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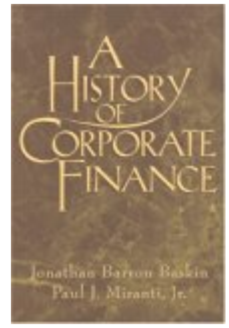
Jonathan B. Baskin, Jr. Paul J. Miranti. *A History of Corporate Finance.* New York: Cambridge University Press, 1997. X + 350 pp.p $29.95, cloth, ISBN 978-0-521-55514-2.



Reviewed by Paul Harrison

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A History of Corporate Finance promises a lot in its unqualified title and mostly delivers. The book is a compelling combination of economic and financial theory, economic and business history, and the history of economic thought. What it really does is consider modern theories of corporate financial and managerial structure in the context of history. The book has much to offer general economists and specialists in any number of tangential subfields. It offers nuggets of insight into how the world works as well as a textbook-like ordering of events in business history. The conclusions of the authors will confirm what many historians already know, that institutions and path dependencies are crucial determinants of economic organization--history matters. But there is also much here to comfort the modern theorist who is accustomed to having economic historians point out the inadequacies of over-applying the ceteris paribus assumption--the things financial theorists worry about do matter.

The book proposes to trace the development of corporate finance from its medieval roots to its current realization in the form of modern corporate America. This broad scope is both its strength and weakness. The book's coverage is expansive and dizzying--competently encompassing more than seven hundred years of corporate structure. However, perhaps inevitably in a world of scarce resources, this breadth trades-off for depth in significant ways. Primarily, there is no room for more detailed case studies that the reader is often left wanting. The value added of the book is in developing and analyzing common threads of inquiry across these disparate histories--in confronting old stories with fresh questions. This entails no new primary research, rather the authors rely almost entirely on secondary sources. While I found this disappointing (the search for the uber-researcher continues), it seems appropriate given the broad evolutionary questions pursued.

The book's goal is ambitious and commendable: How does corporate finance theory inform our understanding of historical events and how can an understanding of historical events inform our corporate finance theory? I see this approach as the application of filters to draw attention to factors which are not newly identified but which usually are ignored. However, before getting into the book we must assess what is meant by "corporate finance." For the purposes of the book the authors identify "corporate finance" with two issues: financing, the optimal use of debt and equity, and dividend policy, the optimal distribution of profits.

The book is structured in three parts with seven chapters and an introduction and conclusion. Unfortunately the introduction is notably weak and muddled, including an ill-fated attempt to cover all of modern finance theory. I advise future readers to skip it. The first part, "The Preindustrial World" includes chapters on the Italian city-state corporations, the rise of joint-stock trading companies, and the expansion of public markets for investment securities. This takes us from about 1275 up to about 1800. The second part, "The Rise of Modern Industry", takes us up to World War II. It has chapters on "finance in the age of canals and railroads" which essentially covers the 19th century and on the rise of common stock financing during the early 20th century. The final section of the book covers "The Transition to the Contemporary Era" with a chapter on "center firms" and another on conglomerates and leveraged buyouts.

In general the book is strongest on the early material where financing is arguably the most important corporate input. The transition period, in particular the industrial revolution, is given short shrift. How and why was financing and corporate structure different in a world of invention and small-scale manufacturing? In the modern period the focus is on how financing can make the corporation more efficient. This considers only mature Fortune 200 firms. I would have liked to have seen more attention paid to the type of business being done, rather than treating all firms as somehow the same. Given that firms alter their debt/equity structure for greater efficiency, how do we explain why they have differing debt/equity ratios? I would have liked to have seen some focus on the shift from a manufacturing to a more service-oriented economy. I would have liked to have seen a consideration of high technology firms (who often have no debt) and start-up firms.

In conclusion I will relate the take-aways back to the author's two main corporate finance issues. First, regarding financing, it is striking that while the book focuses on corporate finance the authors often spend more time on corporate structure. This highlights the important endogeneity between the financing of corporate activity and the organization of corporate activity. The key issues here (which are not independent) are the ones we would expect: the cost of capital, agency problems, and informational quality and symmetry. The authors show us how and why they matter in various settings and with what impact. That is, we get to see some of the mechanisms at work. Occasionally I was left feeling that more emphasis is needed on other outside factors--in particular on financial intermediaries and on the demand side. Second, regarding dividend policy, the book has a little less to offer to our understanding. It seems clear that dividends were an important part of the attractiveness of early equity securities, with the effect of making equity very debt-like. This is in keeping with one of the book's main conclusions--debt has historically been preferred to equity.

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