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## Editorial

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# The JOURNAL of ACCOUNTANCY

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A. P. RICHARDSON, *Editor*

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## EDITORIAL

### Impressive Steadiness of the Markets

The many people who are wont to think of the New York and other stock exchanges as centers of uncertainty and violent fluctuations would do well to consider carefully the course of the exchanges of the country during the past year. Business has been demoralized; the welfare of all kinds of commercial and industrial adventure has been thrown in jeopardy by the prevalent tendency toward experimentation; there have been wars and rumors of wars—and the end is not yet. There has been no assurance of an early recovery and, in a word, chaos has reigned. Yet, in spite of all this, the security exchanges have pursued a fairly even and generally upward course. When the national recovery administration was relegated to the archives there were many prophets who foresaw a complete upheaval. Some of these seers based their opinions upon their political sentiments. Others—and these were the only ones worthy of consideration—felt that the destruction of the codes must have a subversive effect upon business in all its branches. Probably very few really believed that so fundamental a change could take place without at least a temporary unsettling of affairs. Yet, after the first mild flurry of excitement, the markets resumed the even tenor of their ways and business, taking heart, went steadily but slowly forward. Then, when we were beginning to look for better times, came the threat followed by the action of Italy in its ambition to absorb Abyssinia. The league of nations, speaking for most of the civilized countries of the world, floundered feebly for a little

while but finally acquired a virility and a courage quite unequaled in its earlier history. This naturally brought nearer the possibility of a general European war. Exchange was upset and no one knew—as no one knows now—what a day might bring forth. When the Italians actually began their advance from Eritrea and Italian Somaliland the markets were shaken for a day. Then, strangely enough, the onward march was resumed.

**Evidence of Underlying Strength** Now, all these things indicate that Wall street and the rest of the financial centers of the country are not so temperamental or mercurial as they had been thought to be. American business is a pretty substantial thing, come weal, come woe. It is too big a thing to be long tossed about by what must be purely temporary conditions. American wealth is too vast to be dissipated in panic fear. Such convulsions as those of October and November, 1929, were strong enough to destroy any ordinary fabric; but there have been many painful recessions in the market before and there probably will be others in the future, yet underlying all there is the inherent and enduring strength of American business. It is heartening to contemplate the whole scene. If one could detach himself entirely from the present and take a view in decades rather than in months, there would be little cause for alarm. We have a population for the most part consisting of hard-headed and unemotional people. They know what they want; they have their individual ambitions to gratify; and in the long run they succeed. So in the realm of American finance there is a lasting confidence and a comfortable assurance that, whatever winds may blow, all is well. Accountants would be wise to bear these facts in mind and not to be misled by sudden and unexpected disturbances which threaten for a moment. Accountants are the men upon whose advice business increasingly depends, and if they will keep their feet upon the ground they can do a yeoman service to the whole business structure of the country. The ordinary man who is confronted by growing deficits can be forgiven a certain amount of nervousness; but his advisors, among whom accountants stand first, have no such excuse for pessimism. The future is not permanently dimmed. It will be a long pull back to the heights of prosperity, and there will be many politicians and others who will seek to impose their immature will upon the country; but they can not prevail. The astonishing strength of Ameri-

can finance through all this turmoil is one of the most hopeful indications of the innate power and the natural prosperity of America.

