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The Canadian Pacific Railway and Its Capitalization

(A Sequel to "The Burden of Railway Rates")

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FOREWORD

When, in August last, the Canadian Pacific Railway Company made application to the Governor-in-Council for permission to increase its capital stock, the Free Press, for the information of the public, prepared a series of articles dealing with the Company and its capitalization, anticipating that the Company's application would be considered by the Dominion Government. Hitherto every increase of the common stock of the Company has been made with the permission of the Government, following an application for such authority from the Company. The Company, however, at its annual meeting in the beginning of October, decided to issue \$60,000,000 of new common stock without seeking, as it has hitherto done, the permission of the Dominion Government. It claims authority for following this procedure under an Act of 1892, which is interpreted by the Canadian Pacific counsel as authorizing the Company to substitute common for debenture stock. The Company is authorized by the Act of 1892 to issue debenture stock for specific purposes. If the Company's interpretation of this Act is correct then there is practically no public regulation of its capitalization. Debenture stock can be issued for a variety of purposes, and for which common stock can be substituted at any time. The question, therefore, arises, and it is a very important one, as to whether Parliament should not take action to restrain the Company from issuing any stock without its authority. Upon the capitalization of the Company and its regulation the question of fair and unburdensome transportation tolls hinges. If the public do not control the capitalization of the transportation system of the Company it cannot control rates.

The articles, which appeared in the Free Press respecting the Company's capitalization, are herewith reprinted, thus making them accessible for public information in a handier form.

Winnipeg, October. 1912.

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The Canadian Pacific and Its Capitalization

ARTICLE I.

The Company's Gigantic Earnings and Surpluses

(Winnipeg Free Press, Sept., 10, 1912.)

Application has been made to the Dominion Government for authorization to increase the common stock of the C.P.R. from \$200,000,000 to \$260,000,000. As the cost of the services to the public given by railroad corporations is based first, on cost of operation, and secondly, on dividends paid, it is of the first importance that the amount of capital created should be kept down to a minimum consistent with efficiency, and that the dividends should be reasonable. The Free Press purposes, in a series of articles, discussing the share of the profits of the company paid to shareholders, and other profits in the form of melons which have diverted money into their pockets, which might have been applied to the provision of much-needed railway facilities.

The company was entrusted in 1881 with an important public function. Whether it has been as faithful to the people in the execution of that trust as it has been to its shareholders is a question that needs full discussion before it is permitted to increase its capital. There are good grounds for the belief that the company has, from the beginning of its career to the present time, exploited its trust for the benefit of its shareholders. Facts will be presented showing that at no period of the company's existence have the shareholders received less than ten per cent. on the actual money paid in

as capital, and that the original promoters did not risk a cent in the undertaking.

Very naturally the people of the Dominion before giving their consent to any enlargement of the capitalization of the Canadian Pacific Railway company will want to know in detail, specifically, why such an increase should be made. The time has passed when a railroad corporation, whose interests and those of the country are inextricably linked together, can look upon its business as being purely private. It is of anything but a private character. The operation of a railroad is a state function. In only a very limited number of the countries of the world has this function been entrusted, subject to regulation, to private companies. Canada is one of them.

Railway Operation a State Function.

Even in Canada the private operation of railroads is being subjected annually to closer and more effective control. The institution of the railway commission is a step in that direction. So far the experience of the public with that body leaves a well defined impression that before it completely fulfils hopes with regard to its usefulness it will have to be clothed with further powers. Public opinion that led to its formation is gathering in strength. It will not rest until railways are required to give the services required of them at a fair cost, and with reasonable efficiency.

Capitalization and Freight Rates.

Before the Canadian Pacific can increase its capital it must get the consent to the government. At various times this company has had to go to

the government to get this consent, thus admitting the right of the public to determine whether or not its capital should be enlarged. This fact in itself sets aside any need for argument, as to the reality of the control which the government has the power to exercise in regulating the creation of capital stock of such corporations as that operating the Canadian Pacific Railway system. It is of the very highest importance that such control should be exercised, and exercised with the greatest possible care.

Railways and Local Discrimination.

Upon the capitalization of the railroad the question of the cost of public services rendered hinges. These services are a fundamental necessity to the well-being of the nation. They can make or mar its commerce, enhance or destroy prosperity of given districts or make settlement in any district either desirable or undesirable. Such powers would be extremely dangerous to the well-being of the community unless under strict control. They are fraught with consequences too important to be left to the caprice or cupidity of a corporation, exercising them for gain. For this reason the government has reserved for itself the right to control, and one of the most effective agencies through which control can be exercised is that of the regulation of the share capital or funded debts of corporations operating railways.

Company's Gigantic Earnings.

With the prospect ahead of Parliament having to consider an application for permission to increase the authorized capital of the C.P.R., the annual statement of that corporation, just made available to the public is of exceptional interest. From it, it is gathered that in the course of the year which ended June, 1912, the Canadian Pacific railway earned \$17,560,518 more than was necessary to take care of all the fixed charges, amounting to \$10,708,333, a dividend of 10 per cent on the common stock and 4 per cent on the preference. In addition out of the earnings of the company a sum of \$1,000,000 was placed in a fund for steamship replacement, and \$125,000 to pension fund. This surplus may seem large but it would be unfair to assume that it was exceptional in this respect without due regard to the vast extent of the company's property and the services it renders.

Legitimate Surplus.

From the general balance-sheet it is learned that the common stock outstanding amounts to \$180,000,000; preferred to \$66,695,097; consolidated 4 per cents amounting to \$153,823,706; mortgage bonds of \$33,548,633, and payments on account of new issue of common (\$18,000,000) amount to \$16,806,621, making an aggregate of \$455,974,057. So huge a sum represents a tremendous property. Its employment ought to yield a very substantial sum, and it would be provident not to retain in hand every year a considerable sum in excess of that required for reasonable dividends on the moneys borrowed, as well as the payment of fixed charges. The dividend out of the actual earning of the road paid was 7 per cent, and on the preferred, 4 per cent. As to the latter it is one of those securities of such undoubted merit as to command a ready market at more than par. Although bearing only 4 per cent interest, it is one of the most desirable preference stocks existing. In this respect it does not differ from other classes of the company's funded debt.

Comparison With Union Pacific.

After meeting all these charges on capital and funded debt, the surplus is \$17,560,518. In comparison with other railroad companies, this does not appear to be extremely large. The Union Pacific system in the United States has shown larger surpluses, but it would appear, however, from a cursory examination of the statements of the various railroads on the North American continent, that few of them occupy as fortunate a position as does the Canadian Pacific Railway company. The total assets of the Union Pacific amount to \$869,000,000, as compared with \$560,000,000 in the case of the Canadian Pacific railway. Both railways are in a similar position, as to probable future developments in the territory covered. Both will require to make huge capital expenditures in the near future. If one will have to do this to a greater extent than the other, possibly the bigger expenditure will have to be made by the Canadian Pacific railway. The latter road, however, has not reached that stage of development attained to by the Union Pacific; it is about a score of years behind it. If it has already entered the same class as the Union Pacific in the matter of actual cash surplus, what will it show 20 or 30 years hence, if its business expands at approximately the

same ratio as it has done during the past decade? It is more than probable that its business will keep on expanding as it has done, and it is quite probable that its cash surpluses will continue to swell as they have done during the periods of the west's recent expansion and development.

Recent Dividends and Surpluses.

For the past six years the surpluses together with the amount paid to the shareholders of the Canadian Pacific have been as follows:

	Dividends to Surplus Shareholders.	
1906-7	\$ 9,339,005	\$ 7,300,800
1907-8	5,579,715	8,517,600
1908-9	3,847,161	9,508,800
1909-10	13,896,616	10,500,000
1910-11	11,873,242	18,600,000
1911-12	17,560,518	18,000,000

The shareholders have in addition to receiving these dividends which aggregate \$72,427,200 received in the form of rights on new stock issued the sum of \$58,449,000. It is perhaps, incorrect to state that they actually received that figure, but they received rights with a market value, which would have netted that sum in cash.

It is quite evident from the above array of surpluses that the Canadian Pacific is doing a very profitable busi-

ness. It is also quite evident that with the steady growth of the country and its commerce capital expenditure on a large scale will be necessary for years to come.

The last statement to hand furnishes abundant evidence of the business health of the company; of its ability to pay with ease all obligations on its funded debt. It furnishes also abundant evidence of its ability to do well by its shareholders. Apart from traffic profits a substantial emolument is derived from special income from land and securities held and also from periodical hand-outs of rights on new stock issues that have netted the shareholders extraordinary profits. Under such circumstances it might be well, in the public interest, carefully to examine the record of the company as to its payments to shareholders, and also the record of the management from the standpoint of the services it has given to the public in return for the very extraordinary bonuses it has received to aid it in discharging a public trust.

In the succeeding articles this question will be discussed; and the next one will deal with the large profits shareholders have made out of various stock issues of recent years.

ARTICLE II.

Shareholders' "Rake-offs" from New Capital Issues

(Winnipeg Free Press, Sept. 11, 1912.)

If the application of the C.P.R. for an increase in its authorized capital is granted and the issue is made on terms proposed, that is \$175 per share, the profit to the holders of the 1,980,000 shares would be \$49,500,000. Since 1902 stockholders of the Company have actually received \$59,449,000 in the form of melons. This is entirely apart from what they have received in dividends. The article following, being the second of a series discussing the advisability of the Dominion Government authorizing additional capitalization for the Company, shows how much the "melons" have netted; what proportion of the

proceeds of new issues went into the road, and what proportion went into the pockets of the shareholders. It will be noted that new capitalization has been as lucrative to shareholders as it has been of advantage to the road.

We might here review briefly what shareholders in the Canadian Pacific railway have received in the way of "melons" during the past decade. Already a table of figures showing aggregate dividends received since 1906 has been given. We might now take a glance at the record of rights and their proceeds, received in addition to the dividends, before going back into the early history of the company, when the shareholders made extrac-

ordinary profits, fully equal to those of the last decade. An examination of the record of what they have received in the form of rights since the capital of the company was increased from \$65,000,000 to \$180,000,000 discloses results shown in a table accompanying this article. The quotations as to the price of the stock at the time new capital issues were announced were those of New York. The high and low price for the year during which the issues are made are given so the public can judge for itself whether the average on which the calculation is based is just or otherwise. The figures for 1912 it should be remembered, are estimated.

It is announced that permission will be asked to increase the capital from \$200,000,000 to \$260,000,000. Assuming that the value of the rights of the new stock will be \$15 a share on the basis of an issue price of \$175, the proposed new issue would put into the shareholders pockets \$29,700,000. This is an estimate and is added to show how proposed new capital issues hold the promise of a melon of very unusual and attractive proportions.

What the Proposed Melon Means.

If \$60,000,000 of new stock is issued it means that 600,000 shares will be emitted at a cost of \$175, which can be sold at \$250 at least. The present market value of the shares is \$275. But allowing for a decline of \$25, when the old stock sells ex-rights, \$250 may be safely assumed to be the lowest point the stock would reach. This would mean a net profit of \$75, accruing to a holder of three shares, or the one new share he would be entitled to. Anyone buying this right for \$75 would get a new share costing \$250, i.e., \$175 for the issue price and \$75 for the cost of the rights. The latter would, therefore, be worth \$25 each. To be on the safe side the price of rights in the table accompanying this article is set down at \$15 each. On this basis the rights would net existing shareholders, $1,980,000 \times \$15 = \$29,700,000$. Taking the \$25 as a basis the amount would be, $1,980,000 \times \$25 = \$49,500,000$.

Obviously Shareholders Fare Well.

It is quite apparent from the figures tabulated that the shareholders of the Canadian Pacific railway during the past decade have fared extremely well. It may be argued that although they fared well during the prosperous years of the present pros-

"Melon" Growing That Beats Wheat—C. P. R.'s Demonstration

	Increase of Capital	Price of Common Stock		Issue Price	Value of Rights		Average Price	Take-off
		High	Low		High	Low		
1902—\$ 65,000,000 to \$ 84,000,000	145 $\frac{1}{2}$	109 $\frac{1}{2}$	100	6 $\frac{1}{2}$	3	5	650,000 shares at 5	= \$ 3,250,000
1904— 84,500,000 to 101,400,000	135 $\frac{1}{2}$	110	100	6 $\frac{1}{2}$	5	5 $\frac{1}{2}$	845,000 shares at 5 $\frac{1}{2}$	= 4,647,000
1906—101,400,000 to 121,680,000	199 $\frac{1}{2}$	156	100	12 $\frac{1}{2}$	11 $\frac{1}{2}$	12	1,014,000 shares at 12	= 12,168,000
1908—121,680,000 to 146,016,000	180	141 $\frac{1}{2}$	100	9	6 $\frac{3}{8}$	8	1,216,800 shares at 8	= 9,734,400
1909—146,016,000 to 150,000,000	188 $\frac{3}{8}$	166	†160	...	...	...	...	...
1910—150,000,000 to 180,000,000	188 $\frac{3}{8}$	166	125	11 $\frac{1}{8}$	9	9 $\frac{1}{2}$	1,500,000 shares at 9 $\frac{1}{2}$	= 14,250,000
1911—180,000,000 to 198,000,000	247	195 $\frac{3}{8}$	150	8 $\frac{3}{8}$	8	8	1,800,000 shares at 8	= 14,400,000
1912—†198,000,000 to 250,000,000	233	226 $\frac{1}{2}$	175	15	15	15	1,980,000 shares at 15	= 29,700,000
								\$88,149,000

† In January, 1909, the directors sold in the market the stock in the treasury amounting to \$3,984,000 and by so doing a premium of \$2,294,779 was obtained. The stock was apparently sold at 160, or six points below, the lowest point at which the stock sold on the open market.

‡ This is an estimate on the basis of a prospective issue of \$60,000,000 at \$175, which would yield a take-off for shareholders of approximately \$30,000,000.

perous period, for many years they did not get an adequate return on the money, and that the larger dividends and the stock rights being given to them today compensate them for the losses and the risks they took in the past. Before arriving at any conclusion as to this, it is just as well to peruse the facts; and to find out all

the risks the early shareholders of the Canadian Pacific railway took, and how much they earned on the money they employed during the early years of the Canadian Pacific railway's career. To look into these facts is no mean task, and can be better dealt with by devoting a special chapter to the work.

ARTICLE III.

In Ten Years Shareholders Get Over \$150,000,000

(Winnipeg Free Press, Sept. 12, 1912.)

From 1902 to 1911 the shareholders of the Canadian Pacific received rights on new stock valued conservatively at \$59,449,000 and in addition, during the same period of ten years the dividends aggregated \$93,635,540, making a total of \$153,084,540, a sum approximately equal to the paid-up capital of the Company at the beginning of 1911. This gigantic sum is equivalent to an annual dividend on the paid-up capital from 1892 to 1912 of 11.10 per cent. Great as this earning rate is it is not equal to that of the preceding years of the Company's experience. To what extent the shareholders have exploited the system they operate is discussed in the article following, the third of a series dealing with the question of granting the C.P.R. permission to increase its capital.

It has been shown that since 1902 the shareholders of the Canadian Pacific railway received substantial sums from the earnings of the road, in addition to exceptionally large emoluments in the form of rights to subscribe for more stock. On a very conservative estimate as to the average market value of the rights they netted to the shareholders the sum of \$58,449,000. There can be no question as to the cash value of these rights. They were bought and sold in the open market, and cash could be had for them at the time. In the same period, that is, from 1902 to the end of the company's fiscal year in 1912, the aggregate amount paid in cash to the shareholders was \$93,635,540. How

substantial a percentage on the capital these figures, either those with respect to dividends or those with respect to rights, represent, may be better understood in terms showing the average earnings per cent. per annum.

Proceeds of High Financing.

On the face value of the stock the dividend from land sales and railway earnings from 1902 to 1912 inclusive, averaged 7 per cent. per annum. If you subtract from the capital the amount of water injected into it in the early years of the company's existence the average earning on the actual cash paid into the company's treasury would be slightly more.

If we add the amount paid in the form of premiums on new stock to the capital of the company, and add to the amount paid in the form of dividends, the value of the rights (\$58,449,000), it will be found that the average amount pocketed by the shareholders annually on each \$100 of Canadian Pacific stock, is \$11.10, or 11.10 per cent.

Dividends from 1885 to 1901, 12.9 per cent.

