

COST AS A STANDARD FOR PRICE

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I

An act of Congress is an invocation of the judiciary. It is alike an appeal to the courts to subdue a new process to law and order and a body of general directions which are to be hammered into standards and rules. It takes years, a procession of cases from out of life, and a succession of judgments to assimilate a statute within the august corpus of the law.

The time was when a bargain was a bargain, and that was legally the end of the matter. The ordinary course of buying and selling, if untainted by fraud and untouched by collusion, was a private affair and no fit subject for judicial inquiry. But a growing complexity in the marketing process has made private bargains a matter of concern to the mercantile community. The older line of manufacturer to wholesaler to retailer has been twisted into an intricate diagram. The manufacturer may sell through his own retail outlets; the retailer may take over the work of wholesaler or even of manufacturer; in a trend towards celerity of movement functions may become confused. In the marketing struggle between types of organization the chains and mail-order houses have prospered and the wholesaler and independent store have declined.

It is not easy to garner all that is responsible for mercantile change into a concept called cause. The chain, the mail-order house, the department store have made the first serious attack upon the wastes and inefficiencies of distribution. A careful analysis has enabled them to eliminate unnecessary steps in the marketing process; and their purchases in large quantities have reduced costs. But they have also been able to turn their bargaining power to account and to extract from manufacturers exceptional terms which they could not afford to extend to other mercantile buyers. To the extent that lower costs are the result of efficiency, they are hardly open to attack. To the extent that they rest upon "price discriminations" which have no

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basis among the expenses of production, they are open to attack. The avowed purpose of the Robinson-Patman Act is to bring the prices charged distributors into accord with standards of mercantile justice. Its intent is to bring the marketing process within the law, to "do right" between merchant buyers, and to establish within commerce an equivalent of "the equal protection of the law."

An action under Section 2—the heart of the Act—would take some such course as this. The Federal Trade Commission would, after investigation, find that a manufacturer had sold to distributors a ware of trade at different prices and that the effect was substantially to lessen competition or to enhance the competitive position of the favored buyer. A cease and desist order would be issued against the manufacturer and his favored customer. The suit would go to court, and the burden of justifying "discrimination" would fall upon the parties to the bargain. In such a cause at law a large number of lines of defense are open, along one or more of which the alleged lawbreakers may stand and do battle. The techniques of corporation finance may be used to stay—if not to arrest—the attack of the government. A dummy corporation, for instance, may be established to take care of sales and may be fitted out with all the outward trappings of genuine corporate personality. If sales to the favored shipper and to the marketing corporation are at the same price, the company does nothing with which it may be charged and if there are price differences further down the line they are between different sellers. Of it may be plead that the wares which are subject to different prices are not identical. A tire manufactured for Sears-Roebuck is not a Goodyear; a tooth-paste blessed with the term Iodent has an indefinable something which a mere combination of chemical elements could never possess; a Del Monte can of peaches called by some other name would not be the same. In chemical and physical process there lie myriads of subtle distinctions which can be drawn upon to make plausible the argument for the defendants.

There is no call here to question the ingenuity of corporation lawyer, industrial engineer, or master of many another mystery which may be called upon to explain that in the realm of merchandise the differences in question belong rather to appearance than to reality. But it is not unlikely that in the front of the fray will be found cost accountants employing their skills to show that things are seldom what they seem. The government will demonstrate that a manufacturing concern has given to a customer a price differential not adequately to be accounted for by considerations of quantity. The defendant will argue through its accountants that the difference is easily traceable to differences in the expenses of production. In rebuttal the government will present its own accredited corps of accountants; and the issue of pecuniary apology—with all its complex exhibits—will go to jury and judge only to be fought all over again in appeal court. As case after case, in the style of *F. T. C. v. Persona I, II, III . . .* come on, cost accounting will present an important battle line and its techniques will be enlisted in the rival services of the protagonists.

The Robinson-Patman Act is the law of the land. Trial is to proceed by the ordeal of cost accountancy.

II

As the apostle would put it, accountancy is all things to all men. It is at once a picture, a scheme of notation, a language, a technique, a ritual, an instrument, and a social institution.

