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ACCOUNTING HISTORIANS JOURNAL

Congratulations to the Academy of Accounting Historians 2013 Award Recipients

Life Membership
Edward N. Coffman (Virginia Commonwealth University, Professor Emeritus)
Daniel L. Jensen (The Ohio State University, Professor Emeritus)

Hourglass Award
David A. McCollum-Oldroyd (Durham University)

Vangermeersch Manuscript Award
Kevin C. Carduff (College of Charleston)

Thomas J. Burns Biographical Research Award
Stephen P. Walker (University of Edinburgh)

Innovation in Accounting History Education Award
Donald L. Ariail (Southern Polytechnic State University)
Joseph Durden (Nova Southeastern University)
Marilyn Leathart (Texas A&M University – Central Texas)
Lynette Chapman Vasill (Texas A&M University – San Antonio)

Margit F. and Hanns-Martin Schoenfeld Scholarship
Krysta Heathcote (University of Johannesburg)

Barbara D. Merino Award for Excellence in Accounting History Publication
Stephanie D. Moussalli (Rhodes College)

The Alfred R. Roberts Memorial Research Award
Yvette J. Lazdowski (Plymouth State University)

Best Manuscript Award
First Place: Jacques Richard (University of Paris Dauphine)
Runner-Up: Robert J. Kirsch (Southern Connecticut State University)
Runner-Up: Hugo Nurnberg (Baruch College)

Life Membership
RECIPIENT: Edward N. Coffman (Virginia Commonwealth University, Professor Emeritus)
Edward N. Coffman, past President of the Academy
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and former Editor of the Accounting Historians Journal has been a long term supporter of Academy events and activities. His work in accounting history has been published in numerous journals and he has coauthored with the late Professor Thomas Burns, the 1991 monograph profiling the first 50 members of The Accounting Hall of Fame at The Ohio State University. He has also coauthored collections of writings on the subject of history in monographs coedited by his colleague at VCU Ross Tondkar and by Gary Previts of Case Western Reserve.

RECIPIENT: Daniel L. Jensen (The Ohio State University, Professor Emeritus)

Daniel L. Jensen, is a past President of the Academy of Accounting Historians, and has served in the past two decades as the academic administrator for The Accounting Hall of Fame at The Ohio State University. He has authored volumes containing the collected writings of several members of the Hall of Fame and has served as convener of several Accounting Hall of Fame Conferences at The Ohio State University.

The awarding of a Life Membership in the Academy of Accounting Historians will be based generally on following criteria: 1) international profile and recognition; 2) quality, importance and originality of the individual’s research program; 3) the scholar’s scope of work, publication record in various academic journals and edited volumes; 3) his/her active participation in the academy (in the generic sense and not only the Academy of Accounting Historians), including contributions to the field as journal editor, editorial board member, conferences, etc.; 4) the individual’s work and efforts to valorise history and accounting history, including editing and publication of works, and efforts to bring accounting history’s past into the present through the publication of old documents or records or the re-publication of forgotten texts; and 5) the individual’s participation in the training of doctoral students, support and mentorship of junior colleagues including those whose mother tongue is not English.

Hourglass Award

RECIPIENT: David A. McCollum-Oldroyd (Durham University)

From his nominators:

“I have seen David in action functioning as chair of department and interacting with faculty members and administrators. I am impressed by David’s friendly demeanor, his sharp wit, and ready sense of humor, all of which have enabled him to work well with colleagues from different backgrounds and research orientations. From personal experience, I can attest that Dr. Oldroyd is an excellent colleague who fulfills his commitments, carries his share of the workload, and always meets deadlines. David has a keen mind and is willing to take on extra tasks such as do-
David Oldroyd spent ten years in the accountancy profession before moving into academic life. He is a chartered accountant and a history graduate of Liverpool University (BA) and Durham University (MPhil). He obtained his PhD at Newcastle University where he taught for many years. He now works as an accounting professor at Durham University. Most of his accounting history research has focused on coal-mining and estate management during the British industrial revolution, and on the slave economies of the British Caribbean and American South. He wishes to express his gratitude to his collaborators Dick Fleischman and Tom Tyson especially for the work on slavery, and to Warwick Funnell for a new line of research he is developing in relation to accounting and poverty in Victorian Britain.

The Hourglass Award of the Academy of Accounting Historians is presented annually to an individual who has made a demonstrable and significant contribution to knowledge through research and publication in accounting history.

**Vangermeersch Manuscript Award**

RECIPIENT: Kevin C. Carduff (College of Charleston)

For his manuscript, “Stewardship in Corporate Reporting: The Annual Reports of U.S. Steel (1938 – 1969)”.

https://egrove.olemiss.edu/aah_journal/vol40/iss2/9
Kevin C. Carduff, a 2010 PhD graduate of Case Western Reserve University, collected and arranged and assisting in developing a full range of U.S. Steel Annual Reports to be scanned in as a PDF data base for his research in the early stages of his data development for this research. It remains a major source of information for scholars seeking access to this important early source of annual reporting information. His dissertation reviews and analyzes the content of the reports for US Steel for a period long century identifying individuals and influences that altered and modified the annual reporting process at the Company from its earliest days of broad disclosure to the late 20th century period of plain vanilla and SEC blended reporting.

In 1988, The Academy of Accounting Historians established an annual manuscript award to encourage scholars new to the field to pursue historical research. An historical manuscript on any aspect of the field of accounting, broadly defined, is appropriate for submission.

**Thomas J. Burns Biographical Research Award**

RECIPIENT: Stephen P. Walker (University of Edinburgh)

For a collection of biographical works on women accountants in Britain including: Ethel Ayres Purdie: Critical practitioner and suffragist; Philanthropic women and accounting. Octavia Hill and the exercise of ‘quiet power and sympathy’; and Professions and patriarchy revisited. Accountancy in England and Wales, 1887–1914.

Steve Walker trained as a chartered accountant with Ernst & Young. He has been Head of Department and Professor of Accounting History at the University of Edinburgh and Professor of Accounting and Head of the accounting and Finance Section at Cardiff Business School. He is editor of Accounting History Review and a former editor of The Accounting Historians Journal. He is a recipient of the Hourglass Award of the Academy of Accounting Historians and is a past-President. Steve has also served as the Convenor of the Accounting History Committee of ICAS and is a former academic fellow of the ICAEW. He currently serves on the editorial boards of a number of journals including: Accounting, Auditing and Accountability Journal; Accounting Historians Journal; Accounting History; Accounting, Organizations and Society; Critical Perspectives on Accounting and European Accounting Review. Stephen has held visiting
positions at Dauphine Université-Paris, Deakin University, Glasgow University, Sydney University and Victoria University of Wellington.

The Academy of Accounting Historians annually honors an individual as the recipient of the Thomas J. Burns Biographical Research Award. The Award is given for outstanding biographical research in the discipline of accountancy. Dr. Thomas J. Burns, for whom the award is named, was a long-time professor at Ohio State University and a past president of the Academy of Accounting Historians.

**Innovation in Accounting History Education Award**

**RECIPIENTS:**
- Donald L. Ariail (Southern Polytechnic State University)
- Joseph Durden (Nova Southeastern University)
- Marilyn Leathart (Texas A&M University – Central Texas)
- Lynette Chapman Vasill (Texas A&M University – San Antonio)

For their work on the historical case study published in the area of governmental accounting, “Avondale Estates: A Case Study in Governmental Accounting and Auditing – A Historical Approach”.

From the case study abstract: The seventy-seven years of accounting evolution that separates the audits of 1928 and 2005 under different accounting and auditing standards is examined through a cross-disciplined case study that compares the historical 1928 and the contemporary 2005 financial statements and the accompanying audit reports of Avondale Estates, Georgia.

The intent of the award is to encourage innovations in accounting history education. The award (a plaque) will be presented to an individual(s) who has developed and implemented an innovative technique/method for incorporating accounting history topics into undergraduate or graduate accounting courses.

**Margit F. and Hanns-Martin Schoenfeld Scholarship**

**RECIPIENT:** Krysta Heathcote (University of Johannesburg)

For her research on the topic, “Professionalisation of accountancy in the Orange Free State and Natal: A historical analysis in contesting environments, 1907-1960”.

From her nominator, Dr. Grietjie Verhoef, also her PhD supervisor and Director of the South African Accounting History Centre:

“Her pioneering work on the formative years of professionalization in two territories, later British Colonies in nineteenth century “South Africa” considers the different contexts of the emerging closure strategies of the different...
settler communities. She analyses the strategic positioning of individuals in the emerging accounting profession, the forging of networks of business and social relationships and the management of professionalization criteria as professional closure mechanisms. The complex relationships of social class and economic class, of social origin and social relationships are investigated in the former independent Boer Republic, the Oranje Vrijstaat and the Natal Colony, since the early years of the professional associations in the two territories. The skillful utilization of relationships with Government and other professional entities offers a rich texture to the professionalization project in South Africa. Her work is ground breaking in the South Africa professional community of Chartered Accountants, since it considers the dynamics of accounting professionalization between accountants of different cultural and language origins. The study is even more remarkable, as it will be the first PhD in Accounting History in South Africa.”

The Academy of Accounting Historians annually awards an individual or individual as the recipient or recipients of the Margit F. and Hanns-Martin Schoenfeld Scholarship. The purpose of the scholarship is to encourage and support research on the history of accounting by doctoral students and recently appointed accounting faculty. The scholarship was initiated by the generous gift of Dr. Hanns Martin Schoenfeld and the late Dr. Margit Schoenfeld in recognition of their belief in the importance of historical scholarship to accounting education and research.

**Barbara D. Merino Award for Excellence in Accounting History Publication**

**RECIPIENT: Stephanie D. Moussalli (Rhodes College)**

For her book, *The Fiscal Case Against Statehood: Accounting for Statehood in New Mexico and Arizona* (2012, Lexington Books). The book is a study of the accounting and fiscal policies of New Mexico and Arizona, which joined the Union in 1912 despite opposition from some of their residents. It deals with the concerns of the people who lost the battle over statehood in the two territories. Moussalli examines New Mexico and Arizona’s territorial and state governments’ financial records, as well as those of Nevada for control purposes. She finds that while territorial residents’ fears of steep increases in the cost of government were well founded, statehood also significantly improved their governments’ accountability for their use of the public purse. She concludes that fiscal officials enabled statehood’s growth in government by improving the financial reports and processes.

