towns. He is the man who is really making the country....It is for him mainly that we worked to get the Hudson's Bay Road. It is for him that our branch lines policy is framed. It is for him that we bent our minds to solve the telephone problem. It is for his benefit that we are taxing the holdings of the speculator and the big company, by the Supplementary Revenue Act for education to lighten the load of taxation borne by him as a public school rate payer....We shall give him free school readers. We shall give him the advantages of the telephone at lowest cost."<sup>33</sup>

The Liberals won the 1908 election and by the end of that year some 25 rural companies had been organized, of which 10 were operating to serve some 250 telephones. Several thousand poles had been delivered free to

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<sup>33</sup> Scott, Premier Walter, Speech at Rosthern, sup. cit.

the rural companies. In the winter of 1908-09, the Government was in a quandary. Should it buy the Bell properties which were offered to it?<sup>34</sup> Or should it let laissez-faire rule in regard to urban exchange service, relying on the Municipalities Act to satisfy existing urban demands for better service through public ownership? If it opted to take over the urban service, the government would be involved in province-wide operations with all that this implied for building a double-purpose government bureaucracy: (1) Patronage (including party administrative control of a network of power relationships), and (2) Visible benefits to the population through provision of government telephone service. If it opted to decline such a takeover, it might pay too high a price for its ideological purity at the next general election. Telephones were then a salient political issue and the Conservative appeal for outright and total Government operation might be decisive. The former was the bolder course and it prevailed brilliantly.

By May 1, 1909, the contract to Buy out Bell properties was consummated (\$368,924 was paid for 13 exchanges, 20 toll offices and some 234 pole miles of long distance line) and by 1 July, 1909, the Government system purchased the Saskatchewan Telephone Company plant (\$150,586 for four exchanges, 32 toll offices and 258 pole miles of long distance line).

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<sup>34</sup> At its annual stockholders' meeting on 27 February, 1908, the Bell Company announced its readiness to sell its properties in Saskatchewan and Alberta. Spafford, D. S., Telephone Service in Saskatchewan: A Study in Public Policy, unpublished M.A. thesis, University of Saskatchewan, Saskatoon, Sask., 1961, p. 17.

The Government also bought a small exchange at Wapella and built exchanges at Hanley and Melville.

By the end of 1909, 640 miles of trunk lines had been built, linking with the Manitoba Government system and connecting Regina, Saskatoon and Prince Albert. With the 492 miles acquired by purchase, the province had 1,132 pole miles of trunk line, 20 exchanges and 3,412 subscribers.<sup>35</sup> During the same year some 44 rural telephone companies were organized adding about 1,000 miles of rural pole line and 1,000 rural subscribers. A new uniform system of rates was then introduced (involving reductions in toll rates charged in the area previously served by the Saskatchewan Telephone Company but no changes in the area served by the Bell Telephone Company).

In the years 1910-1912, spurred by good crops, the Government's telephone programme expanded rapidly. Long distance pole mileage trebled. Toll offices increased from 100 to 288. The number of exchanges increased from 20 to 93 and exchange subscribers more than quadrupled (from 3,410 to 14,826). The Government system had absorbed four exchanges bought from private concerns (Saskatoon with 900 subscribers for \$70,000, and the Swift Current, Yorkton and Saltcoats systems with about 300 subscribers for a total of \$30,000). The number of rural telephone companies had risen to 337 and of their subscribers to 7,800 of which 4,035 were connected to the Government system. In addition there were five municipal systems and 15 independent telephone systems which had been built by

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<sup>35</sup> Railway, Telegraph and Telephone Department, Report for the Year Ending February 28, 1910, pp. 12-17.

private enterprise since 1908.

During this period the Conservative opposition continued to press for full government ownership and operation of the whole system, which was met, for instance, by the Government argument in the 1910-11 session that the rural telephone companies had made great progress in building their own lines and "...it has been demonstrated that these companies can construct, operate and maintain these lines at a less cost than can be done under any government system thereby insuring telephone service at a minimum rate...."<sup>36</sup> In the provincial election campaign of 1912, the Conservatives made a twin attack: The familiar demand for Government operation of the rural system, and an attack on the form of administration. Now the Conservatives advocated "placing the whole system under the control of an independent Commission."<sup>37</sup> The political uses of the programme and its budget were becoming salient. The telephone issue was again central in the campaign which the Liberals won.

With this mandate, the Liberal Government in 1913 made one structural and one substantive programme change. The administration of telephones was split off from railways and Mr. G. A. Bell, the Provincial Treasurer became the first Minister of Telephones.

The substantive change was to remedy the weakness of the 1908 Rural Telephone Act in its failure to provide assistance through loan capital. The Rural Telephone Act of 1913 (Stat. 1912-13, Chap. 33)

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<sup>36</sup> Journals of the Legislative Assembly of Saskatchewan, 1910-11, p. 71, quoted in Britnell, sup. cit., p. 91.

<sup>37</sup> The Canadian Annual Review, 1912, p. 568. Quoted in Britnell, sup. cit., p. 91.

embodied an original and ingenious solution to this problem which did not involve the credit of the Province. Shortage of capital was a perennial agrarian complaint, and the Act of 1913 remedied it. As with the 1908 Act, the basic unit created by the 1913 Act was a voluntary association of five or more persons to conduct a rural telephone system for their "mutual benefit". Because it was intended to relieve the cooperative of depending on equity capital, the shares of stock were reduced to \$5 and a limit set of four shares per subscriber. Their obligation to cover construction cost with equity capital was reduced to the equivalent of \$10 per pole mile. The Act authorized the approved petitioners (again given joint stock company status through registration under the Companies Act on motion of the Commissioner) to borrow on debentures up to \$350 per pole mile, such debentures to run for not more than 15 years at an interest rate up to 8 per cent, the principal and interest to be repayable in equal annual installments. Security for the debenture was to be a lien for the payment of interest and principal against real estate (outside municipal boundaries) over which or abutting which the pole lines and extensions of the rural telephone system were to run.

