Mr. Orton. Unit costs are broken down into functional divisions and checked with total costs by multiplying each functional cost by the number of units involved.

Mr. Williams. I believe it would be difficult to make such totals prove with the books under this system and that the system would be useless in effecting economies. If instead you had the total amount spent for the different kinds of services, the amounts received for these services could be increased or decreased and your problem solved.

Judson King.[8] When I was in Toronto in 1927 a chief engineer of the Ontario Hydro-Electric Power Commission was very resentful over allegations being made on this side of the line that "Hydro" was selling domestic current under cost and making up the loss by overcharging industrial consumers. He stated that a number of professors, engineers and even U. S. government representatives had been courteously allowed to see their books but had returned to misrepresent them. He showed me their cost-accounting records from which they estimate as nearly as possible the exact distribution cost per kilowatt hour to domestic, commercial, industrial and street-lighting consumers and stated that such cost-accounting is not practiced by us. I later challenged the president of the National Electric Light Association and Samuel Ferguson of Hartford to name five companies in the United States that practiced adequately cost-accounting on delivery from bus bar to consumer. Though I offered $100 to the Hartford Community Chest they have thus far kept silent.

[8]Director, National Popular Government League, Washington, D. C.

Have any of you looked into the cost-accounting system of the Ontario Hydro-Electric Company, and can you give any professional opinion as to its worth and accuracy?

Mr. Cooke. Price Waterhouse has stated that it knew of no industrial concern that had a better system.

John Maurice Clark.[9] I have been wondering how far you could go toward achieving simplicity in cost accounting for economy by grouping your utility products and your consumers and seeing which groups raise substantial questions of rate revision. You could perhaps limit your classification of costs in accordance with the answer to that question.

Mr. Hathaway. The National Electric Light Association classification of operating accounts covers meter sales to general customers, flat-rate sales to general customers, other electric corporations, municipal street lighting, etc. It is of little use. The new Wisconsin system which is not yet in use will be better, but most of the classifications are too broad. "Commercial" customers will include Macy's and the corner cigar stand. Large apartment houses and cottages are included under "domestic." These large classifications should be subdivided.

Mr. Williams. The public-utility man is going to question the practicability of making as close an analysis of original expense as the industrialist is able to make. According to them cost is affected by diversity in the load factor and a simple rate structure is essential.

[9]Professor of Economics, Columbia University, New York, N. Y.

SOCIAL-ECONOMIC planning is not merely a device to give everyone a bathtub and a Ford—though the first objective naturally must be to raise the lowest standards of living, not to speak of providing everyone the assurance of enough to eat and wear. But, after such modest goals are achieved, it may appear that people really do not want to go much further in that particular direction. We may be more interested in the quality of our satisfactions than in the quantity. We may want more beautiful communities in which to live, more chance to get back to the woods, to have camp-fires, to swim, to fish, to hunt. We may decide . . . to create variety for ourselves. (George Soule, *A Planned Society,* The Macmillan Company, page 282.)

Avoidance of Depression[1]

Stabilization through Fiscal Policy

By VIRGIL JORDAN
Economist, McGraw-Hill Publishing Company, New York

I

BY WAY of setting an atmosphere for what I shall say, I quote a few sentences from the apocalyptic pages of that strange, unappreciated social philosopher Simon Patten, who seems to have been the first American economist to point out the paradox of plenty put to us by the machine age. About twenty-five years ago he said:

> Those who would predict tomorrow's economic states from a study of the economic states of Rome and Venice overlook the difference between a society struggling to meet a deficit and one so well situated that thought can be centered on the equitable distribution of a surplus. In the one case, civilization must develop its traditions to keep the deficit as small as possible and eventually to overcome it, and in the other to utilize the surplus for common good—not to undermine energy and productive ability, or to create parasitic classes, but to distribute the surplus in ways that will promote general welfare and secure better preparation for the future. The one type of society may be called a pain or deficit economy; the other, a pleasure or surplus economy. All civilizations before the nineteenth century, like the primitive societies of the Western world today and the backward despotisms of the East, were realms of pains and deficit in which the traditions and experiences of man were moulded out of the general menaces to life and happiness. . . . Mental habits continue long after the economic conditions which fashion them have disappeared, and popular beliefs reflect the passing age of nature's deficit. The economic revolution is here, but the intellectual revolution which will rouse men to its stupendous meaning has not done its work.

These are true words, especially pertinent in a period when almost every economic institution established on the basis of a scarcity concept of value seems to be on the point of collapse, and when every utterance of responsible public officials and private business authorities exhibits an extreme confusion and obscurity of understanding about the nature of the modern economic system, the causes of its breakdown and the lines of policy imperative for recovery and future stability. When the Administration and the entire business community establish as their slogan economy and balanced budgets in public and private expenditures, forgetting that every time a budget is balanced by an individual, a business concern or a government it means that someone else's income and consumption must be curtailed; when every banking institution sets as its goal the greatest possible liquidity, forgetting that no bank can become more liquid except at the expense of the liquidity of some other bank; when a Secretary of the Treasury deplores high income taxes or public borrowing on the ground that they divert capital from industry and retard business expansion, and suggests, without daring to support, increased consumption taxes—in all these things, and many others, we can see the strangle-hold of that grubbing gospel of penury and despair, that fatalistic philosophy of save and slave suited to every earlier economic order but utterly archaic in its application to the power age and surplus economy in which we live.

The appalling failure to understand what sort of situation we are in may be excusable on the ground that it is, so far as we know, the first instance of a surplus crisis as contrasted to a deficit depression in human experience. None of our institutions or accepted economic ideas is adapted to handle it. The smart statesman who, speaking of treasury operations, said that it is easier to deal with a surplus than with a deficit was quite mistaken, as even the lamentable experience of Mr. Mellon illustrates. All our institutions, from banks to breadlines, are adapted to a chronic deficit economy, and radical changes in them are necessary if we are to deal successfully with an insuppressible surplus condition.

In this and every other highly developed industrial country, domestic consumption is now the key to every vital economic question. It has become the basis of industrial stability, the source of business profits, the measure of standards of living, the ultimate test of social progress. It sets the limits of profitable capital investment and industrial expansion, establishes the value of corporation securities, and must determine the fiscal policies of government.

Three stages can be distinguished in the development of American business during the past hundred years.

[1]Papers presented before a special meeting of the Taylor Society, New York, April 14, 1932.