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REVIEWS

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REVIEWS OF BOOKS AND OTHER PUBLICATIONS

Dale L. Flesher, *The Institute of Internal Auditors: 50 Years of Progress Through Sharing* (The Institute of Internal Auditors, 1991, 180 pp.; members, $15; nonmembers, $20).

Reviewed by
Frank E. Ryerson III
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This book is a history of the Institute of Internal Auditors and serves to commemorate the fiftieth anniversary of the Institute's founding in 1941. The author, Dale Flesher, does an admirable job of describing the individuals, events and activities that were instrumental in fostering the growth of the Institute of Internal Auditors (IIA) from an initial group of 24 businessmen to an international organization with over 42,000 members.

The book consists of ten chapters, each of which provides a chronological discussion of a major IIA-related topic area. These self-contained histories provide for easy reference to specific topics and allow for continuity of exposition within each area. Also, in order to provide an overall perspective on the development of the IIA, the book concludes with a chronological time line which integrates the major events and activities recounted in previous chapters.

The Introduction chapter describes how a number of major changes in the internal auditing environment has both expanded and enhanced the role of the internal auditor over time. The history of the IIA is incorporated into this broader discussion of the profession's development and is attributed a major role in its evolution. In fact, Flesher states that "... for the past 50 years the history of internal auditing has been synonymous with the history of the IIA" [p. 15]. Support for this assertion is provided in the remaining chapters of the book.

Chapters Two and Three discuss the leading role the IIA has played in promoting the emerging professionalism of the internal auditor. This historical review includes descriptions of such

Institute pronouncements as the "Statement of Responsibilities of Internal Auditing", "Code of Ethics", and "Standards of the Professional Practice of Internal Auditing" as well as discussions of the IIA's Quality Assurance Review Service and its professional certification efforts. With respect to the history of the Certified Internal Auditor (CIA) examination, Flesher relates an interesting anecdote regarding the IIA's deliberations on changing the CIA acronym. Debate over the acronym occurred during the mid-1980s and arose because international travelers and certificate holders were in danger of being mistaken by terrorists for members of the U.S. Central Intelligence Agency.

The material in Chapters Four through Six discusses the development of the IIA as a professional association and reviews the various types of professional service contributions the Institute has made to the practice of internal auditing. Chapter Four traces the growth of the IIA in terms of membership, chapters and member services. Chapter Five reviews the history of the periodicals published by the IIA, with specific emphasis on the Institute's journal, *Internal Auditor*, while Chapter Six details IIA activities related to colleges and universities.

The Institute's professional development activities are the subject of Chapters Seven and Eight. The history of Institute sponsored conferences, seminars and other continuing education meetings is presented in Chapter Seven. Chapter Eight continues the theme of professional development by examining the numerous IIA related research projects and publications.

Chapter Nine is devoted to the individuals who have shaped the IIA over its first fifty years and is divided into three sections: (1) international volunteer chairmen; (2) key staff members at the international headquarters; and (3) recipients of major IIA awards.

The last chapter comments on the success the IIA has had in adapting to its changing environment and in gaining recognition for itself from other professional associations and various governments. The discussion then concludes with a brief look to the future, which includes twelve strategic actions the Institute's 1990-91 Chairman, A. J. Hans Spoel, has recommended for use as a guide for the next decade.

The only criticism this reviewer has of the book is the presence of several inconsistencies between the text and several exhibits it makes reference to. However, because these inconsistencies are limited in number, they do little to disrupt the flow of the material, nor do they diminish the overall contribution this book makes to our understanding of the development of the IIA and its associated impact on the professional practice of internal auditing. Flesher has provided an extensive summary of the who, what, when, where and why of the IIA. As such, the book fulfills the dual functions of, first, providing a concise history of the IIA and, second, serving as a reference source for those interested in exploring the Institute in more depth. The book also makes a contribution to the accounting literature by filling the gap in published IIA history which has existed since the publication of the last history of the Institute in 1977.

O. Finley Graves, ed., *The Costing Heritage: Studies in Honor of S. Paul Garner* (Harrisonburg, Virginia: The Academy of Accounting Historians, 1991, 171 pp., $15).

