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“A New Competitor of Business”*

BY ROBERT O. BONNELL

I spent yesterday morning in Washington where I heard the administration's Industrial Coördinator Berry make a plea that business leaders and the representatives of labor, consumers and investors, get together on an industrial program. I am not going to recount what happened, for most of you read it in the papers last night and this morning. A considerable degree of scepticism was apparent on the part of industry which in the early days of the national recovery administration was decidedly coöperative.

But when the whole blue eagle program finally collapsed and was declared unconstitutional, after considerable time, effort and money had been spent, industrial leaders reached the conclusion that they had best attempt to work out their own problems and avoid becoming involved in new moves by the administration which might again result in little but confusion. Indeed business and industry seem to have little enthusiasm for many things the government has done, and there is some justification for that feeling.

A recent report of the Brookings Institute makes it clear that standards of living increase by the creation of more wealth and not by attempting artificially to divide up existing wealth; that an economy of scarcity means less for all; that money is not wealth, but merely a medium of exchange; that artificially stimulated price increases eventually work the greatest hardships upon the laborer and the farmer and tend to lower the standard of living; that large government spending means higher taxes—that higher taxes lead to increased prices with a consequent decrease in real income and real wages; that wealth can be best distributed equally by intensified activities directed toward increased production of wealth by agriculture, business and industry—by giving more for less money, not through the reduction of wages, but by increased efficiency.

However, an examination of our governmental activities indicates that we are following exactly the opposite course. We have been destroying our surpluses, which means the destruction of

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wealth. Schemes have been urged for the specific purpose of artificially dividing the existing wealth. We have attempted to create an economy of scarcity. We treat money as wealth rather than as a medium of exchange. Prices have been artificially stimulated, and this already is working a hardship upon labor. It is also beginning to affect the farmer's sales and will affect adversely the standard of living.

Government has been a profligate spender; taxes are higher and real incomes and real wages are thus being lowered. We have paid people for producing less, thus putting a penalty on efficiency. Furthermore, we have had a trick bookkeeping system which the government would probably condemn as crooked if it were indulged in by the railroads or the utilities or any other group which issued securities to the public.

The federal government has continued to spend twice as much as it expected to take in. Its program of relief has had the effect of steadily increasing the number of those on the relief rolls and the cost of taking care of them since 1933, even though industrial employment has increased 20 per cent. since then, and labor income has greatly improved. But worse than that, it is developing a class of professional charity seekers. Governmentally speaking, we seem to be getting nowhere fast, except further into debt and more confused. It has been well said that the people should support the government, for government can not support the people.

In spite of the unsatisfactory state of affairs in government, there is a good deal of loose talk by politicians about the necessity of cleaning up business, of more regulations and more investigations. By whom is this cleaning up to be done? By whom are these regulations to be drafted? By whom are these investigations to be made?

Are the people to be assigned to these tasks practical, successful and experienced business men who, by their training, ability and character, have demonstrated their capabilities to clean up, regulate and investigate, or are they to be men who have found it more profitable to feed at the public trough; who revel in shouting threadbare platitudes from soap boxes; men who are long on promises, but short on performance; men who in the discharge of their responsibilities have proved to be wasters and wouldn't recognize a truly balanced budget if they saw one; men who talk in terms of a more abundant life while they spend 35

per cent. out of every dollar the American worker and business man can make?

Are these "cleaners up," these regulators and these investigators to be the men who can conjure up such legislative monstrosities as the potato bill, men who spend their time building model villages in which no one lives, men who buy grandfather clocks with Westminster chimes, pewter plates and maple candle sticks for more government employees to use while they harness the sea at Passamaquoddy, or perhaps those who would use \$24,000 public-works-administration funds to make Rye, New York, handball conscious? You can answer these questions and in your answers you will find little promise of anything constructive.

While it is true that in any free country, frauds will be perpetrated in the name of freedom by those in high places as well as in low places, politicians can not escape this indictment. Just as there will always be a few in business who will abuse their liberty, there will be those in government who will abuse their power under any system. Those guilty of fraud, whether they be politicians or business men should be punished, but the lack of moral fibre among a few is no excuse for junking the whole system of American government which has served us well for a hundred and fifty years. Personally, I prefer to take my chances with my average fellow business man rather than to place my trust in the "mine run" of politicians.

