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Americanism and financial accounting theory – Part 1: Was America born capitalist?

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ABSTRACT

This paper (Part 1), and two related papers (Part 2: The 'modern business enterprise', America's transition to capitalism, and the genesis of management accounting; and Part 3: Adam Smith, the rise and fall of socialism, and Irving Fisher's theory of accounting), explore historical links between American ideology and Irving Fisher's theory of accounting. They explain Fisher's theory as the product of America's exceptional transition to capitalism and the ideological consequences. Part 1 uses Marx's theories of the transition in England, of colonisation, and of ideology, to construct an accounting history model of America's transition to capitalism that identifies the dominant social relations of production and calculative mentalities, and uses them to predict the accounting signatures and political ideologies we should observe if the theories are correct. Parts 1 and 2 test the model. Part 3 explores the ideological consequences of America's transition, for America and financial accounting. Scholars generally assume that America was 'born capitalist'; historians argue it became capitalist sometime from the late 18th to early 19th centuries. The model, however, identifies early farmers as 'simple commodity producers' who, it predicts, kept only single entry accounts of debt, and had a 'producer' ideology of 'equality' and 'freedom'. It identifies planters and manufacturers as 'semi-capitalists' – part merchant capitalist and part simple commodity producer – who it predicts calculated 'profit' as consumable surplus, pursued the 'simple rate of profit', controlled only prime costs, and had an ideology of 'individualism' that combined the producers' ideology with the merchants' 'laissez-faire'. Part 1 re-examines evidence from accounts to around the mid-19th century, which confirms that farmers were not capitalists and that even the most advanced merchants, manufacturers and planters were semi-capitalists. Part 2 searches for capitalists in the second half of the 19th century. It re-examines evidence from the accounts of the Boston Associates who historians have seen as 'proto-industrial capitalists'; from the railroads heralded by Chandler as the beginning of 'managerial capitalism'; and from 'entrepreneurial capitalists' like Andrew Carnegie who created the large corporations that conquered America from the 1880s. Their financial accounts and cost management systems reveal the same semi-capitalist mentality found in the early 19th century. Re-examination of the 'costing renaissance' in the 1890s and evidence from the DuPont Powder Company and General Motors from 1900 to 1920, suggests that only from around 1900, after escalating conflict between 'capital and labour', did the capitalist mentality appear in new management accounting systems focused on 'return on investment'. Part 3 shows that the accounting evidence closely correlates with the history of American political ideology. It argues that Adam Smith's *Wealth of Nations* dominated American politics until the late 19th century because it theorised a nation of simple

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commodity producers and semi-capitalists. It explains the delay in America's transition compared to Britain's, and the decline in the popularity of *laissez-faire* from the 1880s, as consequences of this exceptional starting point. 'Big business' capitalism created an ideological problem for America's ruling elite, particularly the threat of socialism from around 1900 to 1920. Part 3 argues that Fisher's neoclassical theory of 'capital' and 'income', designed as a critique of Marx, responded to this problem and played an important role in undermining middle class support for socialism. Fisher said he based his theory on accounting practice, particularly double entry bookkeeping, but Part 3 shows he did not use or understand it, which divorced his accounting from reality. American history's legacy to the world, the papers therefore conclude, is a pathological theory of financial accounting.

