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“Will We Ever Learn?”*

BY HENRY H. HEIMANN

The only consistent thing I have been able to find in reading the economic pages of history is that the present generation is usually dissatisfied with conditions that are. After all, a reasonable measure of stimulating dissatisfaction spells the progress of civilization.

Men can err and Divine Providence gives us repeated opportunities to correct our errors. In the animal kingdom the penalty for error is usually death.

In any economic discussion, I like to break up the subject into three segments, namely, labor, agriculture and industry.

I am sure that labor is going to share more generously in the rewards of industry in the future if it exercises a reasonable degree of patience. I feel certain hours of labor will be shortened if the program is not interrupted by uneconomic and foolhardy legislation on the part of labor leaders. In time, the nation as a whole will be working towards a plan whereby labor will be employed and paid upon an annual basis, where the man who works his muscles will be just as much entitled to a vacation with pay as the man whose task is mental. The labor organization of the future will, in turn, have to assume a reasonable measure of responsibility for its contracts.

I think agricultural income this year, despite the fact that we have had drought in several sections, should increase over last year.

I do believe that the farm program as we have it in this nation is not the type of program that you and I want to see continued. I recall some years ago when I had occasion to meet a cotton farmer. I met him in a day coach as I was traveling about the country. He said to me, after I had introduced myself, “Mr. Heimann, it is a funny thing. I just got a check from Uncle Sam. I got a check for about \$500 for plowing under some cotton. It is kind of funny about that check. Uncle Sam doesn't produce anything. He is just a kind of collector, just going around collecting. Mr. Heimann, I asked my wife what I had better do with that check. She said, ‘I don't know, Sam, what you are going to do with it. It is kind of funny you getting it this way.’”

* An address before the American Institute of Accountants at Dallas, Texas, October 20, 1936.

"I slept over it all night and next morning I decided I would take that check and would put it in the bank, because, Mr. Heilmann, you know, Uncle Sam, he don't produce anything. He just kind of goes around and collects. Inasmuch as he has given me this check, I had better put it in the bank and let it draw interest, because I know that some time, somehow, he is going to come around and want it back with interest."

I expect industry to show considerable improvement irrespective of politics. It is certainly gratifying to see the leadership that has come to some of the industries that were dormant for so long. Let's examine the railroad industry. Here we found a situation where we had inbred management. For years the railroads always chose their official family from the ranks. They were men who had been reared in the railroad industry. The industry had no infiltration of new blood. It is only in the past years we have had that. Now with some new blood infused into it, a leadership is developing that I think will bring the railroad industry into its own.

I look for considerable improvement in the housing industry next year. We probably will reach a boom period in housing in 1938. The house of the future will be largely constructed within a warehouse or factory, the reason being the labor policies pursued by the building-trades unions. You and I need only go back to the time when the bituminous coal industry was of even greater importance than it is today, and we were faced with labor uncertainties in that industry. These uncertainties caused people to turn to substitutes for coal. Today the same thing is true in the building trades, where certain demands on the part of labor will cause fabrication within warehouses and factories. I firmly believe you will be able to construct a home within the next five or six years that in cost will be perhaps twenty per cent. lower than a home may have cost two or three years ago, because most of it will be prefabricated in the warehouse. I think we are in for some scientific developments in the building industry. Several weeks ago I viewed some wallpaper that was made of glass. I inspected cloth make of glass. I saw marble that was no thicker in size than a magazine cover.

I look for continued improvement in the heavy-goods industry which is just now beginning to perk up. It has been said by some of the most conservative of financial leaders that we have a potential business of approximately twenty billion dollars in the

heavy-goods industries. When the heavy-goods program gets into action I think you will find that it will be reflected in all lines throughout the country.

And yet the recovery that we have had in the past two years is not without its unfavorable factors. Let's analyze them. When business tries to trace the source of its orders it will learn that directly or indirectly a large proportion of the orders are due to government expenditures. Whether you and I think that is wise or unwise is beside the point. The fact is that a tremendous amount of our present business is due to these expenditures, and you and I know that they can't continue indefinitely. Second, there is a reasonable measure of expenditures at the present time that is due to certain fears of war and anticipation of war, not so far as this nation goes, but rather the fear that prices will rise because of the conditions abroad; and, therefore, some resort to inventory buying. There is an unwise movement, a very unwise and foolhardy credit policy—I refer to the matter of unreasonably lengthening instalment terms and selling credit rather than merchandise.