Reviewed by
Jack Ruhl
Louisiana State University

The emblem of the Academy of Accounting Historians bears the Latin inscription, "Praeterita Illuminant Postera," which is literally translated as "Past events illuminate future events." The inscription hints at a way of evaluating accounting history research; that is, to what extent does an historical study illuminate future events? The more the research helps us understand and predict accounting theory and practice, the more valuable is the research.

Judging by this standard, Monograph 6 is an important achievement in accounting history research. The monograph is a collection of ten studies which has cost accounting as its unifying theme. Six of the studies base their conclusions primarily on pre-20th century materials from both within and outside the U.S. Three other papers reexamine cost accounting practices in new and insightful ways. The final study in the monograph outlines pitfalls for accounting history researchers.

As an example of a pre-20th century study, Richard Mattessich ["Counting, Accounting, and the Input-Output Principle: Recent Archeological Evidence Revising Our View on the Evolution of Early Record Keeping"] examines archeological evidence of accounting practices during the period 8,000 B.C. to 3,000 B.C. Mattessich writes that the ancient people of the Middle East transferred clay tokens from one place to another as a representation of an actual economic event. He uses this and other evidence to argue that the foundation of accounting is not to be found in double entry bookkeeping. Rather, the foundation of accounting is found in an input-output principle which is represented by the transferring of the tokens. Put differently, by moving the clay tokens from one place to another, ancient Middle Eastern people recognized the input-output character of an underlying economic event. Double entry was of secondary importance, evolving in the service of the input-output concept.

Richard Fleischman, Lee Parker and Wray Vamplew ["New Cost Accounting Perspectives on Technological Change in the British Industrial Revolution"] reassesses the conventional wisdom that the period of the Industrial Revolution was a "cost accounting wasteland" [p. 14]. The authors examined the accounting records of several firms operating in Britain during that era and found that detailed cost analyses formed the basis for major management decisions in these firms. Such decisions included adoption of new technologies and capital investment. Further, the authors use these accounting records and related partnership correspondence to argue that the shortcomings of cost accounting during the British Industrial Revolution have been greatly exaggerated. Instead of being a hindrance to industrial development (the conventional wisdom again), cost accounting practices helped managers of that time to make informed decisions on the choice of technology.

Focusing on a 20th-century regulatory agency, Frank Rayburn ["The Cost Accounting Standards Board: Its Creation, Its Demise, and Its Reestablishment"] recounts the history of the Cost Accounting Standards Board (CASB) since its initial establishment in 1970. He explains the structure of the CASB, lists the nineteen Standards promulgated by the CASB, and describes the political and economic forces which led to the demise of the original CASB. Rayburn then describes forces which led to the 1988 reestablishment of the CASB.

Murray Wells ["The Nature of Activity Costing"] looks at Johnson and Kaplan's *Relevance Lost: The Rise and Fall of Management Accounting* (1987) from an historical perspective. Wells argues that the "activity costing" suggested by Johnson and Kaplan is not a dramatic new breakthrough, but simply another conventional product costing system. Further, Wells restates his conviction that "there should be NO allocations of overhead to products, cost centers, divisions, or whatever" [emphasis in original, p. 133]. He concludes that Johnson and Kaplan's major contribution is that they underscore the need for managers to identify costs that are under the control of those managers. Wells' conclusion implies a need for future accounting researchers to reexamine the perennial issue of cost allocation.

Four of the ten papers in the monograph have been described here. All the papers in the monograph are interesting, clearly written, and address important cost accounting issues. Monograph 6 is important because it illuminates (1) the basic nature of cost accounting, (2) problems with currently accepted solutions to cost accounting problems, (3) the role of cost accounting on society, and (4) the role of society on cost accounting practice. Finely Graves has done an excellent job editing this volume, which is an appropriate tribute to the life and work of accounting history scholar Paul Garner.

REFERENCE

Johnson, H. T. and Kaplan, R. S., *Relevance Lost: The Rise and Fall of Management Accounting,* Boston: Harvard Business School Press, 1987.

Finley Graves, Graeme Dean and Frank Clarke, *Replacement Costs and Accounting Reform in Post World War I German* (New York: Garland Publishing, Inc., 1990, 188 pp., $45.00).

