Accounting Historians Journal

Volume 18
Issue 1 *June 1991*

Article 5

1991

Reviews [1991, Vol. 18, no. 1]

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The Accounting Historians Journal
Vol. 18, No. 1
June 1991

REVIEWS

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REVIEW OF BOOKS AND OTHER PUBLICATIONS

R. Dan Brumbaugh, Jr., *Thrifts Under Siege* (Cambridge, MA: Ballinger Publishing Company, 1988, 214 pp., $39.95).

Paul Zane Pilzer, *Other People's Money* (New York: Simon & Schuster, 1989, 269 pp., $17.95).

Stephen Pizzo, Mary Fricker, and Paul Muolo, *Inside Job: The Looting of America's Savings and Loans* (New York: McGraw Hill and Company, 1989, 443 pp., $18.95).

A Review Essay:
The Savings and Loan Crisis

by James Schaefer
University of Evansville

In the winter of 1989, the seriousness and magnitude of the S & L crisis became everyday news. Fraud, insider abuse, poor management practices, regulation, and deregulation have all been stated as major contributions to the problem. While the full costs of the crisis, ultimately to be borne by U.S. taxpayers, will not be known for some time, official estimates (including interest) have exceeded $400 billion [U.S. Congress. House Committee on Ways and Means 1989, p. 20], prompting predictions that the industry itself has been destroyed.

The accounting profession has two areas of risk exposure from the S & L Crisis. One is the use by S & L's of regulatory accounting principles (RAP) instead of GAAP. The second is the concern that the auditors, while not responsible for the crisis, could have "at least sent up a warning shot" [*The New York Times*, March 12, 1989]. These two risks provide important research opportunities for accounting historians.

REGULATORY ACCOUNTING PRINCIPLES

From 1932 until 1989 federally chartered savings and loans (thrifts) were regulated by the Federal Home Loan Bank Board.

One function of the Bank Board was to determine the accounting procedures (RAP) to be used by thrifts. Regulatory net worth is based on RAP, as opposed to net worth based on GAAP. Both Pilzer and Brumbaugh include discussions on the importance of RAP to the S & L crisis. Pilzer provides anecdotal evidence of the problems in using RAP [pp. 75-76; 125-126; 132-134], focusing on how an S & L could sell a mortgage at a loss and then amortize the loss in future periods. In contrast, GAAP treatment would recognize the loss in full during the year of the sale. Pilzer argues that RAP encouraged thrifts to sell home mortgages and use the proceeds to make riskier investments (i.e., junk bonds) in hopes of earning higher returns, and suggests that such reinvestment was widespread among thrifts in the 1980s.

Brumbaugh devotes considerable discussion [pp.36-66] to the differences between RAP and GAAP, explaining how the difference in RAP treatment of loan losses originated as well as documenting the extent to which it occurred. Through 1980, RAP and GAAP net worth for federally-insured thrifts were virtually identical. However, in 1981 the Bank Board passed a resolution allowing thrifts to amortize the losses on any assets sold over the remaining contractual life of the assets. Brumbaugh then presents tables which depict the components of the "RAP-GAAP net worth differential" he has calculated, which rose, by 1984, to $9 billion, of which $6 billion was from the deferral of loan losses. He then argues that the number of thrifts insolvent according to RAP was substantially less than the number insolvent according to GAAP, thereby reducing the candidates for closure by the FSLIC. While the FSLIC had been grossly underfunded due to a massive influx of newly-allowed brokered funds since 1983 [Pilzer, p. 14], RAP apparently concealed the financial woes of the industry.

The potential for criticism of the accounting profession regarding the accounting principles used by thrifts is considerable. While the traditional accounting standard-setting mechanism was not involved, accountants were employed by the Bank Board, the thrifts, and, most obviously, the CPA firms auditing the thrifts. Surely some accountants recognized that allowing the deferral of losses was a serious departure from the conservatism principle which underlies GAAP, requiring a different interpretation of thrift financial statements and data than used for GAAP statements. The defense that the deferral of loan losses was an "accounting thing" is of little consolation to the general public, which will ultimately pay for the S & L debacle through increased taxes and loss of other government services.

THE ROLE OF THE AUDITORS

Many of the recently-failed thrifts received unqualified audit opinions prior to closing. While the auditing profession can offer the standard replies to criticism of their ability to foresee the future or detect fraud, this also is of little consolation to American taxpayers. A careful interpretation of the books being considered here suggests two audit areas which could benefit from a historical analysis of the savings and loan crisis — inflated valuations and integrity of management.

Both Pilzer and Pizzo *et al.* cite numerous examples of thrift owners "flipping" properties back and forth among themselves, artificially inflating the value of the land in the process. For example, Pilzer investigated deed records in Texas [pp. 93-95] to show how property apparently escalated in value from $17.25 million to almost $65 million in two years. Every transaction was thrift-financed, with no money down. Pilzer provides other examples of these transactions, leaving the impression that this practice was not uncommon. Pizzo *et al.* detail similar land flips throughout their book, as well as a policy by some thrifts of requiring borrowers to put a portion of the loan proceeds in reserve to cover the first two years' worth of interest [pp. 29, 209]. The purpose of such reserves was to make a loan appear current.

Traditionally auditors have focused on performance (payment of principal and interest as scheduled) when evaluating existing loans. Further, thrifts, when considering potential borrowers for loans, placed the primary emphasis on the quality of the collateral and then considered the creditworthiness of the borrower [McEachern, 1990, p. 50]. Banks, on the other hand, generally have focused their attention on the borrower's credit quality first and then on the collateral of the loan [*ibid*]. Hence the independent auditors of thrifts were not likely to be as concerned with the quality of loan portfolios as they perhaps should have been.

