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Ivar Kreuger's Contribution to U.S. Financial Reporting

Dale L. Flesher and Tonya K. Flesher

ABSTRACT: The most widely-held securities in America (and also the world) during the 1920s were the stocks and bonds of Kreuger & Toll, Inc., a Swedish match conglomerate. The company was founded and headed by Ivar Kreuger. The reason Kreuger's securities were so popular was that they were sold in small denominations and paid high dividends. Dividends of over 20 percent annually were paid on both stocks and bonds. Unfortunately, these dividends were paid mostly out of capital, not profits. Kreuger was essentially operating a giant pyramid scheme, which was hidden from the investing public by Kreuger's insistence that financial statements not be audited. He preached a philosophy that secrecy was paramount to corporate success. The bankruptcy of the company in 1932 was the largest on record and resulted in numerous changes in financial reporting. Articles in magazines and newspapers kept Americans aware of the extent of the fraud scheme at the same time Congress was considering the passage of a federal securities law. Thus, the timing of the bankruptcy and the corresponding media coverage made it politically expedient to pass laws that would make it difficult for similar schemes to be successful in the future. Such laws were indeed passed, and the Congressional committee reports specifically refer to Kreuger. The hypothesis of this paper is that the Ivar Kreuger fraud contributed significantly to the passage of the securities acts.

THE most widely-held securities in America (and also the world) during the 1920s were the stocks and bonds of Kreuger & Toll, Inc., a Swedish match conglomerate [Shaplen, 1960, p. 128]. The company was founded and headed by Ivar Kreuger, who was generally known throughout the world as the "Match King." Kreuger's rise and fall spanned, and in a way synthesized, the years of boom and depression between 1918 and 1932. Because great quantities of Kreuger & Toll securities were issued, and the company was for the most part a gigantic fraud, the bankruptcy of the company in 1932 was the largest on record and resulted in numerous changes in financial reporting [Churchill, 1957, p. 263]. Surprisingly, Kreuger and Toll kept few financial accounting records

despite the fact it was a multibillion-dollar international enterprise with 400 subsidiaries. The hypothesis of this study is that it was the downfall of the Kreuger empire that contributed significantly to the passage of the U.S. securities acts, the requirement of mandatory audits for listed companies, and a movement to-

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ward uniformity in accounting principles.

This article in no way attempts to judge the worthiness of the Securities Act of 1933; the only point is to emphasize that the bankruptcy of Ivar Kreuger contributed to the passage of the Act. In fact, the many empirical studies that have cast doubt on the benefits of the securities acts may indirectly lend credence to the hypothesis of this study—that passage was attributable to a political reaction to a single fraud rather than to an in-depth study of what would be beneficial. Indeed, Ivar Krueger, although called “the greatest swindler in all history” [*Stock Exchange Practices*, 1933, p. 1355; Josephson, 1972, p. 107], may have played the most prominent role in the development of accounting as we know it today. An analysis of the writings from the popular press and from Congressional hearings will be used to support the above hypothesis.

THE KREUGER SCHEME

Ivar Kreuger came to America in 1900, at the age of 20, and got his start in business working in a variety of cities [Marcosson, 1929, p. 233]. While working as a construction engineer in New York, he helped build the Macy’s building and the Plaza and St. Regis Hotels. His next job was the building of the football stadium at Syracuse University [“Ivar Kreuger A Suicide . . .,” 1932, p. 22]. He later returned to his native Sweden, where he took over his father’s (Ernst Kreuger) small match-making factory in 1913 [Marcosson, 1929, p. 234]. Also, at the time he returned to Sweden, Kreuger formed a construction engineering firm with Paul Toll. The match company was soon merged into Kreuger & Toll. Toll’s only participation in Kreuger & Toll was in the legitimate operations of the engineering branch of the firm.

Through a series of mergers and reorganizations, Ivar Kreuger eventually controlled the entire Swedish match industry. He then began to make inroads on the match business in Europe. Kreuger realized that the poverty of many governments after World War I provided a wonderful opportunity for capitalists with plenty of cash. Thus, Kreuger & Toll set out to make big loans (as much as \$125 million per country) to governments in return for official match monopolies [“Reich Match . . .,” 1929, p. 4]. This scheme worked so successfully that by the end of 1930 Kreuger had complete monopolies in 14 countries and huge trading concessions in many others. Altogether, this amounted to 90 percent of the world’s match production [“Other . . .,” 1930, p. 44]. Kreuger regularly emphasized to investors that the foreign loans were risk-free since they were secured by an excise tax on match sales—the proceeds of which went into a trust account at a Kreuger-owned bank until the loan and interest had been paid (Martyn, 1932, p. 3).