Reviewed by
Dieter Schnedier
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Proposals for inflation accounting, developed at the beginning of the "hyper-inflation" after World War I (1919-1923), belong to the most remarkable contributions of German authors to accounting theories. Moreover, "there is a considerable similarity between the motivations for, and the supporting arguments in favor of, injecting replacement cost or reproduction cost depreciation and inventory calculations into accounting in the post-World War I German accounting literature and the post-World War II U.K. and U.S. literature. . . . In many respects it has been a case of déjà ju" [p. 33].

Graves, Dean and Clarke explicate this idea by presenting abstracts, commentary and translations of ten articles published in 1920 on depreciation, cost accounting and financial accounting procedures in times of inflation, written by well-known Professors of Business Economics in Germany (Prion, Mahlberg, Geldmacher and F. Schmidt with two chapters of the first edition of his *Organic Accounting in the Framework of the Economy* and now forgotten managers and professors.

The translation gets into the spirit of the articles and only rarely lacks conviction, e.g., Geldmacher did not mean in "Bilznxsorgen" unspecified "Accounting Problems", but "Accountants' Anxieties or Distresses". The abstracts [pp. 3-18] are very informative but the commentary [pp 21.39] seems partly disputable.

To present the origins of inflation accounting to the Anglo-American readership is a laudable effort in the research of accounting history. However, in comparing the discussion after World War I in Germany with the post-World War II U.K. and U.S. literature, it seems a bit odd to restrict the presentation to the first and rudimentary articles written mainly in periodicals for managers. By this procedure, for example, the outstanding inaugural lecture at the University of Freiburg by Ernst Walb about the problem of paper profits ("Das Problem der Scheingewinne," Leipzig, 1921) is excluded. Mahlberg and Geldmacher have published clarifications of their first ideas in later monographs (Mahlburg, *Bilanztechnik und Bewertung bei schwankender Währung,* Leipzig, 1921; Geldmacher, *Wirtschaftsunruhe und Bilanz,* Berlin, 1923). Nicklisch (Professor at the Business Economics School, Berlin) developed in a book review (*Zeitschrift für Handelswissenschaft und Handelspraxis,* 1921-22, p. 45) the concept of nominal or inflation corrected profit, whichever is lower, an often repeated idea in the 1920s and from the 1950s on.

To thoroughly compare the German literature after World War I with its Anglo-American counterpart after World War II, it would be necessary to analyze the whole period from 1920-1930. This period includes the 4th edition of Schmalenbach's *Dynamic Accounting* (1926), the 3rd edition of Fritz Schmidt's *Organic Accounting* and the antithesis by Rieger. Therefore the contribution of Graves, Dean and Clarke can only be seen as a useful beginning of accounting history research on inflation accounting procedures.

The preface contains a survey of the politico-economic background in 1918-19 [pp. XI-XVII]. I cannot see any connections between the socialist revolution 1918 in parts of Germany, the counter-revolution by parts of the former army in spring 1919 and the accounting problems resulting from price control and inflation. Without these events the same accounting problem would have existed.

The editors do not mention the fundamental changes in the tax structure in 1919 (Erzbergersche Steuerreform), an intellectual feat at the beginning of Weimar republic. The Prussian prewar income tax which excluded capital gains had been changed to the Schanz (Haig-Simon) concept (nevertheless this attempt failed because of inflation and was then soon abandoned). The highest tax rate increased from Prussian's 6% to Weimar's 60%. Regarding this and the inflation, the section named "Taxation lobby" [pp. 25-29] in the commentary seems to be inappropriate.

Concerning replacement costs and price fixing, the articles translated in this anthology should have been compared with the state of the art of "cost accounting" in Germany before World War I. The use of cost accounting for pricing had already extensively been discussed for the first time in 1906-08 (23 articles from a prize competition had been published in the *Zeitschrift für handelswissenschaftliche Forschung)*, accompanied by research in the theory of costs by Schmalenbach. Therefore, the conclusion [p. 36] "Pre-World War I accounting in Germany is best summarized as being balance sheet oriented" is not correct. Before 1914, the balance sheet was mainly a research object for jurists. Schmalenbach acknowledges as predecessors of his Dynamic Accounting, the Prussian revenue official, von Wilmowsky (1896-1907) and the Saxon lawyer, R. Fischer (1905-08).

