Americanism and financial accounting theory – Part 3: Adam Smith, the rise and fall of socialism, and Irving Fisher's theory of accounting

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A previous paper (Part 1) rejected the conventional wisdom that America was ‘born capitalist’ and the historians’ consensus that it had become capitalist by the early-19th century; another (Part 2) rejected Chandler’s thesis that the ‘modern business enterprise’ brought a ‘new form of capitalism’ to America from the 1840s. The accounting evidence suggests that America began to make the transition to capitalism around 1900 in a period of intense conflict between ‘capital and labour’ generated by ‘big business’ from the 1880s, a process not completed until the 1920s. This paper (Part 3) examines the consequences for America’s political ideology and financial accounting theory. America’s exceptional transition, it argues, explains the history of its political ideology, and this history explains Irving Fisher’s theory of accounting. Section A argues that America lagged behind Britain because it started from a society of simple commodity producers and semi-capitalists, which created an exceptional ideological problem for its ruling elite. Big business generated hostility from workers, farmers and small employers – expressed in labour movements, ‘populism’, socialism, and ‘progressivism’ – and created an ideological problem by contradicting the ‘independent producer’ ideology of workers and farmers, and the ‘individual liberalism’ of small manufacturers and merchants, both underwritten by Adam Smith’s Weath of Nations. The paper argues that Smith’s theory of price articulates as semi-capitalist accounting, which explains his popularity in America until the appearance of big business in the 1880s. Socialism and progressivism became political forces in America from 1900 to around 1920. Progressivism produced ‘corporate liberalism’, the ideological counter to socialism that corporations could be made ‘socially responsible’ by government regulation and ‘publicity’ to ensure they earned only ‘fair’ returns, but this left two problems. First, socialists argued that no profit was ‘fair’, and second, fear of the ‘labour danger’ made American financial reports secretive and conservative. Section B argues that Irving Fisher responded to these problems with a theory of accounting, which he developed as a refutation of Marx and the American brand of socialism advocated by Eugene Debs, the threateningly successful presidential candidate of the Socialist Party of America. An important but neglected reason for socialism’s abrupt collapse around 1920, it argues, was that the socialists lost the intellectual argument with the middle classes, and that Fisher’s theory played an important role in this defeat. Fisher was a vigorous self-publicist, strongly influenced the teaching of economics and accounting in the universities and, the paper argues, changed the language of American accounting. Fisher claimed that accounting practice supported his theory of ‘capital’ and ‘income’, but the paper shows he did not understand double-entry bookkeeping or the accountants’ ‘cost theory of value’, and therefore divorced accounting from the reality of business transactions. As his theory underlies the FASB’s framework, the paper concludes that Fisher’s legacy to the world is a pathological theory of financial accounting.
In 1776, British colonists in North America boldly declared their independence, and Adam Smith published *An Inquiry into the Nature and Causes of the Wealth of Nations*. Smith’s book did not cause the American Revolution, but it did have a major influence on America’s political economy and ideology. In 1976, during the bicentennial celebrations of its publication held at Glasgow University, Professor George Stigler opened his banquet speech: “I bring you greetings from Adam Smith, who is alive and well and living in Chicago” (quoted in Meek, 1977, p. 3). Stigler did not exaggerate. *The Wealth of Nations* “was destined to become the Bible of the liberal bourgeoisie” (Meek, 1977, p. 3) and America became the bastion of competitive free market capitalism. Was this because Smith discovered the theory that unlocked the secret of prosperity, the view of Stigler and most economists? Alternatively, did Smith conquer America because he theorised the early stages of Britain’s transition to capitalism, which accurately described America’s exceptional mode of production from the late 18th century to the end of the 19th century, as argued here? Articulating Adam Smith’s theory of price as a system of accounting, the paper concludes it was exceptionally influential in America precisely because it was not a theory of ‘capitalism’, if we define this, as Marx and Weber did, as the calculative mentality we observe in modern accounts (Bryer, 2000, 2006).

An earlier paper (Part 1) rejected the conventional wisdom that America was ‘born capitalist’, and the consensus amongst historians that it had become capitalist by the mid-19th century; another (Part 2) rejected Chandler’s view that ‘managerial capitalism’ was responsible for the ‘modern business enterprise’. The accounting evidence suggests that America began to make the transition to capitalism around 1900 during a period of intense conflict between ‘capital and labour’, generated by the appearance of ‘big business’ from the 1880s, a process it did not complete until the 1920s. This paper (Part 3) examines the consequences for America’s political ideology and financial accounting theory. Part 1 argued that the language of accounting is an ideology, a key ‘language of real life’ that articulates a calculative mentality, which is the ‘economic base’ of a corresponding political ideology. This paper shows that the accounting evidence in Parts 1 and 2 correlates with the history of America’s political ideology by first showing that Adam Smith’s theory of price articulates as semi-capitalist accounting. It then argues that an important reason for the delay in America’s transition to capitalism compared to Britain, which had advanced capitalism by 1900, was starting from a society of simple commodity producers and semi-capitalists, which created a serious ideological problem for ‘big business’ capitalists and politicians. This exceptional starting point, it argues, explains Smith’s powerful influence over American political ideology, and the problems it encountered following the appearance of big business from the 1880s explain Irving Fisher’s theory of accounting. In short, the paper argues that big business created an ideological problem for Smith’s theory that required a change in the language of accounting to solve. America’s exceptional transition to capitalism, it therefore concludes, explains its exceptional political ideology, which explains its exceptional financial accounting theory.

