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The Dutch East-India Company and accounting for social capital at the dawn of modern capitalism 1602–1623

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A B S T R A C T

Capitalism's profound effect on society has encouraged economic and accounting historians to hypothesise about the importance of double entry bookkeeping to its development. According to Sombart the continual reinvestment of the profits earned depended on the existence of a capitalist form of double-entry bookkeeping that would allow investors and managers to measure the return on investments as a means of making rational business decisions. More recently, with particular reference to the English East-India Company Bryer has argued that the adoption of the capitalist form of double-entry bookkeeping was essential to resolving the social conflict between investing capitalist classes that arose with the rise of industrial capitalism in England in the late 17th and 18th centuries by providing the means to calculate the rate of return on socialised capital. This paper widens the historical context of these debates to The Netherlands in the early 17th century by examining accounting practices of the Dutch East-India Company, the epitome of modern capitalism in motives, organization and funding. It establishes that, although the 17th century Dutch were pre-eminent in Europe in their knowledge of the capitalist form of double-entry bookkeeping, at no time during the period covered by the first charter (1602–1623) of the Dutch East-India Company, or thereafter, did the domestic operations of the Company use this form of bookkeeping across all chambers. This meant that the investors did not have the necessary information that would have allowed them to calculate the return on their investments. Indeed, the Company's investors neither expected nor demanded information to calculate the return on their investments and, hence, double-entry bookkeeping was not a necessary condition for Dutch capitalism in the manner suggested by Sombart, Weber and Bryer. Instead, the form which capitalism developed in The Netherlands recognised the social and economic impact of its unique geography which produced a society characterised by a monetary economy, a long tradition of joint ownership, and a free market for assets and capital rights.

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Introduction

The process by which much of Europe was transformed from a feudal economy to a modern capitalist economy has exercised scholars' minds since Marx published the first volume of *Capital: a critique of political economy* (*Das Kapital: Kritik der politischen Ökonomie*) in 1867. In particular, the writings of Werner Sombart and Max Weber have engendered vigorous, sustained debate among economic and accounting historians, notably their views on the contributions of accounting practices to the transition to capitalism (Chiapello, 2007, pp. 264–276; Carnegie & Napier, 1996, pp. 7–8, 15, 29–31; Funnell, 2001, pp. 55–78; Hopwood, 2000, p. 763; Oldroyd, 1999, pp. 85–86; Toms, 2010; Winjum, 1971, 1972; Yamey, 1949, 1959). Whereas Marx's principal interest was 'industrial capitalism'[1] which

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[1] The earliest known reference to 'capitalism' (*capitalisme*) appears in Louis Blanc's *Organisation du Travail* (1850, p. 161). He declared "what I call capitalism, is the ownership of capital by some, to the exclusion of others" (*avec ce que j'appellerai le capitalisme, c'est-à-dire l'appropriation du capital par les uns, à l'exclusion de autres*). Infrequently used thereafter, the term was afforded fresh impetus by Marx and Engels (Braudel, 1992, p. 237; Hamilton, 1991, p. 273).

was mainly a post 18th century phenomenon defined by investment in the means of production, the concern of Sombart and Weber was commercial capitalism which marked the appearance of modern capitalism during the 16th and 17th centuries (Bryer, 2000b, pp. 336, 342; de Roover, 1942, pp. 38–39; Sée, 1928/2004, pp. 39, 47–48). Commercial capitalism is distinguished from feudal capitalism by the latter's emphasis on investment in land, whereas commercial capital was more mobile and, therefore, more readily able to pursue opportunities for profit (ten Have, 1976, p. 6). Sombart posited that the modern capitalist mentality associated with commercial capitalism depended on both the prior existence of double-entry bookkeeping to measure profit and the desire (spirit) to use this technology to make rational business decisions (Sombart, 1916/1953, p. 38). Weber, in contrast, regarded double-entry bookkeeping not as an essential requirement for the development of modern capitalism but as mainly a technology that facilitated rational capitalist action which "rests on the expectation of profit by the utilization of peaceful opportunities for exchange" (Weber, 1956, p. 17). A rational capitalist business entity determines its "income yielding power by calculation according to the methods of modern bookkeeping and the striking of a balance" (Weber, 1927/1981, p. 275).[2]