There are few businesses in the Dominion of a corporate character and enjoying public privileges to so large an extent showing a better record from a shareholder's standpoint. The figures given cover that period of the Canadian Pacific's history from the time it resuscitated, after a lapse of about twenty years, "high financing". From 1885 to 1901 there was no change in the amount of either nominal or paid-up capital of the road. It stood at \$65,000,000 nominally. Although dividends were paid on that sum, that is \$65,000,000, only \$29,493,-

000 of this amount was paid up in cash. From about 1883 to 1893, a period of ten years, a dividend of 3 per cent. per annum on \$65,000,000 was guaranteed to the shareholders by a deposit of a sum sufficient for that purpose with the Dominion government.

In addition to this dividend the director's added out of earnings 1 per cent. in 1885 and 2 per cent. in 1891 and 1892. Taking the whole period during which the capital remained at \$65,000,000, from 1885 to 1901, 17 years, the average rate of interest on the nominal capital was 4 per cent.

But it is important to remember that this does not represent the rate of interest upon the actual money that found its way into the treasury of the company. It is a simple matter to calculate just what that 4 per cent. per annum paid upon the \$65,000,000 as nominal capital represented upon the actual cash paid for it—\$29,493,000. Such a calculation will show the interest paid on the real money paid for the stock by the original shareholders to be 12.9 per cent.

Enormous Profits During Construction.

For the period ending 1884 inclusive to the beginning of the company's career in 1881 information respecting the dividends paid to the company is difficult to get. There are scraps, however, which indicate that the shareholders were by no means neglected during the infancy of their genuinely profitable enterprise. The contract of 1881 required that the company should have a paid-up capital of \$5,000,000. The amount originally authorized was \$25,000,000. No sooner, however, had the company got on its feet, or rather got its schemes under way, than an additional \$20,000,000 of stock was issued and for it only \$5,000,000 found its way into the company's treasury. Further stock was authorized and \$40,000,000 issued, netted the company \$19,493,000. The authentic information which is procurable as to the amount of dividends paid is in a statement made to the Dominion government in 1885 by the President of the Canadian Pacific at that time, Mr. Stephen, now Lord Mount Stephen. He stated that up to the end of 1884 the amount paid to the shareholders by the company in dividends was \$5,378,000. This is 21.2 per cent upon the actual cash paid in as capital up to the end of 1884, which according to Sir Charles Tupper, was \$25,356,828.

Doubt as to Extent of Early Dividends.

On December 12, 1882, Mr. Stephen stated that the company paid 5 per cent. on the capital during construction. The law permitted 6 per cent. Accepting, however, the statement of Mr. Stephen to the effect that \$5,378,000 was paid in the form of dividends up to the end of 1884, the return to the shareholders was very handsome. It certainly netted considerably more than the 5 per cent. on the actual cash employed. In the absence, however, of full information on that point, the meager statement made by Mr. Stephen as to the rate paid on capital during construction, and on his statement as to the amount paid up to the end of 1884, will have to be accepted.

For the period, however, from 1885 to 1902, when the capital of the company remained stationary, and from 1903 to 1912, when it was increased from \$65,000,000 to \$198,000,000, the returns to the shareholders have been abnormal.

Promoters' Profits.

From 1881 to 1884, the first four years of the company's existence—during which it would have been reasonable on an undertaking involving any risk, to have expected no dividend—the shareholders were paid by themselves in the form of dividends, upon actual cash paid on stock, the sum of \$5,378,000—or 21.2 per cent. In addition they were paid from the fund deposited with the government to guarantee 3 per cent. on the capital, \$65,000,000, the nominal amount covering water and cash—in 1884—a dividend of 3 per cent. for the year 1884. This amounts to \$659,564. Added to that paid direct by the company, a total is produced of \$6,037,564 in dividends for the period of 1881-1884—or 24.2 per cent. of the paid-up capital. During 1881 not more than \$5,000,000 was paid up. The company was incorporated in February of that year, and it is quite probable that the cash was not put up until some months later. In 1882 the second issue of stock was made at the rate of 25 cents on the dollar. The \$5,000,000 cash paid for the \$20,000,000 went into the treasury that year. During the first half of the period 1881-1884, not half the amount paid up at the end of 1884 was employed. It would, therefore, appear that even at this early date the shareholders of the company secured not less than 15 per cent. per annum on their money. No

conclusion as to any lesser rate can possibly be arrived at. What were the actual profits of the early promoters beyond those referred to is shrouded in mystery. Inquiries in parliament at the time for information on that point were never answered satisfactorily.

Dividends Out of Capital.

In the period of construction, when it was not expected that a dividend would be paid out of capital, facts show that the shareholders of the Canadian Pacific who made the contract with the government in 1881 paid themselves a dividend somewhere between fifteen and twenty per cent. In the next period during which the company is commonly supposed to have been hard-up the shareholders received upon the actual money paid in as capital stock a dividend at the rate of 12.9 per cent. This was the average of the period 1885 to 1901 inclusive. From 1902 to 1912 the shareholders have received \$11.10 per cent

upon the cash paid on capital stock account.

But these extraordinary dividends do not by any means cover all the profits made by the original holders of the stock, or those men who are very commonly, but very erroneously, supposed to have assumed great risks in building the Canadian Pacific. There may be a disposition to regard this way of looking at the achievements of the builders of the Canadian Pacific as "hind sight." At the time, however, that is when the contract with the government was under way, and constant applications were being made to parliament for aid, it was pointed out by many eminent Canadians that the shareholders of the company had a good thing—a sure thing—and something that has turned out to be just what they said it would be. But they objected strenuously to the liberality of the treatment accorded to shareholders who provided for themselves so liberally. Now they did so will furnish abundant material for another chapter.

ARTICLE IV.

Public Money Obtained to Build Canadian Pacific

(Winnipeg Free Press, Sept. 13, 1912.)

It is a common impression that the existence of the Canadian Pacific railway is due to "daring and adventurous financiers" who risked their money long before the road was believed to be a commercial possibility. Nothing is more erroneous. The Dominion was committed to the building of the road. It was one of the conditions agreed to by which British Columbia entered confederation. The first 713 miles of the road was built by the Government itself and the balance by the Canadian Pacific syndicate, financed by the Government. The syndicate's credit failed and frequent incursions were made by it on the cash and credit of the Government. Of the syndicate the most remarkable thing is that its first step, when its own credit failed, was to apply the money paid on stock

to securing a Government guarantee of dividends. After this was secured the Government was approached for a cash loan. They procured it, and other loans. How the syndicate was financed by the Government is dealt with in the following article, the fourth of a series dealing with the company and its request for permission to increase its capital:

From 1881 to 1884 the shareholders of the Canadian Pacific railway got in dividends alone over fifteen per cent. per annum on the money they invested; from 1885 to 1901 they got 12.9 per cent.; and from 1902 to 1912, 11.10 per cent. This record indicates extreme care and concern for the pockets of the shareholders. To properly appreciate this solicitude with respect to dividends it is necessary to review briefly the successful efforts made by

the company to have the terms of their contract varied, in consideration of completing the road earlier than called for. Each variation meant a substantial concession to the company. The latter agreed in 1881 to build the Canadian Pacific road in consideration of its receiving from the Dominion Government 25,000,000 acres of land, \$25,000,000 in cash and a gift of the government road, 713 miles in length, which cost \$35,000,000. On the security of the land grant the Government in addition guaranteed bonds to the extent of \$25,000,000. The proceeds of these bonds were paid to the company in agreed mileage proportions as construction progressed.

Exploiting Country's Credit.

In December, 1882 the balance of the proceeds of these bonds due to the company and that from the cash subsidy amounted to \$31,500,000. Sir George Stephen, on Dec. 12, of that year, writes: "It is believed that this sum with the proceeds of the capital stock remaining unissued (exclusive of \$10,000,000 which is to be reserved) will be sufficient for the complete construction and efficient equipment of the road, and that 1,800,000 acres of land will be more than sufficient to extinguish the outstanding \$2,700,000 of land grant bonds."

Fixing Dividend for Shareholders.

A year later, however, in Nov., 1883, the company wanted more money for construction purposes. With assets at their disposal of such proportions, the directors could not finance their requirements. The credit of the Dominion was, however, sound and to get the use of it, Sir Geo. Stephen proposed that stock up to \$65,000,000 be issued and that the Government guarantee on the whole of that amount, dividends at the rate of 3 per cent. In consideration of this being done it was proposed to hand over to the Government:

Cash down	\$8,561,733
Cash, Feb. 1, 1884	2,853,912
Cash in five years	4,427,000

\$15,842,645

Guaranteed Dividend, Then Borrowed From Government.

And, also, to deposit with the Government the remaining \$35,000,000 of authorized stock. This proposal was agreed to by the government on December 7, 1883. In a very few weeks, shortly after the turn of the year, it was found that the company was

again in difficulties and again came back to parliament with an application for aid. This time a request was made for a loan of \$22,500,000, that payment of \$2,853,912 due in February be deferred until November 7, 1888, and that the \$1,000,000 deposited as guarantee for performance of contract be returned.

Violates the Law.

Parliament, despite vigorous opposition, agreed to this. Hon. Ed. Blake on that occasion made a severe arraignment of the company. Of the liberal dividends paid, despite the continued demands for help from Parliament, he said: "The law says that the interest may be paid during construction at the rate of 6 per cent upon the amount actually paid up; and the stock being issued as paid-up stock the company assumed itself to be entitled to pay interest at the rate of 5 per cent upon the amount paid up. I maintained before, and I maintain now, that that is an illegal operation; that the railway act which is the only authority for taking capital of the company and applying it in payment of interest during construction, expressly limits that somewhat dangerous power to a 6 per cent dividend upon the actual amount paid upon the stock, and that to agree to pay \$5 on every \$100 when \$46 or \$50 have been paid, is to evade—not to evade, but really to violate the law."

Money Goes to Shareholders Instead of Road.

Continuing Mr. Blake said: "I have shown the house that the stock of the company has been emitted at an average price net to the company at 46 and upon this they have agreed to pay interest at \$5 on the \$100 which means a rate of almost 11 per centum per annum payable half yearly."

The opposition to this agreement being effected with the company was largely on the ground that the original members of the Canadian Pacific railway syndicate were not applying to the purposes of the road all the money they were receiving and in honor-bound to put into the road. Mr. Blake referred to them, even as far back 1884, as having "built lordly palaces and made magnificent benefactions." The company, however, got what they wanted. If their credit was not high that of the country was.

Another Loan of Cash.

In the following year, in 1885, on March 18, George Stephen came back to the government for another loan.

This time it was for \$5,000,000. Again the government acceded to the request of the company. On June the 10th Sir John A. Macdonald moved that the company be authorized to issue \$35,000,000 mortgage bonds; that the time for the repayment of company's loans from the government, aggregating \$29,880,912 be extended to May 7, 1891, and that as security for \$20,000,000 of that loan the government shall hold \$20,000,000 of mortgage bonds and the balance of the loans \$9,880,912 be secured on unsold lands and that the loan of \$5,000,000 be granted on the security of the mortgage bonds.

Up to this point it is quite obvious that the great railroad which was to be the link of confederation binding together the scattered portions of British North America into one political whole was built by public money and credit. This last application for further aid to a syndicate for which the highest standing in the world of finance was claimed, and which was to relieve the government and the country of the anxiety of carrying out an undertaking to which the young nation was committed brought forth vigorous opposition. But the relationship between the dominant party and the syndicate was impervious to opposition.

Company's Future as Seen in 1885.

It is from the work of the opposition members in the Dominion parliament of 1885 that information is gathered as to the extent the credit of the Dominion government was used for the up-building of an undertaking which the fathers of the confederation prescribed as necessary to the consummation of their work. As one of the leaders in that patriotic work, and as one who foresaw the greatness which this corporation must attain to, and who foresaw the power it would have to lay tribute upon a young but wealthy country, let the Hon. Edward Blake tell the story of the most daring, the most gigantic "high financing" by which the Dominion or its provinces have been victimised. It is a story with which every Canadian should be familiar. The last decade has added many adopted citizens to the population of the Dominion. For their benefit a fairly complete account, at this time, of the part the public played, and the extent to which it furnished the cash and credit, for the building of the country's premier railway, is given. To remove any doubt in their minds as to who really risked money or credit in this enterprise, and to establish in a measure what that corporation owes to the country, the opinion of Hon. Edward Blake will be given in another chapter.

ARTICLE V.

How Canadian Pacific Promoters Profited

(Winnipeg Free Press, Sept. 14, 1912.)

It is not generally understood that the promoters of the Canadian Pacific Railway obtained more cash from the Dominion Government than was necessary to complete the road in accordance with the terms of the contract they made with the Government. In the article of this series, preceding, it was shown how from time to time the syndicate had to go to the Government to get credit and cash to help them out of their difficulties. In the following article it is shown that they actually got more public money—

either in the form of outright grants, of loans, or of gifts of the public credit—than was needed to complete the line, according to their own figures. Their own money was not risked, but so applied as to get back to their own pockets without taking any risk.

It sounds almost incredible, but, nevertheless it is true, that at the end of 1884 the Canadian Pacific Railway syndicate, paid up on stock account, \$24,493,000, and out of this sum no less than \$19,000,000 approximately was set aside, or actually paid, on ac-

count of dividends. Moreover, this was done at a period of the road's development, when it was not expected that dividends would be paid. But no chances—no customary commercial hazards or risks—were taken. There is no evidence of faith manifested by the venture of money in the future of the vast Canadian dominions. On the other hand there is abundant evidence of bold and unrestrained use of public credit for the aggrandisement of the members of a syndicate, which undertook by the use of its own credit to carry out a contract, and instead accomplished their own purpose by using that of the country with the permission of the party in power.

What Company Got from Government.

In the preceding article of this series, it was shown what high dividends on the amount of cash alleged to have been paid-up as capital, were actually paid. Circumstances under which they were paid are fully set out in a speech delivered by the Hon. Edward Blake, in June, 1885. The occasion of the speech was an application from the Company for another loan of \$5,000,000. Up to that time the Company had received from the public, as grants or loans:

Subsidies	\$25,000,000
Loan	22,500,000
Land grant bonds, 1883.....	9,200,000
Land grant bonds, 1884.....	1,000,000
Bonuses and townsites.....	800,000
Earnings	1,560,000
	\$60,060,000

What Money Was Needed.

When the loan of 1884 was asked the cost of the constructed line was reported to be as follows:

Expenditure already made	\$23,078,950
Materials on hand	4,028,604
Required to complete the contract	27,000,000

Deduct equipment dealt with later	1,700,000
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Total cost of construction..\$52,407,554

Dealing with this Mr. Blake said:

"That is a plain and clear statement of the case given to the country by the government last year (1884), namely, that \$52,407,554 was to be the cost of building that line in accordance with the contract, apart from equipment.

"Mr. Van Horne since 1884 stated that Kicking Horse Pass section would cost less on a temporary basis. As the line was not to be made permanent

for some years \$960,000 less was required. That reduces the cost to \$51,440,000. On the whole of B. C. line Van Horne says the cost would be \$4,000,000 less than estimated, but on the north shore it would be, according to Mr. Stephen, \$2,500,000 more. This leaves a net saving of \$1,500,000. Deduct this from \$51,440,000, reduces the cost of the line to a trifle under \$50,000,00.

Equipment

"Mr. Stephen wrote on March 18, 1885, that the expenditure was, to December 31 previous, \$9,168,755, and that there will be required \$1,000,000, making a total of \$10,168,750 for the main line and branches, \$8,000,000 of this was the proportion on a mileage basis chargeable to the contracted line. As a result of official information given by the company up to January, 1884, and modified by official documents from that time to June, 1885, the cost of construction and equipment was:

For construction	\$50,000,000
Equipment	8,000,000
	\$58,000,000
Cash from public	\$60,060,000

More Public Money, Obtained Than Cost of Construction.

"Now I have shown you the cost of construction and equipment to be \$58,000,000, and I have shown you the cash resources provided altogether outside of the company, provided in fact by the public, to be \$60,000,000 or \$2,000,000 more than the whole cost of construction and equipment, and that without touching the company's original stock. Now, that stock was to be touched; it was part of the contract that the company should subscribe that stock and pay it up in full; it was part of the contract that that should be done; that the money should go into the fulfillment of the contract. They did subscribe it, and they did pay it up and put it in the contract, and therefore that \$5,000,000 is to be added which gives you the total available assets of the company—of which the company provided only \$5,000,000—\$65,000,000 to meet the expenditure under the contract of \$58,000,000, or a surplus of \$7,000,000.

"Now, I invite your consideration of these figures, and I invite those who challenge them to show in what respect they are substantially inaccurate, and if accurate how it is that ample provision in cash has not been made for every dollar which was required to be expended to complete the contract up to the contract itself.