The integrity of management in certain thrifts is another area which should have warranted more auditor attention. One example of management abuse reported by Pilzer [pp. 99-112] is Vernon Savings and Loan, of Dallas, Texas. Although Vernon was profitable at the time of its purchase in 1981, a new owner W.D. Dixon subsequently spent millions of its funds on artwork and exotic cars before federal regulators closed the thrift in 1987. Pizzo *et al.* also discuss Dixon's abuse of Vernon Savings and Loan [pp. 188-199] and involvement of convicted felons in thrift management. In fact, the central theme of the Pizzo *et al.* book is that management abuse of thrifts was rampant in the 1980s. In each of the few dozen failed thrifts examined, they found evidence of a purposeful and coordinated system of fraud, and conclude:

> A financial mafia of swindlers, mobsters, greedy S&L executives, and con men capitalized on regulatory weaknesses created by deregulation and thoroughly fleeced the thrift industry (p. 298).

While students of the S & L crisis may not be convinced of the pervasive involvement of organized crime in insolvent thrifts suggested by Pizzo *et al.*, government reports suggest that criminal activity was a central factor in many thrift insolvencies [*e.g.*, see General Accounting Office June, 1989]. Hence, it might be prudent for auditors to investigate more carefully the background of top management before accepting new clients. A scientific analysis of the background of individuals who managed now-bankrupt thrifts could provide evidence as to the validity of Pizzo *et al.*'s conclusion. If management cannot be assumed to have a reasonable level of integrity, extra care would be necessary in all levels of audit engagements.

CONCLUSION

All three books reviewed here are recommended for researchers interested in the savings and loan crisis. Brumbaugh is an obvious starting point for those interested in the financial accounting aspects of the industry. Both Pilzer and Pizzo *et al.* provide good discussions of the history of the industry as well as insight into the regulatory problems involved. Both Pilzer and Pizzo *et al.* also conclude that the entire industry is insolvent and has been eliminated as a viable part of the financial services sector. If the industry is indeed dead, accounting historians may begin their work in earnest.

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U.S. General Accounting Office, *Thrift Failures. Costly Failures Resulted From Regulatory Violations and Unsafe Practices*, 1989. Report to the Congress, GAO/AFMD-89-62.

Edward I. Altman, *The Prediction of Corporate Bankruptcy: A Discriminant Analysis* (Thesis (Ph.D.) — University of California, Los Angeles, 1967. Reprint edition, New York: Garland Publishing, Inc., 1988, 184 pp., $34).

by Ahmed El-Zayaty
Northeastern Illinois University

This book is Altman's doctoral thesis which was written in 1967 at University of California, Los Angeles. Quoting from the first chapter:

> The purpose of this thesis is to investigate empirically the characteristics of bankrupt corporations and attempt to develop an accurate bankruptcy predictive model through a multiple discriminant analysis technique using financial and economic ratios as the predictive variables. The analysis will be restricted to manufacturing corporations [p. 5].

In a typical dissertation style, the book contains seven uneven chapters and eight appendices. However, it is essentially composed of four parts:

Part I: A brief review of prior research using univariate ratio analysis as a technique for identifying and predicting corporate financial difficulties.

Part II: A discussion of the shortcomings of the univariate approach and a presentation of the multiple discriminant analysis as more appropriate technique to capture the characteristics of bankrupt corporations.

Part III: A development of a discriminant function. Altman used a paired sample consisting of thirty-three pairs of manufacturing firms, where industry and size were used as the pairing criteria, and twenty-two accounting and nonaccounting variables were considered in various combinations to explore the most efficient discriminant function. A five-variable discriminant model was identified as being the most accurate in discriminating the bankruptcy status of the sampled firms. This discriminant model was then validated in both a descriptive and a predictive sense. For the former, the selected model was used to classify the original sample from which the discriminant function was developed; the model correctly classified 94% of the cases. For the latter, the model was used to classify a secondary (holdout) sample; the model correctly classified 96% of the cases.

Part IV: An analysis of the study results was presented, some implications of these results were discussed, and possible uses of the model were suggested such as business credit evaluation, internal and external management considerations, and investment guidelines.

In evaluating the contribution of this book one should note that it was written more than two decades ago when researchers lacked the luxury of many of the research tools available today. Given the state of the art at that time, the bankruptcy prediction model developed in this book (thesis) is considered a pioneering attempt to an integrated approach for using financial ratios to identify the characteristics of a bankrupt company. In fact, Altman's initiative has stimulated a whole line of research studies that used the multivariate analysis approach for evaluating the ability of several ratios (taken together) to assess the financial status of a firm.

Subsequent research studies have attempted to improve upon and extend Altman's early work. Indeed, there are now numerous business failure prediction models available for researchers and practitioners. Consequently, this book may be useful only from a historical perspective. It represents a turning point in the historical development of corporate bankruptcy prediction. It could be a valuable required reading for M.S. and Ph.D. business students. It gives not only a good example of the writing and analytical style of a Ph.D. thesis in the late sixties, but it also highlights the difference in analytical process of the univariate versus the multivariate approach to predict corporate bankruptcy.