This newly established annual award is to recognize the author of the best book on an
The Alfred R. Roberts Memorial Research Award

RECIPIENT: Yvette J. Lazdowski (Plymouth State University)

For her work in coordinating the Accounting History Boot Camp presentations at the annual American Accounting Association meetings. These Continuing Professional Education sessions provide an opportunity for current and future members to share their knowledge and interest in accounting history. In addition to the boot camps, Yvette continues to conduct research in accounting methods of early 20th-century American industry and the development of the Certified Public Accounting examination. She is currently working on the tables of information requested for the Academy's 40th anniversary history project, and is honored to be working with Dr. Edward Coffman and Dr. Gary Previts on this endeavor.

This newly established award is named in honor of Dr. Alfred R. Roberts, second President and long serving Secretary of the Academy, and provides grants for research which seek to support the 35 goals identified by Professor Emeritus Richard Vangermeersch as to accounting history research, as identified in the April 2012 issue of the Accounting Historians Notebook. Grants will be awarded to Academy members for the actualization of ideas to increase the scope of the history of accounting. Written proposals including specification of scope, purpose, deliverables and timetable, should be presented to the committee for review and approval.

Best Manuscript Award


ACCOUNTING HISTORIANS JOURNAL

Statement of Policy

The Accounting Historians Journal is an international journal that addresses the development of accounting thought and practice. AHJ embraces all subject matter related to accounting history, including but not limited to research that provides an historical perspective on contemporary accounting issues.

Authors may find the following guidelines helpful.

1. Authors should provide a clear specification of the research issue or problem addressed and the motivation for the study.

2. Authors should describe the method employed in the research, indicating the extent and manner in which they intend to employ the methodology. Manuscripts are encouraged that draw on a variety of conceptual frameworks and techniques, including those used in other social sciences.

3. Manuscripts that rely on primary sources should contain a statement specifying the original materials or data collected or analyzed and the rationale used in selection of those source materials. Authors should provide the reader information as to how these source materials may be accessed.

4. Authors who use a critical or new theoretical framework to examine prior historical interpretations of the development of accounting thought or practice should include a discussion of the rationale for use of that framework in the manuscript.

5. In performing all analyses, authors should be sensitive to and take adequate account of the social, political, and economic contexts of the time period examined and of other environmental factors.

6. While historians have long debated the ability to assign causation to particular factors, we encourage authors to address and evaluate the probable influences related to the problem or issue examined.

7. Authors should clearly state all their interpretations of results, and the conclusions they draw should be consistent with the original objectives of and data used in the study. Interpretations and conclusions should be clearly linked to the research problem. Authors also should state the implications of the study for future research.
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Guide for Manuscript Submission

Manuscripts for review should be submitted by e-mail attachment to vollmers@umit.maine.edu and formatted in Microsoft Word. The identity of author(s) should not appear on the attached file — only on the accompanying e-mail transmission. Additional correspondence may be sent to Professor Gloria Vollmers, DPC 342, College of Business, Public Policy and Health, University of Maine, Orono, ME, 04469; phone: (207) 581-1979; Fax: (207) 581-1956. There is no submission fee, although authors are urged to consider joining The Academy of Accounting Historians by completing the membership application form on the inside of the back cover. Papers which have been published, accepted for publication elsewhere, or are under consideration by another journal are not invited. The Accounting Historians Journal will accept a variety of presentation formats for initial submission as long as the writing style is reflective of careful scholarship. Notwithstanding, authors should attend to the following guidelines:

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3. A limited number of tables, figures, etc., appended at the conclusion of the text, but whose positioning in the narrative is indicated.
4. References are to appear in brackets within the text. Specific page numbers are mandatory for all direct quotes but are optional otherwise.
5. A bibliography of all references cited in the text.
6. Manuscripts should not exceed 10,000 words in length.

Upon acceptance or an invitation to revise and resubmit, authors will be sent a style sheet which must be followed conscientiously for all subsequent revisions of the paper. Once the article is accepted, the editor will request the submission of a diskette prepared in Microsoft Word. If time permits, authors will be sent galley proofs. However, the inclusion of additional material will be severely limited.

Authors will be provided with 3 copies of the AHJ issue in which the manuscript is published. Reprints may be ordered by arrangement with the publisher.
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Approved by the Officers of the Academy, November 2013
ACCOUNTING HISTORIANS JOURNAL

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POPULAR ACCOUNTING HISTORY:
EVIDENCE FROM POST-ENRON STORIES

Abstract: This study reviews the concept of “popular history” in the context of accounting history, drawing on evidence from post-Enron stories about corporate collapse and accounting and auditing failure. The study complements the work of Carnegie and Napier [2010], which focused on how professional accountants and their firms and organizations were portrayed in books about Enron and Arthur Andersen that were published during the period 2002 to 2005. These books can be characterized as “popular histories”, and the present paper illustrates how the scholarly work of academic accounting historians is given little attention by the authors of these post-Enron stories. It points to the largely untapped potential for accounting historians to make their research findings and insights available for a general readership.

INTRODUCTION

The reputation of the international accounting profession suffered badly from the dramatic collapse of Enron in 2001, accompanied by financial and accounting scandals involving companies such as WorldCom in the United States of America (USA), HIH in Australia and Equitable Life Assurance Society in the United Kingdom (UK). This collapse in the profession’s reputation was exemplified by the demise of Arthur Andersen, previously one of the “Big Five” international accounting firms, in 2002. The impact of the Enron collapse on stereotypical views of accountants and accounting was studied by Carnegie and Napier [2010], who focused on the ways in which professional accountants, firms and organizations were portrayed in the large
number of books on the collapse of Enron and other major corporations published in the period 2002-2005. That study identified three themes for which the post-Enron literature provided insights: how accountants were represented as characters, whether authors considered accounting to be a profession or more like an industry, and the extent to which the Enron affair provided evidence that accountants were no longer honest and trustworthy.

Carnegie and Napier [2010, p. 370] observed that some of the authors whose work they analyzed had used historical material and arguments. They identified authors’ use of a contrast between “then” and “now” (with possible overtones of nostalgia for a “golden age” of professional probity), as well as the employment of a narrative trope “old sins cast long shadows”, where authors suggested that the failure of Andersen in particular was rooted in that firm’s early embrace of consulting as an extension of its audit practice. The use of historical arguments in studies written for a general readership is interesting in that authors, who are typically not accountants, appear to believe that their readership will find such arguments cogent rather than irrelevant. This suggests that there is a general concern with history on the part of the readers of popular management narratives, which may provide opportunities for historians of accounting to communicate their knowledge to broader audiences.

In this study, we examine the use of accounting history in post-Enron stories, and use this as the basis for considering references to accounting in popular history more generally. We explore how commentators have drawn on the history of accounting to portray accountants and their work and to contrast the personalities of “founding fathers” of the US accounting profession with their early 21st-century successors. Our investigation starts from the books about Enron and Arthur Andersen that were published during the period 2002 to 2005 (see Carnegie and Napier [2010, p. 367] for a list of the 28 books examined), although only 12 of these books refer to accounting or auditing from a historical perspective. We seek an enhanced understanding of how accounting history is drawn upon in commenting on the corporate and professional failures themselves and on their implications, for example for the future of the accounting profession. We begin with a brief discussion of the concepts of “public history” and “popular history”, and then outline the collapse of Enron and the demise of Arthur Andersen. This is followed by a consideration of the use of history in the post-Enron narratives, from which we draw some conclusions about the need for historians of accounting to disseminate their research.
findings in popular as well as academic forums.

PUBLIC AND POPULAR HISTORY

Professional historians are increasingly reflecting on the relevance of their studies to the concerns of the public at large [Champion, 2007]. This comes as a reaction to public interest in history, whether expressed as a demand for historical fiction, of which recent noteworthy examples are the award-winning novels *Wolf Hall* and *Bring Up The Bodies* by Hilary Mantel [2009, 2012] about the Tudor politician Thomas Cromwell, or as an interest in what is taught as history in schools [Cannadine et al., 2011]. Sir Richard Evans, the Regius Professor of History at Cambridge University, has observed the growing demand for novels, films, television series, and “blockbuster history books”, noting that “historians today are communicating with far larger audiences when they broadcast on radio or television” [Evans, 2002, p. 14]. In 1979, the National Council for Public History (NCPH) was established in the USA to provide a focus for historians wishing to emphasize the public profile of history [Howe, 1989]. “Public history”, as promulgated through channels such as the NCPH’s journal, *The Public Historian*, is seen as taking history outside the classroom and the academy and promoting the relevance of history within the public sphere. As Tosh [2008, p. 100] notes, “public history” ranges from “historical work carried out in conjunction with museums and other heritage bodies” to “everything that professional historians do to bring their work to public attention – through journalism, TV programmes or policy advice.”

Tosh [2008, p. 100] draws a distinction between “professional and lay history”, and he identifies the move towards public history as mainly driven by professional historians. Howe [1989] suggests that the public history movement in the USA reflected an expansion in the number of professional historians at a time when university recruitment in history departments was growing much more slowly. “Public history” allowed career paths to be defined for historians outside schools and universities. Tosh’s reference to “lay history” acknowledges that history may be written by those who do so as a hobby or avocation, and by those without an academic training as a historian, as well as by those who make their living from teaching and researching history. Many of the early historians of accounting, such as the bibliophile Karl Kheil [Napier, 2009, p. 33] were “lay historians”.

Public history overlaps with, but is not synonymous with,
“popular history”. Although the latter term originally referred to the history of “ordinary people”, in contrast with “elite history” (the history of rulers and aristocrats – see Cannadine [2008: pp. 30-31]), popular history now tends to imply history aimed at a wide or general readership or (as popular history frequently takes the form of television series) audience. It tends to emphasize broad narrative sweeps while at the same time using “telling” detail to illustrate particular points. For example, a popular history of a wartime battle may interleave discussions of grand strategy with extracts from interviews with, or memoirs of, soldiers involved in the actual fighting. Popular historians value readability [Curthoys and McGrath, 2011]: their books often have a similar physical appearance (with the possible exception of illustrations and maps) to novels, with an absence of the scholarly “apparatus” of footnotes and references that would reveal the author’s sources. This has led some historiographers (for example, Curthoys and Docker [2006]; Southgate [2009]) to debate at length how, if at all, history and fiction are distinct.