**The Spirit of  
Convention**

The meeting of the American Institute of Accountants, held in Boston from October 14th to 17th, was attended by a greater number of members than any other meeting in the history of the Institute. There were, it is true, some special reasons for large attendance, but leaving these altogether out of the picture we believe that the members as a whole are readier to recognize the importance of convention than they were in the past. Those who attend soon acquire the habit of attendance, and, as a consequence, there is a steadily increasing disposition not to miss the opportunity for fellowship and discussion which a convention offers. Now, above all times, the necessity for united action by accountants is manifest. No one who has been familiar with the work of the profession during the past quarter of a century can be blind to the tremendous changes which have taken place, not so much in the detail of practice as in the importance attaching to the work and the advice of the accountant. The meeting in Boston was of the utmost interest. The discussions concerned important topics which are before accountants today; and probably no one who attended and took part in the discussions or listened to the papers which were read would say that he had not been more than compensated for the time and expense involved. It has been said that America is the "meetingest" country in the world and Americans are described as the "joiningest" people. Perhaps this gregarious trait is overdone. There have been meetings of various sorts which have not added much to the progress of the world, but we do not believe that any group of professional men can gather from all parts of the country without making possible an advance in practice and accomplishment which could not have occurred without meeting.

**"No More Taxes"** It has been announced, almost with a fanfare of trumpets, that the improvement in general business conditions has been so substantial that there will be "no more taxes." This expression evidently means, not that taxes will cease, but that there will be no new or increased rates of taxation. The time has not come and will never come when there will be no more tax. The unfortunate aspect of this

loudly proclaimed relief is that it will be regarded by many persons who can not think deeply that in reality all taxes will be abandoned and the country will advance under the momentum given by an increase in the volume of business. That, however, is a point which need not receive serious consideration. Any demagogue can make promises which will beguile and mislead that majority of the population which does not know how to think. We are more concerned now with the allegation that no higher taxes will be required. To put it bluntly, this is merely pious hope. We can not go on forever without a balanced budget. At present we are increasing our rate of expenditure with alarming rapidity and we are not increasing our rate of income as a nation. The consequence must be a constantly increasing spread between income and outgo. No business conducted in accordance with such a policy could continue long. Neither can any nation long survive which flaunts all the fundamental principles of sound economics and carries on its affairs without consideration of the morrow. It is foolish and futile to talk of no more taxes when the taxes which we now gather are far short of the amount needed to set up an equilibrium in our fiscal affairs. So long as the expenditure outruns the income the discrepancy in the budget must increase. How, then, can any one in his senses aver that there will be no more taxes because business is improving? There must be and there will be many more taxes. The nature of the taxation is not the first consideration, but what we must do is to devise some method of extracting as painlessly as possible from the citizens of the country a portion of their earnings or perhaps of their principal which will make it possible to spend no more than we receive.

**Everybody Will Pay  
at Last**

Every month that passes makes our problem more acute. We are certainly headed for the rocks of disaster unless some change of course be speedily adopted. It has been said many times that the responsible American citizen would probably prefer to pay almost confiscatory taxes for a little while and then to come into a period when taxation would be equitable and business could develop without dragging a ball and chain. The strange part of the whole thing is that the people to whom the cry of "no more taxes" would appeal are not the people who pay the bulk of the taxes. The average taxpayer is a sensible person and knows that when we have been engaged in an orgy of expense we

must pass through a period of compensating difficulty. We can't be drunk all the night without a headache next day, and most of us would rather have the headache for a while than to have a persistent nausea for the rest of our lives. It has been reported by a careful observer of conditions in all parts of the country that the so-called "common" people are beginning to wonder how the bill is to be paid. This observer says that even in the farming districts where the gratuitous distribution of unearned income has been most liberal the farmers themselves are now asking: When shall we have to pay? The ordinary American citizen is not an utter fool. He may like to receive gratuities to which he is not entitled and he can not be greatly blamed for taking what is offered him, but sooner or later he will come to his senses, and he knows today that what is being given him now will have to be paid by some one later, and he knows also that he himself will be one of those who will have to pay. When this spirit of analysis has spread a little further we shall probably find a violent reaction against the inconsiderate distribution of largess. At any rate, we must all admit in our own minds—if we do not for some political reason admit it openly—that the dictum of "no more taxes" is without foundation in fact and that more taxes and greater taxes must certainly ensue.

