PERGAMON

Accounting, Organizations and Society 25 (2000) 327–381

Accounting, Organizations and Society

www.elsevier.com/locate/aos

The history of accounting and the transition to capitalism in England. Part two: evidence☆

R.A. Bryer

Warwick Business School, University of Warwick, Coventry CV4 7AL, UK

Abstract

An earlier paper (Part one) argued that to appreciate the social significance of accounting today we must understand its ideas and techniques as products and producers of history. It explained the importance of Weber and Marx's theories of the transition to capitalism to historians of accounting. Weber's use of accounting as an ideal-typical representation of calculative mentalities enabled him to avoid economic determinism. However, he presupposed the appearance of the capitalist 'spirit', and his understanding of modern accounting was inferior to Marx's. The paper argued that translating Marx's theory into a history of accounting makes it testable. The theory includes class conflict in trade and in agriculture, and calculative mentalities, as prime movers. It says the calculative mentality of modern capitalism, the maximization of the rate of return on capital employed in production, emerged from the historical interaction of capitalistic mentalities in agriculture and trade. From the middle of the sixteenth century landed and mercantile wealth pooled their capital in international trade. Following social conflict culminating in the bourgeois revolution of the mid-seventeenth century, the rate of return on capital became the dominant economic ethic. Capital from international trade flowed back onto the land, bringing with it the capitalistic rate of return mentality. Harnessing this to capitalistic farming produced the modern capitalist mentality. In this paper I argue that the history of accounting during the English agricultural, commercial, and bourgeois revolutions, is consistent with this theory. The paper examines evidence from farmers' accounts from the sixteenth to the eighteenth century and agricultural texts and literature, and evidence on merchant accounting from the sixteenth and seventeenth century. The centrepiece is a case study of the development of accounting in the English East India Company from 1600 to 1657. The paper concludes by outlining the importance of accounting history and the need for archival research.

It has become more widely accepted over the last 20 years or so that we must understand the ideas and techniques of modern accounting, not as the expression of an external economic reality, but as the historical product and producer of changing social realities (Burchell, Clubb, Hopwood, Hughes & Nahapiet, 1980).[1] Part one considered the relevance to historians of accounting of Weber and Marx's theories of the social history of modernity, the appearance of modern capitalism (Bryer, in press). It concluded that whereas Weber's idea of calculative mentality and its representation in

☆ I would like to thank Anthony Hopwood (Oxford), Marianne Pitts (Warwick) and particularly Roger Hulme for helpful comments. I would also like to thank Christopher Napier (Southampton) and Barbara Merino (North Texas) for helpful comments on the case study of the English East India Company. I presented an earlier version as 'Accounting for the Bourgeois Revolution in the English East India Company, 1600–1657', at the Fifth Interdisciplinary Perspectives on Accounting, University of Manchester, July 1997.

[1] For reviews of some of this work see, for example, Carnegie and Napier (1996); Napier (1989).

0361-3682/00/$ - see front matter
PII: S0361-3682(99)00033-1

accounting allowed him to avoid economic determinism, his neo-classical understanding of modern accounting undermined the attraction of his Protestant ethic theory. Part one argued that by bringing out the calculative mentality embedded in Marx's political economy, his theory of the transition to capitalism also avoids determinism, and provides a richly realistic understanding of modern accounting. That paper translated Marx's theory using accounting ideas. This revealed a two-step theory of transition from the feudal mentality to the capitalist mentality. First, the appearance of capitalistic mentalities in farmers using wage labour and in merchants who socialise their capital.[2] The mentalities of capitalistic farmers are formally indistinguishable from those of feudal lords — both attempted to maximize consumable surplus (e.g. receipts minus payments). The vital contribution of capitalistic merchants was their rate of return mentality, initially still feudal surplus divided by the initial capital invested. Second, the historical interaction of these mentalities to produce the modern mentality of maximizing the rate of return on capital employed in production (Table 1).

In this paper I support this interpretation of Marx's theory with evidence from the history of accounting during the agricultural, commercial and bourgeois revolutions. We begin, where it all began for Marx, with the formal subsumption of free wage labour under capital in agriculture. Here, consistent with the prediction in Part one, the limited published evidence suggests that there was only a class of capitalistic farmers from the late fifteenth century to the end of the sixteenth century. Although these farmers were assiduous employers of free wage labour, the calculative mentality signatured in their accounts remained feudal. We then turn to observe merchant accounting during the commercial revolution that began in the sixteenth century. Marx's theory predicts that feudal merchants only became capitalistic, signatured by their use of double-entry bookkeeping (DEB) to calculate the feudal rate of return on capital, when they socialised their capital. An analysis of Yamey's interventions in the 'Weber–Sombart debate', and a detailed case study of changes in the accounting system of the English East India Company (EIC) from 1600 to 1657, the centrepiece of this paper, support this prediction. What was driving the development of the EIC's system of accounting were escalating socio-economic conflicts within the company mirroring conflicts in society. Resolving these conflicts ultimately required a bourgeois revolution in Marx's sense. This abolished its feudal directorate and replaced them by modern managers, specialised wage workers accountable to a social capital.[3] Given the social and economic importance of the EIC, this evidence is consistent with Marx's theory that a society-wide bourgeois revolution occurred in mid-seventeenth century England. This revolution made the rate of return on capital the purpose of economic life, and, in Marx's theory, provided the essential ingredient for the emergence of modern capitalism from capitalistic agriculture. Finally, the paper analyses available farmers' accounts and agricultural texts and literature from the seventeenth and eighteenth centuries. It argues that the evidence available is consistent with Marx's view that the capitalist mentality began to spread in agriculture from the late seventeenth century. In the concluding remarks I emphasise the potential importance of the history of accounting for understanding modern society and modern accounting, and outline some opportunities for archival research.

1. Accounting for formal subsumption in agriculture

In the middle of the fourteenth century the population of England, as elsewhere in Europe, was in steep decline and so was the income of the lords. Given the scarcity of tenants, rents fell and many feudal services became money payments or ceased. This was the golden age of the English peasant, until the population began to rise from

[2] When limited groups of individuals pool their capital it is socialised, for example, in partnerships.

[3] When an investing society pools its capital it becomes social, for example, in listed joint-stock companies with limited liability (Bryer, 1993b, 1997). Whereas social capital is freely transferable between members of an investing society, socialised capital is not.