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Publicity in Industrial Accounts: With a Comparison of English and American Methods

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Publicity in Industrial Accounts *

WITH A COMPARISON OF ENGLISH AND AMERICAN METHODS

By Sir A. Lowes-Dickinson

The damage and loss inflicted on the country by the continually recurring disputes in industry between capital and labor call for the most earnest consideration in order to explore methods by which what is in effect "war in industry" may be replaced by the processes of better understanding between employers and workers. Any steps which can be taken to make for greater confidence and more coöperation between these classes must tend to remove from such disagreements as must still be inevitable, owing to different points of view, the distrust, friction and bad temper which at present exist and would pave the way toward the only real solution of the country's troubles in this respect, namely, some form of arbitration, after negotiation between the parties has failed.

Among the causes which lead to disputes must be placed in the forefront the lack of knowledge of the true facts as to the financial position in our staple industries. In a limited number of cases, as will be seen later, full publicity is now available, but in far too many industries jealous concealment of any facts relating to earnings and expenses is still the rule rather than the exception. In these days it would seem that the old idea that a business is owned entirely by, and should be run entirely in the interests of, those who contribute the capital must be abandoned, and the fact admitted that in order to achieve real and lasting success with an absence of friction and disputes, a business is in fact a partnership between those who subscribe the capital in whatever form, those who manage the business in its different departments and those by whose labor, under the guidance of the management, the products are produced and disposed of.

This idea of partnership involves joint effort of both hand and brain on the part of all three classes of partners to secure the best results. A first essential to such coöperative effort must be a general knowledge, among all, of the various processes of manufacture or operation and of their place in, and effect upon, the ultimate cost of the product or service.

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If additional capital is required in order to avail of the latest improvements in machinery and methods of operation, it should be supplied on the basis of receiving a reasonable but not excessive share of the results obtained and should have the coöperative assistance of the other two partners in the use of the additional facilities provided. If, again, the management is able, by greater effort and by the full use of its brains, to induce greater production per person employed, which can only be obtained by the effective coöperation of the three partners, the management should be assured of a reasonable share in the extra produce obtained thereby. And lastly, if labor, with or without the expenditure of capital, with or without greater efficiency of management, is able to increase output per head and so reduce costs, it should be assured of a share in the savings effected, reasonably proportioned to the amount contributed by its greater efforts or diligence.

Industry is still suffering to a large extent from the neglect of these principles in years gone by, and the consequent difficulty of removing from the mind of labor, which still has vivid recollections of the manner in which piece-work rates were reduced as production was increased, the idea that it is being exploited by the owners of capital without obtaining a proper share in the results obtained by its greater efforts.

On the other hand, partly no doubt as a result of the same errors in the past, labor is claiming greater remuneration for a shorter number of hours' work without any regard to the undoubted economic fact that it is only by greater production per head, whatever the number of hours worked may be, that better wages giving a higher standard of living can be obtained. In fact, owing to enormous war losses and destruction of capital, a greater effort is now required to ensure the same standard of living, and if this greater effort is not forthcoming—and at present it is not—it will be impossible to maintain existing standards and gradual deterioration must take place. In holding this attitude labor no doubt honestly believes, again from the result of unfair treatment in the past, that it is not receiving a fair share of the profits of industry, and that consequently it is only necessary to raise disputes and cease work in order to force from the owners of capital a larger share in the ultimate proceeds of the products or services.

There can be no reasonable doubt that if the principle of furnishing the workers with sufficient detailed information of the cost of the product or service and the profit resulting therefrom were accepted generally, as it is already being accepted in a few cases, while claims for a greater share in the produce would not be avoided, at any rate they would be pressed with a due regard to the facts in relation to the industry or service and without the exaggerated claims and ideas which are so frequently in evidence on both sides.

Reference has so far been made to three classes as being concerned in the financial results of an industry, but there is a fourth party which, while it cannot, except in rare cases, be treated as a partner, at any rate has a vital interest in the price at which commodities are sold or services furnished. The consumer, that is practically the whole population, is from the point of view of his main occupation, namely, consumption, the worst organized body in the country. That he feels this has been clearly shown in recent years by his perpetual outcry against the profiteer, and the unanimity and almost joy with which any attempts, however ineffectual or unfair, made to prevent the so-called profiteer from overcharging the consumer are received. Surely it is only reasonable, having regard to the fact that it is by the demand of the consumer that industry continues, that the consumer should have some reasonable assurance that he is not being exploited either by capital, management or labor, while at the same time those who are engaged in the operations of producing commodities or rendering services for the consumer's benefit should be allowed a reasonable, and no more than a reasonable, remuneration for their work.