This is not to claim that popular history is unscholarly. To the contrary, many of those associated with widely watched TV programmes or best-selling books are academics highly respected by their peers for their scholarship (Bell and Gray [2007]; Beck [2011]). However, popular history can be distinguished almost at sight from academic history, as its raison d’être lies in its appeal to the interests and appreciation of the general “consumer” rather than those of professional historians. As Champion [2003, p. 155] puts it: “Both historians and documentary filmmakers aim at achieving an engagement with the truth of the past: they simply have different methods and instruments for getting there.” Champion was writing about the series A History of Britain, broadcast originally by the BBC between 2000 and 2002 and written and presented by the eminent art and cultural historian Simon Schama. Champion [2003, p. 172] sums up this popular history series by describing it as:

[A] powerful document representing the “truth” of past events in a particular form, from a particular point of view. However much we might dispute specific elements, or even the overall narrative plot, nevertheless to engage with the drama, the details and the power of the story, provides the imaginative audience with ample food for historical thought. The best history can do no more.

Some popular historians are without academic affiliation,
while others are academics or former academics who write for a general audience. For example, the prominent British media personality David Starkey, who has written and presented several television history series, usually on the Tudor period, was a highly respected academic historian based at the London School of Economics for some 30 years before leaving to concentrate on a lucrative media career. It is not uncommon for popular historians to have experience as current or former journalists [Lowe, 2012].

Popular historians often use historical accounts that already exist, such as official histories or general histories. In this way, they are like historical novelists, who need to ensure that, whenever their stories refer to events that “actually happened”, they at least appear to be “true to the facts”. For example, the historical novelist Robert Goddard, whose novel *The Ways of the World* [2013] is set during the Paris Peace Conference in 1919, states in an author’s note that: “Real people, places and events have been depicted as accurately as possible”. Goddard cites, as one of his main sources, Margaret MacMillan’s *Peacemakers* [2003]. MacMillan is a professional historian, and her account is at the same time rigorously scholarly and popular – the book was a best-seller and won the Samuel Johnson prize, the UK’s most prestigious non-fiction book award. Popular historians who come from an academic background are also likely to distil their histories from journal articles and even from primary sources. Hence, there is no reason to assume that, simply because historians write for a readership extending beyond other historians, their work will lack rigor. Although some “professional” historians disdain their more “popular” colleagues, many of the latter group ably meet the challenge of reconciling scholarship with popular appeal.

While professional historians may grudgingly tolerate their colleagues when they address a popular audience, “lay” popular historians are disliked or even despised by some academic historians, who regard them as “hacks” rather than original scholars. For example, the American documentary film producer Ken Burns, most famous for the Public Broadcasting System’s series *The Civil War*, first broadcast in 1990, has described himself as “a popular amateur historian” (quoted in Southgate [2005, p. 138]). Burns has been accused of “reduc[ing] history to ‘a mind-softening, saccharine-like substitute’, appealing to the emotions and pandering to the lowest common denominator of people’s taste for nostalgia” (quoted in Southgate [2005, p. 139]). As Tosh

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1 Often described as “the rudest man in Britain” [Cooke, 2012].
[2010, p. 13] notes more generally:

Professional historians insist on a lengthy immersion in the primary sources, a deliberate shedding of present-day assumptions, and a rare degree of empathy and imagination. Popular historical knowledge, on the other hand, tends to a highly selective interest in the remains of the past, is shot through with present-day assumptions, and is only incidentally concerned to understand the past on its own terms.

Professional historians fear that historical evidence will be used selectively to advance agendas; for example, Hawke [2011, p. 14] warns that "bringing historical knowledge to bear on current issues is different from mining the past for convenient arguments".

Such discussions and debates have arisen in the historical accounting literature. For instance, Carnegie [2006] suggested that accounting historians may widen the relevance of their work by writing, on occasions, for a general readership, such as on the perennial topic of corporate collapse and accounting failure. In response, Radcliffe [2006] argued that Carnegie [2006] was in effect proposing entry to a forbidden arena. Radcliffe seemed to perceive no role for accounting historians in providing a historical appreciation to the general public, including modern-day investors, creditors and other financial statement users, by placing a spotlight on the interplay of corporate and accounting failure across time. Accounting historians, however, despite the recent call for a greater awareness of the public and popular roles of history made by Gomes et al. [2011], do not typically prepare and publish popular works on accounting's past. This leaves a gap that can be exploited by "lay" historians, and a recent example of a prominent popular history in accounting is the book Double Entry: How the Merchants of Venice Shaped the Modern World – and How their Invention could Make or Break the Planet by the art historian Jane Gleeson-White [2011].

Gleeson-White’s book stresses the importance of double-entry bookkeeping in providing the commercial technology upon which trade, industry and capitalism itself developed. She writes at length about Luca Pacioli and his first printed treatise on double-entry, discusses the “Sombart Thesis” about the relationship between double-entry and the rise of capitalism, looks at how double-entry underpins national income accounting, touches briefly on Enron and other contemporary scandals, and concludes by noting that the long-term future of the planet may depend on how well accountants capture the full economic, so-
cial and environmental costs of the resources we use. The book synthesizes wide, but selective, reading. It contains references and a bibliography at the end, the main text being presented with very few “academic” signs (merely some use of indented block quotations and a few figures). Some aspects of the book are particularly commendable – the coverage of national income accounting gives prominence to an aspect often overlooked by historians of accounting (but see Napier [1996, pp. 467-468]; Suzuki [2003]). However, reviewers have identified problems with both Gleeson-White’s general narrative [Soll, 2012] and her detailed appreciation of the emergence of double-entry and the work of Pacioli [Sangster, 2012]. In addition, Gleeson-White often relies on a small number of sources, typically secondary rather than primary – for example, she notes [2011, p. 267] that her discussion of Enron draws on an article in the *Guardian* by Anna Pha [2002] and a section of Niall Ferguson’s *The Ascent of Money: A Financial History of the World* [2008], incidentally a book linked to a “popular history” television series broadcast by Channel 4 in the UK in 2008.

The main themes addressed by Gleeson-White – double-entry, Luca Pacioli, the rise of capitalism, the emergence, development and possible decline of the accounting profession, and corporate scandal – are clearly perceived to interest the general reader, and we would expect popular histories of accounting to address similar themes. Before examining how accounting history has been mobilized by the writers of popular post-Enron stories, we remind readers of the main events surrounding the collapse of Enron (and the demise of Arthur Andersen).

**ENRON AND THE FALL OF ARTHUR ANDERSEN**

Enron was founded in 1985 by Kenneth Lay as a natural gas pipelines company. It diversified into electricity, coal, plastics and other industries, including telecommunications bandwidth trading. It gained a reputation as a high-performing stock and was noted for regularly exceeding earnings expectations and for its remarkably strong share price performance. By the end of the

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2 This is not the newspaper based in London but rather a publication of the Communist Party of Australia. Gleeson-White [2011, p. 194] misquotes Enron’s sales in 1996 as having been US$2.3 billion, whereas her source gives the sales as US$13.2 billion.

3 Ferguson himself drew all his material for the section of his book about Enron [Ferguson, 2008, pp. 169-175] from the studies of McLean and Elkind [2003] and Swartz [2003].
1990s, Enron had become one of the largest and most prominent corporations in the USA. However, unknown to investors, Enron had established a set of off-balance sheet special purpose entities (SPEs). Large debts were accumulated in these off-balance sheet entities, which were controlled by the Chief Financial Officer; Andy Fastow, allowing the corporation to sustain an appearance of strong financial performance and hence achieving flourishing share price growth. Enron also traded with these SPEs, thus allowing for a significant amount of earnings manipulation. Enron’s underlying financial position and performance, however, was deteriorating, resulting in major write offs occurring in quarterly financial statements issued in October 2001. Six weeks later, in November 2001, the company filed for bankruptcy.

Following the Enron collapse, it emerged that Enron’s auditors, the international professional services firm Arthur Andersen, had begun to shred reams of Enron audit working papers, casting doubts as to the quality of the firm’s auditing and the firm’s overall integrity. Andersen also provided substantial advisory and consultancy services (in terms of fee income, Enron was one of Andersen’s largest clients), which generated more income than the regular audit work. This blurred the boundaries between auditing and consulting and raised strong doubts (at least after the event) about the independence of the audit firm. The SPEs, which were deployed by Enron to mask the underlying financial performance and position of the corporation, had been approved by Andersen as legitimate off-balance sheet entities. The fallout from the Enron document shredding led to the firm temporarily losing its licence from the Securities and Exchange Commission to undertake audits of quoted entities in the USA. Andersen was also associated with other contemporaneous accounting scandals, including WorldCom and Sunbeam. Many other clients, rather than standing by the firm, began to believe that having Andersen as their auditor would be regarded negatively by stakeholders. The dramatic loss of Andersen’s reputation led rapidly to the firm’s extraordinary demise. Never before had the failure of a major corporation in the USA resulted in the collapse of one of the most prominent international professional services firms. The accounting profession was suddenly in turmoil, possibly facing the biggest crisis in its history.

POST-ENRON BOOKS: HISTORIES AND CONTRASTS

When journalists touch on the history of accounting and auditing, the two most frequently named historical figures are
Luca Pacioli and Arthur Andersen. Pacioli’s name gained particular prominence around 1994, when the 500th anniversary of the publication of his *Summa de Arithmetica* brought double-entry well into the public arena for a short time. His fame was reinforced by the popular accounting software “Pacioli 2000”, an entry-level DOS-based package that was launched in 1991, became one of the most widely used accounting packages in the USA, but was discontinued in the early 2000s. Arthur Andersen’s name was probably better known than those of the founders of other international accounting firms partly because the firm used its founder’s full name as late as 2001, and because Arthur E. Andersen himself died only in 1947, whereas the eponyms of other firms were generally figures of the 19th century. Particularly insightful in this regard is Berenson [2004], who was writing at the time as a financial investigative reporter for *The New York Times*. Berenson [2004, p. 23] claims:

> Despite its importance to capitalism, accounting exists almost in a vacuum. Its past has hardly been studied; historians have inexplicably focused on Napoleon and Stalin instead of Arthur Andersen and Luca Pacioli, the Italian monk who in the late 1400s wrote *Summa*, the first treatise on bookkeeping.

