Journal of Accountancy

Volume 48 | Issue 2 Article 11

8-1929

Book Reviews

Archie M. Peisch

Edward A. Benson

Edward Fraser

Walter A. Musgrave

Follow this and additional works at: https://egrove.olemiss.edu/jofa

Part of the Accounting Commons

Recommended Citation

Peisch, Archie M.; Benson, Edward A.; Fraser, Edward; and Musgrave, Walter A. (1929) "Book Reviews," *Journal of Accountancy*: Vol. 48 : Iss. 2 , Article 11.
Available at: https://egrove.olemiss.edu/jofa/vol48/iss2/11

This Article is brought to you for free and open access by the Archival Digital Accounting Collection at eGrove. It has been accepted for inclusion in Journal of Accountancy by an authorized editor of eGrove. For more information, please contact egrove@olemiss.edu.

Book Reviews

BANKERS' BALANCES, by LEONARD L. WATKINS. *A. W. Shaw Company*, Chicago. 29 pages.

Bankers' Balances won for its author, Professor L. L. Watkins of the University of Michigan, the first triennial reward offered by the Chicago Trust Company "for the best original contribution to knowledge and advancement in the field of business development and the modern trust company," a sufficient testimonial to recommend the work to all students of finance. As stated in the preface, "The primary objective of this study has been to examine the conditions that gave rise to bankers' balances and the characteristic relationships existing under the old banking system, in the endeavor to ascertain the principal changes that have in fact taken place with respect to banking relationships under the new system, and the degree to which those changes have conformed to expectations."

In 1914, when the federal reserve act went into effect, central reserve city banks held $1,047,000,000 in bankers' deposits, more than 50 per cent. of the total bankers' deposits held by national banks. At the same time reserve city banks held $888,000,000 in bankers' deposits. These deposits represented about one half of the total deposits held by these banks, and were largely derived from country banks which were allowed under the old national banking law to count such deposits as a part of their legal reserve. These bankers' deposits, as Professor Watkins points out, "differentiated our banking system from all others, and in many respects made it worse than most others."

Of special significance to the advocates of a new banking system was the fact that over one third of the bankers' deposits held by national banks was concentrated in New York banks. These banks lent huge sums in the New York stock market. This pyramiding of deposits in the city of New York, it was held, was directly responsible for the panic of 1907, which paralyzed the industrial plant of the country for several months at a time when a high level of prosperity prevailed here and abroad. Consequently much of the debate for and against the federal reserve act centered around the desirability of permitting our national banks to continue to deposit large sums of money in the banks of the city of New York.

For the avowed purpose of effecting a material reduction in bankers' deposits, the federal reserve act provided for the pooling of the reserves required of national banks in twelve government controlled banks. The resources of these banks were to be used in turn to help national banks and state banks which became members of the federal reserve system to carry loans arising out of commercial transactions. Quoting from Professor Watkins' book, "Though there was nothing in the act to prevent member banks from continuing to carry balances with correspondents, such balances would no longer count as reserve; hence it was argued that the motive for carrying such balances would be absent, or at least no very large amount of funds would be available for that purpose. It was expected, therefore, that the funds of interior banking institutions would be largely divorced from New York and the stock market. Mainly to prevent the resources of the federal reserve system from being drawn largely into the security market, securities other than those of the United States gov-

ernment were ruled out as a basis for loans to member banks or open market transactions. Finally, the establishment of a nation-wide clearing system was an answer to those who claimed that bankers' balances would still be necessary for clearance purposes."

At this point it is interesting to reread the following from *The Operation of the New Bank Act*, published in 1914 by Professor Thomas Conway and Professor Ernest M. Patterson: "The withdrawal of reserve accounts from the central reserve city banks will be a severe experience. Some institutions may be reduced in size, power and prestige will correspondingly diminish, officers will be released and the services of many clerks dispensed with." Professor W. A. Scott also wrote as follows at the same time, "It seems highly probable, indeed almost certain, that the call-loan business on the New York stock exchange will be considerably diminished." That this is exactly what our large city banks, particularly those in New York, expected is amply demonstrated by the vigorous fight they waged against the act with the assistance, painful to recall, of the American Bankers Association.