Certainly there is little to encourage even the most optimistic to expect any very practical revamping of either our social or economic structures by a government so hopelessly confused in its own policies, and whose extravagance, if continued, will lead straight to bankruptcy.

If the politician really wants to improve the situation in America and really cares to speed recovery, he could do no better than to insist that business men help him clean up the government's house, that the business men issue regulations under which the business of government would be required to operate and that this be done only after the most thorough investigation has been made of every department of the federal government by the best possible business brains in America. Above all, the politician would, as rapidly as possible, take the government out of competition (whether it be direct or indirect competition) with business, industry, labor and agriculture.

Now let's examine some features of governmental competition. Lewis H. Brown, president of the Johns Mansville Corporation, made an address before the American Bankers Association in New Orleans in which he developed an angle of governmental competition which must not be overlooked.

By and large, business and industry compete for what they consider to be their share of the consumer's dollar. Not so long ago every man considered only those in the same sort of business as his competitors. For instance, one ice man was concerned primarily with the part of the consumer's dollar that other men in the ice business received.

However, as electric and gas refrigeration developed, all ice men became vitally interested in the part of the consumer's dollar that these new competitors received. Consequently, the ice men, who had hitherto been at each other's throats, banded together in an attempt to save for themselves as much of the consumer's dollar as possible. This situation developed in many departments of business, and each in turn recognized that first one competitor after another was cutting into the share of the consumer's dollar it had previously enjoyed.

But gradually business and industry are awaking to the fact that their greatest competitor for the consumer's dollar is the government. At first blush that sounds ridiculous, but let's see how far that competition has gone.

While the national income in 1934 was approximately forty-five billion dollars, local, state and national governments spent fifteen and one-half billion dollars. In other words, government costs last year equalled one-third of our total income. In spite of heavy governmental borrowings, based on the credit of individual citizens (which those citizens must eventually repay through greater taxation), the government took and spent between 20 and 25 per cent. of all that we earned. Furthermore, as our government debts are pyramided, this new competitor of business promises to take an increasing share of the consumer's dollar.

The figures indicate that twenty years ago the total taxes collected by the federal government amounted to only \$400,000,000 annually. In other words, it spent about \$7 a year per person. With the passage of the sixteenth amendment, the federal income tax furnished the impetus for increased governmental spending. The adoption of that amendment meant surrender by the citizen of a right to the federal government not previously delegated

to it by the constitution,—his right of freedom from direct tax levies. Unlimited spending followed. As a result, from a \$7 per capita expenditure in 1915, we shall reach, in federal spending this fiscal year, a new record high of about \$70 per capita. This means a 900 per cent. increase in twenty years. That's something to think about.

If we examine the per-capita cost of combined local, state and federal governments, we get little consolation, for in 1915 the combined expenditure was \$33.84 per capita, while in 1934 it had increased to \$122.50.

Every business man and every industrialist, no matter whether he be large or small, must recognize that government has, in the last 20 years, increased by 700 per cent. the amount it demands of the consumer, which means that the part of the consumer's dollar available to all others is proportionately reduced. We may well ask ourselves what business and industry have done about this new competitor. Have they massed their forces, as trade associations did against other competitors, to try to remedy this situation? Only in a half-hearted way—and there are millions of business men who plead that they are too busy to give thought to government or to take an active part in finding a solution to its multifarious problems.

Grumbings and groanings over hardships imposed upon persons, businesses and industries by taxation or by legislation will get us exactly nowhere. We have chosen men to represent us in all branches of government. If each of us would voice his opinions to those representatives and suggest constructive remedies, we should soon see a marked change in governmental policies. If some of those chosen refuse properly to represent us, then with an aroused and enlightened public interest, others who will do so can be elected to take their places.

The great fault in the past has lain with business and industrial leaders who have left the formation of programs to politicians. We have accepted party platforms on faith, with no attempt to determine training, ability or disposition to "make those promises good."

