

# COST VERSUS VALUE and some other thoughts about the economic crisis.

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## PROFIT MARGIN COST ACCOUNTING IS WORLD S MOST EVIL DEVIL: THE OTHER SIDE OF REAL VALUE ECONOMICS

Sometimes what we take for granted, without question, as necessary and right, conceals one of the worst evils in the world. It is an evil taught in every capitalist business school. It is something that is valued more highly than most other functions in business today. It is routinely compensated more richly than most other functions. It has risen in status, particularly in recent years. Nevertheless, the accountant s main function, within American capitalism, is what we need to reconsider. How cost accounting is done is where we can find one of the world s worst evils. That evil becomes even more malignant in any economic downturn or recession, making its pressures and influences felt even more strongly than in good economic times. That is one of the most powerful forces forcing the world toward its total ruin.

Profit margin cost accounting, with its demands to forever cut costs and to increase margins, dictated to accountants by dividend hungry shareholders, cannot ever serve the best interest of humanity. This is because it does not consider real costs. It only considers paper values according to accepted formulas of calculation. The real costs, not the paper values, include costs to the environment and costs accrued to reduced quality of life that have no dollar values assigned in the equation. They also include waste, which is acceptable where the cost of reducing waste has a negative impact on margin, rather than cost recovery. Waste tends to be reduced only where and when it costs more to waste than it does to conserve or recover something from waste.

Air, water, and soil pollution, and also conservation, have no dollar values assigned to them in the typical cost accounting formulas. The long term health and quality of life impact of those factors never appears in the accounted cost of manufacture. The remedies for those problems and the cure for their effects, cannot appear in the cost and profit margin formulas because it increases the cost and erodes the margin. In many instances there would be no margin, and the goods would no longer be produced, being considered completely uncompetitive

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in the world marketplace. Clean air, water and soil are too expensive, and uncompetitive, when it comes to conventional cost accounting, and the unending fight for profit