Accountancy is a creature of business. It was business which called it into being, determined its character, and shaped its technique. At first it involved little more than setting down the simple figures involved in the day's work and letting addition and subtraction do the rest. But as the volume of transactions increased, as the capital account grew in importance, and as multiple products came to be handled, the scheme of accounts had to reflect the growing complexity in the business organization. So rules of thumb had to be hit on for charging off depreciation, apportioning expenses among products, and resolving solvency into the financial standing of departments.

Its purpose determines the character of a system of accounts. Its technique transmutes all that it touches into magnitudes which can be stated with precision. But the use of quantitative symbols does not imply pecuniary verity, and the appearance of certitude must not be taken for certainty. Since its end is to help fallible human judgment to a bit more of soundness, a scheme of accounts must depend upon the kind of judgments to be made. A system adapted to the needs of the cotton planter will not serve the purposes of the steel corporation. A university which disburses returns from large investments, demands an accountancy quite different from the speculative enterprise in silver mining. In the oil industry accountancy must serve to shape a strategy where objectives are the maintenance of outlets and the advancement of competitive frontiers. In railroads the multitude of facts relative to the carriage of traffic must be presented in a form which invites an effective public control.

It is, in short, a feat of the mind to crowd the activities of life into a colorless pecuniary statement. In a simple agrarian society, where the family-on-the-farm is an almost self-contained entity, there is scant place for a formal economic calculus. The household, little touched by the market, produces its own living; the round of daily activity and the seasonal care of crops is customary; a rough justice assigns traditional tasks to members of the family and disburses the rewards of industry among them. A pecuniary calculus is not needed to guide activities; it sits awkwardly upon the moneyless affairs of the household; and the series of judgments which keep the microcosm going has little place for the precisions of accountancy.

As the ways of business permeate a changing agriculture, the devices of pecuniary calculation are not easily assimilated. The categories, without which accountancy is powerless to proceed, are rather alien to the man of the soil. The difference between overhead costs and out-of-pocket expenses has little meaning to him. To distinguish

interest upon invested capital and profits from an adventurous enterprise is to transcend the bounds of his thought. His naked acres, his improvements, and the labor he has bestowed upon them are an organic whole; to attempt to isolate the contribution of each and set it down as a separate cost is an unreal intellectual exercise. The farmer who enters in his books interest on his investment, writes off depreciation upon barns and live-stock, allows himself a salary as farm executive, and succumbs to all the indulgences of an intricate costing system is destined to view his new-fangled records with amazement and to become a discontented mortal. The introduction of a full-fledged accountancy from an alien culture is almost certain to bring into a going agricultural community a plague of bankruptcies.

So too with other occupations and industries. Their activities lend themselves graciously or stubbornly to such an intellectual creation as accounting. The wage-earner does his best to maintain a favorable balance between earnings and expenditures. But he scribbles down no capital sum to represent the cost of his upbringing and training; he writes off no depreciation against the wear and tear which attends employment; he collects no profits upon the sale of his own labor. The salaried man usually records his financial way of life in no more intricate calculation than a series of check-book stubs and a bank statement. Even the physician, lawyer, or consulting engineer, who must be his own executive, usually does not take the bother, or cannot rise to the task, of separating occupational from personal activity and reducing it to the trim lines of pecuniary expression. The doctor, for example, uses the same automobile—quite undistributed in his accounts—to call upon his patients and to take his family out riding; and the professor never sets down his unusual opportunity to use the university library as an item of individual income. In the whole domain of personal life and professional calling, the discipline of accountancy still sits lightly.

Even in the realm of business its dominion is partial and its rule insecure. In an enterprise in lusty competition with others of its kind, survival is the thing and the system of accounts has its focus in solvency. Each successive balance-sheet presents the crisis, and the exigencies of the moment are of far greater importance than the prospects and perils of the less immediate future. Accordingly depreciation, obsolescence, and other factors which carry no immediate threat are matters of lesser concern and the capital account is likely to be regarded as a secondary phenomenon. Necessity crowds into the pecuniary foreground the assets and liabilities which bear upon immediate solvency. But in an enterprise, such as a public utility, where continued survival seems assured, solvency is likely to be taken for granted. Economic security makes possible a longtime policy; and the conservation of the investment and the enlargement of dividends become desiderata of importance. So here the recitation of pecuniary incident is addressed consciously and minutely to the facts of depreciation and obsolescence. A persistent and ingenious attention is likely to be directed not so much to securing the upkeep of the physical property as to

making it certain that capitalization fails in not one whit to give full recognition to every item that should go into the account.

