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Response to the Toast: “The American Association of Public Accountants” AT THE Tenth Anniversary Banquet of The Society of Certified Public Accountants of the State of New Jersey Newark, January 20, 1908

Elijah W. Sells

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30 BROAD STREET
NEW YORK

*Accountants
Association*

February 15, 1908

To the Members of The American

Association of Public Accountants:

At the banquet at Newark, on
January 20, celebrating the tenth anniversary of the Society of Certified Public Accountants of the State of New Jersey, I made some remarks in response to the toast, "The American Association of Public Accountants."

Inasmuch as that portion of my remarks on "Corporate Management compared with Government Control" has been rather extensively quoted and commented upon by the press; and as in several instances my name has been mentioned in connection with it as the President of The American Association of Public Accountants; and as newspaper accounts are sometimes "garbled," I am sending you herewith for your information the full text, as near as it is possible to reproduce it, of what I did say.

Yours very truly,

E. W. Sells

RESPONSE TO THE TOAST

**“The American Association
of Public Accountants”**

AT THE

TENTH ANNIVERSARY BANQUET OF THE SOCIETY OF CERTIFIED
PUBLIC ACCOUNTANTS OF THE STATE OF NEW JERSEY

Newark, January 20, 1908

BY ELIJAH W. SELLS

MR. TOASTMASTER, MR. PRESIDENT, MEMBERS OF THE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS OF THE STATE OF NEW
JERSEY, AND GUESTS:

To be thought worthy of being asked to respond to a toast to "The American Association of Public Accountants" is highly appreciated. That Association in turn extends to you its hearty congratulations upon the attainment of your tenth anniversary, and wishes for you, in the years to come, all prosperity, and that the highest standard in the development of your young profession may be realized in the membership of your Society.

Your President, who has been on the Executive Committee of the American Association during the past year, and your Vice-President, who is the Secretary, are both well informed respecting the affairs of the American Association, and have doubtless kept you well informed. I need not, therefore, talk to you about it.

The Society of Certified Public Accountants of the State of New Jersey occupies a prominent position in the American Association. It is the third largest Society, and it is especially conspicuous because more corporations and more corporate capital have their corporate home in the State of New Jersey than in any other State. And so I want to take this occasion to discuss with you, and in a spirit that shall lack neither candor nor courage, certain public questions upon which the experience of a public accountant is competent to throw light, although rather serious for such a gathering as this.

The position of the public accountant in respect to corporations and their management is always an independent one. Unlike the attorney he is not expected to make out a case. The character of the service he renders is impersonal. All he can do is to tell what the facts are, and they exist for his examination in forms so tangible and so subject to other scrutiny than his own that even if he were willing to prostitute his calling he would never dare to do so. It is equally true that the knowledge he obtains of the affairs of corporations is necessarily intimate, accurate, and substantially complete.

Our country just now is passing through a period of acute financial stringency. The securities representing its properties

are selling at prices that range from 30 to 60 per cent. lower than were obtained for them one year ago. The money needed to keep business going is harder to get to-day than was any sum, however great, for the extension and development of business one year ago, and the questions, What is the matter? How has this come about? Who is responsible? are on everybody's tongue. The answers that are so generously provided seem to me very wide of the mark. Usually they involve grave reflections upon corporate management, and usually they come from a class of people who are particularly glib with their tongue or ready with their pen, and who seem to have no other qualification for throwing light upon so grave a problem. We are told that the corporation managers are dishonest; that they "exploit" the people and their utilities; that they put their own enrichment above their duty to the stockholding interest or to the patronizing public; and that before there can be a return of the splendid prosperity we were enjoying, the Corporation must be regulated and the Government must step in with a sharp eye and a big stick.

My experience in the conduct of independent and impartial examinations of books of account and affairs has covered many years and has been concerned with the Federal Government, State Governments, and City Governments. It has covered the field also of railway, street railway, light, power, and other public service corporations. It has dealt with industrial corporations, the so-called "trusts." It has taken me into banks, trust companies, and insurance companies; into educational and charitable institutions. I think I may say it has taken me pretty generally over the whole field of public and private business, and if I am to judge by what my eyes have seen, it is the unassailable truth that almost any one of the men who stand at the head of our great business institutions is far more competent to run the Government, and would run it more economically, more wisely, and more honestly, than any of those who are in the business of running governments.