We in our business know that instalment selling is helpful if maintained on a sound basis, but we likewise know that it is very dangerous when you begin to sell luxury goods on the basis of three and three and one-half years of time.

Some of the buying that we have had is due to anticipation of labor difficulties, and I believe that there are some labor difficulties in the offing, but despite all that, I think that the real reason for the business recovery that is current, and will continue for two or more years, is the old traditional one that we find throughout economic history, namely, that during the depression periods you simply do not restock your inventories, you wear out personal goods, machinery becomes obsolescent, and once again, when confidence returns, the people start buying and business gets under way.

There are some problems surrounding business, it seems to me, that business must start thinking about seriously. First of all, consider the problem that is going to confront those who are in the middlemen business, the wholesalers and jobbers in this nation. I refer to the consumer coöperative movement. Years ago in Rochdale, England, twenty-eight workers, in endeavoring to get a raise in wages, decided that they would go on a strike. The raise in wages they requested was given them, but when they went

to trade with the company store they discovered that their entire raise had been taken away by the rising cost of the goods they had to purchase. That night they met in a basement and decided that they would form their own store. These twenty-seven men and one woman saved their pennies for a year, and at the end of the year they had \$124 original capital. From that movement has grown the consumer coöperative movement which abroad today is one of the big factors in business. In England today one of the largest establishments in the entire empire is a consumer coöperative. They have developed it to such an extent that they grow their wheat on consumer coöperative farms, ship it in consumer coöperative ships, mill it in consumer coöperative owned mills, wholesale it through consumer coöperative owned wholesalers, and retail it in consumer coöperative stores. And in our own state of North Dakota at the present time the consumer coöperatives are doing more business in the oil field than the old-line companies.

Furthermore, the consumer coöperatives being organized today throughout the world are being organized on a sounder basis than were the old Equities and Granges of the past. Briefly, five principles govern the modern consumer coöperative. First, each and every member shall own at least one share of stock, usually sold at some nominal price, perhaps \$1, \$5 or \$10. The stock shall pay no more than a nominal return upon the investment. Furthermore, there is no voting privilege accompanying the stock. The voting privilege is individual and personal to the man himself. I may own a thousand shares of stock and yet I would have but one vote, just as though I had but one share. That is to say, if I had a share of stock, before I could cast a vote I would have to be there in person because they do not recognize proxies in consumer coöperative voting.

Secondly, many have a rule that the maximum salary that can be paid to anyone working for the coöperative shall not be more than five times that of the minimum salary. That almost automatically puts a ceiling of about \$5,000 upon salaries.

Next there follows the policy of selling their products at prevailing prices. They do not attempt immediately to pass on savings to the consumer.

Fourth, such dividends as the consumer gets are based upon the amount of purchases he makes. Suppose I patronize a consumer coöperative grocery and buy \$100 worth of merchandise in a year.

I could get a dividend return based upon that amount of purchases. Generally, I would only get half of the earnings. The other half is held for educational purposes, with which the consumer coöperative society gets a hall and spreads the gospel of consumer coöperatives.

Some weeks ago in this country the first consumer coöperative school for the training of managers was established in Kansas City.

In Scandinavian countries the consumer coöperatives have grown to such an extent that they account for 30 per cent. of the business. Over half the families of England are members of consumer coöperatives.

I do not quarrel with consumer coöperatives, but we should take exception to having the government of the United States subsidize consumer coöperatives. If our government does subsidize them, it is, in effect, taking the middleman's taxation money and using it for the purpose of creating competition against the very man who has been taxed.

Aside from the consumer coöperative, we have the matter of the Robinson-Patman bill that stands as one of the uncertainties of business. At the same time I would say to accountants it seems to offer opportunities for a widening of the scope of their work.

I know that in the course of the next ten years we are going to have a new type of sales engineering which I believe will be based on a better accounting analysis. I heard of one concern having this past year reduced its customer accounts from 30,000 to 14,000. By segregating its business within a restricted area, after an accounting analysis of all its customers and the cost of sales and service to those customers, this reduction in accounts was effected. The volume dropped but 7 per cent. but profits actually increased 15 or 18 per cent.