However, both friends and foes of the federal reserve system seemed to overlook the real reasons why country banks piled up funds in large city banks. These reasons may be briefly summarized as follows:

1. To obtain the services of large city banks in clearing cheques.
2. To establish credit for the purpose of borrowing funds when the local demand was at its peak, as during the crop-moving periods in the west and south.
3. To establish and maintain the connections needed to invest surplus funds.

Needless to say, as Professor Watkins demonstrates with clearness and precision, the federal reserve system was not designed to assume exclusive control of the services that large city banks had been performing for their country correspondents. Furthermore, although the federal reserve law succeeded in making commercial paper a preferred investment for members of the system, it did not deny country national banks the following important privileges:

1. Of lending surplus funds during seasons of reduced business activity in their respective communities to large city banks which have access to a large volume of commercial transactions and to the security markets where a fluctuating volume of funds can be employed to best advantage, and
2. Of investing surplus funds, with the assistance of their large city correspondents, in corporation securities.

Consequently, in spite of the fears of the large city banks and contrary to the hopes of many of the men who helped to bring the federal reserve system into existence, bankers' deposits have not only not declined but on the contrary have steadily risen from $2,705,000,000 in 1914 to $4,297,000,000 in 1926. Furthermore, as Professor Watkins goes on to prove, central reserve city banks, with the New York banks in the same relative position of importance, still continue to report over 50 per cent. and reserve city banks over 40 per cent. of the bankers' deposits reported by national banks.

Professor Watkins has succeeded in collecting and presenting a great many significant facts in regard to what has transpired in the field of banking since the federal reserve act became a law in December, 1913. He has also set forth clearly and effectively the conclusions that these facts make inevitable in regard

to the effect of the federal reserve law on bankers' balances. Although he appears cautious in regard to recommendations and forecasts, in the last chapter of his book on banking policy he presents several suggestions that deserve the most careful consideration of all who are interested in making the federal reserve system function in the most useful way possible.

ARCHIE M. PEISCH.

KEANE'S MANUAL OF INVESTMENT TRUSTS, 1929, by C. P. KEANE. *The Financial Publishing Company*, New York. 1,488 pages.

The second edition of *Keane's Manual of Investment Trusts* is larger than the first and contains a fairly complete history of over 400 organizations. The statistics presented are current and well arranged, giving under each organization such information as the capital structure, income statement and balance-sheet, restrictions, if any, officers and directors. In addition to the regular index there is a directory of directors and personnel, bank affiliations and offering houses.

Reading through the book, one is impressed with the various types of organizations coming under the classification of investment trusts, including (1) limited or fixed trusts in which an investor purchases a proportionate interest in designated holdings; (2) Massachusetts trusts or corporations in which the management acts for the shareholders with little or no restrictions, and (3) holding companies where the stockholders have no more control than in any large corporation.

As to the underlying security in back of the shares of the investment trusts we find a variance from no information, through general statistics, to apparently complete lists of securities owned. While approximately 75 organizations publish their portfolios (which are cross referenced under the caption, "Securities held by investment trusts") one must feel that the proper type of management is the best element of safety.

Some of the names adopted indicate that the organizers or issuing houses have endeavored to appeal to investors through geographical locations, special industries or the type of investment to be included in the portfolio. Others offer apparent safety in a wide distribution in these three particulars. The most prevalent classifications of securities include insurance companies, banks, public utilities, oil and airplane companies.

Only seven pages are devoted to the capitalization of British investment trusts, so there is no basis for comparison with the American organizations.

Except for the directories, cross references and market quotations of investment-trust shares, part II contains information not to be expected in a manual. It is "included for the purpose of explaining what investment trusts are, their different forms and methods of operation in the United States as well as in England and Scotland."