Discussions in the economic function of depreciation as a replacement fund date from the 19th century. During that time, confusion between depreciation and reserves was common and some of the articles in the anthology partly repeat this confusion. The commentary lacks a thorough evaluation of the articles in the historical context before 1914 and after 1920. Especially, the articles do not reflect the two main directions which the discussion of inflation accounting procedures in German-speaking countries have followed from 1920 up to now: the "volume-reproduction" approach (Substanzerhaltung, in 1920; Geldmacher and with variations, Schmidt) and the "maintaining purchase power" approach (in 1920, Mahlberg; later Walb and Schmalenbach) whose ideas had been presented to the Anglo-American audience by the same authors in a publication in 1989[1].

NOTES

[1]O. F. Graves, Dean, G. W. and Clarke, F. L., *Schmalenbach's Dynamic Accounting and Price-Level Adjustments* (Garland Publishing Inc., 1989).

Roxanne T. Johnson, *An Analysis of the Early Record Keeping in the DuPont Company 1800-1818* (New York: Garland Publishing, Inc., 1989, 105 pp., $40).

Reviewed by
Harvey Mann
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In this slim volume, Johnson introduces us to the undistinguished beginnings of the DuPont business dynasty. In the Introduction to the book, we meet the grandfather, Samuel, and the father, Pierre, of Eleuthere Irenee DuPont de Nemours (hereafter E. I.) and learn a little about their lives in France. It is Pierre who makes the decision to emigrate to America, influenced by the turmoil of the French Revolution and his peripheral involvement therein. This move, however, seems to have been made without form or serious plan and with hardly any capital. Pierre formed a company and, as part of his plan, he gave E. I. the responsibility of establishing a gunpowder manufacturing facility. E. I. had developed an interest in gunpowder as a teenager and learned more about it over time. Finally, early in 1801 a "Deed of Association" was drafted and the very poorly financed company came into existence. It can be noted that this company was the only successful, albeit, very successful, venture of the DuPont family.

The first bookkeepers of the company are introduced in Chapter 1. Peter Bauduy has the dubious distinction of being the first (due less to his prowess with the books than to his being a shareholder in the company). He is replaced early in 1806 by Raphael Duplanty, who seems to have been familiar with double-entry bookkeeping and also had some practical experience. In the balance of this chapter, two contemporary bookkeeping texts are quoted; however, I found the comparison between these quotes and the books of the company confusing, to say the least. There are, however, details of the early DuPont records available in the Hagley Library and Museum in Greenville, Delaware.

The emphasis in the second chapter is on the initial capitalization, or rather the lack of same, of the firm. The process is difficult to follow since most of the shares in the company were not purchased for cash, the record keeping was horrendous, and the interrelationships of the company, the father's company and the shareholders were quite confusing. The company survived in spite of these tribulations due to a provident loan as well as the intervention of a dissatisfied Bauduy, who eventually departed. This leads to Chapter 3 and a consideration of the importance of cash and cash flows to the operation of the business in the early 19th century. Very little that is unusual is introduced. A few journal entries are shown with an emphasis on bills payable or receivable and very little actual cash being exchanged.

Chapter 4 offers a short recapitulation of the accrual accounting used by DuPont, but does not introduce any new concepts or ideas. This leads to the final chapter where it is concluded that the company had the record keeping it needed to survive. Mention is made of "work-in-progress" inventory and a writing-down of fixed assets akin to, but not as systematic as, depreciation accounting. It is pointed out that the books were not closed annually but this is excused because of the difficulty of obtaining the required information from agents across the country. In a final warning to the reader, Johnson indicates that any conclusions drawn are firm specific and cannot be generalized to other companies.

The book would benefit from a comparison with accounting practices of like, or even unlike, businesses of the same era. We do, however, now know a lot more about the early bookkeeping practices of the DuPont enterprise and also about a treasure trove of data available for further research at the museum in Greenville.

