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Joseph French Johnson

G. B. Hotchkiss

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EDITORIAL

The Antiquated Personal Property Tax.

Among the numerous wise movements started by Mayor Gaynor of New York City none is more deserving of serious consideration than that which calls for the abolition of the personal property tax. This tax is a relic of the Middle Ages, and in most enlightened countries has been done away with. It still lingers, however, in most of the states of the Union and for this reason the editors of The Journal have deemed it a subject of sufficient importance for a thorough discussion. The symposium in this issue will, it is hoped, lead some of our readers to take vigorous part in movements to abolish the tax in other states.

The main objection to the personal property tax is that it does not and cannot reach the property at which it is aimed. This is always the case. A thousand years ago the major portion of every man's possessions were visible and tangible. Rich men could not easily hide their wealth. A tax, therefore, levied upon all of a man's property, both real and personal, could be collected. At the present time, however, the wealth of the rich consists mainly of stocks and bonds and intangible assets which are easily concealed from the view of the assessor. As a result the personal property tax is paid only by a few very honest people and by widows and orphans who are unable to change the form of their inherited investments.

It should be noted that the abolition of the personal property tax does not necessarily lead to excessive taxation of real estate. Nor does it mean that personal property shall escape taxation. On the contrary, it is proposed that in place of a general tax upon personal property there shall be taxes upon special classes of personal property, such as bank stocks and the stocks and bonds of corporations. From specific taxes of this sort, which can be collected at their source, a state can derive a much larger revenue than if it seeks by a general law to tax all forms of property. This is a fact proved by the experience of several states.

Just what forms of property should be taxed is a subject deserving the most careful consideration. It is not well, for example, to assume that a mortgage is itself a piece of property, for experience has proved that a tax upon mortgages is always paid by the borrower, whereas the lender or owner of the mortgage is the man whom such a tax is intended to reach. It would be well also for the younger communities of the West to learn something from the experiences of certain provinces in Canada, in which farm improvements and machinery are exempt from taxation, the evidenct object of this exemption being the encouragement of improvements.

Bonds and the Rate of Interest.

In newspapers and periodicals of late there has been much confusing discussion of the prices of bonds in connection with the advance which has taken place during the last twelve years in the rate of interest and in the prices of commodities. The following paragraph from the New York *Times* of May 28th is a fair specimen of the current discussion:

The rise in the price of capital is as striking as the rise in the price of everything else, and equally perplexing in its contradictory aspects. Yesterday, for example, Bank Superintendent Cheney was advising savings banks to reduce their rate of interest at a time when a leading railway could not get money in the United States at all, and was accommodated in Paris, only at about five per cent. If we have indeed passed, or are in the process of passing, to a 5 per cent. rate for money throughout the world, it is important to know it, for all other prices depend upon the price of money in the last analysis.

The notion that the so-called price of capital, by which is meant the rate of interest, is related to the prices of commodities or to the cost of living, is entirely fallacious. "Money" and "capital" are much abused and overworked words. In its proper and primary sense "money" means a country's medium of exchange, and this in the United States is all reducible to gold. The prices of commodities depend upon the supply of money and the need for it, arising out of business transactions. If the supply of money increases more rapidly than the volume of commodities and services which are the subjects of business exchanges, the tendency of prices will be upward. Such a condition has prevailed during the last dozen years, and as a result the prices of goods have advanced.

Capital, on the other hand, in its proper and primary sense, consists of all of a country's wealth that is available for use in business. Only a small part of such wealth is in the form of money. The rate of interest is the price which the borrower pays for the use of this wealth, and it is fixed by demand and supply, so that a rise in the rate of interest may be the result of either an increase in the demand for capital or of a shortage in the supply; and it has no relation whatever to the prices of commodities.

The rate of interest has risen during the last dozen years simply because the continued advance of commodity prices, due to the world's large output of gold, has given a great stimulus to all forms of business and industry. When prices in general are rising from year to year the average entrepreneur makes greater money profits than when they are tending downward. In consequence he is eager to enlarge his operations and is a bidder for more capital. Under such conditions the demand for capital increases more rapidly than the supply and the rate of interest rises. This is what happened between 1850 and 1860. Then the general level of commodity prices was lifted by the sudden increase in the gold supply from the new mines of California and Australia. The money profits of business were so large during that period that the rate of interest steadily advanced, just as it has done during the last decade. In neither decade was the rate of interest the cause of higher prices; on the contrary, it would be nearer the truth to say that the rise of prices was responsible for the higher rate of interest.