The paper proceeds as follows. Section A first outlines a history of America’s political ideology from the Revolution (1775–1783) to the 1870s. It shows that the political leaders of America’s simple commodity producers (idealised by Thomas Jefferson) and semi-capitalists (idealised by Andrew Jackson) embraced Adam Smith’s *Wealth of Nations*. It explains Smith’s popularity by the correspondence between his semi-capitalist analysis of ‘capitalism’ and the social reality suggested by the accounting evidence of Parts 1 and 2. Second, it analyses the ideological problem big business created for America’s ruling elite. Smithian rhetoric dominated American political ideology until ‘big business’ generated hostility from workers, farmers, and small employers, and the brutal repression of labour by corporations and the government pushed reformers into politics, generating a wave of ‘Populism’ that swept the country from the 1880s demanding government intervention. Populism’s defeat opened the door to socialism, which became threateningly popular in the early 20th century. Socialism became attractive because many workers and farmers shared a Labour theory of value, and workers, farmers, small employers, and socialists, agreed with the need for government regulation of large corporations, but this contradicted Smith’s anti-monopoly, free market, individual liberalism. Even though it attracted a relatively small number of votes, socialism was a political force in America until around 1920, as was its close relative, ‘progressivism’, the label historians attach to the appearance of organisations and coalitions that appeared around and alongside socialism proposing and demanding reforms to address exacerbated social and labour unrest, the practical problem that corporate reports had to be secretive and conservative.

Section B argues that Irving Fisher’s theory of accounting responded to these problems and made a seminal contribution to their solution. First, that Fisher’s education at Yale encouraged him to join the intellectual crusade launched against Marxism in the late 1880s, to seek to fulfil his desire to be famous by, in part, undermining socialism. Second, that Fisher produced his theory of ‘capital’ and ‘income’, ostensibly to correct Adam Smith’s theory of capital, but implicitly and explicitly as a criticism of Marx and the American brand of socialism advocated by Eugene Debs, the remarkably successful presidential candidate of the Socialist Party of America through the first two decades of the 20th century. Third, that Fisher’s ideological contribution was to reconcile the calculative mentalities of simple commodity producer, semi-capitalist, and money capitalist. Fourth, that although Fisher claimed accounting practice supported his theory, particularly double entry accounting is an ideology, a key ‘language of real life’ that articulates a calculative mentality, which is the ‘economic base’ of a corresponding political ideology. This paper shows that the accounting evidence in Parts 1 and 2 correlates with the history of America’s political ideology by first showing that Adam Smith’s theory of price articulates as semi-capitalist accounting. It then argues that an important reason for the delay in America’s transition to capitalism compared to Britain, which had advanced capitalism by 1900, was starting from a society of simple commodity producers and semi-capitalists, which created a serious ideological problem for ‘big business’ capitalists and politicians. This exceptional starting point, it argues, explains Smith’s powerful influence over American political ideology, and the problems it encountered following the appearance of big business from the 1880s explain Irving Fisher’s theory of accounting. In short, the paper argues that big business created an ideological problem for Smith’s theory that required a change in the language of accounting to solve. America’s exceptional transition to capitalism, it therefore concludes, explains its exceptional political ideology, which explains its exceptional financial accounting theory.

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Section B argues that Irving Fisher’s theory of accounting responded to these problems and made a seminal contribution to their solution. First, that Fisher’s education at Yale encouraged him to join the intellectual crusade launched against Marx in the late 1880s, to seek to fulfil his desire to be famous by, in part, undermining socialism. Second, that Fisher produced his theory of ‘capital’ and ‘income’, ostensibly to correct Adam Smith’s theory of capital, but implicitly and explicitly as a criticism of Marx and the American brand of socialism advocated by Eugene Debs, the remarkably successful presidential candidate of the Socialist Party of America through the first two decades of the 20th century. Third, that Fisher’s ideological contribution was to reconcile the calculative mentalities of simple commodity producer, semi-capitalist, and money capitalist. Fourth, that although Fisher claimed accounting practice supported his theory, particularly double entry

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1 Smith never used the words ‘capitalist’ or ‘capitalism’. ‘Capitalist’ appears in England only from the end of the 18th century, and ‘capitalism’ from the middle of the 19th century (OED).
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پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات