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# Economic Status of the Public Accountant

BY

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*An Address to the Public Accountants of Texas, in  
Convention at the Adolphus Hotel, Dallas, Texas,  
on the Twentieth day of October, 1917*

# Economic Status of the Public Accountant

Within the experience of most all practicing Public Accountants, there comes to mind with pointed emphasis the fact that our functional utility is not fully understood by the general public in business life. A logical solution whereby this void will be reduced, consists of bringing the curve of "Service" to a closer ratio of co-ordination with the curve of "Public Requirements." A thorough understanding, and therefore a freer use by the Public Accountant, of the scientific laws and principles of economics as related to industrial endeavor, would, in the writer's opinion, have more potentiality for remedy of this void, than could be claimed for any of the popular methods now employed to accomplish the same result.

The general business public has learned to know us as wizards in figures and accounts; but we have higher functional possibilities. We are, or should be, business analysts—scientific probes, if you please, searching to bed rock for fundamentals that support the vital interests of business. Some of our accepted writers have written in this direction.

R. H. Montgomery, member, American Institute of Accountants, in his valuable work, "Auditing Theory and Practice," tells us that "there must be a lively appreciation on the part of the accountant of the vital connection between transactions themselves and the written records thereof." And in his mention of the subject of economics says, "the auditor should have a fair knowledge of economic theories" . . . "he should study political economy" . . . and that, "federal control is a vital issue, and the auditor's duty to himself and the future of his profession requires him to take an interest in all actual or prospective legislation effecting business." In discussing the characteristics of the auditor's report, he has written that the client "wants a supplemental report for his own use, expressing the auditor's opinions on just as many points as the latter can, conveniently or intelligently."

Another acceptable author of the present day, A. Lowes Dickinson, member, American Institute of Accountants, in his admirable book, "Accounting Practice and Procedure," allows that "there are many other matters frequently touched upon in the certificate—which may be described as operative phrases,"

and, "the public, to whom he (meaning the accountant) is chiefly responsible, is entitled to assume that he is a man skilled in commercial and financial affairs, and particularly in the accounts relating thereto."

Public accountants are men technically educated in the fundamental principles of commercial and industrial practices as well as in the science of accounting. Expert fitness in these is logically as important for them as the knowledge of anatomy for the successful physician, or, the law of gravitation for the aviator. Up to 1914, the per capita death rate from customary ills among civilized peoples of earth has been perceptibly decreased within the previous 20 or 30 years; it is reported, that this is the result coming from deeper research and analysis from which the physicians in our day have obtained an advanced and better understanding of the organic members of the human body and of their functions. Similarly, the accountants can acquire increased control over business ills, through a better understanding of the economic and cosmic principles which dominate the commercial being. To do this we must have the ability to dissect and analyze with scientific business discernment. By a somewhat sharp metaphor let me hold your interest in a homely recital of an every-day occurrence familiar to each of us.

The physician has been called to your bed of pain; he has asked you what the trouble seems to be; you have told him all that you could think of and maybe more than was really so; you expect him to administer some professional sympathy plus a material agency in the shape of medicine. Now what would you think of that physician if he gave you the sympathy but not the medicines; if, without telling you the cause of your malady in terms that you could understand, he handed you a nicely bound copy of the materia medica, and left your bedside without a word as to the possibilities of your recovery or future condition of health?

Let us apply that metaphor to our professional practice. We have responded to the call of the man with a sick business; he tells us frankly that he is lost for knowledge of the cause, but assures us that he is thoroughly conversant with numbers of his creditors and the character of their claims. When we have finished our work on the case we have left the dejected client possessed of a haggard business, and a nicely printed balance sheet and other schedules in support; before him are column upon column of figures and line after line of technical terminology that confounds his confusion the more. He wanted to know the facts as to cause, and avenues now open or closed so that he may rejuvenate his

affairs and make good in the future. Candidly let me ask you, can he do it through the means we have provided? I venture to say that not one in many bankers can do what has been left for him to do upon his own resourcefulness. Bankers and business men who have much to do with the subject, read a balance sheet only so far as to engage the "Quick" on one side against the "Quick" on the other. Our volumes by technical authors cite their beliefs to the point that at best a balance sheet is only an expression of opinion. "In the last analysis a balance sheet is an expression of opinion." (Auditing Theory and Practice by Montgomery).