Hugh M. Coombs and J.R. Edwards (Eds), *Accountability of Local Authorities in England and Wales 1831-1935* (New York: Garland Publishing, Inc., 1990, 732 pp., $125).

by R. H. Jones
University of Birmingham

These two volumes are indispensable in researching the foundations of governmental accounting. Their main purpose is to reproduce archival material about local government accounting and auditing in the United Kingdom. The period covered was well-chosen because it represents what historians recognize to be the formative period of continuous progress in developing the UK system of local government. An understanding of the present system requires an understanding of this period. Moreover, since many countries were influenced by the UK system (notably in the Commonwealth, but also in the United Sates where the UK system tended to be used as an example of how *not* to organize local government), there should be significant interest outside the UK.

As is usual in governmental accounting, there is an underpinning of statutory and other regulations that are not easy to keep track of contemporarily, much less over a period such as 1831-1935. This is the value of these two volumes. The authors reproduce accounting and audit extracts from a selected list of the Acts of Parliament passed during this period. In addition, other materials are included. A set of published financial statements of a local authority, dated 1907, is reproduced. Extracts are included from the evidence collected and reports prepared by selected government committees during the period. In addition to this archival material, a number of reference lists are provided, most notably a summary of the audit and accounting regulations in force for the years 1873, 1907 and 1937; and fuller lists of Acts of Parliament, committee reports and other government reports, including those that could not be reproduced because of space constraints.

Inevitably in a work of this kind, there will be material left out that a reviewer, who does not feel the constraints of publishing quite so directly as the editors, would wish had been included. A cross-check with Jones [1986] reveals that all references made there to the law, regulations and government reports have been included in these volumes, albeit with a small group of exceptions. This group relates to references to local government finance, which have not been reproduced. It is easy to see the rationale: if these had been included there would have been pressure to include many more references to finance and at least three volumes would have been required! However, the price of excluding this small group is high. Local government accounting is, and always has been, fundamentally different from commercial accounting precisely because loan repayments or loan redemptions have by law had to be debited to the operating statement; in complete contrast to commercial accounting, matters of finance are inextricably bound up with matters of accounting.

In this reviewer's opinion, examination by researchers of s234 of the Public Health Act 1875 and the 1902 Select Committee on Repayment of Loans by Local Authorities (HOC 239) will more than repay the additional effort. Two other selections are included in these volumes, although in contrast to the rest of the material, neither is particularly satisfactory. An introduction provides a brief overview of the history of local government accounting. Given its length, it could not do justice to such a significant and long history, but it also appears to this reviewer to give a somewhat peculiar view. There is also a short select bibliography, which inevitably cannot do justice to the available literature, but does omit very important work such as Cannan [1912] and Page [1985], perhaps on the ground that these primarily relate to finance.

These two volumes make a unique contribution to local government accounting research and should stimulate much more work in this important, much-neglected area.

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Page, Sir H., *Local Authority Borrowing: Past, Present and Future*, London: Allen and Unwin (1985).

J.R. Edwards (Ed)., *Legal Regulation of British Company Accounts 1836-1900*. (New York: Garland Publishing, Inc., 1986, 2 Vols., 755 pp., $95).

by Bruce La Rochelle
Concordia University

This is Edwards' second collection of legislation of interest to the accounting historian, ostensibly complementary to Edwards [1980]. The most recent collection is primarily an edited collection of statutory provisions. It would appear to be of greatest use to the historian who is intimately familiar with the accounting and auditing developments of the period covered, who can clearly recognize and distinguish what has been included from what has been excluded. For others, the collection may be of limited use and quite possibly prejudicial as a research source, in that one must rely on the judgment of the editor as to the appropriateness and completeness of the extracts chosen. Such choice is acknowledged by the editor to be arbitrary [Introduction, p. 4].

Apart from the text of a 13-page introduction, editor Edwards has chosen to let the reader wade through in excess of 700 pages of statutory references, with no guidance whatsoever. The stated objective of Edwards is "to focus attention on the steps leading to new legal regulations", relative to government attempts to regulate corporate developments and fraudulent activities by corporate promoters. Since no statute is discussed beyond a brief reference, at best, in the introduction, it is difficult for the reader to find the focus which Edwards intends.

The structure of the collection includes extracts relating to statutory companies (such as public utilities and companies incorporated by Royal Charter or private act of parliament) in Volume 1, while extracts relating to registered companies (such as joint stock companies) are included in Volume 2. Included in the latter part of Volume 2 are examples of published accounts, without discussion, to illustrate compliance with the statutory extracts in Volumes 1 and 2. Some light is cast on the registered company extracts in Volume 2 by the inclusion of related reports by legislative committees; nothing comparable is found with respect to the extracts in Volume 1. With respect to the legislative extracts concerning registered companies, Edwards has chosen to include the first bill as well as the final legislation, deliberately [Introduction, p. 7] leaving the reader to infer deletions between the first bill and the final legislation. The utility of this approach is unclear, in the absence of explanatory text. Of interest are those bills which did not result in legislation, such as bills to regulate financial malpractices in the railways. However, beyond mentioning that such bills are included in the collection, little, if any, information is provided as to why a particular bill did not pass.

For the more general historian, this book could be reworked, with parts of Edwards [1980], as an essential reference tool. This could be achieved by regarding what is here as a collection of documents requiring commentary and integration throughout. Alternatively, one could integrate what is here with an edited collection of articles, plus commentary. In a hoped-for second edition, Edwards might consider these suggestions, which are made with respect for the obvious time and care associated with the document collection.