In the books under review, it is perhaps not surprising that Andersen appears most often as a character, but Pacioli is not entirely overlooked. Such contributions in the aftermath of the collapse of Enron may be identified as the “after Pacioli, came Andersen” view of accounting history. Berenson’s lack of familiarity with the long-established and ever-growing scholarly literature on accounting history is evident in his comment that accounting’s past “has hardly been studied”.

Another author, Bryce, specifically warns his readers that he is providing “a bit of history” [Bryce, 2003, p. 61]. Bryce acknowledges the long history of accounting in stating “It’s [Enron] the biggest scandal to ever hit accounting, the world’s second oldest profession” [2003, p. 6; emphasis added]. He claims that “modern accounting methods . . . started with a Franciscan friar, Frater Luca Bartolomes Pacioli, who believed that Renaissance businessmen needed a reliable way to assess their financial condition. . . . His answer was dual-entry accounting . . . [known as] the ‘Italian method’” [2003, p. 61]. Pacioli is used by Bryce to personify traditional accrual accounting, in contrast to Enron’s extensive use of mark-to-market accounting, the adoption of which is regarded by Bryce as “one of the seeds of
Enron’s destruction” [2003, p. 66]. Bryce’s rapid leap from Pacioli to the 1990s, thereby bypassing Andersen, is a good example of what Zan [1994, p. 257] has referred to as the “after Pacioli, nothing” tendency in the use of accounting history (though Zan was strictly referring to non-Italian histories of Italian accounting). According to Bryce [2003, p. 379], “there are several biographies of Pacioli. Much of my information on him came from the web site of the Association of Chartered Accountants in the U.S.”

In introducing Pacioli, Brewster [2003, p. 31] claims “the roughly one thousand years between the end of the Roman Empire and the rise of great merchant houses in fourteenth-century Italy was known as a period of accounting stagnation”. Pacioli, who is identified by Brewster as “the father of accounting . . . was the most effective dabbler in accounting the world has ever seen” [2003, p. 31]. Pacioli’s main areas of interest in mathematics and theology are identified and his “famous treatise on accounting” is outlined. Double-entry bookkeeping, otherwise identified by Brewster as “the Italian system” or the “Venetian method”, is described “as the equivalent of the printing press in publishing” [2003, p. 31]. Brewster relates Pacioli’s 1494 treatise on double-entry bookkeeping to contemporary events in stating “its application was so significant in terms of the efficiency and the clarity it introduced that it became the standard throughout the West and is still the basic model for businesses today” [2003, p. 31].

Although most of the authors of the books reviewed consider themselves chroniclers of contemporary events, several of the books were explicitly written as histories. The dust-jacket of the Brewster [2003] book notes that the author “traces the profession from its birth in the Middle East, to its rise as one of the most universally respected in the Western world, to the calamitous scandals of the past two years, to the fall of Andersen and the passage of the Sarbanes-Oxley Act”. Squires et al. [2003, p. xiv] comment in their Preface that readers “will understand the long chain of events that eventually caused Andersen to fall.”

The outside back cover of Berenson [2004] states “with wit and a broad historical perspective, Berenson puts Enron, WorldCom

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5 Both these books have attracted reviews in the journal Accounting History [Carnegie, 2005a, 2005b].
Journalist writers aim to provide a narrative and chronology of the events leading up to, and the aftermath of, their chosen corporate collapse, but often go outside their strict “time line” to provide historical material on the origins of Andersen and more generally on the US accounting profession. This sometimes appears as mere dabbling. Fox, for example, devotes only 11 lines to her historical sketch of the origins and development of Andersen [Fox, 2003, p. 181], and references her source as the Andersen website. McLean and Elkind are more generous with about six paragraphs on the history of Andersen [McLean and Elkind, 2003, pp. 143-145]. As these authors do not provide references, it is not possible to be definite about their sources, but their history is a slightly enlarged version of that offered by Fox. Eichenwald [2005, p. 427] notes that “Andersen had a storied history”, but does not expand on this. Jeter [2003, pp. 207-208] uses some of the same anecdotes, referencing a BBC Money Programme documentary on Andersen broadcast in 2002.6

This relative lack of interest in the history of Andersen is not a consequence of a shortage of source material. The firm had self-published a number of historical reviews over the years [Arthur Andersen & Co., 1974, 1988] alongside a collection of Arthur E. Andersen’s speeches and writings [Arthur Andersen & Co., 1970], and the extensive reminiscences of Leonard Spacek, a later chairman of Arthur Andersen, had also been published in book form [Spacek, 1989]. The two Andersen insider accounts [Squires et al., 2003; Toffler, 2003] draw heavily, if uncritically, from these sources, which, like others of the genre, have a propensity to present flattering accounts of past events and accomplishments [Carnegie and Napier, 1996, p. 24]. Relying on such official historical reviews and acknowledging the role of sentiment may have contributed to the making of certain simplistic statements by these authors such as the following: “For 89 years, Arthur Andersen was a mainstay of the accounting profession holding a reputation for honesty and trustworthiness” [Squires et al., 2003, p. 10].

Brewster [2003] offers apparently the widest knowledge of

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6 This documentary, broadcast on BBC Two on 23 July 2002 under the title “No Accounting for Greed”, introduced a UK angle to the Andersen story by discussing Andersen’s involvement with the collapse of the DeLorean car company in 1983. This led to the firm’s being banned from public sector advisory work in Britain, a ban that continued until the election of a Labour government in 1997. See also Hughes [2002].
historical accounting research, though even he uses a limited number of sources. These include official histories of accounting firms, the general histories of Previts and Merino [1998] and Chatfield and Vangemeersch [1996] and the historical account of Olson [1982], who served as chief staff officer of the American Institute of Certified Public Accountants, which deals with the relatively short 1969-1980 period. Brewster also draws heavily on archival material in the PricewaterhouseCoopers collection at Columbia University’s Rare Book and Manuscript Library, most notably for correspondence by George O. May.7 Brewster uses oral evidence obtained from interviews with some 45 people, including an interview with an eminent accounting historian, Stephen Zeff of Rice University. Berenson [2004] also employs a limited number of sources, including the general history of Previts and Merino [1998] and the studies of the American Institute of Certified Public Accountants by Carey [1969, 1970]. Berenson further draws upon the historical resources of Stevens [1981, 1991] in examining changes in the accounting profession since the early 1980s from the perspective of the Big Eight and the Big Six accounting firms respectively. Skeel [2005], whose book sets the Enron collapse in the context of other US scandals, utilizes the business history literature, but his accounting-related sources are the same set of official firm histories used by other authors.8

More generally, most authors were clearly unacquainted with the accounting history literature in preparing their volumes. Some authors touch on episodes in business or economic history, such as the Dutch Tulip Mania, the South Sea Bubble and the Wall Street Crash. For instance, Hamilton and Micklethwait [2006, pp. 9-11], who employ the subtitle “the lessons from recent disasters”, devote a mere two pages in the introduction to “the recent past” as “a tale of boom and bust” [p. 9], but do not refer to accounting history or to any relevant contributions in this field based on their references. Overall, very little reliance was placed by authors on the available general histories of accounting.

The general motivation for the use of history is to provide

7 Brewster [2003, p. 7] goes so far as to describe May as one of “the giants of early-twentieth century U.S. accounting firms”.

8 Arnold and McCartney [2003] have pointed out the extent to which writers using historical material in their arguments often refer uncritically to the same limited number of sources (see Funnell [2007] for a reply to such criticisms). Sometimes, subsequent writers will assume that a single incident narrated by a source applies more generally in different contexts.
a contrast between accounting and auditing (in general) and Andersen (in particular) in the earlier years of the 20th century and the late 1990s. Not only had the stereotypical accountant changed, but so had the public accounting firm. With its headquarters in Chicago, “Andersen embodied Midwestern level-headedness and probity” [Berenson, 2004, p. 113]. Repeatedly, writers mention the original Andersen motto “think straight, talk straight”, and quote Arthur Andersen’s reaction to a corporate president who wanted him to endorse a manipulated financial report. Andersen’s reply was: “There is not enough money in the city of Chicago to induce me to change the report” [Squires et al., 2003, p. 32, citing Arthur Andersen & Co., 1974; McLean and Elkind, 2003, p. 144]. Both Toffler [2003, p. 15] and Skeel [2005, p. 103] view the collapse of the business of financier Samuel Insull during the 1930s as the Enron of its day, and suggest that Arthur Andersen, as a person of unbending integrity, would not have been seduced by temptation at Enron. Following the death of Arthur Andersen, the firm’s founder “took on a mythical stature” as the firm began to celebrate his life and values [Squires et al., 2003, p. 37]. By the 1990s, Andersen’s “new, unstated motto became ‘Make it Work’. . . . Give the client what he wanted” [Swartz, 2003, p. 95].

Carnegie and Napier [2010, p. 370] suggested that the authors are making a rhetorical contrast between “then” and “now”, with an implied “golden age” of ethical auditing in the early 20th century being contrasted with a more mercenary age at the beginning of the 21st century. This is particularly evident in the way in which Skeel [2005, p. 166] contrasts Arthur E. Andersen’s work on sorting out the collapsed Insull empire in the 1930s with the behaviour of his modern successors:

The Arthur Andersen who sorted through the wreckage of Samuel Insull’s empire prided himself on unflinching, uncompromising investigation of the companies he audited. The Arthur Andersen auditors who held their noses and signed off on the Enron and WorldCom financial statements were another breed altogether:

Berenson [2004, p. 119; emphasis in original] makes a similar contrast in respect to what were then the Big Six firms as a whole:

By the beginning of the 1990s, the Big Six were no longer accounting firms that happened to have consulting units; they were professional services organizations, using audits as a way to sell consulting and tax advice.
... They were partnerships in name only. In reality, they were multinational companies, run from the top down by partners who called themselves chief executives and chairmen, not managing partners. The change was profound. Accountants had never lived up to their lofty rhetoric, but before the 1980s they at least had seen themselves as public servants. No longer.