Two kinds of tax were generated by this plan. One was a tax on every quarter section (160 acres) or fraction thereof lying on either side of or within 100 yards of the proposed telephone lines or extension thereof, the tax being levied in proportion to acreage owned. The second (known as the "run-off") tax was applied to the parcels of land (previously identified) the resident occupants of which were supplied with telephone service: Such tax to cover the total cost of all house telephones, their

installation and connection with the main lines of the system. The second tax was to be levied equally on all said parcels, irrespective of acreage. The municipalities were then tied into the system by a complex set of relationships. They were to be given notice of proposed undertakings and their tax implications. They were to collect and transmit the proceeds of the taxes to the rural telephone company. This long and complex statute provided many safeguards to ensure its purposes. A majority of the resident occupants liable to be taxed under the Act were required to be shareholders in the rural telephone company. Bonds were required from guarantee companies to enforce "due accounting" by the secretary of the company of the proceeds for the debentures, and for all other monies that come into his hands. Provisions requiring annual reports and approval by the Minister were strong. As with the 1908 Act, the rural companies were exempt from all taxation, and the Minister was given discretion to assist the companies through providing them poles on terms of his own. To relieve the municipalities of responsibilities they were not able to sustain unaided, in December, 1913, the Government created the Saskatchewan Local Government Board to examine and pass on the merits of any application by a local authority for permission to raise money by way of debenture or other security. Control over rural telephone debentures was transferred from the Minister of Telephones to that Board.<sup>38</sup>

With the Act of 1913 the Saskatchewan telecommunications policy and structure was fully delineated and not until 1947 was there a significant change in it. The change was to split off the government telephone

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<sup>38</sup> Statutes of Saskatchewan, 4 George V, 1913, Chap. 41.



operating system, previously run from a government ministry in the form of a Crown Corporation (Stat. 1947, Chap. 10, 13). Then known as Saskatchewan Government Telephones, its name was changed to Saskatchewan Telecommunications in 1969 (Stat. 1969, Chap. 64).

This section of the report concludes that the Saskatchewan Government took over the telephones when it did because it was politically necessary that it do so. Telephones provided an appealing popular programme badly needed by a predominantly rural population which had no hope of telephone service from any alternative to Government control. Ideologically the Liberal government made the least possible compromise of its principles. The populist sentiment which ruled both parties in the Province had no inhibitions against using the State to meet practical problems of this kind, pragmatically. Moreover, the Bell Telephone Company was not opposed to selling out to the Province; its interest in serving a chiefly rural area was marginal at best. In answering the question, why did the Government take over the telephones, I have deliberately set forth at some length the statutory mechanisms which the Government employed in doing so. While perhaps not strictly necessary to understanding the why of the takeover, this information also provides a basis for considering the next question.

III

How and Why Was Saskatchewan's Telephone Administration Different From  
Those in Manitoba and Alberta?

Two main differences separated the organizational patterns adopted by Saskatchewan and its neighbouring provinces for the development of telecommunications. One is the large role played by rural telephone companies in Saskatchewan, as contrasted with their relatively small role in Alberta and Manitoba. The other is the tight fusion of telephone administration with government in Saskatchewan, as against the looser relationship evident in the neighbouring provinces.

Just as the large significance of rural telephone companies in Saskatchewan is mutually determined with the relatively monolithic telephone administrative structure, so the reasons for these characteristics are closely linked. Fundamental to the differences which mark the Saskatchewan telecommunications structure is the human geography of the three provinces: The location of people in relation to cities and farms. Table 1 shows the percentage of rural to total population, by Province, 1901, 1911 and 1971, as well as the percentage of each province's population represented by its largest city.

Table 1

Rural Population and Population of Largest City as Percentages of Total  
Population, by Provinces, 1901, 1911 and 1971

Rural Population as Percentage of Total

|                      | <u>1901</u> | <u>1911</u> | <u>1971</u> |
|----------------------|-------------|-------------|-------------|
| British Columbia     | 62          | 48          | 24          |
| Alberta              | 49          | 62          | 27          |
| Saskatchewan         | 81          | 73          | 47          |
| Manitoba             | 72          | 56          | 31          |
| Ontario              | 57          | 47          | 18          |
| Quebec               | 60          | 52          | 19          |
| New Brunswick        | 77          | 72          | 43          |
| Prince Edward Island | 86          | 84          | 62          |
| Nova Scotia          | 72          | 62          | 43          |
| Canada*              | 62          | 54          | 23          |

Population of Largest City as Percentage of Total

|                      | <u>1901</u> | <u>1911</u> | <u>1971</u> |
|----------------------|-------------|-------------|-------------|
| British Columbia     | 15          | 26          | 49          |
| Alberta              | 6           | 12          | 30          |
| Saskatchewan         | 2           | 6           | 15          |
| Manitoba             | 16          | 30          | 55          |
| Ontario              | 10          | 15          | 34          |
| Quebec               | 16          | 23          | 46          |
| New Brunswick        | 12          | 12          | 17          |
| Prince Edward Island | 12          | 12          | 23          |
| Nova Scotia          | 9           | 9           | 28          |
| Canada*              | 12          | 17          | 38          |

\* Exclusive of Newfoundland for which 1901, 1911 data not available.

Saskatchewan has been substantially a more rural province than any other (excluding the Maritimes). In 1911, about the time Saskatchewan's Government formulated its telecommunications policy, some three out of four people lived in rural areas, while in Manitoba only about one out of two did so, and in Alberta, three out of five. Similarly with the relative bulk of population living in the provincial metropolis. The proportion of Manitoba's population which lived in Winnipeg was eight times the proportion of Saskatchewan's which lived in Regina in 1901, five times in 1911, and almost four times in 1971. Alberta's situation was almost as great a contrast. The proportion of its population resident in its largest city was three times as high as Saskatchewan's in 1901 and twice as high in 1911 and 1971. Saskatchewan's concentration of population in its largest city has been consistently lower than in any other province, not excluding the Maritimes. This agrarian fact about Saskatchewan is fundamental to an understanding of why its telecommunications policy initially took the form it did, and why it continues today to be unique.

#### The Political Geography of Cross-subsidization

Saskatchewan, primarily dependent economically on agriculture, was chronically short of capital. By planning a system which was substantially to be financed on a "do-it-yourself" mutual basis by cooperating farmers the Government brought the capital cost of the Government system within tolerable limits. If the annual cost of maintenance and operation would be lower under the system adopted than if the whole telephone plant in the province were operated by the Government -- and

this too was clearly the fact -- it was because farmers would get the work done cheaper and would be more accepting of inferior service standards, knowing that what they got in the way of service was their own responsibility. That the wage labour force would be deprived of work or work at lower wage standards than if employed by the provincial government telephone administration mattered not at all to the farmers any more than they would feel it unfair that they should have the benefits of telephone technology while the native peoples did not. The genius of the 1913 Rural Telephone Act lay in two of its features: (1) laying the taxes to repay the debentures on those who benefitted from the service, even if they were absentee owners, and (2) obtaining the capital from mostly out-of-province sources without having the credit of the municipalities or the province pledged for redemption and interest. Up to 1946, more than \$17,500,000 had been raised on these debentures, of which some \$16 million had been repaid. In contrast, the total investment by companies under the 1908 Act was only \$778,000.<sup>39</sup>

The decentralization built into the Saskatchewan telecommunications structure was flexible for expansion or contraction. In the period, 1910 to 1930 (when the number of telephones in the province reached its peak to date), the number of telephones subscribing to government exchanges expanded 12 times, while the number of other telephones in the province expanded 34 times. Conversely, from 1930 to 1933 the decline in number of government exchange telephones was 23 per cent, while the decline in the extensive fringe of other telephones was 40 per cent.<sup>40</sup>

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<sup>39</sup> Warren, W. F., Report on Rural Telephone Service in Saskatchewan. June 12, 1946. Provincial Archives.