More recently the transition debate has been revitalised by Bryer (2000a, 2000b) whose contributions, mainly in *Accounting, Organizations and Society*, have been described by Toms (2010, p. 219) as "an important next step in the Sombart–Weber debate". Bryer (2000a, p. 144) has argued that "the mere existence of accounts kept by DEB (double entry bookkeeping) provides no basis for identifying the authentically capitalist mentality", and hence the appearance of the capitalist business. Instead, and most importantly, it is "only evidence of the capitalist mentality if it produces the return on capital employed ..." (Bryer quoted in Toms, 2010, p. 209). Relying principally on evidence from the history of the English East-India Company (EEIC) during the first half of the 17th century, Bryer further widened the transition debate when he concluded that the EEIC "and others (particularly the merchants of northern Europe) eventually introduced double-entry bookkeeping[3] to foster the socialization of their capital" (Bryer, 1993, p. 136; 2000b, p. 344). While Toms (2010, p. 206) accepts Bryer's broader thesis he disagrees with his more "narrow" argument that rate of return calculations occurred quite early and their use as a specific form of profitability calculation was the accounting signature of modern capitalism. Instead, Toms (2010, p. 206) argues that "fully ROCE calculations make a much later appearance than suggested in ... (Bryer's) previous empirical surveys". Bryer (2000b, p. 379) had previously acknowledged the need for "more theoretical and empirical research ... before a plausible theory becomes convincing history". Moreover, he noted that "(w)e must base the social history of accounting on a thorough study of the large amount of archival material that lies untouched by historians of accounting" (Bryer, 2000b, p. 379). Toms (2010, p. 206) has also suggested that an over reliance in these debates on the experience of England in the 17th century had implications for the resilience of any related conclusions.

This paper responds to the call by Bryer and Toms for more empirical evidence concerning the development of capitalism in Europe with a detailed study of the Dutch East India Company (*Vereenigde Oost-Indische Compagnie*, hereafter referred to as the VOC) in the early 17th century. Examination of the VOC, regarded as the first public limited liability joint stock company and, together with the EEIC, considered the epitome of capitalist enterprise (Bryer, 2000a, p. 140; Gepken-Jager at al., 2005, p. 43; Nussbaum, 1937, p. 162; Sée, 1928/2004, pp. 22, 49, 52, 81, 121; Steensgard, 1973, p. 127; van Dillen, 1958, pp. 27, 40), complements Bryer's study of the EEIC by broadening the historical context for the debate about the importance of double-entry bookkeeping in the transition to capitalism. More importantly, the new evidence introduced here from the archives of the VOC held at The Hague challenges the essential, critical importance given by Bryer to capitalist double-entry bookkeeping. The paper establishes that, unlike the EEIC, the method of bookkeeping used by the VOC to account for its capital was not a capitalist form of double-entry bookkeeping which would have allowed investors to determine the return on their investments.

This study confirms and extends the findings of Funnell and Robertson (2011) who identified the influence of German bookkeeping texts and northern German Hanseatic business practices on Dutch accounting in the 16th century, that is well before the VOC was even conceived. They found that during this time agents' (factors') bookkeeping and the practices of Hanseatic businesses, which had long been the Netherlands' most important trading partners (de Groote, 1961, p. 147; de Roover, 1963, p. 114), were the dominant influences on the organisation and administrative practices of Netherlands' businesses. Hanseatic accounting developed over the pre-ceding centuries primarily from the need to enable a settlement between partners at the conclusion of a business venture. Hanseatic businesses did not have a common capital but instead were loose associations of businessmen in which no partner could exercise formal control over the actions of other partners (de Roover, 1974, pp. 171, 175; Posthumus, 1953, pp. 9–10; Stieda, in Mickwitz, 1938, p. 189). Accordingly, Funnell and Robertson conclude that for Hanseatic busi-

[2] Both Yamey (1959, pp. 534–546) and Winjum (1971, pp. 333–350) also firmly rejected the idea that a capitalistic form of double-entry bookkeeping was a necessary antecedent to the genesis of the capitalistic firm (Carnegie & Napier, 1996, pp. 7–8, 15, 29–31; Chiapello, 2007, pp. 264–276; Funnell, 2001; Hopwood, 2000, p. 763; Oldroyd, 1999, pp. 85–86; Winjum, 1972, p. 231; Yamey, 1949, pp. 99–100, 113).

[3] For the purposes of this paper, the terms 'modern', 'scientific', 'systematic' 'capital-revenue', and 'capitalist' double-entry bookkeeping are treated as synonyms. In addition to the basic requirement of a pair of opposing entries for every transaction posted to the accounting records, capitalist double-entry bookkeeping must be limited to the firm's transactions and must include a record of all the business' assets, liabilities, revenues, expenditure, and its capital sum. It must also recognise periodic revaluations of assets, especially inventory, and charge depreciation. Such a bookkeeping system permits the internal calculation of interim net profit and shows the state of the firm's capital at a particular date, both of which are necessary to calculate the rate of return on invested capital (Bryer, 1993, pp. 113–114; 2000b, pp. 330, 368–369; Carruthers & Espeland, 1991, p. 46; Gras, 1942, pp. 27–31; 1947, pp. 90–100, 103–104; Lemarchand, 1994, p. 122; Nussbaum, 1937, p. 162; Sée, 1928/2004, p. 10; Weber, 1981, pp. 7, 275; Winjum, 1971, pp. 334–335; Yamey, 1949, pp. 99).

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