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The Riddle of the World*

By P. H. W. Ross

According to Pope, man is the riddle of the world. In the *Essay on Man* occur these fine lines:

“Sole judge of truth, in endless error hurled,
The glory, jest and riddle of the world.”

As an introspective reflection this is doubtless true. It is also true of groups of men in the aggregate, of nations, as it is of individuals.

For instance, there is no right-thinking American who does not passionately desire that his country shall be the glory of the world; not one who would not shrink from the imputation or risk of America's becoming the world's jest. And yet we shall be just that, the world's joke, its jest, unless we put ourselves most seriously to the task of solving as best we can the riddle of the world.

The greatest riddle in this world is how to keep millions of its inhabitants standing on their heads all the time.

The gregarious tendencies of mankind are ineradicable. Men and women insist on getting together, in pairs, in groups, in tribes, in nations, in swarms, until the inevitable stage arrives when, as in England, for example, 45,000,000 are trying to live on an earth-base which is only large enough to support about 5,000,000 in a natural way.

I say natural advisedly, as distinguished from artificial. Only those countries whose area is sufficiently large and whose soil is sufficiently rich to produce enough food, clothing and shelter for their own people, without fictitious aid from other countries, are supporting their population in a natural way.

The rough test is that no blockade could starve out the inhabitants of such a land, provided their interior system of transportation were equal to the task of distributing food from farm to city.

The people of the western hemisphere in general, of Russia (as a whole), of Australasia and of China, are they who stand

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upon their feet. Nearly all the rest of humanity is basically out of balance, and in many European countries they are actually standing on their heads, catching at all sorts of guys and braces in the vain endeavor to support ten persons where, from a purely natural point of view, there should be only one.

It does not follow that this is altogether wrong—quite the contrary. Life would be horribly dull if we did nothing but just stand on our feet and rejoice that we were naturally poised.

Here is the great world all around us, in all sorts of postures and contortions, and the thing for Americans to know is, first, what the general proposition is and then manfully and intelligently to tackle our share of the adjustments and re-adjustments which will continue to the end of time.

Let us not deceive ourselves on this score. Nothing “stays put” in this universe, not even the universe itself. Always there will be over-crowding, somewhere, because fluctuating humanity insists on still further crowding already congested humanity. Crowds go where crowds are.

Therefore adjustments and re-adjustments or, in other words, movements of food, clothing, ornaments and building material from place to place will always continue. These movements are the bases of foreign trade or international commerce and constitute the riddle which Americans must help to solve.

Until 1914 our position in the great world of commercial affairs was that of a young man who had not yet entered upon his estate—one who was still a minor—who had not attained his majority—who was still obeying orders from older and wiser men than himself. The reason was this: we did not participate in solving the riddle of the world. We were of use—yes, indeed—but we did not help to direct the machine of international commerce, first, because we did not know how and, second, because we were a debtor nation. Nobody outside of America owed us anything. On the contrary, we owed everybody who would lend us a dollar. And since it is nearly always he who puts up the money who is the master and who gives the orders, it is easy to see that our chief role was that of an obedient servant.

It is much easier, much simpler and requires much less knowledge to be a servant and do what you are told than to be a master and wisely direct the operations of others.

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So, when the war came, with its complete overturn of pre-existing relations between the United States and Europe, it brought with it not only America's startling metamorphosis, whereby with one wave of Fortune's wand we were turned from a debtor to a creditor nation, but also the stern necessities that accompany a grown man's entrance into the maelstrom of life.

No longer could we cavort around among the nations of the world like a lusty lad, care-free and gay. No longer could we disregard conditions in other lands. On the contrary, we now have to "watch out" in very marked degree, if we don't want the goblins of ruin and disaster to "get us."

This change in the complexion of our affairs is well illustrated by an experience of my own.

In 1911 I was in Scotland and was introduced to the chairman of a certain bank. I told him that I had come from the Pacific coast, where for many years I had been engaged in the business of a country banker. He then asked me no end of questions about the street grades in one city, the sewer system of another, the conditions in such and such a school district, as to whether the county of X had exceeded its legal limit of indebtedness, and, in fact, he betrayed an intimate knowledge of local conditions in the states of Oregon and Washington that astonished me.

I asked him if he had ever been there.

He said, "No."

I then remarked that he seemed to know more about the region than I did myself, and I had lived there for over twenty years.

"Well," said he, with a funny little Scots grin, "maybe ye ha'ent lent 'em a million poon'."

"No, indeed," said I.

"Well, we ha'e," said he, "*an' we're watching oor siller.*"

So there you are! There's the difference! When you've got your eggs in a certain basket, you have to watch that basket.

