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Correspondence: Credit of Nations

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Correspondence

“Credit of the Nations”

Editor, *The Journal of Accountancy*:

SIR: I ask your attention to a book lately issued, purporting to give authoritative information as to international finance. An extract follows:

CREDIT IN THE UNITED STATES

We are now able to see how, in actual practice, the international account which for the first three years of the war showed a credit in our favor of \$6,864,700,000, was balanced, and how much gold was imported in this settlement. From August 1, 1914, to August 17, 1917, the excess of imports over exports of gold was \$1,111,958,000,* or more than the whole stock in the treasury before the war.

* *Federal Reserve Bulletin*, September, 1917, p. 655.

The total result for the three years may be expressed approximately in the final international balance-sheet for three years (in millions):

| | Cr. | | Dr. |
|--|---------|--|---------|
| Merchandise balance | \$6,865 | Securities returned | \$2,200 |
| Remittances to friends (3 years) | 750 | Loans by non-government institutions | 1,570 |
| Relief funds | 90 | Loans by the United States.. | 2,149 |
| | | Dividend account (3 years). | 600 |
| | | Freights and insurance (3 years) | 75 |
| | | Imports of gold..... | 1,111 |
| | \$7,705 | | \$7,705 |

(The above is extract from *Credit of the Nations*, by J. Laurence Laughlin. Charles Scribner's Sons, New York, 1918—pp. 340 & 341.)

You will note the author says “We are now able to see, etc.” Perhaps “we” can. I would have to use a reversing mirror to see, however. Not only are the items classified as “assets” and “debits” on what we consider the wrong side, but they are mixed up at that.

Thus, our gift to relief funds abroad—\$90,000,000—is classified as a “credit” to be offset by “imports of gold” from abroad, and similar treatment is given to “remittances to friends” abroad.

Some obfuscation of mind might cause one to feel that the relief to the Belgians was a “credit” to us, but for accounting purposes it is a credit only on the books of the Recording Angel. But I can think of no reason for putting the “remittances to friends” on the wrong side, unless the writer was like a bookkeeper I once knew who kept a desk card reading “Debit side, the side nearest the hatrack,” and who went wrong when his object of reference was moved. Who moved the professor's hatrack?

Besides all this, the account balances as it stands, although when the items are properly grouped, there is a difference of \$1,680,000,000. Won't Mr. Laughlin please explain whether this book was intended as a companion to *Alice through the Looking Glass*.

Yours very truly,

Brooklyn, New York.

F. W. T.