<sup>40</sup> Government Exchange Stations: 1910, 3,412; 1930, 41,959; 1933, 32,286. Provincial total, all stations: 1910, 5,710; 1930, 116,385; 1933, 77,130. Data from Britnell, sup. cit., p. (x).

And in an area accustomed to the vagaries of dry farming, such flexibility optimized resource utilization.

Under the more centralized systems in Manitoba and Alberta such flexibility was minimal. In 1929, at the peak of extensive telephone development just prior to the dustbowl and depression period, Government exchange subscribers numbered 48 percent of all telephone subscribers in Saskatchewan, while in Manitoba and Alberta the comparable proportions were 82 and 65 percent, respectively.

Cross-subsidization is an inexorable fact of life in industries of high overhead cost. We noticed above that Francis Dagger as early as 1908 was arguing that a comprehensive government-operated telephone network of exchanges would entail cross-subsidization between cities. An important corollary of the principle of fiscal frugality which Saskatchewan employed in limiting its government-operated telephone system to the cities and towns is that by doing this it made any subsidies which might be advanced to help the rural telephone system more visible and less automatically forthcoming. A report on "Rural Telephone Service in Saskatchewan", by W. H. Warren, Deputy Minister of Telephones in 1946, says:

"Immediately prior to the commencement of rural construction in Manitoba, it had been freely stated by those who advocated Government ownership of rural lines, that the rate structure which could be applied would be ample to cover all operating, maintenance and overhead costs which would apply in connection with this branch of the telephone service. However, in practice this did not materialize and deficits were experienced in supplying the farmers with telephone service. This condition has continued up to the present time.

"The Manitoba Telephone System has been able to offset the loss sustained in the operation of their rural lines by the revenue received from the Winnipeg telephone exchange service, (for every rural telephone operated by the Manitoba Telephone System throughout the province, there are over four local exchange telephones in use in the city of Winnipeg). In addressing the United Farmers of Manitoba at their convention held at Dauphin in 1932, the Commissioner of the Manitoba Telephone System stated in part as follows:

'The Winnipeg branch of the system had a profit of approximately \$416,000.00 but we lost in the country \$410,000.00. We lost in the operation of every rural telephone \$25.71.'

"The rural telephone rate in effect during the year which was referred to in the Commissioner's address was \$30.00 per annum, so that it would appear that the cost of providing rural service in Manitoba was \$55.71 per subscriber. The rural telephone subscriber paid somewhat more than half the cost of providing the service.

"The Alberta Government adopted the policy of Government ownership of rural lines and an extensive program of rural line construction was proceeded with.

"It soon became apparent that the revenue derived from the rental rate which it was considered advisable to charge the subscribers fell considerably short of the revenue required to provide the service without loss. Operational experience disclosed the fact that a rental rate of between \$50.00 and \$60.00 per subscriber per annum would be required to operate the rural lines without loss.

"The Alberta Telephone System's experience in respect to the loss sustained in operating rural lines was identical with the experience gained by the Manitoba Telephone System but there was this difference to be reckoned with -- Alberta had a larger number of rural subscribers than Manitoba with a correspondingly larger operating loss and what was more important, they did not have a large metropolitan centre similar to Winnipeg from which an operating profit might be obtained to offset the loss sustained in operating rural lines.

"This operating loss continued from year to year until a large deficit had accumulated and the experience gained in operating rural lines caused the Government to decide to discontinue the ownership of rural lines.

"Having made this decision the Government decided that rural subscribers might form mutual companies and operate them in a manner somewhat similar to the rural companies in Saskatchewan. The Government notified their rural subscribers to this effect and the formation of rural telephone companies was proceeded with. The transference of ownership of rural lines to the newly formed mutual companies was commenced in 1933 and concluded in 1936. Today the Alberta Government Telephone System does not own rural telephone lines, but in place of its former ownership of these rural lines, there are 783 rural mutual telephone companies providing rural telephone service for 18,926 subscribers."<sup>41</sup>

What can happen invisibly within Manitoba Telephones by way of cross-subsidization of farm by urban users cannot happen that way in Saskatchewan. Mr. Warren's was only one of a number of studies done by SGT to analyze the problems of Saskatchewan rural telephones and consider means to alleviate them. At the time of that particular study, 1946, Warren said that the long period of drought and depression which reduced farmers' cash reserves to the vanishing point had had much to do with the poor condition of the rural companies' lines, but indifferent management had also had much to do with it. The Department of Telephones was being pressed to provide assistance to put their lines in order or to have SGT take them over. Assuming that an annual rate of only \$30.00 could be charged rural subscribers, he estimated that the annual operating loss due to the takeover of all the rural telephones would be \$1,560,000. An additional annual subsidy from the provincial treasury to reconstruct the rural lines of \$780,000 would be required for a ten year period. The

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<sup>41</sup> Report, in Provincial Archives.



total annual cost of the takeover would thus be \$2,340,000 for ten years and \$1,560,000 thereafter. Interestingly, he said that the surplus generated by SGT which could be applied against this subsidy would amount to about \$250,000 per annum. The cost of the takeover, in his opinion, would be insupportable. Instead he proposed a programme of technical assistance for the troubled rural telephone companies, including (1) rebuilding rural line railway crossings, (2) moving rural circuits to long distance pole leads where pole leads paralleled them, (3) renewal and rebuilding of rural telephone instruments for automatic service. The cost of this assistance programme, if staged over a 20-year period would decline from some \$672,000 annually for the first five years to some \$349,000 for the last ten years. He proposed that the "telephone department assistance" (i.e., SGT surplus) take care of some \$247,000 annually in the first five years, dropping off to \$49,000 in the last ten years, with the provincial treasury picking up the remainder.

The Warren report exemplifies how the Saskatchewan system handled problems of subsidy to unprofitable portions of the telecommunications system. It also raises questions as to how much subsidy is provided in Saskatchewan in such ways. To what extent does the rate-payer who patronizes SASKTEL support the unprofitable services? To what extent does the general taxpayer? It also opens up the basic question of whether the telephone users of profitable services in Saskatchewan bear the burden of technical innovation for the whole system, and whether the general taxpayer bears any portion of that cost? We return to this question later.

The Farmer-Bureaucrat Axis

The second category of explanation why the Saskatchewan telecommunications system is so tightly fused with the Government is the fact of the early implicit mutual assistance pact between the (predominantly rural) users of telephone service and the Liberal party, between the network of far-flung farmer telephone associations and the patronage cornucopia of the operation of the public telephone system by a Government department. And in making this compact remarkably effective and durable, the Government's control of information about what it was doing with telephones set a pattern of secrecy which still insulates a quite different mutual assistance pact (between whatever party is in power on the one hand, and an autonomous, industry-minded telephone bureaucracy on the other hand). Unfortunately the evidence at hand to support this proposition prior to 1930 is entirely circumstantial. It seems as if the nature of the continuing mutual assistance axis has been assumed by all concerned rather than consciously constructed. In appraising the evidence, it is necessary to eschew moralizing and remember that in the individualist ethic of the times, sharp practice and conflicts of interest were condoned, especially if they were unnoticed:

1. The Liberal Party, as the first Government party in Saskatchewan, had to build its own political machine in the province de novo, and the pace of development was so hectic from 1905 to 1929 that strong measures to this end were necessary. The machine was so well built that it lasted 24 years, more or less intact.

