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American ideology, socialism and financial accounting theory: A counter view

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ABSTRACT

This paper is a response to part three of Rob Bryer's (RB) analysis of the development of capitalism in the U.S., which focuses on the ideology underlying accounting practice rather than the practices themselves. We argue that the ideology that has dominated American history is not so much that of the independent producer as portrayed by RB, but a wider and more nuanced attachment to individual liberty that has coloured American history from independence to the present day. We dispute his analysis of the decline of socialism as being the outcome of ideological struggle, and in particular Irving Fisher's contribution to its demise. The paper also challenges RB's views on Adam Smith's legacy and Irving Fisher's influence over FASB's CF. Finally, it examines the historiographical implications of RB's study and our counter non-Marxist narrative.

1. Introduction

This paper is a response to part 3 of Rob Bryer's history of the development of capitalism in the U.S. and the accounting implications (Bryer, 2013b, hereafter RB3). The series has succeeded in its aim of producing an "interesting" history that "allows us to understand important features of the past and their links to the present" (RB3, p. 612). However, enhanced historical understandings are best achieved through dialogue with competing viewpoints, a theme we return to later in the paper. Also, there are significant areas where we disagree with RB's methodology and interpretation of events. In our reply to RB's first paper (Bryer, 2012), which focused on the genesis of American business consciousness up to the mid-1800s, we questioned his notion of a clear point of divide between the "capitalist" and "pre-capitalist" worlds. We disagreed in

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particular with the idea that capitalism cannot exist absent particular accounting signatures, such as depreciation, that serve to hold agents accountable for the *capitalist* rate of return on investment (ROI).[1] Our response to this point is that the extant accounting record is only capable of proving attitudes present, not attitudes absent. Hence, the non-existence of particular accounting signatures by themselves cannot imply "that a structure of wage-based labour, a spirit of aggrandizement, and a mentality of accumulating wealth and seeking economic dominance (i.e., capitalism, as it is widely understood) did not exist" (Tyson et al., 2013, p. 394).

Furthermore, accounting/accountability signatures are as much a reflection of the form, size, and complexity of the business organization as any underlying *capitalist* or *pre-capitalist* mentality of the owners, as it is these factors that determine the extent of the control problem and the need for particular accountings. It follows that the second half of the 19th century is critical to proving the veracity of RB's theory as this was the era when America industrialized on a massive scale and business organizations grew in size and complexity although, according to RB, they had neither fully achieved capitalism nor had their owner/managers displayed an unfettered capitalist mentality. For his theory to work, RB would need to be able to demonstrate (1) that such organizations still lacked accounts that were capable of holding managers to account for ROI despite the increased size and scope of their operations; and (2) that business magnates who controlled large, non-publicly-held companies were not capitalists, whether they had or lacked particular accounts. Such evidence would support the conclusion that the appearance of capitalism was delayed in the U.S. until the turn of the 20th century, which is the thrust of his second paper. Here RB argued that "according to their accounts", entrepreneurs in the textiles, railroads, and iron-and-steel sectors in the 19th century "remained advanced semi-capitalists, still only part capitalist" in orientation:

> Managers, entrepreneurs and investors [in railroads and iron and steel] continued to use the SRP [simple rate of profit focusing on consumable surplus] to judge their 'profit', and used results control only for prime costs, excluding depreciation and other overheads, that is, produced accounts identical in approach to those used on large southern plantations and in the Boston textile mills (Bryer, 2013a, p. 276).

However, the main problems with this argument are that too few organizations are examined to reach such a definitive conclusion. Only two fully-fledged 20th century *capitalist* enterprises are considered (DuPont and General Motors) and all of the evidence is derived from secondary sources. In our reply to RB2, we argue that he is both too restrictive in his preconditions for capitalism and too dismissive of pre-20th century American enterprise, contrasted to later developments where he assumes too much. RB's view that capitalism did not emerge in the U.S. until c. 1900–1920 is counterintuitive considering the massive scale of output and capital accumulation/concentration in the U.S. prior to that point (Fleischman et al., 2013). It also contradicts the views expressed by noted American historians such as Gutman (1987, p. 382) who concludes that "by 1880, industrial capitalism was well advanced in the United States". RB's unique chronology is retained in RB3, and he remains dismissive of the writings of historians who employ the terms "capitalist" and "capitalism" without his particular preconditions.[2]

And so we now come to the argument in RB3, which is different from his previous two papers because it focuses on the ideology underlying accounting practice rather than the practices themselves. The argument essentially summarized is that the material foundation of American society was the simple commodity producer cum semi-capitalist. This "exceptional starting point" explains much of what followed – the hold Adam Smith exerted over American political ideology, the resistance to capitalism that delayed its arrival in the U.S. compared to Britain, America's "exceptional political ideology", and the country's "exceptional financial accounting theory" (RB3, p. 573).

According to RB, it was the independent producer ideology that dominated business and drove American politics until it was eventually subsumed within the ideology of *corporate liberalism* (a term coined by later writers) following an intense period of social struggle that lasted from around 1880 to 1920 that witnessed the rise and fall of socialism. The catalyst for this struggle was the development of big business and, in particular the "trusts", massive monopolistic corporations. Such organizations contradicted "the 'independent producer' ideology of workers and farmers, and the 'individual liberalism' of small manufacturers and merchants" (RB3, p. 572). Taken at face value, corporate liberalism was a socially inclusive worldview in the sense that it encompassed notions of shared social responsibility and the common good – big business interests, workers, small employers, and "the new middle class", all sharing in the fruits of economic growth – whereas, in reality, it was a ploy by big business to deflect opposition and hence retain its hegemony in society (RB3, pp. 586–89).

It is at this point that financial accounting enters RB's historical narrative as a major constitutive force in American society. Alongside the ideal of a shared wellbeing came the idea that corporations should be held accountable through the publication of annual accounts. However, "when faced with opposition from business leaders successive federal governments" pulled back from making accounting disclosures mandatory (RB3, p. 590). Again there is the suspicion of duplicity on the part of business leaders, as the conservative nature of the accounts that were published enabled them to deceive their workers about the true extent of their profits, and hence helped ward off labour conflict (RB3, pp. 589–91).

[1] ROI = profit after prime costs, overheads, and depreciation divided by capital employed at the end of the period.

[2] RB is careful to use the term "[sic]" when he cites the following authors in RB3 who use the word "capitalist", apparently signifying his disagreement with them: Clark (1990, p. 17), Clark and Hewitt (2000, p. 6), Dawley (1976, p. 17), Dobb (1973, p. 13), Kulikoff (1992, p. 5), Mills (1951, p. 4), Salvatore (2007, p. 13), Wilentz (2005, p. 15) and Wood (1993, p. 6).