

**THE UNIVERSITY OF CHICAGO  
STUDIES IN ECONOMICS**

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**STUDIES IN THE ECONOMICS  
OF OVERHEAD COSTS**

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# STUDIES IN THE ECONOMICS OF OVERHEAD COSTS

BY

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**TO MY FATHER**

## PREFACE

This volume is a bit of research into the principles of dynamic economics. It is an experiment in a type of economic theory which is largely inductive, which comes to grips with the dynamic movements and the resistances to movement, and the organic interrelations of parts, which make our economic world a dynamic social organism, rather than a static mechanism with an endless uniformity of perpetual motion. It studies the discrepancies between supply and demand; indeed the whole subject of the book might be defined as a study of discrepancies between an ever fluctuating demand and a relatively inelastic fund of productive capacity, resulting in wastes of partial idleness, and many other economic disturbances. Unused capacity is its central theme.

This subject, of costs which are not traced to units of output, or do not vary with output, has challenged the author's scientific interest for years. From being a mere exception to the general laws of value and efficiency it has grown to be a large and important section of economic principles. And now the question seems to be whether it can best function as an autonomous department of economics, or whether the whole body of economic thought must become an "economics of overhead costs" in the sense of being integrally built upon this as a part of its foundation. In the latter case, the new groundwork would need to include many other equally important and equally fundamental facts of human nature and industry, all of which together would furnish an adequate and convincing background for a picture of the dynamic, organic, and social qualities of our industrial life.

The author has sometimes said that a graduate class in economic theory would be a success if the students gained from it a real understanding of the meaning of cost in all its many aspects. He believes that the economist may well study the

accountant's conceptions of cost, since they constitute economic forces which affect the conduct of business and the laws of value and production. But he believes just as strongly that the accountant should know the meaning of cost from the standpoint of disinterested economic science, because it embodies, in a sense, that impossible goal to which his practical devices serve as approximations. Thus one task of this work has been to try to throw the light of these two conceptions upon each other—with what success the reader must determine.

A word of explanation may be in order as to why this bit of experimental research in economic theory should appear in a series of "Materials for the Study of Business." The fundamental reason is twofold. The author of the book believes in carrying theoretical study into the realm of those facts and forces with which business is consciously in contact (as it is often not consciously in contact with the traditional abstract levels of long-run equilibrium) and generalizing upon that great wealth of inductive material which is accumulating at an ever increasing rate and for which our schools of business are so largely responsible. And the editors of this series believe that a study of the laws of industry from the broadest social standpoint, and from the standpoint of the search for useful truth of whatever color, is a vitally necessary part of business education. And such a testimonial to the practical worth of theoretical study is, to say the least, worth accepting on behalf of theoretical economics.

While the book was not originally planned as a commercial text, the material has been used as the basis of a course in which students of the School of Commerce have participated, along with students in the Department of Political Economy. The course has been given three times, the students have contributed valuable data and an invaluable service of criticism and discussion, and the professor's resignation has not yet been requested. In fact, he has been strengthened in the conviction that a course covering this subject-matter fills a very important niche in any university curriculum and he looks to see such courses become fairly numerous in the near future.

The author has tried to put the argument in such form that business men would find it readable, if they were willing to deal with some few unfamiliar terms and to accept the standpoint of a search for the laws of economic efficiency in the large, rather than of that narrow commercial efficiency which breeds the convulsions that sap the strength of business as a whole. Such readers might do well to omit chapter xxiii, dealing with the theory of marginal productivity, but it is the author's earnest hope that they will find the bulk of the argument worthy of their attention. The subject it deals with, especially the discrepancies between commercial and community measures of efficiency, is as important as any which is before us today, and the importance of the theme may make up for shortcomings in the author's presentation.

Grateful acknowledgments are due to more individuals than can be named. First of all to my wife, whose suggestions have had more value than she would admit, whose probable comments have been constantly in my mind, affecting the form of the entire work, and who has devoted to it an amount of toil which can never be adequately recognized by that too conventionalized reward of the author's wife, a mention in the Preface. I have also profited by discussions of particular phases of this work with my colleague, Professor Jacob Viner, and my former colleague, Professor F. H. Knight, now of the University of Iowa. Professor J. O. McKinsey of the School of Commerce and Administration of the University of Chicago kindly read and commented on one part of the manuscript. Acknowledgment is also due to the members of the classes who have worked with me over this material, and to the entire group of teachers and students at the University of Chicago, whose spirit of realism and intimate contact with economic facts have furnished a mine of suggestion and a salutary corrective for the overabstract tendencies of the theorist.

As for the many writers who have written on one phase or another of this subject, partial acknowledgment is made in the course of the text, though no one can ever know all the influences which have helped form his ideas on any large subject. The

greatest debt of all is to my father, who started me in this field of inquiry as a graduate student, who has followed my work with a combination of generous interest and wise refraining from interference, and to whom this work is dedicated as a very small contribution toward realizing his conception of a dynamic economics.

JOHN MAURICE CLARK

CARMEL, CALIFORNIA  
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