This principle has been accepted and is in full effect in the case of certain groups of undertakings, and there can therefore be no real injustice in suggesting its extention to other industries. It is the purpose of this paper to deal with the question of the publicity of accounts in some detail, but before doing so it will be useful to summarize the cases in which methods are already in force for the regulation of profits, wages or prices.

(*a*) In the coal industry in Great Britain there is an agreement for the determination of wages by reference to profits. This agreement is now in process of modification, but it is undoubtedly true that its existence over a period of two and a half years has been of great advantage and has contributed largely to the friendly conferences now going on in the endeavor to reconcile the conflicting claims of owners and miners as to their share in surplus proceeds.

(*b*) There is in course of arrangement a plan by which the net earnings of the railways in Great Britain are to be limited to the pre-war amount plus an allowance for additional capital expenditure, and in the United States a somewhat similar arrangement is being evolved, under which the profits of the railways are to be limited to a fixed return upon capital employed plus some share of any surplus above that figure. Neither of these arrangements has at present become effective, and a difficult problem is involved so that it still remains to be seen whether this method of regulation in favor of the consumer will mature in practice.

(*c*) Gas companies in Great Britain are regulated by a sliding scale between prices and dividends, supplemented in some cases by a distribution of a proportion of the profits to labor, under some form of co-partnership.

(*d*) In the iron and steel industry there are sliding-scale arrangements between prices and wages, a plan which was also in force before the war in the coal industry. As has been only too evident in the last two years, high selling prices do not necessarily mean high profits, but are quite consistent with heavy losses, so that such a plan as this hardly affords a solution.

(*e*) In some industries since the war, Whitley councils, or their equivalent, are in force for the discussion and settlement of questions that may arise between the management and labor, and generally with the idea of leading to greater coöperation between them in endeavors for improved working and reduced costs. One difficulty in such councils, as sometimes organized, is a tendency to weaken the control by the management, by giving the workers too great a voice in the methods to be adopted. It should not be an impossible task to overcome such difficulties as these and to render councils of this sort even more useful to coöperative working between the managers and employees.

(*f*) In isolated business direct profit-sharing arrangements of various kinds with employees are in force, and there is no doubt that in many cases the results are entirely satisfactory.

(*g*) In the United States also many individual businesses have their plans for profit-sharing, in some cases organized on most elaborate lines on the form of the United States federal government, the employers standing for the president of the United States, the board of managers for the senate, and the body of workers for the house of representatives. Some of these organizations are most elaborately worked out, and are said to have resulted in an extraordinary increase in the volume of production per person employed, a considerable share in the resulting savings being divided between the management and the employees as a bonus.

There is not, however, it is believed, any instance in that country of such an arrangement as that contained in the coal-mines agreement, by which wages in a whole great industry are determined by reference to profits, based upon a full knowledge of the costs and results of that industry.

In this country trade unions as a whole are opposed to profit-sharing and bonuses of every kind, but the fact that in spite of this opposition such schemes exist on a large scale, as for instance in the South Metropolitan Gas Co. and Messrs. Lever Brothers, shows that many workers see in such schemes a greater benefit to themselves than they would obtain by continual struggles through their trade unions.

All such plans as have been outlined above must, in the long run, depend upon a sufficient degree of publicity to enable those interested to understand the salient features of the business, and in particular what effect any action, or want of action, by any individual employee must have upon the cost of the production or service in which he is a unit. The workers must be educated in the different processes in which they are engaged and must realize the place which each of these processes has in the completion of the whole, and their effect upon the cost, the amount of which, together with the selling price, which should be a fair one to the consumer, must determine in the long run the margin available for the remuneration of the three parties concerned.

At this time it is only proposed to deal with so much of this question of publicity as has relation to accounts and statistics, either those submitted from time to time to shareholders or those prepared and submitted for the use of the public in accordance with legal requirements. The latter are in effect limited, both in this country and in the United States, to certain public services which are carried on under statutory authority requiring the publication of accounts in certain forms.

Railways. Both in Great Britain and in the United States all railway companies are required to render their accounts in certain specified forms. The forms differ in both countries, the classifications being more minute in the United States than they are here. The accounts and returns are in both cases divided into two main classes, namely, financial accounts and statistics. The financial accounts are on similar lines in both cases, and give fairly complete information as to the revenue and expenditure. On the other hand, the statistical information furnished to the shareholders in the annual reports of the American railways is far more complete than that given in the same documents in this country. It is true that the railways in Great Britain are required to make statistical returns to the ministry of transport every month, and these are published in a monthly return which is available at the price of three shillings to anyone who chooses to purchase it. The return relating to December was published in March last.