If we can legitimately and professionally express our opinions in figures arranged in conventional forms, it seems to me, that we can report opinions on the very facts that underly those tables or forms and be within the realm of professional service.

Oftentimes the analysis for cause is more important to the client than the schedules that indicate results. Often we find clients who abhor figures set up in technical displays, and from whom we could earn enviable praises of our work, if, our reports were made in narrative forms expressed in good English diction, rather than conventional arrays of figures that confuse him. Of course, I do not speak for this form of report for all occasions; nor do I recommend the inclusion of economic analysis into a report unless you knew that it would be accepted as a professional analysis rather than a professional criticism. This latter should be absolutely avoided unless accompanied by suggestions for remedial action.

The psychological definition of a rut in a commercial organization may be fairly described as a factor of character composition, resulting from a state of mind, subtle but potential. The mind is the father of the character.

To uncover ruts is the work of the analyst. The possessor of ruts seldom is a self-analyst.

There are branches of economics designated scientifically as "political" and "social." Owing to the fact that these contain fundamentals for which the practicing Public Accountant would have but academic interest and little practical use, I shall venture to discuss a branch of economic study which might be termed "Industrial Economics" which, you will no doubt agree, is of vast importance to the Public Accountant.

Every phase of human thought that directs for the affairs of mankind calls for human activity, and when that activity is devoted for, or applied to production of some satisfaction of man's wants, then we have an economic interpretation of the term "industry."

Avoiding depths of this theme in which technical illustrations would cease to hold your interest, I shall give one simple example in order to illustrate in a practical way the difference between the material, and the economic understanding.

Once a business man came to a professional accountant who was equipped with knowledge in this economic science and to him he poured out his threnody in words about like this: "This business of mine is my baby. For 34 years I have walked the floor with it at night and rocked the cradle throughout the days. Withal I cannot keep the scamp from yelling in my ears denoting dissatisfaction at the internal condition of its affairs. I have become convinced that it is pricking my conscience with the purest of truth, for my dividend absorbers all signify similar yells when the quarterly periods come around and I must face them with a paltry dividend. I am conscientious; I have tried to find out what is the trouble and I have sought in vain. My books are well kept, trial balances out on the dot, balance sheet shows excellent state of health, profit and loss statement ditto. I know that the gross profit on my entire selling line is 28 per cent and that my gross cost to do business is 12 per cent. This leaves me a margin of 16 per cent with which to satisfy my demanders for dividends. But the best I can do for them is five or maybe six per cent per annum, and the chances are ten to one that I have to borrow the money from the bank to pay that. Now what has become of the difference between the per cent absorbed in the annual sum of dividends paid and the 16 per cent net profit, or, approximately the missing 10 per cent? I would like to have you tell me, Mr. Accountant, so that I can get on a basis that will give my stockholders and my baby and me a lasting panacea."

Now, let me tell you what that accountant had to do. Books of original entry and books of permanent record and all other data were found to be in first-class shape. From the tabulated schedules that could possibly be deduced from those records, this client could not find the answer. The accountant analyzed the history of the last few years of that business from the viewpoints of an economist. He used money values only as a basis for economic deductions. He exposed the weak spots in the business and provided suggestions for remedies thereof. His report read like a business narrative in letter formation. Results? (I know you would be interested). In the first year after the accountant's suggestions were put into practice, that business paid 12 per cent. That was in 1912. Each subsequent year the dividends have been increased one per cent. The

owner of the business has expressed the wish that he might live on to see the dividends paid for the year 2000, so that they would then have reached the 100 per cent mark, and after that he then would be willing to quit the business.

In the sense of offering an excuse for parts of this text that follows, I want to say here that it would be as difficult to compose this paper without enjoining some references to the great war and to Germany, as it would be to prepare a discourse upon the subject of the Roman Empire and omit mention of Julius Caesar. So I shall step out from the technical arena and try to entertain in discussion of broader subjects pertinent to my theme.