I sometimes feel that accountants do not go far enough in the scope of their work. It seems to me that you might as well assume that any business practice that has been going on for twenty years should be the subject of inquiry. Why not approach all business practice of twenty years' experience with suspicious minds and ask yourselves, "Is there any way in which this thing can be altered, or improved, or is there any way that it can be brought up more nearly abreast of the times?"

It seems to me that the Robinson-Patman bill will inaugurate for you, if you are alive and on the job, a responsible measure of work that in turn will be of real and distinct service to business.

Those are some things that, it seems to me, business must face in the future.

One of the most important things we have on the business horizon is the matter of a balanced budget. I am one of those very foolish optimists who believes that we will reach a balanced budget two to three years hence. I say that, and yet when I say it I fear we will reach it the hard way, namely, through taxation. I believe the income of the government two years hence will be slightly in excess of seven billions, because of the natural business recovery and the tax laws that are on our books. And that income, it seems to me, will enable us to balance the budget. I, for my part, as a credit executive, will not be satisfied with a balanced budget two years hence for the simple reason that I recognize, as you do, that if you have a balanced budget without a sizeable surplus when conditions are prosperous what are you going to do when the inevitable rainy day comes along? You must provide a surplus in prosperous times if you are going to meet the issue when privation and suffering is again the order of the day. And from the speed at which we are going at the present time, unless we check our pace, it seems to me that we may be heading once again, perhaps not next year or the year following, but in four or five years, into the situation from which we are just emerging.

One question most frequently asked me as I travel about the country is, “How large a debt can the government of the United States stand?”

Before a man can intelligently answer that question he must have this information: He must know to what purpose the money is to be put. He must know, above all things, who is going to administer the money. He must know what the competition is, because of taxation. Taxation, in the last analysis, is an item in the cost of goods, particularly if you are doing an export business. He must know all these things. Yes, he must know all this and more before he can appraise what debt the government of the United States can stand.

I say that it isn't so important to know how large a debt the government of the United States has now as it is to know where the peak of it is going to be, for if we know where the peak is going to be we could lay our plans, and meet the bill.

I think it is well for us to consider the fact that in this modern age, with its complexities, we need perfect synchronization. I

frequently like to look on it as though it were a timepiece. I like to compare it with the development of a timepiece. In the old days, you know, the first timepiece was a juttred rock that cast a shadow. Later it took the form of a sun-dial. Next, slaves would pierce a coconut shell and fill it with water. The water would drip through, drop by drop, and when the shell was empty a slave would sound a gong to denote the passage of time. Later they had grass knotted ropes. These were ignited, and as the fire smoldered along from knot to knot, again there was a signal denoting time. Finally we got to the marked candle which, as it burned, would show the passage of time. Then we got the wicks and the pendulum and finally we have the modern timepiece where every piece used is so synchronized that if it misses a single beat we say it is not a practical watch.

So it is with life today. We must synchronize perfectly so as to prevent maladjustments. We can't concentrate our forces upon production without giving equal attention to the force of distribution. That is true throughout the entire economic situation that we have in this country today.

I am not a bit alarmed over what the future may be for business. I feel that in the course of the next two years we are going to have a continuation of improvement. My word would rather be a word of caution. If I said anything to you I would say, let us apply a "Stop, Look and Listen" sign.

I believe that it is time for America and the world at large to take its foot off the accelerator and apply the brakes for a time. We are having too much speed, not alone on the highway and on the streets. The toll it takes there is well known to all of us. I mean speed in other matters. Let us look at speed in legislation. Do you mean to tell me that if we had mature deliberation on legislation, if we had not enacted so much of it with the speed that we had used, we would have the type of legislation we have today? Would we have had the tax bill that is now on our books if we had given that our more mature deliberation?

As I stood at the door of the home of Thomas Jefferson some three months ago in Virginia, I couldn't help thinking of the fact that when he journeyed to Congress he needed a few days in which to make the trip. Time permitted him to think of the proposals that might be considered in Congress and such unrushed thinking allowed him to reach sane conclusions. Now a Congressman can take a plane from the midwest in the morning, get to Washington

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around noon, and shortly afterwards vote favorably upon a bill, the consequence of which neither he nor most of the people in Congress fully understand. It seems to me that we must check our speed in the matter of legislation.

