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THE IDEAS OF STUART CHASE ON WASTE AND INEFFICIENCY

Abstract: This paper discusses Stuart Chase and his thoughts on social accounting and the economics of waste and inefficiency. An evolutionary socialist, economist, and CPA, Chase saw waste as the major socioeconomic problem of our time, and argued that industry, the government, and the public could do much to overcome this problem. He suggested an optimal balance between *laissez-faire* and governmental regulation as a remedy for the inefficiencies of our economic system.

A Biographical Sketch

Born in 1888, Stuart Chase was educated at the Massachusetts Institute of Technology and Harvard University. His father, Harvey S. Chase, was instrumental in establishing the American Institute of Accountants and creating the first Uniform CPA Examination. Stuart Chase studied economics and became a CPA. He joined the Federal Trade Commission in 1917, where he investigated the meat packing industry. He was assigned to determine the cost of meat processing, but discovered that meat packers used such a variety of accounting methods that he could not adequately perform this assignment.¹ In 1922, Chase helped organize the Labor Bureau, Inc., a nonprofit organization providing economic advice to unions and cooperatives, which examined the commercial working environment and promoted the utilization of efficient operating methods. As an accountant for the Labor Bureau, Chase “[helped] unions achieve higher wages for their employees and [helped] cooperatives manage their fiscal affairs.”²

The author of many nontechnical books on socioeconomic problems, Chase was influenced by the writings of Henry George, Karl Marx, and Thorstein Veblen. A recurring theme linking a number of his books is the impact of technology on society. Other themes

appearing in his writings include waste in corporations and government, labor problems, and conservation of resources.

In the following discussion, we analyze the main ideas of Chase with respect to waste and inefficiency in the U. S. socioeconomic system and the effect Chase had on the accounting function.

He was among the first social accountants in the U. S., and raised many provocative questions about the economic and social objectives of business and government. He defined the goals of an economic system without:

. . . excessive waste and loss, whereby those who live under it may eat. It has the function to provide food, shelter, clothing, and comforts in as dependable and adequate quantities as natural resources and the state of the technical arts permit, just as the function of human physiology is to supply every cell with enough oxygen and nutriment.³

In the early twentieth century, such views were heretical in this country. However, they have led to recent calls for corporate social accountability (particularly in the 1960s), largely ignored in the 1920s.⁴

Chase pointed to limitations of economic theory. Referring to the profit motive:

. . . More important will be the problem of how to live; how to use fruitfully one's leisure time, how to improve the biological stock; how to educate, how to live and marry without the emotional miseries which now beset us; how to develop the arts; how to get the most out of life.⁵

Once basic economic needs are satisfied, Chase contended, then society should be concerned with improving its way of life. Chase, however, recognized that few are concerned with the larger aspects of the economic system, and the contributions that their daily work can make.

What man starting in business, asks himself . . . whether the work he proposes to do will strengthen or weaken the economic system; whether it will serve a social function; whether it will increase or decrease the evil effects of the business cycle; whether it will choke or expand the flow of

purchasing power? Such questions are normally undreamed of, and are displaced by others. Is there money in the venture? Or is there any fun in it?⁶

Chase argued for an ordered social framework:

Order, discipline, the consciousness of definite social aim are needed to insure a dependable flow of goods from the earth to the ultimate consumer. . . .⁷

Chase's Views on Waste

Chase was highly critical of the wastefulness inherent in a socioeconomic system. Chase defined waste as that which is unnecessary to society as a whole. All economic activities should be geared solely to produce food, shelter, and clothing "with a minimum of wear and tear and friction."⁸ Waste is the measurement of how far society has failed to apply its own proven knowledge to the satisfaction of its wants.⁹

The extent to which economic performance does not reflect human needs represents waste. According to Chase, waste can be determined by comparing present and ideal circumstances.¹⁰ Chase pointed to several instances of waste in modern societies, such as unemployment, excess plant capacity, and inadequate inventory control.¹¹ He was particularly concerned with technological unemployment and consumer waste through ignorance, advertising, crime, drugs, quackery, speculation, and gambling. Because of such waste, there are significant losses of scarce natural resources.

Chase's ideas on socioeconomic waste bear a striking resemblance to Berle's, the latter asserting:

For a century the United States has been pioneering. We did not care whether it was dishonest, or whether the system was wasteful, or whether this group of investors got hooked, or that group made an inordinate profit or the stock market made or lost fortunes, or anything about it. So long as railroads got built and plant was there and our industrial system was made, we could afford almost any amount of waste, or even corruption in the process. Suddenly we got to the point where we had all the production we needed, we had all the plants we needed. Another railroad is not a service to the community, it is just a damn nuisance. At that time, as has always been true in history, it tightens up. You cannot afford to waste any

more. You cannot afford to graft any more. The importance of savings becomes tremendous, for the minute management fails, that minute savings are no longer safe.¹²

