tive wants of the people. ". . . its essential value can only be realized in any practical form through the government's economic activity as required for this purpose. And it is only from such a point of view that anyone can see clearly the necessity for government. A necessity which actually becomes the starting point of all financial science, and so becomes directly connected with the whole of our economic activities." Thus says Gustave Cassel, perhaps the most astute mind on capital now living.

It seems to me that no more magnificent opportunity for economic and social achievement ever confronted a government or a people than that immediately facing the people of the United States today. At this period of our affairs when our government's financial stake in our nation's banking and business affairs is so great that disaster in the field of business enterprise could only mean disaster both to our government and to its people, it becomes an imperative duty, transcending all other issues, for our government to rise to its responsibility in meeting, or in attempting to meet, the collective needs of an impoverished community that it was originally organized to serve.

The problem is one of security. Security for the government and for its allies—the American people and American enterprise. In solving such a problem the government must meet not only its own financial requirements but those of its allies as well—promptly and without stint.

Artificial stimulation to enterprise is now necessary unless we desire to suffer through a long and drawn out period of time. Men, money and materials must be put back to work. Purchasing ability must be made available to the consuming public. The devotion of 125 million people toward such a policy for the defeat of depression and the conquest of business stagnation would prove a revelation. Not only this, but because we are the world's chief creditor nation, the entire world awaits such action.

There is a means whereby this can be done. Payment by credit, together with a gigantic shift or exchange of credit, a mere bookkeeping transaction of actual profit to the government, can be undertaken within an incredibly short period of time. All of the high priests of finance are aware of this. The clue may be found in the available reports on the Hearings before the Joint Commission of Agricultural Inquiry of 1921. The means, method and temper are all present. Can Democracy afford to miss this—its possible last chance? *Paper presented at a meeting of the Taylor Society, New York, December 9, 1932. The substance of this paper will appear in Mr. Doane's "The Measurement of American Wealth" about to come from the press of Harper and Brothers.*

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try made available just in time for us to apply it in the huge opportunity before us. So we bid for capital by giving it a preferred status and embodied this in our law as well as our psychology.

But recently we have entered into a surplus economy. Technology has become such that we are able, if we will, to satisfy our basic needs and many caprice needs, and easily to provide the necessary capital as well as managing ability and other labor. Certain studies published last year indicated that in 1929 62 per cent of American savings was made available by the income classes earning $10,000 per year or less, and 45 per cent by the income classes earning $5,000 or less. We are no longer dependent on the payment of a premium to any special class to save for us; capital is no longer the result of conscious abstinence; if the capital spontaneously made available by the savings of small-income receivers were put under a collective management we should have therein such a proportion of the capital required for a sane conservative building up and maintenance of production facilities that it would be unnecessary to pay the price of a consistent and invariable return for it. Our willingness to continue the earlier contractual arrangements is therefore disappearing.

So also is our ability to do so disappearing. We have built up a contractual system for procuring capital which causes the debts of our economy to increase more rapidly than our productivity. This is one of the substantial truths presented in the arguments of the Technocrats. In the earlier period this geometric-like increase of debt structure did not matter much, for we were appropriating natural resources and transferring social capital to individual account, and it is very easy to face debt if we can appropriate and do not have to earn the means for paying it. But today, when social capital has all been transferred to individual account, each debtor has to earn the means of paying his debts. Under these circumstances we are naturally in revolt against those elements of a system which pile up debts at a faster rate than our real income is increased.

This mental attitude is intensified by the fact that we have been educated to a higher standard of living, and whatever the sacrifice we may perhaps consciously be making at the present moment to get industry started again, we as a people are going to demand an even higher standard of living. It is probable that in our future business mythology we shall give twentieth century advertising the status of a nemesis. This device for developing mass sales has convinced us that we want the equivalent of an apple a day, a visit to our dentist twice a year, communication by telephone instead of mail, two cars in every garage, and to see America first and then the world. To the extent that productive technology will permit, we shall insist on these things, and obsolete customs of contract that stand in the way will be modified by consent or roughly swept aside.

Those who believe they benefit by obsolete contractual custom would resist a higher general standard of living at their expense were it not for a dilemma of which they are becoming more aware. A higher general standard of living would be at their cost through a redistribution of social income; but what they have established as their wealth would lose its value if mass purchasing is not increased, and mass purchasing cannot be increased without a new distribution of the social income

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Sales Costs

Their Analysis by Items, Orders and Customers

By ELDON WITTWER, Ph.D.
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NOTWITHSTANDING the many altruistic motives, the chief aim of a commercial enterprise is to make a profit. Success or failure is measured in terms of profit expressed in dollars and cents. Therefore any change in policy, any increase or decrease in operating and sales expense or sales pressure should be made with this end in view. The curve of net profits should run at least approximately parallel to that of sales. When net profits fail to keep pace with sales, it is an indication that something is wrong and the case should be diagnosed to locate the trouble and find remedies.