This war's calamities have opened our doors to quickened opportunities. This means that our implacable sea of commercial activity must be jettied and beharbored with foundations builded upon sound economic principles. Right now, Germany, in the midst of all she has to do as a warring nation, is laying foundations for economic control to act as a counter-balance to its commercial troubles, not only during, but also, after the war. Her economic organization has been put to a more severe test than has that of any other nation. How did she successfully meet the issues that obviously came with her gigantic operations of army, banking, rail transportation in every direction of the compass for immeasurable quantities and endless varieties of commodities? The answer in part is, that her commercial ego had in its economic back-bone a nerve trunk called, in industrial parlance, "Cartel." These German Cartels are co-operative combines of independent concerns in kindred industries, having for fundamental purposes the regulation of demand and supply and centralizing business control or management in a sort of mutual-benefit-society method; about 600 of these Cartels were scattered over the German Empire and produced a solidarity FOR ECONOMIC, AND NOT FINANCIAL, GAIN. Therein they differ from our so-called trusts. In a mention of these Cartels made in a recent issue of the Journal of Political Economy, reference is as follows:

"It is not improbable that at the moment when peace is concluded the present exorbitant prices of raw materials will drop and that all values will more or less collapse. Then the Cartel organizations may be expected to make their strength felt and to act as parachutes in preventing economic disaster on a large scale—to preserve stability in general, and thus to render to the country-at-large, and to Germany's industries in particular, a very important service."

These Cartels were first installed through voluntary initiative amongst the populace, but, the Ger-

man Government recognized their efficacy and in recent years has made their foundation compulsory.

Now, in the absence of any such extensively organized co-operative methods or economic control in this country, it is obviously apparent that we must equip ourselves for sporadic action. If we would realize the fullness of our national greatness, we must work to the peak load of our industrial strength.

It is claimed for us by a certain class of industrial optimists, that our nation now has natural resources sufficient in quantities and diversement to sustain it without commercial intercourse with other nations. But opponents to this view hold that we cannot thus isolate ourselves; that would not be the economic solution, if even all those self-sufficient contentions were true; per force, we will have to expand our international export trade, and, more than that, strain every muscle and energy to cope with the foreign competition we shall have to meet. On the other hand, we hear a class of hysterical economists who are telling those at home to stop buying clothes in order to properly clothe our boys at the front; other calamity prophets are telling us to cut our food-stuff purchases 25 per cent below normal for same reasons. And some are encouraging the men who have made merchantable silk stockings out of sawdust so as to utilize the waste from lumber mills.

An English statistician noted for the reliability of his work, recently reported that at the close of the third year of this war the waste of men, money and property was as follows:

|                                      |                   |
|--------------------------------------|-------------------|
| Total lives lost in the war.....     | 9,750,000         |
| Total permanently disabled.....      | 12,000,000        |
| Total loss of population.....        | 14,250,000        |
| Total wounded .....                  | 23,500,000        |
| Total prisoners .....                | 4,250,000         |
| Total direct war expenditure.....    | \$107,500,000,000 |
| Total property destruction           | \$6,000,000,000   |
| Total tonnage destroyed.....         | 9,500,000         |
| Total tonnage compulsorily laid up.. | 3,500,000         |

The total draft by the belligerent nations of Europe during this period is reported at 49,500,000 men taken from their ordinary course of peaceful citizens, and completely deranged their lives, to say nothing of the great hosts of men, women and children subject to the great strain necessary in order to maintain the armies in the field. These figures are only given in passing, and, if they do not baffle your comprehension, then you will realize the enormity of the economic, to say nothing of the human and social void thereby created.