Before Kreuger could lend millions of dollars to foreign governments, he obviously had to obtain the cash from some source. One such source was the gullible American public. Many of the securities issued by Kreuger ended up in the hands of small investors. This was made easier by the fact that the securities were often issued in small denominations. Also, wealthier Americans found this investment to be a good tax avoidance scheme. Kreuger was able to minimize taxes for both his corporations and the shareholders by channeling all income, both real and supposed, through corporations based in tax-free countries [“Ivar Kreuger III,” 1933, p. 74].

One reason for the popularity of Ivar Kreuger’s securities was that such high dividends were paid regularly. Annual

dividends of as high as 20 percent were paid on both stocks and (participating) bonds. Unfortunately, these dividends were mostly paid out of capital, not profits ["Man Who Trapped . . .," 1933, p. 1]. Price Waterhouse later estimated that actual profits were only one and one-half percent of capital—and this was before deducting interest expense ["Kreuger Earnings . . .," 1933, p. 31]. Ivar Kreuger was essentially operating a giant pyramid scheme [Callender, 1932, p. 2]. Neither the investing public nor financial analysts were aware of the extent of Kreuger's manipulations because corporate secrecy was practiced by many firms at that time. In fact, Kreuger often stated that all an investor needed to know was a company's dividend policy; nothing else mattered. Kreuger often told accountants, as well as bankers and other investors, that the key to success was "silence, more silence, and even more silence" [Marcosson, 1929, p. 238]. Thus, if an investment banker were to ask for an audited balance sheet, Kreuger would simply refuse to deal with that individual. Since Kreuger's securities paid such high dividends, no investment banker wanted to risk losing Kreuger & Toll securities [Debedts, 1964, p. 28]. Thus, billions of dollars worth of securities changed hands without reference to financial statements. As it came out during the Senate investigation, even the corporate directors never saw any financial statements. Neither did the directors attend directors' meetings ["Man Who . . .," 1933, p. 13]. In Kreuger's defense, some amount of secrecy was needed. Since he was dealing with foreign kings and dictators about government monopolies and taxes on matches, some agreements had to be kept secret. Unfortunately, Kreuger used this need for some secrecy to his own advantage by fabricating stories to fit the situation

[Austin, 1937, p. 6]. In fact, Kreuger apparently prepared by hand every financial statement his companies ever issued without reference to journals or ledgers ["The Kreuger Affair," 1932, p. 16]. He reputedly then told his few accountants to record the entries necessary to make the books correspond to the already prepared financial statements [Churchill, 1957, pp. 249–255].

Ivar Kreuger became known as the greatest financial genius in the world [Callender, 1932, p. 13]. He appeared on the cover of *Time* magazine during the week of the stock market crash in 1929 ["Business . . .," 1929]. Major articles appeared in the *Saturday Evening Post* [Marcosson, 1929 and 1932] and *The Literary Digest* ["Other . . .," 1930]. He was an advisor to kings and presidents. He was a frequent visitor at the Hoover White House [Churchill, 1957, p. 207; "Kreuger Visits . . .," 1932, p. 1]. After making a loan of \$75 million to France and saving the country's currency, he was awarded the Grand Cross of the Legion of Honor, the French equivalent of knighthood [Callender, 1932, p. 13]. The money he passed out to foreign governments was often used for humanitarian purposes, which made him seem less like a financier than a benefactor. He was occasionally referred to as the "Savior of Europe," and sometimes as the "Savior of the World" [Churchill, 1957, p. 141]. He was a peacemaker for the League of Nations at the Hague, and was sometimes suggested as a candidate for the Nobel Peace Prize [Callender, 1932, p. 13]. In 1930, Kreuger and Franklin D. Roosevelt received honorary doctorates from Syracuse University ["Dr. Ivar Kreuger," 1930, p. 40]. And if his financial roles were not enough to keep Kreuger in the public eye, he was often seen in the company of film actress Greta Garbo, whom he had sponsored

early in her career; the two were often romantically linked [Churchill, 1957, p. 183]. Thus America, and much of the world, was Kreuger-conscious.