Like Berle, who talked about "savings," Chase emphasized the importance of conservation of our resources to counteract wastefulness. Chase did not consider the importance of saving, investment, and economic growth until the 1930s, when he became influenced by Keynes' writings.¹³

Measurement of Waste as a Social Role for Accountants

Chase offered a thoughtful way of measuring waste and inefficiency under ideal circumstances, from a macroeconomic point of view:

Given a population, given its basic needs and wants, given the deposits of natural resources from which such needs may be supplied, given an industrial mechanism of production and distribution whereby natural resources may be turned into human requirements, given existing scientific knowledge, and all the factors are at hand to develop a standard for a coordinated industrial system which can really measure the problem of waste. Budget the basic wants; ascertain the raw materials available; survey the industrial plant in light of the present status of the technical arts, and calculate what it means in human effort to get these basic wants out of the earth and into people's lives with a minimum of effort and friction. Such a standard, it goes without saying, is based flatly on the assumption that an economic process has no justification other than that of supplying the things which mankind needs; that the only end of human work is to produce the groundwork for a rich and happy human life.¹⁴

What Chase does not explicitly discuss in his writings is how the accounting function in particular may promote operational efficiency, by developing suitable information systems to detect and correct inefficiencies. Nowadays management accountants are concerned with establishing standards and identifying actions needed to correct operations that are out of control. Chase also influenced social accountants to be concerned with inefficiencies in addition to corporate and government stewardship to the public at large.

Attempting to interpret Chase's work in today's context, Chase might have said that social responsibility is closely related to the

objectives of providing information for both decision making and stewardship. A social goal is implicit in these two objectives. The most comprehensive form of stewardship is social—accountability to society at large. The traditional rationale behind disclosure of relevant information to users has been socioeconomic, i.e., to allocate resources efficiently. In recent years, federal, state, and local governments have taken steps to make firms more socially accountable. These measures included regulations or prohibitions, violations of which result in fines. Generally, however, the government has continued to absorb most of the cost of correcting the environmental problems caused by socially irresponsible firms.

If enterprises were required to account fully for the social effects of their actions, then investors and governmental agencies could better assess their activities. Chase, it appears, would have preferred to see governmental agencies assume a greater role in this regard, for the benefit of the public at large. In the last few years, objections have been raised increasingly against the idea of massive government intervention in lieu of *laissez-faire* in business enterprise. Indeed, currently there is a significant movement underway, in the business and governmental communities, to dismantle the limited apparatus created in former years by federal, state, and local governments to make business more socially responsible.

This approach to elimination of inefficiency is founded on the theoretical concept of perfect markets, which, in terms of Adam Smith's invisible-hand argument, serve to eliminate waste, and lead to a Pareto optimal economic system. Chase believed that Smith's invisible hand did not work in the real world, without adequate information and regulatory assistance. However, we see regulation becoming ensnared in bureaucratic inefficiency, thus adding to social costs.

Chase's Impact on the Accounting Function

Chase's broad view of the accounting function can be best understood by considering his discussion of the nature of prosperity, or wealth. Chase divided the concept into four distinct definitions:

First, the commercial or business meaning. This is by far the commonest, and is measurable primarily in corporate profits, stock market quotations, bank clearings, volume of trade, price levels, export business, commercial failures, and, to a lesser degree, in physical production of goods,

wage levels, volume of unemployment, national income per capital. . . .

Second, prosperity may be defined in terms of the distribution of material goods and services to the ultimate consumer. . . . This definition is more human than the first in that it casts a general glance in the direction of the material well-being of the wayfaring man, but it does not say much about the value of the goods, or their net effect on health, happiness, and habits. . . .

Third, prosperity may be defined as an economic condition in which even if business does not particularly boom, or the distribution of tangible goods seems particularly lavish, the average citizen enjoys security and a modicum of leisure. It registers an end to the economic fear of old age, sickness, accident, unemployment. . . .

Fourth . . . , we might define prosperity as the life more abundant—an alliance of definitions two and three—compounding security and leisure with a wide variety of useful and beautiful material things.¹⁵

Thus, Chase's concept of prosperity or wealth extends beyond the narrow definition used by accountants today. The accounting function has traditionally recognized private costs and private wealth in looking at the efficient utilization of economic resources. Chase's concept of prosperity included his views on the accounting concept of depreciation, and Chase's views on accounting for capital resources are instructive:

The chief internal source from which corporations draw for improvements in plant and equipment is their reserve for depreciation. What does depreciation mean as applied to a business concern? It means two things: actual physical wear and tear of buildings, machinery, furniture, and fixtures, and second, the record of these processes in dollars and cents on the company's books.¹⁶

Chase explained the concept of "depreciation."¹⁷

. . . [F]or most things it is impossible to measure depreciation accurately. There are too many variables. But it is impossible not to recognize that it takes place. If a concern pays out all its earnings without making allowance for depreciation its directors may wake up some fine morning

with a junk pile on their hands, and instead of an operating plant, the sheriff striding briskly through the wreckage.