Results of Analysis for a Wholesale Hardware Concern

A few years ago I was given the job of making a detailed analysis of a wholesale hardware concern to discover, if possible, the reason for their red ink balance. Since the function of merchandising is to connect useful commodities with customers desiring them, it was apparent that such an analysis should be centered around *commodities* and *customers*. A detailed cost analysis was made of each of the leading lines of merchandise and of every customer on the wholesaler's books. This analysis revealed some striking facts which were very helpful in adjusting policies to meet present conditions. Five out of twelve lines were found to be unprofitable. It was discovered that over 90 per cent of the sales came from less than 50 per cent of the items carried in stock. Sixty-five per cent of the orders were found to be unprofitable. These were small orders which constituted only 6 per cent of the sales. Out of two thousand customers 925 were found to be unprofitable; these were the small customers who were buying hand-to-mouth fashion and who accounted for a large part of the small unprofitable orders. Salesmen were spending approximately 30 per cent of their time soliciting business from small customers who year after year had been unprofitable.

Results of Analysis for Manufacturers

The sales cost analyses I have made for manufacturers have revealed even more striking facts than those found in the wholesale field. For example, during the years of 1929-30 one manufacturer received only 4.5 per cent of his sales volume from 72 per cent of his customers. When costs were analyzed and allocated to individual customers it was discovered that this 4.5 per cent of sales volume required 25 per cent of the total distribution expense.

In another concern 85 per cent of the customers gave only 6.4 per cent of the total sales but required 25.6 per cent of the distribution expense. Other concerns analyzed gave very similar results. These facts lead me to believe that this condition exists quite generally among both wholesalers and manufacturers in spite of the almost universal cry that "our particular business is *different*."

Losses from soliciting and servicing small accounts amount to thousands of dollars each year, yet many concerns continue to heap this extra burden upon themselves. In doing so they are worse than the man who tortured himself because it felt so good when he quit. The chief difference is that many concerns never have the delightful experience of knowing how it feels to quit. Such actions by a business organization do more credit to their respect for old customs than to their ability to recognize new facts and adapt their policies to meet present conditions.

No doubt one of the chief reasons for such slow progress along lines of selective selling and the elimination of small unprofitable accounts, is the lack of definite cost and market information. Sales cost accounting is comparatively new. Many concerns are installing some system of sales cost accounting, but comparatively few have sufficient information available to enable sales executives to follow a constructive policy of selective selling. Executives have not known the minimum size of order which their organizations could handle with a profit. They have not known except perhaps in a very general way which of their accounts were profitable and which were unprofitable, or which territories were profitable and which were unprofitable. Because of the lack of definite information, they have failed to realize the extent of their losses from soliciting accounts and covering territories which do not have the potentials for sufficient volume to make them profitable.

A Score Card for Allocating Costs

In each concern for which I have made a cost analysis, I have worked up a "score card" or statistical yard stick for measuring the profitableness or unprofitableness of an order, a customer or a line of merchandise. I believe this score card can be adjusted to fit any wholesale or manufacturing business. The principle is a very simple one. The following is the explanation:

Make a careful and detailed analysis of all sales and cost records kept by the organization. Make a detailed survey of work being performed and of records kept in sales offices, stock rooms and shipping rooms. Organization charts are helpful in making this survey. Time studies should be made and standards of performance set up where routine jobs are performed. Write up a detailed outline of work performed, how it is accomplished and why.

This type of survey is particularly valuable for two purposes. First, it supplies the basic information for the allocation of sales costs. Second, it frequently reveals the fact that duplicate or unused records are being kept or that circuitous methods are being used. Such information often results in savings amounting to thousands of dollars each year in office and shipping expense.

By such an analysis it has been found that some office work and expense increase or decrease in proportion to the number of orders received from customers regardless of their size in dollar volume. All such expenses are grouped under the heading "order costs." A large part of the order department expenses fall in this class; also a part of the postage and telegraph expense.

A considerable part of the work and expense in the office and shipping rooms increase or decrease in proportion to the number of invoices or shipments made to customers regardless