KREUGER SECURITIES

Kreuger issued a great variety of securities. In addition to Kreuger & Toll common stock, stock was issued by many Kreuger & Toll subsidiaries. Ivar Kreuger controlled about 400 different corporations. The largest subsidiaries were the Swedish Match Company and the International Match Corporation. Some stock issues were quite original; their rights were unlike typical common stock rights. For example, in 1924, Kreuger issued the first of several "gimmick" securities. These were Class B shares. In contrast to Class A shares which had full voting rights, Class B shares represented one one-thousandth vote per share, but had the same face value and dividend rights ["Business and Finance," 1929, p. 46]. Thus, Kreuger was eventually able to control his billion-dollar empire with Class A shares of his own which totalled less than one percent of the outstanding shares. In 1927, Kreuger offered American investors \$50 million of sinking fund convertible debentures (which were promptly oversubscribed). In 1928, he introduced the participating debenture. This was an unsecured bond that, in addition to paying a standard five percent rate of interest, would also pay additional interest if the company was profitable. These bonds sold in denominations as low as \$5.

Even after the stock market crash in 1929, Kreuger & Toll securities sold well. At that time, Kreuger & Toll securities were listed on more stock exchanges and were more widely held than any other security in the world. The company at no time suspended dividend or interest payments. Of course, there is no reason why

the onset of the Depression would have any effect on dividend payments since dividends had never been based on profits. Instead, Kreuger was operating a gigantic pyramid scheme where new financing had to be obtained constantly to pay interest and dividends on already outstanding securities. High dividend payments were necessary to ensure the continued sale of new securities. And the continued sale of new securities was necessary to make the dividend payments. It was a never-ending cycle. Eventually, the pyramid was bound to topple.

In addition to the many legitimate businesses of Kreuger & Toll, many shell corporations also existed only on paper. Supposedly, some of these shell corporations were formed in small European countries for the purpose of avoiding income taxes, while others were formed only to become a part of the fraud scheme [Churchill, 1957, p. 115-117; Stoneman, 1932, pp. 22-23]. Many of these nonexistent companies were quite profitable, at least on paper. Only through these shell corporations was Kreuger able to show sufficient profits to make high dividend payments.

The Depression accelerated the pyramid's topple. Less and less profit was earned from the legitimate parts of the businesses, and investors had little or no money for new stock and bond offerings. Thus Ivar Kreuger could no longer maintain his fraud. Seeing the end of his empire, Ivar Kreuger took his own life on March 12, 1932. Initially, people mourned his death. The *New York Daily Express* compared his death to that of Caesar. The *Economist* described his death as a Greek tragedy:

By the death of Kreuger, the world has lost a man of great constructive intelligence and wide visions, who planned boldly, yet on a basis which

seemed to be protected by carefully devised safeguards, and who for once seemed about to combine with the profits of private enterprise a real contribution to the welfare of nations [Barman, 1932, p. 238].

This saintly viewpoint was not to last. Within a month after his death, the Price Waterhouse auditors had begun to unravel the true state of affairs of Kreuger & Toll, Inc. Subsequently, it was found that nearly a quarter of a billion dollars in reported assets had never existed. Within two months after Kreuger's death, there were calls for legislation to stop future Kreuger-like frauds [Winkler, 1932].

The stock market impact of Kreuger's suicide was significant; on the Monday following Kreuger's death, the stock of Kreuger & Toll accounted for one-third of the New York Stock Exchange volume. The stock was selling for \$5 per share on the day Kreuger died. The following Monday (March 14), the stock opened at 1-7/8 ["The Passing . . .," 1932, p. 57]. Within weeks, it was selling for five cents per share, and ultimately sold for as little as three cents per share.

KREUGER'S ACCOUNTING PRINCIPLES

Retrospectively, some Swedish biographers of Kreuger argued that he was not a crook; he simply followed different accounting principles than did other companies [Shaplen, 1960, p. 95]. For one thing, the balance sheets of Kreuger's companies, which he made up himself, were heavily laden with intangible assets at a time when other companies rarely recorded intangibles. His balance sheets regularly showed monopoly rights as a major asset. For example, when it was discovered that Kreuger had forged \$140 million of Italian bonds, the U.S. subsidiary, International Match Corporation, had to write off a \$27 million in-

tangible asset (being 1/6 of total assets) representing the rights to a match monopoly in Italy, which did not exist. Bribes to foreign officials were another intangible asset Kreuger frequently reported [Shaplen, 1960, p. 95].

One biographer stated:

He was obviously aware that he was inflating his values, but it seems possible that this amoral and visionary man believed he was not doing anything terribly wrong or, at least, anything unrectifiable. And, considering the peculiar financial morality of the day, perhaps he was not very different from the genus *speculans* all around him [Shaplen, 1960, p. 97].

