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In the course of ordinary business, one of the chief aims of cost accounting is to discover the profitability or otherwise of each product or service that is sold by a given firm. With such information at his finger tips, the executive of the firm in question can decide which line of activity to push. Considered from the standpoint of the executive, the reason for employing a cost accountant is to secure the maximum profits for the firm. Private gain, however, is not the only result, for, as an economist would explain, if competition within the industry be keen, selling prices tend to be reduced to a fraction above total expenses. It follows that the activities of the costing department will also ensure that the ultimate consumer obtain what he wants at the lowest price.

In thus serving the business man—and incidentally the consumer also—the cost accountant has a difficult job, one that often raises problems which appear almost incapable of a logical solution. For example, every student is well aware of the impossibility of ever finding a satisfactory method of allocating oncost in a works that turns out many varied products. Nevertheless, if we start to analyze the economic system under which we live, we soon see that the cost accountant is usually aided in his task by certain forces which, though of immense importance, we ignore because we have come to take them for granted. For in the first place, he is allowed to value everything in terms of money, however much your philosopher may disapprove this practice. And in the second, he lives under a régime of individualism, private enterprise, or laissez faire—call it what you will—and as a result, both buying and selling prices are fixed for him by the forces of competition. Outside of Russia, no single industrial enterprise or government department is yet the complete dictator of market conditions. The executive of the private undertaking has little control over the rates at which materials or labor can be bought, and, similarly, selling prices are mainly fixed by the interplay of independent factors. But in other times and places, concerning which most of us can only know by hearsay, cost accounting calculations have sometimes been made without reference to any monetary unit. What is more, competition has not always been given free rein. The purpose of this article is to speculate upon the consequences for cost accounting of such departures from the use of money or from a competitive régime.

The first case is quickly dismissed. Consider our old friend Crusoe. When he was wondering whether to build a new hut, his costing calculations were real enough, even if they did not take the form of money reckonings. He simply weighed the pleasure of being housed against the discomfort of hewing timber under a tropical sun. His calculations dealt with intangibles, yet none the less they involved a process of costing—the comparison of income against the sacrifice involved in its acquisition.

When, however, a community consists of more than one person, exchange becomes necessary, and barter or (later on) money transactions become inevitable. Costing calculations cease to deal with intangibles and may be expressed in terms of concrete articles—be they slaves, barrels of pork, or dollars and cents. The only important example of a modern country trying to subsist without money is that of Russia during the civil-war period in 1920, and this curious experiment ended in abysmal failure.

We may pass therefore to the other case, in which the cost accountant does not have the forces of competition to guide him. Outside of Russia, this situation is seldom encountered, since an enterprise must, if it is to be entirely sheltered from competition, possess a monopoly both on its buying and its selling sides. Such a combination is rare. A partial monopoly in the matter of sales is, however, not unusual. Now although an undertaking that controls the market for its product does not have to depend upon competition for the fixing of its selling prices, it must still buy labor and raw materials at prices fixed by competition, and so its accountant continues to estimate the cost of its products. His calculations still point to the items which yield the greatest profit, and since your monopolist normally aims at enriching himself as fast as possible, it is upon those items that the enterprise will concentrate. And, because the monopolist can choose his own selling price, he need no longer share his increased gains with the consumer, as he would be forced to do under competition. That is, the cost accountant continues to be a valuable tool in the hands of his employer, but ceases to be the unconscious watch-dog of the consumer's purse. An enlightened public opinion will see to it that this faithful watch-dog is never muzzled.

Seen from this angle, much economic legislation, though it does not mention the cost accountant explicitly, is really designed to strengthen his position. Thus the whole of the anti-trust laws may be regarded as attempts to unfetter him in the interest of the public.

But to return to the cost accounting of the monopolist. His policy may well be much less simple than the foregoing discussion would suggest. He may find that he can make larger profits by charging different prices to different customers than by sticking to one uniform figure. Thus, for example, steel rings in Germany and the United States have often been able, thanks to high tariffs at home, to charge more in their own than in foreign countries. Such combines, having fixed home prices at levels sufficient to yield a profit after meeting prime and overhead costs, could increase this profit substantially by dumping surplus goods abroad at any price that exceeded prime cost. It would be the function of the cost accountant employed by such a steel combine to determine with the greatest possible accuracy the prime costs of the steel sold abroad. For the monopolist would never wish to sell below this figure, unless, of course, with the deliberate intention of ruining foreign competitors in order ultimately to obtain a monopoly in the foreign market also. But that is usually a hazardous proceeding.

