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Editorial

A. P. Richardson

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A. P. RICHARDSON, *Editor*

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EDITORIAL

Facts and Politics Accountants are, of all men, probably the most intimately concerned with hard facts, and theory is to them merely an instrument by which to take facts and build of them the structure of industrial and commercial integrity. Indeed, accountants are a little inclined to be somewhat impatient of theory, unless it lead almost immediately to good practice. Consequently, in a time like the present, when the government of the United States is dealing largely with theory and, as some folk think, with indifference to obvious fact, the views of the accountant may be of salutary importance. They may act as the counterweight to keep the scales in balance. There is a tremendous amount of theoretical exploration, much of which is purely speculative, and if we are to return to anything like equilibrium there must be at the other end of the arm at least an equal amount of practical common sense. Now, it is not the function of a national organization, such as that which THE JOURNAL OF ACCOUNTANCY attempts to represent, to indulge in discussion of partisan politics. Every such organization is of necessity composed of men of all parties, each one of whom is fully entitled to expect of his national society that it shall walk in the middle of the road. It would be improper and fruitless to take sides in any question which could be regarded as entirely within the range of party politics. Furthermore, no party has a monopoly of righteousness. On the contrary, it would be better to say that every party is animated chiefly by a desire to advance the welfare of all the people. Therefore, in discussing the great questions which are now engaging the rapt attention of

the entire population, it is the duty of a magazine of this class to look at the problems as though there were no such thing as party in the scheme of politics. It is with the effect which present causes may bring to pass that we must be concerned.

Misled by Hope The fundamental difficulty which underlies all the existing uncertainty is the result of an over-indulgence in the pleasant stimulant of hope. When the great crash of 1929 shattered our confidence and set us all trembling, it was natural that the voters, most of whom are sadly devoid of perception, should expect by a change in administration to call back the prosperity which had departed. Everybody, high and low, was infected by the virus of exceeding hope. All that we needed was to have in office new men who would evolve new ideas and set up new ideals. We had tried administrations of both the major parties during the preceding two decades and with varying success we had climbed to dizzy heights of opulence. It was quite consistent with the psychology of the electorate that whatever party was in power at the moment of disaster should be cast out and its opposition should be called to the helm. That was wholly within the scope of mass mentality. The administration which ended in 1933 had not done miraculous things. It had lacked much of the superhuman power which we, unreasonably perhaps, expected of it. So we changed the watch and most of us felt that by so doing we had escaped shipwreck. All sails could be set again, the clouds would vanish and fair winds would bring us to our desired haven. We displayed a childish faith in the mere fact of change. To alter the metaphor, we were like the hypochondriac who tries one nostrum after another with a never-failing assurance that each new venture will restore youthful health. Of course, it was absolutely absurd to believe that anything of the kind could happen politically. No human power could have driven away all the effects of panic and shattered trade and perished fortune. The pity of it was that so much stress was laid upon alleged ability to do the impossible. Candidates for all offices carried to the furthest corners of the land the voice of foolish promise, and in every hamlet and farm the spirit of hope was inhaled. The country went to the polls and voted overwhelmingly for a change, and good, honest, devoted men were elected to high office throughout the land. It was not their fault that the people hoped too much. It was their fault, of course,

that they promised more than they could ever perform, but that has been the fault of every candidate for office since the time when the first choice of a leader was entrusted to a tribe. The name of the candidate who promised too little has never been discovered in the archives of history.

**A Nation Ready
to Respond**

There was an altogether inspiring unanimity in the way in which the people of the country welcomed the new administration. Everyone of every party seemed to be imbued with a feeling of absolute friendliness. We all, without important exception, stood ready to back the government in its efforts to lead us up out of despondency. Probably at no other time when the country has been at peace has there been anything like such whole-hearted support of an administration by the people of the nation. We had elected to congress and to administrative office the men who, we felt, were best qualified to lead. We were content to fall in line behind them if there was work for us to do, and, if not, we would sit by the line of march and cheer the army on its way. We would not attempt by adverse criticism for one moment to hamper progress. Sometimes we noticed in the procession subordinate officers of whose innate ability we had grave doubts; but they were marching under orders and we felt that it was our patriotic duty as well as true wisdom to give them all the help we had to offer. And so the army marched; and for eight months or so we watched or participated with an almost amazing sympathy and patience. We could not understand why the route was so often changed, why the orders which we heard were given, but we let it pass and did our best and trusted manfully that victory was somewhere ahead and that ultimately the army would be headed in the right direction.