Business and industry must have a program. They must take a hand in seeing that those who are selected to carry out that program can be reasonably expected to get results—and when I refer to business I include all those who are in business, whether it be the business of growing crops, raising live stock, merchandising dry goods or giving medical, legal or financial advice.

Any competitor which insists upon having such a large slice of the consumer's dollar as the government does, not only affects the business man and the industrialist, but also vitally affects those who are on the payrolls of business and industry. While it may be true that 12 per cent. of the people in this country must at present look to public relief in one form or another for all or a part of their food, clothes and shelter, it must not be forgotten that the remaining 88 per cent. depend upon business and industry for their livelihood. Any governmental policy or any combination of policies which has a tendency to reduce the natural progress and development of business is striking at the very vitals of the man who earns his living by the sweat of his brow and the skill of his hands and is unduly retarding the recovery movement. Here again let us remember that the best government is the one that governs the least.

And schemes, which by the regulation of hours or of base pay result in the unwarranted increase in wages, in effect take jobs from millions of marginal workers. For obviously, if a business or an industry is to continue to operate it must earn a reasonable return upon its invested capital, or that capital will be dissipated and failure will follow.

If the cost of production, through unreasonably high labor costs, makes it possible to continue to employ only those who are abnormally efficient in order to compete on a price and quality basis, the marginal workers—those who possess only mediocre qualifications—will eventually be dropped from the payrolls by the installation of labor-saving devices made profitable by excessive labor costs.

The motives of those who would raise wages may be entirely praiseworthy. They may sincerely desire to raise the standards of living. On the other hand, it is highly probable that the effect of their efforts will be the opposite.

It would appear, then, that by unwarranted interference in the regulation of hours and wages, government may be gradually, but no less surely, creating a new competitive condition which will eventually throw millions of marginal workers out of jobs. This is another case of the old bromide "All that glitters is not gold."

Let me give you another illustration of how legislation, conceived undoubtedly with the best of intentions, may work in reverse. Before the national recovery administration was declared unconstitutional, rules and regulations were issued covering cer-

tain industries. National recovery administration rules and regulations were urged upon a certain company which employed one hundred and fifty men. The company, hitherto successful, but largely dependent upon the copper smelters to absorb its output, was having an increasingly difficult time in 1931 and 1932. Something had to be done. As a result of a conference between the representatives of the workers and the executives, a plan was adopted under which the absolutely necessary running expenses were to be paid first and the balance of the company's income was split among the workers and executives in proportion to the previous average weekly earnings of all concerned, except that the higher priced executives took a proportionately smaller share. In this manner the plant was kept operating and the men were not forced to go on relief. An experimental crew was put to work and a new product developed, which has not only put the company back on its feet but has given the men a wage scale higher than that previously enjoyed.

Back in 1933, government officers attempted to force this company to install national-recovery-administration wages, arguing that the difference in cost could be made up by increasing the price of the product. Such a move would have destroyed even the limited market the company had left and would have resulted in closing the plant in less than two months. Of course, the company didn't get the blue eagle, but it did keep its men at work and its capital structure largely intact.

There are hundreds of such illustrations. Business men must deal with facts and not with theories. Instead of bettering the conditions of the laboring man in the instance just cited, governmental interference would have destroyed his means of livelihood.

During the last couple of years the government has gone into various types of businesses under one name or another. It has, for instance, entered almost every phase of the banking business—consider the powers given it by broadening the activities of the reconstruction finance corporation, the federal reserve system, the federal deposit insurance corporation, the federal housing administration and the thirty-five distinct agencies in Washington that have something to do with mortgages. The federal government is said to be the world's largest mortgage holder. It now insures the free shares of building and loan associations and even the mortgages themselves. It is practically underwriting real-

estate values throughout the country and no one can tell the extent of its present contingent liabilities.

Most of these government agencies were brought into being to promote recovery. There are those which have served a highly useful purpose, but there are indications that the urge is already being felt to have some of them continue as a permanent part of our governmental structure in competition with private capital, while that capital subsidizes these operations through taxation. Such competition would be, of course, grossly unfair and, if persisted in, will have the effect of deterring private capital initiative, which is so desirable in any recovery movement.

