

of peace would not alter her demand for transports in time of war or for foodstuffs to support her armies and navies. If her own subjects owned the merchant vessels needed for transports, she would buy or hire them from Englishmen; if Americans owned them, she would buy or hire them from Americans; and experience has shown that patriotism has little to do with the price of any commodity needed by government in any emergency. I am not speaking now of the fast vessels which receive postal and naval subventions. These vessels are naval auxiliaries and the government pays a good round sum for the privilege of taking them over in case of war. It is questionable if it would not be cheaper for governments to build their own cruisers and scouts, instead of subsidizing individuals to build vessels that are inefficient both in peace and war.

To secure the desired merchant navy, Mr. Dunmore advocates the policy of free ships in the foreign trade and eventually in the coasting trade, free ship-building material, an extension of the mail subvention act of 1891 and, above all, discriminating duties in indirect commerce. There is no objection to any of these aids, except the last. All of them appear to me to possess the defect or merit of ineffectiveness. The fact is that to possess a large merchant marine we must either spend millions annually in subsidies or wait until we can build and operate steamships as cheaply as any other nation.

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*Railroad Reorganization.* By STUART DAGGETT. Boston, Houghton, Mifflin and Company, 1908.—x, 402 pp.

A "reorganization" is defined by the author as "the exchange of new securities for the principal of outstanding unmatured general mortgage bonds, or for at least 50 per cent of the unmatured junior mortgages of any company, or for the whole of the capital stock." In other words, a reorganization involves a radical and significant reconstruction of a railroad's finances. It is not necessarily associated with impending bankruptcy, although this is usually the case. It may be the result of too great prosperity and of a concern lest such prosperity be too clearly revealed.

The book is a series of careful studies, dealing with the financial history of the seven most important railroads which failed between 1892 and 1896, and the history of one railroad reorganization, the Rock Island, in 1902. A final chapter summarizes the characteristics of such reorganizations and the general principles which have governed in

the construction and execution of reorganization programs. The railroads treated in this book are : the Baltimore and Ohio ; Erie ; Philadelphia and Reading ; Southern ; Atchison, Topeka and Santa Fe ; Northern Pacific ; Union Pacific ; and Rock Island. These studies deserve the highest commendation. While they show great attention to accuracy of statement and an unusual grasp of the sources of information, yet the reader is not burdened with unnecessary detail. Excellent judgment has been displayed in the selection of the significant events and in the omission of irrelevant material. The play of conflicting financial forces is pictured in a style which is incisive and vivid, and the stories of railroad wrecks and recoveries have an absorbing interest.

However, for the general reader who does not desire to follow in detail the experiences of particular railroads, the concluding chapter will have the greatest interest, for here have been gathered together such conclusions as could reasonably be drawn from the results of the individual studies. It would appear that while over-prosperity may be the determining cause of a reorganization, as in the case of the Rock Island or the Alton, yet the typical reorganization occurs when a road ceases to be able to pay interest on its outstanding obligations. This decline in earnings results usually from one of two fundamental causes : first, inflated capitalization ; and second, competition, which reveals itself either in rate-cutting or in reckless extensions of railroad line.

In the case of the typical reorganization, then, it is evident that the problem before the reorganization committee is to make such readjustments as will bring the balance between income and outgo on the right side of the ledger. From this standpoint, the reorganizations treated in this book may be regarded as highly successful ; for while the seven reorganizations before 1893 show actual though not large reductions in fixed charges, the seven reorganizations between 1893 and 1898 reveal very substantial reductions in fixed charges, ranging from six to 51 per cent. The number of bond issues has been reduced, but each issue is in greater volume and for a longer term—a move in the direction of simplicity and in response to a fundamental market demand.

Perhaps the most important conclusion of this study is a confirmation of the wide-spread conviction that reorganizations have materially increased outstanding capitalization. The reasons therefor are not difficult to discover, and seem quite justifiable when one's viewpoint is limited, as it is in this book, to the interests of the corporations and their security-holders. It is a fundamental principle of reorganization

practice to reduce the nominal value of outstanding securities as little as possible in order that the security-holder, who sacrifices something either in reduced interest or in direct cash assessment, may share to the full in any future prosperity. This has resulted in the substitution, for compulsory obligations, of securities in large quantities upon which payment of a return is optional. Before 1893, this increase was largely in securities of the income-bond order; but the deceptive character of these income-bonds seems in later years to have been better appreciated, and preferred stock is now commonly used.

It may be true, as the author shows, that the aggregate market value of the larger volume of securities one year after reorganization was in most cases less than the aggregate market value of the old securities one year before reorganization. However, this is of concern only to the security-holders themselves, and principally to the underwriting syndicates and large speculative holders who have no permanent interest in the corporation but merely wish to unload at a profit. This class does not arouse our sympathy, for it usually manages to get out sooner or later with a comfortable balance.

What is of profound significance to the public, however, is that there has been created an enormous amount of new securities which represent no value whatever. Out of these inflated issues come underwriters' profits; they are often employed to manipulate control of the property and for reckless Wall Street speculation; and most important of all, from the public standpoint, they can be and are used as a powerful argument against any reduction in rates. Not only are these advantages of an inflated capitalization present in such notorious "prosperity" reorganizations as those of the Rock Island and of the Alton, but they have appeared to a greater or less degree in every instance where capital has been increased, and they have doubtless been in the mind of every reorganization committee which has pulled a corporation out of the mire of bankruptcy. The author could not have been unaware of this important consequence; and its omission from his conclusions is doubtless due to the very evident limits which he set for himself in the discussion of the problem.

Too much praise cannot be ascribed to this scholarly book. It approaches the study of corporation finance from the right direction. It is only on the basis of such painstaking investigations of financial history and procedure as this volume reveals that we are justified in indulging in generalizations concerning the financial practices of American railroads.

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*Nordamerikanische Eisenbahnen, ihre Verwaltung und Wirtschaftsgebarung.* By W. HOFF and F. SCHWABACH. Berlin, Julius Springer, 1906.—xii, 377 pp.

Every student of transportation must welcome an impartial, detailed criticism of American railway administration and a comparison of German and American practice. The authors of the book under review are officials of high rank in the Prussian Railway Bureau, who visited the United States in 1904, the year of the St. Louis exposition, traveled nearly ten thousand miles over railroads between Boston, San Francisco and Portland, collected much printed material, interviewed numerous railway men and then put their information and impressions into a well-written volume.

They did not travel over the roads of the southern and southwestern sections of the United States, and they rode upon the best equipped trains; but they were so well informed upon transportation questions that they were able to obtain a general knowledge of our railway service.

Their book, being written for German readers, is devoted mainly to a description of American railway administration and an explanation of the differences between German and American practices, but from beginning to end of the volume there are candid statements of the authors' impression of our railroad service. These impressions are on the whole favorable; and in all the opinions expressed, whether laudatory or otherwise there is a most commendable fairness and objectivity. The volume contains the best foreign critique of American railways that has appeared since 1885, when von der Leyen published his standard work on *Die nordamerikanischen Eisenbahnen*.

To the American as well as to the German reader the comparison of the services and charges of American railroads with those of the Prussian-Hessian state railways will be interesting. Only a few of the more important results can here be noted. It is generally maintained that government management of railways necessarily means bureaucratic method, much red tape and a large clerical force; but the authors of the volume adduce evidence showing that for an equal volume of business more clerks and other employees are required upon the railways in the United States than upon those of Prussia. Moreover, it is shown that if American railway companies were required to employ watchmen and guards in such numbers as to provide as fully as does the Prussian-Hessian railway administration against injuring and killing people, the number of employees on our railroads would need to be