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Philip Cabot

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Government and Business*

BY PHILIP CABOT

All of you, I assume, are men of action, and so it is perhaps unnecessary for me to tell you that it is much easier to criticize the work of other men than to do the job yourself. For this reason I shall try to avoid unnecessary criticism, both of our law-makers and of our business men. My purpose is to describe what I see going on about me in those two fields of human endeavor which we call government and business, and to attempt to suggest to you certain general conclusions which I draw from what I see.

I begin with the platitude that both government and business are of immemorial antiquity. Business must be as old as the race, for it is hard to imagine a type of human being who was so completely independent that he could satisfy every need better than anyone else could do it for him; who had no desire to exchange a deer hide, or a wolf skin, for an ax head, or for some help in setting up a deadfall. Government also must be as old as the race, for even our brother the wolf knows that "the strength of the wolf is the pack." In fact, the human imagination breaks down under the effort to conceive a group of people in which both government and business were not important, if not indispensable, factors, and we may safely conclude that both are essential means to the main purpose of human life, namely, the formation and growth of stable and progressive societies.

It would be difficult for me to explain to you, or for you to understand, the nature and the limitations of these two means to this all important end unless we start with some general notions as to the nature of the end, namely, the progressive human societies to which I have referred. Such societies are the masters of which government and business are the servants. But what do we mean by society? Unfortunately, I can not undertake to define for you exactly what a society is because I do not know. All that I can offer you are some general notions about the nature of society which I have found useful for myself. Going back to the animal kingdom, the simile of the wolf pack suggests two of the major paths of the evolutionary process by which societies

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are made. Wolves combine first for protection, and second to increase their economic power—that is, first in order to keep alive in a hostile world, and second to obtain more food with less labor. Man, I suggest to you, has followed the same paths. The tribe serves man as the pack serves the wolf; and many tribes, or nations as we sometimes call them, do not appear to have advanced far beyond the general concepts of the wolf. (See the European news in your morning paper.) The wolf, or the man, driven by the instinct of self-preservation, will combine, and his success will depend on his powers of organization and administration. Although we commonly forget it, success depends on leadership, and leadership depends upon the successful division of the group into at least two groups—the governors and the governed. It is for this reason that both among wolves and among men a certain degree of freedom is essential to success, for neither wolves nor men are born equal, and, if they are free, they will use their freedom to vindicate their inequality and stratify their societies.

Up to this stage of evolution the instincts of animals and of men seem to run parallel and to produce similar results. But societies of this type, while very stable, are not typically human; at this level man has little advantage over the animals. The feature which distinguishes human societies from the societies of animals is spiritual progress, which is the child of intelligence, memory and imagination. When these are present in adequate intensity, a human society moves forward by establishing an increasing control over the forces of nature and attaining an increasing grasp of the nature of the cosmos. Spiritual progress is the stamp of approval of the Cosmic Intelligence on the societies of men; a fact which seems to have been forgotten by recent generations. It seems that Calvin's doctrine of salvation by work has been overworked to the point where we assume that material progress and an increase of wealth can be palmed off on the Almighty as a substitute for the growth of the spirit of man. It is needless to remark that the Almighty can not be deceived.

If we now ask ourselves how well we have succeeded in producing a stable and progressive society in these United States, the answer must be not well, even if this answer wounds our self-conceit. During the last half century, or more, it appears to me that both our economic and our spiritual life have been becoming less, rather than more, stable, and I fear we must admit that such

progress as we have made in that period has been towards barbarism rather than towards civilization. Many of you, I fancy, will reject this conclusion. I envy you your optimism and I wish I could achieve it. But realism compels me to say that if we are unable, or unwilling, to make fundamental changes in our general attitude toward life the future for this nation is very dark. I do not mean to suggest that the intense economic struggle of the last two generations was a futile effort. That is not my belief. But I do mean to suggest that for the present we have gone far enough in that direction and that we must now turn our energies into other channels.

During the last half century we have made amazing progress in extending our control over the forces of nature and our understanding of the material world. The attention of the nation has been focused like a burning glass on these objectives and we have been so absorbed in them that both business and government have forgotten the platitude with which I began, that they are merely the servants of society. As a natural result, society has been ill served, and it has suffered. So far as business is concerned, this is an old story. The politicians have deafened us with their clamor about it for the last three years. But I suggest that this uproar has served (and was perhaps intended) to obscure the fact that government has been just as forgetful as business. In a democratic society like ours it may surprise you if I say that our government—the chosen servant of the people—has been a bad servant. But that is what I believe, and I will devote the time that remains to me to a discussion of the failures of business and of government to serve society well.