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It has become more widely accepted that to understand the roles of accounting in organisations and society we must "reflect upon the social, political and economic context in which accounting operates" (Cooper and Sherer, 1984, p. 225; Hopwood, 2005). Some bold pioneers of this approach argued for a "political economy of accounting", insisting that "the study of accounting should recognise power and conflict in society, and consequently should focus on the effects of accounting reports on the distribution of income, wealth and power" (Burchell et al., 1980; Cooper and Sherer, 1984, p. 218; Tinker, 1980). Some even suggested an important social function could "include mystification and legitimation", "an ideological function"; that "accounting theories . . . are the product of the society in which they operate and cannot be regarded . . . as neutral; they serve specific interests" (Cooper and Sherer, 1984, pp. 218, 223; Tinker et al., 1982). We know much more about accounting in context than we did 30 years ago (Hopwood, 2005, p. 585), but we still know little about accounting theory as ideology, particularly the origins and ideological functions of American financial accounting theory (hereafter, accounting theory).¹ This paper (Part 1), and two related papers (Part 2: The 'modern business enterprise', America's transition to capitalism, and the genesis of management accounting; and Part 3: Adam Smith, the rise and fall of socialism, and Irving Fisher's theory of accounting), address that gap. They seek to explain why "A restless tension still pervades much of the dialogue concerning the application of economic ideas to accounting practices"; why "The world needs to be told what profit ought to be even though it apparently is orchestrated in the name of it" (Hopwood, 1992, pp. 129, 130). Why, according to Bob Herz when head of the Financial Accounting Standards Board (FASB), it has resulted in "a body of official accounting literature that is hard to understand, difficult to use [,] . . . [i]n one word . . . nuts" (Herz, 2005, p. 5), clearly "a strange situation for one of the most important discourses of present-day global capitalism" (Macintosh, 2009, p. 4). To address these questions, to "bring such strangeness into the light" (Macintosh, 2009, p. 5), the papers assemble a genealogical history of American accounting theory. It is 'strange', they conclude, because the economic ideas that tell the world what profit ought to be come from the seminal work of Irving Fisher, whose theory of accounting was the ideological product of America's exceptional history.

Commentators and scholars generally agree that America has an exceptional culture, particularly its self-defining ideology of 'Americanism', the 'American Creed' of "liberty, egalitarianism, individualism, populism, and *laissez-faire*" (Lipset, 1996, p. 18). A large literature assumes or supports 'American exceptionalism' (see Foner, 1984; Lipset, 1996; Wilentz, 1984a), but fundamental questions remain. What are its causes? Was American history exceptional? If it was, how did it produce Americanism? Why, unlike Europe, did socialism fail to take root in American politics? Why in America has "the rule of capital . . . remained more powerfully installed and less politically contested than in any other advanced capitalist society" (Davis, 1980, p. 6)? What are the consequences of Americanism? Is it a "double-edged sword"? Some see it as the foundation of America's economic success, but others stress its "dark side", its exceptionally high crime rate, high income inequality, poor social welfare, low political participation rates, high levels of mental illness, etc. (Lipset, 1996). To this list, I will add pathological accounting, America's exceptional theory of accounting.

Scholars of American exceptionalism use different approaches, but two things unite them. First, their failure to define in what sense America is the 'business society' *par excellence* (Cochran, 1967). Cochran, for example, who raises the problem, defines 'business' as the "intellectual constructs and activities by which men seek to manipulate the factors of production for pecuniary return" (1967, p. 6), but he defines neither 'intellectual constructs' nor 'pecuniary return'. The papers use accounting to define them, as Marx and Weber did, as the capitalist mentality (Bryer, 2000a). Second, scholars generally assume that American history, particularly the collapse of socialism from around 1920, shows that Marx's theory of capitalism is wrong. The papers re-examine accounting evidence from colonial times to the 1920s to test it by exploring the history of American capitalism. They argue that by understanding what was exceptional about America's transition to capitalism we can understand what is exceptional about Americanism, and its consequences, for America and accounting.

Neither Marx nor Engels wrote a detailed history of Americanism, but scholars criticise their prediction of its 'inevitable' transition to socialism (e.g., Lipset, 1996, p. 33; Runkle, 1964). Marx, Engels, and many others, recognised the obstacles to socialism in America, particularly its workers' exceptionally high standard of living – what Sombart (1906) called its 'shoals

¹ I use 'America' and 'Americans' throughout to mean the USA and its inhabitants because this is what they call their country and themselves.

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