T. A. Lee, ed., *The Closure of the Accounting Profession* (New York: Garland Publishing, Inc., 1990, 2 vols., $192).

Reviewed by
Kathie Cooper
University of Wollongong

These volumes are a collection of readings with a difference, which should prove useful to accounting historians, students of accounting history and any person contemplating writing in the area of accounting history. One reason for this is that the selected readings contain a wide and varied range of interesting and useful material not drawn solely from accounting history literature but also from other disciplines. Perhaps the most outstanding feature of the text is that the articles and commentary preceding each of them are structured in such a way as to illustrate one view of how accounting has shaped and been shaped by its environment. Even if the reader does not agree with all of the views expressed, this eclectic approach is useful to aspiring accounting history authors. It is not simply a reiteration of historical writings which really adds little to the existing literature. Rather, it is an analysis and interpretation of historical events drawn from the existing literature and incorporates new, if radical, ideas. In this context, it demonstrates that history can be used to explain the current state of accounting rather than for the sake of historical interest alone.

The purpose of the text is to demonstrate that accounting is a highly complex and inter-related social system comprising functional and organizational systems which interact with other organizational systems, for example, business and government. As a consequence, this study of the historical development of accounting is undertaken in a systems context with a view to suggesting an answer to one crucial question posed by Lee in the Introduction to volume 1:

> . . . why a socially-valued and financially well-rewarded profession such as accounting should have, and be content to have, a relatively static body of knowledge in which major problems are investigated but not resolved; alternative theories remain theories; and research is desired but its findings are largely ignored [Introduction and Explanation, no pagination].

An explanation is sought in the notion of systems closure and, in particular, Robb's concept of supra-human, autopoietic systems [vol. 2, pp. 245-246]. In systems of this nature, instead of managing a system, humans become part of a system which has its own life and is self-managed. However, in its bid to change, adjust or adapt to its environment, the system reaches the point of chaos and becomes autopoietic. All sight of what the system is trying to achieve is lost and self-preservation becomes the overriding objective. Lee's conclusion is that accounting may have reached this point [vol. 2, p. 246].

Each of the articles or "Recommended Readings" is preceded by commentary by Lee in which the theme or explanation being sought in the readings is identified. Many of the articles are followed by an additional annotated bibliography. Each of these features should prove useful to accounting history students and other interested readers.

A primary strength of this text is that it adopts a multidisciplinary approach. There is a strong sociological theme which is often implied in the articles but not specifically stated.

Lee's commentary provides the sociological overview where necessary, thus making the text attractive to a wide range of readers.

For those who are simply interested in accounting history, a substantial proportion of the text is devoted to the development of the occupation of accountant through to professionalization. Even here, however, the "Recommended Readings" have been selected to demonstrate how accounting, through the ages, has been an open social system subject to closure and how it has changed or remained static and the mechanisms of change [vol. 1, p. 219; vol. 2, p. 167].

In summary, even if readers do not agree with all of the views expressed and the conclusions reached in this text, it should, for the reasons given previously, be seen as a worthwhile contribution to accounting history literature. As a bonus, the new areas explored in this text may open the way for further debate and improvement in accounting.

Paul J. Miranti, Jr., *Accountancy Comes of Age: The Development of an American Profession, 1886-1940* (Chapel Hill, NC: University of North Carolina, 1990, 276 pp., $29.95).

Reviewed by
Joni Young
Temple University

This book provides a useful history of the American Institute of Accountants (AIA) and conveys the early conflicts and reactions of various accounting organizations and individuals within these organizations. Conflicts occurred between practitioners in large and small firms, between practitioners in different geographic areas and between the AIA and academicans. The book is divided into four sections that trace the history of the AIA from its beginnings as the American Association of Public Accountants (AAPA) in 1886 to its primacy in 1940.

Section 1, 1886 to 1906, explores the "dawn" of the professional organization. This section emphasizes the divisions within the "profession" and the absence of an authority focus. The author contrasts the opinions of two contending professional organizations, the New York Institute of Accountants (NYIA) and the AAPA, on issues such as whether accounting was an art or science, the appropriate means of training new entrants, possible responses to the influx of non-Anglo-Saxons into accounting, and the importance of professional designations. Miranti examines the different perspectives of the AAPA and NYIA leaders in an effort to understand these influences upon their opinions. However, this section tends to over-emphasize the differences and under-emphasize the similarity of views among these accountants. Both AAPA and NYIA members believed that accounting was useful in improving society. C. W. Haskins, an NYIA leader, believed that accounting "could help to perfect society by promoting efficiency and honesty" [p. 37]. AAPA leaders also believed that accounting "offered great potential for social uplift . . . " [p. 39]. With respect to attitudes about training, the text provides more evidence of diversity within the AAPA than of diversity between the AAPA and NYIA.