Business has been charged, during the last five years, with shocking failures of leadership by all sorts and conditions of men in every part of the country. Even business men themselves have joined in this chorus of condemnation, so that it must be true. I shall not attempt to deny it, but merely to examine its causes in order to explain it. Boisterous condemnation will get you nowhere; you must search out cause and effect before a real remedy can be found.

Broadly summarized, the charge against business men is that, although they were entrusted with the economic welfare of the nation, they failed to develop a national point of view, so that they could not understand the national welfare; that, while as business men they were merely servants of the nation, they have

not behaved like servants and did not recognize their master. I may say at once that I think this charge is true, but my interest does not end at this point; in fact, that is where it begins.

What interests me is to find out whether this failure was due to the natural depravity of the business men or whether these servants had in some cases been given the wrong orders and in others no orders at all. There is all the difference in the world between the two assumptions, because in one case the remedy is to "fire" the servants and in the other to give them proper orders. More households have been upset by the ignorance of the wife than by the natural depravity of the cook.

As my time is limited, I must be brief, and so I state bluntly my belief that much of the alleged failure of our business and industrial leaders has been because the society of which they are the servants has given them the wrong orders or no orders at all. I go further and suggest that it has practically forgotten what orders it gave them and has issued contradictory orders. All of us have seen the tragic comedy of a willing, though perhaps stupid, servant running hither and yon, at the orders of a master who was either ignorant or had lost his head. That, I think, is what has happened to business. Setting aside the cases of individual depravity, which are no more common among business men than among teachers, lawyers, doctors, politicians or accountants, I believe it can be proved that an overwhelming majority of business men have labored honestly to carry out the orders which they understood they had received from the nation.

Stated in the most general terms, those orders were to design and produce, under the spur of the most intense competition, the time and labor saving machinery needed to turn out immense quantities of goods with a minimum amount of labor; to contrive new methods of organization to operate this mass production machinery and to distribute these masses of goods when made. These orders were not given by the business men to themselves, as is commonly supposed. They were given to them by the nation, though of course not in printed form. The orders of a society are implicit, not explicit. For example, we know that practically from the beginning of our history on this continent land has been cheap and labor dear; hence the order to save labor. For almost as long a period we have produced most of what we consumed behind a rapidly rising protective tariff; hence the order demanding fierce internal competition. Although Senator

Borah does not know it, our fear of monopoly, exemplified by the anti-trust laws, is the child of our protective tariff. No free trade country could have developed such a "monopoly phobia." As a result of these and other conditions, such as climate, the wealth of a vacant continent, the rare intelligence of the early settlers and a peculiar form of government, we have turned our business leaders into a group of specialists of exceptional power each in his separate field. Nowhere else in the world has specialization been carried so far because nowhere else were the conditions for developing it so favorable. This specialization has immense advantages, of which we are the heirs. But for every gain there is a loss, and the time has come to balance the gains and losses. This is a problem for accountants, in which I will make the opening entries.

Accounting is a ruthless business which is no respecter of persons, and so my opening entry records the fact that long ago we set in motion forces which required our business men to specialize as a condition precedent to survival, to say nothing of success, and that at the same time we offered to success fantastic rewards. Now the goods which we ordered have been delivered, namely, a group of successful specialists. They invented, designed and put in operation the time and labor saving machines which are the envy of the western world, and they perfected methods of organization and administration so that these machines could perform their function, which was mass production. It is not only unreasonable, it is false accounting, to refuse to make the balancing entry: namely, to record the fact that these industrial specialists are not industrial statesmen. But this is what we have done. Having trained and conditioned them as specialists, we hesitate to balance the account and admit that specialists can rarely generalize. We have made them narrow and now we want them broad. Having made them incapable of seeing the nation as a whole, we now demand that they shall think of nothing but the national welfare and always serve it with a single mind. Such a demand is preposterous. The books will not balance.

Doubtless the ideal is magnificent, but doubtless also the demand is unreasonable. No specialists in any field can be masters in many others, and it is certainly rare to find a great specialist with the comprehensive understanding of the whole of life which sound over-all judgments require. I am not suggesting that business men should not now be trained and conditioned to take

a broad national view of business. All I say is that they have not been so trained in the past and that the type of leadership which the nation has been demanding from them during the last few years was practically impossible for them. If we want that type of leadership, as I believe we do, we must train them for it. Our business men have shown themselves very apt pupils. They have been turned into specialists in a comparatively brief period. If we now demand men of broader type the supply to meet that demand can probably be produced.

