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# A BRIEF REVIEW OF THE PRESENTATION OF “COST IN TWENTIETH CENTURY AMERICA”

by

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*The following comments are based on the presentation of a research paper at the Academy's Research Conference in Atlanta on November 14, 1998.*

Vangermeersch and McNair have recently expanded their study of cost to the 20th Century in *Total Capacity Management*<sup>1</sup> and wanted to update their previous finding. This paper provides another look at the research finding that the National Industrial Recover Act of 1933 marked the disconnection of cost/management accounting from engineering reality.<sup>2</sup> In the presentation, Vangermeersch used a three period, six topic figure similar to Figure 1.

**Figure 1**  
**Three Periods, Six Topics**

Time Period	Period Class	Era	Rulers	Key Persons	Capacity Philosophy
(1) 1890-1932	Efficiency	Engineering	Technocrats	H.L. Gantt; H. Ford; H. Hoover; T. Veblen; S. Chase; F.W. Taylor; A.H. Church	Produce at max; low cost, low price
(2) 1933-1982	Distribution	Accounting	Bureaucrats	FDR; H. Johnson; OPA officials; H. Truman; R. Nixon	Limit... Production; high cost; high price
(3) 1983-	Global and Free Markets	Consumerism	"Datacrats"	R. Kaplan; H.T. Johnson; R. Cooper; J. Shank and V. Govindarajan; C. Berliner and J.A. Brimson	Selective production; explain non-utilization

The first four topics for the first period are no surprise, as are key people like Gantt, Ford, Hoover, and Taylor. Vangermeersch added Stuart Chase and Thorstein Veblen to the list, because of his recent research on them. Veblen is probably the best-known American critical economist of this time period. Chase was one of his popularizers and interpreters (for Veblen needed and attracted many of these). He had provided a philosophical base to the technocrat era. A society

that was not producing at maximum capacity, at a low cost due to this volume absorbing overhead, and at a resultant low price was a wasteful society.<sup>3</sup>

The year of 1933, as the first year of the New Deal, is generally viewed as a turning point in American life. There is much controversy over the end of the period. Was it 1973, the year of the first oil crisis or 1979, the year of the second oil crisis? The presenters choose 1982 as the end of the period,

when Ronald Reagan began to leave his impact on our society. This era had as its prime concern the distribution function of who received what from the economic system. It was based on either a self-contained economy or a war economy, which took about ten years to adapt to shocks of 1973.

Roosevelt and Truman were presidents whose social viewpoints are well known. Hugh Johnson was a key player in the passage of the National Industrial Recovery Act and the first head of the National Recovery Administration. Office of Price Administration (and subsequent agency titles) officials were instrumental in both World War II and the Korean Conflict. Nixon was, briefly, an OPA bureaucrat in Washington, DC and later reestablished price controls in his presidency. Accountants, such as Herbert F. Taggart, T. H. Sanders and Eric L. Kohler helped establish a new world for accounting. A key difference between technocrats and bureaucrats was the different philosophies towards capacity and its utilization. Roosevelt definitely rejected the technocrat philosophy of maximum production, minimum costs (especially wages), and low prices.

The third period remains one based on global and free markets. It is centered on value for consumers. The term "Datacrats" was used to reflect the era of information in which those who control the data rule organizations. Vangermeersch used the very recent article "Taming the Data Deluge" as an example.<sup>4</sup> He considered Kaplan's 1983 article in the *Accounting Review* as the start of the major adaptation of accounting to the new world.<sup>5</sup> In this new world American business favored a selective production philosophy with more and more interest in explaining why capacity was not utilized at an ideal level.

In the body of the paper, the ambiguous nature of "cost" is stressed. The last fifteen years have been marked by a renewed interest in the topic. In effect, American business seems to be paying more attention to such engineers as H.L. Gantt. In that move, the

medieval-based notion of Roosevelt on the "just price" has been replaced by, for instance, "target costing." Both the National Recovery Administration and the Office of Price Administration used a cost-based pricing system, which is in effect a "just price" system. As long as the United States could isolate itself and then, after World War II, be the dominant player in the world economy, accounting and accountants could be governing.

The global and free market era changed the game and cost/management accounting adapted to the new world of the consumer rules. The presenters posit that cost/management accounting has been adaptive to the economic world that it faced. Perhaps cost/management accounting has never lost relevance.

The discussant, Professor Ed Arrington, correctly questioned the use of the term "rhetoric" in the first draft. He felt the paper stressed the political process rather than the rhetorical process. He discussed how a linguist would view how "cost" has been used in the 20<sup>th</sup> Century. Vangermeersch thanked the discussant for his helpful and insightful comments.

## ENDNOTES

<sup>1</sup>McNair, C.J. and Richard Vangermeersch, *Total Capacity Management: Optimizing at the Operational, Tactical, and Strategic Levels* (Boca Raton, FL: St. Lucie Press and The IMA Foundation for Applied Research, 1998).

<sup>2</sup>Vangermeersch, Richard and C.J. McNair, "The National Industrial Recovery Act of 1933 and the National Recovery Administration: The Cause of the Disconnect of Managerial Accounting from Reality," *Accounting Historians Notebook*, Spring 1997, pp. 9-11.

<sup>3</sup>Chase, Stuart, "The Challenges of Waste to Existing Industrial Creeds," *Nation*, Feb. 23, 1921, pp. 284-287.

<sup>4</sup>McKie, Stewart, "Taming the Data Deluge," *Business Finance*, Nov. 1998, pp. 34-38.

<sup>5</sup>Kaplan, Robert S., "Measuring Manufacturing Performance: A New Challenge for Managerial Accounting Research," *Accounting Review*, Oct. 1983, pp. 686-705.