The above statement is perhaps supported by the following quotation attributed to Kreuger:

You know, it's a curious thing how every period in history has its own gods, its own high priests and holy days. It's been true of politics and religion and war, and now it's true of economics. We've created something new. Instead of being fighting men, as in days of old, we're all in business, and we've chosen some new high priests and called them accountants. They too have a holy day—the 31st of December—on which we're supposed to confess. In olden times, the princes and everyone would go to confession because it was the thing to do, whether they believed or not. Today the world demands balance sheets, profit-and-loss statements once a year. But if you're really working on great ideas, you can't supply these on schedule and expose yourself to view. Yet you've got to tell the public something, and so long as it's satisfied and continues to have faith in you, it's really not important what you confess. The December ceremony isn't really a law of the gods—it's just something we've invented. All right, let's conform, but don't let's do it in a way that will spoil our plans. And some

day people will realize that every balance sheet is wrong because it doesn't contain anything but figures. The real strengths and weaknesses of an enterprise lie in the plans [Shaplen, 1960, p. 98].

Those who invested in Kreuger & Toll securities were victimized not only by the scheme itself, but also by their own blind greed. Accounting and financial reporting as we know it today was then in its infancy. Investors based their decisions solely on dividend payments, the personal reputation of Ivar Kreuger, and the prestige of the brokerage firm which had underwritten the American securities, Lee, Higginson & Company ["Ivar Kreuger III," 1933, pp. 72-74]. As a consequence, innocent investors throughout the world lost hundreds of millions of dollars. Kreuger's dishonesty resulted in tragedy for thousands of investors and reaction to its disclosure was swift. The news of the Kreuger swindle preceded the passage of the first securities act by only a year (see the synchronological time line in Exhibit 1). Over 300 articles about Kreuger's fraud appeared in the *New York Times* during 1932 and 1933. Other newspapers in both large cities and small towns provided similar coverage. In addition, five books on Kreuger were published in English in 1932 and 1933 [Allen, 1932; Sparling, 1932; Stoneman, 1932; Georg, 1933; and Soloveytchik, 1933]. Congressional committee reports also mentioned the need to protect investors from people like Kreuger. Perhaps a great swindler such as Kreuger was necessary so that future investors could be protected from his type.

ACTIONS IN CONGRESS

The U.S. Congress first took note of the Kreuger scandal as early as April 18, 1932—just a few days after the issuance of the initial Price Waterhouse report. Representative LaGuardia of New York

issued a scathing attack on the floor of the House against the system which permitted a swindle such as that perpetrated by Kreuger. His particular target was the New York Stock Exchange: "I say to all the holders of Kreuger bonds in this country that they could not have been swindled out of their money had it not been either for the carelessness, indifference or connivance of the New York Stock Exchange" [*Congressional Record*, April 18, 1932, p. 8399].

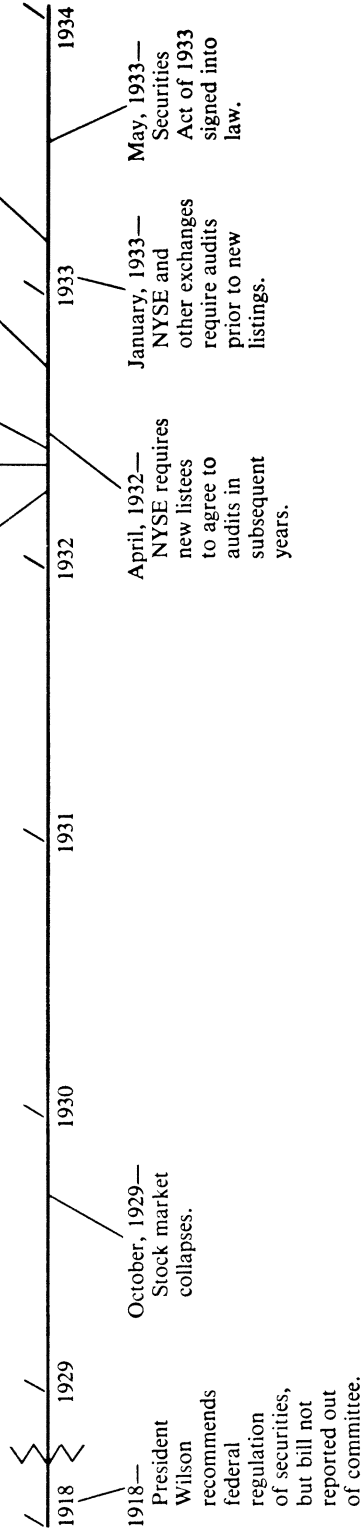
In July, 1932, a long discussion of the Kreuger case took place on the floor of the Senate, centered around a presentation by Senator George Norris of Nebraska, assisted by Senator Huey Long of Louisiana. Senator Norris began with a statement that "all the money taken by the publicly labeled scoundrels who peddle blue-sky securities, and on whom the better-business bureaus wage continual warfare, is but a drop in the bucket to the billions of dollars which have been lost to American investors and banks" because of Kreuger and his cohorts. Senator Norris concluded his formal presentation with this statement:

