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Book Reviews

VALUE THEORY AND BUSINESS CYCLES, by HARLAN L. MCCRACKEN, *Falcon Press, Inc.*, New York. Cloth, 270 pages.

In these days when government is largely in the hands of theorists, it behooves the average layman to make some attempt to understand those theories. In *Value Theory and Business Cycles*, Dr. McCracken, of the university of Minnesota, offers to assist the bewildered and be-deviled man in the street by telling him in nontechnical language what constitutes value of money and commodities, what business cycles are and how they come about, and the vital relation between the two. Contrary to his original intent, viz: to confine himself to a brief discussion of past and present theories explaining price movements, the author has also yielded to the inevitable temptation of all economic writers to offer a "plan" for getting us out of the present depression. Really his apology for so doing is hardly needed; the average reader would be disappointed if he had not. All of us are surfeited with "post mortems." What we loudly and impatiently demand is a remedy, not a diagnosis.

Nevertheless, the foundations of classic economic theories have been so shaken, at least in the minds of laymen, by the deluge of books and articles on business cycles and price movements of late years that a review of the varying and conflicting schools of economic thought is desirable and timely. Whether or not Dr. McCracken's criticisms and conclusions are correct, a matter respectfully referred to better qualified controversialists, the reader will find at least a plain statement of the classic, neo-classic, and (if I dare say it!) heretical views of the principal economic writers, Adam Smith, Ricardo, Sismondi, Marx, Malthus, Fisher, Keynes, *et al.* "Heretical" is used with all due deference, bearing in mind the adage "The heresy of today may be the orthodoxy of tomorrow"!

A surprise to a reader who may have a smattering of economics acquired in college days or from desultory reading is the resurrection of an almost forgotten economist—Malthus. By most of us he is recalled only as the propounder of a dismal prophecy of an over-crowded world doomed to starvation unless severe measures to limit population were not quickly adopted. It now appears that he was also the fore-runner of the "commanded value" theory, i.e., ". . . the relative values of commodities are determined by the relative demand for them, compared with the supply of them." This was in contrast with the doctrine of Ricardo and his school that the value of a commodity is embodied in it in the form of labor expended thereon—a conception familiar to cost accountants. That this is simply market value recognized by all practical men does not detract from the credit due Malthus as the first modern writer to oppose the Ricardian theory. And it should not be forgotten that Adam Smith also clearly distinguished between "natural value" (embodied cost of production) and "market value" (command based on supply and demand). Why Malthus should have been overlooked all these years seems strange, but it is quite possible that his suggestion of birth-control in his essay on population earned him the anathema of church and state in his day.

The scope of Dr. McCracken's study is best given in his brief summary (p. 210) viz:

"In book I, we analyzed the Ricardian system of economic thought, based on the theory of embodied value. . . . The conclusions reached at the end of that study were that Ricardian economics furnished a logical explanation of equilibrium and secular trends. All attempts to explain disequilibrium and business cycles involved the exponent in economic contradictions or logical inconsistencies."

Or, in other words, Ricardo and his school dealt with an economic world in normal balance, in which *in the long run* everything worked out to a satisfactory and logical equilibrium in spite of temporary fluctuations. But of the latter their theory gave no logical explanation.

"In book II we have turned to a study of what may be called Malthusian Economics, based on commanded value. In this summary chapter of book II, we wish to bring into closer proximity four cardinal points in the Malthusian system of economic thought, and show how each contributes to a more satisfactory explanation of disequilibrium and business cycles."

The four cardinal points stated are (1) the commanded value theory, (2) the significance of a money and credit economy, (3) the principle of diminishing utility and finally (4) the presence of a vacillating standard of value.

In book III the author takes up the problem of business equilibration. Chapter 16 reads like the celebrated "snakes in Ireland," in that he concludes that in the present system there is not and can not be any such thing as business equilibrium at any time. Demand and supply, and hence business, are always in a state of flux. However, in chapter 17 he suggests there are three major causes which might be avoided, viz: tariff, war and unstable money. If these could be eliminated business would become more stable, and the severity of cycles mitigated.