In all industry under the guidance of business, the motive of pecuniary gain sets the theme for the accountant's song. The wear and tear of human labor, sickness and industrial accident, irregular employment, and other human costs of keeping industry going may be matters of grave consequence to the community and in the aggregate impose a charge of gigantic magnitude upon industry. Yet in a scheme of account designed to serve business, they can obtrude only as they become pecuniary costs in individual enterprises. Accountancy is far from being a pecuniary expression of all that is industrial reality. It is an instrument, highly selective in its application, in the service of the institution of money-making.

III

And like a philosophy, the august corpus of the law, or the seemingly exact verity called mathematics, accountancy is a creature of the human mind. It is an expression of the ways of thought of the age, the mercantile habitat, and the body of business opinion within which it has come to maturity.

In a society which has just begun to be money-conscious, a Roumanian peasant yields just enough to pecuniary allurements to sell his cow for a handful of silver. But the deed done, the coins lack the symbolic importance which a familiar culture alone can give, and he runs pathetically after the buyer in a vain attempt to rue the bargain. Presently such an attitude would become impossible; for to his children the coins will betoken the wherewithal of activity and enjoyment presented by an industrial society.

As a culture became more complex, the mind of man demanded a simple device by which he might adjust his activities to its multifarious realities. The division of labor, the rise of the market, the emergence of an industrial system, the growing dependence of men upon each other for their livings demanded the easy and expeditious exchange of commodities. Even if horses cannot be added to apples, a man's labor has to be exchanged for the necessities and frivolities of life; and, whatever its intellectual difficulties, some practical way had to be discovered for insuring an equivalence of values in the process of buying and selling. Accordingly there appeared an insistent need for a pecuniary unit whereby unlike things might be compared and judgments made respecting them.

So the incommensurable put on commensurability and the adamant mind of man was disciplined to the exigencies of a pecuniary method of calculation. It was no eternal mold for pecuniary verities handed down from on high. It was—like logic, or algebra, or the device of analogy in the law—an ingenious contrivance of the human mind to serve a limited and practical purpose. But as it took its place among the habits which make up a culture it came to be looked upon as obvious in its being and its procedures.

Its hypothetical character is to be discovered only by analysis. A simple choice between values requires a judgment; a creative feat of mind converted the primitive act of comparison into the technique of calculation. We see and hear and feel with our senses. The optical nerve, whether the stimulus be light or sound or weight, makes its response only in terms of sight; the auditory nerve, whatever the stimulus, responds only in terms of hearing. Change the physiology of any sensory organ and the sensations which come from without would be different. In like manner different persons perceive the phenomena of society and arrange them to their ideas and uses.

In a consideration of objects of nature some violence is done to reality by the use of such general words as leaf or tree or forest. The phenomena of human behavior are too varied and too interwoven to fall easily into obvious groups; we can garner them into classes only by the use of names which are inventions of the human mind. And abstract words—such as demand, tort, property, and account—are more often than not the most generic of names, each a permutation of particulars that may be variously put together. For all the appearance of certainty, such abstractions vary from discipline to discipline and from age to age.

When phenomena are confined under appropriate symbols, their use demands a structural discipline. A simple calculation, a complicated argument, a vital discussion teems with far more reality than can be crowded into the articulate premises of a syllogism. It is one of the most refined products of an intellectual system. Its color and vitality runs far back into the past; and its meaning is inseparable from the culture to which it belongs. To this inevitably hypothetical process of subduing fact to human purpose, the term "the philosophy of 'as if'" has been given—itsself as much a work of art as the thing it professes to describe. Every discipline of the human mind, which professes to reduce a domain of life to order, is established upon its own philosophy of "as if."