When the tranquil hues of the mystic hour—the dawn of peace—shall have superseded this red-and-



black fog of war, then our economic prospectus will be discernable in new forms and varying coloration. Until that time arrives, no prophetic vision can see into the future beyond the dense certainty that the problems for solution by industrial readjustment will be in many forms and consistencies and overwhelmingly stupendous. Whichever way the tide turns, whether for continued prosperity and greater trade expansion the world over, or whether to suffer diminution of our present prosperity; in either case, without exception, without rime or reason that will stand up against excuses of any sort, we shall have to be equipped to meet the issues that shall be ours, not only with figures and bank accounts and balance sheets and all that sort of data; but, we must be able to analyze and suggest from an economic basis scientifically composed. These laws, be it noted, have underlying logic from which no serious deviation has transpired except as the kaleidoscopic aspect of humanity's affairs have requisitioned. To admit by faintest whisper, that along these lines we are now prepared, nationally or otherwise, to cope with those situations, would be indulgence in a most fanciful form of Utopian dream.

Last year, Frank A. Vanderlip, President of the National City Bank of New York, said: "We are a country of economic illiterates" and that he knew of "no illiteracy more dangerous to the welfare of a commonwealth."

Many replies to these statements were made publicly by the economic thinkers of this country. One of them which appeals to me as of interest to the members of our profession, was made by George E. Roberts, formerly Director of the United States Mint, who said in part, "As a matter of fact, I do not think that a larger proportion of our people are ignorant of economic principles than in other countries; but, those who are ignorant have more to say here than elsewhere. We are a great democracy and we are not content to leave anything to experts. Your only security lies in the spread of sound ideas throughout the whole body of the people."

Directing attention to our industrial efficiency I would quote from a paper written in 1916 by W. S. Kies, Vice-President of the National City Bank of New York. He said, "Industry in this country is not organized on sound economic lines. There is altogether too much waste, duplication of effort and inefficiency in organization" . . . "This country is young and its handling of economic problems has been far from satisfactory. In these matters the nation has behaved as might be expected of a youth" . . . "Germany, on the other hand has made organization the cornerstone of the most efficient industrial economic structure ever created by any na-

tion" . . . "Her economists and statesmen have had the ability to think clearly and to plan with foresightedness" . . . "What is needed perhaps more than anything else is clear thinking along economic lines and real constructive leadership."

Now comes the Sage Foundation, having made a survey of our personal fitness; it makes the assertion that only five per cent of the males in this country are prepared by definite training for their occupations in life. Of course, I am not in position to say whether or not the Sage Investigators included the Public Accountants in that particular survey or not, I am inclined not to believe it; but, I will make this prediction, that if the Sage Foundation will make another similar survey ten years from now and will include the Public Accountants and the Industrial Economists, the former percentage will be raised to heights of most flattering altitudes.

Just about a year ago Edward N. Hurley, then Chairman of the Federal Trade Commission, pointed out that among the essentials of efficiency in any business, correct and adequate knowledge is the first; and that the cornerstone of that knowledge is the knowledge of costs. He spoke deprecatingly of some conditions of accounting where costs of production were departmentalized, but a similar or parallel scheme for accounting the sales was omitted. Either way you take it, the one without the other has only partial value to the business executive, because they are not able to analyze so as to determine the specific and relative revenue-bearing value of each line of product, and by that information make the necessary adjustments for the well being of the concern. Adding this line of thought to what I have previously said, you can see that it is important for the accountant to be equipped with a grounding in industrial economics so that he can provide an adequate system of accounting for businesses that manufacture or traffic in commodities. We are all familiar with the broad scope of the work that has been inaugurated and extended among the manufacturers and merchants by the Federal Trade Commission, which body has wisely asked for, and obtained, valuable advice through consultation with our national body, the American Institute of Accountants.

The study of economics at the outset is prosaic and academic for the student; and, unless practice in practical problems is included in his studies he will enter the business world outfitted like the man who said that he did not know whether or not he could play the violin, but that he had read the biographies of Stradivarius and other noted masters of Cremona.