Time to Ask, Why?

There comes a time, however, when patience and blind faith are no longer the only virtues. After all, it is our country which is in jeopardy. It is our money, they are our homes and businesses and professions which are at stake, and we can not too long be content to remain inarticulate. Therefore, a murmur of protest is being heard here and there along the line of march and the sound is increasing. There will be louder and ever louder voices raised; and questions, which a few months ago would not have been uttered,

will be asked, and demands will be made that must be heeded. We are coming into the debatable ground, and wholly irrespective of what party or what persons are in control we shall insist as a nation that something must be done to give us at least an assurance of where we are going. We can not forever wander looking for a light which may not exist. And accountants, those hard headed men of fact, are probably as well fitted to be the proponents of question as any one in all the land. They are not apt to be led astray by every wind of doctrine, true or false. They are analytical and like to think through to a logical and fair conclusion. Most men who are entrusted with the analysis of fact are being disconcerted by the transformations which are taking place. No one of us expects that we shall have what has been called a new deal all around. No great revolution was ever accomplished in a day or a year or even in a lustrum. The scheme of our civilization has been built up through many centuries, and it can not be overthrown in an instant. Many of our institutions may be ill founded and essentially wrong, but they can not be set aside and all the evil wiped away in a little while. That has been one of the facts too often overlooked. We have harbored unjust hopes that miracles would save us. But there can be no complete readjustment of social relations without the lapse of time. We may devise beautiful plans for the amelioration of mankind, but close before us stands the fact of what is. Our system of the distribution of wealth may be altogether awry, but we can not set it straight by a wave of a hand. And we should be much wiser if we would cease to expect what in our hearts we know is beyond the power of any man or any group of men, however gifted they may be.

The Time to Help Consequently, if it be true that we have been unreasonably expecting vast accomplishment, it seems that the time has come when we must change our policy of silent watchfulness and begin to take an active, helpful and intelligent part in the enormous task which lies before our government. There are indications that this is being done. Grave questions are being raised, policies are being criticized, sometimes quite too harshly, and there is a serious danger that this new sentiment of restlessness may grow with terrible rapidity and the honest efforts, which are being made with all the ability which the makers can bring to bear, will be

frustrated and there will be no good conclusion. It were much better, therefore, that all of us should set our minds to work to find what we, each one of us, may do to help, not to hinder, except where it seems to us, after calm and dispassionate deliberation, that we are headed in the wrong way. If the people of the country will devote their attention to constructive criticism and will carefully avoid anything which may lead to partisan capriciousness, we shall be able to help the executive and legislative arms of the government and thereby shall hasten the resumption of what we all fondly believe is our normal condition of prosperity.

Vain Theories In such a spirit many men are now saying—and an infinitely greater number is probably thinking—that we should dispense with the influence of theory and get back to an analysis of fact. The attempts of many of our leaders to embark upon wholly experimental adventure have not produced the desired results. Never in the history of man has it been possible to bring in Utopia simply by wishing for it. As an illustration of futile hope it is interesting to look at some of the schemes which have been brought forward. With a great amount of artificial stimulation the plans of the national recovery administration have been praised in an altogether unreasonable way, and we have been told that it was our patriotic duty to accept implicitly and without question the dictates of appointed officers. There was a theory that by shortening hours and raising wages the volume of employment would be increased; but one vital factor of success was overlooked. It does no good to encourage manufacture until there is a demand for the products. It has always been the experience of business that increased wages and the employment of more men followed the demand for goods. We have sought lately to reverse the natural order—and the result we know. Then again we have dallied with the theory that a debased currency with its concomitant increase in numbers of units of currency would spell prosperity. And with this theory there has been an intentional departure from the only standard of value which has ever been effectively administered. We have left the gold standard—and in its place we have no standard at all. Now, it would not be quite so unwise to leave one standard if there were something else to take its place—but today we have nothing. We do not even know what our dollar

