

there is some reason to believe that they are fairly typical of what has been happening in all trades. They seem to indicate that outside of periods of depression there was a slight tendency for operating costs to decline from 1915 to 1919, and a slight tendency to increase from 1922 to 1929. The depression periods, during which costs (expressed as a percentage of dollar sales) have generally advanced, have apparently left costs on a slightly higher level than they were before the depressions. The net result has been an increase in operating costs since 1914, but no such increase as to justify the sensational statements that so many writers have made. Such increase as has taken place has been due in part, at least, to worthwhile and necessary improvements and extensions of service, and in some trades to the development of rather extravagantly service features, some of which cannot be considered so necessary, but which have been encouraged by consumers. Consider, for example, the abuse of the privilege of returning goods.

This brief analysis is based on a few examples in wholesale and retail trades only. Manufacturers' selling costs have probably increased slightly, as indicated above. Transportation costs have also become a larger percentage of retail prices during the past twenty years. On the other hand, no attempt has been made to estimate the trend in actual marketing costs per ton of goods passing through distributive channels. Variations in selling costs, expressed as percentages of dollar sales, have been due partly to changing price levels, and it is a fair presumption that if it were possible to measure accurately the cost of marketing per unit of volume, we might find that marketing costs had not advanced at all, or may even have declined.

Assuming, however, that there has been a slight increase, it should be pointed out that this increase has not been due to any loss in efficiency among middlemen. In fact, we all know that the efficiency of wholesalers and retailers has been definitely on the upgrade. With the increases that have taken place in

salaries, wages and other store expenses, it is surprising that cost ratios had not increased more than they did prior to 1929. Furthermore, the increase has been hardly sufficient, with perhaps a few exceptions, to have any important effect on consumers' prices or on the total spread between producers' prices and consumers' prices. As a matter of fact, net profits of middlemen should be taken into account in considering total spreads. These tended to decline during the twenties, and therefore largely offset any increase in operating costs.

It should not be inferred from this discussion that all marketing is efficient or that there is no room for the reduction of distribution costs. There have been important developments in the direction of large-scale merchandising, especially through chain-store organizations, which have reduced costs. The tendency for manufacturers to adopt the principle of selective selling through carefully chosen wholesalers, and the application of the same principle in selecting retailers, thereby cutting out small customers who are expensive to serve, also make for economy in distribution. And there are also many other things that are being done to increase efficiency in selling.

One of the important needs in marketing is careful analysis of selling expenses by commodity handled, by size of order and by customer. Companies that have made such analyses invariably find that they are losing money on a large proportion of their customers, and also that many individual orders are so small that they are handled at a loss. It frequently develops that approximately 80 per cent of manufacturers' and wholesalers' sales are made to approximately 20 per cent of their customers. The United States Department of Commerce has done constructive work both in developing methods of cost analysis and in spreading the gospel of the need of such analysis.

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ployment depends upon increased demand for consumer goods, which in turn depends upon increase of consumer purchasing power. We do not see high probability of general increase of consumer purchasing power arising out of the Act itself.

We must be realistic. An industry has formulated a code, and constituent managements like good citizens intend to obey that government. But beyond laying in materials against higher prices, they are not going to much expense of manufacture until they get orders; which means that the beneficent effects of shorter hours and higher wages will not be realized until there is a purchasing power of labor which creates demand.

It is doubtful whether the additional orders which are coming in as a result of industry's flight from the dollar are sufficient to prime more than a very moderate increase of activity. And if the superstructure of speculative inflation should collapse, the consequent fright might mean a net loss.

Just as during the war, grand strategy insisted that we continue to pursue defeat of the enemy with every resource as though the war were to last for years, even after there was evidence of a break in enemy strength; so now in this greater war, grand strategy dictates that every ounce of resource be thrown into our attack on unemployment as though there were no signs of re-employment. There should be an overwhelming

simultaneous attack on industrial inertia by a rapid creation of consumer purchasing power. Dollars in the hands of the low income classes will create promptly the demand for which manufacturers are waiting in order to start a new activity regularized by the new articles of self-government.

We can see no reserve force to be thrown into the attack other than extraordinary spending for useful, durable social goods and for relief. While care should be exercised to avoid individual profiteering, graft and other such forms of waste, too great care regarding social waste should not destroy the essential requirement—speed, more speed, all possible speed. A dollar thrown in a hole in the ground where it can never be recovered is well spent if by the act of throwing a paralytic suddenly discovers that he can be active and productive again. Such spending would be provided for by advances now out of assured future productivity, the obligation later to be met through a more rational tax system.