The author's "plan" for getting us out of the depression may be briefly summarized. "First and foremost we see little to be gained in the immediate future from *laissez-faire* and the inherent workings of the automatic forces": therefore we must have government intervention in the fields of monopoly and controlled prices (which sounds extremely like price-fixing directly or indirectly). Second, expansion of credit by the banks through federal reserve bank loans of notes to release "frozen assets." Third, no return to the gold standard until liquidation is completed. The last two, of course, mean inflation more or less controlled. All three are now in operation, or are being initiated, and the results remain to be seen.

Above all, observe, no *laissez-faire* policy is to be tolerated, which seems to be about the only thought common to all modern theorists! Yet as I write I observe the daily press teeming with signs of the rising tide of business recovery. Is this due to the "inherent workings of the automatic forces," which have always marked past cycles, or to the mere prospect of governmental intervention, not only in the fields of monopoly and controlled prices, but also in those of almost every industry in the land? With this apple of discord hereby cheerfully flung into the economic and political arena, I heartily recommend Dr. McCracken's timely and valuable study to all laymen who, like myself, want to know what it is all about.

W. H. Lawton

SALES TAX LEGISLATION, by J. P. KAVANAUGH, *Government Printer* of New Zealand. Pamphlet, 160 pages.

Under the authority and with the approval of the customs department of New Zealand comes an informative manual, *Sales Tax Legislation*, compiled by the editor of the New Zealand *Law Journal*. It comprises a copy of the law and its schedules of exemption and forms, and a digest and commentary, with a chapter on sales tax accounting by Messrs. Watjins, Hull, Wheeler and Johnston, public accountants.

Reading the pamphlet recalls memories of the days when New Zealand was loudly proclaimed a land of no strikes, no predatory wealth, no abject poverty, no grinding taxes—in short an industrial paradise. It may yet be so, but it is interesting to note that its labor government has imposed a sales tax of five per cent. on all sales by wholesalers and on the market value of all manufactures by manufacturing retailers. This is rather a vivid contrast with the vigorous and successful opposition of American labor to a much more moderate sales tax. That the New Zealand government made no attempt to deceive the people into thinking that only the "rich" wholesaler would suffer is shown by the provision authorizing the seller to recover from the purchaser the tax, provided it is stated on the invoice. And the author of the pamphlet candidly adds (p. 10)—"The general public, through the retail shopkeeper, have the privilege of paying the tax indirectly, since eventually in most cases it will be passed on to them." ("Privilege" is good!)

However, it must be noted that is a long list of articles exempted from the tax, and the government has full power to add to the list at its discretion. A brief inspection of the list makes one wonder what was left to be taxed!

The book is an interesting study for those who foresee another battle in the next session of congress over a sales tax. As the law went into effect on Feb. 9, 1933, and the tax is payable monthly, there should be early in 1934 some substantial evidence of its success as a revenue producer.

W. H. LAWTON

PRACTICAL CREDIT ANALYSIS, by EUGENE S. BENJAMIN. Published by the author, New York. 125 pages.

There has been added to the large list of literature on the subject of credit a practical treatise entitled *Practical Credit Analysis* by Eugene S. Benjamin. It is practical because the author does not go into the theory of credit but confines his book to a description of the means of determining the amount of credit that should be granted to an industrial enterprise after an analysis of its financial statements.

The author states in his foreword that the book is particularly intended for the credit men who are already well grounded in credit fundamentals, the men who are well experienced in business and are good judges of character.

The book should be useful to teachers, students and investors as well as to credit men.

RAYMOND C. BROWN

LA TECNICA DEI CAMBI ESTERI (Treatise on the principles and practice of foreign exchange), by ETTORE LORUSSO. *Istituto di Ricerche Tecnico-Commerciali,* Milan. 406 pages.

A study of the basic principles of foreign exchange constitutes the sixth volume in a series of nine treatises on international commerce which is being written and edited by professors on the staff of the Bocconi school of commerce of Milan, Italy. The book breaks away from the old habit of treating the subject as a phase of the banking problem and considers the problems of exchange rather in its relation to the needs of the business world. Although the book has been prepared primarily for Italian students, it is so well done that it must have a universal appeal either in its native dress or in the form of a translation. The approach is delightfully simple, the treatment is consistently marked by clarity, and every argument is illustrated by appropriate examples taken from ordinary business practice.