Prior to 1914 we had no eggs in European baskets. On the contrary, as I have said, we were always ready to borrow and to use the last dollar of outside money that Europeans or any other nationals might choose to lend us.

In those days little did we have to concern ourselves about the street grades of Budapest or the sewer system of Paris or the school districts in Hungary or the fertility of farm lands in northern France.

But now all is changed, and just as my friend the Scots banker had to know all about municipal and public service securities in Oregon and Washington, all about our farms out there, about water rights, alkali lands, alfalfa raising and apple growing, so to exactly the same degree must we in America intimately acquaint ourselves with local conditions in European regions where our money is invested. There is no escape from this necessity if we are to save our customers for ourselves, let alone saving them for themselves.

Hear another agricultural simile, coarse, apparently inhuman, but absolutely true. When a man or a set of men is in debt to another man or group of men, the debtors are as so many cows to the creditors. The creditor, like the farmer, milks his cows, to be sure, but then, on the other hand, he feeds them more liberally than he does himself, and almost invariably shelter conditions for the cow are relatively more luxurious than for the man.

Times without number have I seen better barns than dwelling houses on farms, and almost always the beast of the field enjoys, relatively, greater luxury than the human being who supposedly owns her, but in reality is her valet, body servant, cook and masseur.

Of course no analogies are perfect, but the foregoing homely illustration is near enough for our purpose. Besides, there is no shame, no humiliation, in being the cow in this case. We Americans have been possibly "the goat," but at least the cow, for generations. I bought a run-down farm in 1890. A Scottish investment company had a mortgage on it which I foolishly assumed. The mortgage fell due. I couldn't pay, nor did the land pay, either. I begged the mortgagees to take the land and call it quits. Would they do it? Not they. The last thing they wanted to be bothered with was the land. All they wanted was their milk—in other words, their annual interest. So they farmed me and fed me with extension hay and oats and nursed me along for twelve long years that I thought would never end, until I finally paid off both principal and interest. I afterwards sold the land for about three times as much as I paid for it, so I didn't mind being the cow, after all.

Moreover, don't forget that the farmer is the servant of the cow. The cow doesn't wait on the farmer.

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Thus we see, in our relations with Europe, that a complete volte-face has been accomplished and we have to do no end of things that we have never done before.

After the Napoleonic wars the nations of Europe owed England enormous sums of money, just as they now owe America.

There was only one way by which it was possible for European nations to pay those debts to England, and that was by the export of manufactured goods or raw material—largely foodstuffs.

It is the same story today. The only way by which Europeans can pay us is by sending us manufactured goods or raw material.

But there is a vast difference between creditor England of 1819 and creditor America of 1919. It is this: England cannot produce any large amount of food or raw material. She could not then; she cannot now. Therefore England in 1819 could take payment from her debtors in foodstuffs and raw materials to practically an unlimited extent.

But we, here in America, do raise an enormous amount of foodstuffs and our production of raw materials is also prodigious.

Therefore we in 1919 cannot take the same kind of pay from the indebted Europe of today that England was able to take a hundred years ago and use it up ourselves.

There is the point—use it up ourselves.

England could and did. We cannot, to the same extent, and therefore we must pass it on to other parts of the world by an intensive system of foreign trade.

Always we must remember the only kind of pay we can possibly get from Europe is something that is created by European industry. It is either that or nothing, and if you are obliged to take something with which you are already supplied, you are forced to hustle around and exchange it with some one else for something with which you are not overstocked, such as raw rubber, for instance, or sugar or coffee or hard woods or wool or hides, or anything that you can use for food, shelter, ornament, amusement or manufacture.

It is therefore not a question of whether we should like to enter into foreign trade. We must, whether we like it or not.

Hence all this talk of reverting to the policies of our fathers, of avoiding entangling alliances, of not entering into some kind of international league is sheer nonsense. The man who talks

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about our standing aloof from the world's tribulations is not only callous and selfish but a downright fool.

Regarded from the basest point of view, who is there so crass as not to try to save the man who owes him ten thousand dollars? Even if one were indifferent as to the sufferer, nevertheless there would be a ten thousand dollar glow in his own flinty heart for the money he might get if the sufferer survived.

Therefore prepare yourselves for an intimate relationship with over-seas affairs, because it has got to come.

And now, very naturally, it may be asked, "How are these changes going to affect the labors of a certified public accountant?" It would seem to me that there are few professions more vitally affected by the enlargement of our country's business horizon than is that of the certified public accountant.

It is he who has to account for the relations of things. He it is who has to set up the scheme of things in the matter of valuations and offsets. It is the accountant who enables the manufacturer or distributor to see "where he is at" in his affairs, so far as his books, contracts, leases and commitments testify.