2. Of the available sources of patronage, the most promising was the telephone administration covering the province with strong public

demand for the service. The highway system, absent the mass development of the automobile for most of this period, offered no similar resources. And the political benefits derived from control of railways existed more at the federal than the provincial level.

3. The Party's chief "money man" who would also be the focus of the patronage system was typically also named as the Minister of Telephones in the crucial early years. Mr. J. A. Calder had been Minister of the Treasury when in 1908 he took on the Ministry of Railways, Telegraphs and Telephones, to hold the post until 1913. He was succeeded by Mr. G. A. Bell as the first Minister of Telephones; Mr. Bell had been Provincial Treasurer previously. In 1918, Mr. Bell moved laterally to the chairmanship of the Local Government Board and was succeeded by Mr. C. A. Dunning, as Minister of Telephones; Mr. Dunning had been Provincial Treasurer since October, 1916.

4. Co-incident with the decision to buy out Bell -- about February 1909 -- the Government moved to prevent municipalities from using the Act passed less than a year earlier, permitting them to acquire and operate telephone systems. It thus pre-empted the entire urban market for its own system. The first annual report of the Minister recommended "...that the Department build all towns instead of allowing them to be built by private companies or by the towns themselves."<sup>42</sup> The legislature limited the application of the Municipal Telephones Act of 1908 to the five municipalities which had managed to qualify under it by 1911 -- the last of them

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<sup>42</sup> Annual Report, 1909, p. 9.

was absorbed by SGT in 1955.<sup>43</sup> The reasons given for this widening of the scope of the government system (and patronage) are singularly unconvincing.<sup>44</sup>

5. The Government, using the plausible argument that the telephone was a commercial operation and that normal civil service and treasury regulations would be burdensome, relieved it of such obligations through a series of statutory amendments. The requirement of prior audit on expenditures was relaxed by the creation of a revolving advance account for purchase of supplies in 1911 (Stat. of Saskatchewan, 1910-11, Cap. 7). In 1912 telephone revenues were made a separate account and operating expenditures might be charged directly to it (Statutes of Saskatchewan,

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<sup>43</sup> Statutes of Saskatchewan, 1910-11, Cap. 23.

<sup>44</sup> "It might be well to consider the advisability of discontinuing this method of establishing telephone service. The existence of municipal town systems renders difficult the economical and convenient division of long-distance territory into districts. Were those systems operated and maintained by the Government more compact territory could be allotted to the care of a district inspector, which would mean less expense and insure better service. In the matter of supplying rural service the method provided for under the terms of The Rural Telephone Act appears to have captured the field. To continue the privilege of an alternative method by granting to rural municipalities authority to erect systems means the possibility of conflict. There is this further consideration that the rural systems seem better adapted to fit the working of the general provincial system." Annual Report, 1910, p. 14. And the ubiquitous Mr. G. A. Bell, in a speech to the Saskatchewan Rural Telephone Companies' Association in 1920 said, "He remembered when the Legislature enacted its first telephone measure and provided for a municipal system of telephones to be erected and operated by the municipalities. After some time it was found that this scheme was not likely to work out successfully because the boundaries of the municipalities did not conform to the trading centres.... Difficulties were foreshadowed and the project had to be abandoned." (P. 4, pamphlet in Provincial Archives.)

1912-13, Cap. 1). A commercial system of accounts was authorized for the Department in 1917 (Statutes of Saskatchewan, 1917, Cap. 34). And the Government permitted the Department to accumulate certain internal funds (Statutes of Saskatchewan, 1910-11, Cap. 7, and 1918-19, Cap. 10). As Mr. Calder explained the 1911 amendments their purpose was to place the Department on a "purely business basis" and to ensure that there would be "no politics in the thing whatever."<sup>45</sup> In 1919 the Minister was authorized to hire and fire employees outside the civil service regulations (Statutes of Saskatchewan 1918-19, Cap. 10). The telephone administration was on its way to both "autonomy" and patronage.

6. The telephone programme was large, expensive, and rapidly accomplished. In the 11 years from the start of the Government programme in 1908 to 1919, the Government spent some \$7,500,000 on capital account of which \$350,000 was for free poles for the rural companies. In the six years, 1913-1919, some \$8,267,000 was raised from debentures, and spent. No reliable estimate of the amount spent by consumers of telephone service for the period is available. On the physical level of the Government system, 4,249 miles of long distance pole line and 220 exchanges were built, 18 exchanges were purchased, and the number of exchange subscribers increased nearly 8 times to 24,000. Some 1,065 rural telephone companies had built plant with 39,459 pole line miles providing service to 41,477 rural customers. It was a spectacular achievement in development and perhaps an equally successful source of patronage.

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<sup>45</sup> The Morning Leader, March 9, 1912, p. 5.

7. Some more direct evidence. In 1916, "wholesale charges of corruption and bribery preferred by the Conservative Opposition"<sup>46</sup> brought three Royal Commissions to investigate them and resulted in the expulsion from the Legislature and criminal convictions of several Government supporters. The Conservative, J. E. Bradshaw, in moving for a Royal Commission of investigation, said regarding the Department of Telephones:

"That certain officials of the department have connived with other persons to defraud the public by means of excessive prices on contracts for purchase of supplies for wiring and installation and have been guilty of conniving at a participation in graft;

"That the Honourable George Bell (Minister of Telephones) is directly or indirectly interested in a company or companies having large dealings with the Department of Telephones;

"That the said company or companies have taken advantage of such connection with the Honourable George Bell to put pressure on rural telephone companies to buy supplies, secure guarantee of bonds, and have installation work done by such favoured companies."<sup>47</sup>

On February 7, 1916, in the question period in the Legislature the charge was made that Mr. S. P. Porter, who had been a Liberal organizer and held the post of Deputy Minister of Telephones from 1908 to 1912, had bought a certain plot of land in Swift Current for \$22,000 and that shortly thereafter the Government bought the land from Porter to build an exchange on it for \$30,000. The Government named Sir Frederick Haultain, Chief Justice of Saskatchewan and two other justices to investigate these and

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<sup>46</sup> Britnell, sup. cit., p. 100.

<sup>47</sup> Journals of the Legislative Assembly of Saskatchewan, 1916, pp. 157-8. Quoted in Britnell, sup. cit., p. 100a.

charges of mismanagement of an asylum and jail. The justices were not relieved of their court duties and before the Royal Commission made any report it was dismissed, 21 months later. Investigative reports in the Provincial Archives, while fragmentary, seem to support the charges of corruption.