There is also an annual return, issued at the high price of twenty-one shillings at a later date (for 1922, in August, 1923), which gives for each railway substantially the same information as is available at a much earlier date in the annual reports of American railway companies.

In view of the importance of the annual statistical returns, it may be suggested that railway companies in Great Britain should be required to publish in the annual reports to the shareholders, in addition to the information now given, at least the same statistical information as is contained in the American railway reports, which is quite sufficient to enable those interested to work out easily such additional statistics as may be desired. It may be noted that the annual report of the New York Central and other American railways, are issued to shareholders about the middle of April, while the annual reports of the railways in Great Britain are issued towards the end of February. The extra delay in America may be due partly to the inclusion in the report of the statistical information, but it would seem to be partly due also to the much greater extent of territory covered by the American systems.

Dealing with periodical returns during the year, the American railways publish monthly both gross and net earnings, but no other statistical information, while in Great Britain the railway companies publish monthly only gross, but not net, earnings, and at a much later date (December return, 1923, issued about March 15, 1924) complete statistical information for each month. It may be suggested that if American railways, extending over areas far larger than any company in the United Kingdom, can publish both gross and net earnings for each month, there is no good reason why British railways should not do the same; while the mass of statistical information which the latter publish each month might with advantage and much saving of expense, both to the railway company and to the ministry of transport, be limited to a half-yearly or even yearly return.

Reference should here be made to the very elaborate classifications of investment, revenue and statistics, which are laid down by the interstate commerce commission at Washington. To show the voluminous nature of these classifications, it may be noted that, together with regulations as to the items to be included under each heading, they occupy some 220 pages, while the index to the classifications alone occupies nearly 300 pages. There is also a series of accounting bulletins, in which are published questions on the classifications sent in by the railroad accounting officials to the interstate commerce commission and the replies of the commission. One specially interesting part of the classifications contains rules for the separation of operating expenses between freight services and passenger services. A great deal of work has been done in the United States on this subject in the past fifteen years, and the determination of profits or losses in particular kinds of traffic has become a fairly common matter in that country. There can be little doubt that such a division of expenses has come to stay and will be increasingly useful in the questions so frequently arising before state or federal authorities as to the proper rate for any class of passenger or freight traffic.

The introduction to this classification states that: "There was apparent acceptance generally of the necessity for such a division of expenses, and no serious difference of opinion was developed as to the methods proposed, except with reference to the expenses for maintenance of way and structures used in common for freight and passenger services. The representative of the state commissioners advocated the use of gross-ton-miles as the basis, while the representatives of the railways favored engine ton-miles."

The general principle adopted is to apportion as far as possible all the direct expenses in accordance with the actual facts, or an approximation to those facts, and then to apportion the remainder of the items in each one of the four headings of maintenance of equipment, traffic expenses, transportation and general expenses, in the same proportion as the direct. Exception is made in the classification of maintenance of way and structures, where the unapportioned items are left as undivided, the idea being that on the returns made in this form experience may be had of the effect of their division on either the gross-ton-miles or the engine-ton-miles basis.

So far no attempt has been made in this country to separate the cost of freight traffic from that of passenger traffic, but it can hardly be alleged that if such division is possible in the United States it could not also be done in this country.

In the near future the question of rates, both for passenger and freight traffic, which are required to yield the statutory fair return on capital, will be of vital importance, and a division of cost between passenger and freight traffic and the principal classes of the latter would seem to be almost essential to the determination of these difficult questions.

Gas and Electricity. Both gas and electric light companies in Great Britain have certain statutory forms in which their accounts must be rendered, and these forms include the output of gas or electricity, and so enable cost accounts to be prepared by those who are interested. Annual reports to the shareholders do not give any cost figures per unit, but the number of units of production and distribution and the classification given in the income accounts would seem to be sufficiently full to enable these costs to be ascertained. In fact, for gas companies complete statistical costs are prepared from their reports, and issued annually by Messrs. Ernest Benn, Limited, under the title of *The Gas World Analysis of Companies' Accounts* and *The Gas World Analysis of Municipal Accounts.* The cost of these tables (viz., twenty-one shillings) is almost prohibitive to the general public, and it would undoubtedly be a great advantage if detailed costs per therm and per unit were included in the reports to shareholders by each company.

In America many states have prepared and put into force uniform systems of accounts for both gas corporations and electric corporations. While accounts have to be prepared in accordance with these classifications and submitted to the public service commission, the annual report to the shareholders contains considerably less information than in the case of similar companies in Great Britain. In some cases no statistics are given at all, and the accounts are confined to five items, namely, gross earnings, operating expenses, net income, taxes and disposition of net income.