Several individuals and committees are quoted on such subjects as (1) history and growth of investment trusts, (2) the use of debentures for unusual safety with adequate yield, (3) the widespread prevalence of the investment-trust idea, (4) underlying principles, (5) forms of organizations, (6) growth in our national wealth and financial machinery, (7) experts who invest for laymen. This section includes extracts from the reports of the investment-trust com-

mittees of the Investment Bankers Association and the National Association of Security Commissioners.

The attitude of the New York stock exchange toward listing the shares of investment trusts is cited. (Listing privileges have since been given.) An extract from the report of the commissioner of corporations of the state of California indicates that some investment trusts are not wholly in favor of publishing lists of the securities owned by them. The regulations, if any, of the various states are given, indicating that California and Massachusetts lead in the matter of supervision of investment trusts.

The article by H. E. Schreiber on the accounts of an investment trust, which recently appeared in THE JOURNAL OF ACCOUNTANCY, is reprinted in the manual. Additional bibliography of investment-trust literature is listed.

The following, by Dr. Leland Rex Robinson, is worth quoting:

> "The British investment trusts have made their principal purpose (a) investment and reinvestment under continuous supervision, of (b) capital derived from sale of debentures, preferred and common stocks, in (c) a broad, and usually international, distribution of risk (d) consisting of bonds, preferred and common stocks of a great variety of issuers (e) which are held in relatively such small proportions that no responsibilities of management, finance, or direction are involved, and (f) through the net earnings derived from which there are accumulated substantial reserves."

The manual will be found useful to bankers, economists, students and individuals who may be interested in the formation of investment trusts.

EDWARD A. BENSON.

HANDBOOK OF FINANCIAL MATHEMATICS, by JUSTIN H. MOORE. *Prentice Hall, Inc.*, New York. 1,216 pages.

The purpose of the *Handbook of Financial Mathematics* is to furnish a formula for practically any question which may arise in the calculation of annuities in their varied forms, so that with the help of a plentiful supply of tables and of examples worked out in detail a reader with little knowledge of mathematics can solve his problem by simple arithmetic.

The book covers a wide field, including not only simple annuities and sinking funds but various phases of bond and stock values, probabilities and life insurance. Over 250 formulae are given and the text is well subdivided into 44 chapters, so that even without the index of 52 pages the reader should be able to find a solution of his problem without undue trouble.

The text is written in simple English with plenty of "padding," which makes it as easy to read as a novel. To one somewhat versed in actuarial science there appear to be too many formulae for the same fundamental facts, and considerable repetition, but the author has been redundant with a purpose—to deal in each chapter with all the questions which may arise under that caption. In the chapter on depreciation, for instance, he even uses different symbols from those used under compound discount, although the formula is the same, in order to make the meaning clear.

Two formulae well known by name should be mentioned in a subsequent edition: Makeham's formula for arriving at bond values and Hoskold's formula for the present worth of a wasting asset when the sinking-fund rate is different from

the income rate desired on the investment. A formula bearing on the latter problem is given in the chapter on depreciation (formula 179), but, being transposed, would hardly be recognized. Not that I like the form of Hoskold's formula, but it is one often referred to by engineers and by the board of tax appeals.

A little knowledge is proverbially dangerous, and great care will have to be taken by the reader with little knowledge of exponents in substituting the known facts for the formulae, although the numerous illustrations should prevent error.

The second section of the volume (chapters 31 to 44) contains chapters on algebra, progressions, logarithms and the derivations of the formulae previously given, so that the student has all the information required for a thorough knowledge of the whole subject. The large number of formulae should not discourage the students, who should remember that they are all based on the single compound-interest factor $(1+i)^n$. It is like the Chinese philosophy: The Illimitable produced the Great Extreme, the Great Extreme produced the Two Principles, the Two Principles produced the Four Figures and from the Four Figures were developed the Eight Diagrams.

EDWARD FRASER.

THE FUNDAMENTALS OF MANUFACTURING COSTS, by LAWRENCE R. DICKSEE. *Gee & Co.*, London. 39 pages.