We have in the stock market another element of speed. I am one of those who believes this present stock market has outrun present earnings. I don't say future earnings. I have an old, homely yardstick that I apply to the stock market. I do not believe that if an industry has certain earnings this year, and those earnings are the peak for the industry, they can continue to go making new peak earnings for ten years, any more than I believe if a man can run a mile in four minutes he can run ten miles in forty minutes. I further know there is some definite relationship between the amount invested in business and the return it should make. When I see an industry's outstanding shares equalling \$10 of invested capital and when I see that stock selling at \$60, I feel I can't afford that stock. If I bought it I would be expecting a return of \$6 on the original one dollar investment. If this were possible every man would get into that business!

So I say I think we have too much speed in recovery and in the stock market. Don't misunderstand me. I believe the market will go higher. I think many people begin to speculate because other people begin to speculate. In my own analysis I have always observed this: When people begin to justify the market on other conditions than normal factors, when they begin to say, "This situation is unusual, this time it is different, we don't have this and we don't have that," then I know that the danger point has been reached. It sounds too much like "New Era" conversation of 1929.

Let me just leave word with you to check our speed.

The second warning sign I would say is this: Let's look. Stop and look. The founder of our country suggested that we should have no foreign entangling alliances. He gave us sound advice, but I am sure he did not mean that we should, like an ostrich, put our heads in the sand and be oblivious to what is going on in the world. If we had looked throughout the world and studied their plans and their efforts and their failures we never would have had the type of farm program that we have today. All that would have been necessary would have been to look to England's experience with rubber, Cuba's with sugar, Australia's with wool or Brazil's experience with coffee. Would we have the

dole situation we have today if we had studied England's experience?

Sometimes I lose patience when I hear it said that industry should reabsorb 11,000,000 more men. To demonstrate the absurdity of that statement bear in mind that industry never absorbed more than a total of 12,000,000 men at any time. Industry can and will absorb approximately two or three millions more, and I believe when it absorbs two or three millions the total additional re-employment will be four or five millions because of employment it will give to people in agricultural, domestic and service fields.

We can look around at Europe and we can study things over there and learn what not to do. When Europe had an unemployment problem, how did they solve it? Italy had a million and three quarters unemployed and marched many of them into Ethiopia. Germany, with over a million unemployed, rearmed. France had a million unemployed and built up her fortifications. Staid and conservative England had a million unemployed and started to rebuild her navy. They mustered out their unemployed into the army. Let us gather a positive lesson from that. We should not consider, under any circumstances or conditions, even though we have to continue paying our unemployed a dole, diverting our army of unemployed into military affairs.

Let us look at another matter. In business we can see one danger that may lurk in the offing, although I think it is past, namely, the danger of monetary inflation. We can see the terrible toll of privation that results from that. All we need to do is examine Europe's experience. So for my second message to you I would say, let's look.

And third, let's listen. There is no reason why we in this country should not have had our ear to the ground and heard the rumbling of some of these radical tendencies that have been growing up. In every one of our previous depressions human beings had an outlet for their emotions. A human being is somewhat like a boiler, he needs a safety valve. What was the safety valve heretofore?

In every previous depression men went back to the spiritual side of life, and they got their comfort in the church. Human beings didn't change. We are the same now as we were then. What did we do during this depression? We denied the emotional outlet. We didn't go back into the churches. Instead we went

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into isms: Townsendism, share-the-wealth-ism. If we had listened with our ears to the ground we would have been able to forestall that. If we had listened we would have known that when the banks failed, when the bond and stock market collapsed, there would be many aged who had worked hard and industriously all through their lives who, through no fault of theirs, saw their life savings swept away, and we would have known that the responsibility was ours to do something for that type of person, and we would have had a program prepared that I am sure would have been a better program than we have today. So I say to you, let's stop, look and listen.

One final word and I am through. Let's re-define leadership. If I were to define real leadership of a nation I would say that nation is a real leader that affords its citizens the finest, happiest life and the best standards of living from reasonable industry. Upon that basis I might mention to you Sweden, Norway, Switzerland. What is your first visualization? You immediately envision nations that are peaceful and quiet, where the home life abounds, three nations, incidentally, that have not been involved in a war in 125 years.

There is a penalty attached to false leadership. I think this country, young as it is, ought to be about ready to put away its knee pants, and in putting away its knee pants, if it will just take its foot off the accelerator and travel along a little more slowly it will probably find the highway safer, and when it reaches its destination it will arrive in better health.