Corporation Finance. A Study of the Principles and Methods of the Management of the Finances of Corporations in the United States, with special reference to the Valuation of Corporation Securities. By THOMAS L. GREENE. New York, G. P. Putnam's Sons, 1897. — 180 pp.

In this small volume Mr. Greene has rendered a valuable service to every serious student of the economic aspects of corporate development, by formulating for concise presentation the principles which govern modern financial enterprise. His experience as a financial writer and as a corporate official has prepared him for a piece of work which, to say the least, he has done well. He has made no attempt to treat of the historical or the legal development of corporate finance, except so far as may be incidentally necessary for the main purpose of the subject. The eight chapters may be classified as having a general and a special bearing on corporate financiering. Of the former character are the chapters on "Bonds and Stocks," "Forms of Corporate Enterprise," "Corporation Accounting" and "Public Policy toward Corporation Profits." These occupy a good deal less than half of the book. The other chapters are given up to an expert study of railway financiering in the United States during something less than the past twenty years.

In the general chapters the author starts from the point of view of borrowing money to extend the volume of trade and thus to make business profitable in spite of the continuous tendency of the rate of profits to fall. Borrowing having called into existence the surplus loan capital of the business world, a principle defining the relation of borrower and lender is wanting. As here stated, the practical test of safe borrowing and lending is to be found in the consensus of commercial opinion on the question: To what amount can commercial paper or bonds be floated at par and at about the ruling rate of interest for such borrowings? The bonds issued should not exceed in amount the minimum worth of the property, and the shares of stock (capitalized interests held by the members of the corporation) should fairly represent the capitalized value of the fluctuating gains remaining. In other words, the risks of utilizing trade forces should be localized with the managing investors, and the certain but limited returns should be guaranteed to those whose capital has made the volume of business large enough to make surplus profits possible. This differentiation of corporate securities, into bonds entitled to the highest certainty of returns and stocks as claims upon the variable surplus, accounts in a large measure for the extraordinary growth of the corporate form of investment under limited liability.

In view of the decided tendency toward repressive legislation of various kinds, it is held that the frankest publicity is the only sound policy of corporate conduct in the face of the popular temper which is gradually feeling its way toward a better understanding of the factors involved. There is a whole code of business ethics in the following quotation :

> The history of a company, its early losses and struggles, the price of the commodity when the business was begun compared with prices now, the cost of production per pound or gallon or barrel, showing the reduction, and in view of such facts the moderate profits of to-day — statements such as these will prove to be the best defense against drastic legislation before the bar of public opinion. But a company relying upon such a defense must be sure that its course as regards prices and policy is one which cannot be fairly attacked (p. 26).

The more special portion of the volume is taken up with railway financiering — railroad property as a field of investment and as a basis for borrowing capital. The treatment is more recent and less occupied with administrative aspects of the question than the one found in Hadley's *Railroad Transportation*. The chapter on "Railway Bonds" presents a concise analysis of our most important financial experience with railway securities during the last fifteen years. Under "Subsidiary Companies and their Securities" the method of inter-corporate financiering is described as it grew out of the policy of constructing and absorbing branch lines into comprehensive systems. The guaranteeing of interest to the branch lines by the main lines, the practice of crediting branch-line deficits to "investments," "assets," "loans," *etc.*, in the hope of developing the volume of business to set things right, are clearly described in their bearing on investment values. The chapter on the "Examination of Railway Reports" is one of the most lucid pieces of difficult exposition to be found in railway literature. The final chapter, on "Reorganizations and Receiverships," is the most timely feature of the book. The position of the stockholder upon whom the risk elements in the enterprise fall, of the bondholder whose claim is virtually upon the net income of a depreciated, mismanaged or overvalued property, and of the public to whom transportation has become a necessity — these interests are carefully worked out in the attempt to give the *rationale* of reorganization and to explain how the receivership came to have its peculiar development in American railway practice. In the author's opinion the receivership is likely to be extended to other departments of industry than transportation. If industrial competition continues to concentrate the production of necessaries in large corporations, so that in case of their failure there is no other source of supply, the most natural thing, Mr. Greene conceives, will be to resort, as in the similar case of railroads, to a judicial trusteeship pending reorganization; for thus might be conserved both the primary interests of the public and the apparently secondary interests of the investor. This is only a conditional tendency in corporate finance; but, nevertheless, it is not to be lost sight of.

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