The official publication of the accounts filed with the New York state commission is not complete; nor is it made at any specified period. The last publication available is that for the year 1920. The same remarks apply to similar publications of the interstate commerce commission. The only way of obtaining information more up to date appears to be by a visit to the offices of the various commissions, where as a rule filed accounts can be inspected.

It may be said therefore, that so far as the public are concerned, no statutory information on public-utility undertakings in the United States is readily available.

Coal. A perusal of the annual reports of some of the principal colliery companies of Great Britain goes to show that no particulars are as a rule given as to the manner in which the profits are arrived at; some, in fact, publish only a balance-sheet, one item of which is the profits of the year. The annual report which accompanies the accounts shows how these profits have been disposed of, and in addition may give particulars in a general way of new constructional work that is in progress and of the tonnage raised, but as figures of sales and costs of production are not given, no useful statistics as to the costs of operation are available. In the United States the same conditions are found to exist. Fortunately, however, in Great Britain, since the time of the coal commission, summarized accounts of the industry are available by districts. Each quarter the board of trade publishes figures showing, for thirteen different districts and for the whole country, the tonnage of coal raised; the tonnage sold and amount realized; the cost of production, divided into wages, stores and timber, other costs, contribution to welfare fund and royalties; the number of persons employed; the number of shifts worked and lost; and the average earnings per person employed. The costs and selling prices are also given per ton of disposable tonnage. These returns cover about 95 per cent. of the total salable tonnage raised in Great Britain.

The figures given in the evidence before the coal commission for the pre-war period were to some extent estimated and were given in round figures only. The tonnage was the approximate tonnage raised and weighed at the pit head, and included dirt as well as mine consumption and miners' coal. The deduction for these items was assumed to be 10 per cent., and this has now in the tables been divided as to 1½ per cent. for dirt and 8½ per cent. for consumption and miners' coal; these figures are, it is believed, approximately correct. The figures for dirt in coal are not given in the present board of trade returns, but have been estimated from other services.

The proceeds of miners' coal are not given for the pre-war period, but to make the figures comparative, approximate figures have been assumed based on the amounts now received. This is a fair assumption, as the price charged does not as a rule vary with the selling price of coal; and the figures are so small comparatively as to have no material effect upon the results.

Attention should be called to the great improvement in the industry in 1923 as compared with 1922, and particularly to the fact that the salable tonnage raised per person employed, viz., 237 tons, compares favorably with that raised in the pre-war period, viz., 255 tons, after allowing for the effect of the reduction of hours from eight to seven, which in the evidence before the coal commission was put at 10 per cent. The poorer results in 1922 appear to be largely due to the smaller number of possible workable shifts, viz., 264 per person employed as compared with 287 in 1923. This reduction is no doubt due to the depression in the coal trade which prevailed during that period.

It is also worthy of note that the average earnings per person employed were slightly less in 1923 than in 1922, while the profits were three and three-quarter times as great. This is due partly to the lag which occurs under the coal-mines agreement before wages feel the benefit of good times, and partly to the effect of the government subsidy which was in force at the beginning of the earlier period; and also it should be noted that the profits in 1922 were abnormally low, being only 53 per cent. of the average of the five pre-war years. Taking the two years together, profits, adding one-nineteenth, averaged £16,400,000 per annum, or an average of 26 per cent. over the pre-war average, while wages averaged £131.3 per person per annum, as compared with the pre-war average of £77.2, or an increase of 70 per cent. The tonnage disposable on the average of the two years was 232¼ millions, as compared with the pre-war average of 243 millions, or a decrease of 4½ per cent.

This coal was sold in 1922 at 20*s*. 3*d*. and in 1923 at 19*s*. 4*d*. per ton at the pit head, or for the two years at 19*s*. 10*d*. per ton, as compared with an average of 9*s*. 7*d*. for the five pre-war years, or an increase of 107 per cent.

The coal-mines agreement, under which wages for any period are determined by reference to the profits for a period some months earlier, is one of the greatest advances that has been made in recent times towards an improvement of the relations between capital and labor. In this industry, for each of thirteen districts, both the management and the miners have before them the aggregate results, the details that go to make them up and the proportions of the net proceeds of sale after deducting the cost of production which are received by capital and labor respectively.