Additional Resources.

"But, sir, I have entirely omitted, up to this moment, enormous additional resources of the company. There is the government 4 per cent loan on securities. These securities were available; they were securities which might be used in order to get cash or credit; they were used in order to get credit, in order to get the government deposit of \$7,380,000, and therefore there is that available asset created by this work of \$7,380,000, and in respect of which the company obtained from the government a loan to that amount."

Then Mr. Blake enumerated the further resources of the company as including 20,000,000 acres of land; \$33,500,000 expended by the government on the road and surveys granted to company; and \$24,500,000 on a capital of \$65,000,000.

The Nigger in The Fence.

Continuing, Mr. Blake said:

"These figures were submitted to show no cause for embarrassment; no cause for the temporary loan requested of the Government."

It remained, however, to be shown what had become of the assets, cash and otherwise, of the company which were not needed to enable them to carry out their contract with the Government; and this was set forth in these terms:

Mr. Stephen's statement	
says all lines cost	\$52,595,842
Material on hand	3,687,723
	\$56,283,571

Cost of lines east	
of Callander not	
part of con-	
tract	\$4,213,758
Algoma branch ..	2,269,798
Western branches,	
176 miles	2,335,374
	\$ 8,818,930
	\$47,464,671

Mr. Blake says:—"According to Mr. Stephen's statement—which is inexplicable to me—\$47,464,671 is left as the expenditure on the contracted line up to the 31st December (1884). My opinion is that that may include a large sum for interest and dividends; I think that is the nigger in the fence corner.

As to Equipment.

"Mr. Stephen's statement is that it is \$9,168,750 for all lines. Deduct for the line East of Callander and the branches, say 670 miles, their propor-

tion, \$1,890,000, leaving the expenditure for equipment on the 2550 miles \$7,178,750. That gives me an aggregate of \$54,641,000 for construction and equipment on the contract as against the receipts to that date of \$55,643,000, leaving an apparent surplus of \$1,000,000. But that surplus is properly subject to the deduction of \$655,000 on interest account, so far as I can judge. . . . And even if you had the improvements on Government sections to the amount of \$1,240,000 you only get a deficit of under \$1,000,000 after paying up to the handle for everything that was expended in the contract up to Dec. 31 (1884). The assets which produced that result being entirely public, except the \$5,000,000 of the original stock of the company, that deficit of \$1,000,000 is at any rate not embarrassing because a floating debt of \$3,000,000 to \$5,000,000 is customary in such operations; they said it only became abnormal when it reached \$7,000,000 to \$8,000,000.

Dividends Past, Present and to Come.

The other resources yielded according to official figures:

Paid in stock.....	\$24,493,000
Government 4% loan.....	7,380,000
Credit enabled them to	
	\$6,895,000
Of which the deficit of	
\$1,000,000 can be	
struck off, say.....	5,900,000

Ordinary resources as

at Dec. 31, 1884.....\$37,773,000

Less than half of the \$37,773,000 is accounted for by outside purchases to the extent of \$18,195,264; consisting of main line east of Callander and branches, steamers, and auxiliary plant. Mr. Blake thus comments on this statement:

"Well, that leaves the larger part yet to be accounted for. I have found you where \$18,200,000 have gone; I have to find for you where \$18,600,000 has gone; and that comes under the second grand head of the two grand heads of expenditure by this company of its resources—dividends, dividends, dividends. The statement of Mr. Stephens on the subject of dividends is not, according to my judgment, absolutely accurate, but I will use it in the first instance, so as to state the amount from his own lips. He states that they were paid by funds provided by the company, \$5,378,000 in dividends up to 31st December last.

\$14,288,000 making an aggregate for dividends of \$19,666,288. I have got you the \$19,600,000 and I think I have practically squared the account. I think I have practically shown you

where the \$38,000,000 has gone—the smaller half of it has gone in smaller outside enterprises, and that, the larger half, has gone in dividends, past, present and to come.”

ARTICLE VI.

Burden of Fictitious Capital Falls on Railroad Rates

(Winnipeg Free Press, Sept. 16, 1912.)

The Canadian Pacific was subsidized by the Government on the understanding that it was not going to pay an early dividend, and that for losses in dividend, in its infancy, shareholders would be recouped out of proceeds of the land grant. But they took no chances, as shown in the preceding article. How the early directors of that road “high financed” to their own advantage is told by Hon. Edward Blake, from whose famous speech, delivered in 1885, the following extract is taken.

Speaking on June 17, 1885, Hon. Edward Blake said of the Canadian Pacific railway:

“The law allows the railroad during construction to pay not exceeding 6 per cent. if they please on the amount actually paid up in cash, on the stock that has been subscribed for construction. No watered stock payments or anything that was not solid cash.

What the Land Grant Was For.

“Let us consider this company. Did it occupy any exceptional position? It did. What was the exceptional character and position of this company? It was this, that it was subsidized by the government on the understanding that it was not going to make an early dividend, but that it was to be recouped out of the sale of the lands for its actual losses in the early works of the road. The proposal was not that we furnish money to the company to give subscribers who had stock 6, 10, 12 or 20 per cent. on their money, but that we were to give the company in addition to cash, land, the ultimate result of which would repay them for the loss of interest or dividends in the early working of the road. That was the position of the company, a position

against the payment of dividends out of capital was recognized and in which the source of recoupment for losses was to be the great resources the government were giving to the company.

Watered Stock and Railroad Rates.

“Now the stock was fixed at \$5,000,000 to be paid up, in actual cash, within a short delay, with the power of increasing it to \$25,000,000, but I need not say that when the \$5,000,000 was paid up in full in cash it would be impossible to put out the other \$20,000,000 at a discount, or on any other basis than par, without creating an entire revolution in the scheme of finances of the company. The principle recognized by parliament was that every dollar of the stock first subscribed should be paid up in cash. \$5,000,000 was paid in cash, and if the company were to issue the rest at 50, those who got it would get the stock at half the price of those who had subscribed the first \$5,000,000. No one thought of more capital being issued, at any rate, beyond the \$20,000,000 additional, \$25,000,000 was the extreme capital talked of. We were anxious the capital should be kept down, because the great object was that there should be a small dividend to be paid, since the burden on the commerce of the country was to be measured, first of all, by the cost of carriage, and secondly by the dividend; and it was vital to us that the dividend bearing capital should be kept down to the lowest possible figure, so that the burden on the commerce of the country might be kept down to the lowest possible figure. That being the principle and these being the explanations of parliament, I now address myself to the question: What has actually been done?

“I leave out of consideration for the moment, the original \$5,000,000 because that was contemplated, that was arranged, that was subscribed, that was

paid up in full, that went into the fund; but, besides that, the company has issued \$60,000,000 more, and in connection with its stock operations, it has raised \$7,380,000 from the government.

What High Finance Produced.

"Now I want to know, having stated the millions of stock that it has issued, \$60,000,000 of new stock and \$7,380,000 raised from governments in connection with stock operations, what has that produced? The original stock of \$5,000,000 would have reaped its whole profit out of the working earnings; \$1,000,000 would have paid a fair and reasonable dividend during the construction on \$5,000,000 of capital, and that would have been paid out of the working earnings of the road; but that abominable system of stock watering, to which I have referred, which I have pointed out in two years resulted in the United States, in the increase by two thousand millions of interest and dividend bearing stocks and bonds, while the betterments represented by that 2,000 millions only cost 1,050 millions, or practically \$2.00 of obligations for every dollar of real value, was to be introduced. The abominable system which has destroyed the credit of American railways, which has rendered it impossible for the ordinary mind, with ordinary acquaintance with things, to judge of the real value of an enterprise at all; which even induces an acting minister of railways to talk of the cost of a railway system as \$323,600,000 when it has cost only a trifle compared with that amount; that system which renders everything vague and speculative, which gives every opportunity to the dishonest man to deceive and gull the simple investor, was to be carried out.

Dishonest Capital.

The principle of an honest paid-up stock was to be given up, and the first thing that was done was to commence the creation of this load of actitious capital. They issued to the original proprietors of \$5,000,000 of paid up stock, \$20,000,000 more realizing only \$5,000,000 in cash, and they issued \$20,000,000 in stock. Having done that they issued \$30,000,000 at prices which netted the company only \$15,281,754, or under 51 per cent. of the nominal value, and they then proceeded to borrow on, and ultimately to sell, \$10,000,000 more selling at a price which netted the company 12 per cent. They thus produced from the \$60,000,000 nominal capital, \$24,432,000 in cash, or on the whole average, under 41 per cent. of

the nominal value, and if you choose to throw in the honest \$5,000,000, and to put it together with these tainted matters, you find that an issue of \$65,000,000 nominally realized \$29,493,000, or 45½ per cent. of the normal value.

Promoters Took No Risk.

"Now, remember, if you please, if you talk of ruinous price for C.P.R. stock, when you hear talk of risks, when you hear talk of difficulties, when you hear talk of embarrassments, that the whole of this stock, the first \$5,000,000 paid-up and all, was issued by the company at prices which realized 45½ per cent of the nominal value. Remember that the original proprietors put their estimates of value upon their whole holding by taking \$20,000,000 at 25 per cent., thus averaging for their holding 40 per cent., and remember that the stock has fluctuated from 37 to 38 for a little while, up to 61 and 65. Now what is 50 on a stock, the real value given, for it is 40? Why, of course, when you pay 50 for a stock of which the real value is 40, it is an advance of 10, it is a premium of 25 per cent.: if you pay 60 it is an advance of 50 per cent., and if you pay 80, the price to which Mr. Stephen said he expected the stocks to advance, it is an advance of 100 per cent. on the 40 which was paid, and at which he could have sold if his expectations had been realized. The original proprietors, if the glorious visions in which they indulged, and which they expected the house to help them realize, has been realized, having paid \$10,000,000 for \$25,000,000, would have realized \$0, and thus taken \$10,000,000 clean profit apart altogether from the question of interest or dividends.

"The New Finance."

"I am going to deal with the question of interest and dividends presently, by itself, because it is too large a question to mix up with capital. But I am dealing now with the new finance. The \$60,000,000 of the new finance netted \$24,500,000. The government loan in connection with the stock was \$7,380,000, or a total of \$31,880,000. What has become of that \$31,880,000? There is what the company realized by the issue of stock and by a mortgage, in connection with its stock operations, of its assets, irrespective of the sales of the public lands, the grant of public moneys, and the grant of the public loan. Now Mr. Stephen states that the company itself paid, not out of the government moneys, not by virtue of the moneys placed in the hands of the

government at all, but itself paid, in dividends up to Dec. 31, 1884, the sum of \$3,428,000. The company itself paid on Feb. 17, 1885, a further dividend of \$650,000, or 1 per cent. To these sums which the company itself paid, not through the medium of the government, I add the company's deposit with the government to meet dividends, which amounted to \$15,942,645, and I add also the interest which was paid and allowed on that item up to Feb. 17, 1885. That interest amounted to \$318,852 for one-half year and \$305,729

for the second, and \$292,344 for the third—making an aggregate of \$916,927, which was produced by the means of the deposit of \$15,942,645. These sums make a grand aggregate of \$20,937,572, or in round numbers \$21,000,000, already devoted by the company to the purpose of dividends. Now what is the short result? They raise by the new finance on stock \$24,500,000, and they have devoted by the new finance to dividends \$21,000,000, making \$3,500,000 to go to the work and \$21,000,000 to go into their own pockets."

ARTICLE VII.

No Passing of Dividends in Construction Period

(Winnipeg Free Press, Sept. 17, 1912.)

In the construction days of the Canadian Pacific, when contractors were unpaid, there was no passing of dividends. Interest due to Government and wages due to men were allowed to stand but never was default made in the payment of dividends to shareholders. When the last call was made on the Government for cash the Hon. Edward Blake dealt with the company's affairs. The following statement by Mr. Blake is taken from the same speech quoted from in the preceding article:

"What is the amount they actually paid in dividends up to Feb. 17 last, 1885? On the first \$5,000,000 of cash stock they have paid \$1,000,000; on the \$20,000,000, which represents \$5,000,000 cash, they have paid \$2,610,000; on the \$30,000,000 representing \$15,281,000 they have paid \$2,640,000 and on the \$10,000,000 representing \$4,221,000 they have paid \$750,000, or a total of \$7,000,000 already paid in cash to its shareholders by this embarrassed company, which has to come to us for help in its urgent need, and having paid \$7,000,000 in cash they have deposited with the Government now, at interest at 4 per cent., \$13,934,572, which with interest at 4 per cent. would sum up to about \$14,100,000 at this moment in the hands of the Government. Now, sir, there is the finance. A portion of that \$15,942,645 was paid in by the company itself. How was it raised? It was raised by the sale of this stock at a price which makes the dividends

on that stock between 12 and 13 per cent., and it was deposited with the Government at 4 per cent. interest to secure the dividends at 12 1-5 per cent. interest on the very stock and the other stock. They sell the stock, agreeing to give it at a price which is to net 12 1-5 per cent., and they take the money and put it into the hands of the Government at 4 per cent. and they say: 'Keep this to secure the 12 1-5 per cent. dividends.' I ask you what is to be expected from finance like this?"

Took \$20,000,000 Stock for \$5,000,000.

"Now, sir, the original proprietors, who took the additional \$20,000,000, have on their \$5,000,000 of cash, for which they received \$20,000,000 of stock, already received 52 per cent. on their capital investment. They got for part of the time 24 per cent. per annum on their investment and for the rest 20 per cent.

Dividends Before Debts.

They promised themselves a contribution of this same dividend until the completion of the road, and honorable men, fulfilling their promise, they kept it. So in the dire distress of the company in last September; they kept it in the still more dire distress of the company on 17th Feb. last. What mattered it that the contractors were unpaid? What mattered it that the section men on the line, the employees were unpaid? What mattered it that they were embarrassed in every way? Their promise to themselves must be observed. They took out the money and they put that money into the ex-

tra dividend producing these enormous profits, and left the contractors and section men, honest debts and everything else unpaid, and destroyed the credit of the company. We could not collect our interest in May. We gave them time to pay it in May, because we did not want to interfere with their use of the money, in the prosecution of the work; but they took care to pay their dividends, although they wouldn't pay us our interest. There is one thing that must be done, the dividend must be paid no matter who is left out. Having got this 24 per cent. for part of the time, and this 20 per cent. for the rest of the time, they have secured themselves, by this time arrangement, 12 per cent. for 8½ years to come upon the investment.

"Blow high blow low, go ill or well, give up the road if you like to-morrow, still there will be 12 per cent. up to the end of the eight and a half years. By the end of the ten years for which this arrangement is made, they will have taken on that \$5,000,000, the sum of \$7,810,000 apart altogether from the future earnings of the road, on which the company declared just the other day, they expected to make a profit in the first year, so that, leaving the earnings out it will repay them their whole \$5,000,000 with 10½ per cent. interest, until repaid. They are absolutely secure to get back every shilling of that \$5,000,000 and 10½ per cent. interest on it under this arrangement, and to own besides in respect of that investment, 20-65, or nearly 1-3 of the whole enterprise, land and all. But they say you ought to average their investment; that it is very unfair to deal separately with that second \$5,000,000. I deny that but I shall go into the account on the average investment too.

"Now, taking the average on the \$10,000,000 cash they put in \$58,000,000 in honest cash, \$5,000,000 for which they get \$20,000,00. They have got \$3,610,000 in dividends already, and they get in 8½ years \$6,875,000 more, or \$10,485,000 of dividends, apart altogether from the road and the land and the future earnings of the road on \$10,000,000 capital.

Exorbitant Returns to Shareholders.

"Now, sir, these are the figures in respect to which I challenge contradiction. If you put to one side the question of a return of the capital, and assume that the capital will be represented by 25-65 or more than 1-3 of the Canadian Pacific railway and its lands, at the end of ten years

then their dividends have been in the earlier stages from 15 to 12½ per cent. on their whole \$10,000,000, and they are to have 7½ per cent. for the rest of the term, after the completion of the road, with the chance of dividends from earnings to be added, so that they will have more than 1-3 of the enterprise with dividends already secured, varying from 15 to 7½ per cent. during the 10 years after its inception.

The Third Stock Issue.

