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America's interest in the reparation conference

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Recommended Citation

Haskins & Sells Bulletin, Vol. 12, no. 03 (1929 March), p. 24-26

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and credits of our Latin-American customers.

"On the part of Latin-America:

"1. There is a very general fear of what they believe to be imperialistic policy of the United States. They are not sure that we are to be trusted. Does our release of Cuba or the Panama episode correctly reflect our aspirations? Are we sincere protectors of the weak, or are we hypocrites? Which of these did the conquest of Texas illustrate? Are we sincere in our protestations in respect to Haiti and Nicaragua, or have we a deeply hidden policy? If we are as honestly desirous to help the Latin-American countries as we profess, why did we, during and after the war, adopt a hypocritical policy towards the actual Costa Rican Government? Does the Monroe Doctrine mean to us that Europe must keep out, but that we may step in? Or does it mean, as they believe it should, that the states of America, *inter alia*, shall respect as inviolable the territory of each other? They know what we say, but are still uncertain as to what are our intentions.

"2. The introduction of American capital in a large way for great commercial developments in the way of transportation, oil, and farming hurts their pride. They welcome the benefits, but, regretting their

own insufficiency, they resent the invasion from outside. Particularly is this so in regard to capital from the United States as its possible corollary, official intervention, is a nearer danger than with British or German undertakings.

"3. Their past experiences make them doubt the continuity of trade relations established with us. In many cases the responsible principals have not met and become acquainted. The old aloofness, although on the road to disappear, has not wholly gone.

"4. There is not yet the full correlation as between the three chief factors of international trade relations; exporting, importing, and banking.

"5. Our assumption of what we are pleased to call the part of a 'Big Brother' has a quality of condescension which is galling to the pride of peoples who value their own culture beyond ours, and whose colonial beginnings on this Continent antedate ours by a century."

The author quoted above further states that if difficulties are known and can be appraised, and if the need and wish to overcome them is mutual, they can be overcome. That this will happen to the advancement of trade relationships between North and South America, and on a mutually satisfactory basis, is a certainty.

America's Interest in the Reparation Conference

By GEORGE P. AULD, Former Accountant-General of the Reparation Commission

THE reparation negotiations now being conducted in Paris by the Young Committee are of large practical consequence to this country in our international relations and our domestic affairs.

The subject matter of the conference is one which ever since the war has had the most important effects on the political and economic life of Europe, and we can hardly fail to follow with absorbed attention, the writing of a new chapter in this great controversy.

As an exporting nation of the first magnitude, we cannot remain unaffected by the outcome of the conference. Annually we ship abroad five billion dollars' worth of the products of our factories, farms, forests, and mines. These exports, of which Europe takes nearly half, amount to seven or eight per cent. of our total production. This represents a highly important proportion of our activity, and any substantial decrease in it would throw our industries into the doldrums. Five years ago our Euro-

pean customers were quarreling bitterly over the reparation question, and the ill effects of the dispute were felt in almost every department of their political and economic life. With the adoption of the Dawes Plan, there followed a period of remarkable political appeasement and economic recovery, and today a new group of skilful practitioners of international finance is preparing a modification or completion of that plan, looking to a new era of advanced convalescence in Europe.

Our second large economic interest in the settlement obviously lies in our stake as investors in European securities. This stake is an important one, though possibly not of the dimensions which common opinion assigns to it. In a study of mine in the *January Annals of the American Academy* (Philadelphia) it is suggested that the conservative estimates of the Department of Commerce relating to the amount of our foreign holdings deserve to be given great weight, despite the existence of other estimates of considerably larger size. The mean of the Department's estimates, as of January 1, 1928, indicated about three and one-half billion dollars invested in Europe. This figure of our gross holdings, moderate as it is, is substantially offset by nearly three billions of our own securities held by Europeans (our total world investment being estimated at twelve and one-half billions, and the total offset for foreigners' holdings here at three and three-quarter billions, leaving a net foreign investment of eight and three-quarter billion dollars). In addition, there are, of course, the inter-ally debts, the discounted value of which, at four per cent., as determined by the United States Treasury, is 7.47 billion dollars.

