

## The C. P. R. Dividend

The directors of the Canadian Pacific Railway company made the announcement last week that for the ensuing year they would pay a dividend of ten per cent. on the common stock of the company. This announcement created quite a stir in financial circles and resulted in sales of the stock at the highest prices ever reached. This also places the company in a position very interesting to every citizen of the Dominion, in that, according to the C.P.R. act, many authorities hold that the company must now submit to a government inspection and probable lowering of their rates both for passenger and freight traffic.

A review of conditions is most interesting. The Consolidated Railway act of 1879 placed the supervision and repositioning of railroad rates in the hands of parliament, but further stated that that body could not reduce rates unless the dividend of the company was over 15 per cent. per annum on the capital actually invested in the construction and operation of the road. This "capital" was further defined as the "paid up stock and paid up share capital of the company with interest added for periods during which no dividend is paid, to the exclusion of all subsidies and bonuses and as regards the Canadian Pacific railway, also to the exclusion of any debt of the company contracted on the pledge thereof, or any part thereof." Section 22 of the Canadian Pacific Railway act, passed in 1881, reduces the per cent. of dividends, upon exceeding which parliament should have control of rates, to ten per cent. From the opinion of many disinterested experts of legal phraseology this may be construed to mean that after the dividends declared on the common stock of the company reach ten per cent. per annum, parliament may, at its pleasure, reduce the rates of the company to bring the returns within the prescribed limit.

For many years there was no danger of the dividends reaching anywhere near this limit; up until 1900 the dividends declared were but three per cent. per annum. Then came the great development of the Western Provinces, and, as the farmers of all nations poured into the Northwest in ever increasing numbers, the increased traffic of the company swelled its earnings. Besides this, sales of part of the land which the government had bestowed upon the company to the prodigious amount of twenty-five millions of acres, swelled the income of the railway company to a very appreciable extent. In 1900 the increased earnings of traffic enabled the directors to increase the dividend to five per cent. Three years later a half of one per cent was added, and in 1906 a further increase raised the dividend to six per cent. In 1907 the dividend "paid out of earnings" remained at the six per cent. point, but one per cent. was added from the sale of lands, making the total dividend seven per cent. In August, 1909, the dividend "paid out of earnings" was raised to seven per cent. and the additional one per cent. from the sale of lands was retained, making the total dividend eight per cent.

A casual survey of the case up to this time would appear to prove that the company was well within the prescribed limit. But delving into figures presented in the railway report for the year ending June 30, 1910, it is found that the company was earning greatly in excess of the prescribed amount. Common stock of the C.P.R. to the amount of \$180,000,000 is outstanding. Ten per cent of that amount is \$18,000,000. The net earnings of the company during the year ending June 30, 1910, were \$37,175,669, from which amount is deducted fixed charges to the amount of \$10,806,940, leaving the total at \$26,368,729. This represents the earnings of the company for that period. Deducting the amount that might properly have been earned, viz., \$18,000,000, it is found that the company in that time earned \$8,378,729 over and above

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ten per cent. of the amount of their common stock.

The railway report gives figures as follows:

Company net earnings	\$37,175,669
Deduct fixed charges	\$10,806,940
And dividends	12,382,113
	\$23,279,053

Leaves a surplus of \$113,896,616

Thus after making allowances for all possible charges and paying seven per cent. out of the earnings and one per cent. out of the sale of lands, the Canadian Pacific Railway company found themselves with a fund of nearly \$114,000,000 for which there was no particular use. Two per cent more might have been paid and left the company inside the bonds of the act, but still there would have remained the large sum of \$8,000,000 over and above legitimate profits.

The two per cent. now added to the dividends is to be paid from the proceeds of the sale of lands. From this it would appear that the surplus will be even greater than the last one, unless some large melons, in the shape of watered stock, are cut. Of course there is a large amount of preferred stock upon which the fixed dividend of four per cent. is paid, but, according to the terms of the act, this has no bearing on the case.

All of this leads to a surmise as to what action the government will take in the matter of curbing the earnings of the company by reducing their rates. Parliament has now turned its supervisory powers, as far as railroad rates are concerned, over to the railroad commission. Thus it would appear that any steps toward the reduction of rates would have to be made by this commission.

Since the inception of the railway commission, the commission has exercised practically the same authority over the C.P.R. as over any other railway company. But the occasion has never arisen making necessary a sweeping reduction of rates. Heretofore the work of the board has been mainly in the nature of equalizing rates. Now it appears that the commission must take more radical action. It is admitted that the C.P.R. will strongly resist any action of the board that reduces the rail rates generally. A pertinent fact is that the government has never taken steps to find out just what powers the courts would hold that they (the government) had in regulating the rates of the C.P.R.

The whole case will hinge, of course, upon the construction put on the word "capital." In 1904 the government had prepared a stated case for submission to the Supreme court, in order to get an opinion that could be used in case of need. This stated action was such that, had the case been carried through, it would have been determined whether or not such items as preference stock, sale of lands, consolidated debenture stock, earnings and borrowed money, could be included in the "capital." For some mysterious reason the case was dropped and now the company has the power, in case reductions are made by the board, which action will certainly be taken, of taking the case to the Supreme court and, if defeated there, to the Imperial Privy council. Thus they may string the litigation out for years and meanwhile keep in force the present rates.

Both the present action of the board of railway commissioners and the subsequent litigation that is sure to follow will be awaited with interest, especially in the West where rates are the highest. The original charter said that all earnings over ten per cent. should go toward the lowering of rates. Officials of the company have already given expression to the opinion that they are not yet within the supervision of the government, as represented by the railroad commission, and, unless they retire from that position, the result will certainly be a long drawn out legal battle.

### MAYOR TAYLOR AGAIN

Vancouver, B. C., Jan. 12.—Mayor L. O. Taylor, proprietor of the World newspaper, was to-day elected by an overwhelming majority to succeed himself as chief magistrate of Vancouver. His opponent was Alex. Morrison, who was defeated by nearly 3,000.