Section 2, 1900 to 1916, details the continuing search for professional roles. The AAPA leadership employed the *Journal of Accountancy* to promote its professional ideals and views on the roles of accountants. Miranti employs four brief case studies to illustrate this search for identity and purpose. The first study emphasizes auditing and the efforts to require annual audits for New York insurance companies. The second emphasizes accounting and the sporadic involvement of the AAPA in the public debate about railroad accounting. The third emphasizes consulting and the role of an AAPA committee in advising a government committee on Treasury Department bookkeeping procedures. The fourth emphasizes income taxes and the efforts of the AAPA to gain government acceptance of accrual accounting.

Section 3, 1917 to 1929, considers the encroachments of the Federal Reserve Board and the Federal Trade Commission in financial reporting and details the continued division of the profession over proper examinations for new entrants, adequate licensing requirements, ethics rules and "proper" accounting. The successful efforts of the AIA leadership in obtaining the AIA prohibition against "touting" drove many small practitioners and others to form a rival organization, the American Society of Certified Public Accountants (ASCPA). During this period, criticisms about the quality of attest work underscored the lack of agreement among accountants about the classification of attestations and the responsibilities of accountants in undertaking this work. The American Association of University Instructors in Accounting (AAUIA) drew attention to the inconsistent application of accounting methods — a condition that practicing accountants were unwilling to change for fear of eliminating the need for professional judgment.

Section 4, 1929 to 1940, examines the emergence of the Securities Acts and explores the coming together of the public accounting profession into a single representative organization — the AIA. Although the AIA played little role in the events culminating in the passage of securities legislation, its members and all public accountants were forced to increase their level of independence from clients [p. 153] and to consider developing accounting guidance to establish "authoritative support". The AIA responded to an AAUIA challenge by establishing a committee to provide guidance on financial accounting matters. These challenges by the AAUIA and the changes wrought by the Securities Acts and the SEC played a significant role in facilitating the AIA merger with the ASCPA.

Miranti discusses the "politically incorrect" attitudes of the early leaders of the AIA and the role of these attitudes in delaying the AIA merger with the ASCPA. In his discussion of this merger and in other sections, he describes the racist/sexist attitudes of the AIA leadership and their concern to allow only the "right men" of the "right" social background into the partnerships of major firms and the inner circle of the AIA [e.g., p. 126, pp. 169-171, p. 180].

A major concern with the book is the lack of clear purpose in its opening chapters. In the final chapter, the reader learns that the author's purpose is to write a history of the AIA: "this study of the history of the AIA also casts some new light . . . " [p. 190]. In contrast, the author discusses professions generally and cites histories of professions such as engineering and medicine rather than histories of professional organizations in the introductory chapter. This chapter suggests that the book would develop a history of the profession rather than a history of a professional organization, a very different historical focus. This confusion over focus leads to questions that otherwise might have been avoided: Why did the author not discuss in more detail the activities of the ASCPA and other organizations and their contribution to defining the roles of the auditor and accounting? Why did the author limit accounting professional to the public accounting professional? Given the emphasis on public accounting, why did the author not examine in more detail the changing role of the auditor in society and whether the significance and purpose of audits changed during the period studied?

The frequent use of the term "elite" throughout the text creates confusion for the reader. At times, the term refers to the partners in national firms [e.g., p. 111]. At other times, the term refers to nonaccounting groups such as the Department of Commerce Advisory and Planning Council [p. 167]. At still other times, the term refers to the leadership within the AIA or to immigrant British chartered accountants [p. 180]. A consistent use of the term would have reduced this confusion.

