fixed costs. Also, such specialized resources can be eliminated in comparing cost structures.[2]

Although the economic logic of the above argument on the use of durable, specialized resources is impeccable, it is frequently disregarded by pricing analysts and regulators. In a sense, the elimination of such costs from pricing calculations defies common sense. From the money or accounting cost perspective, these costs usually should be included.

The conclusion that must be drawn is that economic costs differ from money or accounting costs. Money costs are by their very nature a measure of past costs. This does not mean that money costs do not have any relevance in the economic sense. Past costs do perform a very important function because they provide a guide to future cost estimates. However, complete reliance should not be put upon historical costs for pricing in the transportation industry.

Social Cost

A third category of costs—social costs—might also be considered. Some businesses might not concern themselves with social costs unless required to do so by law. These costs take into consideration the cost to society of some particular operation and, in fact, might outweigh money cost. For example, what is the cost to society when a company releases its waste materials into a stream? Today many regulations and controls are administered by various regulatory agencies to protect society from such costs. These agencies make the business organizations responsible for social costs. (For example, strip-mine operators are customarily required to backfill and plant.) In spite of such controls, however, there are still instances when chemicals or other hazardous materials are discharged or leak out and society has to bear the cost of the cleanup operations as well as the health hazards.

This discussion is not trying to castigate business organizations or suggest that all investment decisions result in negative social costs because, in fact, there can be social benefits from business investments. However, to ensure that the discussion is complete, social costs must be considered.

Analysis of Cost Structures

There are two general approaches to an analysis of a particular cost structure. Under one approach, costs can be classified as those that are directly assignable to particular segments of the business (such as products or services) and those that are incurred for the business as a whole. These two types of cost are generally designated as separable and common costs, respectively. Usually, common costs are further classified as joint common costs or conjoint common costs. **Separable costs** refer to a situation in which products are necessarily produced in fixed proportions. The classic example is that of hides and beef. Stated simply, the production or generation of one product or service necessarily entails the production or generation of another product. In terms of transportation, joint costs occur when two or more services are *necessarily* produced together in fixed proportions. One of these services is said to be a by-product of the other. The most obvious illustration is that of the backhaul situation; the return capacity is the by-product of the loaded trip to the destination.[3]

It is a generally accepted fact that large transportation companies, especially railroads, have a significant element of common costs because they have roadbed, terminals, freight