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Edwards, J.R. (ed.), *British Company Legislation and Company Accounts 1844-1976*, New York: Arno Press (1980).

Max Holland, *When the Machine Stopped (A Cautionary Tale from Industrial America)* (Boston: Harvard Business School Press, 1989, 335 pp., $14.95).

by Patti A. Mills
Indiana State University

This book should be required reading in all accounting and business curricula in the United States. The author, Max Holland, tells the fascinating — and ultimately, grim — story of Burgmaster Corporation, its rise to prominence as one of America's premier machine tool manufacturers, and how it was "managed" out of existence in the heady days of the 1980s. This is more than the story of a single company, however; it is also about the demise of American manufacturing in general, and the reasons U.S. industry has lost its competitive edge in world markets.

Burgmaster was the quintessential American success story. Started in 1944 by a Czechoslovakian immigrant, the company grew from humble beginnings in the garage of its founder, Fred Burg, to become one of the major machine tool manufacturers in the United States. Over the period 1946 to 1965, Burgmaster and the industry as a whole benefitted from a relatively stable economy, low inflation and minimal foreign competition. Holland, however, attributes the greater part of the company's success to one "simple yet vital fact": "the Burgs knew their business". Fred Burg, his son, and son-in-law — the top three executives at Burgmaster — were all former machinists, and their management approach derived from that experience. Short-term horizons and management fads were alien to them. Rather, the Burgs made technological innovation the firm's highest priority and cultivated the skilled and dedicated work force necessary to achieve it.

These priorities began to shift in 1965 when Burgmaster was acquired by a conglomerate, Houdaille Industries. As the Burgs and their key employees were eased out, Burgmaster acquired several new layers of managers and accountants, few of whom had any intimate knowledge of the company or of machine tool manufacturing and who spent their time producing the reports, budgets and forecasts that had become the new lifeblood of the firm. Numbers had been used at Burgmaster, but as "a measure of performance and a guide." Now they were an end in themselves, "an all-consuming purpose" imposed by a distant head office. Production, too, was made to fit the new corporate structure. Under the Burgs, manufacturing foremen had always been actively involved in drawing up production schedules; now their only task was to meet them, their part in production planning having been usurped by a greatly expanded "production control department." In short, a "distant, managerial capitalism" replaced the vitality and entrepreneurship that had been Burgmaster.

The company stagnated in the early 1970s, helped by a rising dollar and a shortage of qualified machinists. The division between blue-and white-collar workers yawned ever wider and Burgmaster produced increasingly inferior products, gradually losing its competitive and technological edge to Japanese manufacturers. The beginning of the end occurred in 1979, when Houdaille was the subject of a leveraged buyout. Engineered by the notorious KKR & Co., the LBO left a crushing burden of debt, which the subsidiaries were forced to service. Indeed, increasing cash flow by whatever means possible soon became the primary objective of management. Needless to say, this shortsighted approach only added to the problems at Burgmaster;

the effects of an overvalued dollar and a mismanaged economy in the early 1980s finished the job. Burgmaster was liquidated in 1985.

Just prior to Burgmaster's demise, Houdaille made a last, desperate effort to save its machine tool interests, which unfortunately had little to do with the company's real problems. Like many failing industries before and since, it attempted to secure protectionist legislation. These machinations, and the complicity of political figures and the media in Houdaille's "jap bashing," must rank as one of the saddest and most pathetic chapters in recent business history.

Holland tells this story with passion and a genuine concern for the future of U.S. business. He is particularly good at drawing out the wider implications of the Burgmaster experience. Among these are that no country can become — or remain — a major economic power without an indigenous manufacturing base; that American industry is hamstrung by a *de facto* industrial policy which subsidizes speculation and wasteful military spending at the expense of productive investment; and finally, that no amount — or quality — of accounting and reporting can substitute for effective, hands-on management. Holland's observations on accounting are particularly timely, considering recent calls within the profession for improved costing methods. If the story of Burgmaster shows nothing else, it is that more and better accounting information is unlikely to alleviate the problems of American manufacturing; a different management approach and a consciously formulated industrial policy are better bets.

Selden R. Hopkins (Ed.), *The Book-keeper and the American Counting Room, ([New York: 1880-1884]*, 4 Volumes; Reprint edition, New York: Garland Publishing, Inc., 1989, 1,922 pp., $400).

by Gary John Previts
Case Western Reserve University

These volumes fill a major void in archival material for those researchers interested in late nineteenth-century professional accounting developments in the United States.

The *Book-keeper*, while somewhat mistitled in our contemporary meaning of the term, is a combination of correspondence, book reviews, notices, professional news, legal decision notices, classified advertisements, with many scholarly and practical papers included, if not dominant.

Vol 1, No. 1 (July 20, 1880) contains the first of several continuing essays which introduce the forming profession to C.E. Sprogue's seminal thought and process, entitled "The Algebra of Accounts." The latter significantly influenced many early twentieth-century writers, including Hatfield and Paton.

The practical papers cover a range of topics such as foundry accounts (October 26, 1880); compulsory book-keeping (standard setting) (October 26, 1880); detection of errors (March 15, 1881); speculation, balance sheets, treatment of discounts (October 1881); joint-stock records (December 20, 1881); education (January 3, 1881); professional status (February 14, 1882) and organization (May 9 and September 12, 1882) history (Jones *English Book-keeping*) (September 12, 1882); theory (Is the Capital Account a Liability?) (December 19, 1882); biography (January 30, 1883); changing from partnership to corporation (June 5, 1883); technology (August 1883); poetry (November 1883); scope of service (March 1881 and January 1884); and others.