Innumerable instances of governmental competition with businesses could be cited. The Tennessee valley authority is only one of several huge power projects. We wonder why our government wants to compete with public utilities, for we know that about \$11,500,000,000 have been invested in utility bonds by the American people, of which the average man has supplied a healthy part through his insurance policies, his deposits in savings banks, the holdings of hospitals, colleges and universities, etc.

We ask ourselves who provided the brains to discover electricity and to develop private enterprise? Who furnished the money and the talent to build and manage public utilities—the politician or the ambitious, hard working, intelligent free citizen? We remember with no little discomfort, our experience with government operated railroads. We want no more of it.

All of us are concerned by the destruction of our surpluses which means the destruction of wealth. Historically, as I've already suggested, prosperity is linked with increased—not decreased—production. There can be no real prosperity in an artificial economy of scarcity. There is a bad reaction from any attempt eventually to circumvent the natural laws of supply and demand.

As a result of the administration's hog-killing raid to reduce surpluses and thereby raise the price of pork, it is reported that pork and lard consumption has decreased 28 per cent. and that the American housewife is serving less pork than in any year since 1917.

The ruthless slaughtering of cattle and hogs and the plowing up of cotton and wheat has laid further burdens upon the people, who, through the processing taxes, are being compelled to pay for this ruthless destruction. Meanwhile, during the first three months of 1935, twenty-four million square yards of cotton cloth

were imported, while thousands of workers in the cotton mills of this country were idle. Ten times as many pounds of cotton seed cake and meal were imported in March, 1935, as were imported in March, 1934.

We imported 600 per cent. more butter the first three months of 1935 than in the first three months of 1934. We imported 140 times as much corn during the same period. For the first three months of 1935 we imported 24 million pounds of fresh meat and seven million pounds of canned meat. We have thus provided work and wages for foreign farmers and labor to make up the deficits we wilfully created. The people are being taxed, not only for the increased cost of the necessities of life, but to pay for this wanton destruction of our crops and animals. Higher food prices resulting from the agricultural adjustment administration experiment brings forth the following significant statement: "Increasing competition, accompanied by consumer resistance to current food prices, is having a depressing influence on the entire grocery line." Are these the results the government sought? They are the results predicted by the Brookings Institute.

Here, then, is an example of another type of competition stimulated by a governmental attempt artificially to circumvent the natural laws of supply and demand.

These schemes put the government further into business, when its constant endeavor should be to get out, and keep out, of business. All its attempts to run a business have resulted in increasing deficits, which must be paid by those with whom it competes. It has yet to demonstrate that it can economically run the job it was designed to do. It already has plenty to keep it busy without looking for more trouble and expense.

We have examined several types of government competition—direct competition by entering upon business ventures, competition for a larger and larger share of the consumer's dollar—a competitive condition created, which deprives the marginal worker of his job; regulations and legislation which would make profitable operation impossible, thus throwing labor on relief; commodity-price manipulation, which gives the competing foreign agriculturist and laborer a new foothold in our domestic market and reduces industrial activity and the volume of American sales.

The extraordinary delegation of power to the central government which has made these competitive movements possible would never have been tolerated except in the name of emergency

and recovery. We were apparently willing to surrender a very substantial portion of our freedom in the hope of getting some relief from the knotty problems presented by the depression.

This surrender of a part of our freedom reminds me of an address delivered by our own Dr. Harris Kirk in London last summer. It contained much that we can profitably think over. It was entitled "When God Says No!" and revolved around the story of the prodigal son, who, after having wasted his substance, returned to his father and suggested that he be permitted to become one of his father's servants. In this request the prodigal son was actuated by the desire to be relieved of his individual responsibility and was willing to sacrifice his freedom in order to have a small measure of what he thought would be security in his father's household. By abusing his freedom, he had lost his substance, which led to suffering. Rather than face the responsibilities of his position, he was willing to surrender his freedom and become a servant.

