

Accounting Historians Notebook

Volume 4
Number 1 *Spring 1981*

Article 5

Spring 1981

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Recommended Citation

Baxter, William T. (1981) "Accounting history as a worthwhile study," *Accounting Historians Notebook*: Vol. 4 : No. 1 , Article 5.

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ACCOUNTING HISTORY AS A WORTHWHILE STUDY

by
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EDITOR'S NOTE: The following article is a transcription of Professor Baxter's comments at the banquet at the Third International Congress of Accounting Historians held in August, 1980.

Your presence here proves that you look on history as a worthwhile study. But perhaps we should spare a moment to remind ourselves of why it is worthwhile. There are, after all, plenty of intelligent and successful men who dismiss history as a bore, and historical research as time wasted.

So why, then, are you and I such devotees of history? One answer that perhaps springs glibly to the lips is that history is useful. This, as I shall try to show, is a notion that must be treated with profound caution.

Nevertheless, I believe that some aspects of accounting history are indeed useful. Thus the beginner at bookkeeping must surely get a clearer grasp of the rules if he learns something about the origins of double-entry—origins perhaps in triangular credit transfers in an age of barter. He learns a more important lesson if he is taught that accounting was devised to keep track of personal accounts and simple physical objects such as cash, and that the income statement and balance sheet came later as mere by-products. Armed with this knowledge, he will respect his craft for what it can accomplish (a very considerable achievement), and will be cautious about extending its range. He will not be surprised if accounting seems to falter when called on to perform new and different tasks—such as predicting future income, and aiding investors to make decisions. If we have such ambitions for accounting, may we not be like a farmer who demands that his faithful old cart-horse learn the violin?

Those who say that "history is useful" are apt to talk about the "lessons of history". But these lessons are far from clear. Hitler shot himself in the bunker; so the lesson of history is that dictators come to a bad end. Stalin died in his bed; so what has happened to that lesson? The most that can be said for history's lessons, I suspect, is that they make us more alert to chains of cause-and-effects. But these chains are a matter of tendency and

probability. A given cause, in one set of circumstances, leads to result A; in another set, it leads to result Z.

Let us look at some of the lessons that are pertinent to accounting, and ask ourselves whether they are in fact useful or useless, true or false. We shall certainly have to admit that accountants in general either ignore them or dismiss them as untrue.

Perhaps, for instance, ecclesiastical history has a lesson that is suggestive, and might have given us a wiser approach to inflation accounting. For here a major problem is how to cope with capital maintenance; the church in England has been wrestling with this very problem for a millenium or so. Surely we can learn some lessons from the church's experience? Let me remind you of the splendid article on this topic by Professor French. It runs somewhat as follows.

Parish churches were founded by patrons. A pious lord gave land and money for the church, the churchyard, and the parsonage; he gave also glebe lands for the parson's sustenance. But, if the church was to be permanent, the parson had to keep these assets distinct from his own property, and hand them on intact to his successor. Alas, some parsons were careless or wicked. So the authorities had to devise a suitable law of ownership, and to define "intact". The law personified the parson's office as a corporation (a "conduit pipe through which this real property would pass to his successor"); and it obliged him to transmit the assets physically unimpaired. So here we have as to-day, the entity theory hand-in-glove with the doctrine of physical capital maintenance.

The system has endured for centuries. Thus it cannot be wholly ineffective. But its economic faults are disturbing.

Where physical assets are faithfully maintained, they may degenerate into fossils. For example, a London church was bombed during the war, and worship was transferred elsewhere; both worshippers and the Church of England would have gained if the site could have been put to fresh uses, but not even the courts had power to permit

this. Similarly, disused graveyards could not be given a new function. Again, the parson was obliged to live in, repair, and hand on a house that still conformed to its design of several centuries back; today his hard-pressed wife must cope with an unsanitary scullery and eleven bedrooms. He could not reduce the glebe land by sale (but who could stop him from exhausting it by bad farming?). He could not lease it for purposes other than farming, e.g. for much-needed houses. He could not extract its minerals, so they rested underground. He could not fell its trees for sales, so the wood was left to rot.