The constructive work of present leadership has been splendid. It has faced squarely in the right direction and big strides in the right direction have been taken. It has begun to piece together the broken fragments of a shattered secular trend. Already it has proved to be a leadership of that high quality called for by an article on another page. We urge more and equally bold steps in the same direction.

Observations On Management in the Soviet Union

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THE COMPLETION of the first four years of systematic and integrated national planning would make 1932 in the Soviet Union a time of absorbing interest to students of the science of management, even if there were to be no second Five Year Plan. Given the added fact that during these months the State Planning Commission—the Gosplan—has been actively at work in the day-to-day details involved in the making of the next plan, the value of the present as a moment for observation of procedure and method is more than doubled. The main purpose of my presentation is indeed to point out to you, as management engineers, the importance of studying the planned economy of the Soviet Union during this period of industrialization. Impressive as are the statistics of achievement, and important as are certain weaknesses and maladjustments which the administrators themselves are the first to recognize, the significant questions for the scientific management movement center. I believe, less in the actual facts regarding successes or failures than in the methods of making and administering a plan.

To narrow the question to a sharper focus, the process of making the second Five Year Plan and the changes in procedure as compared with the first, show what has been learned by experience since the five-year period began in the autumn of 1928. This kind of learning by experience is surely of the essence of progress in the science of management. More fundamental, however, than the method of planning, which is, after all, only one of the main functions of management, is the question, "How is socialized industry administered?" The making of a plan for a specified period in the Union of Soviet Socialist Republics is only a subdivision of that larger task of administration to which the Soviet Union committed itself when it adopted its new economic system.

At the risk of posing a question far too wide in scope even to outline superficially in a half hour after dinner, it is necessary to define my subject in these large terms, for in the United States, obviously, scientific management has had its rise and development and has achieved its results in the shop. When it has extended over a series of shops, it has nevertheless been limited to a single industry and to that part of a single industry which is under homogeneous ownership. It is significant that Mr. Sanford E. Thompson, in his presidential address this evening, on the influence of Scientific Management in American industry, has quite properly taken as his unit for inquiry the separate company or establishment.

If there were no contrasting scheme of management extending over all the industries of a nation, as in the U. S. S. R., this limitation to a single ownership in the United States would be so obvious as to require no comment. In the early days of development it has not been recognized as a severe limitation upon the work of the management engineer. It has been hoped that the Scientific Management movement would spread from shop to shop until finally it should dominate American industry. But note Mr. Thompson's report that in the present situation answers to his inquiries show that the emphasis is shifting from the management of production to "the science of marketing."

Yet it is evident that when the single establishment approaches the problems of marketing it finds many factors in the situation which are quite beyond its control. In fact, of the four principles of Scientific Management—research, setting up of standards, control over application of standards and co-operation—the only one which can completely be applied to problems of distribution would appear to be research, and it must be researched into what exists and has existed, rather than facts directed toward control of a predetermined procedure toward an accepted end.

By a curious coincidence, this distinction between research into the past and research directed toward a planned and controlled future is almost an exact quotation from the remarks of one of the officials in the central statistical office of the Soviet Union. That office has the title, Central Board of National Economic Accounting. Its chairman is V. V. Ossinsky, who headed the Soviet delegation at the World Social Economic Congress at Amsterdam in 1931. One of his staff explained to us that economic accounting there was for the purpose of providing a basis for a plan, whereas, as he expressed it, the statistical service of a capitalistic country confines itself to collection of facts about things as they are or have been.

The planned economy of the Soviet Union is different from the management of an individual enterprise, not merely in its extent but in its essence. Management in the U. S. S. R. is responsible for the harmonious functioning of the total national economy shaped toward a definite social end. The end may be defined as the creation of a new collective society based upon the socialization of industry. Thus by what may appear to management engineers in the United States as a paradox, management in the U. S. S. R. is not to be observed primarily in the workshop nor even in a series of workshops, but first in the sum total of the national economy and secondarily in the separate local units of operation. The whole is primary in the sense that the human body is primary and the cells secondary. One cannot fully understand the functioning of the human body, except as a whole, though one makes ever so minute analyses of the separate cells, one by one. But while defining the whole as primary, it is not to be understood that the local industrial unit in the U. S. S. R. is unimportant. On the contrary, the understanding of the whole gives greater rather than less importance to the cells or units of which it is composed.

I went to the Soviet Union with the idea of discovering whether the principles of American Scientific Management appeared, in the light of Soviet experience, to be universal or whether they belonged to the American scene, or at most to the characteristic forms of control and private ownership which have so far been associated with modern industry. It is always difficult to disentangle what are universal principles in distinction from their applications in the habits or practices peculiar to a particular environment. In the natural sciences laboratory experiments are familiar, in which certain conditions are varied in order to discover constant elements. In accordance with the same method, today, with two economic systems existing in