"Now as to the other stock. That stock realized \$19,500,000 cash for \$40,000,000 of stock, and it has obtained, and will obtain in secured dividends, \$14,390,000 an enormous interest; and besides that, 40-65, or nearly 2-3 of the whole enterprise. Now, sir, take the average date of the payments of \$29,500,000. I have averaged the dates of the payments at which those men put in their money, and I find the average date of the whole, including the original \$5,000,000 was Jan. 16, 1882, and by Feb. 17, 1885, or in two years and one month, they have received \$7,000,000, or 11½ per cent. per annum profit on the whole \$29,500,000, and the future secured dividends allowing the September 1 per cent which they promised themselves—and I have shown the desperate fidelity with which they have adhered to those promises of the past—will give for the future 8 per cent. per annum of profit, apart from the earnings, up to September 1, 1885. In all, if you include the Sept. 1885, and Feb., 1886, extra dividends, there will have been paid and provided for dividends \$24,875,000, or a sum equal to the whole amount realized from stock by the new finance. They will have paid \$24,500,000, and they will have been paid and provided for dividends, even including the September payments, just about \$24,500,000.

Resources of Company Go To Shareholders.

"So far from these resources of the company being invested in inside or outside operations, the net result of the transactions has been to invest money with one hand for the purpose of taking it out with the other. In substance the proceeds of the stock are divided among the stockholders; we are to raise money to build the road; and the country is to pay tolls for all time to meet the stock so divided. The company are seeking to secure \$15,000,000 of additional capital to use although they have \$14,-

600,000 available in the hands of the Government. The Government are asking the permission of the country to reduce interest on the public debt and to create an interest charge on the new capital, while the company are saying that whatever happens we must take care of ourselves, and the Government must take care of us, and we must lay by a nest egg for ourselves.

Company's Money Should Be in Road.

"I maintain that the proper place for the company's money is the company's road. I maintain that we have no right to commend transactions like this, to approve or to endorse them. We never contemplated such an act as this, that millions

upon millions should be smithed, representing nominal capital of \$60,000,000 and an actual capital of \$24,500,000, and then that we should be called upon to lend about \$29,500,000 more and to impair our security, and lower our rate of interest in order that these gentlemen shall run no risk at all but to ensure to themselves large interest in the meanwhile and a management enterprise subsequently. They say it will pay a dividend from the start. It is just about to start; let them take their dividends out of their earnings. Do not let them do like the man of old, put their money in a napkin and bury it in the ground; but let them put it where it will do the most good for the country, put it where it is destined to go—to where it belongs."

ARTICLE VIII.

Foundations of the Company's Credit

(Winnipeg Free Press, Sept. 18, 1912.)

From the time the Canadian Pacific Railway company completed their contract in June, 1886, the record of their earnings has shown their ability to take the best of care of the capital used in the construction of the road. In the year 1894, but a small balance was available for dividends upon common stock, due, no doubt, to a large increase in the fixed charges. With the exception of that year there has always been an ample margin to pay a substantial rate of interest upon the capital employed. Starting in 1886 with their through line under very moderate liability, the company had a splendid beginning, full of opportunities. They had a continent to serve and were without a rival. Their basis, then, for financing was of the best, and at the same time the credit of the Dominion as a whole stood high in the estimation of the financial world. Beginning under auspices so favorable it is no wonder that the record of their earnings is a remarkable one,

and one which should enable the company to obtain all the capital they require for further roadbed or equipment on terms no more onerous than those upon which their present founded debt, comparatively light, is at present carried.

In preceding articles it has been shown that during the construction period of the Canadian Pacific railway the financing was done, practically speaking, by the Dominion government. The actual amount of cash contributed by the shareholders to the fund used to carry out the contract made between the company and the government was infinitesimal. By very liberal drafts upon the credit of the government, money was forthcoming to enable the company to complete the line between Callander and Vancouver in 1886. In the fall of that year the government of Canada declared that the company had completed its work satisfactorily, and had carried out their contract with the minor exception of a short distance in the mountain section, where a temporary line had been built. To insure compliance with the standard prescribed by the government \$1,000,-

000 in bonds were retained, but other moneys deposited with the government as a guarantee for the completion of the work as agreed were released. A regular service had been operated over the entire system since June 28, 1886.

Company's Liabilities in 1886.

It is found, therefore, that the Canadian Pacific railway came into possession of a railway system which showed liabilities on June 30, 1886, according to a return made to parliament as follows:

Capital	\$ 65,000,000
Bonds	28,862,000
Government Loan	9,163,352
Government Bonus	24,539,912
Municipal Bonuses	370,000

Total\$127,635,264

These figures, of course, apply only to that part of the system controlled by the company which was acquired under contract with the Dominion government. It was, however, the backbone of the system.

At that time the mileage of the C. P. R. system was just under 4,000; at the present time it is over 12,000;

passengers carried in 1886 numbered just over 1,000,000, whereas now the figure is nearly 14,000,000; gross earnings were then under \$9,000,000, whereas now they reach nearly \$124,000,000. In 1885 the Dominion government engineer, Mr. Schrieber, reported the earnings and expenses to be as follows:

	Gross.	Expenses.	Net Earn.
1884	\$5,750,521	\$4,558,630	\$1,191,890
1885 ..	8,348,590	5,124,400	3,224,100

A Promising Beginning

Even before completion of the contract the through line constructed under arrangement with the government promised to be very profitable. Sir Wm. Van Horne, Lord Mount Stephen, as well as the government engineer, according to the various reports made by them and laid before the Dominion parliament, were abundantly satisfied as to the success of the road. In fact, the bright future pictured so often by the promoters of the Canadian Pacific, in these early construction days, had ample justification in the figures respecting expenses and earnings. The balance left as the net earnings was abundant to pay a very sub-

27 Years of The Canadian Pacific's Profitable Business

	Gross Earnings	Operating Expenses	Net Earnings and Receipts	Fixed Charges	Available for Dividends
1886	\$ 10,081,803	\$ 6,378,317	\$ 3,703,486	\$ 3,068,041	\$ 635,445
1887	11,606,412	8,102,294	3,504,118	3,250,263	253,855
1888	13,195,535	9,324,760	3,870,774	3,544,351	326,423
1889	15,369,138	9,241,302	6,127,836	3,779,132	2,348,704
1890	16,552,528	10,252,828	6,299,700	4,246,618	2,053,082
1891	20,241,095	12,231,436	8,009,659	4,664,493	3,345,166
1892	21,409,352	12,989,004	8,623,950	5,102,018	3,521,932
1893	20,962,317	13,220,901	7,951,279	5,288,597	2,662,682
1894	18,752,167	12,328,858	6,757,135	6,589,679	167,456
1895	18,941,037	11,460,086	8,033,864	6,659,378	1,374,486
1896	20,681,597	12,574,015	8,618,747	6,911,975	1,706,772
1897	26,649,535	13,745,759	10,644,482	6,783,366	3,861,116
1898	26,138,977	15,663,606	10,895,738	6,774,323	4,124,415
1899	29,230,038	16,999,872	13,380,364	6,816,676	6,563,687
*1900	14,167,797	8,889,851	6,289,305	3,434,244	2,855,060
1901	30,855,203	18,745,828	13,042,800	7,305,835	5,736,965
1902	37,503,053	23,417,141	15,044,739	7,334,825	7,334,825
1903	43,957,373	28,120,527	17,123,658	7,052,197	10,071,460
1904	46,469,132	32,256,027	15,904,373	7,586,096	8,318,276
1905	50,481,882	35,006,763	17,059,751	7,954,065	9,105,686
1906	61,669,758	38,696,445	24,042,760	8,350,544	16,592,215
1907	72,217,527	46,914,218	27,667,789	8,511,755	19,156,033
1908	71,384,173	49,591,807	24,446,999	8,770,076	15,676,922
1909	76,313,320	53,357,748	25,262,060	9,427,032	15,835,028
1910	94,989,490	61,149,534	37,175,668	9,916,940	27,258,728
1911	104,167,808	67,467,977	37,818,180	10,011,071	27,807,109
1912	123,319,541	80,021,298	44,402,691	10,524,937	33,877,754

*Six months only. Change in financial year.

stantial dividend upon the actual capital put into the road by the shareholders after paying fixed charges. In so far as the shareholders were concerned their dividends were secured until 1893 by the arrangement made with the Dominion government 10 years previous. The company were, therefore, unhampered by anxiety as to shareholders' dividends for the ensuing six or seven years, when they received from the government a certificate declaring their contract completed. After that the company could not expect to go back to the government for such aid as received during the construction period. Financing on their own account and on their own credit, might be said to commence from the year 1886. The ability to raise money on their system, however, depended upon what it could earn.

Capitalization Reasonable.

The road was lightly capitalized. Public cash was put in against water by the company. As already shown, the government had provided, gratuitously, cash, lands and railroad, representing a value very large in proportion to the cost of the railway and its equipment, which in 1885 was set down as being \$101,077,478. That part of the railroad handed over to the company by the government for operation cost \$35,000,000. In addition, the government gave the company a bonus of \$25,000,000 in cash and other moneys used by the company were largely secured by pledging the land grant received from the government. No industry or enterprise could have been subject to a greater extent to paternal solicitude at the hand of the government.

After Construction.

After the completion of its contract with the government it could no longer justify itself in approaching the government for further assistance nor did there appear to be any need for so doing. The financing of the railway from that point onward ought to have been comparatively easy. Their only real liability at the time was a government loan of less than \$10,000,000, mortgage bonds of less than \$30,000,000, and actual cash paid as capital less than \$30,000,000. The aggregate of the real liability was approximately \$70,000,000, and of this that proportion represented by capital had secured to it annual dividends at the rate of over 10 per cent. until 1893. Out of earnings, therefore, the company had fixed charges

to meet on less than \$40,000,000. Here was a promising basis on which to base extensive financial operations.

Credit of Canada Always Good.

If the company at the time found it difficult it could not have been because Canadian government securities did not at the time hold an enviable position in the estimation of the money markets of the world. An undertaking backed by this nation, whose securities were so highly esteemed, to an extent as great as extended to the Canadian Pacific ought to have commanded credit in the world's money markets. The fact of the enterprise being a national one must have been some guarantee that it had in it fair commercial possibilities. If, as a national undertaking, it proved commercially disappointing, the nation itself could not honorably have shirked the responsibility of insuring to those who advanced the money to carry it out a fair return on their investment. But from the time the company took over their transcontinental line in June, 1886, to the present time there has been no doubt as to the commercial success of the undertaking. From that time there was no need to approach the government for aid; the financial position of the company was strong enough on which to base financial operations for securing money to extend its system into new territory and to add to its facilities for handling increasing traffic in the growing commercial centres of the Dominion.

In order to obtain a clear view of the company's earnings, and the profits therefrom, a table has been compiled to accompany this article showing gross earnings, operating expenses, net earnings and receipts, fixed charges, and the balance available for distribution either to shareholders in the form of dividends or for other purposes.

The obvious conclusion from such a record is that the time is past when the company need fear any lean year, or period of years, though their coming may be accepted as quite certain. Balances available for distribution provide an ample amount for reasonable dividends, as well as for a desirable reserve to meet unforeseen requirements. These may be in the form of transportation services, as well as for lean years during which reasonable dividends may not be earned. This is a very remote contingency. However, some reserve against it is

advisable. How ample are the provisions made against it is apparent from the liquid nature of a large proportion of the company's assets. This state of affairs makes it quite plain

that to acquire further capital on the same terms as that covered by fixed charges should not present any difficulty. The need of new capital will be dealt with in the next article.

ARTICLE IX.

Increase from Year to Year of the Funded Debt and Share Capital

(Winnipeg Free Press, Sept. 19, 1912.)

In the previous article the earning power of the Canadian Pacific Railway Co. from the time its line from East to West was completed, in 1886, to the end of their last fiscal year, June 30, 1912, was exhibited. It is a record that is securing for the Company's securities a market value on the basis of a yield of practically 4 per cent., and upon its share capital a market value on the basis of 3.6 per cent., taking the Montreal price of September 19, of 277, as a basis.

Before dealing with the market's appraisal of the Company's securities with a view to gauging the price and terms upon which further capital ought to be obtained the extent of the amount required might profitably be studied.

It will be admitted by every Canadian cognizant of the development taking place in his country, and in every part of it, that much new capital expenditure must be made by railroads in order to keep pace with the growth taking place, and also to facilitate it. No question exists as to the need of more liberal capital expenditure in the future than has taken place in the immediate past. During recent years the Canadian Pacific has not been as generous in its provision of betterments and improvements as its position and strength enabled it to be. While declaring substantial dividends to its shareholders it has been content to follow in the wake of settlement and development instead of preceding it. What, however, it has done in the past may be measured by the increases made from year to year in the mile-

age, the amounts spent thereon, and on betterments, and also by the increases of its funded debt and share capital.

Increased Mileage.

Since 1901 the actual mileage increase has been from 8,358 to 12,548 at the end of June last. This mileage includes that under construction, that of other lines worked, and of the C.P.R. system proper, as shown in the tabular statement following:

Year.	C.P.R. System.	Other Lines Worked.	Under Con- struction.	Total.
1901	7,563	732	60	8,356
1902	7,587	734	324	8,646
1903	7,748	872	364	8,985
1904	8,332	438	338	9,108
1905	8,568	438	481	9,487
1906	8,776	438	923	10,138
1907	9,153	262	823	10,239
1908	9,426	261	708	10,396
1909	9,878	261	403	10,543
1910	10,270	261	471	11,003
1911	10,480	291	983	11,756
1912	10,983	319	1,246	12,548

Construction and Betterment.

The annual expenditure on additions and improvements to the system has averaged, during the past five years, approximately \$20,000,000. This does not include the necessary capital expenditure in the form of rolling stock. A tabular statement accompanying this article shows the amount expended on construction and betterments on the Company's own and acquired lines. Reference to it will show that capital expenditure on a larger scale has been made from year to year, and it is quite obvious that during the ensuing decade the average will be very much higher than the past de-

Twelve Years' Capital Expenditure on Construction and Betterments

	Construction on Acquired and Branch Lines.	Additions and Improvements, Main Line.	Leased and Acquired Lines.	Total.
1901	\$2,509,128	\$2,413,289	\$745,891	\$5,668,308
1902	143,696	1,716,280	735,235	2,595,211
1903	949,120	3,637,648	882,966	5,469,734
1904	3,402,659	5,798,121	1,222,005	10,422,785
1905	3,569,408	7,898,205	1,085,244	12,552,857
1906	4,923,597	7,783,030	757,580	13,464,207
1907	4,484,974	9,518,979	1,562,905	15,566,858
1908	7,565,714	14,130,303	3,177,606	24,873,623
1909	4,370,405	9,178,764	2,219,103	15,768,272
1910	5,346,243	6,856,307	3,412,234	15,614,784
1911	5,449,078	12,103,470	5,975,813	23,528,361
1912	7,686,609	14,967,264	3,732,509	26,386,382

cade. Provision of new capital, therefore, will have to be looked at from this point of view.

Company's Equipment.

As to the cost of the company's equipment their statement does not give details. It does, however, furnish a statement of equipment giving the number of cars of various classes and also the number of steamers. As an indication of the year-to-year growth of the rolling-stock the figures in respect of locomotives and freight cars are as follows:

	Locomotives	Freight Cars
1901.....	708	20,033
1902.....	745	21,159
1903.....	840	26,270
1904.....	934	28,060
1905.....	1,016	30,101
1906.....	1,109	34,152
1907.....	1,296	40,405
1908.....	1,399	44,692
1909.....	1,478	47,749
1910.....	1,531	48,850
1911.....	1,637	52,602
1912.....	1,820	61,446

Increases of Capitalization.

Below is given a tabulation showing the increase from year to year in the total capital and funded debt of the company. The average annual increase during the past five years is approximately \$25,000,000. The object of presenting these figures is to show that, though the company has failed to keep pace with transportation requirements, its capitalization has increased substantially from year to year. There is but little doubt that the actual cash finding its way into the company's treasury in recent years has been expended economically and effectively in so far as it went. To

bring its system more up-to-date so as to keep pace with, and aid further, development larger expenditures will have to be made and their proportions may be fairly well gauged from the record given by the figures following:

	Total Capital and Funded Debt.	Increase over Previous Yr.
1891.....	\$151,153,178	\$ 6,671,484
1892.....	166,467,094	15,313,916
1893.....	177,757,760	11,290,666
1894.....	179,217,761	1,460,001
1895.....	180,289,104	1,071,343
1896.....	184,864,597	4,575,493
1897.....	187,395,623	2,531,026
1898.....	200,515,453	13,119,830
1899.....	211,525,668	11,010,215
1901.....	221,609,168	10,083,500
1902.....	223,371,531	1,762,363
1903.....	245,990,338	22,618,807
1904.....	259,066,636	13,076,298
1905.....	266,793,968	7,727,332
1906.....	286,377,496	19,583,528
1907.....	311,899,563	25,522,067
1908.....	350,098,377	38,198,814
1909.....	371,248,765	21,150,388
1910.....	381,950,249	10,701,484
1911.....	418,586,761	36,636,512
1912.....	439,167,436	20,580,675

It is just as well to acknowledge that the Canadian Pacific Railway in order to meet reasonable demands made upon it must increase its capital expenditure in the immediate future to a very large extent. The various tables preceding all indicate a very rapid growth, but not a growth more rapid than has been development and settlement in the Canadian West and the industrial growth of Eastern Canada. The Company's equipment is taxed to the utmost the year round. It has no reserve of power, of cars, or of terminal facilities. As already pointed out there is no question as to the need of more

capital expenditure, but there is a question as to whether, in view of the Company's magnificent future and its magnificent record in respect of earnings, it is necessary to obtain more capital on terms substantially attractive as compared with current prices of the securities constituting the Company's funded debt. The tables above

showing the increase in capital expenditures, which though substantial, have failed to place the Company in a position to handle all the business offered to it, indicate clearly that the earnings of the future for some years will be on just as large a scale as the Company's facilities and equipment will permit.