Businessmen, who are not in the parson's strait-jacket, can freely change physical assets and products to meet every new need. Church history suggests how profound such change may in time become. Attempts to compare the current with the original may be impossibly difficult. Accounting geared to physical assets or products must be suspect. But this basis now gets strong support.

Yet another branch of history throws light on the development and pathology of professional groups. Our accounting societies have many points in common with the guild system (and many of the guilds survived far longer than any of our societies have yet managed to do). The guilds too were set up to foster their members' welfare-e.g. the Mercers; rules were "for the cherishing of unity and good among them, and for the common profit of the mistery". The guilds were better than we at social relations. For instance, members bought a hood and gown to wear at the annual feast, at funerals, "and on other solemn and great occasions".

Guilds, like our societies, might try to win exclusive right for their members. Their declared motives were unimpeachable. Thus London guilds contrived to gain monopoly powers under the Stuarts to guarantee the consumer a supply of sound and serviceable commodities at reasonable rates. Where they won exclusive rights, the long-run results were apt to be bad for both members and public; for instance, it has been suggested that the power of the guilds in German cities led to the latter's stagnation and decline, as innovators were driven outside the walls.

Education was fostered by the guilds. Littleton has suggested that the uniformity of our debit-and-credit rules may stem from the training system of apprentices by banking guilds of medieval Italy.

Like our own bodies, guilds found that their members' interest might diverge in time. Members who were at first fairly equal in status would drift apart into groups of wealthy employers and permanent journeymen; they drifted also in

might give up manufacture for foreign trade. Then malcontents would in protest hive off and form their own sub-group within the guild; and a new body "which at the beginning of the fifteenth century had been a prohibited organization of rebellious journeymen, had before the end of the century been transformed into a recognized but subordinate branch of the livery company". Or there might be a complete secession and the formation of a new body.

History here suggests that the task of a professional society cannot be easy. We are likely to see bitter splits and feuding-maybe between the Big Eight and the rest. Our societies are trying to solve an awkward and perhaps insoluble problem.

Naturally enough, we all tend to exaggerate the significance of our own era. But we surely have some grounds for holding that, when the future historian traces accounting's history, he also will pronounce our period significant. Indeed, will the work "revolution" be too strong? Hitherto, accounting has been pushed forward by forces internal to firms. Obscure people, bent on improving their existing methods or meeting new needs, have continually made minor experiments. If an experiment failed, it was abandoned and forgotten; if it was a success, it was kept and in time copied in other firms. Accounting has thus grown by small steps, and is the creation of countless anonymous innovators. It is a good example of an unplanned evolutionary process that has, by and large, done remarkably well.

Partly because of scandals and public criticism, all this has abruptly changed. The important steps are today prescribed from outside the firm, by paternal bodies acting for us collectively, sometimes backed by an arm of the state (e.g. the SEC). Henceforth, anonymous experiment will largely give place to public debate and directives: progress will be planned by our leaders, who will issue iron-clad guidelines; we shall all march in step. We have for the most part accepted this change readily, even enthusiastically.

History offers some fairly close parallels. Take the scandals of the English cloth trade, from medieval times onwards. The clothiers were guilty of "many subtle sleights and untruths" (I quote from a 1552 Act). Among their "great defects and frauds" was the use of coarser yarn for the middle than the ends of cloth. The cure seemed as obvious then as now. Standards were laid down. The state began this process in the twelfth century, and by the end of the eighteenth there were 311 laws on the wool trade alone. Uniform standards of quality and dimension were prescribed "the minutest rules were framed respecting the nature of materials, the mechanical devices, and the form of the

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finished product." Enforcement was in the hands not only of the state but also of the guilds. Control was "committed to men of gravity" so that "the particular grievances and deceits in every trade might be examined, reformed, and ordered." These men had even the right of search.