Behold, that Dreamer  
Cometh

Three or four months ago we received from a highly esteemed contributor to THE JOURNAL OF ACCOUNTANCY a critical analysis of the writings of Major C. H. Douglas, who is known as the father of social credit. The article was rejected because it seemed to us that it was a discussion of a vain theory—a theory of the same general character as the so-called Townsend plan, which for a little while aroused a multitude of people and called forth rather vehement support in many legislative quarters. The Townsend plan, however, seems to have died—although we are informed that a few Townsend clubs still carry on a post-humous activity, without hope of reincarnating the ghost. So it seemed that the Douglas plan was headed for a similar demise. Then came the extraordinary elections in the province of Alberta. The united farmer ministry of R. G. Reid lost every seat in the legislature, and a social credit ministry was formed by the new premier, William Aberhart. The Aberhart plan is somewhat like the late unlamented Townsend plan in that it provides a free

payment of \$25.00 a month to every adult citizen of Alberta. According to the London *Economist* the payment is intended to be a permanent subsidy to consumers' purchasing power, designed to exploit the potential productive capacity of the province. There seems to be no clear conception of how this beautiful theory is to be financed. Major Douglas with his greater skill may be able to suggest something which will sound feasible—at least, it may sound feasible to the electorate. Of course, the idea of paying everybody a salary irrespective of earning capacity or inclination is foredoomed to failure. The world and mankind are not built on any such model. The Douglas-Aberhart experiment may continue for a few months or perhaps for a year or two, but then some one with a little more sense will burst the bubble and Alberta, like all the rest of the states and provinces of this continent, will find that crazy idealism can not prevail. Many years ago an experiment, a sort of Christian communism, was attempted in Paraguay. Some very excellent persons assembled themselves together and migrated to a new land in a venture that would have excited the interest of Plato and Sir Thomas More. No one became greatly excited about the experiment, because it was placed far from the scenes of what we like to call civilization, and no one cared very much whether the colony survived or perished. Now, however, there is a wide-spread trend toward impossibilities in government, and there is a passing interest in the social laboratory of Alberta. Some of our pink professors in Washington will probably have an opportunity to learn a great deal that they do not know at present. It would be a good plan to set up grand-stand seats around the government at Calgary and compel our miniature theorists to witness the contest between wisdom and pure folly. But we should be sorry for Alberta, if that were done.

**A Valuable Bit of  
Salvage**

When the national recovery administration was kicked out the back door by the nine excellent gentlemen of the supreme court, it was hoped that a few good things which had really been accomplished or promised by the N.R.A. might continue to operate for the benefit of the people of the country. There were so few of these advantages that it was not difficult to remember them. Under some of the codes, so called, there were provisions which were admirable, and among these rare exceptions

none was more conspicuous than the code proposed and adopted by the investment bankers. It will be remembered by accountants that this code received general commendation among the accounting profession, which was in part responsible for various provisions of the code. It is, therefore, gratifying to learn that the securities and exchange commission has endeavored to take advantage of the investment bankers' code and to bring about the promotion of fair standards in the offering of securities. It is reported in the daily press that the new chairman of the commission, James M. Landis, has taken a personal interest in the matter and will do what can be done to make permanent those portions of the code which are generally regarded as beneficial. The securities and exchange commission asked a large number of bankers if they desired to support a proposed organization of registered bankers. Ninety per cent. of the replies have been affirmative. If an organization of that kind can be established, it will be a real punishment to be expelled from it, and any investment banker who felt the urge to depart from accepted standards would think twice before committing himself to such a course with its probable consequences. Whether the securities and exchange commission will become a fixed part of our national government or not, it is quite evident that something of the kind will persist. The interstate commerce commission was not an outgrowth of wild socialistic experiment. It was evolved in the ordinary course of business development and it has as a whole accomplished excellent results. We believe that the securities and exchange commission or something of a similar sort is a genuine necessity and that it will not be abandoned, although it will almost certainly be subject to substantial changes as experience reveals inherent weaknesses. Investment bankers of the better sort can be counted upon to support in every way the efforts of the securities and exchange commission to prevent the utterance of unsound stocks and bonds and to encourage the promotion of fair practices. The day of misrepresentation in the flotation of securities is nearing its end.