The helpful indexes placed in the front of each of the four reprint volumes eliminates the need to turn pages extensively in search of key topics. However, if one wishes to use those volumes to their fullest, I would recommend a thoughtful, chronologically sequenced perusal. Such an effort will likely reward one with a sense of time and a further appreciation for the depth of subject, treatment and sophistication of our forebears.

The American Accounting Room volumes, which run from July 1883 through June 1884, are quite different in focus and content when compared with the *Book-keeper*. Perhaps the most interesting feature is an organized section of correspondence, "Counting-Room Chats."

The reprint title page of Volume 4 is in error — referring to a period January 1884 to December 1884; whereas the publication ceases in June 1884. It was also noted that the reprints should be based upon the "2nd printing" of some *Book-keeper* numbers and not the original number. Whether or not these "2nd versions" were identical to the original printings is an open question.

The *Book-keeper* title was subsequently resurrected for use by an association based in Detroit, suggesting that the market for professional publications continued to develop before the *Journal of Accountancy* appeared in 1905. The interim was filled by such publications as *Accountics*, which itself existed through only a half-dozen or so volumes. Perhaps, as the reprinted stepping stones into our past are recovered in these Garland series, *Accountics* would be a good choice as a reprint.

Luca Pacioli, Unsung Hero of the Renaissance (A Film by Southwestern Publishing Co. and the Pacioli Society, 1990, $45).

by Victoria Beard
University of North Dakota

This twenty-five minute educational video documents the life and times of the Italian Renaissance mathematician Luca Pacioli, "Father of Accounting." It was shot on location in Sansepolcro (Pacioli's home town), Florence, Venice, and Milan, using authentic Renaissance costumes and props. It is the kind of audiovisual feast of art, music and scenery that we have come to expect in a documentary about Renaissance Italy.

Born in 1445 in a small town in Tuscany, young Luca Pacioli received his early religious and mercantile training from the local Franciscan monks. At sixteen, he eschewed the traditional trade apprenticeship for a series of educational associations which ultimately put him in touch with the great artistic and intellectual minds of Renaissance Italy: Piero della Francesca (painter, Latin scholar, poet, cosmographer, architect, mathematician), Duke Federico of Urbino (and his 4,000 volume library), Leon Battista Alberti (architect, artist, scientist, author), Pope Paul II (who convinced Pacioli to become a Franciscan monk), and Leonardo da Vinci. Pacioli's collaboration with these artists and architects is wonderfully illustrated by the geometric proportions of Alberti's facade of Santa Maria Novella in Florence and by the sophisticated perspective in Leonardo's *Last Supper*.

This is not primarily a video about accounting or about the origins of Venetian (double-entry) bookkeeping. It is about the essence of the Renaissance, a time when "the mathematician gave proportion to the artist, and science fueled art," a time when religion and education, mathematics and art, science and business were unencumbered by the closure of professionalism. That Pacioli repeatedly crossed over these professional borders with enthusiasm and curiosity is a particularly important message for today's accounting students.

Pacioli placed such great importance on the practical, commercial application of mathematical theory that in 1494, when he published his *Summa de Arithmetica, Geometria, Proportioni et Proportionalita (The Collected Knowledge of Arithmetic, Geometry, Proportions and Proportionality)*, it was in the vernacular Italian rather than Latin. Here, for the first time, is a complete description of double-entry bookkeeping, along with a compendium of common business sense, "a textbook for teachers, a manual for merchants."

This unique video is particularly appropriate for beginning accounting students, both at the high school and college levels. Throughout, the viewer remains comfortably involved in the narrative by way of repeated dissolves back and forth from the Renaissance reenactments to the modern-day announcer at the same location. That it is, in places, overly dramatic is easily forgivable.

McCraw, Thomas ed., *Regulation in Perspective: Historical Essays* (Cambridge, Mass: Harvard University Press, 1981, 256 pp., $10.95).

by Geofrey T. Mills
University of Northern Iowa

This book is a collection of five essays, plus the report of a rapporteur, stemming from a Conference on the History of Public Policy sponsored by the Harvard Business School in late 1980. It is an interesting exercise to review these essays, nearly a decade since they were written, because so much has changed in the patina and paraphernalia which surrounds government regulation. It appears that the heavily regulated, command economies of the second and third world have utterly lost the battle for the hearts and minds of their peoples. Everywhere we look, it seems, capitalism is being embraced, such that government regulation is not the issue it once was. I suspect this is a somewhat rosy view, and can, therefore, recommend this volume as required reading for everyone interested in regulatory issues. The five essays contained in this volume are written by historians and attempt to give us a historical perspective on an amazingly wide variety of issues covered by "regulation". Their approach, as McCraw points out, is institutional, and they strive to place regulation into the broader context of organizational development and cultural change.

The initial essay, by McCraw, reopens the trust question and attempts to put recent developments on this issue into the broader context of anti-trust scholarship since 1912. In this effort, McCraw succeeds admirably, as his essay summarizes recent research, expands our horizons and defines new areas for research. A lot of his reasoning is based on new work in economics and the negative impact of regulation on economic efficiency and its anti-consumer bias. His conclusion, in the tradition of Robert Bork, Oliver Williamson and Al Chandler, is that regulation — in the Brandeis tradition — has been anti-competitive and anti-consumerist.