Not all monopolies, however, are run simply with a view to making maximum profits. Where for technical reasons a product or a service is incapable of being exploited except by a monopoly, and where its price is a matter of wide public concern, the government concerned usually puts a finger in the pie. The aim of the monopoly becomes tinged with benevolence. Not maximum profits but maximum service is its new keynote, if it is properly regulated. No longer will it charge as high a price as the market will bear; rather will it be content to cover its costs—as determined, of course, by its costing department. It may even decide to subsidize a socially valuable but financially unremunerative branch of its activities out of the excess profits of its more lucrative operations. In general, of course, financial remunerativeness is the test of social value: one may often doubt how far people really want that for which they are evidently not prepared to pay. But there are other standards of value relevant in special circumstances, and these have often been applied in cases of monopoly. The post office, for example, makes large profits by carrying letters from one city block to the next at what (viewed by itself) is really an exorbitant charge for doing so. But it uses some of this money to cover the much higher cost of carrying occasional post cards between remote townships. The same is true of the British post office. As the reader may possibly remember, one of the unexpected fruits of Irish self-government was an increase of a halfpenny in the Free State's rate for letters; and we may presume that the British post office made a corresponding gain by ceasing to be responsible for a large tract of thinly populated territory. In England also the highly profitable mail department subsidizes its poor relation the telegraph: for the latter is always run at a loss, apparently as a matter of public policy. Obviously, the British post office, if run on a purely business basis, could substantially increase the already handsome surplus of £13,000,000 which it handed over to a grateful chancellor of the exchequer at the close of the last fiscal year. Both in America and Britain the unremunerative services are no doubt justified on social grounds, and at certain points the postmasters general can therefore legitimately disregard the data laid before them by their costing departments. It is, however, imperative that the cost calculations should still be made, lest congress or parliament might countenance the continuance of such unremunerative services with eyes closed to their expensiveness.

We have pointed out that monopoly usually involves a disregard of the cost accountant's figures through a fixing of selling prices at an artificial level. This results in the consumer paying more (or, sometimes, less) than the true economic price as measured by social cost. A slightly different distortion arises when the monopolist is able, because he is the only buyer, to fix his own purchase prices—that is, if he is what Mrs. Joan Robinson in her recent book *The Economics of Imperfect Competition,* calls a "monopsonist." Thus New York clothing firms would appear to be to some extent monopsonists in engaging their workers, since the type of labor they buy has often no alternative opening for employment. Hence the bargaining position of the employee is peculiarly weak; and hence, also, the need for anti-sweating laws. It is obvious that the figures of the cost accountant employed by such a monopsonist must underestimate the social sacrifice involved in the preparation of the sweated product. As a result, the inhabitants of Park Avenue have hitherto paid less for their wives' (still expensive) gowns than is really justified by the amount of sewing involved. Benevolent monopsonists are seldom found, though this phrase describes the U. S. Treasury during the months in which it bought gold from American producers above the world price. Here its behavior must be justified on grounds which are not purely economic.

Each item in the foregoing catalogue of departures from a régime of strict laissez faire must be sufficient to disconcert any cost accountant brought up in the classical tradition of free enterprise. What, then, would be his feelings, were he transferred to an undertaking in present-day Russia, where he would have to deal simultaneously not only with each of these abnormalities but also with a host of other even stranger customs? Indeed, where competition is eliminated, and where everything is centrally planned and controlled, it might well be imagined that no costing calculations exist or are needed—at any rate so far as the individual enterprise is concerned. But this would be a mistake. The cost accountant is held in considerable esteem by the Soviet authorities. For political reasons, however, he is frequently not permitted to work on a scientific basis, with disastrous consequences for the consumer. In no way can one come to a better understanding of the importance of accurate costing than by considering the confusion, waste and suffering that have resulted from the departure from sound accounting principles.

In Russia, the whole of industry (and agriculture, too) must conform—or at least make some show of conforming—to the program constructed and periodically revised by the central planning authority (Gosplan). The plan specifies not only outputs, costs and prices, but also the profits to be earned. And the management of each individual unit must try to achieve the figures of the plan in the matter of profits, just as much as in the matter of any other item. If at the end of the year the profits of an enterprise are deficient or absent, the manager will have to face severe criticism, not indeed from a body of shareholders, but from the officers of Gosplan.

Now, outside of Russia, the profit-and-loss account of a private firm reflects on the one hand the management's bargaining power in buying raw materials and labor and its salesmanship in disposing of the product, and, on the other, the technical efficiency of its workshops. But the profit-and-loss account of a state enterprise in Russia reflects efficiency only. Its selling prices are specified in the plan. So, too, are the prices at which it buys labor and raw materials. That is, a Russian cost accountant's figures no longer measure bargaining power or salesmanship; they measure only skill at engineering and at factory organization. They become a valuable index of good internal management, although to some extent subsidies falsify their significance in this respect.

