Editorial

A. P. Richardson

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EDITORIAL

Investments in Foreign Securities

The newspapers nowadays are filled with discussions of the lamentable condition of foreign exchange and advertisements of brokers, bankers and others, drawing attention to the peculiarly favorable returns which may be derived from the purchase of securities of foreign governments. We are told that investment in foreign loans may lead to a profit of from 100 to 200 per cent, according to the imagination of the advertiser, and the statements are supported by tables showing the present debased condition of foreign exchange compared with the parity, which, by the way, never exists. Exchange in francs or sterling, or any other foreign money, may go to a premium or a discount, but it never remains exactly at par.

However, for the purpose of comparison it is interesting to place the intrinsic value of foreign money against the present low price at which such money can be bought.

This is a matter with which accountants should acquaint themselves, as there is an increasing tendency among Americans to speculate in the bonds of foreign countries. A few years ago such operations would not have been described as speculation, but as sound investment. Now, however, when the world is in turmoil financially and no one can see the outcome, there are few investments which can be regarded as gilt-edged, and most foreign offerings have at least a speculative element in them.

A quite remarkable book by John Maynard Keynes, who was representative of the British treasury at the peace confer-
ence in Paris, has attracted a great deal of attention, and we believe will have a direct bearing upon the public opinion in regard to foreign government bonds. The book to which we refer, The Economic Consequences of the Peace, is evidently written by a man who, with a wide comprehension of the principles of international finance, regards the treaty as impracticable in many ways.

It is perhaps well that there should be such a book as that which Mr. Keynes has written, because some of us, particularly in America, are inclined to think rather lightly of the seriousness of the European financial and racial problems. The war and its resultant chaos are not matters of intimate concern to the average American, even of the better informed classes, and it is a good thing that we should be brought up with a round turn once in a while and told to face the facts. In facing the facts, however, let us not mistake clouds for night or dangers for disasters.

If America is to stimulate her foreign trade, something must be done to encourage the resumption of healthy relations between the moneys of the several European countries and our own. Trade reports already are indicating the inevitable decline in export business which must follow so abnormal a condition of foreign exchange, and we are told that something must be done to rectify matters without delay. One of the things which we can do is to invest largely in the so-called internal securities of foreign governments. But the investment must be wisely and cautiously made, for there are securities from which a return is improbable.

Some pessimists would tell us that even the internal loans of France, while not in danger of repudiation, may be in some danger of temporary default.

We do not believe for a moment that any security bearing the endorsement of the French republic or of Belgium is in danger of repudiation, and so far as British and British colonial obligations are concerned we regard them as almost as safe as the securities guaranteed by the United States government.

The whole question of investment in foreign securities should receive consideration by every accountant who is called upon to give financial advice—and in these days what accountant is not?
Labor and Capital

If you stop any man in the street and ask him what is the big problem of the hour, he will undoubtedly say: "The relation between capital and labor." He will say this whether he is a capitalist or a laboring man or one of that enormous inert mass of humanity which permits itself to be described as the middle class and is the grist which is being ground between the upper millstone of labor and the nether millstone of capital.

This problem probably has existed from the day when man hired his first servant, and it will certainly continue until the end of our present scheme of things here on earth. Once in a while the relations between the two great factors of production become strained, and we are told that a revolution is about to occur. Sometimes it actually occurs, and then as a rule hell breaks loose.

Here in America there is a vast number of alien laborers, led by a more or less unscrupulous coterie of agitators, which makes a great noise and threatens terrible things. The capitalist is denounced, and his ways are abhorred—and it is a lamentable fact that the capitalist generally becomes frightened and surrenders to the will of the labor agitator.

The American capitalist, instead of the awe-inspiring dictator which the labor leaders would have you believe him to be, as a general thing is rather inclined to do the best he can for his employees. In the past he has made tremendous mistakes and the laboring man has not had a square deal; but the capitalist has generally erred in ignorance, not with malice aforethought.

The American working man, as a whole, is about the finest type of skilled labor in the world. He is honest, usually straight-thinking, a good American at heart, and not much inclined to shoot up the town or tear down the structures of civilization. If you talk to him in the individual you find him all that you could desire. If you talk to him in mass when the labor agitator is around you find him incomprehensibly foolish. But you never find him at heart an anarchist. He believes in law and order, and in the last extremity he will stand for it.

Quite recently we heard of proposed solutions of the labor problem which seem to us worthy of reproduction, and all the remarks which have gone before are merely by way of intro-
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duction to this simple idea, which is not entirely new of course—but nothing on such a question is likely to be new.

A speaker at a convention held near New York, in the course of remarks upon quite another subject, said incidentally that he believed the labor question could be solved by the adoption of two principles: first, that the laboring man, the capitalist or any other human being should have exactly the same voice in the industrial affairs in which he is concerned that he has in the political affairs in which he is interested; second, that the laboring man, the capitalist or anyone else concerned should be informed of the disposition of all the profits of any business or trade or industry to which he contributed financially or by service.

The first of these two propositions sounds like industrial socialism—and socialism has a deservedly unpopular place in public estimation to-day—but if we analyze the proposition it seems to have much to commend it. Of course, the actual development of the idea would require great thought. It might be necessary to place a different value upon the industrial votes of different classes so as to overcome the discrepancy between the numbers of human entities in the several classes. The idea, however, is pure theory at present, and we are offering it, not with any endorsement, but as an interesting academic proposal. It may be said for it, however, that a voice in the affairs of a nation generally carries with it an inclination to establish the strength of the nation, and the same principle might apply in the case of industry.

The second thesis, namely, that the disposition of profits of a business should be known to all who help to produce the profits, is one that must appeal to every sound thinking accountant. In these days of secret reserves and hidden surpluses on the part of companies and of absurd and disgusting extravagances on the part of people, one wonders whether complete publicity as to the destination of every dollar of profits would not do much to bring us to our senses.

Of course, everything that makes for clear statement of facts appeals to the accounting mind. To show things as they are should be the ambition of everyone connected with accountancy.

With this thought in mind we present to our readers this second part of a theory for solution of a world-old problem.
Differences of Opinion

It seems scarcely necessary to say that The Journal of Accountancy does not necessarily stand sponsor for all views expressed in signed articles which it publishes. We would not have thought it worth while to mention this fact at all had it not been for the apparent impression in the minds of at least a few readers that nothing could appear in The Journal of Accountancy with which the magazine did not officially agree in principle.

In this issue appears an article entitled Unsold Goods and the Income Account, by William B. Gower. The views expressed by Mr. Gower in this article do not conform to those of most accountants, and we do not endorse the arguments which he presents. The matter concerned is of great interest and Mr. Gower’s remarks are ingenious and therefore worthy of consideration, but we doubt if they are sound from an accounting point of view.

It may be said, however, in Mr. Gower’s favor, that, since his article was submitted to us, form 1040F, “Schedule of farm income and expenses,” has been issued by the treasury department and contains an endorsement of his position. In the instructions on page 4 of the form appears the following:

“Inventory. If you render your return for the taxable period of 1919 upon an accrual basis, you may value your closing inventory for 1919 according to the farm price method which contemplates valuation of inventories at market less cost of marketing.”

It seems, therefore, that while the orthodox accounting principles may not accord with the views expressed by Mr. Gower, he has at least the consolation of knowing that the treasury has seen the matter as he sees it, with the important qualification, however, that the treasury limits the application of the rule to the inventories of farmers and stock-raisers, where the cost basis is especially difficult to determine.