Morton Keller's essay on the Pluralist State takes a comparative look at regulation in the first three decades of the twentieth century. His comparisons are with Europe and the U.S. in the years immediately before 1900. This essay covers a lot of ground in a relatively few pages and the wonder is that Keller can do this so well. His conclusions, based on this transnational and long-term view, are that regulatory activities depend upon the peculiar economic characteristics of a society, technological advances, and general cultural change. He sees regulation as a sort of necessary evil to counter the "antisocial forces" inherent in modern industrial economies.

To those of us familiar with Ellis Hawley's scholarship, his contribution to this book will come as no surprise. His essay is a case study of the period of Hooverian Associationalism, 1921-1930, using as his examples the movie, lumber and aviation industries. Certainly we are all aware that these industries are currently regulated to some great extent. Hawley's evaluation of this period reveals that ideas and ideology played a larger role than previously appreciated in "shaping national regulatory policy". This ideology comes mainly from the experience of World War I, and had not been a major component of previous American political culture. He concludes that a number of the procedures and mechanisms of the regulation developed under this ideology stayed after the ideas themselves had been discredited.

Samuel Hays penned an essay investigating political choice in the administration of the regulatory activity. Hays selects the following areas for his analysis: the politics of administration;

the economic context of regulation; the regulators and their world; and the relationship between the public and public regulation. Given the disparate nature of these organizing principles, it's difficult to derive any consistent conclusions, but Hays does make some key points. One is that before World War II regulation focused on producers, while after 1945 consumers became advocates of change. Secondly, technology became an actual context of regulatory choice. Finally, he makes a plea for more analysis of the ideological context of regulation. In this latter regard, this paper echoes the Hawley paper.

David Vogel contributes the final piece, an essay on the new social regulation and its place in history. By social regulation, he means the impact of corporate behavior on the environment and upon consumer behavior. He sees this as a "new wave" of regulatory activity and focuses mainly on the 1960-1980 period. This essay is primarily descriptive and chronological in nature, but comparative as well, bringing in Western Europe and Japan. He finds that, while environmental and consumer protection certainly exists in Japan and Europe, they are more well defined and "onerous" in the U.S. This essay is an excellent primer on the development of this new regulation and its impact in the major industrialized economies of the world.

Taken as a group these essays fulfill their stated purpose of placing regulation in historical perspective. However, they do much more as well. We learn from this volume not only of the historical perspective, but also of transnational differences, the impact of technology and culture and, most importantly, the influence of ideas and ideology. A fitting summary would seem to be the old adage of John Maynard Keynes that we all suffer under the influence of some academic scribbler of ages past. What would be really interesting is to read revisions of these same articles in the perspective of the past decade. For this effort, I urge Tom McCraw to quickly organize another conference on the same theme.

Lee D. Parker (Ed.), *Financial Reporting to Employees: From Past to Present* (New York: Garland Publishing, Inc., 1988, 247 pp., $35).

by Anne Loft
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This book is a fascinating collection of papers designed to give a historical perspective on corporate reporting to employees. It will be of value not only to those interested in the specific relationship between accounting and industrial relations, but also to those interested more generally in the relationship between accounting and its social and organizational context.

The inspiration to publish this clearly came as result of the literature search Lee Parker carried out for an article which he co-authored on the pattern of development of financial reporting to employees from 1919 to 1979 [Lewis *et al*, 1984]. In this paper, which is reproduced at the beginning of the book, it is demonstrated that financial reporting to employees was not a "discovery" of the 1970s, or even the 1960s, but had been discussed and practiced earlier in the century. Even more interesting, the production of these reports seemed to follow a wave pattern: there was interest just after the First World War, again around 1940, it reached new heights in 1949, revived again in the late 1950s/early 1960s, and again in the latter part of the 1970s. These peaks are tentatively claimed to be linked with the application of new technology to the workplace, increased merger activity in the corporate sector, groundswells of anti-union sentiment, and economic recession and/or fears of recession. In the *Introduction* to this book Parker writes that these peaks:

> . . . reflected corporate management's interest in telling its own story or version of events that had overtaken, or were about to overtake their employees. This may suggest a legitimizing or propagandist role for such reports, at least in the perception of some report producers [p. xviii].

The papers are divided into six groups: "Early Stirrings;" "Reporting Rationales;" "Reporting Methods;" "Reporting Practices: Case Studies and Surveys;" "Assessing Employee Interest;" and "Reporting in an Industrial Relations Context." While I found the papers interesting, I also found it hard to see the logic in their arrangement. Personally I would have preferred them to have simply been arranged in chronological order because there is much overlap in the issues with which they deal. For instance, most of the papers contain something which could be called "Reporting Rationales", yet oddly under this heading itself there appears two papers from 1960/61 and one from 1973, nothing from an earlier period. Arranging the papers in chronological order would also have helped the reader who wants to see the papers in the context of the explanations of the peaks in interest put forward in Lewis *et al* [1984].

One of the valuable things about this collection is that the thirty-one papers come from a wide variety of sources, from the local *Illinois Manufacturers' Costs Association, Monthly Bulletin*, to the more well known *Journal of Accountancy*. Thus the reader can get an impression of different groups' ideas on reporting to employees, not only the view from accountancy. Sometimes the past can surprise us. R. Keith Yorston, an official of the Australian Society of Accountants [1959], writes about the "moral obligation" [p. 44] which an employing company has to supply financial information to employees, suggesting that:

> in the same way that the accounting profession has become greatly interested in taxation, so in the future it must, I suggest, become similarly interested in supplying information to employees and the representatives of employees (p. 50).