In theology a few indisputable postulates are set down as simple matters of faith—even though devout zeal too often endows sacred truths with secular proof. The most elaborate of theological creeds are by a distinctive process of mind called deduction derived therefrom. In law an hypothesis of "the reasonable man" supplies a standard of conduct; a set of presumptions, which often enough are quite at violence with fact, reduces a complicated situation to such simplicity of issue as to invite decision; and the fiction "the opinion of the court" enables a bench of judges to speak as if they were of one mind. In economics a small number of postulates, which impose upon industrial activity an analogue to the mechanics of physics, enables explanation to get off to an axiomatic start. In history a series of assumptions—rather unconsciously made—imposes upon a disorderly course of human events a sequence, a trimness and a purpose which the annals of mankind in the raw do not possess. To call such concepts, postulates, and procedures hypothetical is to reveal their character—not to condemn them. They are grounded upon such approximations to reality as the human understanding in its cultural setting can attain.

They meet the pragmatic test of beating the mass of relevant reality into a form for human use. And, without the benefit of his fictions, the mind of man could not carry on.

In spite of an outward show of exactness, the discipline of accountancy is established upon a philosophy of "as if." The assumption that the activities of a business can be captured in the symbolic language of the pecuniary calculus and exhibited in the balance-sheet is a conventional—and reasonable—act of faith. The cleancut categories which divide a realm of accounts into so many separate provinces, represent the accountant's feverish attempt to bring a sprawling domain of unsubdued fact within his understanding. The ordinary device of profit-and-loss lies at the heart of the scheme of accounts and gives reasonableness to the whole procedure. The capital account is a device intended to picture private investment and to give to a historical occurrence a current reality. The concept of overhead cost—an "as if" without which the affairs of private enterprise would be hopelessly muddled—did not appear as a bit of quantitative verity. It took some decades of confused calculation before accountancy contrived so neat a trick. The exigencies incident to carrying on industrial enterprise create problems; the man-trained-to-calculate, within the limits of the prevailing ideology, attempts their solution; and a scheme of accounts emerges as a necessary and imperfect instrument for converting industrial activity into quantitative knowledge.

As with concepts, so it is with the processes of accountancy. The calculations run in terms of a conventional monetary measure such as a dollar or a pound; its records are never established upon an abstract unit of purchasing power. The keeping of books is an endless affair which must be broken into arbitrary periods. The year which coincides with the astronomical unit of the cycle of the earth around the sun was useful enough in agriculture; but when borrowed for industrial use, it cuts up a continuous stream of transactions. The procedure of double-entry bookkeeping provides a useful, but crude, check upon recorded figures. A balance-sheet is the most conventional of financial statements; it crowds a miscellany of items into a few trim lines. Its reason for being is the demand of stockholders for so much of a knowledge of a business as may be crowded upon a single page. The thing called depreciation is a physical fact; but under a business economy sheer wasting away has to be converted into the language of a pecuniary asset. The accumulation of a reserve rests upon an intellectual process compounded of such elements as hope, policy, hazard and entry. Its nominal or substantial fatness may be represented by cash-on-hand, securities of an uncertain value, or a mere pecuniary figure of mighty sound. The figure called "valuation" represents an intricate process of thought which runs back of business judgments, through legislative acts and judicial decisions to the common-sense notions of a people as to what is fair and just. The figures have precision; yet they present many a fragment of disguised law and camouflaged philosophy.

IV

The rationale for a set of costs lies in a matrix of social custom, personal habit and adaptation to the economic necessities of the moment. As these factors change, costs fluctuate; the costs that at any moment go into the manufacture of a product reflect the temporary alliance into which they have entered. But social custom moves only irregularly; business conditions shift spasmodically; and for some unknown reason men do not change their habits of thought in rhythmic unison. Consequently, a scheme of costs never quite wins the complete acceptance of the industry, is only partly rational and represents only the most partial accommodation to the industrial efficiency of which a society is capable. It is pertinent, therefore, briefly to inquire into a few of the forces that shape costs and to draw the results into a fragmentary picture.

Some services—matured in an older culture—have made only a halting accommodation to the modern world. A striking instance is tobacco production. Under the AAA the manufacturers insisted that they were paying more for the leaf than they needed to secure their supply. But this did not mean that the producer was “recovering his costs.” The economic plight of the average tobacco producer is such as to make any concept of cost recovery inconceivable. He is simply an instrument for the production of tobacco; he plants his crops regardless of market or price; the fluctuation in return merely mitigates or increases those discomforts which constitute for him subsistence.