I am not seeking to excuse the failures of business men but merely to explain them. I have no desire to condone the sins of individual business men. I merely remind you that all men are sinners. The situation which confronts us needs, and must receive, immediate attention, but the disease is not incurable. In fact, there is reason to believe that there is less cause for alarm about the problems of business than there is about the problems of government. Having made some suggestions to you about how to balance our account with the business men, I now turn to the question of how to balance our account with the politicians.

I begin by remarking that it is, or should be, an axiom in dealing with the problems of progressive societies that all basic law is merely the slowly crystallized opinion of an overwhelming majority of those to whom it applies. Putting this proposition in another way, we can say that all integrated groups, or societies, presuppose agreement by practically all of their members on all matters touching the life of the group. This rule holds good no matter what the form of the government, for a dictator is just as dependent on "the consent of the governed" as the president of a republic—a fact which was discovered thousands of years ago, when dictatorships were the standard form of government, and is now being rediscovered by some of our friends in Europe who have recently been playing the part of dictators. Anyone who doubts this has only to observe the frantic efforts of Mussolini to convince the Italian people that wrong is right.

It is obvious, however, that this rule applies only to basic or fundamental law. Administrators and legislative bodies are necessary to do the housekeeping for societies, and all goes well so long as they confine themselves to housekeeping. It is only when they attempt to tear down the house or make radical alterations in it that trouble begins. My point is that when fundamental agreement exists legislation and administration work

smoothly, but that when it does not exist neither will work at all, and the society will disintegrate unless such an agreement can be achieved. A ruthless and powerful governing class may reduce the other members of the group to slavery, but when this condition arises the society has already died. Whatever we should like to believe, we must accept the fact that a stable government is impossible unless it stands upon the solid foundation of a stable society; and no society can be stable unless an overwhelming majority of its citizens agree upon all its fundamental principles.

I have used the words "opinion," "consent," "agreed," and, in order to avoid misunderstanding, perhaps I should say that as I use them they do not imply any conscious logical or intellectual process. For I do not believe that societies are, or can be, held together exclusively by the use of reason. The fundamental agreements which are necessary to create a society and to keep it alive are essentially non-rational and may never arrive at the "head piece" except in order to be rationalized and explained.

Holding this view of the nature of society, and of its fundamental law, I am compelled to believe that all basic legislation "must range with it or be pulverized by the recoil." These principles as to the nature of law our forefathers had learned in the hard school of experience. But we seem to have forgotten them, and it is to the forgetfulness of our law makers and our public administrators that I now turn my attention. Having admitted that business men have often forgotten "what it was all about," I now suggest to you that our law makers seem to have forgotten what law is and what law can do.

Perhaps I can best illustrate what I mean by a few examples with which you are all familiar. After the civil war we passed the fourteenth and fifteenth amendments in order to guarantee the negroes against racial discrimination. But, so far as the negroes are concerned, these amendments are a dead letter, nullified by the overwhelming emotional reaction of the white population of the southern states. The fifteenth is particularly illuminating on this point. It provides in substance that neither the United States nor any state shall abridge the right of negroes to vote, and that congress shall have power to enforce these rights. But congress never had that power in fact, and it has been forced to sit still while many of the negroes were practically disfranchised.

The case of the prohibition amendment is another illustration. This amendment and the Volstead act were never law. While it is probable that at the outset they had the support of a majority of the voters of the nation, it became clear within a comparatively short time that people would not stand for national prohibition, so that the Volstead act could not be enforced. Before this amendment was repealed incalculable damage had been done to the nation by weakening its respect for law and by creating a new class of bandits of great wealth to prey upon the community.

My proposition that our governors and law makers have forgotten the limitations which the nature of society has placed upon the scope of their activities is well illustrated by an example from the immediate past, during the very period when the politicians were loudest in their condemnation of business men. I cite it in order to suggest to you that this is just another "case of the pot calling the kettle black."

One of the first acts of the Roosevelt administration was to draft and push through congress as rapidly as possible the national industrial recovery act, which was intended to produce a rapid and fundamental change in the social and industrial life of the nation. At the outset this legislation seemed to have every chance of success. It was fathered by a president elected by an overwhelming national majority, supported by many of our most prominent industrial leaders and had behind it the whole weight and power of organized labor. But it was a ghastly failure. Within a year of its passage the whole administrative structure (called the "national recovery administration") had begun to crumble because the nation had declared in unmistakable terms that this piece of legislation was not law. Within two years of its passage the whole structure was demolished by a sweeping decision of the supreme court, and one can hardly avoid the impression that the unanimity of the judges in the so-called "chicken case," in which they went far out of their way to expound principles of constitutional law which they need not have considered, was due to the fact that the case had already been decided at the bar of public opinion. What the supreme court really did in this case was to ratify and explain a decision which the nation had previously made. There can be no doubt, I think, that a great body of intelligent opinion in the United States favored the principles embodied in the national industrial recovery act; it may even have been the logical solution of some of our industrial

problems. But it was rejected and nullified by that invisible group called "the middle class" which seems to hold in its hands the destiny of the nation. We have here a remarkable example of the fact that neither intellect nor logic can make fundamental law.

