

the economics of that problem as well as possible in so brief a space and the reviewer commends it to the industrialists, capitalists and labor leaders of the country. Finally, there comes Dr. Taylor's chapter, "Economics versus Politics" constituting an able concluding essay in which he points out that our problem is that of "imposing new and more effective all-around limitations upon the future power of every group to exploit others . . ." He makes it clear that economic *laissez faire* has been the victim of its alleged friends and, in particular, has suffered from the efforts of organized minorities to get control of the government for their own ends. Obviously he would agree with Clay, the British economist, that *laissez faire* has really never had a chance. The political activities of both capital and labor, rural and urban, has brought about its downfall and this event has made the present crisis something more than a typical depression, a point made by Dr. Schumpeter at the outset.

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The Federal Securities Act Manual. George C. Thorpe and Challen B. Ellis. (Cincinnati: The W. H. Anderson Company, 1933. Pp. iii, 422.)

The subtitle of this book states that it is "A Treatise Based on the Federal Securities Act of 1933 and the Corporation of Foreign Bondholders' Act, 1933." Both authors are members of the bar, and it is a manual of legal, not accounting, procedure. In general structure the work consists first of 26 chapters, in each of which a section of the Securities Act is given, to be followed by explanatory notes, rules of procedure applicable to the section, Federal Trade Commission rules, and items from the record of the passage of the bill through Congress. Chapter 27 is entitled "Independent Public and Certified Public Accountants under the Securities Act," and Chapter 28 relates to the Corporation of Foreign Bondholder's Act. The remaining 100 pages of the book consist of forms, including the registration statements prescribed by the Commission, and a host of court forms.

The preface intimates that though the act "marks a novel extension of federal power . . . its cardinal principles and provisions are by no means new," and that in decisions and procedures of the past we may hope to find the key to probable results of future actions under the law. No sign appears here of the rising tide of excited discussion and anxiety which has since gathered around the liability provisions.

The accounting reader will naturally turn to Chapter 11, dealing with §11 of the Act, and also to Chapter 27 on the position of accountants under the Act, written by Mr. Frederick A. Tilton, a C.P.A. and former Assistant Postmaster General. In the former chapter, after citation of the Act and a summary of the section, occurs a paragraph entitled "Sources of the civil liability law," in which we are told three times over, once in the author's own words, once in those of the Committee of Banking and Currency, and once by the House committee, that the Act is copied from or similar to the English Companies Act. This similarity is insisted on all through the main text, and only in a footnote (p. 104)

is there notice of a difference between the two Acts in regard to the liabilities imposed. The substantial differences pointed out in the *Journal of Accountancy* (January, 1934) do not appear in this text.

The reports of the committees of Congress are quoted at some length, with the observation that, under a Supreme Court decision, we may expect to see them utilized in construing the Act. From these quotations it is indeed pretty plain that Congress did intend to place these responsibilities and penalties upon all and sundry who had a hand in the issuance of securities which afterwards went wrong; and everyone acknowledges that the situation needed something to be done. But it is also clear from the reports that there was not present in the minds of the legislators a very exact discrimination between different degrees of negligence or guilt, nor a clear perception of the chain of connection between (1) the misstatements alleged, (2) the loss complained of, and (3) the penalty.

Chapter 27 consists of a brief exposition, apparently for the benefit of lawyers, of the nature and functions of public accountants, and of the steps taken in recent years by the Stock Exchanges and the organizations of public accountants to make these functions more effective and more serviceable to business.

Whether or not the liability clauses will be amended, it is clear that the general substance of the Securities Act is a desirable addition to our statute law, is with us to stay, and will have considerable influence on the work of the accountant. Anyone who needs guidance on points of procedure under the Act, and on its probable interpretation in the courts, will find much assistance in this book. For discussion of the wisdom or otherwise of the public policies implied in the Act, they will have to look elsewhere.

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"Formblätter für den Jahresabschluss." Kurt Schmalz. C. E. Poeschel Verlag. (Stuttgart, 1933. Pp. viii, 76.)

The scandals that accompanied the collapse of several large concerns in 1931 resulted in new legal provisions for the setting up of financial statements for German corporations. This pamphlet discussed the uniform statements that have been worked out for industrial corporations, for commercial and for mortgage banks, savings institutions, railroads, streetcars, co-operatives and building and loan institutions. Needless to emphasize that a comparison of this trend to uniform accounting practices with the efforts made along this line in this country should prove of interest to the reader of this journal.

ROBERT WEIDENHAMMER

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The Investor Pays. Max Lowenthal. (New York: Alfred A. Knopf, 1933. Pp. ix, 406. \$2.50.)