means, and we know still less about what the dollar of tomorrow will mean. Inflation is the commonest word on the American tongue today, and yet no one knows exactly what it signifies. We have before us the horrid experience of Germany, which carried inflation to the absolute extreme, and there are some careful thinkers who predict that if this tendency toward inflation be not immediately checked we shall pass through precisely the same sort of agony which convulsed the German people. Business as a whole does not seem to be regaining its health. There was a time in the early summer when a certain amount of animation was aroused and some of the basic industries gave evidence of virility. It was, however, a temporary revival and now in the autumn we have gone down again and depression is darkening the sky. In these circumstances it seems to us that it is high time for a more intelligent and active participation in the government which is the property of all the people. We have tried theory, far too much of it. We have tried silence, far too much of that. We have given every encouragement within our power to our chosen leaders; and it must be confessed that partly as a result of this national spirit of benevolent sympathy there has grown up here and there a tendency to dictatorship, however much that may be denied by those who would dictate. It seems clear that there is only one thing to do now, and that is to leave the position of spectator and to assume the rôle of actor. There is something which each one of us can do to bring in better reasonableness. We have had too much tolerance with class-room theory. It seems now that the time is at hand when we must say to our college professors that we have listened long enough. They have a part to play—and a tremendous part it is in the progress of mankind. No forward step was ever taken which was not first evolved in the mind of a theorist. But that is not to say that theory alone can achieve. What we want now is men of experience, honest men, earnest men, men who have already performed in the arena of affairs. We want such men to be called to Washington and to all our capital cities to give advice on the practical side and to stand ready to take up the duties which may be laid upon them. There are thousands of such men and they are ready, if a chance be given them, to join hands with the administration of our nation and of our states and even of our municipalities in the imperatively needed effort to bring order out of the chaos which theory has done so much to make.

**Friendly Help to
Avert Dismay**

This is not meant to imply—and we should be disheartened if it were so interpreted—that there should be anything resembling carping criticism or disloyalty. On the other hand, we believe that the accounting profession and most of the business men of the country, bankers, lawyers, engineers, all the men who have to do and not merely to think, are still ready to lend a hand and a mind to help the administration, national and in the states. All they want is to be called upon for service. They have the knowledge, far greater than the knowledge of any pure theorist can be, of what has taken place, and they know better than any one else can know how to profit by experience, how to apply what we call common sense to the problems which face us. At this moment the people of America are trembling on what they believe to be the brink of a precipice. We are, as a nation, given to excess. As some one has said, our stock is either at a premium or not worth a tinker's damn. Just now we are filled with fears and forebodings, but all our sentiment can be changed quickly if only we can win back confidence in our people and our institutions. Nothing in the world can prevent the success of America except America itself. We are as nearly self-contained as any great nation can be. We are fabulously wealthy in spite of our appearance of poverty. Our natural resources are the topic of oration by every demagogue as well as every statesman. The rest of the world is slowly but surely struggling up to better times. There is no reason why we should not go forward also, if we can only cast aside forever our own doubts about ourselves. No true American at heart can be anything but stalwart in the faith of the better Americanism. The accountants for whom we endeavor to speak in these pages can do splendid work by lending every power they have to the assistance of the administrators of our government. Accountants will not have any sympathy with vague and ill considered experiment. They, in common with the rest of the country, have been very gentle and well disposed during the past few months, but that condition can not continue. There must be a healthy and friendly effort to prevent the adoption of unwise and probably disastrous plans for radical innovation. When all is said and done, if we will leave our trembling and our foolish fears and look at the matter before us without partisanship or prejudice we shall all come to the conclusion that America is America still; that we have good men

at the head of affairs; that it is our duty to help and not merely to be onlookers; and so out of chaos we shall come into the calm and pleasant realm of national welfare.

It Is Done in Chicago According to the *New York Times* of November 12th, twenty-six business and industrial leaders in Chicago have announced the formation of a permanent organization, a sort of committee on monetary policy. In this group of men are two prominent accountants. The newspaper report quotes the following expression of the group:

“We are convinced that monetary policy can not be wisely determined save on the basis of experience and the judgment of economists qualified in the monetary field. Untried currency schemes must be abandoned if confidence in the dollar is to be restored. Only upon that confidence can business and all production go forward with a higher price level and greater purchasing power.

“To promote clear discussion of the issues raised in the determination of monetary policy and to provide a rallying point for those who, like the undersigned, endorse the views of economists, these views are presented in the form of a statement of policy:

“1. Recovery can be achieved only through an increased volume of business, which increases wages and the whole national income.

“2. The fundamental condition for an increased volume of business is confidence in the dollar and in the national credit and a reasonable expectation of profit for individual enterprise in industry, in trade and in agriculture.

“3. Confidence in the dollar and in the national credit demand that currency experimentation be abandoned, and that depreciation of the currency be stopped before it gets out of hand.

“4. A higher price level is desirable only if accompanied by increased income—for farmers, wage earners and business men, big and little—and this can not be achieved by manipulation of our currency.