It is only one of thousands, one of the big ones, it is true; but it is an illustration of what is going on all over the civilized world. It is an illustration of the deceit and trickery and the debauchery with which men of great wealth are trying to accumulate millions more of great wealth and to get it through the contribution of the pennies of the poor of every land under the sun [*Congressional Record*, July 13, 1932, p. 15201].

When the United States Senate first took up the subject of the pending securities law in 1933, the case of Kreuger & Toll was the first one discussed. The section of the committee report dealing with Kreuger is over 250 pages in length [*Stock Exchange Practices*, 1933]. The emphasis of the committee report was

EXHIBIT I
SYNCHRONOLOGICAL TIME LINE

Kreuger and Reaction to Kreuger Fraud



Financial Developments

the importance of secrecy to the success of Kreuger's fraud scheme. Senators supporting federal securities laws pointed out that there was no organization or individual to whom the investor could look for protection in a scheme such as that perpetrated by Kreuger. Even the directors of the company knew nothing of the fraud. In fact, the American director of Kreuger & Toll admitted on the witness stand that he had never attended a meeting of the board of directors, evidently having the view that the directorship would give him certain business advantages, but that he owed no obligation to the American investor [*Stock Exchange Practices*, 1933].

The Congressional committee spent some of its time discussing the laxity with which the New York Stock Exchange administered its listing agreement with Kreuger & Toll. It was noted that Kreuger & Toll agreed to keep the exchange advised of substitution of collateral on loans, but such substitutions were never reported even though in one instance the collateral on a \$50 million issue was reduced by 90 percent.

The Senate's conclusion was that such lax reporting led to investor greed—and the subsequent downfall resulted in people losing not only their wealth, but their health as well. The remedies for such problems, according to Senator Norbeck, were as follows:

1. Simpler corporate structures and more straightforward accounting and auditing.
2. Better and more complete information about investments, cleaner publicity, more facts, and less bunk.
3. An obligation of personal liability for the accuracy of any facts stated in investment advertisements [*Congressional Record*, May 11, 1933, p. 3231].

Accountants who testified before

Congress included A. D. Birning, of Ernst and Ernst, and George O. May, then with Price Waterhouse. Birning, the auditor for the International Match Corporation subsidiary, stated that he had repeatedly urged the directors of the International Match Corporation and representatives of the underwriting firm which processed Kreuger's securities (Lee, Higginson, & Co.) to permit his firm to audit the books of Kreuger & Toll. However, because Kreuger & Toll was the leading company in Sweden, the country did not relish having foreign accountants looking over the company's affairs. Birning was cited by members of the Senate committee as playing the principal role in the downfall of Ivar Kreuger. Birning had pursued Kreuger all over the world seeking the whereabouts of \$50 million in German bonds which supposedly belonged to International Match. Kreuger kept giving Birning different answers—none of which could be confirmed by Birning. Birning's pursuance was believed to be the most pressing cause of Kreuger's suicide [*Stock Exchange Practices*, 1933, p. 1255].

George O. May was cited as having a dramatic flair as he emphasized the leg-erdemain Kreuger used in shuffling assets and the amazing confidence the man created among investors. For the benefit of the Congressional hearings, Price Waterhouse & Company made public a brief general statement summing up the firm's conclusions with respect to the Kreuger swindles. Price Waterhouse had been hired to conduct a thorough investigation of all of the Kreuger concerns and had previously issued 57 reports on the subject. The Price Waterhouse statement, which received considerable publicity, was as follows:

The perpetration of frauds on so large a scale and over so long a period

would have been impossible but for (1) the confidence which Kreuger succeeded in inspiring, (2) the acceptance of his claim that complete secrecy in relation to vitally important transactions was essential to the success of his projects, (3) the autocratic powers which were conferred upon him, and (4) the loyalty or unquestioning obedience of officials, who were evidently selected with great care, having regard to the parts which Kreuger intended them to take in the execution of his plans.