In 1929 the long Liberal Government rule ended and a Conservative Government employed the firm of O. J. Godfrey & Co., Certified Public Accountants, to study the affairs of the Telephone Department. Regarding rural telephone companies, the Godfrey report concluded that their accounting was generally poor; that some companies made no reports to the Department; that some 4,000 quarter-sections had been exempted from taxation to service the debentures, while another 2,000 quarter-sections were taxed without being gazetted; that 374 secretary-treasurers were not bonded; that many instances were found of mismanagement and of funds not accounted for.<sup>48</sup> An example of the exchange of favours by the Department and rural telephone companies is suggested by the comment of the Godfrey report on the North Forres Company:

"Special reference is necessary in the matter of the North Forres Company, which we understand is the largest in the Province. No statements for 1926 or 1927 could not be found....Many letters expressing dissatisfaction were found, one from the Secretary of the Rural Municipality of Keebleville, written February 2nd, 1926 at the instance of a large number of subscribers, asked that the Company be allowed to become insolvent, or that the Department take over the Company. This letter also states that many of the names on the original petition were forged, and that the same was true at a later date, when extensions were planned. This company has been in default consistently, and as some taxable lands have been abandoned, the burden on the other lands has become heavier.

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<sup>48</sup> Spafford, D. S., sup. cit., p. 48.

"On April 15th, 1929, a large portion of the trunk lines of this company were damaged by storm. Officials appealed to the Department for financial help in rebuilding those lines. On June 12th, on recommendation of the Minister dated June 1st, authority was given the Department to rebuild at an estimated cost of \$15,000. A contract was let for \$19,450. We have been unable to find precedent for this action, and have submitted the matter for opinion to the Attorney General, as we consider it of extreme importance."<sup>49</sup>

The Provincial Archives also contain affidavits alleging pay-offs from contractors to inspectors to pass shoddy construction and from pole suppliers to Department officers and inspectors to pass sub-standard poles in the period 1908-1910, and wire-tapping and burning of files at the time of the 1929 general election.

8. Control of information about telephone administration was in the hands of the Government Department and the policy was to obscure what was happening. The annual reports of the Department were superficial and sloppy (pole mileage planned was treated as built, etc.). The accounts were in serious violation of then-current accounting principles. The Godfrey report (1929, sup. cit.) said:

"There are no satisfactory records in the Department prior to 1913..." (p. 17)

"In the past it has been impossible to ascertain whether profit was made or not from the public accounts." (p. 5)

"Commercial practice provides for the charging of depreciation as an operating expense. No rates of depreciation have ever been established, the custom being to treat the year's surplus as depreciation." (p. 10)

"No depreciation reserve has ever been taken", [despite a Treasury Board ruling that such be done, April 25, 1923]. (p. 10)

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<sup>49</sup> Interim Report, O. J. Godfrey & Co., November 6, 1929. Provincial Archives.



According to the Godfrey report there were no accountants in the Department prior to 1913. In that year a competent accountant was employed but his advice substantially ignored down to 1929. In 1934, Professor Britnell found it impossible to get information from the Department beyond the confusing public reports:

"It appears impossible to get any really adequate picture of the Saskatchewan Government Telephone System as an operating utility since the telephone accounts in addition to being more hopelessly confused and inadequate than those of Manitoba or Alberta have ever been have continued down to the present day [1934] to illustrate what Professor Mavor would have described as 'a total lack of the elementary principles of commercial accounting'. In addition -- though perhaps in view of the state of the accounts, quite naturally -- any request for enlightenment on the financial working of the system meets with an invariable and dogged refusal."<sup>50</sup>

At some time in the past 40 years the Department seems to have installed an adequate accounting system. Our experience in the present study suggests that the policy of secrecy, established in the first two decades of Government operation of telephones in Saskatchewan, continues to be practiced as far as concerns queries from "outside". It is assumed in this report that the early "corruption" and arbitrary handling of accounting information long since ceased and that SGT and later SASKTEL have been no more or less subject to such practices than large privately owned enterprises.

How is one to interpret the obscurantist information policy of the Liberal administration of the Department in the formative period, 1908-1929? Was it a case of populists incompetent in business affairs

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<sup>50</sup> Britnell, sup. cit., p. 90.

"playing at keeping store"? I doubt it. The Scott and later Liberal Governments were led by astute businessmen quite familiar with the uses of accountancy. If innocent incompetence be ruled out it seems that the information policy followed was deliberate and knowingly obscurantist. If this comes close to explaining the deficiencies in accounting and public reporting, it also indicates a skilfull use (or misuse) of information to screen from prying eyes the actual operation of a mutual aid compact between farmers organized in the Liberal Party on the one hand and departmental employees. The latter element, in this view, sought security and advancement. In the first 20 years their security may have taken the form of personal profit by sharp or illegal practices. Increasingly, as the current ethic of political morality tightened, their security would have taken the form of job-security and satisfactory terms of employment. In both the early and later period, staff security seemed to require freedom from prying eyes. "Autonomy" is the current term for such freedom. Which brings us to the next and last section of this report, concerning the autonomous character of SGT and SASKTEL.

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Toward the "Self-regulating", "One Stockholder", "Autonomous" Telephone  
"Industry"

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The fiscal policy for telephones was set in vague terms by the Scott government in 1908-13. The whole telephone policy had two parameters: It should permit rapid, flexible growth of the system, and it should be financially self-sustaining. Self reliance was the basis of both the rural and urban segments of the programme. The clearest expression came from a Government spokesman in legislative debate when he said that the Government system "should be self-supporting." The Government "didn't believe in the Government giving every man everything he chose to ask for whether in the city or the country." Rather it "believed in helping people to help themselves."<sup>51</sup> In a speech to the Rural Telephone Association in 1920, the then Minister of Telephones said that the Government was "obliged...to make the Department's system pay its way". His next sentence revealed the agrarian bias.

"The Government had no intention of taking a dollar out of the taxpayers to provide others with telephones because they would be charging the people least able to pay."<sup>52</sup>

This service at cost policy prevailed from 1908 to 1930.<sup>53</sup> In the

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<sup>51</sup> Langley, George, The Morning Leader, February 14, 1911, p. 5, quoted in Spafford, sup. cit., p. 34.

<sup>52</sup> Address by the Hon. W. E. Knowles at the Annual Convention of the Saskatchewan Rural Telephone Companies' Association, Regina, July 7, 1920, p. 3. Pamphlet in Provincial Archives.

<sup>53</sup> A minor qualification is the fact that the budget of the Rural Telephone Branch of the Department of Telephones was raised by the civil vote (rather than being supported by telephone revenues) from 1908 to 1927. The burden thus imposed on the taxpayers was comparatively modest.

next 13 years, it was modified only by superimposing on current costs the discharge of the accumulated deficit which had been disclosed by the Godfrey investigation under the Conservative Anderson Government in 1930.