Fundamental law, I repeat, must embody the crystallized and settled beliefs of the whole community. If it does not, it is not law and will not be obeyed. The failure of our law makers to grasp this point is illustrated every time the legislature meets in any state in the union. Every year statutes are passed which do not have the support of public opinion necessary to make them law. No statute is law without the consent of the governed, and all legislation passed in response to the demands of pressure groups falls within this category. Such legislation does no good to the community as a whole and may do great harm.

Now please do not misunderstand me. Although I believe that our governors and law makers have done great damage by hasty and misguided action, I do not presume to judge them. They have acted in good faith but often in an ignorant, and sometimes in a frivolous, manner, and they have often climbed to positions of great power without an adequate understanding of the nature of their duties. I make this entry on one side of the ledger, and as a balancing item I record that the failures of our law makers and administrators have more often been the failures of democracy than the failures of individuals. As in the case of business, I am disposed to believe that our law makers are the victims of circumstance rather than of their own willful folly. If we want to make things different and make them better we must change the circumstances, for we can not change the men.

But in order to change the circumstances we need not embark upon new or radical courses; quite the reverse. What we need is to understand and to obey the laws of nature which govern societies and to recall certain simple truths which are embedded in their structure. These are the truths which I stated at the outset; namely, (1) that business and government are both as old as the race; (2) that both are servants of society; (3) and that each serves society in a different field. When either of these servants tries to perform the function of the other we have the spectacle of a whale trying to climb a tree. I am aware that all socialists, communists and fascists deny the fundamental thesis upon which I stand, but that does not greatly disturb me because

I believe they are wrong. They have failed, I think, to grasp the fundamental laws of nature by which societies are made and can be destroyed. They have been misled by logic and clever reasoning and have forgotten that societies are not the children of reason and can not be controlled by logic.

The proposition that both government and business are servants of one master few will deny in theory, although most of us disregard it in practice. But the proposition that neither business nor government can successfully perform the functions of the other is highly controversial; many deny it in theory and almost everyone in practice. For nearly a century we have witnessed the attempts of business to dominate the government and actually to assume some of the functions of sovereignty. While these attempts have sometimes attained a short-lived success, they have all failed in the long run, with great damage to business, to the individuals who led these raids and to the nation. In fact, most of the popular indignation which always comes to a head in periods of depression is due to these departures of business from the field in which it belongs. These two features, the temporary success by which individuals have often obtained great wealth and the ultimate failure, with the popular wrath which accompanies it, commonly get all the attention of the public. We tend to assume that this is the whole story. But it is less than half of it. The unearned wealth of private adventurers is taken from a relatively small number of persons, and the loss, disgrace and public condemnation fall on relatively few shoulders. These are facts which each of you can verify out of his own experience, but neither of these phenomena is of major importance. The important fact is that when business attempts to usurp any of the functions of government it damages the society of which both business and government are the servants. When either of these servants misbehaves, the whole household is upset.

During the last twenty years, and particularly during the last five years, we have witnessed great and increasing advances by government into the field of business. In some cases the advances have been deliberate and open; in others they have been accomplished crab fashion, or even tail first, under the guise of government regulation. But I know of no case in which they have been successful, and there is no prospect, I think, that they will be. In some cases direct government losses have been very large; in some cases the losses have been made good by a forced

payment from individuals; and in some cases the losses will have to be paid by future generations. But in all cases, I suggest, the damage to society is the most important and the most serious, because these ventures of government into business, or business into government, tend to disorganize and to disintegrate our society. When government once becomes involved in economic adventures there is no point at which it can conveniently call a halt. "One good turn deserves another," and in these cases it often gets two. Rigidities and artificial price structures are created, to which there is no end, short of the final collapse. In private enterprise, where there are many small competitors, the failure of individual concerns is not a serious matter, but we have all had an opportunity to observe that even in private business when the units become large the shock of failure is greatly multiplied. When Baring Brothers & Company failed in 1885, for example, it produced an international panic, and in our own day there are many corporations that have become so large that we do not dare to let them fail. This danger grows to the proportions of a catastrophe when government enters into business, because each step makes the next step seem inevitable, and the time soon comes when retreat is impossible. The thing has grown so big that it must go on growing.