It seems to me that there is a lesson in that thought for many Americans. It is probably true that a great many of us abused our freedom. Many of us lost much of our substance, and suffering followed. Many have been looking for an easy way out.

Some seem willing, for the sake of a temporary feeling of security, to sacrifice freedom, our dearest possession. We appear to be willing to forego our freedom in order to realize our immediate desire. To a certain state of mind this is always an attractive alternative to the necessity "of facing the austere conditions of life." While that state of mind prevails, "servitude and ease walk together." It has been well said that "truth is an uneasy companion to a lazy mind." The politician, taking advantage of that state of mind, offers an exchange of freedom for the ease of a servant.

Individual liberty, the political principle which prompted the founding of this nation, is imperilled today by the "sick fatigue" of our present world. The traditional American's demand for progress has always dominated our political thinking. We have been imbued, and most of us still are, with the idea that the individual man can only reach the highest form of development under the "free institutions of a truly democratic state."

We have watched with the utmost trepidation the abandonment, in part at least, of this faith in free institutions by some European countries. This retreat can probably be explained by the

willingness of a great many prodigal sons who had wasted their substance to become the servants of a master they hoped would relieve them of the necessity of finding a practical solution to the multifarious economic and social problems arising out of the world war and its aftermath. These prodigal sons are unwilling to make the temporary sacrifice necessary to find the real solution to these problems. What most of us believe they bought was a temporary peace of mind at the price of their individual freedom. Is that what you and I want? Of course not.

Americans have built on the theory that the citizen could be expected, if permitted his freedom, to be master of his own destiny. There is, however, among us now a school of thought which would have us believe that nothing can be expected of the individual man if left to his own devices. There are those who would have us believe that they alone know what is best for us and that we must, therefore, be helped by them.

In his talk, Dr. Kirk referred to a species of caterpillar fittingly known as the "procession caterpillar." These insects travel in great companies. They move in single file and in long lines. The feelers of each caterpillar rest upon the hind quarters of the one in front. Here individuality is completely submerged and any creature that falls out of line is hopelessly lost. A naturalist when studying such a procession turned the leader around until his feelers rested upon the hind quarters of the last caterpillar in the line. Immediately the whole procession began to travel round and round in a great circle until the individual insects finally died. Here we have an excellent illustration of perfect regimentation.

It might be well for us to give serious thought to its significance.

With so many organizations of our citizens going around and around in circles, is it any wonder that we are not solving as intelligently and as promptly as we might the problems which are traceable in no small degree to the regimentation indulged in during the world war period? That regimentation is one of the best examples of the futility of the procession-caterpillar arrangement. It was to have made the world safe for democracy. Did it? It wasted lives, destroyed wealth, brought untold misery and threw the world economic system into almost complete chaos.

Our hope lies, not in regimentation, but in the realization that in freedom we have a priceless heritage not to be bartered away for temporary relief from facing the actualities which must be

dealt with practically before any permanent stability can be established.

Our peace and security will be assured by the perpetuation of a system which develops in men the passion to be free—a system which recognizes their right to develop as individuals. It was just such a system which developed our Washingtons, our Jeffersons, our Lincolns and our Clevelands.

We can not expect to maintain our freedom without accepting our share of responsibility. Too many of us have been willing to “let George do it,” but George hasn’t done it. It is time that every business man stop grumbling and get to work. He must study his government; he must take a hand in solving its problems. He must refuse to become a procession caterpillar, for he can never be sure, as long as he follows blindly, that the whole procession is not moving in circles.

Let’s do a little thinking and acting on our own. We are concerned about a four billion dollar deficit this fiscal year, added to the deficits for four previous years. We are concerned about a federal debt of $30\frac{1}{2}$ billions and a total government debt in this country of 50 billions.

Perhaps it is true that no one is going to shoot Santa Claus just before Christmas, but every person in the United States over the age of twelve knows who pays the bills for the jolly and smiling fellow who distributes the gifts. The American taxpayer is the real Santa Claus. The government merely wears the trick red suit and the funny white whiskers and does the smiling.