For the purposes of the agreement the country is divided into thirteen districts, roughly co-terminous with the different coalfields. The accounts of all collieries in each district are aggregated each month, and the aggregation certified by auditors appointed on behalf of owners and miners respectively. These accounts form the basis of—

(1) the quarterly summaries published by the board of trade; and

(2) the determination of wages for a month, two to four months in advance of the period to which they relate.

The determination is effected as follows:—

From the proceeds of sale of coal and other specified mining products there are deducted:—

(1) The cost of standard wages as defined in the agreement, being the basis rate of the district plus the district percentages payable in July, 1914; this in effect is equivalent to the pre-war wage.

(2) Costs of production other than wages.

(3) Standard profits, equivalent to 17 per cent. of standard wages. Of the balance remaining, 83 per cent. is taken as attributable to wages and expressed as a percentage of the basis rate; thus, if the basis rate be 100 and the district percentage, say, 40, the standard wage would be 140, and if the proportion of profits attributable to wages in January be found to be 25 per cent. of the basis wage, the rate of wages for May would be 165.

There is also a provision that wages must in no case be less than the standard wage plus 20 per cent., *i.e.* for May as above the minimum would be 168 per cent. of the basis wage.

It will be noticed that there is no pooling of profits, nor an actual division of these profits between capital and labor, but only a determination of wages for a certain period by reference to the profits of the whole district, on an assumed basis, for a prior period.

Iron and Steel. The iron and steel industry forms, perhaps, the sole instance in which the United States is in advance of Great Britain in the publication of acounts and results. In this country perusal of annual report after annual report shows a dearth of any information whatever as to output, prices of products or costs of manufacture. Some of the largest companies in the country do not even publish a profit-and-loss account; the accounts submitted to the shareholders are limited to a balance-sheet in which one of the items is the total earnings for the year, and the only amplification in the accompanying directors' report is the manner in which these earnings have been disposed of. In contrast with this lack of information, the United States Steel Corporation, which was formed in the year 1901, has always given in its annual report a mass of information with regard to its operations, exclusive, however, of costs of production or of any information which would enable costs to be ascertained.

Thus, while quantities produced and sold of its principal raw materials and manufactured articles are given, its gross earnings in money are given only as follows:—

Gross sales of manufacturing, iron ore, coal and coke companies—
  To customers outside the organization.
  To companies within the organization.
Gross earnings and receipts of transportation and miscellaneous companies—
  Transportation.
  Miscellaneous.

It is therefore quite impossible to get any information as to the unit selling prices of its various products.

The operating expenses are divided into four headings:—

Manufacturing and producing costs and operating expenses, including repairs.
Administration, selling and general expenses.
Taxes.
Discounts and interest.
Depletion and depreciation.

The balance of this group of figures gives the net income for the year (excluding any profit on inter-company sales and purchases) and its disposal in interest on bonds, dividends on share capital and appropriations for various purposes is shown in the net income account.

In other parts of the report are given details of capital expenditure, expenditure on maintenance, renewals, and replacements divided over manufacturing, coal and coke, iron ore; transportation and miscellaneous properties; particulars of depreciation allowances; and a detailed list of all properties owned by the corporation and its subsidiary companies.

It may be noted that all this information, occupying (with some duplications) about fifty pages, while useful and interesting to shareholders, particularly as the reports in similar form make a continuous series extending over twenty-three years, gives no information as to costs and selling prices of products such as would be useful for statistical purposes, or in a discussion of matters arising between labor and capital. In fact, there is only one set of figures of any interest in this connection, viz., a statement of the number of employees divided between manufacturing, coal and coke, iron ore, transportation and miscellaneous properties; the total amount paid in salaries and wages not so subdivided, and the average earnings per employee per day, both including and excluding general administrative and selling force, *i.e.* the more highly remunerated body of employees. These figures for 1920, 1921, 1922, 1923 are of sufficient interest to be quoted:—

Employees

	1920	1921	1922	1923
	No.	No.	No.	No.
Manufacturing	200,991	133,963	150,847	180,727
Coal and coke	25,889	22,451	26,856	33,354
Iron ore	11,517	11,183	11,906	15,311
Transportation	24,643	20,010	21,523	27,135
Miscellaneous	4,305	4,093	3,799	4,259
Total	267,345	191,700	214,931	260,786
	$	$	$	$
Total salaries and wages paid	581,566,925	332,887,505	322,678,130	469,502,634
Average earnings per employee per day—				
Excluding administration and selling force	6.96	5.61	4.78	5.73
Including administration and selling force	7.00	5.73	4.91	5.83

It is worthy of note that the corporation has always insisted upon the principle of the open shop; has encouraged its employees to invest in the capital of the corporation on advantageous terms; and has been a leader in the United States in the care of its employees, the promotion of their welfare and the payment of liberal wages. To this policy is probably attributable the fact that during its whole existence of twenty-three years on only two occasions has a strike taken place, on both occasions being an attempt by the unions to break the principle of the open shop, in which they were unsuccessful.