That no government can admit failure is a fact which can not be denied. Such an admission would be an act of suicide, as our own president, in spite of his immense popularity, has been forced to admit. When Mr. Roosevelt took office he told us that he was going to try some dangerous experiments, but that if any of them failed he would let us know at once and that the experiments would be abandoned. As we all know, several of them have failed, but he has not told us. Perhaps it was just as well, because most of us knew it before he did.

To illustrate my point of what happens when government enters into business, I cite the amusing case of the agricultural adjustment act. This was explicitly an emergency measure designed to assist the producers of certain basic agricultural commodities. But it has now become a permanent measure, and it begins to appear that there is no assignable limit to its scope. The recent extension of the act to cover potatoes would be humorous, if it were not tragic. Having forced farmers to reduce their acreage of certain so-called "basic crops" and having recommended them to diversify, the government now finds itself in a

position where it must fine them if they do so. Farmers who have reduced their acreage of other crops are now told that if they plant potatoes on the idle land and sell them they will have to go to jail. Of course, legislation of this character is not law. Bootlegging of "spuds" is far simpler than bootlegging of whiskey and will prove more popular. To complete the comedy of errors, it is probable that if the law were enforced the legitimate potato growers would be ruined, because many families that now buy potatoes would grow their own, and the others would trade with the bootleggers. However, the potato farmers need have no fear for the law will not be enforced. It is not law in any proper sense.

The areas within which business and government can operate successfully are defined by the law of nature which creates and destroys societies of men. Like other natural laws, this one can not be completely comprehended by men in their present stage of development so that we can not tell accurately where the lines between the activities of business and government should be drawn. In the present state of our knowledge some overlapping is unavoidable, and, to complicate matters further, the functions of these servants of society change from generation to generation as the society itself evolves. From this dilemma there would seem to be only one escape. Both business and government must be taught that they are servants, so that they will never forget it; both must be taught that their master can and will change the sphere of their activities without consulting them; and both must be taught that their most important function is to work together for a common end.

Considering the times in which we live, these principles may appear to be an impossible counsel of perfection. Perhaps that is true, but, if it is, the civilization of which we have been so proud is destined to perish. We must learn these rules and obey them or die. Confronted with this categorical imperative we may find a way to live. I believe we shall.

My time is up and I ought to sit down, but, having set you face to face with a dilemma of the first magnitude, namely, how to keep your society alive, I feel that I ought at least to hint to you how that result might be achieved. Please observe that I do not say *can*, for we are dealing here with mere guesses. Throughout my address I have repeated my belief that both government and business are the servants of society and that society must direct their work. Of course this statement is an over-simplification

which may be so great as to amount to distortion, because social forces operate mainly below the level of consciousness, and the terms "order" and "direct" imply conscious intention. But I hope you will feel that the words and images which I have used are accurate enough for practical purposes, because in the long run the whole body of society must determine and, to a considerable extent, must direct the activities of its individual members. For example, I believe, and I ask you to believe, that in this country during the last two generations the intense concentration of individuals on the production of material wealth was determined by the society as a whole. Of course, this determination was influenced by the environment in which our society was placed. We are creatures of our environment, like all the rest of creation, but, as we have now arrived at the point where we can create and dominate our environment, it is not misleading to say that our society determines our activities.

But we must face the fact that this concentration on economic problems has necessarily involved the neglect of other problems which are certainly of equal, if not of greater, importance. At the head of the list of neglected problems stand education and government, to which we have given relatively small attention, and what little we have given does not appear to me to have been of very high quality. As a result, our system of education is obsolete and the science of government is embryonic. Education today does not deal with reality, and the technique of government administration has lagged far behind the requirements of a modern industrial state. In other words our concentration on one aspect of human life has produced a distortion which has now become painful; so painful in fact that something must be done about it. And something is being done. The agony which we now suffer and the confusion which we now observe are the symptoms of a major shift in the focus of social thought and activity. I believe the attention of our society has already shifted from industry and is now adjusting its focus on education and on government. We shall be able to measure the progress of this adjustment by the migration of men of unusual ability out of industry into the two other fields which I have named. During my life the brains of the nation have been concentrated on industry because our society felt that its major problems were in that field. Today that is no longer true. The nation now believes that its major problems are in the field of education and government.

To the educator and to the statesman, therefore, it will offer the greatest rewards and we have a right to hope that, once the shift has been achieved, progress in these fields will be rapid. The beginning of this shift, which has already been made, marks the end of one epoch and the opening of a new one. Pray God we have not delayed the step too long.