“5. Further depreciation of the dollar by government action is the road to printing-press money, which means the further disorganization of agriculture and industrial production and the ultimate impoverishment of the nation—of its wage earners, its farmers and of every individual citizen, debtor and creditor alike.

“6. An announced determination to return to a fixed gold standard, giving effect to current needs and experience, is indispensable to elimination of uncertainty and to the restoration of confidence in the dollar!”

This is the kind of action which we have been attempting to describe. It is an example of bringing to a question of paramount importance the opinion of men who ought to know the subject of which they are talking. It is not in any sense a partisan or political criticism, but rather a sound, deliberate opinion and a warning. The danger of inflation is recognized and these men are saying that unless the danger is met and diverted without delay we shall be hurrying down the road which will be very difficult to retrace. Similar expressions of opinion have been uttered by the New York chamber of commerce and by the United States chamber of commerce. Indeed, there appears to be no difference of opinion among business men.

Amendment of Legislation Is Necessary

Another illustration of the desire to prevent the adoption of unwise policies is found in the wide-spread objection to many of the provisions of the federal securities act. The effects of this act in its present form are evident every day. Hardly any one is courageous enough to be even remotely associated with the flotation of securities when the act holds over the head of everyone penalties which are staggering. There are some things about the securities act which are altogether commendable, but it was written with too much attention to impractical idealism. It is all well enough to place the blame where blame belongs, but that is not equivalent to making people responsible for things which are entirely without the range of their control. There should be, of course, the utmost liability on the part of every responsible person if wrong-doing occurs, but perils which attach to directors, bankers, lawyers, accountants and all others who have to do with the issuance of securities are absolutely prohibitive. The securities act can be so rewritten that it can be helpful. As it is at present it has brought to a standstill financial operations which are prerequisite to the resumption of activity. Business can not go forward without the aid of finance, but no one in his sane senses is going to assume the fantastic responsibilities which the present act seeks to lay upon him. This is one of the most outstanding examples of the fallacy of enacting or attempting to administer laws with attention only to theoretical fancy. There can be righteousness in practice without the interference of absurd and excessively extended liability. It seems that the administration in Washing-

ton is cognizant of the present restiveness or of the destructiveness of the securities act, and reform may be expected in the next session of congress, but the incident exemplifies as well as anything can the need for the assistance of practical men to modify and to make practicable the ambitions of pious theory.

Bids Not Productive A member of the American Institute of Accountants sends an interesting report upon an experience in his part of the country and suggests that it be commended to the consideration of accountants generally. It appears that a corporation, which conducted a nation-wide business and was also concerned with export of its product to Europe, had submitted its books of account and records to one firm of accountants for seventeen consecutive years. This year the board of directors felt that it might be possible to save money by calling for bids for the audit, and accordingly a letter was sent to four large national accounting firms and four firms whose practice was chiefly within the state. The result of the eight letters was as follows: One national and one state firm did not reply. One national firm answered that it did not submit flat-price bids for professional engagements. Two national and three state firms quoted regular per-diem rates. There were, therefore, no flat-price bids and the engagement was given to the firm which had done the work in prior years. This is an excellent example of the improvement which is taking place in the general practice of accountancy. All the accountants concerned were members of the American Institute of Accountants and all of them evidently felt that flat-price bidding was abhorrent to the sense of professional decency. If the same principle were universally applied throughout the country it would not be long before the folly of calling for bids for professional work would end.

Bank Confirmations During the past year a special committee of the American Institute of Accountants has been giving consideration to the forms of bank confirmations sent out by auditors, and at the last meeting of the Institute a report of this committee was presented and accepted. The committee had sent letters to representative firms of accountants asking for specimen copies of the forms which were in use. Twenty-one replies were received and the forms sent to the committee varied widely. The committee reviewed

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all these forms and discussed the problem of verification with bankers. Following the research conducted by the committee a standard form was prepared and was made part of the committee's report submitted to the Institute. The proposed form takes advantage of the most desirable features of all the forms submitted and embodies certain other improvements which the committee felt were desirable. After the meeting of the Institute the executive committee resolved that copies of the accepted form should be printed and distributed to all members of the Institute, so that members who desired might purchase the forms from the Institute's publishing company at a price which would probably be less than the cost involved in purchasing from various printers. The new form is designed so that the name of the firm can be printed both on the original and the duplicate. The form is under copyright of the American Institute Publishing Co., Inc., and may be obtained from that company only.