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As much important discussion of interest to Monetary Times readers will likely arise this session at Ottawa, arrangements have been made for a special correspondent to represent this paper at the Capital.

PRINCIPAL CONTENTS OF THIS ISSUE.

RAILROAD CAPITAL AT PAR.

In the opinion of several London writers, the issue of new capital by the Canadian Pacific Railway at a premium of 25 per cent. does not remove objections to a certain system of financing. On the one hand, it is said to encourage speculation, and on the other, to weaken the company's financial position. Whatever may be said for or against Canadian Pacific financing, several United States railroads have lately gone much further. Three of the leading railroad corporations of the Eastern States have decided to make large issues of new stock. Their object is to take up outstanding notes or maturing bonds and to provide for new capital expenditure. Many New York critics are strongly opposed to these methods. The subject was thoroughly discussed when Canadian Pacific obtained authority to issue $50,000,000 new capital. The $30,000,000 at present being issued at a premium of 25 per cent. is at once a concession to public opinion and a stroke of good finance.

In the case of the Pennsylvania Railroad it is proposed to issue $80,000,000 of new stock at par to present shareholders at a ratio of one share to four of their present holdings. Pennsylvania securities have been selling around $150 per share. A New York writer asks if this is not in effect a dilution of capital and a special dividend to stockholders. "If the stock of a railroad corporation is selling at a high premium above par it is because its earnings provide a high dividend, and these come out of the rates charged for freight and passenger service. It may be a question whether these charges are not too high, adding too much to the cost of the business of the shippers; but, however that may be, the dividends measure the earning capacity of the corporation, derived from its power to charge the public for its service. If it has occasion to raise new capital for legitimate purposes, and does this by issuing new stock, why should not the amount of the new issue be limited to what is necessary to raise the needed capital if the shares are offered to the public at the best price they will bring in the market? If it is going to bring 140 as soon as it is on the market, why should it not be offered in a way to bring that price to the company on its original issue? Then a much smaller amount would need to be issued to raise the capital required, and the securities would be so much the less expanded.

"But perhaps it is intended to expand the securities more than is necessary to raise the money required for the purposes contemplated. Dilution of stock may be one of the objects, but is it a legitimate object? Offering at par to shareholders a stock that is going to be immediately worth $140, in the proportion of one share to four of present holdings, is equivalent to distributing a special dividend of 10 per cent., when the regular dividend has all along been such as to carry the market value of outstanding stock far above par. It furthermore effects a certain dilution of the capital, somewhat lowering for a time the market price of shares, or preventing such further advance as might otherwise take place, thus disguising the fact that the earning capacity is high in proportion to the actual invested capital, which is due to high rates for transportation. The fact that the dilution may somewhat lower the price of shares is an extra inducement to the existing stockholders to accept the option of taking the new stock, and effects a discrimination against any who might decline to do so."