One reason for not lightly dismissing these relatively low estimates is this: The total of our yearly balances of exports over imports (including invisible items), since we started in 1915 to liquidate our then debtor position of about four and one-half

billion dollars, falls short, by over four billion dollars, of indicating a present foreign investment of even the size estimated by the Department of Commerce. The invisible items in these estimates of our trade balances (which for the past several years have been compiled by the Commerce Department) are admittedly very difficult to determine. Nevertheless, the discrepancy still has to be accounted for, and further point is given to it by the statement of the Department that other compilers who reach higher estimates of our foreign holdings, have not taken sufficient account of "back-wash" or resales and redemptions of foreign securities, subsequent to the sale of the original offerings in our investment market.

The net figures, after offsets of this nature, are seldom published as conspicuously as the periodical announcements of the considerably larger gross figures of foreign issues taken here. The par value of such issues, in each of the years 1927 and 1928, amounted roughly to one and one-half billion dollars. The net figure for 1927, however, after estimated "back-wash" and increase in foreigners' holdings in the United States, was only seven hundred million dollars (the 1928 net figure not being yet available).

Carrying gross figures in our minds, and having no long tradition of foreign investing back of us, we seem, from time to time, to suffer from a certain nervous apprehensiveness, which is not, in fact, justified. We shall perhaps eventually learn to measure our foreign investments by the yardstick of England. British earnings in 1927 from such sources, according to their Board of Trade reports, amounted to 1.35 billion dollars, which is six per cent. on a principal sum of twenty-two and one-half billions.

This business of investing our surplus funds abroad, though perhaps less in annual amount than we have recently been accustomed to believe, is nevertheless of

great importance. It is becoming of increasing consequence to us that Europe remain a good credit risk. One reason, of course, is that we want our present loans paid at maturity. But, broadly speaking, that will unquestionably happen, whatever temporary disturbances arise in Europe. The continuous year-to-year peace and prosperity of Europe are important to us, because we cannot afford to have any interruption occur in the continuous placing of our surplus funds abroad. Upon the new loans (though, in fact, hardly less upon the expenditures of our tourists abroad) the maintenance of our export trade depends. These new loans provide our foreign customers with the dollars necessary to pay for our surpluses of exports over imports.

What, then, will be the effect of the new reparation settlement on these varied interests of a material nature which we have in the stability of Europe? If the con-

ference has a successful termination—and the prestige, experience, and practical sagacity of its members make such an outcome probable—Germany's now indeterminate reparation liability will be definitely fixed to the reasonable satisfaction of all parties concerned, the present foreign control in Germany will probably be relaxed and the framework of a scheme for the future marketing of reparation bonds may perhaps be provided.

Such a series of accomplishments will not only constitute a distinct advance in the formal position of the reparation problem; they will also result in a substantial easing of the tensions which, in some measure, still remain over from the great conflict. In short, we may hope that the new settlement will strengthen the psychological foundations upon which the peace of Europe rests, and will give added vigor to the functioning of a normal economic régime.

Preferred Surplus

By JOHN R. WILDMAN

A RECENT decision in the Wabash case (*Barclay et al v. Wabash Railway Company*), affecting as it does the matter of dividends, again calls attention to the possibility in the future of a change in the cardinal principle which long since has guided accountants in considering the relation of dividends to surplus. The principle is, that dividends are chargeable against surplus only when declared. The decision in question, if affirmed ultimately by the United States Supreme Court, will challenge seriously continued adherence to that principle, in cases where there are preferred shares.

A characteristic of dividends is that they are spontaneous; that they do not accrue like interest, but set up a right to surplus on the part of the holders of shares, only when declared. This principle holds even though shares carry cumulative rights, the

effect of which is to deny to the holders of junior issues any dividends until all accumulations in favor of preferred shareholders have been satisfied.

The courts generally have been disinclined to dictate to directors with respect to dividends, and to leave to their judgment the question of whether or not surplus should be so distributed. Occasionally, accountants have been required to interpret certain passages in certificates of incorporation where dividend provisions seemed to make dividends akin to interest and to decide whether or not surplus should be assigned to shareholders regardless of action by directors. Generally, the prevailing rule has been that no charge against surplus should be made, notwithstanding the existence of a cumulative right, until directors have authorized the charge by declaration of the dividend.