Enterprises in which complete secrecy on the part of the chief executive officer as to the way in which important parts of the capital are employed is, or is alleged to be, essential to success, are fundamentally unsuited for public investment, since such secrecy undermines all ordinary safeguards and affords to the dishonest executive unequalled opportunities for the perpetuation and concealment of frauds [“Why the . . . ,” 1933, p. 40].

Another influential individual testifying was Frank Altschul, chairman of the New York Stock Exchange Committee on Stock List, who stated that even the wisest members of the New York Stock Exchange had been fooled by Kreuger. As a direct result of Kreuger’s swindle, the New York Stock Exchange was already (early 1933) requiring independent audits of the reports of all new applicants for listing [*Stock Exchange Practices*, 1933, p. 1357; May, 1936, p. 145]. Altschul also stated that he thought the Exchange would soon require audits of all companies listed on the Exchange. Both Altschul and the senators were in agreement that independent audited reports should be required of all public companies because investor confidence had been so shaken by the Kreuger affair [*Stock Exchange Practices*, 1933, p. 1357]. The safeguard provided by periodic audits was universally applauded by

newspaper editors. The New York *Daily Mirror* stated that “gigantic swindles like the Kreuger & Toll Concern could not be organized” if regular audits were required. The Philadelphia *Record* urged Congress to require audits which would be expected to result in greater publicity and uniformity in corporate accounting [“Why the House . . . ,” 1933, p. 40].

George O. May even emphasized to Congress the benefits of mandatory audits:

That is one of the good things that I think has come out of this. That people have realized that, however trustworthy people may seem to be, some objective study is eminently desirable. In fact, the whole advance of accounting in this country is marked by a series of events like this. . . . Now they have come to find that, even though it may be only one case out of a hundred, it may sometimes be a valuable additional protection [*Stock Exchange Practices*, 1933, p. 1273].

May apparently, however, wanted to keep legislation at a minimum—perhaps thinking the New York Stock Exchange requirement was sufficient—as he warned against too much legislation:

Of course, all these things are a question of balancing risks against costs. If you create a machinery of protection that is unduly expensive, you kill industry and you put a burden on new financing that is out of proportion to its value [*Stock Exchange Practices*, 1933, p. 1274].

Of course, May had been speaking out against federal regulation of accounting since at least as early as the publication of the Ripley article in *The Atlantic Monthly* in 1926 [Zeff, 1984, p. 451]. A warning that legislation should be kept to a minimum was in reality a reversal of May’s longstanding advocacy of no legislation at all limiting accounting. This

reversal could probably be attributed to May's fear of Congressional overreaction to the Kreuger fraud.

While Altschul was testifying, he broached a new subject that had not been considered by the Senate—the uniformity of accounting principles.

Now may I at this point develop along another line which I do not think has come to your attention by way of illustrating the activities of the exchange in these matters. We have been laying so much emphasis in recent years on the obtaining of independent audited statements that we have begun to wonder whether an independent audited statement, which may mean so much and may mean so little, would not in itself become ultimately a matter that would involve further deception of the public. We have been having, therefore, a series of meetings and conferences with accountants with a view to seeing whether as long as the public is going to be asked to place so much reliance on the statements of independent auditors, if we can not get some agreements in cooperation with the accountants in regard to some of the general governing principles of accounting and in regard to accounting practice.

An auditor's certificate—and I am not speaking as an auditor now, or qualified to speak as an auditor—but an auditor's certificate may be perfectly true as representing the condition of the books, but there are so many different kinds of ways in which the books themselves can be kept, that unless you have got some standardized practice that goes beyond the mere certificate, the chances of deceit are still inherent in the situation [*Stock Exchange Practices*, 1933, p. 1358].

At this point, Altschul submitted a preliminary report of the meetings between the New York Stock Exchange and the American Institute of Accountants, which was entitled "Value and

Limitation of Corporate Accounts and General Principles for Preparation of Reports to Stockholders" [*Stock Exchange Practices*, 1933, p. 1358]. The report was subsequently issued, without change, by the American Institute under the title *Audits of Corporate Accounts*.

