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Socialism, accounting, and the creation of 'consensus capitalism' in America, circa.1935–1955

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ABSTRACT

The paper tests a hypothesis implied by an accounting interpretation of Marx's theory of capitalism, that accounts would play a key role in the transition to socialism, using evidence from the 'labor upsurge' in the mid-1930s when American unions dramatically increased in strength and militancy, to the appearance of 'consensus capitalism' in the 1950s. From the end of the 1930s, unions began taking a critical interest in accounts to support demands that workers receive a 'fair share' of profits. In 1945, the UAW demanded that General Motors raise wages by 30% without increasing its prices and, if it disagreed, to 'open the books'. Business leaders saw a socialist threat in these demands and the public's hostility towards large corporations. In response, they launched the 'Free Enterprise Campaign', drawing on Irving Fisher's accounting theory to undermine unions' demands that big businesses be socially accountable for the process of earning profit. By the early 1950s, union militancy had disappeared and by the end of the 1950s so had the demand for accountability. This evidence, the paper concludes, is consistent with the hypothesis that the unions' acceptance of Fisher's theory underlay the creation of 'consensus capitalism'.

1. Introduction

Critical accountants have rarely studied the roles of accounting in promoting or suppressing socialism in advanced capitalist countries.[1] To begin to explore them the paper develops the hypothesis that accounts would play a critical role in the transition to socialism, and tests it against American evidence from around the mid-1930s to the mid-1950s. The hypothesis assumes the validity of an accounting interpretation of Marx's theory of capitalism.[2] Contrary to popular belief, but consistent with this interpretation, by 'socialism' Marx did not mean the demand for equality and state control of production and distribution, which he criticised as 'crude communism'. In modern conditions his theory implies that the transition to socialism requires abolishing the stock market and replacing it with a system of governance in which large corporations are accountable to a 'vast association of the nation' for what Marx called the 'valorization process', the process of earning profit. The paper uses this accounting definition of socialism to measure the radicalism of American unions from

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[1] An exception is Gallhofer and Haslam, who describe the mobilisation of accounting by socialist agitators in late 19th century Britain, and note a "lacuna as far as study into accounting's interface with the activities of radical political movements is concerned" (2007, p. 104). Accounting in former socialist countries is beyond the paper's scope.

[2] Some scholars have recognised an affinity between accounting and Marx's value theory (e.g., Sweezy, 1942, p. 63; Foley, 1986, pp. 33, 68, 69, 76; Foley, 2000, pp. 11, 12). Bryer (1994, 1998, 1999a, 1999b, 2000, 2006, 2008) offers an articulation. The paper adopts the hypothetico-deductive method, according to which the usefulness of assumptions is the power of the hypothesis they enable to predict empirical phenomena.

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circa. 1935–1955, a period of intense social conflict, when they took a critical interest in accounts. It shows that during this period, according to this definition, American unions came close to embracing socialism, but argues that the 'Free Enterprise Campaign', orchestrated by big business corporations, successfully undermined this aim by using Irving Fisher's theory of accounting to win an ideological war over the meaning of accounts.

From the 1870s to the 1950s, American workers engaged in heated debates, violent struggles, and collective action to "wrest for themselves an equitable share of national income and industrial democracy" (Dubofsky, 1994, p. 234). After a lull in the 1920s, conflict surged from the mid-1930s. From Marx's perspective, driving it was an increasingly conscious class war, conflict over the 'rate of exploitation', the ratio of 'surplus value' (gross operating profit) to 'variable capital' (productive wages). American workers held their ground in this war to the early 1950s, but the rate of exploitation remorselessly increased thereafter (Shaikh & Tonak, 1994, Table 6.2).[3] The demand for an equitable share of income and wealth gave way to a "political economy of growth", acceptance of steadily increasing real wages paid for by increased productivity (Dubofsky, 1994, p. 208). The demand for industrial democracy gave way to unions accepting "management's right to manage", and management accepting the "workers' right to organize unions" (Renshaw, 1991, p. xix). From 1935, the erosion of management's 'right to manage' "had seemed to be a rapid, remorseless movement", but it "was stopped in its tracks by 1950" (Harris, 1982, p. 9). An era of 'consensus capitalism' had dawned (Renshaw, 1991). Historians often argue that the conflict stopped because, while "reformers and working-class leaders stressed collective action, individualistic forms of thought and practice dominated" (Dubofsky, 1994, p. 235). In this story, workers liberated themselves from employer and state oppression to act collectively by demanding the "*right* of workers as individuals to choose", but this "rights talk" undermined collective action because critics "used similar 'rights talk' to vindicate the choices of working people who elected to reject unions in the name of individual free choice" (Dubofsky, 1994, p. 235). According to Dubofsky, this "tension between individualism and associationalism . . . doomed movements constructed solely in terms of class".