The accounts since 1901, when the corporation was formed, have been made up on the basis known as consolidated accounts, that is to say the accounts of all the subsidiary companies, which at one time numbered over 150, but have since been considerably reduced by internal consolidations, are combined together into one balance-sheet, and the profits which accrue on the sales from one subsidiary company to another are eliminated, so that the result for any year takes into account only profits earned on sales made to the outside public.

The policy of the United States Steel Corporation as outlined above has been followed in America by other steel companies, notably the Bethlehem Co., which is one of the largest, and to some extent by other large manufacturing companies, and it is much to be regretted that so far this policy has not been adopted by large companies in this country. It is to be hoped that the greater attention now being given to the matter may lead to improvement in this respect, and that it may not be long before similar information is available in this large industry to that now given by the United States Steel Corporation, supplemented by returns similar to those now published for the coal industry.

Banking. Neither in this country nor in the United States do banks give any information as to the manner in which their profits are earned. Balance-sheets in both countries are in stereotyped forms setting forth among the liabilities the total deposits and the liabilities on customers' acceptances, and on the other side cash in different forms, loans and advances, investments and customers' liabilities on acceptances. The English banks as a rule set out the number of shares held and the book value of such shares in subsidiary undertakings which they control. These forms of balance-sheet are well understood and afford useful information as to the proportion of the various assets and liabilities, and valuable and interesting comparisons are made between these figures in the different banks. No attempt in either country has been made to give details of the earnings, to show how far these arise from interest on loans and discounts, interest on investments, profits on exchange, commission, &c.; or how much interest is paid away on deposits, or any details, or even the total of the expenses of the operation of the bank; and more important than all, no indication is given of the amount of the losses for which provision has had to be made. Now that the banks in this country are reduced practically to five large banks and a few small ones, and the former do the great bulk of the banking business of the country, there would seem to be no reason why considerably more details of their operations should not be given than has been customary in the past. It is true that at the annual meetings of these banks the chairman generally makes a lengthy and most interesting statement as to the general financial position of the country, and incidentally of his particular bank; but interesting as these addresses are, and valuable as to the conditions of trade and finance, they do not in the least advance the amount of information or want of information obtainable from the published accounts. It would seem that it is for this country, with its really small number of large banks, rather than for the United States, with its few large banks in the eastern states and a great number of small banks scattered all over the country, to take the lead in this matter.

Insurance. The accounts of insurance companies in Great Britain are regulated by the assurance companies act, 1909, and returns in the required forms are sent in to the board of trade and published each year in a blue-book.

The returns include full particulars of the valuation of liabilities under life policies, which as a rule are made every five years.

The annual accounts for all companies take the form of showing how the insurance funds have varied during the year by the addition of income and deduction of outgo, which is the rather appropriate name adopted for the aggregate of claims paid and expenses.

In the case of life companies doing a large business in foreign countries the question of exchange has, in the last five years, been of considerable importance. It is necessary to keep assets in most foreign countries of a value estimated to be sufficient to meet liabilities under policies at maturity. These assets have greatly depreciated in value, and it has been necessary therefore to show a corresponding depreciation in the funds of the company. As a fact, the liabilities on policies which are not included as a liability in the annual balance-sheet have as a rule depreciated as much as, or even more than, the assets, so that the true position of the company is no worse, and may be even better than before the fall in exchange. This is only one instance among many of the new point of view that has been forced upon the business world by the extraordinary fluctuations in exchange which have occurred since the close of war and do not seem to be yet at an end.

Few details are required in the annual accounts, the income account merely giving, under the heading of income, premiums, interest and other receipts; and under the heading of outgo claims, and (for life companies only) annuities, surrenders and bonuses divided between cash and in reduction of premiums; commissions; expenses of management in one item; and other payments (to be specified.)

In the case of fire companies a caption is added of "contributions to fire brigades."

The annual balance-sheet gives among the liabilities the amount of each separate fund; claims admitted but not paid; (for life assurance companies) annuities due and unpaid; and other sums due (to be specified). On the asset side there is a summary of investments under twenty-five headings which is quite exhaustive: agents' balances; outstanding premiums; outstanding interest, dividends and rents; interest accruing; bills receivable; cash on deposit; cash in hand and on current account; and other assets (to be specified). The valuation balance-sheet for life companies sets up the liability on policies against the funds as shown on the financial balance-sheet, and shows the surplus available for distribution. No provision is made for a gain-and-loss account to show how this surplus was derived, namely, from loading in excess of expenses, from interest and from favorable mortality.