So how did the system work? Disappointingly. The well-meant rules tethered production to obsolete methods. They hindered mobility. They hampered response to the "humors" of customers, especially foreign customers. "There are now many laws in force concerning the making of cloth" the government confessed in 1622 "which for their number and contradiction do perplex and entangle the makers of cloth, and make it hard to be discerned what the law is in many particulars." The era of *laissez-faire* put most of the standards into the dustbin; it decided that alert buyers were better than standards as checks on quality.

But, you may object, the analogy is imperfect. Today we are much more efficient at enforcement. And accounting standards are not concerned with physical qualities but with principles.

Well, history has perhaps closer parallels. In 1848, the safety of railway bridges was in doubt. So the government of the day set up a royal commission. Its brief was:

to inquire into the conditions to be observed by engineers in the application of iron to structures exposed to violent concussions and vibration, and to endeavour to ascertain such principles and form such rules as may enable the engineer and mechanic in their respective spheres to apply the metal with confidence.

Our great engineer Brunel looked with disfavour on the commission, which he privately renamed The Commission for Stopping Further Improvement in Bridge Building. So what was he, as a man of principle, to do when the commission asked him to give evidence? He solved the problem admirably. He sent the commission a letter beginning "I regret that the Commissioners should have done me the honour of requesting my opinion"; then he set out his objections to the commission's existence; he forced me to intrude my opinion on the Commissioners . . . having expressed my opinion, I shall attend their summons."

What were his objections? His fear was that authorities would "lay down, or at least suggest, 'rules' and 'conditions to be hereafter observed' in the construction of bridges, or, in other words, embarrass and shackle the progress of improvement

tomorrow by recording and registering as law the prejudices and errors of today." He went on:

Nothing has conduced more to the great advancement of the profession and to our pre-eminence in the real practical application of the science, than the absence of all *regles de l'art*.

A system of binding rules, he affirmed

is contrary to all sould philosophy, and will be productive of great mischief, in tending to check and control the extent and direction of all improvements.

One part of Brunel's letter is even more germane to our current way of thought:

No man, however bold or however high he may stand in his profession, can resist the benumbing effect of rules laid down by authority. Occupied as leading men are, they could not afford the time, or responsibility of constantly fighting against them—they would be compelled to abandon all idea of improving upon them; while incompetent men might commit the greatest blunder provided they followed the rules Devoted as I am to my profession, I see with fear and regret that this tendency to legislate and to rule, which is the fashion of the day, is flowing in our direction. You will, I fear, judge the commissioners to have been men of mean spirit, with none of today's desire to help brethren over difficult styles.

Their long report ends:

Considering the great importance of leaving the genius of scientific men unfettered for the development of a subject as yet so novel and so rapidly progressive as the construction of railways, we are of opinion that any legislative enactment with respect to the forms and proportions of the iron structures employed therein would be highly inexpedient.

History may offer us yet another parallel in the medieval church's promotion of philosophy and science. Wise and saintly leaders revealed where truth lay, and put the stamp of authority on their pronouncements. And, when it came to enforcement of intellectual standards, we may doubt whether today's bodies such as the SEC are as persuasive as was the Inquisition.

We can no doubt argue that twentieth-century accounting's essays in standard-making differ from these earlier ones. Accountants should

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certainly hope that, on this point, the lessons of history are indeed false and useless. If they are not, the disillusionment will be bitter.

However, even if we cannot prove the muse of history to be useful, in the eyes of her devotees (such as you and me) she remains beguiling and beautiful. She can interest us, thrill us, delight us. She can add an extra dimension to our thought. To quote the first professor of history at Cambridge, "I call that man uncivilized who is not connected with the past through the state in which he lives, and sympathy with the great men who have lived in it". Finally, a lively mind is a curious mind, and the muse satisfies our sense of curiosity. This, I suspect, is her chief claim to our affection, the chief jurisdiction for her study. And, with your help, accounting history can become a worthy part of her great narrative.



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