Paradoxically, the more things change, the more they stay the same – plus ça change, plus c’est la même chose. Just as Carnegie and Napier [2010, p. 370] identified a common narrative trope in the histories of Enron and Andersen as “old sins cast long shadows”, another trope that can be observed is “there is nothing new under the sun”. This trope underpins the following comments of Skeel [2005, p. 188]:

The most glaring flaw in the current framework – a flaw which is so long-standing that it is almost invariably ignored in proposals for change – is the fact that the company itself decides who its watchers will be.

The only way to address this fundamental flaw, according to Skeel, “would be to take the choice of auditor out of the company’s hands” [2005, p. 188]. Berenson [2004, p. 227] projects a similar sentiment on change in general by entitling his afterword “The more things change”.

Squires et al. [2003, p. 161] refer to an unspecified point of time in future where the demise of Andersen will be a “footnote in public accounting history”. This future point in time is likely to be many decades away, if not into the 22nd century. Until that unknown time, the failure of Andersen and the implications of the firm’s failure for the professionalization of accounting are likely to remain not a footnote but a substantial chapter in public accounting history [Carnegie, 2005a].

CONCLUSIONS

The authors of the 12 books examined in this study draw very little on the academic accounting history literature. Many of them do not even address the historical development of accounting, preferring to focus on the actors and events of “the now”, involving an almost exclusive reliance on press stories and internet sources. Of the authors who paid some attention to providing a historical background to the calamitous events of the early 2000s, none referred to the vast literature on the sociology of the professions, including the many contributions on the
professionalization of accounting, or to the literature on critical accounting generally. This is unfortunate, as critical accounting history often focuses on topics of broad public concern, while regarding apparently technical aspects such as the history of double-entry bookkeeping as somewhat boring. Various general histories on accounting written by US scholars were evidently known to only a small number of these authors, notably Brewster [2003] and Berenson [2004]. Of these general histories, Previts and Merino [1998] seemed to be the most widely-used. It is not surprising that lay historians tend to refer to books rather than scholarly articles, since books such as official or popular histories of the accounting profession and firms may probably be found in major generalist libraries. Articles may be more accessible than ever before to university-based researchers, thanks to on-line archives offered by journal publishers and organizations such as JSTOR (www.jstor.org), but those outside the academy may find them difficult and expensive to access.

The books written for a popular readership that we have examined in this paper are usually well-written, and some of the authors have attempted to base their writings at least on secondary sources grounded in extensive scholarly research. Some books cover long periods of time using broad narrative story-telling, combined with a focus on specific details that cast the overall story into perspective. These are the characteristics that we have already identified as generic to popular history. Emphasizing key characters such as Pacioli and Andersen humanizes the narratives, but paradoxically makes the “popular histories” more like “elite histories” of “great men of the past”. Popular histories tend to stress “agency” over “structure”, and popular histories of accounting are no exception. Some of the books provide appropriate references for their sources but others do not, so it is difficult to tell whether authors are aware of scholarly material but have chosen to ignore it, or whether they are simply not aware of the available scholarly literature on accounting’s past. Berenson [2004] at least, by his own admission, appears to fall in the latter category. Curiously, however, Berenson and Toffler are cited by Staubus [2005] in a critical analysis of ethical failures in corporate financial reporting in the USA. Prominent reference to these commercial books within the scholarly literature may imply an importance and authority going beyond the depth of historical research that typically underpins them.

What are the lessons for accounting historians? The most important is that there is a demand for popular history, and if
accounting historians do not respond to this demand, then the void will be filled by journalists, mouthpieces of firms and professional bodies, and “amateur historians”. All of these may do a good job of propounding the standard narrative: “Luca Pacioli to Arthur Andersen in one quick leap”. But they are likely to lack the depth of knowledge and critical appreciation that a specialist historian of accounting will bring to the exposition of history. However, such specialists must be aware that different media demand different styles of exposition. As Champion [2003, p. 167] notes: “If there is too much detail the programme becomes too dense for the audience to engage with. Oftentimes this sort of scholarly density is exactly what academic historians aim at: it is profoundly out of kilter with the requirements of televisual production.” It is painful for scholars to have to digest decades of learning into a few hundred words, but this may be necessary for communicating aspects of accounting’s history to a wider audience.9 Opportunities to contribute to different media should not be shunned – it is gratifying that several academic historians of accounting participated in the BBC Radio 4 series A Brief History of Double-Entry Bookkeeping produced by Jolyon Jenkins in 2010. An accounting academic who is often able to bring historical aspects of accounting’s development to a wider audience is Prem Sikka, who regularly contributes on-line to The Guardian’s “Comment is Free” web-site [Sikka, 2008].

In several countries, the reward structure for academics tends to give little if any credit to popular engagement, with those who write for newspapers and magazines or appear on the radio or television (to say nothing of those who are active users of the internet and social media) often accused of “dumbing down” at the same time as “making a show of themselves”. Academic historians of accounting are certainly not immune from such pressures. However, universities are also increasingly recognizing the efforts of their academic staff to engage with the public more broadly, with government-sponsored research assessments increasingly investigating public as well as scholarly impact. As Cole [2012] notes, “much important and fascinating research is unavailable to the public simply because the discoverers lack the will or the talent to reach beyond their familiar

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9 One of the authors was asked recently to comment on the omission of any mention of double-entry from a recent BBC series Andrew Marr’s History of the World, broadcast in 2012, and his two paragraphs of comment at http://www.bbc.co.uk/news/magazine-19662059 were probably read by more people than all his academic publications that year.
circle.” The books that we have studied in this paper show that there is a public interest in accounting and its history – it is up to the growing number of researchers specializing in the history of accounting to take on the challenge of disseminating our findings not just in scholarly articles but to a broad public audience.

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HISTORICAL DEVELOPMENT OF THE FINANCIAL REPORTING MODEL FOR STATE AND LOCAL GOVERNMENTS IN THE UNITED STATES FROM LATE 1800s TO 1999

Abstract: This study examines the historical development of the financial reporting model for state and local governments in the United States from the late 1800s through the issuance by the Governmental Accounting Standards Board (GASB) of Statement No. 34 in 1999. This research shows how the current governmental reporting standard evolved over time to meet diverse user needs by presenting both government-wide and fund statements, and requiring three governmental operating statements with potentially three different measurement focuses: the Statement of Activities; the Statement of Revenues, Expenditures, and Changes in Fund Balances; and the Budgetary Comparison Schedule. Overall, this historical study provides unique insights about the development of the governmental reporting model and an appreciation for the reporting requirements of GASB Statement No. 34.

INTRODUCTION

The purpose of this study is to trace the historical development of the financial reporting model for state and local governments in the United States (U.S.), with an emphasis on governmental operating statements, from the late 1800s to the present by presenting issues and solutions over the years. In June 1999, the Governmental Accounting Standards Board (GASB, Board) issued Statement No. 34; Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments [GASB, 1999] that presents the current state of the
governmental reporting model. However, many of the concerns that were raised during the development of this model were not new and can be traced to issues discussed during the first half of the twentieth century: Should financial statements for state and local governments be consolidated or disaggregated? Should the measurement focus be the flows and balances of current financial resources or economic resources? Should financial statements prepared for external users emphasize the government’s legally adopted budget? GASB Statement No. 34 sought to resolve these issues.

Because many accountants are familiar with commercial accounting, the authors at the outset of this manuscript will provide a brief discussion of similarities and differences between the commercial and governmental financial reporting models in order for the reader to appreciate the development of the governmental model. Both models seek to provide timely financial data to their respective stakeholders for evaluation. This information is communicated primarily through the regular issuance of financial reports or statements. Also, both reporting models initially began by using a cash basis approach to financial reporting and then evolved to meet their respective stakeholder needs. Both models also present historical financial data in order to allow interpretation by stakeholders of their operating results.

The key differences between commercial and governmental financial reporting can be traced primarily to two issues: stakeholder needs and control. Commercial reporting has numerous stakeholders of the firm: directors, management, investors, creditors, regulators, unions, etc., while the primary stakeholders for governmental reporting are the citizenry, legislative and oversight bodies, investors and creditors, and government administrators [Freeman et al., 2011, pp. 17-18]. Stakeholders of business enterprises need financial reporting to be focused on financial performance—earnings and its components, while stakeholders of a government need governmental reporting to be focused primarily on accountability—acquiring financial resources and spending them in a legal and appropriate manner (GASB, 2006). Commercial reporting measures inflows and outflows of assets and takes a strategic, long-term approach to the presentation of historical data. In contrast, governments typically take a current operating approach for the display of fiscal information and focus on accountability, including comparisons to budgets. In the absence of supply and demand, and profit control devices inherent in profit-seeking entities, statutory,
fund, and budgetary controls are used by governmental entities [Freeman et al., 2011, p. 24].

Previous academic studies have examined various aspects related to the development of governmental accounting by country: United Kingdom [Coombs and Edwards 1995; Perrin, 1998], India [Khumawala, 1997], and China [Aiken and Lu, 1993]. Other studies focused on historical development of governmental issues related to the United States: budgeting [Rubin, 1993] and standard-setting [Remis, 1982]. The current examination seeks to extend these accounting research studies by discussing the historical development of the governmental reporting model in the United States.

A limited number of academic studies address aspects pertaining to the development of the governmental reporting model. Thus, much of the archival material referenced in the early historical period of discussion in the present study is derived from textbooks that present a brief history on governmental accounting. In more recent years, the authors focus on academic articles that reveal more detail and insights, and support the underlying purpose of the present study. The authors acknowledge at the outset of this paper that the individuals and organizations cited do not represent all those that influenced the development of the governmental financial reporting model in the United States as it exists today, but the authors believe that the predominant ideas that led to its development are represented.

This study begins with a discussion of the early history (late 1800s to the 1970s) of the governmental reporting model. Then, the governmental reporting debate of the 1970s, the current financial reporting model—GASB Statement No. 34, and a conclusion are presented.