Under the C.C.F. Government of T. C. Douglas beginning in 1944, the public telephone system provided profits to the Government, later taking the form of "dividends". The accounting procedures evolved slowly. For ideological reasons the distinction between premeditated "profits" and unanticipated surpluses was maintained, and the latter tended to find their way into a "special depreciation fund" and a reserve for "postwar contingencies" (1944 to 1947). Beginning in 1947, S.G.T., then organized as a crown corporation, transferred most of its net revenue to a reserve for capital expenditures. In 1948, the Opposition asked whether the service-at-cost principle was being abandoned. Mr. Douglas replied that the Government had

"...worked out a plan for industrial development over a period of years, and...for the next number of years, the amount of money that will be ploughed back into expanding the Telephone and Power system of this province will be far in excess of any revenue which we expect to get from it."<sup>54</sup>

In 1957, the crown corporation began declaring annual "dividends" to the Province. Such dividends go into the general tax revenue flow and are not earmarked for telephone purposes. From 1957 to 1964 these "dividends" equalled the net income, amounting in 1964 to \$4.7 million. Beginning in 1965 the "dividend" amounted to about half of the net income, the other half going to "Retained Earnings". When "dividends" began, so

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<sup>54</sup> Saskatchewan Legislature, Debates and Proceedings, Vol. 1, 1948, No. 24, p. 14. Quoted in Spafford, sup. cit., p. 97.

also did the corporation begin making sizeable "grants to municipalities in lieu of taxes on its property". These grants, calculated at the going mill rates in the municipalities, amounted in 1973 to \$689,000.

The service-at-a-profit policy adopted after World War II reflects the way in which the telephone administration and the C.C.F. Government of T. C. Douglas and Woodrow Lloyd (1944-1964) responded to the post-war possibilities of growth in Saskatchewan. In the event, the growth in size, power and "autonomy" of the telephone administration since 1944 has been very rapid. The original cost less depreciation of its telecommunications plant rose from about \$7.3 million in 1945 to \$192.4 million at the end of 1973 -- an average increase over 39 years of \$4.7 million per annum. The capital for this plant expansion came from two sources: Retained earnings and debt. The explicit policy of the C.C.F. Government from 1944 to 1964 was to regard the telephone enterprise and SASK POWER as "simply universal cooperatives" operated "cooperatively on the basis of service at cost" with the understanding that "any surpluses will be used to extend the facilities to an ever greater number of people."<sup>55</sup> In planning its fiscal affairs as in planning its service, rate and other policies, SGT-SASKTEL has come to be guided by the practice of the Canadian telephone industry, led by Bell Telephone of Canada. As early as 1960 and possibly much earlier, the objective of SGT was to earn a rate of return "at least as high as the current effective annual rate of interest on borrowed money."<sup>56</sup> Planned profits had succeeded fortuitous or

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<sup>55</sup> Saskatchewan Legislature, Debates and Proceedings, Vol. 7, 1954, No. 5, p. 11.

<sup>56</sup> Spafford, sup. cit., p. 114.

residual profits.

What has been the relationship of the Provincial Government to the public telephone system in financial terms? The Saskatchewan Government telephone system is unique among the prairie provinces in that while the people of Saskatchewan "own" it, their Government made no investment of equity capital in it. What the people own by way of a telephone system they did not pay for through taxes. In Alberta and Manitoba the Governments advanced "permanent investment of the Province, not subject to repayment...."<sup>57</sup> The fiscal relationship of the Saskatchewan Government to its public telephone system from its inception to the present has been that of a banker, making cash advances repayable from telephone earnings, underwriting bond issues for large amounts of long-term loan capital, and receiving profits from the telephone system. The post-World War II expansion programme, however, could not be totally financed out of retained earnings and Government borrowing, although those remain the principal fiscal tools. The failure of the Government Finance Office -- an attempt by the C.C.F. Government in 1947 to curb the tendencies of the crown corporations to operate autonomously through putting them under what was in effect a holding company device -- resulted from the pressures of the loan capital market. And when SGT and SASKPOWER were given back their autonomous status in 1953 and 1950 respectively, they were given separate borrowing powers to issue bonds on the security of their corporate assets. The public telephone system made use of this privilege when it borrowed on a \$15 million line of credit in 1967.

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<sup>57</sup> Godfrey report, sup. cit., p. 5, quoted in Spafford, sup. cit., p. 94.

A showing of profitability was required by the capital market as a precondition for making the large loans which the expansion of the telephone plant began to require in the 1950's and 1960's. Two general rate increases were a consequence. SGT said in its annual report for 1960 that a recent increase in rates

"...will ensure the Corporation's ability to maintain a satisfactory level of earnings in the face of rising costs. It will also help ensure the ability of the Province to continue to borrow the sizeable funds required by the Corporation to finance needed expansion and improvement of service."<sup>58</sup>

And a former Budget Director and Deputy Treasurer intimates that it was primarily the attitude of the banking community which forced the Government to scuttle the Government Finance Office:

"These institutions, by tradition conservative, were accustomed, in matters of provincial finance, to dealing with traditional treasury agencies within the normal framework of departmentalized government. Recovering slowly from their original suspicions of this 'socialist' regime, these institutions were not easily reconciled to the new instrument of financial control, the Government Finance Office....The Government was undoubtedly left with the awkward alternatives of conforming to the standard pattern of provincial organization and easing the way for large scale borrowings, or conforming to its own best judgment in administrative matters thus making its financial problems the more difficult."<sup>59</sup>

The episode of the Government Finance Office apparently involved a serious internal conflict on ideological grounds within the C.C.F. Government which turned on the issue of fiscal policy for the crown corporations, and consideration of it takes us directly into the question of the "autonomy"

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<sup>58</sup> Saskatchewan Government Telephones, Report for the year ended December 31, 1960.

<sup>59</sup> McLeod, T. H., Public Enterprise in Saskatchewan: The Development of Public Policy and Administrative Controls, Harvard University, 1959, p. 136. Quoted in Spafford, sup. cit., p. 80.

of the public telephone system. Under the Liberal regime which founded it, the tendency toward identification of the telephone operation with private business was inevitable, given its own private-enterprise bias and its reluctance to embrace public ownership of the provincial telephone system. As Mr. Calder said in 1911, the public telephone system was on "a purely business basis". And when the party machine uses of the telephone department surfaced unpleasantly in the scandals of 1916 and later in 1929, the reforms were in the direction of operating in a private-business-like manner.