ARTICLE X.

History of the Various Securities of the Company and the Market Prices

(Winnipeg Free Press, Sept. 20, 1912)

In Article 8 the earnings of the Canadian Pacific Railway were given. They show what a good basis they constitute for the excellent credit the company enjoys. In the succeeding article the apparent need of greater capital expenditure was made clear. In this article a brief review is given of the securities which the company has issued in raising capital and the reception the market has accorded them. It is obvious from the market record that the company, since it started to finance itself, has enjoyed the confidence of the money markets.

Shareholders have contributed to date approximately \$200,000,000 in the form of capital stock and premiums towards the development of the road. In addition to that sum there has been invested in the form of preference stock \$66,695,097; as consolidated debentures \$153,823,706; as mortgage bonds \$38,648,633. The total of the funded debt is \$259,167,436. A careful search into the price of these securities from the date they were issued to the present time reveals the fact that they have always occupied a very high position in the estimation of the investing public.

Preference Stock.

The preference stock is the one most closely allied to common, as it has to depend upon earnings for dividends which are limited to 4 per cent. It might be as well to note here that each class of the funded debt of the company has been specially authorized by

parliament. In 1893 an act was obtained by which preference stock could be issued up to an amount not exceeding one-half of the ordinary stock outstanding, such preference stock to have the same voting power as the ordinary shares. The first issue of this stock was made in 1893 at 90 per cent, a rate which would make the proceeds cost the company 41-2 per cent. No further issue of this stock was made until 1895, and this year the market value of the preference stock was approximately par. In 1897 a larger amount was issued, bringing the total outstanding up to over \$20,000,000, but nevertheless, the price remained over par.

In 1901, when the average price of the preference was considerably better than par, the maximum amount was issued, that is half the outstanding ordinary stock. At that time, that is in 1901, the company has issued \$31,171,000 of preference stock, and upon its capital stock of \$65,000,000 only \$29,000,000 had been paid. It would appear from this financing, even as far back as 1901, that the company was able to procure what money it desired on a 4 per cent basis. Commencing with 1902 the preference stock was increased proportionately with the increase of common stock, and although these regular emissions were well known to the market, their frequency, or their annual occurrence, did not depress the price. For instance, between 1902 and 1907 the low point touched was 99 1-2 and the high point 109. From 1908 to 1912 the price has not declined below the 99 1-2 mark. Normally, it has been some points above par.

This is remarkable in view of the tendency in recent years on the part of European investors to ask more for their money. Consols and other securities of equal standing have declined rapidly in face of the general but legitimate clamor on the part of Europeans for better rates of interest. No security has withstood this fundamental change so well as the preference stock of the Canadian Pacific, paying only 4 per cent interest, and that not guaranteed. As already stated, the amount outstanding at the present time is approximately \$67,000,000 which leaves the company in a position to issue this class of stock to an amount over \$60,000,000.

Consolidated Debenture Stock.

In 1889 the Dominion parliament gave the company authority to issue 4 per cent consolidated debenture stock, which, subject to prior charges existing at the time of issue, shall become a first charge upon the whole undertaking. The act also prescribes the purpose for which the proceeds of this stock shall be used. It could, for instance, be issued to satisfy existing obligations, and for the general improvement of the road. The act, however, does not apply to any of the lands which the company is entitled to by way of subsidy. The stock appears to have been used largely in procuring other lines and in making improvements to the road. It was placed upon the market for the first time in November, 1889, by Baring Bros. & Co., who invited application for £903,375 at 90. This issue seems to have been absorbed so satisfactorily that in the following year £1,000,000 was offered by the company at 97-1/2. The proceeds of this issue were applied to take up the securities of acquired companies, to purchase steamships for the Pacific service and for rolling stock. The acts of parliament which have been passed regulating the issue of this stock afford the company abundant latitude to apply its proceeds to the furnishing of either rolling stock or roadbed or transportation purposes.

It might be here interesting to look over the record of this stock since it was first placed on the market at 90 in London in 1889 down to the present time. Very shortly after it was issued it sold at over par, and only during one year, that is 1896, one of the very worst the company has had to face, did the price of this stock drop below par, and then it only reached 99. The normal price in London has been

around 110. The high point reached during the past decade is 115 and the low 104. During the present year this 4 per cent security has not dropped below 104.

There are very few securities existing today on a 4 per cent basis that demand so high a figure. It is as high as the price for corresponding Dominion government securities, and much higher than the price commanded by any of the 4 per cent issued by provinces of the Dominion. Like the preference stock a considerable quantity of this has been put on the market annually. When, in 1902, the capital stock was nominally \$65,000,000, on which only \$29,000,000 cash approximately was paid on account of that stock, the outstanding consolidated debentures were \$83,542,415. From that date, that is in 1902, the amount of consolidated debentures has increased steadily in the same ratio as the capital stock outstanding.

There may possibly be in the various acts of parliament governing and regulating the issues of this stock, some stipulations which limit the amount of stock which can be issued. An act of parliament, however, is merely the expressed will of the people, and if the company can show just cause for increasing this particular class of security which is so exceedingly popular in the market, there is no act on the Dominion statute book which could not be changed to accommodate them. It would appear from the current price of this particular class of the funded debt of the company that it would be possible to market it at 4 per cent. At any rate, judging by current market prices, it would be readily absorbed if the issue price was made in sympathy with existing market conditions.

Mortgage Bonds.

The only 5 per cent securities issued by the Company are the Mortgage Bonds. The first issue of this was made in 1885 and the issue price was 95. The amount issued at that time was approximately \$15,000,000. About 9 months later, that is in April, 1886, another issue of \$20,000,000 was made at 104. The price in the open market during the course of the same year rose to 107. The security at the back of the bonds was excellent, but, nevertheless, the price of the bonds as determined by the market, indicated that the investing public had confidence in Canada. No further issue of securities was made by the company until 1888, when the Dominion parliament

guaranteed land-grant bonds, or inscribed stock, to the extent of \$15,000,000.

Sir Thos. Shaughnessy and the Land-Grant Bonds.

It is this issue to which reference was made by Sir Thos. Shaughnessy in recent statement made to the Press. He says they netted the Company 90. The issue was made in June, 1888, in London at 95 by Messrs. Baring Bros. and Company. Apparently that house must have found their relations with the Canadian Pacific very profitable. If Sir Thomas's figure is correct they made a handsome profit on this transaction. The feature, however, of this issue is the fact that London, at that time, was willing to pay 95 for a security of this class bearing only $3\frac{1}{2}$ per cent interest.

The foregoing summarizes the history of the various securities of the

Company. To indicate how steady has been their value and how constant the faith in them by the investing public, tables have been prepared to appear in the next article, which show the actual market price and yield of the Company's securities for the past 20 years. Previous to that time, back to the commencement of the operation of the through line, the securities used by the Company were all held in high esteem by the public.

With this information before the public it can readily be understood why it is quite unnecessary for the Company to issue common stock bearing a high rate of interest when in the past through periods of prosperity and extreme depression, their securities have always been marketable at prices which netted the investor a moderate but reasonable rate of interest, much less than it is proposed that purchasers of new stock shall obtain.

ARTICLE XI.

Market Prices of Company's Securities Net Investors Less Than 4 Per Cent.

(Winnipeg Free Press, Sept. 21, 1912.)

The preceding article was devoted to a brief review of the history of the various classes of securities and stocks issued by the Canadian Pacific Railway. The actual market price of these securities over a period of 20 years is indicated by the tables printed herewith. It is understood that most of the securities are held in Europe, where the investor is satisfied with from 3 per cent. to 4 per cent. if the security is of such a class as that offered by the Canadian Pacific. This would appear to be quite evident from the market price of the securities in question. With a view to determining what price the world-market sets upon securities issued by the Canadian Pacific Railway the subjoined tables have been compiled from authentic sources of information.

If the Canadian Pacific Railway issues new common stock to the extent

of \$60,000,000 at a premium of 75 per cent., or 175, the proceeds to the Company's treasury would be \$105,000,000. It is very probable, and possibly it is the hope of the Directors, that the present dividend rate of 10 per cent. will be permanent. Assuming that the present dividend rate of 10 per cent. will remain in force, the new stock will bear dividends amounting in the aggregate to \$6,000,000. This sum is equivalent to 5.71 per cent. per annum on the total proceeds, principal and premium, of the proposed issue. If the same sum, that is \$105,000,000, is raised by the issue of preference stock or consolidated debentures, the annual charge on the basis of 4 per cent. would be \$4,200,000, or \$1,800,000 per year less than by obtaining the money by issue of common stock at 175.

In the present state of the money market it is doubtful whether so large a sum as \$105,000,000 could be obtained on a straight 4 per cent. basis. It is not necessary, however, that the Company should issue the whole sum at one time. With such a backing as the Canadian Pacific has it should not

be difficult for it to raise very large sums on a basis that would yield the investor slightly better than 4 per cent. For the purpose of illustration it may be assumed that an issue of either preference stock or consolidated debentures would be attractive on the basis of an earning of $4\frac{1}{2}$ per cent. to the investor. The total funded debt of the Company, approximately \$260,000,000, is held by the public on a basis of less than 4 per cent. From this it is reasonable to infer that the addition of \$100,000,000 to the funded debt would be acceptable on a basis of better than 4 per cent. On a $4\frac{1}{2}$ per cent.

basis then, the fixed charge on new capital to the extent of \$105,000,000 would be \$4,725,000, or \$1,275,000 less than it cost on the basis proposed for the new stock issue. The saving of from \$1,000,000 to \$1,800,000 per year in fixed charges means a substantial consideration in the determination of fair freight rates. To indicate how vast a sum \$1,000,000 is as an annual charge it may be pointed out that the fixed charges for all the debts carried by the City of Winnipeg is less than \$1,000,000.

The tables to which reference is made follow:

Investment Yields of C. P. R. Securities from 1893 to 1912

Common Stock.

Year.	Amount.	High.	Low.	Dividend.	Approx. Yield %.
1893	\$ 65,000,000	90	65	5	6.3
1894	65,000,000	73	58 $\frac{3}{4}$	5	7.7
1895	65,000,000	62	34	1 $\frac{1}{2}$	3.3
1896	65,000,000	62 $\frac{3}{4}$	52 $\frac{1}{2}$	2	3.3
1897	65,000,000	82 $\frac{1}{2}$	47 $\frac{1}{2}$	4	5.0
1898	65,000,000	90 $\frac{3}{4}$	70 $\frac{1}{2}$	4 $\frac{1}{2}$	4.7
1899	65,000,000	99 $\frac{1}{4}$	83 $\frac{1}{2}$	4	4.4
1900	65,000,000	100	85	5	5.3
1901	65,000,000	116 $\frac{3}{4}$	87	5	5.0
1902	65,000,000	145 $\frac{3}{4}$	109 $\frac{1}{2}$	5	4.2
1903	84,500,000	138 $\frac{1}{2}$	116 $\frac{3}{4}$	5 $\frac{1}{2}$	5.0
1904	84,500,000	135 $\frac{1}{2}$	110	6	4.6
1905	84,500,000	176 $\frac{3}{4}$	131	6	4.0
1906	101,400,000	199 $\frac{1}{4}$	156	6	3.5
1907	121,680,000	193	140	7	4.2
1908	146,016,000	180	141 $\frac{1}{4}$	7	4.4
1909	150,000,000	183 $\frac{3}{4}$	166	7	14.1
1910	150,000,000	201 $\frac{1}{2}$	178	7 $\frac{1}{2}$	4.0
1911	180,000,000	247	195 $\frac{3}{4}$	10	4.5
1912	180,000,000	283	226 $\frac{1}{2}$	10	3.9

*These figures represent the "high" and the "low" quotations for the years 1902 to 1907 inclusive.

Four Per Cent. Preferred Stock.

Year.	Amount.	High.	Low.	Approx. Yield %.
1893	\$ 6,424,000	†90	....	4.4
1894	6,424,000	100	....	4.0
1895	6,424,000	100	....	4.0
1896	8,005,667	100	....	4.0
1897	9,830,667	100	....	4.0
1898	20,951,000	101	....	3.9
1899	26,791,000	101	....	4.0
1900	26,791,000	100	....	4.0
1901	31,171,000†	103	....	3.0
1902	31,171,000	....	....	3.9
1903	32,500,000	....	....	3.9
1904	33,473,333	....	....	3.9
1905	37,853,333	....	....	3.9
1906	42,719,999	....	....	3.9
1907	43,936,666	*109	99 $\frac{1}{2}$	3.9
1908	43,803,332	104 $\frac{1}{2}$	100	3.9
1909	52,696,666	106	102	3.8
1910	55,616,666	108	103	3.8
1911	57,076,666	105	102	3.8
1912	66,695,097	104 $\frac{1}{2}$	99 $\frac{1}{2}$	3.9

†From 1894 to 1901 the quotation given is the average price at the beginning of each year. The quotation for 1893 is the price at which the first issue was made in London.

Four Per Cent. Consolidated Debentures.

Year.	Amount.	High.	Low.	Approx. Yield %.
1893	\$ 39,819,675	105	....	3.8
1894	41,279,675	105½	....	3.8
1895	42,353,018	103½	....	3.9
1896	46,347,844	99	....	4.0
1897	46,055,870	106	....	3.8
1898	48,061,867	115	....	3.5
1899	54,237,082	113	....	3.6
1900	.....	110	....	3.7
1901	60,369,082	†110	....	3.7
1902	63,532,415	....	....	3.8
1903	67,252,252	....	....	3.8
1904	82,355,217	....	....	3.8
1905	89,202,549	....	....	3.8
1906	101,519,411	....	....	3.8
1907	106,045,411	*115	104½	3.8
1908	115,657,078	106½	104	3.8
1909	128,930,132	108½	104½	3.9
1910	136,711,616	111	107	3.7
1911	142,861,462	108½	104½	3.8
1912	153,823,706	105½	104	3.8

*These figures represent the "high" and the "low" quotations for the years 1902 to 1907 inclusive.

†From 1893 to 1901 the quotations given represents the average price during the first month of each year.

Mortgage Bonds (1915).

Year.	Amount.	High.	Low.	Approx. Yield %
1893	\$ 48,088,086	116½	....	3.7
1894	48,088,086	111	....	3.7
1895	48,088,086	116	....	3.7
1896	48,088,086	110	....	4.2
1897	48,088,086	118	....	3.6
1898	48,088,086	118	....	3.6
1899	47,238,086	116	....	3.6
1900	.....	116	....	3.6
1901	47,238,086	†111	....	4.0
1902	47,238,086	....	....	3.6
1903	47,238,086	....	....	3.6
1904	47,238,086	....	....	3.6
1905	47,238,086	*114	104½	3.6
1906	40,238,086	....	....	3.6
1907	40,238,086	108	105	3.7
1908	39,621,967	109½	104½	3.6
1909	39,621,967	109	106	3.6
1910	39,621,967	107½	104½	3.0
1911	38,648,633	108½	106	3.0
1912	38,648,633	106	102½	3.0

*These figures represent the "high" and the "low" quotations for the years 1902 to 1906 inclusive.

†From 1893 to 1901 the quotations given is the average price at the beginning of each year.

ARTICLE XII.

Comparatively Low Capitalization of the Company Per Mile of Line in Operation

(Winnipeg Free Press, Sept. 23, 1912.)

In July last the Statist, a well known and reputable London Financial journal, stated:—

"By keeping down its capital account in the manner it is doing, the Canadian Pacific Railway is able to charge lower rates and fares than otherwise would be necessary, and at the same time pay a reasonable rate of dividend upon its securities."