In a country as large as Russia, a very considerable degree of devolution in industrial matters is obviously essential. Outside the skeleton provided by the plan, the head of a local enterprise has, and must have, almost complete independence as to the conduct of his factory or farm. Hence the enormous importance of the cost accounts as an index by which the central authority may decide with what wisdom each individual manager is exercising his discretion. And hence, too, the importance of the costing department to the individual manager as a means of organizing his enterprise along the lines of maximum efficiency.

Costing, therefore, would at first sight appear to exercise much the same functions inside the individual factory as it does in western countries. But it is costing with a difference, and from the social point of view that difference is extremely significant. The matter may perhaps best be illustrated by considering each in turn of the principal ingredients of a costing calculation, and discussing the manner in which they are determined.

(1) *Labor.* The early communist dogma that all should have equal pay has long since gone by the board. Factories now pay whatever is necessary to attract the right kind of staff. Theoretically, every Russian who possesses a permit to work (normally given to all persons not in the bad books of the government) is free to move from one employment to another. As a result no factory can lower wages beyond a certain point, or its workers will migrate elsewhere. Labor costs are still mainly determined by competitive forces, as in other countries.

In Russia, however, these forces can on occasion be severely restricted in their operation. First, the government has the power to alter wages wholesale, either by direct decree or by subtler methods, such as currency manipulation. Further, the movement of labor between one place and another in response to a difference in wage rates may be checked by measures of various kinds, varying from mass moral persuasion to the withdrawal of housing permits and food cards. Consequently, any important industrial unit can to some extent choose what rate of wages it will pay. In other words, it can make itself into a monopsonist, not unlike the sweatshop employer described above. If (perhaps for political reasons) a badly managed undertaking must be made to appear efficient, the government may sanction all manner of devices for securing lower wage rates. Unlike the sweatshop employer, however, the government is in a position to offer compensations to the labor concerned. Should the workers show signs of effective resentment at receiving lower wages than could be obtained elsewhere, these compensations are brought into play. For example, the government, since it controls even retail trade, may quietly ordain that the prices of foodstuffs supplied to these workers shall be lowered. In this way the inefficient undertaking is given a concealed subsidy, its costs are distorted downwards, and labor's real reward is higher than its money earnings would suggest.

(2) *Raw materials.* The free market for labor may be restricted: for raw materials there is no open market at all. The prices of everything the factory buys are specified in the plan—including of course the price of labor. But in the case of labor, as we have seen, a certain minimum must usually be paid, or labor of the type in question will not be forthcoming. Only in a convict camp can the government order people to do as they are told, irrespective of what they are paid. In the case of materials, on the other hand, even this limitation is absent. For the government can perfectly well order one enterprise to supply another with its products, whether or not the former considers that it is receiving a satisfactory price for them. The laborer can (within limits) sell his labor where he chooses: no such freedom is open to the individual unit in disposing of its products. Within limits, also, the consumer can buy what he likes: the sources of supply for the individual factory are already specified in the plan.

Not only are the prices of raw materials fixed by the government even more rigidly than the price of labor, but there is even less certainty that they represent true social cost. If a post is peculiarly responsible, the plan must specify a higher reward, or the post will not be filled. That is, the higher social cost is reflected in a higher wage, to some extent at least. Not so with materials. A mineral may be particularly scarce, or particularly difficult to obtain, but in Russia its price need not be especially high on that account. The government has only to order the mines to deliver it, and the industry which makes use of it can have supplies of the mineral as cheap as you like (even though other users go without). True, the mines in question will no longer show a profit unless they are subsidized in some other way: but as we have seen, this is not particularly hard to achieve.

(3) *Overhead charges.* So far as overhead charges consist of labor and material costs, the contents of the foregoing sections are applicable. In addition, overheads usually include services purchased (e.g. transport), rent and interest, all of which call for some consideration.

(a) Services. As a general rule, each of the undertakings subsidiary to industry is organized as a quasi-independent unit, charging prices fixed by the government. Usually such prices reflect costs fairly closely. Thus, for instance, railroad rates are based so far as possible on actual expenses of operation, a fact that will probably be of vital importance in determining the location of the numerous villages that are being built along the Trans-Siberian railway.

(b) Rents. The land is national property, and the rents charged for occupation can therefore be fixed as the government sees fit. Buildings are also controlled by governmental bodies. At first the municipalities tended to assume this responsibility, but it has usually been found that greater efficiency results if a special corporation is given charge of this matter. Such corporations endeavor to run at a profit like any other undertaking.

(c) Interest. For many purposes the accountant need not charge up the price of a firm's capital as a cost. In the long view it must be included in cost, none the less, for in western countries no firm would think of beginning operations unless it showed some prospect of paying dividends, to say nothing of debenture interest. And a firm that got its capital for nothing would be said to have been subsidized. Yet in Russia many enterprises get their capital for nothing.