I know as a matter of fact that the management of our great properties is generally intelligent and economical, and that the management of our Government bureaus is generally loose, irregular, and frequently dishonest; and when I read the articles with which so many of our newspapers and magazines are filled nowadays, reflecting on the men whose genius is developing the country's resources, and when I hear the proposals of politicians, from the most eminent to the least, for the passage of laws to hamper

and restrict the energies of these men on the theory that their integrity is open to suspicion, my mind inevitably brings up the contrast that I always observe between a corporation's way of doing things and a government's, as disclosed by their respective records and books of account.

For the purpose of this comparison, incompetency and dishonesty need not be separated. Putting them together it is my deliberate estimate, that, judged by the highest standards prevailing in the best conducted corporations, there is less than 10 per cent. of both among men in the management of corporations generally, and at least 90 per cent. of both among public office holders, and I base this estimate upon my experience as a public accountant. Let us hope that all of the public office holders in the State of New Jersey can be classed with the 10 per cent that are honest and efficient.

The men intrusted with the management of the corporations are better fitted to administer the affairs of such corporations and to exercise judgment in matters concerning both the investor and the public which takes their product or utilizes their franchises, than are those men who hold public office qualified to fill even their own positions, much less to undertake administrative control over corporations. The facts that prove this do not deal with the mere matter of honesty and efficiency. The organization of a public bureau is much less compact, much less harmonious in its operation, than the organization of a great railway or a great industrial corporation. The men at the head of such business organizations, in practically every case, are experts, working diligently, in harmony, and ready to work to the limit of their endurance, with full and direct control of their subordinates. On the other hand, nothing can be more notorious (the results are obvious to every public accountant who investigates) than the fact that in nine cases out of ten the head of a public department spends most of his time promoting his political interests, and the employees generally, protected by the civil service regulations, are looking to see how little rather than how much work they can get into their appointed short hours.

We are not without information of the effects upon great business industries of being hampered by government regulation, as compared with the effect of being let alone. It is rare, of course, that conditions common to a great business are due to a single cause, but in this instance the signs point that way. The two greatest business interests of the country are represented by

the railways and by agriculture, and they are particularly inter-related. Everything that tends to restrain capital from investing in railway enterprises; everything that holds back the extension of railway enterprises into new and undeveloped country, checks the settlement of new farms and the production of new crops. The manufacturer on the other hand finds his interests facilitated by the erection of his factories and shops in old and closely settled communities where the transportation problem is already fully solved. So, note the comparison.

In addition to a vast amount of State legislation in restraint of railways that began at about the time the Interstate Commerce Act was passed in 1887, that evil enactment, with its subsequent amendments, ushered in the era of restriction and introduced the period of railway persecution by law. Prior to that time railway construction had progressed in line with the development of business generally, but since that day, notwithstanding the enormous increase of capital resources, the railway industry has fallen far below other lines of development, and with it also has fallen the principal agricultural interests.

From 1878 to 1887 the average number of miles of railways constructed per annum was 7,013, but in the ten years following the passage of this Act, the average was only 3,537, or a falling off of about 50 per cent. A normal growth since 1887, to keep pace with the development of industries generally, should show an average in excess of that which had distinguished the earlier period. No less than 12,876 miles of railway were constructed in the very year, 1887, in which the Interstate Commerce Act was passed; since that time the largest year of construction was in the year following, 1888, when the total was only 6,900 miles. The total mileage at the end of 1887 was 149,214; at the close of 1906 the total mileage was 222,635, an increase during these nineteen years of only 49 per cent., while in the preceding nineteen years the increase had been 253 per cent.

The explanation of this condition of things is not to be found in the suggestion that the country has been occupied. In the region west of the Mississippi, as suitable for development as any country through which any of the trans-continental lines were built, there were in 1904, outside of Alaska and Texas, no fewer than 473,836,000 acres of unoccupied public lands, while in Texas one-half of the area, or fully 84,000,000 acres, has not yet been penetrated by lines of railway. In the region west of the Mississippi where there is only a little over 100,000 miles of road, there

is an area at the present time sufficient to support at least 50 per cent. more railway mileage.

Note now the figures showing the development of businesses which have not been hampered by that sort of government regulation which hinders their management and frightens their investors. National and State bank deposits increased from \$1,737,000,000 in 1888 to \$6,941,000,000 in 1906, or in the enormous measure of 299 per cent.; bank clearings increased from \$49,098,000,000 to \$159,808,000,000, or 225 per cent.; and the production of pig iron from 7,268,000 tons to 28,280,000 tons, or 289 per cent. The Lake Superior iron ore shipments increased from 9,000,000 tons in 1890 to 38,500,000 tons in 1906, or 324 per cent. The statistics of manufactures for the period from 1888 to 1906 are not available, but for the ten years from 1890 to 1900 the capital invested in manufactures had increased from \$6,525,000,000 to \$9,835,000,000, or 50 per cent.; but the capital invested in railways had increased during those ten years from \$10,021,000,000 to \$11,892,000,000, or only in the measure of 18 per cent., with a mileage in the measure of 16 per cent.

