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HERBERT C. HOOVER: ACCOUNTING INFLUENCES ON HIS LIFE

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Herbert C. Hoover was arguably the most distinguished mining engineer in American history. During the early part of this century he enjoyed great success as a consultant and mine manager. He was regarded as one of the most skilled practitioners of his day. In addition, he was a regular contributor to the mining journals and wrote several books, two of which became classics (*Principles of Mining* and *De Re Metallica*, an annotated translation of the works of Agricola). The rationalization of management was an important theme in his life. He frequently turned to accounting as a means to improve management systems. This paper describes several of the more interesting stories concerning the role accounting played in Hoover's early life.

EARLY EXPERIENCES

Herbert Hoover received his first training in accounting when he was about sixteen years old. He was working as an office boy in his uncle's land development company in Oregon. Hoover spent his spare time assisting the company bookkeeper in exchange work, when he decided that he wanted to pursue a career in accounting. Unfortunately, the bookkeeper "was a sad and dour Scotsman," and eventually Hoover concluded that accounting was a "cheerless calling" [Hoover, 1951, p. 12]. Hoover decided to become a mining engineer after he learned of the excellent opportunities that existed in that field for a person with a college education.

In pursuit of his newly chosen profession, Hoover joined the first class of students to enter Stanford University.

During his freshman year at college, in the Spring of 1892, he became the manager of the school's football team. For their first game Hoover rented a stadium and had 10,000 tickets printed. Unexpectedly nearly 20,000 fans showed up for the contest, so he spent the entire game selling tickets and collecting admission fees. After the game he placed the receipts, over \$30,000 in gold and silver coins, in grain bags and carried them back to his hotel room where he stood guard until the banks opened the following morning [Hoover, 1951, p. 21-22].

During his junior year at Stanford, he was elected student body treasurer. One of the central issues of this campaign was the inadequate financial disclosure of the incumbent student government. As the treasurer he set up a full system of accounts and he published these accounts regularly in the student newspaper [Hoover, 1951, p. 23]. Hoover was an early and continuing advocate of public accountability through full disclosure of accounting information. His commitment to full disclosure was rooted in the strict religious environment of his childhood and also reflected the progressive attitudes of the period.

Two years after graduating from college, Hoover obtained a position with Bewick, Moreing and Company, a prominent British firm of mining consultants and engineers. He spent the next 18 months in Western Australia appraising mines and managing the Sons of Gwalia gold mine. He was quickly recognized as one of Australia's best mining engineers. His next assignment was in revolutionary

China, where he spent several exciting years, before returning to London as a partner in the firm.

The new partnership consisted of Moreing (60%), Hoover (20%), Wellstead (10%), and Rowe (10%). Hoover was responsible for managing the firm's mines; Wellstead handled the details of contracts and purchasing supplies, and Rowe was the chief accountant. A little less than one year after becoming a partner Hoover learned some important lessons about the value of adequate internal accounting controls when Mr. Rowe fled to Canada having embezzled approximately one million dollars. Rowe had taken money from both the partnership accounts and the accounts of the mines which the partnership managed. At Hoover's suggestion, the remaining partners voluntarily covered all of the losses. However, it took Hoover three years to pay for his share of this debt. Rowe was quickly apprehended and sent to prison for his misdeeds. While Rowe served his time in prison, Hoover quietly helped support the unfortunate wife and children of the accountant.

As has been shown, Hoover's interest in accounting predated his professional engineering experiences. He frequently looked to accounting as an area where he could make contributions. For example when he was named to Stanford's Board of Trustees [Hoover, 1951, p. 119], one of his first actions was to have the school's financial statements released to the public and he considered this to be an important achievement. However it was Hoover's practical experience in Australia that formed the basis of his theories on management accounting. The important mines of Western Australia consisted of very large deposits of low grade ore. The exploitation of these deposits could only be economically justified if the working costs were kept very low [Nash, p. 78]. Operating efficiency was the key. Hoover believed that mine managers should be evaluated on their ability to control working costs. Efficiency and the control of

working costs became the foundation of his style of management.

MINING INDUSTRY

A problem frequently encountered by firms at the turn of the century was how to manage mines located in remote regions of the world. It seemed to the investors that the honesty of a mine manager was inversely related to the distance of the mine from the corporate headquarters. To obtain honest and efficient management, company directors tried a variety of techniques [Spence, p. 118]. One was to require improved accounting and reporting by the manager. Another solution was to send representatives on frequent inspection trips. A third method was to engage respected engineering firms, such as Bewick, Moreing & Company, to manage the property. Hoover's experience reflects all three of these strategies.

HOOVER'S INFLUENCE

In 1903 Hoover wrote a short paper on gold mine accounting for the *Engineering and Mining Journal*. He stated that all of the well managed mines of that day had fully developed systems for determining the cost of production. Unfortunately there was a "most harassing lack of uniformity" in the details of these accounting systems. While Hoover felt that these various methods resulted from honest differences of opinion, he argued that the mining industry would benefit from a uniform set of accounting rules. He then called on both the American Institute of Mining Engineers and the Institution of Mining and Metallurgy to establish uniform standards for the industry.

