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Commentary

For Marx: A critique of Jacques Richard's 'The dangerous dynamics of modern capitalism (From static to IFRS' futuristic accounting)'

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ABSTRACT

This commentary critically discusses Jacque Richard's thesis that we can explain the development of financial accounting across four major countries over the last 200 or so years, as the consequence of the progressive shortening of time preference for consumption as capital socialised, by contrasting it with the accounting implications of Marx's theory of the transition to capitalism. It provides a critique of Richard's definition of capitalism, queries his interpretation of the historical evidence, and questions his diagnosis of the cause and the likely consequences of IFRSs' 'futuristic' malaise. It concludes, nonetheless, that only by conducting such challenging comparative international research will we realise the promise of critical accounting history.

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The promise of critical accounting history is, in my view, what it might tell us about the history of capitalism – what it is, where it came from, its effects, how it works or malfunctions today, and its future. To this end, Jacques Richard's article is a welcome contribution. I strongly support its wide scope – a comparative accounting history of four leading capitalist countries over more than two centuries to the present – and I broadly agree with his conclusion "that modern capitalist accounting has evolved similarly" (Abstract) in all of them. With some important qualifications, I also broadly accept that we can classify the stages of the accounting histories of all four countries through time, "in spite of some variations" (Abstract), according to the stages of continental European accounting theory, that passed through 'static' and 'dynamic' stages, to which Richard adds the 'futuristic' stage in which we currently find ourselves. I applaud Richard's ambition and his marshalling of evidence across nations and through time, and I agree with him that we are in a 'dangerous' era of financial reporting, but I am sceptical about his chosen theoretical approach and its interpretation of the evidence.

Richard rejected two alternative approaches for classifying accounting methods historically, the Baudrillardrian perspective of Macintosh, Shearer, Thornton, and Welker (2000), a decision I leave to one side, and the Marxist perspective I have attempted to develop and apply to British and American history. While, naturally, I do not agree with Richard's rejection of Marx, it is at least refreshingly honest – most scholars of accounting history simply ignore his work. In what follows I argue 'for Marx' by critically comparing Richard's theory of capitalism and accounting, and his interpretation of the historical evidence, with my Marxist approach. I choose Marx's theory of capitalism because I believe that a theory of value is necessary to understanding accounting as a technology of social control, and that his theory therefore offers an escape route from neoclassical economics, which has become the taken-for-granted framework not only for the so-called 'mainstream', but also I will argue for critical scholars like Jacques Richard. As so few accounting scholars have engaged with Marx's theory,

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whether it will provide the route to deeper understandings of accounting and its interrelationships with capitalism obviously remains an open question.[1] What follows argues, not that Marx was 'right', but that the view of capitalism and accounting his theory offers is potentially richer and more illuminating, and that the route, while difficult, offers deeper, more challenging, but more socially relevant research questions than neoclassical economics.

1. Defining capitalism

To explain 'capitalist' accounting history we must first define 'capitalism'. It is true that ''a myriad of definitions for capitalism exist[s]'' (2014, p. 2), which is why it is important to be careful in choosing one. Richard chooses the definition from the ''French *Bordas Encyclopédie* (1994, tome 2860) . . . as an economic system in which owners or production managers reap profits as the result of employing salaried workers, who are free to sell their skills within a labour market'' (2014, p. 2). According to Richard, it applies equally to the 13th century and today, which means we cannot use it for the periodisation of accounting history, and in practice he does not use it for this task. From Marx's perspective, its fatal weakness is that it is a definition of 'capitalism' without any mention of 'capital', which leaves important unanswered questions. Who are the 'owners' of what in this economic system? What, apart from employing workers who are free to look elsewhere, do the managers manage? How do they 'reap profits as the result of employing workers'? What are 'profits'? What, if anything, is the role of accounting in the functioning of this notion of 'capitalism'? To answer these questions, I will argue, Richard implicitly turns to neoclassical economic theory and assumes, like Irving Fisher, that the purpose of life in 'capitalism' has always been to employ workers to produce desirable commodities and a surplus, measurable in cash flows, to maximise the owner's current and future consumption.[2]

Marx defined capitalism as the circumstance and eventually the economic system where 'free capital' faces 'free wage labour'. According to his theory, at first, from around the mid 16th century, in England this circumstance arises sporadically and locally. However, having produced revolutions in agriculture and trade in the 17th century, and the industrial revolution in the 18th century, Marx predicted that when capitalism reached its most advanced form, capitalists, those who own the means of production, would form a 'total social capital', a capital market, of which they individually own but a fraction. Capitalists collectively discipline managers who mobilise large capital resources and employ free wageworkers who own nothing but their 'skills', who have no guarantee they will find a buyer at a price they consider fair and reasonable, to produce surplus value (profit). From this perspective, managers manage 'capital', money advanced to production to circulate and return with a profit, which is the increment to capital, and the function of accounting is to hold them and workers accountable for the capital market's required return. The development of the capital market is also critically important in Richard's theory of accounting. However, rather than the flowering of social capital in response to the demand for increasingly large capitals that created a collective demand for accountability, in Richard's notion of capitalism the capital market has no social function other than to provide a means of raising large capitals, and we will see is important for accounting only because it introduced 'impatient' investors.

To be useful, the definition of capitalism should identify the major causes of its development, which should enable us to identify the causes of changes in accounting. According to Marx, class conflict is the prime mover of the transition from feudalism and of the history of capitalism, which led through overlapping phases in different ways in different countries to modern capitalism. From his perspective, we should therefore not expect the transition to capitalism to occur evenly across Richard's four countries. By contrast, in Richard's view the primary driver of capitalist and accounting development was the change in the ''mode of investment financing'', from self-financing entrepreneurs in the 19th century to public financing through shares and debt in the 20th century (2014, p. 1), which he argues did occur roughly evenly across all four countries. Although the claim that the capital markets developed evenly is debatable (cf. Hannah, 2007), this is not directly relevant to Richard who merely aims to ''present a plausible direction for capitalist accounting evolution and [to] attempt to explain it through the issue of modes of financing'' (2014, p. 2). Of key relevance to him is that change in the mode of financing drove the historical trend in accounting, he argues, because ''small, impatient shareholders'' (Richard, 2014, p. 15) brought different ''valuation principles'', that is, implicitly, a shorter time-preference than the time-preference of the owner-managers they replaced, and this produced a different mode of accounting, a different concept of distributable profit[3]:

> ''The concept of profit varies, however, between the static, dynamic, and futuristic models, because the underlying valuation principles differ. These differing profit concepts are the basis of decisions concerning dividend distributions

[1] Richard admits that one reason for his decision was that his ''theoretical background is not in Marxist accounting theory'' (2014, p. 35), but *nobody* has such a background!

[2] As Tobin says, ''the most remarkable feature'' of Fisher's theory is his ''insistence that 'income' is consumption'' (2005, p. 27). Arguably, Fisher introduced this remarkable feature into his theory of accounting because it contradicted Marx's view that the aim of capitalist production is profit, the endless accumulation of capital, not consumption (Bryer, 2013b, p. 596).

[3] At this crucial step in his argument, the parallel between Richard's explanation of accounting change and Fisher's theory of accounting seems clear. Time-preference based on 'impatience' for consumption is central to Fisher's theory of accounting, the demanded ''price of capital'', the required rate of ''value-return'', the demanded ''premium on the goods of one year compared with those of the year following'' (1906, pp. 200 and 201), which for him explains the rate of interest. As other neoclassical economists had, Fisher asserted, ''the essence of interest is impatience, the desire to obtain gratifications earlier than we can get them, the preference for present over future goods'' (1912, p. 371).

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