The book conveys the many obstacles to establishing and maintaining one professional organization to represent the profession. The issues discussed in the book continue to reappear as subjects of current debates. For example, what should be the entry requirements for new CPA (150 hour education requirement)? What is the purpose of the audit (does it include an obligation to detect fraud)? An examination of the influence of social values in the past upon the compromises and solutions reached by the AIA suggests the need to carefully consider the contribution and impact of social values to current and future changes in the public accounting profession (and other elements of accounting).

Larry Neal, *The Rise of Financial Capitalism: International Capital Markets in the Age of Reason* (Cambridge: Cambridge University Press, 1990, 278 pp., $37.50).

Reviewed by
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The London School of Economics and Political Science

The use of econometric techniques to address problems in economic history has been a feature of the last thirty years [McCloskey, 1987]. Yet there are still few studies that examine the emerging capital markets of the eighteenth and early nineteenth centuries by applying the statistical procedures that are so familiar in the case of recent research in finance. Larry Neal's book is a good indication of the hurdles that have to be crossed in order to carry out worthwhile historical finance research of a quantitative nature. The first of these is the assembly of raw data. Only a small number of securities and foreign currencies (rarely more than 20) were traded on the London, Paris and Amsterdam markets at any time in the eighteenth century. But Neal could not simply run a computer tape to find the prices of these securities. He had to locate contemporary price lists, assess their reliability, and then ensure that the daily price data were input into a computer file. Given the need to process what must have been over half a million pieces of raw data, it is not surprising that it took Neal a decade to assemble his security prices, before he could begin to test them.

The second problem that Neal had to overcome was the possible distortion of his data by institutional factors. One of the great dangers of quantitative historical research is that a fascination with manipulating the numbers can easily overshadow the many institutional nuances that set the context within which the numbers arise. A great strength of Neal's book is that he is very aware that he must consider carefully the structural similarities and differences between the main European capital markets, and the changes in these markets over time. Apparently minor factors in the set up of markets prove crucial: for example, that stock transactions in London were for spot delivery while in Amsterdam they were for settlement on one of the quarterly dates during which transfer books were open, makes it necessary for Neal to allow for the discount implicit in security prices in Amsterdam because of the later settlement of trades.

Neal adopts a topical approach in his book, much of which has been published already in the form of journal articles. The main topics considered are: how integrated were the various capital markets, and did the degree of integration differ in times of war and peace; how did financial information diffuse through European capital markets; how did the great financial "bubbles" of the early eighteenth century, involving John Law's Banque Royale in France and the South Sea Company in England, happen; and the extent to which the transfer of wealth by emigrés from the French Revolution fuelled the British Industrial Revolution at the end of the eighteenth century. Because of his quantitative approach, Neal is able to demonstrate convincingly how the South Sea Bubble was the culmination of a long period of speculation, and how market volatility became much reduced after the bubble burst. He suggests that the price movements at the outset of the South Sea Bubble can be explained as a "rational bubble" [Blanchard and Watson, 1982], while those just before the bubble burst could not be so explained.

It is perhaps unfair to criticize quantitative historical research for simply providing statistical confirmation for generally accepted history, but Neal's book does on occasion leave the impression that the application of quantitative methods has added very little to our understanding. Where Neal's conclusions are new, they are often only weakly supported by the data.

For example, Neal suggests that "... because the international capital markets of the time were larger and better organized than previously thought ... capital movements from the Continent to Britain explain succinctly why the British Industrial Revolution took place during that period [1790-1820]" [p. 181]. His evidence for this is largely anecdotal, and Neal has to acknowledge that the main statistics he uses in this context are "unreliable figures, to say the least" [p. 221].

The contribution of Neal's book for most readers will be the detailed description of the institutional structure of the London, Paris and Amsterdam capital markets during the eighteenth and early nineteenth centuries. One point that Neal stresses is the emphasis placed by investors on dividends paid by companies such as the English and Dutch East India Companies. Simple models of share valuation in terms of capitalizing dividend streams perform better as predictors of share prices than the more complex calculations (derived from internal accounting records) of researchers such as Mirowski [1981]. Neal, therefore, confirms the significance of dividends as the central indicator of investment performance to the stock market, a significance that, at least in Britain, persisted until after the Second World War (and, it sometimes seems, is still with us).