Hoover's paper was well received and within a few months the *Engineering and Mining Journal* published three papers from prominent engineers supporting Hoover. There had been significant worldwide support for the idea of standardizing mine accounts since about 1895, so Hoover was lending his support to a popular cause. Since the Institution of

Mining and Metallurgy were already working on the standardization of other aspects of the industry, Hoover was merely suggesting that accounting be added to their agenda. A few years later the Institution of Mining and Metallurgy established the Mine Accounts and Cost Sheets Committee under the direction of A. G. Charleston for this purpose. Late in 1910 the Institution unanimously adopted the standards proposed by this committee.

The Mine Accounts and Cost Sheets Committee's report shows evidence of Hoover's influence. The committee's recommendations are quite similar to Hoover's theories on accounting. Certain sections appear to be merely paraphrasing Hoover's [1909] book. There is only one quotation in the committee's report and it is from a "prominent" but unidentified engineer. The prominent engineer is Hoover and the quotation is from the *Principles of Mining*.

In Western Australia Hoover was in a position to change the accounting practices of many of the region's leading mining companies. Hoover's firm provided management services for firms producing over half of the district's output of gold. At that time Australia was the world's leading producer of gold and this industry was centered in Western Australia. Faced with the task of efficiently managing the mines of approximately twenty different corporations with twenty different sets of stockholders, it is easy to imagine why he would wish to employ a uniform set of accounting principles. A standardized system of accounts (Prichard, 1903) was tested at four large mines in 1903. The following year this system was installed at all of the mines managed by Bewick, Moreing and Company. In approximately 1905 Hoover described this system of accounts in a manuscript. Although the manuscript was never published it can be found at the Herbert Hoover Presidential Library.

HOOVER ON MINE ACCOUNTING

Hoover [1909, p. 169] states that there

are three purposes of accounting: first, to guide in the collection of receivables and the disbursement of payables; second, to determine the enterprise's profit or loss; and third, to provide management accounting reports. These reports to management enable managers to reduce expenses and increase revenues, and they allow the owners to evaluate the performance of the managers.

The classification of development costs was a particularly difficult problem for the mining industry. Hoover's methods adhered more closely to the matching principle than is common today. He capitalized development costs and amortized them as the ore was mined. The modern practice is to expense all development costs incurred after the production stage of operations has commenced. When a development tunnel follows a narrow vein of ore, should part of the tunneling cost be charged to production? Hoover (1905) suggested that the ore extraction account be charged with an amount equal to the average cost of stopping an equivalent amount of ore, and the remainder charged to development. It was Hoover's practice to write off the original cost of plant and equipment (Hoover, 1906, p. 686) as the expenditures were incurred. Thus there was no plant asset and no depreciation expense. This appears to be a very conservative accounting practice and it was not a common practice of the mining industry of that day. Plant assets were much more likely to be capitalized and never depreciated.

When WWI broke out Hoover ended his mining career and began a new life in public service. During and after the war he directed famine relief activities throughout Europe and is credited with saving the lives of millions of people during this period. He served as Secretary of Commerce during the Harding and Coolidge administrations and became President in 1928. During this time he continued to work toward the standardization and rationalization of all aspects of government and industry.

CONCLUSION ~~Accounting Historians Notebook, Vol 11, 1988~~ AUSTRALIAN ACCOUNTING HISTORY

Hoover appears to have had a clear understanding of the relationship between good management and good accounting. His ability to achieve low working costs and his insistence on full financial disclosure are prime factors that helped Hoover obtain great success in the mining industry. He also was an enthusiastic supporter of the world wide drive to standardize mine accounting practices. Not only did he influence the Mine Accounts and Cost Sheets Committee of the Institution of Mining and Metallurgy, but he changed accounting practices at many of the largest mines in Australia.

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The Accounting History Special Interest Group of the Accounting Association of Australia and New Zealand at its meeting in Canberra in August agreed that its official publication should be called *Accounting History*.

Robert Gibson of Deakin University continues as editor maintaining a link with the previous *Newsletter*. After seventeen issues Barrie O'Keefe has resigned as joint editor and Gary Carnegie also of Deakin University is assistant editor.

A revised editorial policy will retain an emphasis on Australian material. In addition to historical studies it is planned to publish papers which rely on essentially historical methods, eg. studies of compliance with accounting standards.

SHAGGY DOG STORY

(Tremont Pharmacy in Upper Arlington, Ohio has a show case which allows people in the neighborhood to put up posters promoting events, garage sales, notices, lost and found notices - even for pets) "LOST DOG. Description: three legs, blind in left eye, missing right ear, tail broken, accidently neutered. Answers to the name of - LUCKY." Reward-Call 488-2625

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