In the United States, life insurance companies are under strict supervision by the various states, and a detailed and drastic form of accounts is required, each calendar year, to be filed before March 1st of the succeeding year. A yearly valuation of all liabilities under policies is included in the return.

The return consists of several parts.

The first, or income account is in practically the same form as that adopted here, except that its opening balance is the capital and surplus of the previous year, after providing for all insurance liabilities, including those on life policies. To this is added the income detailed under twenty-seven different captions, and followed by four more detailing moneys borrowed, bad debts recovered and profit on sale or revaluation of assets.

On the other side of the account are stated the outgoings for claims and surrender values and dividends on policies (eighteen captions), dividends on shares, commission and expenses (eighteen captions), loans repaid (apparently a memorandum only) and interest thereon, and losses on bad debts or on sale and revaluation of assets.

The second part of the account is in effect a balance-sheet, which shows how the balance on the first part is represented as regards assets and liabilities. On the asset side are detailed (under twenty-eight heads) the various assets, for most of which additional detailed schedules are given later in the return. The assets are divided into ledger and non-ledger, the latter category including accrued interest and rents, excess of market values of property and investments over book values and amounts due in respect of uncollected premiums.

From the gross assets thus shown are deducted "assets not admitted" consisting of:—

Company's shares owned.
Stationery and supplies.
Commuted commissions.
Cash advances to officers and agents.
Loans on personal security, and in excess of value of policies.
Book values of property and investments in excess of market value.

These assets are not admitted as available to meet the company's liabilities.

The liabilities include that on policies of various kinds (eighteen heads), other liabilities (seventeen heads), and reserves, the balance of the two sides being represented by the capital and surplus as shown in the first part of the account.

The remainder of the return comprises:—

(1) A return of all policies in force, showing the changes during the year.
(2) A gain and loss exhibit showing in elaborate detail the source of the increased surplus during the year derived from:—

(*a*) Loading on premiums in excess of expenses.
(*b*) Interest.
(*c*) Mortality.
(*d*) Surrenders and lapses.
(*e*) Gains on investments.

(3) Schedules, twenty-five in number, designated A to Y, giving full supporting details of investments; cash balances; purchases and sales of property and investments; dividends declared on various classes of policies; salaries paid to directors, officers and agents (individually); legal expenses (individually); all payments made to individuals in respect of any matters before legislative bodies or departments of the government.

As if this list was not sufficiently exhaustive, there is a final schedule in which the company is required to show all property owned or held in interest not entered on any other schedule and not included in the financial statements.

This elaborate form, to our English ideas, is regulation run riot, and suggests that, at any rate in the opinion of the regulating authority, no such confidence can be placed in the directors and officials of the company as is customary in this country. The amount of work involved in the preparation of this elaborate statement once a year is great, and judged by the rare occurrence of failures, in the life-insurance business, would seem to be quite unnecessary. The attention devoted to this form is only justified as it appears to furnish an object-lesson in what to avoid in any system of regulating accounts that may eventually be ordained in Great Britain.

At the same time two features of this account stand out, viz., the annual valuation of all life assurance liabilities, with the corresponding gain-and-loss account, and the publication of a complete list of investments. These are improvements which might be recommended to some of our life-insurance companies.

The forms in force in the United States for fire and other insurance companies are substantially the same as those required for life-insurance companies, with the exception that an estimate in much detail of outstanding claims takes the place of the valuation of liabilities under life policies.

Miscellaneous Companies. It is impracticable now to go fully into the accounts of the numerous miscellaneous companies both in this country and in the United States, but a general perusal of a number of reports issued annually by such companies shows that there is very little difference in principle in the manner in which their accounts are rendered to their shareholders. In the majority of cases it may be said that the information given is on principle as little as possible. It is very rarely that any details are given of production or of sales or costs thereof. There are companies in both countries in which such details are given, supplemented by comparatively detailed statements of expenses, but such information is more usual in the case of the smaller companies, in which there are comparatively few shareholders, than in the larger ones. In one particular the accounts published by American companies are much in advance of those published in Great Britain, and that is in the case of holding companies so called, *i.e.* those which hold all the shares in a large number of operating companies. In the United States the almost universal practice for more than fifteen years past has been to publish for such companies a consolidated statement of the earnings, and a consolidated balance-sheet aggregating the assets and liabilities of all the subsidiary companies and eliminating the investments therein of the holding company. In fuller explanation of this principle reference may be made to a very useful book on this subject which has been published within the last few weeks by Sir Gilbert Garnsey. This work will well repay perusal by those interested in the subject, and it contains an appendix giving specimens of consolidated accounts both in the United States and in Great Britain. The practice in Great Britain is in its infancy, and only a few concerns have yet adopted it; it is perhaps as well not to particularize by name any one concern, but as an instance may be noted one holding company with some twenty or thirty subsidiary companies, which still publishes a balance-sheet merely giving the amount invested in its subsidiary companies, together with a statement that no provision has been made for losses made by these subsidiary companies since the date of the consolidation. In another case of a large holding company, while the published balance-sheet is still open in some degree to the criticism made above, a considerable part of the chairman's speech at the annual meeting is devoted to stating and explaining the consolidated balance-sheet of the whole of the subsidiary companies, and a hope is expressed in the same speech that before long it will be possible to substitute for the balance-sheet of the holding company the consolidated balance-sheet of all the companies together.