The fact that the causes, whatever they are, which have throttled railway development, are also responsible for holding back the development of agriculture appears clearly enough in the fact that agriculture is the only other large industry which has not developed in proportion with the production of raw material, the growth of manufactures, and the increase of banking resources. Since the time when the Egyptian people began the system of rotating crops, agriculture has been the greatest source of national enrichment, and doubtless the greatest factor in the civilization of the world. With all the lands that are available in this country still to be reached by railway construction, and with unlimited markets abroad for our agricultural products, the production of corn, wheat, and cotton increased not at all in keeping with other developments, but only approximately with the progress of railway development. In the period from 1888 to 1906, the increase in the production of corn was from 1,988,000,000 bushels to 2,927,000,000 bushels, or only 47 per cent.; that of wheat was from 416,000,000 bushels to 735,000,000 bushels, or only 77 per cent.; while that of cotton was from 6,941,000 bales to 13,291,000 bales, or only 91 per cent.; and the fact that cotton did better than wheat or corn is accounted for by the reinvigoration of the South.

It is interesting also to note that the revenue to the investor

from his interests in railways is far less than his revenue from an interest in manufactures. The average rate of net income on railway investments is only about 4 per cent., while the average net income from investments in manufactures is about 15 per cent.

I want to quote, and with earnest approval, the language employed by President Hadley of Yale University, in a lecture on "Ethics of Corporation Management," delivered in the latter part of 1906:

"Personally, I am one of those who look with serious distrust on each extension of political activity. I believe that the Interstate Commerce Law did more to prevent wise railroad regulation than any other event in the history of the country. I think that the Courts would have dealt with our industrial problems better than they have done if the Anti-Trust Act had never been passed. I have gravely doubted the wisdom of some of the more recent measures passed by the National Government."

Christian Socialism, the equal protection of the individual rights of all, the doctrine of the Golden Rule, is the only sort of socialism that should exist in a free country where each man's endowment of industry and ability should be permitted to achieve for him that full measure of success of which it is capable.

The prejudice that has been aroused against the men who have written their names largest upon the geography of their country by railway construction and development, or whose genius has built up such corporate organizations as exist in steel, in oil, in the telegraph, and in other lines of industry; the prejudice that swept over the West in the days of Populism, and that now seems so far to dictate the policies of both the great political parties that their old-time controversies are forgotten and they are merged in attacks upon the business of the country, is a prejudice that is based upon two false assumptions: first, that the men of great affairs are lacking in integrity, and, second, that the men of small affairs are oversupplied with it. I shall not say that the reverse is more nearly true, but I do say that almost every instance of great success in this country is an example of a combination, in the man who has accomplished it, of scrupulous honesty, great frugality of personal expenditure during the years of struggle, and unbounded industry; while as a commentary upon general good conduct of the masses as such, it is a pertinent remark that if during the last few years one of our largest street railway systems could have gathered into its treasury all the fares that were passed up to its conductors, together with all the fares for

which it gave rides but for which the passengers had contrived to omit to pay, it would not now be in the hands of receivers.

The loss to traction lines in all principal cities by the evasion and the dodging of passengers, and by the misconduct of conductors, is estimated at from 5 to 10 per cent. of their gross earnings. The aggregate loss to shareholders of traction companies throughout the country must amount to a great many millions of dollars annually.

Something humorous, if not convincing, comes from the other point of view. In addressing a Cooper Union gathering recently a Western Senator attempted to illustrate the large profits made by a Chicago packer as compared with those of the cattle raiser. He said that a shipper from his section, after having received returns on two carloads of cattle, only had enough to warrant him in going to a short order restaurant where he ordered ox-tail soup and beef-tongue in order to make both ends meet.

Now, gentlemen, a few words more about The American Association. That Association voted at its last meeting to accept the invitation of The Pennsylvania Institute of Certified Public Accountants to hold its next annual meeting at Atlantic City, in this State, in October. It is understood that the Certified Public Accountants of the State of New Jersey and The New York State Society of Certified Public Accountants are to join with The Pennsylvania Institute of Certified Public Accountants in making the strongest host The American Association of Public Accountants, or, indeed any other gathering of public accountants in this country, has ever had. The Committee on Annual Meeting 1908 is very much alive to the needs of that occasion, and is already actively engaged in plans that promise much for our enlightenment and entertainment.

I thank you for your attention.