The Fundamentals of Manufacturing Costs is a small volume of approximately forty pages in which the author emphasizes the importance of a report issued by the federal trade commission July 1, 1916. The author has not attempted to deal exhaustively with the subject of manufacturing costs. More than half of this little volume is a transcript of the pamphlet setting forth the principles and procedure of a cost-finding system, by the federal trade commission at the instance of Edward N. Hurley, chairman.

Many professional practitioners will recall that the purpose of the commission in issuing this booklet was to call attention to the fact that an amazing number of manufacturers have no adequate cost system. As a result, the pricing of goods is often based on an arbitrary and unsound economic basis. With the hope of improving this condition and in so far as possible of eliminating ruinous competition, the government endeavored in this pamphlet to bring out the importance of manufacturing costs and the principles underlying them.

Professor Dicksee has reproduced this work in the form of an appendix, devoting a dozen or more pages to emphasis of the need of a thorough understanding of sound cost-finding principles and their application.

The author amplifies the main principles laid down in the appendix and advocates sectional balancing, with the idea that the cost accounts should be treated as an independent department controlled and brought into agreement with the financial accounts through the medium of a coördinating rather than an interlocking system shown in the appendix.

In the reviewer's opinion the booklet might prove valuable to accounting students entering the field of cost accounting, but it seems too elementary for the professional practitioner.

WALTER A. MUSGRAVE.

COMMON LEGAL PRINCIPLES, by Francis W. Marshall. *Funk & Wagnalls Co.*, New York. 2 vols., 762 pages.

This is the age of compendia triumphant. It is the fashion to write books containing the essentials of a whole subject. All history, all science, all philosophy have lately been proffered to the public in single books, each pair of covers embracing a complete branch of human knowledge.

Perhaps the tendency is a good one—it would hardly persist if there were not a demand for the products. A man of this generation can hardly hope to approach a thorough knowledge of more than one subject. And, as the number of subjects about which every intelligent person is expected to know something increases relentlessly, the average man turns desperately to the books which will give him the "meat" in a minimum of time.

There is plenty of "meat" in Francis W. Marshall's compendium of common legal principles that everyone should know. He has attempted to express the fundamental common-law postulates in terms of leading judicial interpretations. Mr. Marshall is impatient with popular applause of new legislation as a cure-all for every social distemper. The carefully preserved opinions of eminent jurists (of which the public is generally ignorant), based on the principles of justice evolved throughout the experience of mankind, are in the author's opinion the foundation of our legal system, and he has planned his book accordingly.

The general subjects on which he has assembled data are contracts, torts, criminal law, agency, wills, personal relations, property, equity, trusts, sales, negotiable instruments, partnership, corporations, evidence, bankruptcy and constitutional law. Two additional chapters contain ancient legal maxims and ten notable illustrative cases, and appendices include the constitution of the United States, canons of professional ethics for lawyers and for judges, and specimen legal forms.

The method of the body of the book is to ask a pertinent question and to answer it by quotation from a leading court opinion. Thus, in the chapter on evidence:

> "Under what circumstances are records made in the usual course of business admissible in court?
>
> "The admissibility of the record in such cases depends on whether or not under the circumstances it comes within one of the recognized exceptions to the hearsay rule. Professor Wigmore states that the principles underlying the exception to the hearsay rule, which justify the admission of the test of cross examination are two: (1) necessity and (2) a circumstantial guarantee of the trustworthiness of the evidence which in effect makes cross examination unnecessary. Wigmore on Evidence, sec. 1420. In accordance with these principles, which have been widely adopted by the courts, records made in the regular course of business are usually admissible when the entrant is necessarily absent by reason of death or absence from the jurisdiction. The principle of necessity is plainly present and the trustworthiness of the record is guaranteed, when supported by the testimony of some person who can prove its identity and correctness and its preparation and use, under circumstances which furnish substantial proof of its correctness.
>
> "Soper, DuPont de Nemours & Co. v. Tomlinson, 296 Fed. 634."

This book should be of assistance to accountants who desire a general knowledge of the principles of law.

J. L. C.