**EARLY HISTORY**

The beginnings of modern day financial accounting and governmental accounting in the United States can be traced to the late 1800s. Prior to this time, the majority of people in the United States lived on farms or in rural villages, but with the industrial revolution, cities began to grow at three times the rate of rural populations [Chatfield and Vangermeersch, 1996]. By the latter part of the nineteenth century, the growth in number and size of cities coupled with large-scale graft and corruption in some municipalities led to a demand for financial accountability [Cleveland, 1909]. The scope of this paper focuses only on governmental financial reporting models developed in the
United States beginning in the late 1800s.

The development of governmental financial reporting from the late 1800s until the 1970s can be traced through organizations and individuals that played significant roles. The National Municipal League (NML), founded in 1894, was a highly influential early reform agency [Fleischman and Marquette, 1987]. Harvey Chase led a group of certified public accountants that worked with the NML to obtain adoption of a uniform municipal accounting system [Chatfield and Vangermeersch, 1996]. The NML developed a number of standardized schedules for municipal reporting through its Committee on Uniform Municipal Accounting. Separate schedules were developed for revenue/expense accounts and asset/liability accounts [Fleischman and Marquette, 1987]. The U.S. Bureau of Census adopted the NML committee's general classification of expenditures and was also influential in the development of early accounting and reporting standards [Cleveland, 1909]. By the early 1900s, three states—Massachusetts, New York, and Ohio—had enacted legislation regarding uniform accounting and reporting, and several cities were publishing annual reports [Hebert, 1987].

Frederick Cleveland: Another type of group that was influential in the development of financial reporting for governments was the municipal research bureau. The first and most prominent was the New York Bureau of Municipal Research, which was founded in 1906. It was organized to tackle the financial problems of New York City, the largest city in the nation. Frederick Cleveland, a university professor and staff accountant for Haskins and Sells, became the director of the New York Bureau [Fleischman and Marquette, 1987].

The New York Bureau contributed to improved accountability among governments through publications of books and educational efforts that advocated the adoption of budgets and better accounting. In 1908, the New York Bureau first introduced the “budget exhibit.” This exhibit, which was comprised of billboards and posters, provided a visual representation of how New York City was spending its money. Similar exhibits were held in 20 cities throughout the United States [Fleischman and Marquette, 1986].

In 1909, the New York Bureau published Cleveland's book, *Chapters on Municipal Administration and Accounting*, which detailed the problems of municipalities in the early 1900s and advocated that financial accountability be established [Cleve-
To illustrate the problems in New York City in 1906, Cleveland recounts the concerns of Frank Vanderlip, the vice-president of City National Bank of New York. “Today, there is no true balance sheet. . . In none of the reports of the Controller is it possible to obtain in succinct form an intelligent view of the city’s true financial position” [Cleveland, 1909, p. 124].

Cleveland [1909] argued for two balance sheets: a current balance sheet and a capital balance sheet. The current balance sheet would display the assets available for meeting current liabilities and current expenses. The capital balance sheet would represent the capitalized cost of permanent improvements and equipment along with the funds provided for such use.

Cleveland criticized the lack of true operating statements for most municipalities stating that the published reports of cities contained “little else than exhibits on the flow of cash” [Cleveland, 1909, p. 156]. He noted that the Bureau of Census, in its attempts to collect municipal finance data, could only obtain information on cash receipts and cash disbursements. In a 1904 paper presented to the Congress of Accountants in St. Louis, he noted that few municipal accounting officers saw the need for accounts of expenses and revenues and their record keeping [Cleveland, 1909, p. 156].

Based on Cleveland’s comments, one can surmise that the earliest operating statements for municipalities were prepared with a focus on cash flows or a cash measurement focus.2

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1 Frederick Cleveland was also greatly influential in developing responsible budgeting at the national level [Cleveland and Buck, 1920].

2 Measurement focus describes the types of transactions and events that are measured and reported. A pure cash measurement focus reports only transactions and events that affect cash. A current financial resources (or spending) measurement focus reports transactions and events that affect an accounting entity’s financial assets and related short-term liabilities. With this focus, expenditures (that is, financial resources expended) are measured. An expenditure is an outflow of financial resources (e.g., cash) for current operations (e.g., salaries, rent, or utilities), capital outlay (e.g., the purchase of a police car), or long-term debt principal retirement and interest. This measurement provides information about the sources and uses of available spendable resources during a period and information to assess whether sufficient resources existed to finance the current period’s activities. An economic resources measurement focus reports transactions and events that affect all of an accounting entity’s assets and liabilities (both current and long-term). With this focus, expenses are measured. Expenses are costs expired or the cost of goods or services used during a period. This measurement focus provides information to assess whether sufficient revenues were generated to cover the cost of providing services [Patton and Bean, 2001]. Commercial reporting uses accrual accounting and employs an economic resources measurement focus.
However, Cleveland [1909] advocated the use of an economic resources approach for operating statements of municipalities that would measure revenues and expenses. He reasoned [Cleveland, 1909, p. 162]:

The purpose of assembling financial data of a municipal undertaking around two categories expense and revenue is to enable those interested in the public service to reach conclusions with respect to economy and efficiency of administration, and the relation of cost to provisions made for meeting it. . . A detailed and comprehensive statement of expenses is essential to a proper appreciation of cost to services rendered. A comparative statement of expenses and revenues serves two purposes of administrative economy: (1) Such an exhibit is necessary to determine whether adequate provision has been made to cover the costs of operations and maintenance in the past; and (2) a comparative statement of past expenses and revenues is the only safe guide to budgetary estimates and appropriations for the future.

Certainly, the definitions that Cleveland [1909] espoused for revenues and expenses are closely associated with those of the economic resources model. He clearly distinguished the difference between “cost” and “cash paid” by equating cost to expense and stating that an expense could be incurred during a period without a dollar being disbursed. He also supported the reporting of depreciation.

Metz Fund Handbook: Additional early support for fiscal accountability, including the use of a statement of revenues and expenses, can be attributed to Herman A. Metz. Metz, a New York businessman, was elected and served as comptroller of the City of New York from 1905 to 1909 [Davidson et al., 1977]. After leaving office and returning to business, Metz made substantial contributions to the New York Bureau of Municipal Research to establish a fund that would make available the experiences of New York and other municipalities to other governments that desired to improve their financial practices and procedures [Bureau of Municipal Research, 1914]. In 1913, the Bureau published the Handbook of Municipal Accounting, which is commonly referred to as the Metz Fund Handbook [Davidson et al., 1977]. Lloyd Morey [1948] considered the publication of this book to be the most significant contribution to municipal accounting in the 1910s.

The first chapter of the Metz Fund Handbook was devoted
to revenues and expenses. The authors remorsefully stated that not more than six cities in the nation recognized the difference between a statement of cash inflows and outflows and a statement of revenues and expenses. The presentation of a statement of cash inflows and outflows would be desirable to render an accounting of the treasurer's office. The statement of revenues and expenses, embracing all of the city's financial transactions, would be an accounting of the city's chief financial officer.

If given the choice of presenting only one statement, it is clear that the handbook's authors would have chosen a statement of revenues and expenses because it better met their primary objective for financial reporting, which was to measure costs. They argued that a statement of revenues and expenses should explain the changes in assets and liabilities for an accounting period and would consider all financial transactions whether based on cash or credit. They also reasoned that total costs or expenses are needed to determine and develop the efficiency of administration [Bureau of Municipal Research, 1914, pp. 5-6].

To be useful to city officials and citizens, the authors believed the statement of revenues and expenses should include: (1) the revenue the city accrued by its right to levy taxes and charges for privileges and services; (2) the operation and maintenance costs of the city; and (3) the excess of revenues over costs or costs over revenues. Not surprisingly, an accrual basis of accounting was advocated for recording revenues and expenses. The rationale being that the results of the "financial program" implemented by city management could not be evaluated without considering "revenue accrued" and "costs incurred."

Thus, both Cleveland and the authors of the Metz Fund Handbook in the early 1900s advocated an economic resources approach using the accrual basis to prepare a government's primary operating statement. They agreed the prevalent approach of simply reporting cash inflows and outflows was inadequate to evaluate a city's administration.

Francis Oakey: Davidson et al. [1977] believed the shift in governmental accounting and financial reporting away from the economic resources approach advocated by Cleveland, the authors of the Metz Fund Handbook, and others as the reporting model for governmental funds could largely be attributed to the efforts of Francis Oakey. Oakey wrote Principles of Government Accounting and Reporting, which was published in 1921 by The Institute for Government Research, a predecessor of the Brook-
ings Institute. Due to the clout of the publishers, Davidson et al. [1977] argued that Oakey's book was given authoritative status for governmental accounting.

Like earlier writers, Oakey [1921] advocated the use of funds. To be able to assess whether an executive officer of a city had properly discharged his/her duties in accordance with legal requirements, Oakey believed that a separate operating statement should be prepared for each fund. However, he differed from earlier writers as to the proper measurement focus for governmental operating statements by favoring a current financial resources rather than an economic resources approach. He noted the current practice was for cities to record revenues and expenditures on a cash basis although some cities, such as Philadelphia, Cleveland, and Seattle, had applied commercial (accrual) accounting principles. Still, he was concerned that "commercial accounting" applied to governments was inadequate in certain important aspects [Oakey, 1921]. Cities financed their operations differently than business enterprises. They simply raised the money estimated to be required to meet total anticipated expenditures with no expectation of profits remaining. The money was obtained from a variety of sources: taxation, miscellaneous revenues, and borrowings. These resources were then applied to the ordinary operating expenditures of the government and capital outlays. Oakley argued for a statement that identified the sources and amounts of receipts along with the objects or purposes for outlays [1921, p. 186].

In critiquing the financial statements of Philadelphia, Cleveland, and Los Angeles, which were prepared using the commercial method, Oakey noted that capital receipts and capital outlays were omitted and the disposition of capital receipts during the year was not shown. Thus, he found that governmental reporting was limited in that it did not present a complete accounting for the disposition or application of the current and working resources of the government during the period reviewed. These defects are also the result of not separating fund resources and obligations from all fixed assets and liabilities [Oakey, 1921, pp. 195-196].