But the classic illustration is sugar. The Tariff Commission undertook an inquiry into the cost of production in Cuba. The island economy has assimilated rather imperfectly the thought-ways and devices of business. In the minds of the planters items-of-expense are not clearly distinguished, and the accounts which are kept would never receive the imprimatur of a C.P.A. What the cane grower receives is the only realistic approximation of the cost of production of the Tariff Act. So it was discovered that unit cost per pound was the New York price minus transportation minus tariff; it was, graciously enough, exactly equal to the difference in cost of production at home and abroad. Moreover, if the duty was raised or lowered, the incidence of change would be reflected in planter's cost.

Even where modern business ways are established, the going is difficult. The vast majority of goods produced are joint products. The industry—in ascertaining the cost of its individual products—is faced with the impossibility of separating non-separable products. No accountant has been able to devise a method yielding by-product or joint-cost figures which does not embody a dominance of arbitrariness and guesswork. Here again the purposive character of accounting is given abundant opportunity; the distribution of amounts among the several products is determined by the desire to maximize sales.

Crude petroleum yields gasoline, fuel oil, kerosene, lubricants, coke and a miscellany of minor products. No complex processing explains the refinery practice of

locating a heavier burden of costs to gasoline than to other products. Since less heat is required for the vaporization of the gasoline fractions, it might plausibly be argued that the heavier oil distillates should bear a greater portion of the costs. But in practice the costs assessed gasoline depend upon the prices obtainable for other products. The rationale for the allocation is simply what the traffic can be made to bear.¹

An even more complex example is the railroads. Now and then a hardy soul, equipped with simple faith and a calculating machine, essays the adventure of rates based upon the true costs of particular services. The feat is, of course, technically impossible, for value judgments or empirical rules are essential to the distribution of overhead. A calculation of the real cost of transporting cotton-seed in less than carload lots from Lampassas, Texas to Kankakee, Illinois, is a stubborn exercise in imputation.

But even if they could be found, it would not be practical to establish charges upon particular costs. Freight large in bulk and low in value is accorded low rates; otherwise it could not move. High class freight pays its own way and contributes a surplus to the cause of transport. As they have grown up together, traffic and charges are adjusted to each other in an established system of rates. In any accounting which is more than an irrelevant academic exercise, costs reflect rather directly what the traffic will bear. In this a certain principle, common to Christian dogma and worldly policy, is present. Let joint services, in respect to their several abilities, bear the mutual cost. But when costs are set up as a standard of equity among differing prices, their allocation on the basis of what the traffic will bear or upon the money value of the product involves an argument in a circle. For if price can determine cost, how at the same time can cost be the basis for a judgment upon price?

Moreover, the calculations of costs are not immune to the practices of merchandising. The simplest case is the purposive distribution of costs to force one product to subsidize another struggling for a place in the market. Gasoline is in a relatively freer position than fuel oil which competes directly with coal. By a simple manipulation of cost figures gasoline can be made to furnish finance assistance to fuel oil in its battle for sales. But this is a bookkeeping transaction and has little effect upon total costs. The pressure of a substitute may, however, force a more imaginative use of the material to secure economies, the invention of labor-saving machinery or even the creation of new devices for cheapening the channels of distribution. All of this will have a vital influence upon costs.

¹"Of the several methods of calculating joint costs the one most used is allocating costs to the joint products on the basis of selling prices, or selling prices less separable costs. In other words, it merely divides the joint costs for which we can find no other basis for division so satisfactory, on the theory that presumably value is put into the respective products in the same ratio in which value, as expressed by selling price, comes out." A. M. Fox, Chief, Economics Division, U. S. Tariff Commission, in talk before National Association of Cost Accountants, April 19, 1933.