The paper supports an alternative explanation, that 'individualism' triumphed in the 1950s, even among reformers and working class leaders, not because workers demanded individual rights, but because big business leaders and their supporters successfully waged an ideological war over the purpose of accounts and the meaning of 'profit'. From the late 1930s, but with increased intensity from the end of the Second World War, to counter what they saw as a socialist threat, big business launched the Free Enterprise Campaign to "reshape the ideas, images, and attitudes through which Americans understood their world" (Fones-Wolf, 1994, p. 5; Harris, 1982; Jacoby, 1997). Across America, millions of workers attended mandatory "corporate sponsored economic education programs" that "turned on the meaning of Americanism" (Fones-Wolf, 1994, p. 1). Big business showered workers and their families with "values and symbols" through articles, posters, billboards, newspaper and magazine advertisements, radio and television programmes, films, 'Americanism Weeks', corporate industrial and community programmes, and business-sponsored educational programmes for schools and churches (Fones-Wolf, 1994, p. 1). Business leaders, professionals, and scholars, gave speeches, wrote articles and books, and gave evidence to Senate Committees, proselytising the 'American Creed' (Sutton, Harris, Kaysen, & Tobin, 1956). Their aim was clear, but historians have found "Assessing the impact of the business community's campaign to shape political culture is a difficult task" (Fones-Wolf, 1994, p. 9).

Focusing on the meanings attributed to accounting overcomes this difficulty, the paper argues, by allowing us to observe the "significance of the business community's effort to redefine the meaning of Americanism to emphasize individualistic as opposed to mutualistic ways of dealing with inequality" (Fones-Wolf, 1994, p.10). Bryer (2012, pp. 511–516 and Bryer (2013b), pp. 593–612) argued that Fisher's accounting theory, designed as a refutation of Marx, provided a seminal ideological defence of Americanism by creating a new "language of real life". Bryer (2013b) hypothesised that its diffusion to the middle classes through university education in accounting and economics helped undermine support for the American Socialist Party by 1920. This paper shows that Fisher's theory was at the heart of the Free Enterprise Campaign. It concludes that evidence of the unions' changing understanding of the purpose of accounts – from social accountability for valorization to decision-usefulness – supports the hypothesis that Fisher's theory was important in creating 'consensus' during the 1950s. It was, the paper argues, because winning the ideological struggle over the meaning of accounts defined management and unions' "authority", their "sphere of influence" (Renshaw, 1991, p. xix), reinstating management's 'control'; and it defined the meaning of 'profit', reinstating 'individualism'. Fisher's theory, it concludes, created 'consensus' by undermining 'socialism' within the unions, both their 'crude communism', and their demand for social accountability for valorization.

This is not to say that the Free Enterprise Campaign explicitly referenced Fisher whose "reputation crashed" following the 1929 stock market collapse (Tobin, 2005, p.25). Economists, business leaders, and bankers, "still esteemed Fisher" (Allen, 1993, p. 258), but until the 1950s his name "was without honour in his own university" (Tobin, 2005, p.25). In the 1940s, references to him "vanished from macroeconomics" (Dimand & Geanakoplos, 2005, p. 10). To overcome the problem faced by his biographer, that "evidence of Fisher's greatness in economics abounds but often lies hidden because it has become mixed inextricably with mainstream economics" (Allen, 1993, p. 298), the paper focuses on identifying the influence of his unique contribution, his theory of accounting, which economists, big business, and its supporters, accepted as 'mainstream'. Neoclassical economics was unpopular and Fisher went unquoted, but his accounting justification of it thrived in the propaganda war that big business unleashed against labour and the public during the 1940s and 1950s.

[3] The rate of exploitation is a determinant of the return on investment (ROI) $= s/v \times (v/[c+v]) \times (c+v)/K$, where s = surplus value, v = variable capital, c = constant capital and K = total capital employed. This equation describes Marx's 'valorization process' (Bryer, 2012, p. 519).