Thus, Oakey believed that governmental financial statements should not be prepared using commercial accounting principles because governments were concerned with whether sufficient financial resources existed to cover anticipated expenditures including capital items. As a part of this determination, fund surplus (or fund balance) should represent current financial resources available for expenditure, and therefore, should
not include fixed assets and long-term liabilities [Oakey, 1921]. Fernald [1918] shared Oakey’s sentiments about the dangers of capitalizing fixed assets stating, “It is a fact that many towns have been lulled into a false sense of security by showing a large surplus as a result of including town properties as assets in the balance sheet” [Fernald, 1918, p. 275].

Oakey (1921) believed a consolidated statement of expendable fund operations would be the best form of operating statement for governmental activities. He noted several advantages to using a consolidated statement of expendable fund operations [Oakey, 1921, pp. 193-194]:

1. This form of statement shows all the operations of expendable funds, presenting all transactions which increase the resources of such funds as well as all transactions which reduce resources.

2. It is a complete statement of operations, including capital outlays as well as expenses of administration, operation, and maintenance.

3. The disposition of the total amount of revenues is shown, drawing a distinction between expenditures out of revenue on account of the expenses of administration, operation, and maintenance, and expenditures out of revenues for capital outlays.

4. The transactions of expendable funds that derive their resources from sources other than revenues are shown according to the main classes of such funds, i.e., assessment funds, loan funds, and miscellaneous.

5. The statement is condensed enough to permit presentation on a single page providing, in summary form, an exhibit of all operations and facilitating and encouraging examination of details.

An examination of these advantages again reveals that Oakey advocated a different reporting model than did Cleveland and the authors of the Metz Fund Handbook. He was concerned that statements account for the flow of current financial resources and report expenditures for capital outlays. However, Oakey was not alone in his views. Many others [e.g., MacInnes, 1906; Chapman, 1910; Morey, 1927] believed that governmental units

3 By a consolidated statement, Oakey meant that all funds would be presented on one statement. However, his illustrative operating statement used a pancake format rather than the columnar format.
differed from commercial businesses, and expenditures for capital outlays should be reported when acquired while depreciation accounting was not appropriate.  

Lloyd Morey: Lloyd Morey, who was a professor, comptroller, and later president of the University of Illinois, stated in his popular 1927 textbook, *Introduction to Governmental Accounting,* that similarities between governmental and commercial accounting had been overstated and too little attention had been paid to their differences. In his opinion, the application of commercial accounting to government accounts would also be misleading with ludicrous results [Morey, 1927, p. v]. Morey identified the lack of a profit objective as a significant difference between the two.

Instead of profit and loss accounts, Morey advocated accounting for revenues, expenditures, and surplus. He believed the focus of governmental accounting should be the recording and reporting of current financial resource flows. He notes that revenues received within the period should be reported and that they must be realizable in cash and expendable [Morey, 1927, p. 55].

In summary, Morey [1927] did not believe depreciation needed to be recorded because governmental accounting should not focus on profit and loss or costs expired. The primary focus should be on cost—the amount expended to purchase or build a capital asset. Again, this reflects his attitude that governmental entities differed from commercial enterprises. Governmental entities needed to be concerned with the flow of current financial resources. The concern was not the matching of revenues and expenses, but rather, whether the governments had financial resources available to meet operating, capital outlay, and debt service requirements. This emphasis on the differences in commercial and governmental enterprises can be further demonstrated in Morey’s discussion of funds and the budget.

Although he believed that both businesses and governments needed to produce information about their past operations and present condition that would provide guidance for future operations, governments had additional responsibilities. Their accounting systems should “. . . provide for control of the acts of public officers and . . . furnish information to the public concerning the financial operations and conditions of the government”

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4 Because outlays for capital assets are reported as expenditures in operating statements when acquired, capital assets would not be reported on the balance sheet. Likewise, depreciation would not be reported.
The use of funds was one method of exercising control. Morey [1927] pointed out that separating revenues and other resources into funds was a common practice and showed that resources were being used for their intended purpose [Morey, 1927, p. 11]. Within the funds, Morey advocated using budgets to provide control or effective limitations on public officers. Further, budgets would furnish information to the public’s representatives concerning the financial operations of the government. Once approved, the budget would form the basis for the government’s accounting for the year [Morey, 1927].

Morey envisioned separate financial reports being prepared for internal and external use. Internal reports for department heads would stress unexpended appropriations. Reports to legislative bodies should be periodically prepared (e.g., monthly or quarterly) to show the condition and operations of various funds. Externally issued public reports should include condensed summary statements, a consolidated balance sheet, statements of income or revenue, statements of expenditures, statements of the operation of special funds, a statement of funded indebtedness, and a statement of inventories of property and equipment [Morey, 1927].

A review of these statements shows that Morey advocated the use of budget numbers (i.e., appropriations) for internal reporting and supported a statement of income and a statement of expenditures for external reporting. Thus, Oakey and Morey both believed a statement of income and expenditures prepared with a current financial resources measurement focus would be appropriate for municipal financial reporting, yet disagreed as to the format of the financial statements. Their writings contributed to the formation of the National Committee on Municipal Accounting (NCMA) in 1934 [Potts, 1976; Hebert, 1987].

National Committee on Municipal Accounting: The NCMA was an ad-hoc committee of the Municipal Finance Officers’ Association of the United States and Canada that formulated municipal accounting principles, developed standard classifications and terminology for municipal reports, and promulgated standards [NCMA, 1935a]. Hebert [1987] noted the establishment of the NCMA was viewed as an important step in developing and standardizing municipal accounting and reporting principles.

By 1935, the NCMA had published in preliminary documents its principles of municipal accounting, procedures for a municipal audit, a bibliography for municipal accounting, and
a booklet of municipal accounting terminology [NCMA, 1935b]. An examination of some of the early works of the NCMA provides insight into the principles and standards that the NCMA were attempting to establish.

In the NCMA’s book on municipal accounting terminology, terms were defined within the context of governmental accounting. Of particular interest is the NCMA’s definition of expenditures and expenses [NCMA, 1936, p. 142]:

**EXPENDITURES.** Amounts paid or incurred for all purposes, including expenses, provision for retirement of debt, and capital outlays. Synonymous with outlay. NOTE: If the accounts are kept on the cash basis (q.v.) the term covers only actual disbursements. If the accounts are kept on the accrual basis (q.v.) the term includes also charges incurred but not paid.

**EXPENSES.** Expenditures for operation, maintenance, interest, and other current purposes from which no permanent or subsequently convertible value is derived.

From these definitions, the reader can surmise that the NCMA authors did not intend for expenses to be considered cost of services as would be defined with an *economic resources* measurement focus. Instead, expenses were defined for governmental accounting purposes as a subset of expenditures. Expenditures included expenses (i.e., outlays for current operations, maintenance, etc.), amounts paid or incurred for the retirement of debt, and capital outlays. Expenditures could be recorded using either the cash or accrual basis of accounting, although the NCMA stated its preference to use the accrual basis for the statements of expenditures [NCMA, 1936, p. 7].

For financial reporting purposes, the NCMA [1936] recommended preparing a separate balance sheet for each fund or group of related funds. A combined balance sheet in columnar or sectional form to exhibit the assets, liabilities, reserves, and surplus of each fund was desirable. To report the results of operations for General and Special Revenue Funds, the NCMA suggested the use of three statements. The *Statement of Revenues—Estimated and Actual* would compare estimated revenue with actual revenue and show any excess or deficiency of estimated revenue over actual revenue. The *Statement of Expenditures and Encumbrances Compared with Appropriations* began with appropriations, subtracted expenditures and encumbrances, leaving an unencumbered balance. A third statement, an *Analysis of Changes in Unappropriated Surplus*, would reflect the changes...
to unappropriated surplus from budget and actual transactions shown on the other two statements. The resulting end of period unappropriated surplus would be divided into two components: the amount available during the next twelve months and the amount unavailable during the next twelve months [NCMA, 1936]. The need to divide unappropriated surplus into available and unavailable portions was at least partially due to using the accrual basis when recording property tax revenues. Although property taxes receivable would be an asset, the portion of unappropriated surplus represented by property taxes receivable not collectible early in the coming fiscal year would not be available for expenditure.

The operating statements reveal the importance the committee placed on budgetary reporting. In addition to the budgetary detail on the Statements of Revenues and Expenditures, the Analysis of Change in Unappropriated Surplus (which summarized the results of operations during the period) reported estimated revenues and appropriations in addition to actual revenues and expenditures. A clue to the reason for this detailed reporting of budgetary amounts may be found in the NCMA's comments on the purpose of reports. They indicate that they are an orderly grouping of facts and estimates relating to the condition of the fund, serve as a check on the operation of the budget, and as a guide for administrative action [NCMA, 1936, p. 2].

The committee believed that annual audited financial statements had an important administrative function. Financial reports should demonstrate compliance with legal provisions and that finances were properly administered. Interestingly, the NCMA stated that the statistical section of the report could be of more value to outside users than the financial statements [NCMA, 1936, p. 2]. By these comments, one can see the committee considered municipal administrators as the primary users of financial statements. This focus on internal administrative uses for financial statements is also found in its focus on fund reporting.

In the 1941 revision of Bulletin No. 6; Municipal Accounting Statements, the NCMA reemphasized the importance of reporting by individual funds [NCMA, 1941]. With regard to the order of presenting statements in the annual report, the NCMA recommended showing the statements of the General Fund first, and the combined balance sheet and related subsidiary statements last. The NCMA believed that the individual fund statements were more important than the combined statements [NCMA, 1941, p. 18].
National Committee on Governmental Accounting: The Municipal Finance Officers’ Association (MFOA) formed the National Committee on Governmental Accounting (NComGA) in 1948 to replace the NCMA, which had disbanded in 1941. The NComGA reviewed, revised, and consolidated the work of the NCMA when it issued *Bulletin No. 14; Municipal Accounting and Auditing* in 1951. This *Bulletin*, which was considered the authoritative source for governmental accounting until the late 1960s, noted that one of the purposes of financial statements was to show legal provisions were met and funds had a proper accounting. However, unlike previous publications of the NCMA, the NComGA also recognized in *Bulletin No. 14* that municipal accounting systems should not only show compliance with laws, but also consider financial condition and results of financial operations [NComGA, 1951; Hebert, 1987].