As to the actual rate of interest which the Company is paying upon its securities reference was made in the

preceding article. The Statist, on the same date, said:

"The yields afforded by the securities of the Company are in part as follows:

	Dividend	Yield
	P.C.	P.C.
1st Mortgage Bonds	5	3.9
Debentures Stock	4	3.9
Preference Stock	4	4.1
Capital Stock	10	3.8

These low rates of interest which investors are satisfied to have are due

to the low capitalization of the Company's road, and that low capitalization is due to the aid which it has received from the public."

Generally speaking the capitalization of a railroad company is judged by the amount per mile. That of the Canadian Pacific Railway at the end of June, 1912, was slightly under \$40,000 per mile. In the report respecting railway statistics issued by the Minister of Railways and Canada, and covering the year ending June 30, 1911, it is stated that the capital liability of Canadian railways stood then at \$1,398,089,701, and the mileage 23,251. A calculation made on this basis shows that the capital liability per mile, at that time was \$55,829.

In the United States the average capital liability per mile at the end of 1911, according to official reports made to the Government, was \$59,345 per mile. It would appear from these figures that the Canadian Pacific Railway Company is in a very exceptional position in so far as the amount of its capital liability is concerned. It should be able to give more and better service at a less cost than railways carrying liabilities so much greater. But there are several reasons why the Canadian Pacific Railway Company have a comparatively low capitalization. In reviewing the Company's position the Statist of London, in July last, said of the Company in this respect:—

Why Capitalization is Low.

"The whole of the cash subsidy has been deducted from the cost of road and equipment, and the whole of the sum received from land sales has been treated in a similar manner. It will be recollected that up till 1904 the Company carried on its balance sheet as a liability a sum of \$30,752,000 received as subsidies and bonuses. By June, 1911, an additional sum of \$49,258,770 had been received from land and town-site sales, of which \$34,116,000 was due in respect of deferred payments. . . . The interest upon capital accrues only upon the net cost of the road after the deduction of the subsidies, the bounties, and the land sales. But for this the capital account would be \$82,000,000 greater than it is. After the whole of the surplus land which the Company has for sale is disposed of, the capital account will benefit to the extent, in all, of about \$200,000,000 from land grant and subsidies. To the extent of the land sales and sub-

sidies the capital account will be correspondingly lower than would otherwise be necessary. In brief the company, by the wisdom of its policy, is returning to Canada the whole of the advantage it has derived from the bounties it has received and the proceeds of its land sales, and is only giving to its shareholders a reasonable return upon the capital they have actually subscribed in cash either by subscription to stock or by appropriating undivided profits to capital purposes."

Acquired Securities.

The above is quoted to show that the low capitalization of the company's road is appreciated by an authority in London's inner financial circles. With its conclusions to the effect that the company has returned to Canada the whole of the advantage it has derived from the bounties it received it is impossible to agree. As to low capitalization, however, there is no alternative but to concur in the Statist's opinion.

One aspect of the capitalization of the company's road ought not to be overlooked, and it is the proportion of it devoted to acquiring securities of other roads. In the asset side of the balance-sheet issued in July last, the item of "Acquired securities" amounts to \$80,525,353. Another item accounting for the use of considerable capital is advances and investments, which amounts to \$12,360,997. In view of the use of capital for these purposes it is not possible, from the information available to the public, to estimate satisfactorily just what is the actual capitalization per mile of road of the company's system. It is obvious, however, that it is low. Under such treatment as the road has received from the hands of the Canadian government it would be very extraordinary if the capitalization was not low.

Advantage of Low Capitalization.

With the whole Dominion on the threshold of larger development, and with its system first in efficiency and having the strategic advantage of first choice of location, as well as having a remarkably low capitalization it ought not to be difficult for the C. P. R. to procure additional capital on the most favorable terms. Its position in this respect is fully appreciated by the investment world as the prices of its securities indicate. Compared with those of other Canadian and leading railroads of North America on the 31st of August last, they are as follows:—

Comparative Quotations.

	Closing Aug. 31, '12 on bid	Yield Bid Asked, price	
Canadian Northern—			
4 p.c. Debentures	98	100	4.1
Canadian Pacific—			
4 p.c. Pref. stock	99	100	4.0
4 p.c. Consolidated Debentures	102	103	3.9
Grand Trunk—			
4 p.c. Perpetual De- bentures	97	98	4.1
Illinois Central—			
4 p.c. Gold bonds	100	102	4.0
Baltimore and Ohio—			
4 p.c. 50yr. Bonds (1948)	101½	102½	3.9
St. Paul—			
4 p.c. General Mort- gage (1989)	99	101	4.0
New York Central—			
3½ p.c. General De- bentures (1997)	89	91	3.9

	Closing Aug. 31, '12, on bid	Yield Bid Asked, price	
Northern Pacific—			
4 p.c. Prior Lien (1997)	101	103	4.0
Pennsylvania—			
Consolidated Mtge. (1948)	101	102	4.0
Union Pacific—			
4 p.c. First Bonds.....	103	105	3.9

It is not necessary to adduce further facts showing how strong a hold the Canadian Pacific has upon the faith, and a justifiable faith, or the investors of the world, by the use of which it can secure capital for the extension of its system at approximately four, instead of six per cent. as proposed. The adoption of the latter policy will fasten upon the public the obligation to pay freight and passenger rates to the extent of \$2,000,000 per year more than is necessary to yield a return satisfactory to the investing public of practically every country.

ARTICLE XIII.

The Value of the Company's Exemptions from Taxation

(Winnipeg Free Press, Sept. 27, 1912.)

If the Canadian Pacific Railway paid taxes at the same rate as railroads in the United States its annual bill would be approximately \$4,715,500. Its contributions in the form of direct taxes to the funds out of which the expenses of administering the affairs of the Dominion is met, amounts to less than \$1,000,000. To fully appreciate the value of the company's exemptions comparison should be made with the burden of taxation imposed upon the railroads in other countries, particularly the United States. In the latter country no less than 3.87 per cent of the gross earnings go towards taxes; in Canada the proportion is .8 per cent. If it were possible to get exact figures showing to what a great extent the Canadian Pacific railway was exempt from taxes imposed upon private enterprises, it is quite safe to assume that they would show such

exemption to have a value as great as that of the company's land grant.

Every privilege an enterprise enjoys adds to its strength from a credit standpoint. If the Canadian Pacific railway could be judged as a private enterprise, which strictly speaking it is not, one of its greatest assets would be the exemptions it enjoys from taxation such as imposed upon private individuals or corporations. The sweeping exemptions granted the company rest on the following clause:

Tax Exemption Clause.

"The Canadian Pacific railway and all stations and station grounds, workshops, buildings, yards and other property, rolling stock and appurtenances required and used for the construction and working thereof, and the capital stock of the company shall be forever free from taxation by the Dominion or by any province here-

after to be established, or by any Municipal corporation therein."

With reference to this clause it might be said that it is almost identical with the clause inserted in the Act which validated the contract with the Canadian Pacific Railway Co. of 1872. That clause, specified that "the said railway being in fact a public work constructed mainly at the expense of the Dominion for the benefit of all the Provinces thereof." Here is a frank admission that the enterprise was a public one and carried out at the expense of the country at large. The Canadian Pacific owes its existence to the fact of its being, as this particular clause says, a public work. There is between public work and private enterprise a very great difference. The one, admittedly, is concerned with private profit and the other with public advantage. This exemption from taxation was intended for the public good, not only during the years of construction, but during those years when the road had attained to a state of development.

Winnipeg's Experience.

One of the best illustrations of the value of this exemption is the experience of the City of Winnipeg. By a by-law passed in 1882 all the property of the company within the limits of the city was exempted from municipal taxation. The clause in the company's contract, of course, did not apply to Winnipeg, inasmuch as Manitoba, in which Winnipeg is located, was one of the old Provinces with the sovereign right of taxation. But Winnipeg desired to have the new line locate its shops within its boundaries, and part of the consideration for the company doing so was exemption from taxation. But at the time the agreement with the Canadian Pacific Railway company was made with the government the territory which now comprises Saskatchewan and Alberta was not divided into Provinces or given Provincial status. The cities and towns, therefore, of the new Provinces will be in identically the same position as Winnipeg, that is, unable to impose taxes upon property as specified in the clause quoted. City ratepayers of these new cities will appreciate the great disability they are under by studying the experience of Winnipeg. An examination of the annual reports of the assessment commissioner of Winnipeg in conjunction with the reports issued by the comptroller discloses the fact that since the consummation of the agreement

with the City of Winnipeg in 1882 the taxes lost to that city amount in the aggregate to \$1,174,202. In detail they are as follows:

C.P.R. Exemptions in Winnipeg.

Year.	Assessment (Exempt.)	Rate (mills).	Taxes.
1883	\$1,000,000	10.00	\$10,000.00
1884	1,511,000	16.63	25,127.93
1885	785,000	20.00	15,700.00
1886	750,000	19.40	14,550.00
1887	1,000,000	17.25	17,250.00
1888	1,001,300	17.75	17,773.07
1889	1,001,100	19.35	19,371.28
1890	1,000,000	20.00	20,000.00
1891	1,000,000	19.50	19,500.00
1892	1,000,000	19.40	19,400.00
1893	750,000	19.60	14,700.00
1894	750,000	19.60	14,700.00
1895	750,000	20.00	15,000.00
1896	750,000	20.00	15,000.00
1897	904,940	20.00	18,098.80
1898	884,940	21.50	19,026.21
1899	884,940	21.25	18,804.97
1900	890,180	23.25	20,696.63
1901	1,000,000	24.50	24,500.00
1902	1,594,000	23.25	37,060.50
1903	2,103,700	21.50	45,229.55
1904	2,863,900	17.00	48,686.30
1905	3,686,150	19.70	72,617.15
1906	4,884,500	17.90	87,432.55
1907	5,320,200	16.00	85,123.20
1908	6,070,400	15.00	91,056.00
1909	6,620,200	15.00	99,303.00
1910	7,115,000	10.80	76,842.00
1911	7,115,000	13.25	94,273.75
1912	8,115,000	12.00	97,380.00
Total			\$1,174,202.92

The figures in the above table do not include taxes for local improvements.

Railroad Taxes in the United States.

In the United States the taxation of railroad corporations during the past twenty-three years has never been less than 2.86 of the gross earnings. The average has been well above 3 per cent. The tendency in recent years is to increase taxation. For the past five years the average taxation has been approximately \$400 per mile. On this basis the prairie provinces would receive ten times as much from the railways as they do at the present time. To illustrate how great is the value of C.P.R.'s exemption from a Provincial standpoint an estimate has been made to show what the railroads would pay to the three western provinces if they were taxed at the same rate as the railroads of the United States, that is on a basis of \$400 a mile. With this estimate the mileage in each

province as compiled by the Department of the Interior is given as well as the exact amount of taxation paid to each Province according to the report of the Minister of Railways and Canals:

Provincial Taxation of Railroads.

MANITOBA.

1911 Mileage	3,796
1911 Taxes Collected	\$154,782
Taxes on \$400 a mile basis	\$1,680,800

SASKATCHEWAN.

1911 Mileage	4,202
1911 Taxes Collected	\$196,971
Taxes on \$400 a mile basis	\$1,680,800

ALBERTA.

1911 Mileage	2,111
1911 Taxes collected	\$79,019
Taxes on \$400 a mile basis	\$844,400

The exemption which the Canadian Pacific enjoys can, of course, only be justified if the equivalent in value is remitted in lower freight rates. If this is not done then they add vastly to the credit strength of the company. Obviously, the relief from so heavy

a burden as that borne by individuals and private enterprises must be a source of great strength to this public undertaking. In applications for more capital this special privilege has a very important bearing. It must be a great attraction to prospective investors to have indicated to them that the company's vast estate in land and their property as a railroad is not liable to taxation, in the most profitable field of its operation. It is impossible to estimate the value of the tax exemption of its lands. To do so is just about as impossible as it is to determine when all of it will become liable to taxation. Its present land holdings of over 11,000,000 acres, if assessed at the rate of as low as 10 cents per acre per annum, would yield an annual revenue of \$1,000,000. If to this is added the taxation of their actual properties on the same basis as that of private individuals or corporations, the sum would be at least double that, say \$2,200,000, a sum equivalent to over 1 per cent. per annum upon the company's common stock.

ARTICLE XIV.

Cash Subsidies to Branches Acquired by Canadian Pacific Railway

(Winnipeg Free Press, Sept. 28, 1912.)

Contributions made to the Canadian Pacific Railway have taken three forms, cash subsidies, land grants, and guarantees. So far reference has been made to the aid extended by the Dominion Government only. The company has been in receipt of bonuses for branch lines from Provinces and Municipalities as well as from the Dominion Government. In addition to the cash subvention in consideration of the construction of the main line the company received \$10,000,000 on account of branches from the Dominion; approximately the same amount from Provinces, and over \$3,000,000 from Municipalities.

for obvious reasons to build up a total showing the money value of the various forms of assistance given to railway companies in Canada. There are many difficulties in the way of getting information which sets out clearly the magnitude of the aid and its value to railroad companies, as Mr. Campbell has found out. But there are available facts which justify the conclusion that the aid has reached vast proportions, and that one of the chief beneficiaries has been the Canadian Pacific Railway Company. Up to June 30, 1911, the total cash subsidies by the Dominion Government for railway construction stood at \$148,278,071; by the Provinces \$35,919,360; and by Municipalities, \$13,042,823. After considerable research it was found to be impossible to ascertain from information available to the public just what proportion of the foregoing totals could be credited to the Canadian Pacific Railway. What information is available, however, is tabulated in a

The Deputy Minister of the Department of Railways and Canals, Mr. A. W. Campbell, says it is not possible

table accompanying this article. The total cash subsidies granted to the Canadian Pacific Railway, traced as shewn in the tabulation referred to, amounts to \$53,089,332. If we deduct from that amount the subsidy given by the Dominion government on account of the main line there remains the sum of \$23,338,826 contributed from other sources to the company on account of cash subsidies. If they did not receive the actual cash they acquired the constructed lines in which public money

had been invested for the purpose of acquiring transportation services. By taking over these branch lines they took over the responsibility assumed by them in consideration of the bonuses obtained. The obligation, therefore, rests upon the company to furnish service on these lines at as low a cost as is practicable, consistent with a reasonable return upon the capital the company finds it necessary to employ. Figures following cover the bonuses paid to June 30th, 1911.

Cash Bonuses Paid to the Canadian Pacific by the Public

	Dominion.	Provincial.	Municipal.
Canadian Pacific	\$29,750,506	\$1,194,129	\$72,000
Owned—			
Canadian Central	1,525,250	1,479,000	.....
Lake Temiskaming Colonization	310,335	350,076	.....
North Shore	1,500,000	.....	.....
Montreal and Western	361,270	472,500	.....
Que., Montreal, Ottawa and Occidental.	.....	727,000	25,000
Leased—			
Atlantic and Northwest	3,888,800	699,192	.....
Cap de la Madeleine	7,424	.....	.....
Columbia and Kootenay	88,800	.....	.....
Credit Valley .....	.....	531,000	1,085,000
Fredericton .....	.....	230,000	80,000
Guelph and Goderich .....	.....	.....	31,000
Guelph Junction	51,200	.....	.....
Lindsay, Bobcaygeon and Pontypool	185,173	52,500	73,000
Manitoba and Northwestern .....	.....	.....	215,600
Manitoba Southwest Colonization .....	.....	.....	.....
Montreal and Lake Maskinonge	41,280	87,750	.....
Montreal and Ottawa	192,000	282,210	5,300
Nakusp and Slocan	121,600	.....	.....
New Brunswick .....	.....	76,000	23,000
New Brunswick and Canada .....	.....	575,000	47,500
Nicola, Kamloops and Similkameen	300,800	.....	.....
Northern Colonization	355,200	96,000	.....
Ontario and Quebec	196,000	.....	52,500
Orford Mountain	192,942	138,884	3,000
Ottawa Northern and Western	950,000	1,242,172	250,000
Saskatchewan and Western .....	.....	.....	10,000
Shuswap and Okanagan	163,200	.....	.....
St. John Bridge and Extension .....	.....	5,181	.....
St. John and Maine .....	.....	880,000	.....
St. Lawrence and Ottawa .....	.....	.....	.....
St. Mary's and Western Ontario	67,344	.....	77,996
St. Stephen and Miltown	14,848	13,920	.....
Tilsonburg, Lake Erie and Pacific	158,871	38,564	75,000
Tobique Valley	134,016	70,000	.....
Toronto, Grey and Bruce	14,656	375,282	969,561
Western Ontario Pacific	60,000	.....	25,000
Totals	\$40,352,515	\$9,616,360	\$3,120,457

ARTICLE XV.