OTHER POSSIBLE INFLUENCES

Some might argue that other bankruptcies of the early 1930s, particularly that of the Insull companies, were equally important in motivating Congress to act with respect to securities legislation. They certainly would have added fuel to the fire. Indeed, a reading of President Franklin Roosevelt's pleas for securities regulation would lead one to believe that Insull and Kreuger were equally guilty with respect to defrauding the public [Roosevelt, 1938, p. 93]. Similarly, Felix Frankfurter, counsel to the House committee which considered the securities bill, in an article defending passage of the securities act, attributed passage to both Kreuger and Insull [Frankfurter, 1933]. Contrary to these political utterances, however, the case for Insull is not as strong as that for Kreuger. No other case received as much publicity and was as large in terms of dollar losses as was Kreuger & Toll. Kreuger was a legend on Wall Street and throughout the world. Kreuger had defrauded—through misstated balance sheets and income statements—hundreds of thousands of individual investors, numerous university endowment funds, and hundreds of banks ["Ivar Kreuger III," 1933, p. 70]. Indeed, the list of banks suffering losses at the hands of Kreuger includes several in nearly every state of the union.

Alternatively, Insull was guilty of nothing more than participating in a few wash sales in the last days when the Depression was toppling his empire (a

practice that was not illegal). Although Insull was tried on a variety of charges, he was subsequently acquitted of all wrongdoing ["Insull Acquitted with . . .," 1934; "Insull Acquitted on . . .," 1935; "Last Court . . .," 1935]. In contrast to the five books published on Kreuger, the *Cumulative Book Index* for 1928 to 1937 showed none dealing with the subject of Insull until 1937 [Ramsay, 1937]. Insull simply was not as newsworthy as Kreuger. In addition, Insull operated out of Chicago and investors who lost money were primarily located in Indiana, Illinois, and Wisconsin [McDonald, 1962, pp. 203–204]. Insull avoided Wall Street and New York bankers because of disputes he had with them while he was Thomas Edison's secretary prior to the turn of the century [McDonald, 1962, p. 39 and p. 204]. Also, Insull's entire empire did not crumble at the same time. Small companies would periodically announce bankruptcy; some Insull companies never succumbed to bankruptcy; and for some that did, Insull was the court-appointed receiver ["Expect Dawes . . .," 1932, p. 31]. Not only was Insull not viewed in the same light as Kreuger, but the former was even awarded a pension of \$18,000 annually by one of his companies when it became known that he was penniless after the downfall of his companies [*Congressional Record*, July 13, 1932, p. 15201; "Collateral of . . .," 1933; "Insull Pension . . .," 1935]. Thus, Insull was viewed more sympathetically than Kreuger.

Even George O. May emphasized the difference between Kreuger and Insull during the Senate hearings. When asked to compare the two, May stated that although Insull's holdings might be difficult to unravel, no secrecy was involved. Kreuger "is quite a different phenomenon, to my mind. This is an absolutely

unique case, and I think for that reason there is danger in legislating for it because I do not suppose there has been anything to compare with it since the South Sea Bubble" [*Stock Exchange Practices*, 1933, p. 1271].

In a January 16, 1933, letter to all Price Waterhouse partners on the recent action of the New York Stock Exchange and the New York Curb Exchange to require mandatory audits, George O. May called the requirement an important step in the development of financial auditing. May then mentioned the Kreuger case as having led to these developments [May, 1936, p. 145].

The public may have blamed the nation's financial ills on the stock market crash and the Depression.

The public in the first year or two after the great crash had participated in the early tendency to diagnose "speculation" as the cause of the nation's financial ills. In later years it had, however, found room for increasing doubt that speculations furnished the chief cause for the mountainous public losses in investments. The collapse of such financial structures as those of Insull and Kreuger revealed a callous exploitation of the investor, whose financial support had been so earnestly solicited [Debedts, 1964, pp. 27–28].

Congress apparently shared this view, for otherwise it would have taken up the subject of securities laws sooner than three years after the stock market crash. Congress had indeed considered securities laws at an earlier date. President Wilson had recommended federal regulation in 1918, but the bill was not reported out of committee. The bill that actually formed the basis for the 1933 Securities Act had been floating around Congress since 1920 [Edwards, 1939, p. 312]. Also, it would have been difficult to legislate against the speculation that

occurred during the 1920s. Indeed, the securities laws and the requirement by the New York Stock Exchange for mandatory audits came about to restore confidence in the system. A single event—the corruption of Ivar Kreuger—had shaken investors' confidence and provided the media event of the age. As so often is the case with media events, Congress felt it had to act, and act it did. This action was not a reaction to the Depression, but a reaction to criminal activity. Thus, America's securities laws were a product of the speculation of the 1920s and the Depression only to the extent that Ivar Kreuger was a product of that era. Of course, Kreuger's ambitions were greatly assisted by the times in which he lived.