In recent years a struggle of this sort has gone on between rayon and silk. Fifty years ago the rayon industry constituted nothing more than an obscure patent held under the French Government. Today it is established as a formidable rival and stands as a challenge to an almost complete displacement of silk. Not only have silk manufacturers suffered a decrease in volume of sales but they have been forced to lower their costs to be able to compete. This has been done by effecting every sort of economy in the processing and handling of silk—economies which up to the time rayon appeared were hardly dreamed of. The experience of the silk industry in the decline of costs and sales in unison has the flavor of paradox. It is an accounting axiom that volume has a direct influence upon unit cost. Many costs do not vary with size of output; a greater volume distributes costs over a wider area.

Here is another variation to be added to that bundle of variables called cost. Unit cost is antecedent—not subsequent—to sale. It is necessary to make some estimation of future sales; but at best it will be only an inexact guess. Moreover, such guesswork has a fair approximation to exactness only when all the factors affecting sales remain rather static. But an industry may be offering a new product; it may be battling against an aggressive substitute; it may be weathering a depression. Then the bases of statistical measurement are prone to go awry; and an estimate of future sales and distribution of costs is just so much pious hope or conservative hedging.

The position of the automobile industry a few years ago is rather typical. In the cost of the individual automobile, overhead costs play a large rôle; cheaper cars were put upon the market to increase volume and lower unit costs. But during the period when this country was becoming automobilized, there was no precedents for ascertaining demand; estimates of future sales followed a bewildering statistical ritual upon which was superimposed some pragmatic guesswork about the state of competition. But even after these superhuman calculations, the guesses were so conservative as to heavily over-assess the individual units for their share of overhead costs. No doubt a great amount of intent was responsible for the fact that 80% of the capital which went into business during those early years represented re-invested profits. But chance was not wholly absent.

The dependence of costs upon sales presents some trenchant problems to the accountant's art. Under the present scheme, a commodity is cheap in good years and expensive in bad years. When the consumer is most able to pay, he is assessed least; when he is least able, he is assessed most. When price should be made to encourage sales, it discourages them; when prosperity is likely to effect the increase, price gives its stimulus. Clearly, it would be wiser to effect a decline in price at the time volume falls; then a lower price would correct the tendency towards a decrease in sales. Such a policy would look beyond the yearly concept of the balance-sheet to cover the total cycle through prosperity and depression. A number of devices are already shaped towards that end and the task falls easily within the accountant's art. But the reading of such values into a scheme of accounts removes

still further prices for a base in individual costs. It presents a call from an opportunistic calculus to an accountancy which is an expression of an industrial policy.

If costs are the determinants of price, they are also determined by price. The manufacturer who builds a shoe to retail at \$2.95 incurs his costs in terms of an ultimate price. The motor company doing a business in high-priced cars makes a conscious search for the better grade materials whose superiority can be demonstrated to prospective buyers. Women's dresses are made to fall into certain rigid price grooves; but if a dress meets unusual favor, its price goes up, and if it turns out to be a dud, no time is lost in the mark-down. The five-and-ten-cent-shops offer hundreds of major necessities and minor comforts of all within a price range accessible to all. Indeed there are few costs which do not adapt themselves to prices, which are to be paid for the commodity. Quality of material, care in workmanship, beauty of design, additional—detachable—conveniences, methods of marketing—all show gradations from worse to better and nimbly make the accommodation to price.

Less obvious are the conventional costs which show variability because price permits. Advertising is accorded the status of a necessary cost. Under public regulation the utilities are permitted to include this item as a legitimate expense. But they are interested in insuring a perpetuation of private ownership. Consequently, the liberty to include advertising as a cost was interpreted to mean the liberty to set up huge departments of public relations. Their primary task was to sell the present system to the public. Accordingly, the preparation of educational literature, the censorship of public school textbooks, the "contacting" of legislators, and the subsidizing of impartial research workers—all of these constituted "necessary costs" which the public dutifully returned in their rates. It could be done in the grand manner because the law allows price to comprehend "legitimate" costs.

Cigarettes sell at a price which make possible an indulgence in advertising. Consumption of the weed increased enormously during and after the war; a new impetus was given when a change occurred in our social customs and women took to smoking cigarettes. Cigarette manufacturers have come to associate that period of extensive advertising—made possible by large profits—with the change in social customs which made women smokers. This identification of two facts none too closely related has persisted; and now perhaps one of the most rigid costs on the cigarette manufacturers' expense sheet is that for advertising. Once the demand had increased, the larger output paid the bill, and advertising became a cost which price was expected to cover.