One obstacle to the general adoption of the principle of the consolidated balance-sheet is that in the present state of the law it is not the legal balance-sheet of the company, and it is consequently necessary to prepare and file the ordinary balance-sheet as well as the more accurate consolidated one.

In the United States this difficulty does not arise, as there are no statutory provisions as to the form of balance-sheet for ordinary commercial companies, nor are they required to be published, while the federal tax Laws call specially for a consolidated statement of earnings.

Another difficulty which exists in Great Britain in giving more detailed accounts of earnings and costs lies in the inadequacy of the cost accounts which are kept. There can be little doubt that even at the present day (and during the last few years this matter has received a great deal more attention in Great Britain than it has ever done before) progress generally in America in this respect is in advance of that in this country. The practice of devising elaborate and complicated (perhaps in some cases too complicated) cost systems was inaugurated over twenty years ago and has steadily progressed since, and yet a few years ago it was stated by an American commission which studied this question both in America and in Germany, that America was far behind Germany in this respect. Seeing that in the future as in the past before the war, Germany must be one of the greatest industrial competitors of Great Britain, and that cost accounting in Great Britain is still behind the American standard, which in turn appears to be behind that in Germany, the question of improved cost-accounting systems would seem to be one of great importance to this country.

General Summary. To give a general résumé of the statements made in this paper, it may be said that both in Great Britain and the United States it is only in the case of public service, transport, gas, electric, &c., industries that any really complete and detailed accounts are available to the public. In one industry, namely coal, by legislative action summarized accounts are produced of considerable value. In another industry, steel, the United States is setting an example by the publication of more details than are ever given in Great Britain; but with these two exceptions it may be said that generally the practice in both countries has been in the past, and appears to be still more so in the present, to reduce rather than to increase the very inadequate information which is given with regard to earnings and costs. It is perhaps out of the question to suggest that statutory provisions should be enacted compelling more detailed disclosures of figures, on similar lines to those required from statutory companies. But there does not seem to be the same objection to a requirement that, at any rate in the large staple industries, summary accounts by districts, such as are now published quarterly in the case of the coal mines, should be furnished to the board of trade for publication.

Serious disputes in these staple industries, *i.e.* railways, docks, cotton, shipping and engineering, are continuing to take place, and millions of hours and millions of pounds' loss, in wages and to the community, are caused thereby. When these disputes occur it is impossible as a rule for public opinion to make itself felt, because there is no statistical information available which will enable the public to form any opinion thereon. In the recent dock strike the committee which was appointed commenced by an endeavor to investigate the claims of the rival parties as to the amount of profit earned by the industry involved. Fortunately for the community, the strike was settled on other grounds, but in another sense it was perhaps unfortunate that the appointed committee did not sit long enough to get to grips with this important question of earnings, for out of its conclusions there might have been evolved some method similar to that in force in the coal industry by which a dispute on questions of what earnings were or were not might be avoided in the future. In these days labor knows that the success of industry is largely dependent on its exertions, but does not equally realize that setbacks caused by strikes and disputes must inevitably fall ultimately upon labor either in increased unemployment or a lower standard of living.

Labor has yet to learn that more than one pint cannot be obtained out of a pint pot; but the acquisition of this knowledge is much hampered by the absence of information as to the contents of the pot or the division thereof, or even as to its size.

It seems useless to expect that any really stable conditions can exist until further information is available in each industry, showing the costs and proceeds of sales of the products, and so enabling the arguments between the parties to take the form of a discussion on the fair division of these net proceeds, rather than, as is often the case at present, a scramble between them as to which can obtain the largest share of an entirely unknown and uncertain amount.