On March 18, 1925, the Chicago, Milwaukee and St. Paul Railways Company was placed in receivership. On November 20, 1926, it was reorganized. Mr. Lowenthal's book tells what happened between these two

dates. It is not a very pleasant story. The railway was once one of the strongest in America. Then, in a fit of megalomania, it built a line to the Pacific for which there was no traffic. This original mistake was aggravated by an unsound financial policy which piled up a topheavy structure of bonded indebtedness. The result was years of decline with a lethargic management which eventually drifted into receivership. The largest stockholders had originally been the Rockefeller, Armour, Harkness and E. B. Smith families, who virtually nominated the board. When bad times came these families—with the honourable exception of the Harkness interests—sold out their securities but continued to monopolize the directorships. The railway's bankers were Kuhn Loeb and Company and the National City Company. Its sponsorship was therefore of the very highest. Nevertheless, the story which Mr. Lowenthal has to tell cannot avoid making a very painful impression.

Before the receivership there were transactions which do not speak highly of the board's conceptions of trusteeship. After the receivership the bankers are the villains of the piece. The receivership was arranged with a "friendly creditor" before it was necessary, in order that the petition might be granted by a friendly judge and the railway's own president appointed receiver. The bankers nominated committees to represent the different categories of shareholders, the committees containing, in fact, few holders of the securities and still fewer persons who were not in one way or another beholden to the bankers. With the help of these committees and of the most eminent and respected legal firms in New York, "deposit" of the securities was obtained by extra-legal threats of discrimination in the final reorganization against non-depositors.

The final reorganization was doubtless equitable to the various classes of security holders. But in the process of bringing it about the vast majority of them had no way of expressing their views or wishes, other than the purely negative one of depositing their securities under a deposit agreement which put them entirely into the hands of the bankers. As Mr. Lowenthal shows very convincingly, the average investor had no option but to agree. The bankers, being first in the field and in agreement with the receiver, held the dominant position. And who were the bankers? They had none of the road's securities. Their only connection with it was that of firms who had made large profits out of selling its securities (on one occasion they made a profit of 5 per cent, on \$25,000,000 in one week). Whom did they represent? A group of men who had brought the railroad to receivership and had sold out their holdings of its securities. The bankers and their lawyers used every legal device to head off genuine security-holders and to avoid Governmental inquiry. Their fee of \$1,044,000 certainly seems excessive. The additional expenses of some \$5,000,000, including large payments for nominal services to most of the large financial institutions and corporation lawyers of New York, were also on the generous side. The whole business is most discreditable.

Mr. Lowenthal bases himself throughout on official documents. In spite of this, his book is fascinatingly in-

teresting; to use a *cliche*, it is "as exciting as a novel." All those who are interested in the pathology of Big Business should certainly read this book.

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Corporation Finance. Henry E. Hoagland. (New York: McGraw-Hill Book Company, 1933. Pp. xix, 463. \$3.50.)

Professor Hoagland has arranged the fifty-four short chapters of his book into suitable subdivisions of which Part I, The Corporate Concept, includes four chapters; Part II, Corporate Securities, nine chapters; Part III, Promotion, eight chapters; Part IV, Internal Financial Control, eleven chapters; Part V, Expansion, ten chapters; Part VI, Failure and Reconstruction, seven chapters, and Part VII, Social Control, six chapters. It is, therefore, evident that the book covers the usual phases of the subject and has, in addition, a section on social control. Apparently no aspect of the subject has escaped the scholarly notice of the author. Indeed, he gives evidence of a knowledge of corporation finance which much exceeds the material set forth in the text. But the latter is often presented in the form of enumerated condensed statements which lose much of their vitality when so tabulated. If these had been broken up, expanded and illustrated either by hypothetical material or historical instances the work would have been materially strengthened. One may assume that the author had in mind the use of a book of materials, but if so, it may be observed that no such supplementary material makes up for lack of citation to actual cases and instances in the body of the text or in footnotes. Indeed, the latter is, perhaps, the most valuable feature of Dewing's Financial Policy of Corporations.

Dr. Hoagland's book has the merit of stating clearly essential facts often obscured in more elaborate treatises. Moreover, he enlivens his writing with a certain amount of wit some of which is rather ironical. Thus, referring to the Sherman Antitrust Act, he states that it is "couched in language so clear and simple that only lawyers and judges could possibly misunderstand it."

In the treatment of the subject matter there is no material departure from conventional points of view. However, attention may be called to the fact that in his classification of unsecured bonds he includes joint bonds, receiver's certificates, assumed bonds and guaranteed bonds, though he is careful to point out that these are often of a hybrid variety, having a specific lien. In discussing direct operating expenses he includes repairs and depreciation and then, passing to other charges that must be made in order to determine profits, he includes valuation reserves. There is no objection to this arrangement so long as it is properly explained, which is not the case here. Again, in discussing preferred stock, it is said that if the stock is non-cumulative as well, its holders should have a definite interest in the determination of current earnings as contrasted with accumulated earnings. Very true, but it does not follow that "its rights to dividends under such circumstances are determined by this definition" of current earnings. The Wabash decision leaves the matter open to the directors,