Within the loose guidelines set by the Scott Government: Rapid growth and financial solvency, the administration of the Saskatchewan public telephone system seized the possibilities of industrial autonomy. These tendencies were enhanced as the department gradually freed itself from partisan political identification beginning in the 1930's and inevitably asserted the mystique of its technical professional expertise. As Spafford says:

"The principal characteristics of the government system are not the product of conscious government policy but rather derive from the industry at large. Its rate structure was originally adapted from the Bell company. In technology and business practice the system is guided by the industry. The system's natural predisposition to take its cues from the industry has militated against close cabinet control." 60

When the TransCanada Telephone System was established in the 1930's, the public telephone system of Saskatchewan as a member of TCTS became

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60 Spafford, sup. cit., p. 123.



linked through its practices and organization with the other constituent organizations, most influential of which has been the Bell Telephone Company of Canada. In addition, the Saskatchewan system has been subject to the influence of the Bell System in both Canada and the United States through taking advantage of the Bell "service contract" under which technical, commercial, government relations, and public relations advice is dispensed from Bell headquarters. Conspicuous is the effect on the Saskatchewan system of such industry practice in relation to the division of toll revenues received through TCTS. Initially, the basis of such toll division was system mileage traversed by the message, supplemented by an allowance for initiating the toll connection. Progressively this basis was superseded by division on the basis of operating and capital costs of providing the toll service. In respect to operating costs, the Saskatchewan system's share of toll revenues suffered as a result of the fact that it was not subject to taxes. The payments to municipalities in lieu of taxes, begun in 1957, were a direct response to this pressure. Similarly, the practice of paying "dividends" to the Province was caused by the need to emulate the Bell System which charged its dividends as part of capital cost for purposes of toll revenue division. In an interview in 1959, the Minister of Telephones explained it:

"As a member of the TransCanada Telephone System we recover all our costs incurred in helping to provide Trans-Canada long distance service. After all members of the Trans-Canada system have recovered their costs, the surplus or deficit is distributed to each of the members of Trans-Canada on the basis of their investment in the Trans-Canada system.

"At the time of the agreement to this method of settlement, Saskatchewan Government Telephones adopted the policy of paying an annual dividend (i.e. the annual surplus) to owners of the corporation, the Province of Saskatchewan. This increases our reported expenses and makes our costs more comparable to the private member companies, consequently our share of Trans-Canada revenues has been increased by more than \$100,000 annually which in turn assists the revenues of the province, for which we make no apologies."<sup>61</sup>

The tight relationship between SASKTEL and TCTS, dominated by Bell of Canada has less obvious but equally real consequences, most interesting of which is the Averch-Johnson effect. Bell of Canada is regulated as to rates by federal authority on the basis of system-wide averaging of revenues and costs for all classes of service with a system-wide allowance for cost of capital. It is accepted by economists that as stated by Averch-Johnson, under such conditions as the regulated company has a positive incentive to invest in plant and equipment which otherwise would be uneconomic investments.<sup>62</sup> But because such uneconomic investments are sure to earn the allowed rate of return, they are made and result either in redundancy of assets, or in predatory expansionist strategies in peripheral markets, or both. Obviously, Bell of Canada benefits from the increased share in division of toll revenues which accrue from Averch-Johnson type investment. The effect of this on the Saskatchewan public telephone system is to (1) deprive it of toll revenues it would be entitled to if the Bell Company were adequately regulated, absent Averch-Johnson practice by the Bell

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<sup>61</sup> Saskatoon Star-Phoenix, Oct. 7, 1960, pp. 2-3. Quoted by Spafford, sup. cit., p. 103.

<sup>62</sup> Averch, Harvey, and Johnson, Leland L., "Behaviour and the Firm Under Regulatory Constraint", American Economic Review, Vol. 52, December, 1962, pp. 1052-69.

company, (2) force it to imitate the Bell company investment practice in self-defense, or (3) a combination of (1) and (2). Any one of these three outcomes would seem undesirable for a public telephone system.

Is SASKTEL regulated? If so, by whom? Throughout its history the senior executive of the public telephone system in Saskatchewan has been the Minister of Telephones. In its crown corporation garb, SASKTEL's Chairman is the Minister, and its General Manager doubles as Deputy Minister of Telephones. There is no body of expertise available to the Minister or to Cabinet, or to the Legislature except that provided by SASKTEL. Under such circumstances, it would be surprising if a Minister or Cabinet could have available for consideration when major policy issues are at stake any interpretation of what is possible or desirable in the state of the somewhat esoteric art of telephony as an alternative to that provided by the officers of SASKTEL. Indeed, lacking any on-going procedure for "regulating" rates and service of the sort commonly employed regarding privately owned public utilities, members of the Government and of the Legislature can have no effective desire to "regulate" SASKTEL in that sense. It is probable, however, that in justifying some of its major proposals for service and rates, SASKTEL refers to experience in other jurisdictions -- including those where privately owned companies are under "regulation".

It appears that conservative ideological tendencies in the Government and in the public telephone system have frustrated attempts to make the telephone administration less "autonomous". As early as 1930 a former Minister of Telephones remarked that

"Departmental officials are inclined to be rather restive under legislative and Treasury Board restrictions and regulations and possibly inclined in some cases to neglect them."<sup>63</sup>

The C.C.F. administration made it clear from the start that it intended to enforce government policy on what had been semi-autonomous agencies of government. As Blakeney said,

"The government did not stumble into government enterprise, all the while protesting its distaste for the whole procedure, as happened in most other Canadian jurisdictions. The establishment of Crown corporations was a major plank in the C.C.F. party's political program....The electorate clearly held the Cabinet responsible for virtually all acts of Crown corporations. The degree of independence given to the corporations was that which was considered by the Cabinet as likely to give the responsible minister the best opportunity to administer the operation efficiently under his personal direction."<sup>64</sup>

When the legislation to establish Saskatchewan Government Telephones as a Crown corporation, and to place it under the holding company, the Government Finance Office, was debated in 1947, according to McLeod,

"What does not appear to have been mentioned in debate but what must have been quite firmly established in the government's thinking, was the desirability in view of its policies and concepts of centralized planning and coordination, of bringing these two highly 'separatist' organizations [the telephone and power systems] back into the fold of general governmental administration."<sup>65</sup>

Between 1947 and 1953, when SGT was restored its "autonomy" there took place a struggle within the C.C.F. and between the SGT and SASK POWER and the government between "conservatives" and "progressives". The

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63 Saskatchewan Legislature, Sessional Papers, 1930, p. 535. Quoted in Spafford, sup. cit., p. 77.

64 Blakeney, A. E., "Saskatchewan's Crown Corporations: A Case Study," Proceedings of the Institute of Public Administration of Canada, 1953, pp. 419-20.

65 McLeod, sup. cit., p. 132.

former favoured corporate autonomy, reliance on the capital market for loan capital, and separate borrowing by the corporations. The latter favoured centralized control of the crown corporations, reliance on equity capital financing, and financing through the Government Finance Office.<sup>66</sup> In the event, the former won, as noted above.