There are thousands of firms and corporations in America which are now doing something they never did before 1914. Moreover, until the last few months they have been doing it under utterly abnormal conditions, which are rapidly changing and which may never occur again. These are the houses in the export trade. It is inevitable that some of them will fail and that others will be enlarged and re-organized. In either event the certified public accountant is called in to make an exhibit upon which a receiver's dividend may be predicated or a new issue of additional stock justified.

How is he going to do it? If it were a case of a manufacturer of automobiles or of textiles or of steel, it would be comparatively simple, because most of the factors in the equation are to be found within our own borders. But suppose an accountant were faced with the job of determining, from his books and contracts, how a man stood whose assets were largely contracts for future deliveries of, say:

- 1,000 tons of copra to be gathered up from sundry Polynesian islands;
- 40,000 sacks of coffee to be imported from Central and South America;

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1,000,000 feet of hard wood from Australia ;
5,000 tons of potash from Germany ;
10,000 horse hides from Russia.

In such a case, I venture to submit, the certified public accountant would have to be informed on matters of shipping, of freights, and particularly of exchange, to a degree that most American accountants have not yet attained. And yet this must be done, because the great change in our country's economic development is exactly what I have stated.

Heretofore our country's genius has been that of a producer or creator: we grew things on farms, we dug things out of the ground, we changed the form of things in our factories. Our people understood that range of activities and accordingly voted for such legislation as would and did help the farmer and manufacturer.

Never, until 1914, did our population pay more than the most perfunctory attention to the business of distributing things abroad—very little as to the distribution of our own products, no attention at all to the foreign distribution of the products of other lands. I doubt if it has ever entered the head of any statesman or politician in the entire history of our country that the day might come when the United States, to save itself from the loss of not millions but billions of dollars, must concern itself intimately in the business of taking things from Europe and selling them in Asia, without ever an American finger laid upon them, save in the course of their distribution.

A man in Kansas, even now, would find it hard to figure out why he should be asked to support legislation that would help us in the buying of things in Germany and selling them in Peru. He would say: "Where does America come in? Let us sell American-made things in Peru." On the face of it his logic is unanswerable, until you explain the question to him in the way that I have tried to explain it to you.

What would the average American broker think if a brisk young man were to step into his office and quote Lyons silk at so many francs a meter f.o.b. Marseille, or, worse still, at some inland point in France; or if another offered anything at fourteen shillings and threepence farthing per dozen f.o.b. Melbourne?

Nevertheless that is just the sort of puzzle that Americans

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have been constantly putting up to the rest of the world—automobiles \$1,200.00 f.o.b. Detroit, sewing machines \$20.00 f.o.b. New York, leaving it to the buyer in Brazil or Cape Town to find out what freight and insurance and duties would be and how much in his money the things would cost.

In England accountants have to study all manner of subjects connected with foreign trade—insurance, freight and shipping. In 1881 I was in London and was about to enter that particular profession myself and I remember quite well that in addition to Pollack's *Law of Partnerships*, Walker on the *Law of Executors*, Hurrell and Hyde on *Joint Stock Companies*, I had to study Manley Hopkin's *Average and Arbitration*, because in a great transshipment seaport like London an accountant couldn't get up an approximately correct exhibit of his client's affairs unless he (the accountant) were familiar with the peculiar hazards to which his client's foreign ventures were subject.

There is an amusing story of an old New Englander which illustrates the uncertain value of a foreign trader's assets.

This particular person was always regarded as the fool of the family, the sort of fellow to whom you could sell anything, and so some "smart Alec" of that period unloaded twenty dozen copper warming-pans on Hiram Jones, as we'll call him.

This was at the period when warming pans were obsolete and had no value at all. He couldn't sell them to anyone at any price, and so he decided he'd have to send them out of the country.

Most people would have thought that Iceland or Finland or Norway would be about the proper market for warming-pans—but not Hiram.

He sent them to the west coast of Africa, of all places, where it is blazing hot all the time. Everyone thought he had gone crazy.

They changed their minds six months later when about \$5,000.00 worth of ivory and palm oil came back to Hiram in payment. The natives had taken them for some sort of a fetish and carried them before their priests and kings on occasions of great ceremony and state. They fetched about \$20.00 each in trade.

Had Hiram's affairs been examined by some one who had to set up the value of his business, and this item—"20 doz. warming pans en route to the Gold Coast"—appeared he would probably

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have failed to see an asset of \$4,800.00 lurking beneath this apparently idiotic venture.

Yet there it was!