Your attention has been invited to this phase of the present subject not because I believe we are to-

tally remiss in economic treatments in our work, but because I think that the master Public Accountants have opportunities to train a large corps of men in scientific understanding of economics as applied to our realm of industry. More or less we all think along lines of economic principles, although all may not recognize that fact in a technical sense. Say that in support of my contention, we have 3000 practicing Public Accountants in this country. In many of their offices are staffs numbering from one to ten members. A low estimate would be that 3000 men could be educated by the master Public Accountants so as to enable them to engage actively in the work that is now in process of formation for this nation in future history. That class of men would have high potentiality surpassing the capabilities of the college graduates who did not have the advantages of practical training in diversified lines. I believe that our fellow practitioners in the Eastern states are already working along this line, for I note that some of the Eastern states have recently added the subject of economics to their schedules of subjects for C. P. A. examinations.

Before concluding I would like to scratch the economic surface of our business affairs in the South, where we are all industrially concerned.

By long odds this country now produces more raw cotton than any other commonwealth: therein we have the basis for a natural monopoly. But our statistics on cotton exports and imports indicate that the manufactories of Europe (to their immense disadvantage) haul five-eighths of their raw cotton from our wharves, make it into marketable commodities, and then ship it back to us for purchase and consumption, the ocean carrying charges both ways being defrayed by American consumers. But in spite of this disparity, the United States ranks second as a producer of manufactured cotton goods. Our opportunity to increase our volume of finished goods is emphasized by the comparison borne out of the fact that in the years prior to the outbreak of the present war we exported but five per cent of our output, as against nearly 75 per cent by the manufacturers of Great Britain. The possibilities for expansion of our sales of cotton goods in China, for instance are of such high moment, that Japan, whose factories have the advantage of accessibility to the two leading raw cotton markets of the world (India and the United States) is increasing her loom capacity in anticipation of gobbling up that morsel.

In 1901 Mr. Wu Ting Fang, given to witticisms that have made him famous, made the remark during a tour of the Southern states, that if each of his countrymen would add but an inch of cloth to his cotton shirt-tail it would increase the demand by not less than two million bales of raw cotton.

China's increasing importance in cotton markets may issue from acceptance of that hint by the fashion-platers of John's haberdashery. But, statistics thereon are not available.

It is said that about 20 per cent of American cotton mills are profit producers. The other 80 per cent are working to a point of financial results that permit them to keep their heads above water, and no more than that. Coupled with this extraordinary condition is also the remarkable coincidence that the successful mills enjoy extraordinary profits, some going as high as 40 to 50 per cent. Now we come to the question, why do these extreme conditions obtain? The answer is, observance to economic laws defined technically "Marginal cost of production" and "Marginal utility" as affecting the producer. These laws and their (twin or dual) operation are dependently related to each other and are absolutely governing factors for, or against, the healthy condition of all business enterprises.

And now have we come to a revolutionary status within our own country. Not the conquest of the newer for the older commodities; not the aggressive force of greed among the monied groups for control of the lesser brothers of industry; but, instead a revolution wherein incompetence, waste, and inefficiency resulting in inflation of costs to the consumer, are engaged in combat with the forces mobilized for a crusade for the standardization of practices that shall result in efficiency and lowered cost of production, so as to place our essentials of life at prices equitable to producer and consumer as well.

Listen to the warning against industrial inefficiency in the words of Thomas Carlyle, Scottish Essayist and Historian, who, in one of his books (Past and Present), printed in 1843, spoke out in these words:

"What is unmethodic, waste, than shalt make methodic, regulated, arable; obedient and productive to thee. Wheresoever thou findest disorder, there is thy eternal enemy; attack him swiftly, subdue him; make order of him, the subject not of chaos, but of intelligence, Divinity and Thee! The thistle that grows in thy path, dig it out, that a blade of useful grass, a drop of nourishing milk, may grow there instead."

Fellow Accountants, let's off with our coats and be up and doing, that we shall be ready for the economic service that soon our country shall call upon us to perform. We represent a science more closely allied to economic problems and solvents than any other science now in vogue or known by man; our science is one that shall endure so long as the human family shall have needs for it's existence; may our work then be an impellant force and the light of our decisions a guide, for our successors in this field of work. Let us work so that worthy recognition and honorable respect will be given in homage by the people of this great nation, unto one of its most important representative organizations, our American Institute of Accountants.