If SASKTEL is neither "regulated" qua common carrier, nor an integrated instrument of government policy, what control or regulation is exercised by the Board of Directors, Minister, cabinet or legislature? As far as the eight members of the Board of Directors other than the Minister are concerned, there is no evidence that they have made independent "waves" of critical questions on policy matters. Ministerial influence, it seems, has been limited to "problems having an obvious political content", "have not been numerous and have almost always taken the form of delaying a particular action until a more propitious time, from the point of view of the party in power", and when it has been exercised it has been upon cabinet direction.<sup>67</sup> Questions by members of the legislature were numerous and pointed during the Scott Government when the public telephone system was being established and again when that system was placed under the Government Finance Office as a crown corporation. Mixed with questions concerning a range of crown corporations since 1945, the Select

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<sup>66</sup> Cadbury, G. W., "Public Enterprises in the Province of Saskatchewan", Hanson, A. H. (Ed.), Public Enterprise: A Study of its Organization and Management in Various Countries, Brussels, International Institute of Administrative Sciences, 1955, pp. 113-114, quoted in Spafford, sup. cit., p. 99.

<sup>67</sup> Blakeney, A. E., "Saskatchewan Crown Corporations", in Friedmann (Ed.), The Public Corporation: A Comparative Symposium, Toronto, Carswell, 1954, pp. 101, 106. Quoted in Spafford, sup. cit., pp. 85-6.

Committee on Crown Corporations (of the Legislature), has tended to be dominated by issues of a controversial character concerning new crown corporations. Examination concerning telephones, power and transportation

"...representing the largest relative public investment, usually follows a routine course involving no great expenditure of the available time."<sup>68</sup>

The extent of public participation in public telephone decision-making at the policy level in Saskatchewan appears to be limited to general, minimal and nominal matters. The role of the Government appears to be passive -- not vetoing as much as cushioning proposed actions by juggling the timing of them. There is no public ombudsman, nor any independent capability attached to the Minister or to Cabinet to provide an alternative source of information concerning the potentialities of telecommunications. The public telephone system monopolizes the flow of information and knowledge concerning telecommunications to its nominal masters -- the Government. In this sense SASKTEL is autonomous and self-regulating.

But "autonomy" means more than freedom from government and public review. It would be possible to imagine a public corporation which was autonomous not only in regard to government, but also in regard to the norms and values of ordinary private enterprises. Clearly, SASKTEL is not autonomous in this sense. Structurally, it conforms to the pattern of management-controlled private monopolies and oligopolies in North America: a quasi-military line and staff organization vests downward flowing authority in the senior officers. In regard to its norms and

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<sup>68</sup> Stephen, George, "Crown Corporation Procedure: The Saskatchewan Legislature's Practice," Journal of the Society of Clerks-at-the-Table in Empire Parliaments, London, Vol. XIX, 1950, p. 190. Quoted in Spafford, sup. cit., p. 90.

values, the system follows the example and advice it seeks and receives from privately owned telephone systems. Profit is the motive, not only of the whole enterprise, but of its employees.<sup>69</sup> The possibility that as a public telecommunications system, SASKTEL might generate unique telecommunications services independent of the public switched network service and independent of conventional leased line facilities, appropriate to the needs of the whole population of Saskatchewan (native peoples included), and develop them in the face of intra-industry criticism from the larger entities engaged in Canadian telecommunications appears so far from the minds of its controlling management as to be fanciful. The intent of the closing advice which Mr. F. Dagger, the telephone expert employed by the Scott Government, gave, seems to have been unheeded:

"I believe it is very necessary for the success of the government operation of utilities that the official responsible for the carrying out of the work should, in addition to being a capable telephone man, be also a consistent, if not enthusiastic, believer in the principle of public ownership, otherwise he cannot be expected to accomplish the results anticipated by the people. There is no question that public ownership has many opponents, the chief of which are incorporated companies operating public utilities for personal profit and it very naturally follows that these companies train their officials accordingly."<sup>70</sup>

SASKTEL's "autonomy" then can hardly be termed "self-regulating" for it is effectively regulated by the privately owned telephone and financial

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<sup>69</sup> Spafford concluded that "even within the Corporation the showing of a profit is not uncommonly regarded as evidence of efficient operation or at the least a token recognition of one's labors." Sup. cit., p. 101. My own conclusions concur.

<sup>70</sup> Dagger, F., Report, March 25, 1908, pp. 17-18. Provincial Archives.

institutions in its national and continental environment. It is even vicariously "regulated" by the Board of Transport Commissioners in Ottawa and the Federal Communications Commission in Washington to the extent that it imitates Bell Telephone practices.

Finally, a little analysis of the sense in which SASKTEL is a public telephone system in strictly economic terms seems warranted. In the case of the ordinary private enterprise, the owners commit their equity capital and the customers contribute enterprise earnings sufficient to attract the owners to continue the enterprise. In the case of the public telephone system, the "owners" (the tax-paying population of the province) did not commit equity capital to the enterprise (although in Manitoba and Alberta they did). Instead the capital required for plant, innovation and extension of service had to be generated and accumulated as surplus (over operating expenses including the cost of loan capital advanced by the Province). This surplus was contributed by the Saskatchewan users of the classes of telephone services which have more than covered their fully allocated costs. (I use the term fully allocated costs theoretically for it does not appear that a fully allocated cost study has ever been done in Saskatchewan history. The public telephone system has imitated the Bell Telephone practice of system-wide averaging of costs and revenues.) What the Godfrey report in 1929 predicted came to pass:

"The present system would, if carried to completion, result in Telephone users buying their own system and handing the same over to all the citizens of the Province as a free gift."<sup>71</sup>

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<sup>71</sup> Godfrey Report, sup. cit., p. 14.



Of course the users of rural telephone service in Saskatchewan have been subsidized in many ways from the surplus accumulated from the urban market. It follows then that the urban telephone users have paid not only for the plant and operating expenses necessary to serve themselves, but also to subsidize the rural portion of the system. And following the inception of the practice of paying "dividends" to the Province, the urban users of telephone have borne this additional contribution to the pool of tax revenues raised by the Province.

If, as seems true, the service and rate standards for telephone in Saskatchewan compare favourably with that which might be provided by privately owned enterprises, then in effect the Saskatchewan scheme has (1) provided telephone service at less cost than would private companies by the margin of dividends not paid to private owners plus the value of the existing plant owned by the general public, not private owners, (2) generated surpluses from the urban market with which to establish and maintain a spreading rural telephone service, (3) made a free gift to the taxpayers of the whole plant and organization at the expense of the urban telephone users, and (4) become a significant source of "dividend" revenue to the Province. The original agrarian bias which informed the Scott government policy has been continued to the present and fundamentally distinguishes the Saskatchewan telecommunications system from those of its neighbouring Provinces. That in the fullness of time, the organization which came to control the telecommunications system in Saskatchewan is substantially and effectively irresponsible to the telephone users and the population of the Province but instead is

assimilated to the pattern of management-directed monopoly capitalism is also a familiar result of agrarian "socialism" in the North American context.

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