Land Grant to the Company and Proceeds
Received From Sales

(Winnipeg Free Press, Sept. 30, 1912.)

When the parliament of Canada granted to the Canadian Pacific Railway a subsidy in the form of land it was with a view to providing it with a resource the cash value of which would accrue when the land granted was served with railroads and settled. Until it had railroads it was of use only to adventurers, not settlers. Without railroads and settlers it was valueless, commercially speaking. To furnish railroads the people supplied cash and credit. Settlement followed the railroad and gave the land a commercial value out of which an efficient transportation service could be developed in keeping with the development of the country. As a cash resource the land without settlers was of no account. To make it of account, from a national standpoint, the country pledged its honor, its cash and its credit in projecting and completing the Canadian Pacific. For this purpose the land was coveted by Canadians. It had no cash value, but this land had a national, as well as an imperial value. Sir Thomas Shaughnessy says: "for seventeen years after the completion of the railway the land grant in that vast wilderness was not coveted by anybody and it was not until after 1902 that stupendous efforts and vast expenditures of the company to attract attention and bring people to the country, commenced to bear fruit, that the land grant became an important feature in the company's financial affairs." Making due allowance for the still more stupendous efforts of the Dominion Department of Immigration—and successful efforts—to bring settlers to Canada, what Sir

Thomas says is quite true. But who is it that covets the railway lands? The people claim their equivalent in service, and shareholders covet their cash equivalent in the form of dividends.

After providing for expenditures on irrigation, for the purchase of land from the Hudson Bay Co., and for expense in connection with the retirement and cancellation of the land grant bonds and cultivation rebates the Canadian Pacific Railway Company has had at its disposal \$93,731,823. This amount has been expended in construction of railway and equipment. The land grant was intended for that purpose. In the Company's balance sheet on the debit side for the year ending June 30, 1912, the item "Land and Town Sites" accounts for \$57,538,307. In 1904 a sum of \$36,193,521 was deducted from cost of property. These two items together account for the total of \$93,731,823. As a note at the foot of the asset side of the balance sheet it is stated: "In addition to the above assets the Company owns 6,660,591 acres of land in Manitoba, Saskatchewan, and Alberta, 'average sales \$15.99 per acre,' and 4,395,548 acres in British Columbia."

Land Assets Value,

At \$15.99 per acre the value of the agricultural lands in the prairie Provinces, owned by the C.P.R., is over \$100,000,000. There is some uncertainty as to the value of the lands in British Columbia. Some are fruit lands worth more per acre than the agricultural land in the prairie Provinces, but other lands owned by the Company are not so valuable. There are, however, timber and mineral resources of great value on the areas owned by the Canadian Pacific. In view of so many reports emanating from speculative centres to the effect that these resources of the Company are to be segregated and applied as profit to the shareholders, contrary to

the spirit, if not to the letter, of the agreement with the Company, it is of the highest importance that the people should know more of the immense value of the assets that would be diverted from public service if Parliament permitted such a step. The existence of these assets, under good management, makes the acquiring of new capital, on most favorable terms, a much easier task than it otherwise would be.

Sir John A. Macdonald and Land Donus.

In endowing the premier transportation system of the Dominion so bountifully with land, Parliament had in view solely the provision at a reasonable cost efficient transportation service. Sir John A. Macdonald speaking in 1880, on a resolution before Parliament deprecating the disposing of lands on any other terms than those of settlement, said:—

"I would ask the House who would go and buy land that he could not sell? We have reserved these lands for . . . actual settlement and for the purpose of building the railway; and for the purpose of relieving the people of Canada from the burden of taxation which the work

would otherwise entail, we have offered every second lot at an upset price, so that the road may be eventually built without costing the people one single farthing which will not be recouped. I believe that land can be made productive under the terms of the resolution to complete the whole of that road, to open that immense territory, and give us a magnificent railway from sea to sea, without adding to the burdens of the people, or without causing any necessity for an increase of taxation. We can do it all by the sale of the lands which we hold as a sacred trust for the purpose of defraying the whole expense of the construction of the Pacific railway. So, Mr. Speaker, I can disabuse the minds of the country, or the minds of any of the hon. gentlemen who hear me, of any apprehensions that the construction of the Pacific railway will be so burdensome as to be oppressive to the people, and discouraging to the future development, prosperity, and growth of the Dominion."

Rumors Regarding Land Assets.

The extent to which proceeds of land sales are distributed amongst shareholders is the exact measure of the burden added by so-doing to the

What the C.P.R. has Received from Sales of Land Grants

The following is a copy of exhibit C in the company's last statement, which sets forth the quantity of land it has sold and the proceeds received therefor:—

Lands and Townsites—	
13,763,877 acres and townsites sold, amounting to	\$98,192,095.63
6,793,014 acres disposed of to the Dominion Government in 1886	10,189,521.00
	\$108,381,616.63
Less expenses, cultivation rebate and 10 per cent. on land grant bonds retired and cancelled	10,827,665.11
	\$97,553,951.52
Add—	
Proceeds Manitoba So. West. Col. Ry. Land Sales.....	\$3,011,279.09
Proceeds Great North West. Cent. Ry. Land Sales	1,001,918.70
Proceeds Manitoba and Northwestern Ry. Land Sales	63,068.89
Proceeds British Columbia Land Sales	1,417,816.08
	\$103,048,034.28
Less cost of lands purchased from Hudson's Bay Co.	1,396,591.54
	\$101,651,442.74
Deduct:—	
Expenditures on irrigation	7,919,614.15
	\$93,731,828.59
Amount expended in construction of railway and equipment and deducted from cost of property	36,193,521.00
	\$57,538,307.59

broad back of the public. That segregation of land assets for the purpose of being pocketed by the shareholders is intended is not known, but reference to that proposal is quite justified by the prevalence of very numerous rumours emanating from, generally speaking, well informed seats of speculation. So persistent have been these rumors as to fully justify some authoritative statement from either the President of the Company or from the Dominion Government, so as to set at rest any doubt in the public mind as to the diversion of so great a public asset to private pockets.

Land Revenues Diverted to Pockets of Shareholders.

So far the amounts taken from revenues from land sales and paid to the shareholders is not in the aggregate very large, but the principle involved is important. In the last report issued by the Company a statement dealing with special income includes the item "Interest on Cash Proceeds and on Deferred Payments for Land Sold, \$1,817,774." From the corresponding source of revenue, from 1907 to 1910, the company paid 1 per cent. per an-

num on their common stock. Starting with, and including 1911, they paid this extra dividend, raised from 1 to 2½ per cent., that is in 1911, from what is termed "Special Income." Under that head, introduced in the statement of 1911, is included the interest on deferred payments on land and various proceeds in the form of interest and dividends on the acquired securities of the Company. Attention will be given to the special income of the Company, apart from proceeds from land sales in another article. If the shareholders have the right to pocket the interest on deferred payments and interest on cash proceeds from land sales it can be reasonably argued that they have a right to pocket the land, or to segregate from the use of the public the resources that were meant for public service in the form of transportation facilities. The appropriation in the form of dividends of this interest on cash proceeds and deferred payments since 1907—their diversion from use in building new, and improving existing carrying facilities to the pockets of shareholders—is a question of public moment which might well be settled before any additional capitalization is permitted.

ARTICLE XVI.

Value of Company's Unsold Lands and the Company's Special Income

(Winnipeg Free Press, Oct. 1, 1912.)

Out of interest received from securities of other roads owned, from cash investments in government bonds, and interest on deferred payments on land sales, the Canadian Pacific railway is in a position to take care of an additional debenture debt of nearly \$150,000,000 on the basis of four per cent. interest. On a 4½ per cent. basis the company could take care of an additional \$130,000,000. In addition to these resources the company's lands have a market value of \$150,000,000 on a basis of \$15 an acre for those in the Prairie Provinces and \$10 an acre for those in British Columbia. Irrigated lands av-

erage \$33 per acre and some of the lands in British Columbia for fruit raising are much more valuable.

In the preceding article the revenue, and its disposition, from the sale of railroad lands was dealt with. In addition to what the company has already disposed of it has left 6,669,581 acres of what are termed agricultural lands and 4,395,948 acres of British Columbia lands. Accompanying this article a table is given showing the position of the land grants as at June 30 last. Of the revenue from lands already disposed of \$93,731,828 has been invested in railroad equipment. It may be assumed that it is the intention of the company to pursue the

policy of devoting land sale proceeds to transportation purposes. If that be the case they will have the value of the landed estate to devote to much needed service.

Lands Valued at \$143,000,000.

Last year the average price brought by the land sold was \$15.99 per acre. It may be assumed that the remaining portion of the land does not grade

up to that which has already been bought. On the other hand the population of the west has increased and more railways have been built, both of which circumstances are very important factors in enhancing land values. This applies to the prairie lands. Those in British Columbia are still more valuable. Where they are suitably located for fruit raising their value is high and that with timber on

Position of Canadian Pacific Railway's Land Grants at June 30th, 1912

TABLE I.

		Acres.	Acres.
Canadian Pacific—			
Grants		26,710,400	
Sold to Dominion, 1886		6,793,014	
		19,917,386	
Purchased from Hudson's Bay Co., 1911		102,174	
Acquired with Alberta Railway, 1912		209,559	
		20,229,119	
Sales to June 30, 1912	13,822,923		
Less cancelled during year	59,046	13,763,877	
Quantity of land unsold			6,465,242
Manitoba Southwestern—			
Total grant		1,396,800	
Sales to June 30, 1912	1,301,822		
Less cancelled during year	14	1,301,808	
Quantity of land unsold			94,992
Great Northwest Central—			
Total Grant		320,004	
Sales to June 30, 1912	220,074		
Less cancelled during year	417	219,657	
Quantity of land unsold			100,347
Total agricultural lands owned by company.....			6,660,581
British Columbia Lands.			
		Acres.	Acres.
Columbia and Kootenay—			
Total grant		190,000	
Sales to June 30, 1912	158,414		
Less cancelled during year	59	158,355	
Quantity of land unsold			31,645
British Columbia Southern—			
Total grant		3,451,093	
Sales to June 30, 1912	334,330		
Less cancelled during year	161	334,169	
Quantity of land unsold			3,116,924
Columbia and Western—			
Grant received		1,347,905	
Sales to June 30, 1912	102,206		
Less cancelled during year	1,680	100,526	
Quantity of land unsold			1,247,379
Total British Columbia lands owned by company			4,395,948

it will also be very valuable. To be on the safe side, however, the whole lands in that province may be set down as worth at the present time \$10 per acre. That would bring the value of the company's present estate in land to be:

6,660,580 acres at \$15	\$99,908,715
B. C. Lands, 4,395,948 acres	
at \$10	43,959,430
	<u>\$143,868,195</u>

As Speculators View Land Assets.

This asset is one that has attracted very wide attention. In conjunction with others of an extraordinary character which the Canadian Pacific railway enjoys, it has been the subject of special treatment at the hands of investment and stock brokers. To prospective investors it has been pointed out as an asset that makes the purchase of Canadian Pacific shares, and its funded debt securities safe and desirable. The firm of Wasserman Bros., of New York, issued a special circular dealing with what they term "hidden assets" of the Can-

adian Pacific, and which they claim to be responsible for the "prolonged bull market" in Canadian Pacific shares. These "hidden" assets" as at the end of June 30, 1911, are listed as follows:

Unsold lands, grand total	
acres	11,488,995
Value of above per acre ..	\$14.69
Total value at this price ..	\$168,000,000
Land in irrigation block included in above total acres	3,000,000
Average price of irrigated land per acre	\$ 33.63
British Columbia lands.	\$ 44,427,811
Company's acquired securities, cost	\$ 75,979,653
Company's acquired securities, par value	\$125,601,151

In respect of the lands the view taken by the brokerage house, whose figures are quoted, is substantially correct. The investment world fully appreciates the position of the Canadian Pacific from an asset standpoint. Its landed possessions, greater than possessed by any other corporation in the world, are a great factor in placing

Where C. P. R. Gets Funds to Pay Special 3% Dividend

TABLE II.
From Subsidiary Lines.

	Security.	Income.
Alberta Irrigation Co., Ordinary Stock	\$ 3,146,300	\$245,241
Duluth South Shore Bonds	15,107,000	100,000
Kingston and Pembroke Railway Bonds	571,000	13,320
Soo Bonds	3,993,000	159,720
Soo Preferred Stock	6,361,800	445,326
Soo Common Stock	12,723,500	890,645
Montreal and Atlantic Bonds	945,000	174,311
St. John Bridge Common	200,000	50,000
Dominion Express Common	2,000,000	160,000
Mineral Range Bonds	1,254,000	50,160
Toronto, Hamilton and Buffalo Bonds	271,000	10,840
West Kootenay Power Preferred Stock	55,000	1,925
West Kootenay Power Common Stock	1,100,000	27,500
Total from Subsidiary Lines		\$2,328,988
From Land and Investments.		
Interest on Cash Proceeds and Deferred Land Payments		\$1,817,774
Interest on Deposits and Loans		605,140
Interest from Dominion Government Bonds		182,500
Interest from Ontario Government Bonds		48,000
Interest from British Consols		114,569
Interest from C.P.R. First Mortgage Bonds		61,612
		<u>\$5,158,585</u>
Balance from June 30, 1911		2,702,205
		<u>\$7,860,890</u>

Note.—On common stock amounting to \$180,000,000 the amount required to pay 3 per cent. dividend is \$5,400,000.

the company in the most favorable position to get unlimited capital at the lowest possible cost. Against this enormous landed estate there is no obligation. The money raised on it in the past through the agency of the government has all been refunded. The people as represented by the government valued the lands and risked their credit on them to raise funds for the Canadian Pacific. But the promoters of that road could find no capitalists ready to accept these lands as security.

Special Income.

Since the company placed its special income under a separate head and commenced paying special dividends out of it the public has had more information furnished with regard to it. It will be remembered that out of earnings a dividend of seven per cent. per annum is paid to shareholders and out of "special income" a dividend of three per cent. Obviously this special income must represent extraordinary resources, and so it does. Accompanying this article is a table which shows the actual income as well as the sources from which it is derived. From subsidiary lines the annual revenue is \$2,328,988, and from interest on cash proceeds and deferred payments on land, together with interest on investments made, the income is \$2,828,797. These total \$5,158,585. To pay a dividend upon a capitalization of \$180,000,000 requires \$5,800,000. Special income last year, therefore, was not quite equal to dividend requirements, but there was a balance standing to its credit of \$2,702,205. With the aid of this sum a balance forward is made possible of \$2,460,790, and it constitutes a substantial contribution to the fund required for the three per cent. dividend for the current year. There does not appear to be the slightest prospect of the fund ever being short of requirements necessary to pay the three per cent.

Land is selling at higher figures and the company are particularly active in turning it to account. Moreover, the lines which are being nursed by the company are not by any means a burden to it. Some of them which do not contribute anything to "special income" will soon do so.

Capital and Special Income.

The securities listed in Table II, accompanying this article do not constitute the whole of those coming under the head of "acquired securities" in the balance sheet and which cost the company \$80,525,353, but only those from which a revenue is derived. The large sum, on the asset side of the balance sheet representing the cost of these securities, \$80,525,353, is more than one-sixth of the entire funded debt and share capital of the company. In acquiring control and possession of the properties listed in the company's report there may be every justification from a strategic or transportation standpoint. As far as can be judged from the figures given in the balance sheet the revenue from these roads, which have cost so much money, is not equal to the capital charges on the debentures of the company issued to acquire them. They may be worth the money as auxiliaries under control which divert traffic to the Canadian Pacific system. What direct revenue is obtained from them goes into special income and from there to the shareholders. The question arises as to whether further capital raised would not be devoted to the same purpose of acquiring control and possession of other roads, and of making investments other than building railroads in Canada, the proceeds from which go to the shareholders. Capitalized at four per cent, this special income of the company would be sufficient to take care of additional funded debt of \$145,000,000; if capitalized at 4½ per cent, it would take care of \$125,000,000 or twenty millions more than the company hope to raise by an issue of \$60,000,000 at a premium of 75 per cent.

ARTICLE XVII.

How New Capital Raised Since 1902 has been Expended

(Winnipeg Free Press, Oct. 2, 1912.)