The decline in the price of gilt-edge bonds, such, for example, as the British Consols, is the inevitable expression of the fact that the rate of interest has risen. Fifteen years ago municipalities in the United States could sell 3 per cent. bonds at par, for then the supply of capital in relation to the demand was such that lenders were obliged to accept 3 per cent. At the present time, however, the supply of loanable capital in relation to the demand is much smaller and lenders are able to get 4½ per cent. Gilt-edge bonds, therefore, sell on that basis, and bonds paying less than 4½ per cent. sell below par. It seems a contradiction that the rate of interest should rise at a time when the supply of money is increasing more rapidly than the demand. This contradiction, however, is only apparent. The increase in the supply of money affects the prices of commodities, for it is an increase in the supply of the medium of exchange offered for goods. Since it does not increase the supply of the world's wealth available for use in business, it cannot lower the rate of interest. The fact that the New York money market has almost reached a 5 per cent. basis is responsible for the low prices of bonds, but not for the high prices of commodities.

Commenting on the presidential address of Mr. A. O. Miles at the twenty-ninth annual general meeting of the Institute of Chartered Accountants, the London *Accountant* says: "In dealing with causes that have led to the exclusion of certain members from the Institute, Mr. Miles expressed the view that it seemed an objectionable way of advertising to form a company of which the member was practically the sole owner, and then to carry it on as an Income Tax Recovery Agency, soliciting business of the nature of that of a public accountant. This statement will probably cause some little confusion as to whether, in the judgment of the Council, it is unprofessional for a member to form a one-man company; or whether the view is that the member must be held as responsible for the acts of such a company as for his own acts. A very timely reference was also made to an objectionable form of advertising, to which attention has been directed on more than one occasion, namely, the insertion of the names of members in heavy type in telephone and other directories. This is an evil of old standing, to which attention has already been directed more than once. Doubtless, however, Mr. Miles' formal announcement may be taken as a definite intimation that in future the Council will regard infringements of this rule more seriously than hitherto.

Plans for Meeting of American Association.

At a meeting of the New York State Society of Certified Public Accountants held at the Waldorf Astoria on Monday evening, June 13, Mr. E. W. Sells, chairman of the Committee on Arrangements for the formulation of plans for the reception of the American Association of Public Accountants at the time of the annual convention, to be held in New York City October 17 to 20, reported that the Hotel Astor had been designated as the place of meeting and that the following preliminary program had been agreed upon:

Monday, October 17:

11 a. m. Board of Trustees.

4 to 6 p. m. Reception by ladies at Hotel Astor under auspices of the New York State Society.

8 p. m. Theatre party.

Tuesday, October 18:

10:30 a. m. Convention.
Addresses of Welcome.
Address by Dr. Elmer E. Brown, U. S. Commissioner of Education.

2:30 p. m. Convention.
Address by Mr. W. H. Roberts of Chicago.

7 p. m. "At Home" and Beefsteak Dinner at Healy's, Sixty-fifth Street.

Wednesday, October 19:

10:30 a. m. Convention.
Address by Mr. R. M. Chapman.

2:30 p. m. Convention.
Election of Officers, etc.
Report of the Committee on Terminology and Discussion.
(This evening will be left free so that visiting members may have time for social engagements.)

Thursday, October 20:

10:30 a. m. Convention.
Meeting of new Board of Trustees.
Election of Executive Committee.

7 p. m. Annual Banquet of Public Accountants.

Mr. Sells also reported that the following committees had been chosen: Ladies' Reception at Hotel Astor, Mr. Samuel D. Patterson; Theatre Party, Mr. Leon Fisher; Speakers for Addresses of Welcome, Mr. Henry R. M. Cook; "At Home and Informal Dinner at Healy's," Mr. Wm. F. Weiss; Annual Banquet, Mr. E. W. Sells; Registration and Information, Mr. E. L. Suffern, Mr. Sells and Mr. Teele; Souvenirs, Mr. Perley Morse; Printing and Publicity, Secretary of the New York State Society, Secretary of American Association of Public Accountants.

The chairman announced that he would call a meeting for final disposition of affairs in the middle of August, at which time the various committees would be asked to report.

The secretary was requested, when communicating with the members of the American Association of Public Accountants, to request them to signify to the committee as early as possible their intention of coming, and, where practicable, to mention the number of their party, so that appropriate provision would be made.

Resolutions of Minnesota State Bankers' Association.

On June 23d the Minnesota State Bankers' Association, after some discussion, unanimously adopted the resolutions printed below. This action is one of many indications that bankers throughout the country are growing more and more convinced that independent examination of accounts by certified public accountants should be demanded of sellers of credit.

We commend the attitude of firms and corporations who sell their paper in the open market, in furnishing independent audits of their business by responsible certified public accountants.

And whereas, We believe such independent audits are of great value, both to the borrower and lender.

Therefore, be it resolved, That we recommend this practice becoming general, and we further recommend that the affairs of all firms and corporations which are in any way identified with each other be audited by such accountants as of the same date.