

ed year after year, but the receipts were entered in full without these allowances being deducted, the books being so manipulated as to conceal what is a manifest fraud on the shareholders and the public. Another deception was, the placing amongst the receipts of a large sum which was created by swelling the valuations of certain properties of the company, and treating this addition to the value of the assets as income. Thus, by not deducting from the gross receipts the large rebates which had been made, and by enlarging them by merely speculative additions to the values of properties, the accounts were made to show a financial condition of this system of roads, which was wholly fictitious. The case of the Philadelphia & Reading Railroad Company, now before the Courts is even more startling than that of the Atchison. A paper in the last number of *The Forum* gives the following statement, which is enough to shake confidence in all United States railroad securities. The president of that Company, when buying its stock for a personal venture, took \$30,000 from the treasury of the Company to make up a deficit in his private funds. He went on speculating on a large scale with money taken from the Company, and, on the very day it went into the receiver's hands, he took \$1,000,000 in bonds and cash, the property of the company, without authority, in order to engage in private speculations in its stock. When the attention of the Court was called to these transactions, there was a loss of nearly \$1,500,000, and securities to nearly \$3,500,000 in par value had in the meantime been involved, and of course their absence from the treasury led to the downfall of the Company. The directors, at an early stage of these transactions, passed a resolution condoning, if not actually approving them, from which we are disposed to think that there was a scheme afoot to "bull" the Company's shares, or stop them declining, a policy we have known adopted by a company in times when its shares were shrinking in market value. The directors, however, are said to have been ignorant of the president having incurred a liability of six millions, and ignorant too of the number of shares he had bought, and at what price. These facts are not disputed, they have been established in Court.

The most alarming feature in this case is that the Master in Chancery, at Philadelphia, has given a decision stating the law to be as follows:

1. A president of a railroad company who engages for his own account in a stock speculation may secretly take securities from the Company, and use them as margin in that speculation without involving himself in criminal liability, the remedy of the Company being simply an act of conversion, if the act be not subsequently approved by the Board of Directors.

2. No remedy whatever remains if the Board approves of the use of certain of the securities taken from the treasury, no matter what misrepresentations have been made.

3. If approval has been given to a definite amount, that approval is extended by implication of law to the total amount withdrawn.

4. The law implies that the approval of a limited

amount of securities used as "margin" involves the assumption by the company of the whole sum to which such "margin" is applicable; in this case such liability is over \$6,000,000.

5. The law does not require a president to inform the Board about the details or extent of such transactions.

6. The Company has no recourse against the Board of Directors for assuming an unlimited and unknown liability by reason of such purchases, there being no forum to which they are amenable in such matters, beyond that of their own conscience.

Had not the above been declared publicly in a Court of law as the law of the United States relating to the powers of a railroad president, it would have been incredible that any corporate body should be so absolutely at the mercy of one official. But there stands this decision, which virtually declares that a railroad president can use the cash and securities of his company as absolutely as though they were his private property, and that he is not bound to state to what uses he has put such properties, nor is he to any extent whatever responsible for what losses may be inflicted on the company by his speculating with such cash and securities. This being the state of the law, it has come to pass that the directors of many railroads have no permanent interests in their stocks, which are regarded as mere instruments for gambling on 'Change, almost unlimited facilities for which operations are given by the treasury of the roads being at their disposal for putting up "margins."

One of the most important questions now before the people of the States has arisen from the exposure of the Atchison system of "cooking" accounts, the revelations as to the doings of the President and Directors of the Philadelphia & Reading Company, with the decision relating thereto of the Philadelphia Court. Legislation is to be sought to bring the law governing railways more into harmony with common sense, and made more protective to all interested in railroad properties. As to any reform coming from annual meetings of shareholders we are not as sanguine as those who suppose this an effective remedy for the present evils. So long as a president is vested with such control over a company's accounts and possessions, so long as he enjoys immunity from prosecution for any falsifications of the one, or fraudulent use of the other, so long will the rank and file of shareholders be powerless to protect their own, and the interests of the public. Changing the Board will not change the system which offers terrible temptations to which no official ought to be exposed. So long as presidents can take without any risk of prosecution a million of dollars from a railroad treasury for private speculations, so long will presidents avail themselves of this power, and so long will they find colleagues to share in these operations. As the falsification of accounts may easily be made the road to fortune, that road will not want travellers so long as it is safe. The same law which is in force regarding embezzlements, and other forms of fraud committed by servants of a financial or mercantile firm, must be made applicable to railway officials of what-