In Britain or the United States capital is mainly obtained from three sources: from the private subscriptions of individual investors, from undistributed profits and from the banks. In Russia few persons are rich enough to save anything worth talking about. Loans from the state bank and the profits of successful enterprises are therefore the chief source of capital. Many enterprises contrive to finance themselves out of their own profits. Others receive money from more (financially) successful enterprises or from the state bank, again without paying for it. The orthodox Marxian theory is, of course, that interest represents no cost to anybody and should not be paid. And in this respect communist practice comes nearer to theory than in the more awkward matter of "equal pay for all."

And in a country where individual savers are seldom urged to thrift by means of a high rate of interest, and where the state bank and wealthy industrial undertakings can lend out what would otherwise only be lying idle, it is at first hard to see how capital in fact can cost anything. But however many roubles are lying idle in the bank, or in the coffers of some state trust, there can never be enough of them to finance all the capital development that the government would desire. This, of course, the authorities fully realize: indeed they could scarcely avoid doing so, for in Russia scarcity of capital is one of the loudest complaints. And we in the west would regard—indeed, do regard—this scarcity of capital as a reason for treating its price as a cost and rationing it out to the highest bidder. For rationed it must be, and the state bank and the wealthy trusts could in fact charge just as much for their loans as borrowers are prepared to pay—were it not that such a proceeding would be considered too reminiscent of capitalism, if indeed not actually immoral.

But the Russians have a stronger reason for rationing capital upon an arbitrary basis rather than through the mechanism of a capital market. The enterprises that would offer most for, and therefore get, the supplies of fresh capital would be those that are making the largest profits. In the west there may be (and often are) good grounds for supposing that the most profitable are the most efficient and the most worthy of development. But in Russia, as sometimes the authorities must surely realize, profits are almost entirely artificial, or even accidental, and form little guide to social worth. Moreover, there is always the plan. Capital in the right place is essential for the fulfilment, or even part fulfilment, of the plan. And there is no guarantee that the test of profit would put capital in the "right place," from this point of view. This reflection reinforces the Russian's moral scruples about the institution of a free market for capital and makes him more determined than ever not to include interest in costs.

Not only the distribution of fresh capital but also the total quantity available is entirely arbitrary. It is notorious that the first five-year plan, because of its emphasis upon capital development, imposed the severest hardships upon the Russian consumer.

Vast quantities of butter and other much needed foodstuffs were exported in order to pay for new machinery. Had a free capital market existed, the amount of resources available would have been automatically limited by the public's willingness to save; that is, if interest were correctly included in cost, the consumer could have determined for himself whether to spend his money on butter or to invest it.

What is the result of all this? No doubt the government sees to it that the Russian accountant has plenty of figures on which to base his cost calculations. Impressive profit-and-loss accounts emerge at the end of each financial year. But their social significance has entirely disappeared. No longer is it the well-managed enterprise, or that producing some scarce but much needed product, which shows the biggest profits. No longer does the inefficient unit, or the one producing something of which there is already a surfeit, inevitably show a loss. Financial results cease to be a valuable guide, or indeed any guide at all, to the lines along which industry and agriculture should develop for the future. The plan settles all that; but figures of profitability are no help in constructing the plan.

There remains the other social function of the cost accountant —to keep a check on inefficiency. This, it is true, he can still do to some extent even in a Russian enterprise. A comparison of the financial results of a subsidized with those of an unsubsidized undertaking has of course no meaning: indeed, when one considers the essential artificiality of most Russian prices, one may well be puzzled at the exaggerated regard that the authorities show for capitalist standards of respectability in the matter of profit-and-loss accounts. But comparisons between the figures of a given factory or farm during years in which the subsidy remains static, or between factories in the same industry receiving identical subsidies—such comparisons do reflect differences in efficiency. Similarly, whether or not in the end the accountant's figures of profit and loss give an accurate picture of the degree of efficiency that has been obtained, the processes of his analysis at least are absolutely necessary for the maintenance of any standard of efficiency whatever. They may not measure good management in a firm, but they are at least essential to such good management, in Russia no less than elsewhere. For only with the help of costing systems is it possible to compare alternative methods of production and to eliminate waste.

It would appear, therefore, that the Russians fully appreciate the value of costing so far as the internal management of an enterprise is concerned, but fail to realize its importance when comparing different units in the same industry or different industries with one another. Perhaps it is not too much to say that the future of communism depends on the speed with which the soviet authorities wake up to a proper sense of the accountant's worth. For only if the plan itself is based on his figures, can it satisfy the needs of the consumer in the full sense. In western countries the working of supply and demand ensures that cost accountancy shall fulfill these wider functions in the service of the consumer. And the time may come when the Russian consumer will insist on receiving the same degree of protection. This article began by emphasizing the social usefulness of the cost accountant under a régime of private enterprise: and it ends by pointing out that he is equally essential to the well-being of a socialist community. In an age of universal insecurity, such a profession is perhaps not without its advantages.