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Leonard Spacek, *The Growth of Arthur Andersen & Co. 1928-1973: An Oral History* (New York: Garland Publishing, Inc., 1989, 349 pp., $69).

Reviewed by
Stephen A. Zeff
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Leonard Spacek was the managing partner of Arthur Andersen & Co. from 1947 to 1963 and was the person most responsible for its ascendancy as one of the Big Eight public accounting firms. He served as chairman of the partnership from 1963 to 1970, and retired from the firm in 1973. He was the firm's innovative leader who challenged conventional wisdom in a conservative profession.

Spacek was unquestionably one of the most colorful and important figures on the U. S. public accounting scene during the 1950s and 1960s, and the publication of this oral history is a welcome event. This volume contains a verbatim transcript from four days of videotaping during October 1983 and May 1984 (Spacek's 77th year) at the firm's Center for Professional Education in St. Charles, Illinois. Ten of Spacek's long-time friends and colleagues took turns at the questioning. They drew on their diverse associations with Spacek to elicit his recollections about a wide array of subjects: the personality and management style of the firm's founder and namesake, the contributions of the firm's early partners, Spacek's philosophy and strategy as architect of the firm's growth, the reasons behind Spacek's frequent disputes with professional leaders over accounting principles, and some of the firm's memorable engagements. What emerges from Spacek's rendering of innumerable anecdotes, some told several times, is the portrait of a decisive, indefatigable, incorruptible, straight-talking Midwesterner who is several steps ahead of everyone around him. And, as is evident throughout this oral history, he has a remarkable memory.

One of the anecdotes helps explain the motivation behind the phenomenal growth during Spacek's tenure at the helm of the Chicago-based firm. Following Arthur Andersen's death in 1974, Spacek gave several speeches expounding his views on professional issues. The accounting establishment in New York was not amused. John L. Carey, the influential secretary of the American Institute of Accountants, invited Spacek to New York to meet with the heads of the large firms in the august setting of the Union League Club. At the meeting, which was chaired by George O. May, the retired senior partner of Price, Waterhouse & Co. and the *doyen* of the profession, Spacek was informed that "the leadership of the accounting profession must rest in the hands of the larger, successful firms and that the smaller firms [such as Arthur Andersen & Co., which was 20th in size] can enjoy the success but must acknowledge that the leadership of the profession is in the hands of the larger firms" [p. 55]. This incident became indelibly etched in Spacek's mind (he refers to it again on pp. 113, 173 and 179). On hearing May's words, Spacek immediately resolved that "if it is bigness that it takes to have any say in the accounting profession, why then we will concentrate on first things first. We'll get big. That's when I really went out for promotion" [p. 55].

Spacek also explains the complications he had to face at the time of the founder's death, since Arthur Andersen had never actually signed the partnership contract, and an initial vote was taken to liquidate the firm. He also discusses the launching of the firm's training school in 1940 (the first centralized training program by an accounting firm), the development of the "one Firm concept", and the opening of overseas offices in the 1950s, as well as his 1957 Milwaukee speech (a vintage example of Spacek's outspokenness) which precipitated a Congressional hearing into railroad accounting and almost led to his expulsion from the American Institute of CPAs.

That Arthur Andersen & Co. would publish the unadorned thoughts of its maximal leader is further evidence of the openness for which the firm is well known. But unless the reader already knows a good deal about the historical development of the firm, some of the discussion may be confusing. Spacek's recollections dart back and forth across the years, and the timing of a number of the incidents that he discusses, and their relation to one another, is not always clear.

The oral history should be read in conjunction with the firm's 75-year history, *A Vision of Grandeur*, which was published by the firm in late 1988. The 204-page history is well-researched, well-written, and handsomely illustrated, but, as far as I know, it has not yet been reviewed in any of the journals. The author drew on Spacek's oral history, and conducted a further interview with Spacek.

There is a nice use of footnotes to supply some of the particulars that round out Spacek's responses. I could find only one error. On page 226, the reference should be to the Committee on Accounting Procedure, not the Accounting Principles Board.

Northwestern University's Accounting Research Center and Arthur Andersen & Co. are to be commended for undertaking this venture. Other firms should be encouraged to do the same.