A less debatable item is labor cost. It is little more antecedent to prices than other expenses of production. The coal industry makes it clear that wages have more than an academic relation to profits. After the union struggle for recognition had been won, the victory had little effect upon wage rates because there ceased to be profits. In the sweep of technological advance coal found itself in desperate competition with oil and electricity. And in that struggle capital and labor have

been in the same boat. The "sick" textile industry is in a similar predicament. Ancient, honorable and bound in tradition, it is asked to make its way in a competitive market against strange new rivals. A part of the explanation for the low wage scale in textiles is the failure to make the new accommodation; the industry, receiving a low price for its products, is compelled to ask labor to take a low wage for its services.

Salaries, too, are rather price-made than price-making. The management has an opportunity to exploit strategic position and to convert potential profits into a fair return for personal services. An examination of a balance-sheet will indicate the reflection of the profit and loss account in executives' salaries. But in some businesses even such emoluments are being set down as a fixed cost. As management becomes separated from investment, officials are accorded an opportunity to vote to themselves huge salaries at the expense of other claimants upon corporate income. But even to a hold-up of such correctness there are limits. The flexible part of the salary called the "bonus" is avowedly based upon the value of the service of the official for which there is no other tangible measure than the profits of the business. Accordingly, personal worth is a vacillating thing which waxes in fat years and shrinks in a depression.

V

Nowhere in all the domain of business does cost make its direct mathematical way in price. The route along which the two pass is not a one way street. In a continuous accommodation, through a mutual dependence upon profit-making cost and price in unorthodox fashion are forever remaking each other.

The modern cost accounting system has been created *by* and *for* business management. It is intended to serve its purposes. And cost—for all its singleness of pecuniary aim—is no one thing. It is not fixed. It is not static. It is susceptible to every shade and variety of gradation. Its color and character reflect the enterprise which it serves.

Upon this fluctuating mechanism indigenous to business, it is proposed to establish standards for mercantile justice. It is cost which is to decide what price differences are valid and what lie beyond the pale of the law. And this raises questions which run from calculation, through administration, to public policy. Can costs, which reflect an organic business, be subdued into a weapon of commercial police? Can concepts be sharpened, accounts disentangled, and expenses distributed so neatly and conclusively to make of discrimination an objective fact? Can the courts supervise a pecuniary domain, establish accounting practices, and resolve issues which turn upon a quantitative expression of the events of business? If success can be made to attend the venture, will it be through an esoteric ritual to which industrial fact will be invited to conform? And will the trend be towards freezing into a rigid structure a system of marketing arrangements which the public interest demands be made flexible?

In the midst of such problems the sheer mechanics of cost accounting presents no simple enigma. A venture into control, such as the Robinson-Patman Act, enters new territory. An experience of some decades with public utilities falls short of a guide. A gas plant, a street railway, a waterworks is a "natural monopoly," usually serving a single community. Its rates for a single product can with some exactness be established upon the costs of a single business venture. Only in the case of railways is the element of competition even partially present; and there regulation is confronted with conditions too distinctive to furnish an analogy. But the industries which manufacture and merchandise are congeries of unlike establishments in the clutch of swift change. Each is a going concern which must, in the name of survival, pick up what business it can and in the process yield such terms as it must. To enthrone cost as the governor of the bargaining process is to change the character of business enterprise.

All of this is to reveal the heroic character of the venture ahead, not to condemn the Act. It will lure the courts into a domain of industrial reality from which they can hardly escape without education. It is an experiment which presently will reveal its own defects and invite abandonment or amendment. In the process it will yield knowledge in the ways of industry and produce mechanisms of control essential to an imminent venture into regulation which is hardly to be avoided. And it may posit sharply and insistently the problem of justice between buyer and buyer and seller and seller in the market.

The cost-price provisions of the Robinson-Patman Act invite a hazardous attempt at police. In its administration it seems destined to raise more questions than it settles. If it can shape confused problems into clean-cut questions, it may well blaze the way towards bringing marketing within the domain of law and order.