Would a professional accounting journal print such an article today? Historical material can have an important role in revealing that the past is not so simple as many management propagandists would have us believe; when reporting to employees is next rediscovered as the 'Columbus egg' in progress towards a more democratic workplace, this book will help us remember.

One of the central issues which all those writing about the topic of financial reporting to employees had to, and still have to, address is that of the role of workers in the enterprise. They have to address the paradox that workers are on the one hand defined as mere factors of production: 'hands' or 'labor', the cause of that item 'wages' on the financial statements; on the other they are human beings, and to be treated as capable of understanding business, albeit in simplified form. Andersen [1961], writing in *The Accountant*, treats "Labour as an Investment":

> The supplier of labour is in fact rather like the provider of capital, in that he also invests something in the business, namely his labour and personal skill.

Like the supplier of capital, the supplier of labor should be:

> advised periodically of the financial progress of his employer, so that he too may have the opportunity of assessing the worth and prospect of his investment.

This comparison is carried further:

> capital has an indefinite life and can appreciate, whilst labour ceases to exist on the death, incapacity or retirement of the supplier; it also deteriorates with age [p. 52].

This last paragraph illustrates that when labor is reduced to a mere factor of production, as Sievers writes, workers are defrauded of their mortality as they are converted into production means, tools, cogs, dead-wood, or scrap, and to the extent that workers are perceived and treated like things they are also regarded as non mortals [Sievers, 1990, p. 133]. Here death is recognized, but only as a cessation in a supply of a factor of production. Yet the notion of advising the supplier of labor of the financial progress of "his investment", and the optimistic message at the end of the article, that: "the working population is better educated and more widely read than ever before. Some employers have recognized this fact, and in conjunction with the trade unions concerned are attempting to create a real partnership in industry and commerce" [p. 55], show the paradox, for here the worker is a human being, not a mere cog.

Whether these financial reports directed at employees are a representation of a genuine attempt by management to cooperate with employees, or mere propaganda (or a mixture of both) is in this book left open for the reader to decide. Parker only hints at their possible "legitimizing or propagandist role" [p.xviii]. In my view, financial reporting to employees brings together two systems of managerial control over work which have been developed and elaborated during the twentieth century, namely industrial relations and accountancy; financial reporting to employees represents the use of accountancy in industrial relations. As Knights and Collinson [1987] describe, accountancy is peculiarly powerful as a disciplinary force in management-worker relations, it can be used to create an "agenda and script" for management-labor discussions [Bougen, 1989], its appearance of being the "facts" makes it hard to challenge, as was amply demonstrated in the recent Coal Strike in England [Cooper and Hopper, 1988]. Whatever the readers' standpoint on these issues, this is a very useful work to consult.

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Australian accountancy has been a special interest of accounting scholars, not only because of its lively academic influence upon the development of accounting thought, but also for its recognizable differences compared to that of the USA and the UK. *Accounting in Australia — Historical Essays* is a collection of 27 prominent essays and other related works in Australian accounting history, aimed to provide "an opportunity to examine how accounting techniques, institutions, and concepts have been imported and adapted to an environment similar to, but not exactly the same as, that of the exporters."

Several characteristics of accounting development in Australia can be observed in the series of readings. The early growth of the profession was fragmented by state. Australian accountancy was influenced by British accountancy until 1970 and by American since then. Except in Victoria, it was unregulated until the early part of this century. It has also been characterized by some innovative attempts to improve accounting reporting. Therefore, Australian accountancy has been a world leader in accounting theory contributions, particularly since the 1960s as some notable publications, including those of Chambers, achieved international reputation.

These twenty-seven selections were organized under seven sections. Four articles were included in the first section to provide a historical inquiry into the early accounting records in

Australia. During the first forty years of European settlement in this continent, there was no legal currency; therefore, barter transactions were dominant. In the barter economy, accountancy took a role to make such transactions easier by "using money as a unit of account even if money is not available as a means of payment" [p. 46]. Even so, Goldberg's survey, published in 1953, found no instance among the accounting records of this period of a set of double-entry records.

Six articles were included under the section heading "Corporate Financial Reporting". The first selection [Gibson, 1979] views the development of corporate accountancy in Australia as having passed through four phases, namely the introduction of minimum standards of disclosure, the extension of statutory requirements (e.g. income statements and consolidated reports), the phase of details of disclosure improvement, and the challenging problem of accounting measurement. The "Land Boom Case" of the 1880s played an important role in the regulation of company financial reporting in Victoria. Meanwhile, the disclosure requirements for banks and mining companies had the major influence in New South Wales where corporate disclosure was substantially unregulated [Morris, 1984]. Tracing back the historical phenomena of the evolution of financial reporting in these two important Australian states, Whittered [1986] comes to the conclusion that the introduction of consolidated reporting was "a natural response to an increasingly innovative market" [p.137]. Other than those, the renowned Zeff's "Forging Accounting Principles in Australia" [1973] regarding the development of accounting principles in this country until the early of the seventies, is, of course, another important part in this section.

Another major section, "Professional Accountancy", provides a historical explanation of Australian professional accountancy. The first two articles by Macdonald [1936], "Historical Survey 1886-1930," and Steele [1950], "An Accountant Takes Stock of the Past and Glances into the Future," respectively, serve to supply a historical description of the two surviving professional organizations in Australia: the Australian Society of Accountants (ASA) and the Institute of Chartered Accountants in Australia (ICAA). Before the movement toward the integration of both the professional organizations and practicing firms, the rise and fall of many professional organizations was a unique phenomenon. The list of thirty-five different accounting organizations in the appendix of Gaven's article, which is not claimed to be complete, illustrates this rise and fall.