Of course no such extreme or ludicrous instance is likely to occur in ordinary business, but, nevertheless, the fact remains that some knowledge of freights, of general conditions and especially of exchange must be possessed by any man who takes upon himself the responsibility of presenting an audit and accounting of a foreign trader's affairs.

I believe that you would greatly improve the already high value of your services to the public if your society were to send a committee of two or three of your members to London, Christiania and Hamburg and see if there are not a few ideas to be picked up in those free ports that would be of use to the certified public accountants of the state of New York.

May I repeat here an illustration I used in addressing a large meeting in Ohio last week? It is peculiarly apropos to the subject we are now considering and shows how the price of gold and consequently of all commodities is affected by the fluctuations in foreign exchange.

During the war the British mint set a fixed price of $77\frac{3}{4}$ shillings for an ounce of pure gold, and all gold coming from South African mines into England had to be sold to the bank of England at that price. When the war ceased the British government removed that requirement and gold coming into London from South Africa no longer had to be sold to the bank of England, but could be sold in open market to the highest bidder.

Consequently, when on September 13th, 1,750,000 pounds, sterling, in gold was received in London from South Africa, American bankers bought it and paid at the rate of $90\frac{1}{3}$ shillings per ounce, while the bank of England was bidding its old price of $77\frac{3}{4}$ shillings per ounce.

"Why, on earth," one might say, "are those crazy Americans paying such an extravagant price for gold?"

It was the rate of exchange between New York and London that did it. It did not take so many American dollars in September, 1919, to buy 90 British shillings as it took to buy 77 British shillings in September, 1914.

My purpose in recounting this interesting incident is to show

how extraordinary are the ramifications of a country's foreign trade. It is not only a question of providing outlets for the sale of our products to European countries, but of providing means whereby the people of those countries can afford to buy American goods when they have to pay from \$1.15 to \$1.25 in their money to offset an American one-dollar bill.

Today it costs a Canadian \$103.00 to pay \$100.00 in American money, an Englishman from \$115.00 to \$125.00, a Frenchman \$140.00 and a German \$180.00 in his money to buy a hundred dollars' worth of our goods.

See, therefore, what a snap a Frenchman would have! He could buy from Germany at 40% discount and sell to America at 40% premium without a quiver in his apparent prices—80% gain, all in the exchanges!

Not much hope of Americans beating that sort of a handicap!

Such conditions only emphasize the necessity of our having at all times within our own control a large and efficient merchant marine whereby the products of the world may be swiftly moved and exchanged from place to place, because the smooth exchange of goods is the main factor in bringing the exchange of money to a normal basis.

This brings us to another stage of our development as a commercial state in the family of nations.

Since, in order to protect the making and growing of things in America, we cannot become altogether a free trade country and entirely dispense with a reasonably protective tariff, it follows that in order to protect the distribution of American-grown produce and American-made products, as well as the distribution and transshipment of foreign-made products and foreign-grown produce which Americans are forced to take in payment of foreign indebtedness to them, free ports must be established on the American mainland and at strategic positions in her island and other over-sea possessions.

St. Thomas, in the former Danish West Indies, was once one of the best free ports in the world. It should be again constituted a free port.

There should be a free port at each end of the Panama canal, or, better still, the entire zone should be so declared. There should be one at Hawaii, another in the Philippines, which would be our

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own American Hong Kong. There should be at least one on the Atlantic coast, one on the Mexican gulf and another in Puget sound, Washington.

With these facilities for handling a transshipment trade we shall be in a better position—in fact, in the only position—properly to handle the maze of foreign-made goods that will come to us in payment of indebtedness from abroad, without seriously dislocating the general trend of our domestic business.

I should think that any member of the “home market club” who is fearful of the possibility that a free trade policy may result in the dumping of cheap European stuff on our home market would work for a free port policy that would get rid of the threatened deluge by dumping the competitive articles into a free port, thence to be absorbed by the world at large.

Another point never to be forgotten is this: a transshipment business is absolutely necessary to us to keep our merchant marine going.

The transportation of American-made exports and the import of things used in America are not enough to keep a merchant marine going. There must be, in addition to this, the transportation of goods shipped from Europe to be consumed in countries other than our own. In other words, to a considerable extent our ships must be the carriers of the goods of other countries as well as of our own goods.

All this can only be effected by friendly legislation, and you as individuals are the power that, in the final analysis, directs that legislation.

People in America vote as individuals, not as members of a group or class. That is why in times past no one has been able to deliver the church vote or the business vote or the labor vote.

Therefore it is quite necessary that your sympathies, your help and finally your vote must be secured by appeals to you, not as certified public accountants, but as individual citizens and voters of this great republic.