With Latin logic the author divides his work into six parts. In the first part he describes the various forms which foreign exchange regularly takes in international business transactions, illustrating for the reader's benefit how money is usually collected against merchandise that has been delivered or is under contract. His second section, which is by far the most scientific part of the book, deals with the problems of money exchange, of currency equivalents, of exchange quotations, of variations in rates and of the fluctuations due to currents of business. This brings him to his third part, where he briefly discusses bankers' bills of exchange, commercial bills and letters of credit.

How the fluctuations of money exchange affect the international currents of trade is considered in the fourth and fifth sections, and then the author comes to the question of arbitrage. His exposition of the typical forms of arbitrage, of the conditions that make it effective, and of the procedure which it involves, is richly illustrated with practical examples which, however, will be of more value to the Italian business man than to the American trader.

The largest use of the book will probably be as a text in Italian schools of commerce. Its main value to American students is its clarity and completeness.

CHARLES F. RONAYNE

THE TRIUMPH OF MEDIOCRITY IN BUSINESS, by HAROLD SECRIST. *Bureau of Business Research,* Northwestern University, Chicago, Illinois. 468 pages.

For generations multitudes have asked the question "What is there in a name?" and it is usually asked in such a tone, or in such a connection, as to imply that the answer is "Nothing." However, there are exceptions to this rule and one is found in the alluring title of the book now being reviewed, for undoubtedly the majority of readers will admit that they belong to the mediocre, or ordinary, class and may expect to derive comfort and consolation when reading of somebody or something in their own class which has "triumphed." However, on reading the work, one is inclined to fear that, when the author chose his title, his tongue must have been turning towards his cheek, for the triumph turns out to be more a defeat than a victory.

One of the first points which strikes an accountant who reads the book is the wide difference in language used by an economist from that used by an accountant; a difference so great that he is forced to read slowly in order to understand,

and still more slowly in order to digest, that which he reads. It is to be regretted that members of the two professions can not speak a common language when they discuss the same subject.

The book begins with a conclusion: an apparent anomaly, yet entirely logical—the conclusion being that reached by the author to the effect that "mediocrity tends 'to prevail in the conduct of competitive business.'" Having made this announcement, the professor proceeds to give, in minute detail, the reasons which have led to it, these reasons being found in the many analyses made by him and his staff of the relations which various sets of facts bear to each other, such as the ratio of profits to total expenses, to rents, to salaries, etc.

Analyses have been made of the accounts of concerns in various groups for the year 1920 and the succeeding ten or eleven years, and the results of these have been charted in many ways. They apply to groups of department stores, of retail clothing stores, of retail hardware stores, of wholesale grocers, of banks and of railroads, with some subsidiary charts as to temperatures and crops inserted in support of the hypotheses put forth by the author. Much of the original data has been furnished to him by the Harvard university bureau of public research: in some instances the analyses cover as many as 924 cases: in others they apply to a small number of "identical stores."

The basic amounts do not appear, but the results are expressed in such terms as percentages, ratios and averages and are illustrated by a really remarkable set of 90 charts and 140 tables all of which are beautifully prepared and reflect great credit upon those who drew them.

In any review, it is as impossible to describe the book fully as it would be to picture the Chicago exposition in a paragraph, but the theme is developed upon the theory that the tendency of all business is to work towards "mediocrity," that word being "a brief term for expressing 'average' conditions."

If we take the case of 49 identical department stores, widely different results are found and, if we allow the theory that "practice makes perfect," we should expect to find that, as years passed and experience was gained, all—efficient and inefficient alike—would improve; yet the findings of Professor Secrist deny this, for he finds that the most efficient have a tendency to become less so and the less efficient to become more efficient, proving that in all cases there is the tendency towards the average. This is the whole argument of the book.

The volume contains a highly refined study to be fully appreciated only by those who are proficient in the professions of economics and statistics, of which the author is so distinguished a member. The results—crudely stated above—are of general interest to accountants, for they warn us to keep our weather eyes open when a client has enjoyed a period of great success, but the roads by which the conclusions have been reached pass through a country unknown to most of us and, with the ever increasing variety in the demands made upon accountants, it is to be feared that few of them will be able to familiarize themselves fully with the professor's domain. Such work as his is necessary to prove theories and to discover facts, but the mediocre among us will gladly accept the conclusions but leave the labor of finding them to specialists in their own fields.

To the economist, to the statistician, to the graphologist, the book presents the charm which is inherent in any work which is well done, but to the ordinary accountant, I fear it will be as "caviare to the general."

WALTER MUCKLOW