Chase indicated that depreciation used to be recorded unsystematically, contrary to the matching principle.¹⁸

Up to about the year 1900 most American business men admitted the fact of depreciation, but the way they recorded it on their books can only be described as temperamental. In a good year they might write off a million dollars for wear and tear; in a bad year, nothing. My father, Harvey S. Chase, was retained as a consulting engineer by various textile mills in New England in this period, to examine depreciation facts. He was shocked by the loose and casual way in which depreciation was accounted for. He advocated regular allowances every year whether profits were high or low. Manufacturers in turn were shocked by such a systematic wallop at their earnings.

According to Chase, the concept of conservatism underlies accounting depreciation, the latter being a process of cost allocation rather than valuation.¹⁹

The battle for systematic depreciation allowances has long since been won. The trouble is that it has been more than won. This is an interesting development, close to the heart of our story. I have already observed, and your common sense will confirm the statement, that the money cost of depreciation is almost impossible to determine accurately. Here, for instance, is an Empire State Building. Apart from the land it stands on, it cost, let us say, \$100,000,000 to build. How long before it will fall down and become valueless except for junk? What will the junk—or salvage value—be worth when it does fall down? Neither of these questions can be answered except by astrologers. So the accountant must guess. He guesses that the building will last at least one hundred years. He guesses that the steel and other materials can be salvaged for \$2,000,000. But now, as a good accountant, following the traditions of his profession, he must be conservative and qualify his guess. So he cuts down the life expectancy to sixty years, and the salvage value to \$1,000,000. That surely will be safe enough.

Thus it is clear—and as an accountant for many years I had occasion to learn it—that while depreciation has been admirably systematized on the records, it is a long way from the physical facts. Meanwhile the records consistently and deliberately overstate the physical facts.

The conventions underlying financial accounting for capital resources (e.g., conservatism) make such data essentially useless for social valuations. Many of Chase's idealistic views with respect to accounting for waste and social wealth were restricted by accounting practice itself.

Recapitulation

To concisely sum up Chase's socioeconomic ideas on waste, the following quotation is most appropriate:²⁰

If society made the things it genuinely needed according to the best available technical methods of production and distribution there would result an industrially wasteless society. Such a social group may never completely eventuate; but it constitutes the standing challenge to the intelligence of mankind. It is more than time that the challenge be taken up to the point at least of compiling a rough engineering draft of a wasteless society, and of estimating the vast increase in well-being which would accrue if society had the common sense to plan for its own provisioning.

Such a draft is not capitalism, socialism, nor any other ism. Its philosophy cuts sharply across all doctrines of opinion and concerns itself only with the facts. It is inevitable unless society is willing to proceed to its own destruction with its national, class, race, group conflicts (from war down to "legitimate" business competition), all internecine as far as humanity is concerned, and in themselves the apotheosis of waste.

Some might infer from the foregoing that Chase was a revolutionary socialist. This is not so. Chase considered waste to be the major socioeconomic problem of our time and argued that industry, the government, and the public could do much to overcome this problem. As an evolutionary socialist, Chase suggested that an optimal balance between *laissez-faire* and governmental regulation was needed to remedy the inefficiencies of our economic

system. He favored an organized economy, and was not content to allow the "market mechanism" to have free reign.

Chase's contributions were numerous and varied. He popularized the subject of economics, making it simple for lay readers to understand. An investigator of perennial socioeconomic problems, Chase was especially critical of the unmanaged nature of our economy, the unnecessary depletion of our national resources, technological unemployment, and socioeconomic irresponsibility in general. His views are timely today especially since he appeared to espouse the idea that the future would not necessarily be brighter than the past; the notion that progress is generally beneficial appears to be passé today.

FOOTNOTES

¹Lanier, *Stuart Chase: An Intellectual Biography (1888-1940)*, pp. 30-31.

²Lanier, p. 44.

³Chase, *A New Deal*, 1932, pp. 22-23.

⁴Previts and Merino, *A History of Accounting in America*, p. 201.

⁵Chase, 1932, p. 23.

⁶Chase, 1932, p. 4.

⁷Chase, 1932, p. 23.

⁸Chase, *The Tragedy of Waste*, 1929, p. 26.

⁹Chase, "The Challenge of Waste to Existing Industrial Creeds," 1921, p. 285.

¹⁰Chase, 1921, p. 284.

¹¹Chase, *Men and Machines*, 1929, p. 334.

¹²Berle, "Responsibility for Presenting True Condition of the Corporation to the Public," p. 11.

¹³Lanier, pp. 87-88.

¹⁴Chase, 1921, p. 284.

¹⁵Chase, *Prosperity—Fact or Myth*, 1929, pp. 25-26.

¹⁶Chase, "Capital Not Wanted," 1940, p. 227.

¹⁷Chase, 1940, p. 227.

¹⁸Chase, 1940, p. 227.

¹⁹Chase, 1940, p. 228.

²⁰Chase, 1929, p. 232.

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