Interestingly, one researcher in 1939 concluded that the Kreuger securities issues could not have been prevented or the investment bankers punished under the Securities Act because Kreuger's prospectuses were usually truthful with respect to the unfavorable terms of the particular issue [Edwards, 1939, p. 312]. Edwards therefore concluded that the 1933 Act was based on questionable premises, since the major losses were not caused by the investing public receiving fraudulent and inaccurate information. Instead, losses were caused by unsound trends in finance. Even though Congress stated that the Securities Act was passed "to prevent a recurrence of these gross frauds" [*Congressional Record*, May 4, 1933, p. 2], Edwards found very few cases of fraud ever having been proved in courts. In fact, only one fraud case (Kreuger) involved New York Stock Exchange listed securities.

ADDITIONAL IMPLICATIONS

Aside from being an interesting historical tidbit, the story of Ivar Kreuger also offers some food for thought con-

cerning present-day activities. It seems that some of Kreuger's techniques are practiced to this day, audit requirements notwithstanding. Some specifically mentioned by one accountant are:

1. Should the issuance of gimmick securities, specifically non-voting shares, result in delisting? This is presently a hot issue for the New York Stock Exchange.
2. Secrecy continues to be advanced as an alibi for nondisclosure of important information. Secrecy is also practiced on an epic scale abroad, especially in the Arab Emirates; pyramid schemes helped to bring down Kuwait's unofficial stock market in 1982.
3. The application of such auditing procedures as inventory test counts and confirmations on a transnational basis continues to be a contentious issue.
4. The issue of shell companies, involving consolidation criteria, continues to be controversial. Furthermore, should sidelines such as banking be consolidated?
5. The role of directors continues to be largely meaningless [Pomeranz, 1985].

Perhaps the Kreuger saga does nothing to answer the above problems, but a reminder of Kreuger's activities certainly indicates the magnitude that such problems can take on if not addressed soon.

CONCLUSION

The final audit report showed that Kreuger & Toll had somehow dissipated about three-quarters of a billion dollars over the years, and a third of this amount could not even be explained by the auditors ["The House . . .," 1945, p. 88]. Of this sum, Ivar Kreuger had stolen and spent over one hundred million dollars ["The Kreuger Case Again," 1933, p. 284]. Both widows and influ-

ential bankers were among the ones to suffer the loss. As a result, the U.S. Congress was influenced to pass laws in an attempt to avoid similar occurrences in the future. Similarly, the New York Stock Exchange issued rules requiring mandatory audits of listed companies. Even a movement toward uniformity in accounting principles can at least partially be laid at the feet of Kreuger.

Perhaps it is only speculation that Kreuger's fraud led to the passage of America's securities acts. However, the timing was certainly right—and Kreuger's scheme was thoroughly discussed in Congress. Moreover, the popular press devoted untold space to Kreuger's fraud throughout 1932 and 1933. Consequently, the general public was widely aware of what Kreuger had perpetrated. Thus, the passage of securities laws became a politically expedient thing to do. No longer was the protection of stock-market investors of importance only to the rich and powerful. Kreuger had defrauded the little man, and the hue and cry was raised throughout the land that investors must be protected from future repeats by similar demons.

Throughout the 1920s, Kreuger was viewed as a financial genius and capitalist humanitarian. Upon his death, he was viewed as a victim of the Depression. By March, 1933, Kreuger was perhaps being viewed in a manner leading to the hy-

pothesis of this study:

As it now turns out, the only service he unconsciously performed for the world was to open its eyes through his death to the shortcomings of the present economic system [Olson, 1933, p. 2].

The above article went on to state that "unfortunately the world seems to have failed to understand the significance of Kreuger's death and failed to grasp that his end meant the end of an epoch" [Olson, 1933, p. 2].

By 1937, if the following quotation is any indication, Ivar Kreuger was finally being recognized for his real contribution to society:

From the record of falsehood and betrayal with which Kreuger besmirched the very pillars of finance in the leading countries of the world has come, particularly in the United States, the erection of new safeguards for investors. In our Securities Act are to be found preventives whose origin is to be traced definitely to the Kreuger experiences [Austin, 1937, p. 6].

Ivar Kreuger pulled off the largest fraud in history, but perhaps a person of his ilk was needed in order to bring about improved financial reporting. Indeed, Ivar Kreuger may have, indirectly, done more good than harm for the financial community, and a reminder of his activities could still provide direction for the future.

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