Only two articles are found in the section "Audit". The first selection, digressing from the mainstream of the contents of this book, regards the origin of the audit in the public sector. However, the worth of this section emanates from the second essay [Gibson and Arnold, 1981] which explains how the contributions of one man, F. E. Trigg, have largely marked the ideas of auditing standards development in Australia. Unfortunately, Trigg's paper, titled "Contemporary Audit Practice", was not presented in this book.

Another important section consisting of five articles provides a historical representation on the Australian accounting literature. This section includes the essay regarding the popular theory, *CoCoA (Continuously Contemporary Accounting)*, proposed by chambers since the 1960s.

Next is a section of biographies and bibliographies. This last section includes two biographies of Chambers and Fitzgerald. The latter is a former Chairman of The Commonwealth Grants Commission who inspired various improvements in the public accounts.

In the introduction of *Accounting in Australia*, the editor explains that the seven headings in this book are "to some extent arbitrary." It is difficult, however, to speculate as to the reasons why the editor classified the two short articles regarding the common use of the same financial year in Australia, i.e. June 30, as a separate section following the first. This section contributes no important information about the main purpose of this book, and it seems out of context. In fact, the role and development of accounting education in Australia, although more important, is, unfortunately, not covered by this book.

This book should have included a rough map of Australia to help readers in identifying the different regions and historical locations. It's a deficiency, too, to have the first part of this book (cover pages, content pages, and the introduction) without page numbers (i.e. Roman numerals). The source publication of the second essay in "Accounting Literature" section as mentioned in the list of contents is different from the actual source. Also, some mistypings and needed punctuation in the introduction were just ignored.

Apart from the deficiencies identified above, this book is still able to act as an important vehicle to better knowledge about accountancy in Australia.

Relevance Rediscovered (An anthology of 25 significant articles from the NACA Bulletins and Yearbooks 1919-1929). Selected by Richard Vangermeersch. (Montvale, NJ: National Association of Accountants, 1990, 400 pp., $39.95).

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Relevance Rediscovered is an anthology of significant articles describing cost accounting practices and developments which have appeared in the periodicals of the National Association of Cost Accountants (NACA), known today as the National Association of Accountants (NAA). The publication of the first in a series of volumes signals the beginning of the commemoration of the organization's 75th anniversary in 1994. NAA's goal is to provide the reader with:

> . . . the opportunity to be able to explore the writings of leader member/practitioners of the NACA from its inception. Contained in this volume are the great accounting ideas of the past, to help you solve today's and tomorrow's problems. [p. iii]

If this first volume is representative of those to follow, the NAA has succeeded in providing that perspective.

Volume I of the anthology covers the organization's initial decade from 1919-1929. It contains articles gleaned by researcher Richard Vangermeersch from NACA bulletins and yearbooks. Yearbooks comprised the papers presented at the annual cost conference. Bulletins containing articles were regularly published twice a month beginning in 1922, and prior to that on a sporadic basis. The 25 articles chosen, presented chronologically, were selected by Vangermeersch to provide a sample of the decade and to complement his choices forthcoming in future volumes in the series.

The articles are prefaced by a wonderful introduction in which Dr. Vangermeersch cites 10 reasons why this past literature should be studied, followed by a concise introduction and review of each article. In introducing an article, he provides background on the author and offers several thought-provoking questions for the reader. Although his comments are directed to the reader as management accounting practitioner, the work is easily adaptable for the classroom as well.

All of the individual articles are deserving of the reader's attention but in addressing the goal of using the great ideas of the past to solve current problems, some selections are more appropriate than others. Some topics are of questionable relevance to today's problems, some articles are only marginally tied to accounting, and some works made for slow reading. Indeed, there are times when reader interest, piqued by Dr. Vangermeersch's introductory comments, falls upon encountering the article. Although three or four selections could be eliminated without sacrifice, all of the works are worthy of inclusion.

There are six articles ideally suited to the purpose of the anthology in the mind of this reader: (1) "Calculation and Application of Departmental Burden Rates" by Gould L. Harris, which traces the history of overhead accounting and presents a solution to the allocation problem; (3) "Some Problems in the Actual Installation of Cost Systems" by H. G. Crockett, which examines issues relative to the types of cost systems used in particular factories, (9) "Radio Education Campaign" by the NACA, transcripts of radio messages addressing the role of cost accounting to workers, management, and the public; (12) "Indirect Labor" by Harry J. Ostlund, which examines a growing segment of costs undergoing little detailed analysis; (18) "Question Box" with NACA President Clinton H. Scovell presiding, a debate of five current management accounting problems; and (19) "Financial Control Policies of General Motors Corporation and Their Relationship to Cost Accounting" by Albert Bradley, which provides a detailed case study of a cost accounting system.

In light of recent accusations that management accounting has lost its relevance, and in view of the fact that the factory of the future is changing the discipline of cost accounting and new world-class accounting systems must evolve to meet the needs of world-class manufacturers, this work provides a useful perspective. What were cost accounting systems like in the 1920s and have they changed? Are the new cost accounting ideas of the 1990s all that new? Opinions on these matters, along with a sense of the problems of the time and the thinking of the leading cost accounting minds, stimulate the thoughtful reader to appreciate this resource.