**An Inequitable  
Differentiation**

A correspondent draws attention to what he considers a gross injustice in the administration of the federal income-tax laws. In I. T. 2819 advice is requested relative to the deductibility of accounting and bookkeeping fees paid by individual investors in computing their taxable net income.



"It is contended that under I. T. 2751 (C. B. XIII-1, 43), which held that 'ordinary and necessary' expenses paid or incurred during the taxable year with respect to the management, protection and conservation of properties producing taxable income are proper deductions, accounting and bookkeeping fees of individual investors constitute ordinary and necessary expenses of managing income-producing properties. It is stated that the employment of bookkeepers and accountants is as necessary and effective in the management, protection and conservation of income-producing properties as is the utilization of custodians or safe deposit boxes.

"After careful consideration of the question presented, it is held that the cost of the employment of bookkeepers and accountants by persons not engaged in business, and merely for the purpose of closing the taxpayer's personal accounts for the year, drawing up a balance-sheet or preparing an income-tax return is not an allowable deduction as contemplated by I. T. 2751, supra. . . . However, amounts paid for accounting and bookkeeping fees by an individual engaged in business, where such expenditures are ordinary and necessary business expenses, constitute allowable deductions for federal income-tax purposes."

Our correspondent continues:

"This decision I consider to be within the realm of sheer nonsense. In our own practice we have had cases where the fees ran to several hundred dollars for work for individual investors to determine the basis on which income-tax returns had been or should be filed. In the cases I have in mind there is no question whatever that the work represented a 'necessary' expense and, with the multiplying complications of income-tax procedure, such work may very properly be classified as an 'ordinary' expense. In such cases it may be found, as often as not, that the result of the accountants' work has been to increase taxable income and thereby increase the revenue of the government.

"Contrasting such a situation with the case of an individual 'engaged in business' where a fee of, say, \$25 might be charged for work of similar character but on an infinitely smaller scale, it can readily be seen how absurd the position of the bureau is."

This is not a new question but it is one that often escapes attention. It does seem unreasonable to deny taxpayers who are not in business a deduction for the expenses necessarily incurred in properly reporting income to the treasury. The denial, however, rests on the income-tax act and not on its administrators. The act itself limits the deduction for ordinary and necessary expenses to those paid "in carrying on any trade or business." And there is not in the act any specific allowance to individual

taxpayers not in business for a deduction for the expense of the character mentioned. It seems clear, therefore, that no appeal to the treasury would be fruitful and the only recourse would be to have the law changed. Congress would probably hesitate to amend the law in this way, as such a change would doubtless leave the way open to abuses and further controversies. Experience of many accountants who practise before the treasury department indicates that it is the custom of that department to rule against the taxpayer if such a decision can be supported by the slightest authority in a literal interpretation of the language of the act.

**Edward Everett Gore** It is difficult to realize that the lovable and delightful personality of Edward Everett Gore has been taken away from us. He was so much a part of the American Institute of Accountants, and indeed of modern accountancy as a whole, that one can hardly think of a meeting of accountants or some forward movement in accountancy in which he will not be associated. He occupied a unique position in his chosen city of Chicago, not only as an accountant but as a public spirited citizen of wide interest. The honors which came to him were many. His personal popularity was unsurpassed. His grace of diction and his splendid gift of friendship made him universally beloved. To the Institute he gave at all times the best that was in him, and no task was ever too heavy for him to undertake. He was member of innumerable committees through the years, and during his presidency of the Institute he devoted the greatest part of his time to the organization. At the annual meeting in Boston in October no one who had been present at earlier meetings failed to feel a pang of regret that this great friend of the Institute and of each of its members would no longer be seen. He leaves a record of which any man in any walk of life could be intensely proud.