

been making out of their business. Then anything the new business contributes above its differential cost is clear gain. Where discrimination is possible, prices can be cut to a far lower minimum level without demoralizing the trade. Some forms of discrimination, such as the classification of freight, are unquestionably reasonable. Others, such as spying on a competitor's trade and focussing an intensive attack on his customers and on them alone, are clearly unfair and contrary to good trade policy. Between lie practices of many tints and shades, some of which will make a permanent place for themselves and others of which will probably be outgrown as trade discipline grows stronger and standards of trade practice become more enlightened.

Those which merely serve to shift business from one competitor to another are of little or no help to productive efficiency; while those which develop new business may be of very decided service. But among the most useful are those which develop selected varieties of business which are of such a sort as to fill in just those off periods when capacity is partly idle, and make the curve of operation more regular. A conspicuous example is the policy of electric power utilities, which have built up their off-peak business and thereby enabled a given plant to render a larger volume of service. That general business can accomplish the same result at least in some cases is evidenced by the Dennison Company and other pioneers in regularization. But before this movement can realize its potentialities two things are necessary. One is a general realization of the possible gains, based on better utilization of overhead outlays. The other is the development, by experience and experiment, of a varied and effective technique, not confined to the relatively crude and limited incentives of price discrimination.

First, as to the possible gains. Absolute regularity in everything is not the goal. It is not attainable and would not be desirable. Human life proceeds in rhythms and does not thrive on a mechanical uniformity. Machines do thrive on it, and it has been the great growth of these mechanical servants of production which has focussed attention on the fact of overhead costs and on the wastes of idle overhead; and given rise to the modern theories and policies on these matters. But it is a curious and pregnant fact that the wastes of

idle time are more serious for men than for machines, when irregular employment goes beyond the moderate degree of rhythmic change which men find natural and desirable. A man has to consume considerable fuel to keep him in a state of idleness, where a machine may simply be oiled and put away. There is less proportionate difference between the cost of keeping a man idle and at work than there is with a Ford. This is a vital fact in "community accounting."

In this connection there is one prevalent habit of mind among business men which they should, in their own interest, be led to reexamine and possibly to revolutionize. That is the habit of thinking of the peak business as the source of the greatest profits because the peak time is the time when the greatest profits accrue. In railroads, for example, a twenty-five per cent increase in business from March to October may almost double the net earnings. But does that mean that it would be profitable to cultivate a still higher peak and neglect the building-up of off-peak business? Far from it. Such a policy would call for added equipment, which would be needed for at most two months in the year, while the overhead costs on account of it would go on through all the months of the year, and the earnings might very probably fail to cover this additional burden for which the added peak business would really be responsible. At the same price, there is far more profit in building up off-peak business than in elevating the peak still higher.

Additional off-peak business is worth taking at anything above its extra cost: that is, until the price is so low or the special costs incurred in getting the business are so high that the margin between extra income and extra cost reaches the vanishing point. This is especially clear where it is possible to keep the new business separate from the old and give it special prices or a special development policy, or both. Otherwise the calculation takes a different form. More off-peak business lowers the average cost of all the off-peak business, and justifies slightly lower prices, but not such radical cuts as might be made for new business alone. Or it justifies added costs of development, but not such large added costs per unit of aggregate business. On the other hand, additional business which is concentrated at the peak is not worth taking unless it covers, not merely ordinary over-

head charges, but a considerable amount besides for idle overhead in the off-peak period.

Turning to the methods of developing off-peak business, price cutting has its uses, and also its dangers and limitations. So also has the method of working to stock. Advertising may develop new types of demand, or new uses of a commodity. New markets may be found with different seasonal peaks, even as far away as the southern hemisphere, where our seasons are reversed. But one of the most fruitful and adaptable methods consists simply in cooperation between concerns and their customers or clients, or with any parties who have a joint interest with them in greater regularization. Thus downtown offices may cooperate to spread out the rush hour of street car travel, railroads and shippers may cooperate in evening their shipments, manufacturers may cooperate with those who supply materials, to spread out their orders and receive in turn a greater assurance of having the orders promptly filled.

The relations of interdependence and common interest between different producers are growing almost daily. The present habit of hand to mouth buying may serve to reduce some of the extreme fluctuations which are bound up with the piling up of stocks in hopeful times and letting them shrink when depression comes in sight. But it also increases the dependence of business on being able to get its orders filled and its goods transported without delay when the orders do go in, and increases the seriousness of any failure, on the part of the railroads especially, to handle the peak. Thus it lays a greater responsibility on the roads to keep sufficient reserve capacity to ensure against car shortages and embargoes.

Questions of Accounting Technique

It is clear that "differential cost," or extra cost, is not an accounting quantity and cannot be: the books cannot show it directly and an accountant would have a justifiable brainstorm if asked to do so. It is the difference between costs under two sets of conditions, one of which is always different from the present and both of which are sometimes hypothetical. "What will it cost me to do this as compared to doing that?" What will it cost an automobile manufacturer to make his own carburetors as compared to buying them? What will it cost a railroad to make repairs in its own shops

as compared to letting outside shops do the work? The answer may hinge on whether the company has equipment which will stand idle if not used for this purpose. The conclusion is that the department dealing with costs should be prepared to furnish not only accounting records but also a variety of statistical and comparative analyses of costs, based not only on the book costs but on other data of a physical rather than of a purely financial kind. Thus what we may call "cost analysis" may supplement or even take the place of "cost accounting" in the traditional sense.

Accounting may, however, furnish very fair approximations without going so far. Direct expense per unit is often very close to the extra cost of added output, under conditions of idle overhead and in the short run. A "standard burden rate" may, within limits, be the means of a very good rough measure of differential cost, if the unit "cost of idleness" is subtracted from the full unit cost of production, to find the minimum below which added business will actually make the concern poorer rather than richer. The unit "cost of idleness," for this purpose, should be reckoned as the unabsorbed burden, divided by the number of units by which output falls short of normal.

Questions of Community Efficiency

Some of the chief discrepancies between private and community accounting arise from the shifting and conversion of overhead costs when they are passed on to the purchaser of the product. They are typically changed from constant to variable, as when a manufacturer pays so much a ton for coal, regardless of the constant costs of mining; and the coal thereafter figures as a variable cost to him and to all subsequent links in the chain of producers that reaches to the ultimate consumer. Thus in these later stages—whose policies largely govern the rate of output for the whole—the extra cost of extra output is exaggerated, and the economies of regularization appear far less than they really are. The dealer stops buying goods and reduces his expenses by the full buying price; but the manufacturer cannot save this much by curtailing production. He in turn reduces his purchases of coal and materials and saves the full price; but the producers of these things cannot save this much by curtailing their production. And so it goes. The producer who curtails output causes wastes of idle