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CAPITALIZATION OF EARNINGS.

A chord has been struck by the New York Chamber of Commerce, of which the vibration will be felt wherever corporate capital is increased out of earnings. The ground is taken that the legislature should prohibit the capitalization, by commercial corporations, of any part of their earnings. This is done in the same breath in which the watering of stock is condemned: the watering process, this commercial organ thinks, should be made a misdemeanor. The two processes are essentially different: by the one, stock is diluted; by the other, the volume of stock of the full original strength is increased. By watering, the bulk of the stock is increased, without any addition to its strength. Capitalization of earnings is sometimes made a means of disposing of surplus revenue, over and above what a company's charter allows to be divided among the shareholders. When this is done, the law is evaded: the legal restriction is got over by a side-wind. Capital stock may be increased by expenditures on capital account, in the form of extension of works. This form of increase is most likely to escape detection. Additions made to capital out of earnings are generally called by some other name; but when they are large, they are, under whatever designation, real additions to capital.

The limitation of the dividends of commercial corporations, are made in the supposed interest of the public. When a charter provides that a railway company shall not divide more than ten per cent. profit, the intention of the legislature is to put a check upon rates and fares. And it is in the name of the public that the New York Chamber of Commerce speaks. The meaning of the demand of this organ of mercantile opinion is that, practically, all the earnings of railways, banks and other commercial corporations, shall be divided. When there is a limit to the dividends, the enforcing of this rule would place a limit to earnings. And, very often, the intention of the legislature, in granting the charter, was to limit them. A corporation may be more or less of a monopoly; though it is by no means necessarily so; its franchises may be valuable, and when the corporation as a body is empowered to do what its members could not do individually, a special privilege is granted, for which the state may claim acknowledgement in some form. The charter of the Bank of England was renewed, on condition of its lending to the government nine millions sterling, without interest. This was

the price it paid for its charter; and this price it continues to pay, the loan being made permanent. In the United States, conditions were formerly attached to the granting of bank charters, which were intended to confer benefits on the State. The government of a State was permitted to subscribe a given amount of stock in the company chartered, on the assumption that the exercise of the franchises conferred must be attended with large profits. Sometimes, in the supposed interest of the public, a college in which the State felt an interest and a pride, was allowed to take a stated amount of stock. These privileges often proved to be of doubtful value; but this fact does not alter the intention with which they were secured. It would not be difficult to cite cases in which the exercise of this supposed privilege was the cause of loss. The United States government lost all the capital which it put into the stock of the Bank of the United States, and the government of Upper Canada had a similar experience as a stockholder in the Bank of Upper Canada.

In nearly all the early Canadian railway charters, most of which expired for *non-user*, the right to divide ten per cent. profit was given; and any surplus, above this amount, was to go to the government. But no Canadian railway ever reached the ten per cent. maximum. This maximum was last imposed in the case of the Canadian Pacific railway. When this high water mark is reached, the public is to get the benefit of a reduction of rates and fares.

Such is and has, from the first, been the theory on which charters are and have been granted. The carrying of this theory into effect, with rigorous strictness, would prevent the accumulation of capital out of earnings, provided the maximum dividend were always declared; but not otherwise. The New York Chamber of Commerce possibly had in view companies which pay the maximum dividend allowed by law; but the objection to the increase of capital out of earnings would not lie, from the public point of view, provided the dividend and the amount added to capital did not together exceed the legal maximum which the dividend might reach. The contention is, in effect, that all the earnings of a company shall, one year with another, be divided. This would not prevent the reservation of a fractional portion of the earnings to meet contingencies, which it is impossible to foresee, but which are liable to happen. The objection is to the creation of additions to capital out of earnings; and the objection, from the Chamber's point of view, would stand, if the newly created capital were called by some other name.

There is one remarkable instance in which this rule is enforced by law: the Bank of England is, by the terms of its charter, required to divide all its earnings every year. But this example, so far from being generally followed, stands nearly alone, we believe, in the wide range of English commercial corporations. Of many companies, in our own country, the aim has been to increase the original capital by fifty per cent, by reserving from distribution a part of the earnings of each year. If the deliverance of the New York Chamber of Commerce may be taken as an utterance of the

opinion of the commercial class, this practice will henceforth require a special defence. In any contest that may arise on this point, the public view, which the Chamber claims to present, might be expected to be reinforced by the poorer of the stockholders. To them the capitalization of earnings means a reduction of present income, for the benefit perhaps of those who are to come after them; and they might be relied on to second the views of this body. The theory is that the stockholders are the masters to decide the question; but hitherto they have shown no disposition to question the policy of these reservations, which directors have proposed and carried with almost uninterrupted unanimity. But in this world of change, the future may, in this respect, have something different to present.

But while the Chamber of Commerce would prevent the watering of stock, it would abolish the restriction that limits dividends to ten per cent. In this way, corporate capital would get the full benefit of all the earnings it could make. One of the temptations and perhaps the strongest, to water stock would then be removed. If a corporation can, while serving the public on reasonable terms, earn more than it is allowed to divide, the temptation to create more stock to divide upon, is strong. This is one of the main causes of stock watering. The Chamber of Commerce does not say whether, in its opinion, there should be any restriction upon dividends; but as it would regulate and control charges, by governmental machinery, it would gain the same end in another way. And this control the Chamber of Commerce is prepared to carry to what might prove a dangerous extent. In the opinion of the committee, "the public welfare requires that corporations should be subjected to government supervision and control, State or National, or both, by means of commissions or other methods; and that the government should have power to regulate and control, within reasonable limits, the charges of these corporations." It would generally be more reasonable that any limitation to be made should be made by the legislature direct.

COAL FIELDS IN THE NORTH-WEST.

The proof of the existence of coal, of various grades, in workable quantities, seems at last to be forthcoming. In quantity, the coal, in one or other of its forms, from lignite to true coal, bituminous and anthracite, appears to be practically inexhaustible. It is said that Mr. George Dawson's forthcoming report, on the subject, will give the following estimate of quantities underlying each square mile of surface:

| | Tons. |
|---|-----------|
| Main seam, in vicinity of Coal Banks, Belly River, coal underlying one square mile | 5,000,000 |
| Grassy Island, Bow River, continuation of Belly River main seam, underlying one square mile | 5,000,000 |
| Horse-shoe Bend, Bow River, continuation of Belly River main seam, underlying one square mile | 4,900,000 |
| Blackfoot Crossing, workable seam as exposed on Bow River | 9,000,000 |

The extension of the coal beds which occur on the Bow and Belly Rivers is great both to the north and the north-west. Lignite is found on the North Saskatchewan.