In ten years the four per cent. bearing obligations of the Canadian Pacific increased approximately \$125,000,000. In the same period, the capital bearing ten per cent. dividends, increased \$124,000,000. Of the low interest bearing securities approximately \$40,000,000 of the increase was presumably utilised in acquiring securities of other roads.

It is obvious, therefore, that the board of directors during the most prosperous decade of the company's history have for the benefit of shareholders issued new stock on a very liberal scale, the result of which is to place on the revenues of the system the burden of carrying the heavy dividend on common stock in place of the lower rate on the preferred and funded debt.

Capital Operations of Canadian Pacific Railway

Ten Years' Changes in Liabilities.

TABLE I.

	Liabilities 1912	Liabilities 1902	+ Increase —Decrease
Capital Stock	\$196,806,621	\$72,624,162	+\$124,182,459
4 Per Cent. Preference	66,695,097	31,171,000	+ 35,524,097
4 Per Cent. Debentures	153,823,706	63,532,415	+ 90,291,219
Mortgage Bonds	33,648,633	47,238,086	— 8,589,453
Land Grant Bonds .....	.....	16,430,000	+ 16,430,000
Current Liabilities	23,545,335	5,911,670	+ 17,633,665
Interest and Rentals	1,391,702	1,780,566	— 388,864
Cash Subsidies .....	.....	29,969,688	— 29,969,688
Equipment Obligations	1,040,000	.....	+ 1,040,000
Equipment Replacement Fund ..	2,103,993	.....	+ 2,103,993
Steamship Replacement Fund ...	5,721,852	.....	+ 5,721,852
Appropriation for Improvements..	3,535,712	.....	+ 3,535,712
Reserve for Contingencies	4,382,617	.....	+ 4,382,617
Land Sales	57,538,307	27,660,988	+ 29,877,318
Surplus	72,885,966	14,185,634	+ 58,700,332
Totals	\$628,119,545	\$310,504,241	+\$372,993,264 — \$55,378,005

Ten Years' Changes in Assets.

TABLE II.

	Assets 1912	Assets 1902	Increase in ten years
Railway and Equipment	\$382,829,051	\$230,072,641	\$152,756,410
Steamships	21,338,974	3,996,377	17,342,597
Acquired Securities (Cost)	80,525,353	39,818,943	40,646,410
Properties held in trust for Company	6,378,358	1,785,411	4,592,947
Deferred Payments on Hand	41,468,821	7,220,935	34,247,886
Advances to lines under construction	16,654,401	2,154,473	14,499,928
Investments	12,360,997	.....	12,360,997
Supplies on Hand	13,017,431	4,450,527	8,566,904
Current Assets	9,828,601	3,207,940	6,620,661
Government Securities	10,088,734	230,758	9,857,976
Cash in Hand	33,628,819	15,227,691	18,401,128
Totals	\$628,119,545	\$310,504,241	\$317,615,305

Previously, in Article 9, the growth of the funded debt of the Canadian Pacific Railway in the past decade in contrast with the expenditure during each of the years of that decade was exhibited. In this article a more detailed analysis of the Company's balance sheet for the year just closed, 1912, with that of 1902, 10 years ago, is made with a view to determining in detail how the company has invested the monies realized by the issue of new securities or that have been earned in the intervening period.

The difference between the liabilities of 1902 and those of 1912 will show with reasonable accuracy the new capital received in 10 years, and the sums accumulated in the form of reserves and balances. Table 1 has been compiled to show what these differences are. It will be seen that the items of liability which show an increase aggregate \$372,993,264, and those showing a decrease aggregate \$55,378,005, the net increase, therefore, being \$317,615,305.

How Money Was Raised.

The items which show an increase, and which aggregate \$372,993,264, indicate in what particular respect the funds of the Company have increased. These items are as follows:—

Increase 1902-1912.

Capital Stock	\$124,182,459
4 per cent Preference	35,524,097
4 per cent Debentures	90,291,213
Total Capital	\$249,997,775
Current Liabilities	17,633,665
Equipment Obligations	1,040,000
Equipment Replacement Funds	2,103,993
Steamship Replacement Funds	5,721,852
Appropriations for Improvements	3,535,712
Reserve for Contingencies	4,382,617
Land Sale Proceeds	29,877,318
Surplus	58,700,332
	\$372,993,264

It will be noted that the Company, during the period 1902-1912, accumulated some substantial reserves, which appear as liabilities. For the additional liabilities incurred during the 10 year period, as quoted above, let us proceed to determine what equivalent in assets there is to show for them. To do this it will be necessary to find the difference in the assets of the Company as between 1902 and 1912, which is shown in Table 2.

How New Money Was Spent.

By reference to that table it will seem that the difference in the amount of assets is \$317,615,305. The details of the increase in assets in 10 years, from 1902 to 1912, shows how the new money acquired in that period was spent, as follows:—

Increase in Assets 1902-1912.

Railway and Equipment	\$152,756,410
Steamships	17,342,597
Acquired Securities	40,646,410
Properties held in trust	4,592,947
Deferred Land Payments	34,247,886
Advances to Lines under Construction	14,499,923
Investments	12,360,997
Supplies of Land	8,566,904
Current Assets	6,620,661
Government Securities	9,857,976
Cash on hand	18,401,123

\$317,615,305

Liabilities Wiped Out 1902-1912.

In addition to increasing the assets the Company, in that period, wiped out liabilities amounting to \$55,378,005, as follows:—

Mortgage bonds	\$ 8,589,450
Land Grant Bonds	16,430,000
Interest and rentals	388,860
Cash Subsidies	29,969,680

\$ 55,378,005

In the foregoing tabulation of the 10 year increase in assets the Company's lands are not included. Nor is any account taken of the \$36,000,000 taken out of the cash proceeds of land sales, and put into railway and equipment, but written off cost of property. A cursory examination of the figures shows that the Company has not within 10 years increased its funded debt to a considerable extent. The increase in the 4 per cent Preference Stock and the 4 per cent. Debentures has been \$125,000,000 in ten years, or \$12,500,000 per year. Of this amount no less than \$40,646,410 has been invested in acquired securities. This leaves practically \$80,000,000 for purposes of new road or equipment. It is not a large sum to be raised by a Company operating so large a mileage in a country that has been peculiarly responsive. Canada has produced wealth fast enough to make the investment of every dollar of new capital very productive. In fact the complaint generally made is that the Company is not keeping pace with the yield of natural riches which the road has made accessible for exploitation.

ARTICLE XVIII.

The Law Regarding Increase of Stock—Conclusion

(Winnipeg Free Press, Oct. 3, 1912.)

The Canadian Pacific Railway's charter provided that the capital stock of the company should be \$25,000,000 in shares of \$100 each, which could be disposed of on such terms as the directors might decide. Already the facts respecting prices at which these shares were sold have been given. The Consolidated Railway Act of Canada provides that capital stock from time to time can be increased, subject to the approval of its shareholders, and with the consent of the Governor-in-Council. Under that Act the capital stock was raised to \$100,000,000. In 1884, by an Act of the Dominion parliament, the capital stock was limited to \$100,000,000, of which \$65,000,000 was issued and \$35,000,000 was deposited with the Dominion Government. In the following year, 1885, the stock deposited with the Dominion Government was ordered to be cancelled and any further issue was prohibited unless the special authority of parliament was obtained. No further legislation respecting the issue of stock took place until 1892. By an Act passed in that year the company was empowered to increase its capital stock with the consent of the Governor-in-Council as provided by Section 85 of the Railway Act.

Conditions Attached to Authorization.

A modification of this provision in so far as it concerned the Canadian Pacific was effected in 1902, upon the occasion of an application by the Canadian Pacific Railway company to increase its capital stock by \$20,000,000. This special Act stipulated that the stock could not be sold at less than its par value, and also provided that the new capital, no matter how disposed of, should not be deemed capital expended in the construction of the railway under that section of the company's charter relative to the control of the Government over the rates of the company after its earning power has increased to the extent of 10 per cent on its capital. Since that time various orders in Council have been issued authorizing the increase,

from time to time, of the company's capital. They are as follows:

Orders-in-Council Issued.

	Authorized.	Making Total of
1902—January,	\$20,000,000	\$ 85,000,000
1904—June 31,	25,000,000	110,000,000
1906—Feb. 10,	40,000,000	150,000,000
1908—Aug. 17,	50,000,000	200,000,000

The increase of the capital to the extent of \$60,000,000, which Sir Thomas Shaughnessy announces, will bring the total up to \$260,000,000.

Why Consent of Governor-in-Council is Required.

There can be but one purpose in the law requiring that before the capital of a railroad corporation can be increased it must first obtain the consent of the Governor-in-Council. That purpose is to regulate the capitalization in the public interest. This is not a mere formality. In 1902, when the application of the Canadian Pacific was made for an increase in its capital stock, the Government laid down the condition that it could not be sold at less than par value, and another important condition relative to the control of rates. It is, therefore, clearly within the power and practice of the Governor-in-Council or the Government, to withhold its consent until parliament has had an opportunity of deciding as to whether or not conditions should be attached to authorization of new capital.

What the Price of New Capital Should Be.

It is the duty of the Government, under the power that Parliament has given to it, to require the Company to obtain its capital at the lowest possible cost. In preceding articles facts have been adduced which show that the Company's funded debt, so far, has been obtained on the basis of 4 per cent. Actually, the market for the securities listed on the stock exchanges is healthy at a price which

does not yield to the investor a full 4 per cent. The people of Canada should not be called upon to pay freight rates higher than is necessary to pay this rate, that is 4 per cent, upon the new capital required for the extension of the country's transportation system or that portion of the system operated by the Canadian Pacific Railway company. At the present time the funded debt of the Company is, comparatively speaking, low in comparison with the share capital. The fixed charges of the Company, for the year ending June 30th last, amounted to 8.5 per cent on the gross earnings. It is doubtful if any other railway of importance in the world holds a position so favorable. One of its near rivals in this respect is the Great Northern railway, the fixed charges of which are 10 per cent of gross earnings. In view of this fact it would seem to be quite unnecessary for the Canadian Pacific Railway company to issue new stock bearing 10 per cent interest to be taken out of the pockets of the public instead of issuing securities upon which only 4 per cent would have to be paid.

Company's Fixed Charges and Earnings.

Just 10 years ago, in 1902, the fixed charges of the Company amounted to 19.8 per cent of the gross earnings. Five years later, in 1907, they were reduced to 11.7 per cent, and for the last fiscal year, as already stated, 8.5 per cent. If we compare these with the amount of the gross earnings required to meet the dividends declared by the Directors there has been, instead of a decrease, a steady trend in the opposite direction. In 1902 dividends absorbed 8.3 per cent of the gross earnings; in 1907, 12 per cent; in 1912, 14.6 per cent. To indicate how steadily has been the increase in payments made to shareholders as compared with the amount required to meet fixed charges the figures are tabulated as follows:

Proportion of Gross Earnings.			
Year.	1902	1907	1912
Fixed charges ...	19.8	11.7	8.5
Dividends	8.8	12.0	14.6

Cause for Haste.

It is doubtful if ever the company will have a statement to present to investors more attractive than that of the last fiscal year. It shows great

reserves such as to make it quite unnecessary for the company to display any haste or anxiety with regard to the immediate procuring of new capital. For any expenditures, of which the public have knowledge, there does not seem to be need for new capital. The company has a large surplus in cash, has a large land estate, and has a credit equal to that of the Dominion government itself, any or all of which would enable the company to finance tremendous undertakings without requiring authorization from the governor-in-council for permission to increase its capital.

How New Capital Can Be Raised

It has power to increase its preference stock to half the amount of its capital. At present of the former there is issued \$66,695,000, and the capital is \$180,000,000. There is a margin here of \$25,000,000 which could be issued on a 4 per cent. basis without further legislative authority or permission from the governor-in-council. It is possible, also, for the company to issue debenture stock on a large scale, and this would only bear 4 per cent. It need not be reiterated here how strongly these securities are esteemed in any money market. That has already been abundantly demonstrated. It is quite obvious that to issue new debenture or new preference stock would have a less injurious effect upon the company's credit than the issue of a corresponding amount of common stock. One bears interest at 4 per cent, and the other at 10 per cent.

Where the Speculator Profits.

It may be argued, and it will be, that upon the preference and the debenture stock a dividend is guaranteed, whereas no guarantee accompanies the capital stock. Whether the written guarantee accompanies the company's stock or not, the market will immediately put a price on it that will yield the investor but 4 per cent. Speculators will scalp the profits of any higher rate. To issue common stock at the present juncture in the company's history cannot be regarded as other than high-handed exploitation of the company's resources for the benefit of the shareholders. To permit it will show a ruthless disregard for public interests.

The Position of the Free Press.

On November 8, 1909, the Free Press, on the occasion of the announcement of the Canadian Pacific issue of \$30,000,000 of new stock, stated that the market price of the rights under the

stock issue then made was \$15,000,000, an amount that would suffice to pay a dividend of 10 per cent. on the total capital stock of the company of \$150,000,000. Proceeding on that date the Free Press stated:

"By this method of financing the natural earning power of the railway is not so apparent to the public nor is the diversion of the funds of the company by this method from the treasury of the company to the pockets of the shareholders. It is quite evident that the first consideration of the board of directors is not the building up of the country by the provision of the best transportation facilities within its power at a reasonable cost, but to fill the pockets of the shareholders."

Why Europe Has Confidence in C.P.R.

It is assumed that the governor-in-council will not permit a repetition of such high-handed exploitation of the country's resources as this method of financing its transportation system. Capital in large quantities is, undoubtedly, needed, not only for the development of the West, but for every part of Canada. In the past some difficulty may have been experienced in getting capital, but it is common knowledge to every Canadian and to almost every investor in the world, that at no time has it been so easy to get capital for employment in the Dominion. What corporation in the Dominion of Canada is in a better position to take advantage of this reputation which Canada has attained to in the world's market than the Canadian Pacific? For any purpose of this company capital has always been accessible in apparently unlimited quantities. There are two reasons why. The first is, the confidence of the European investors in Canada during recent years, and in the management of the road; and the second, that Canada has yielded up her natural riches fast enough to make new capital very productive.

Capital Seeks Employment with C.P.R.

In the development of new countries the business of railroadng may be said to fall in two periods. One of these is the period when the country has to offer inducements to capital to assist in its development and the other is when that development has taken place and capital seeks the opportunity it

offers for employment. When, at the present time, Canadian Pacific 4 per cent. securities are selling above par in the leading money markets of the world it can be said, confidently, that capital is seeking that security. Capital is now seeking employment in Canada. If ever capital sought employment the Canadian Pacific Railway of recent years, can furnish the most striking instance of its having done so. Why, therefore, should this Company be permitted to impose upon the country any greater burden than that represented by the market price of its securities?

The "Lean Year" Delusion.

It has been argued, very frequently, in some of the leading journals of Canada and by some of its financiers and their agents, that the justification for the "melons" of recent years and those which may, though very improbable, be obtained in the future is that they are some compensation for the "lean years" which the shareholders had to pass through. But there has been no lean years. How purely commercial, how purely sordid were the motives of the members of the original Canadian Pacific Syndicate is beyond question. Facts gathered from official documents and marshalled by the master mind of the Hon. Edward Blake, have written indelibly into the history of Canada the picture of a nation's noble aspiration to secure unity of its scattered domains, as a basis on which to build a greater Dominion, commercialized through connivance between scheming financiers and politicians. Not a penny was adventured by these promoters that had not behind it the credit of the nation or specific security. Year after year these men, represented as being giants in respect of name and fame in the world of money before the contract to build the Canadian Pacific was given to them, went to Parliament for help in cash, or for security for what they had not the courage to risk, a big dividend on their money. This they had secured to them. All the risk fell on the country. Its people had the credit, commanded the cash, and the syndicate handled it. Nor did they forget the rake-off. It was not an ordinary dividend, but one as high as 12 per cent. on cash paid for some of the stock and never less than 7 per cent. No risks were taken; no dividends were passed. No lean years occurred for shareholders. Whether the country prospered or otherwise, handsome want to increase their capital stock it should be permitted only on the un-

derstanding that it should not be a present burden on the people to the extent of more than 4 per cent. That is the price which the market requires for the furnishing of money. If the new capital is secured on any other basis, then an unjust burden is imposed upon the people of Canada. dividends guaranteed by the nation until 1893 were paid to them.

How can there be, therefore, any just claim by the shareholders for any

consideration other than that of a purely commercial character? If they want to increase their capital stock it should be permitted only on the understanding that it should not be a present burden on the people to the extent of more than 4 per cent. That is the price which the market requires for the furnishing of money. If the new capital is secured on any other basis, then an unjust burden is imposed upon the people of Canada.