

done the preferred holders who know that the common goes to the promoters and underwriters, but the value of the preferred is affected by reason of the inability of the company to build up a reserve and the company may be crippled for want of capital which goes to pay dividends on the common for which little, if any, value is given. The issue of common stock is contrary to the intention of the limited company legislation which was that all issued stock should represent an equal amount of capital paid into the coffers of the company and it is only by taking advantage of the decisions which hold that where there is any consideration given for the issued stock the Courts will not inquire into its adequacy that watered stocks other than mining shares are legally issued.

Another reason why issue of common stock without adequate consideration should be forbidden is because it affords an excellent opportunity to defraud the people, the great majority of whom, including the legal profession, are quite ignorant of company law and promoters' practices and believe that things are what they seem. They do not know or understand that when they buy a hundred shares of the par value of \$10,000 that the real value of such shares is usually nothing. There are hundreds of millions of dollars of mining and common stocks roaming about Canada seeking a resting place in the pockets of the innocent stock gamblers which are worth perhaps the paper they are printed on and have no other intrinsic value. Even if it is true that it is impossible to prevent shares being issued for less than a full equivalent of their face value because of the difficulty of appraising at its true value property taken in exchange it only makes it more desirable that only one class of stock should be permitted, because where all the shares rank equally for all purposes those who understand among persons who pay the money or give the property would see that they were not swept away in a flood of stock given to persons who give nothing but services for their allotments.

Mr. Thomas Mulvey, K.C., Under Secretary for State, in his interesting article, "Certified Securities," *American Economic Review*, September, 1914, thinks two kinds of stocks not un-