Overall, the NCMA and NComGA established the role of the MFOA as the standard-setter for governmental accounting and reporting in the U.S. during their tenure. These organizations also supported individual fund reporting, which maintained its prominence until the late 1960s. Further, they standardized the required reports by governments and focused on funds, budgets, and legal compliance; yet the debate as to the proper measurement focus for governments continued.

Critics of Governmental Accounting: Although welcomed, the slight shift of purpose in governmental accounting and reporting from an almost exclusive administrative control function (NCMA) to one that considered the financial condition of the entity (NComGA) did not appease the critics. Dylmer Hylton [1957], professor at Wake Forrest College, bemoaned the state of governmental financial reporting. He indicated that published governmental reports left a lot to be desired [Hylton, 1957, p. 51]. A primary reason for his criticism was that governmental financial reports were too complex. “... The taxpayer, the ‘owner’ of the governmental unit, cannot fathom the reports published by his employees” [Hylton, 1957, p. 51]. Hylton advocated a consolidation and simplification for governmental financial reports. Although he admitted the importance of maintaining funds for financial control purposes, he believed a consolidated statement that reported all revenues and expenses of the governmental entity in one column would provide the citizen with better information to evaluate governmental operations [Hylton, 1957].

Russell Taussig [1963], an associate professor of finance at the University of Hawaii, agreed with Hylton that a major
shortcoming in the reporting of state and local governmental units was the lack of statements that reported the financial position and results of operations of the government as a whole. Taussig disagreed with the NComGA [1951, p. 141] statement that, “No financial statement or statistical table combining the revenues and expenditures, respectively, of all funds and arriving at the total fund expenditures for a particular fiscal period can be prepared.” He believed the transactions between funds could and should be eliminated in preparing a combined statement of revenues and expenses for the entity as a whole. Both Hylton [1957] and Taussig [1963] believed governmental operating statements should measure the cost of services and be prepared using an economic resources measurement focus (and accrual basis). Although governments were not concerned about profits, Taussig viewed the measurement of revenues and expenses as essential in evaluating a government’s efficiency.

Governmental Accounting, Auditing, and Financial Reporting: While not agreeing to the consolidation advocated by Hylton and Taussig, the NComGA for the first time recommended presenting combined statements that would display financial data for the whole government before individual fund data in its 1968 publication, Government Accounting, Auditing, and Financial Reporting (GAAFR) [1968]. The rationale for the change was to benefit report users who did not need information on individual funds, but only major aspects of financial condition and operations [NComGA, 1968]. Because the 1968 GAAFR, with certain modifications, was recognized as generally accepted accounting principles (GAAP) by the American Institute of Certified Public Accountants (AICPA) when it released its audit guide, Audits of State and Local Governments, in February 1974, this reordering of financial statements became the norm.

The NComGA [1968] recommended that four combined statements be issued: 1) a Combined Balance Sheet for all funds, 2) a Combined Statement of Revenues comparing estimated and actual revenues for the General and Special Revenue Funds, 3) a Combined Statement of Expenditures for the general government compared with authorizations for General and Special Revenue Funds, and 4) a Combined Statement of Cash Receipts and Disbursements for all funds.

These four statements emphasized a budgetary focus. The Combined Statement of Revenues and Combined Statement of Expenditures included budget as well as actual amounts for the fiscal period. The NComGA considered accounting’s role in de-
determining legal compliance as coextensive with the need to provide financial information to user groups [NComGA, 1968, p. 4]. However, the NComGA [1968, p. 5] later stated that “Since legal requirements control and must take precedence over accounting considerations, the committee believes that each governmental unit must . . . prepare financial statements which reflect compliance with legal requirements.” In essence, the NComGA believed that reporting the results of financial operations was important, probably of equal importance to legal requirements, but financial reporting for governments had to be controlled by legal compliance. Considering that the membership of the NComGA was primarily from governmental backgrounds, this concern for legal compliance is understandable. However, critics of governmental financial reporting argued that the fixation on legal compliance complicated and hindered the usefulness of governmental financial reports.

During this time period, the financial statements for governments became standardized and reflected legal compliance. They also began to emphasize usefulness to readers of financial reports from outside of government by presenting and ordering the reports differently. However, the measurement focus issue had not been completely resolved.

GOVERNMENTAL ACCOUNTING AND REPORTING DEBATE OF THE 1970S

Like the arguments made by Hylton and Taussig for simplification and measuring cost of services, many of the criticisms of governmental accounting that surfaced in the 1970s are germane to the current discussion of changes in the governmental reporting model. Recurring themes in the 1970s debate over the direction of governmental accounting and financial reporting were the reporting format, the measurement focus, and the role of the budget.

Reporting Format: The governmental reporting format discussions centered on whether financial statements for state and local governments would be more understandable to users, particularly citizen groups, if they were more like the financial statements of commercial enterprises. Representative of those who believed that governmental financial reporting should mimic commercial reporting guidelines were the authors of the Coopers and Lybrand and University of Michigan (1976) study of 46 American cities, published in 1976.
Reasons cited for the need to change governmental reporting to a commercial format could be categorized as follows. First, external users of governmental financial reports were primarily the general public and investors. These external users could more readily understand the already familiar commercial-type financial reports. Second, external users needed summarized financial information that could be found in a single set of integrated financial statements prepared for the government as a whole. They had neither the need nor desire for the details in governmental financial reports then being published. Critics argued that governmental financial reports placed too much emphasis on legal compliance and internal financial reporting. Finally, external users needed a measure of the cost of services.

![FIGURE 1](Consolidated Statement of Revenues, Expenditures, and Changes in Fund Balances)

<table>
<thead>
<tr>
<th>Name of Governmental Unit</th>
<th>Consolidated Statement of Revenues, Expenditures, and Changes in Fund Balances</th>
<th>Totals (Monetary Units Only)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Governmental Total Types</td>
<td>Fiscal Year Total</td>
</tr>
<tr>
<td></td>
<td>General</td>
<td>December 31, 2012</td>
</tr>
<tr>
<td></td>
<td>Special Revenues</td>
<td>Debt Service</td>
</tr>
<tr>
<td>Tax</td>
<td>$ 860,500</td>
<td>$ 160,500</td>
</tr>
<tr>
<td>Special Assessment levies</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Licenses and Permits</td>
<td>194,500</td>
<td>-</td>
</tr>
<tr>
<td>Intergovernmental revenue</td>
<td>199,500</td>
<td>691,100</td>
</tr>
<tr>
<td>Change for services</td>
<td>930,500</td>
<td>79,100</td>
</tr>
<tr>
<td>Plant and Equipment</td>
<td>123,500</td>
<td>-</td>
</tr>
<tr>
<td>Miscellaneous revenue</td>
<td>39,500</td>
<td>4,620</td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td>1,264,500</td>
<td>1,121,150</td>
</tr>
</tbody>
</table>

**Expenditures**

|                          | General                                                                         | December 31, 2012           | December 31, 1992 |
|                          | Current                                                                        |                             |                  |
| General government       | 131,800                         | -                           | -                | -                  | -               | 131,800         | 134,200         |
| Public safety            | 238,950                         | 400,000                     | -                | -                  | -               | 738,950         | 711,000         |
| Highways and streets     | 45,450                          | 471,000                     | -                | -                  | -               | 926,450         | 998,800         |
| Education               | 56,250                          | -                           | -                | -                  | -               | 56,250          | 48,600          |
| Health                  | 46,550                          | -                           | -                | -                  | -               | 46,550          | 46,600          |
| Welfare                 | 46,550                          | -                           | -                | -                  | -               | 46,550          | 46,600          |
| Culture and recreation   | 93,900                          | 236,450                     | -                | -                  | -               | 327,350         | 386,400         |
| Indebtedness            | 1,010,500                       | 913,100                     | -                | -                  | -               | 1,923,600       | 2,019,600       |
| Capital projects        | -                               | -                           | -                | -                  | -               | -               | -               |
| Debt service            | -                               | -                           | -                | -                  | -               | -               | -               |
| Principal Retirement    | -                               | -                           | -                | -                  | -               | -               | -               |
| Interest and fixed charges | -                           | -                           | -                | -                  | -               | -               | -               |
| **Total Expenditures**   | 1,265,500                       | 1,151,450                   | 106,650          | 1,257,500          | 26,040          | **5,484,080**   | **5,509,800**   |

**Excess of Revenues over (under) Expenditures**

|                          | Excess of Revenues over (under) Expenditures | 131,100                     | 17,175          |
|                          |                                               | (77,050)                    | (27,175)       |

**Other Financing Sources (Uses)**

|                          | Proceeds of general obligation bonds | -                            | -               |
|                          | Operating transfers in               | 900,000                     | 77,000          |
|                          | Operating transfers out              | -                            | -               |
|                          | **Total Other Financing Sources (Uses)** | 900,000                     | 77,000          |

**Excess of Revenues and Other Sources over (under) Depreciation of Net Investment in Other Entities**

|                          | Excess of Revenues and Other Sources over (under) Depreciation | 131,100                     | 17,175          |
|                          | 900,000                                                        | 77,000                      |

**Net Balances—December 31**

|                          | Net Balances—December 31 | $ 279,200.00               | $ 158,175.00    |
|                          |                         | (252,210.00)               | (213,715.00)    |
|                          |                         | 152,150.00                 | 338,460.00      |
|                          |                         | 152,150.00                 | 338,460.00      |

The table for the financial statements is an integral part of this statement. [NCGA, 1979]

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rather than just an accounting of expenditures during a fiscal period [Coopers and Lybrand and University of Michigan, 1976; Davidson et al., 1977; Touche Ross, 1977].

Even among those calling for changes to governmental financial reports, differences in opinions existed regarding the reporting format—especially the level of aggregation or consolidation—that should be used. Some would have argued that the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances was an aggregated statement reporting the transactions of the whole entity (see Figure 1). The fund or fund type data presented on the face of the statement accounts for the operating, capital, and debt service transactions for the whole government.

The American Accounting Association's Committee on Accounting Practice of Not-for-Profit Organizations [1971] recommended the preparation of consolidated statements of financial position and operations. By consolidated statements, they meant that interfund transactions would be removed. Thus, they proposed an operating statement much like the one in Figure 1, but with the elimination of transfers and other interfund transactions. Others, however, advocated the complete elimination of funds for reporting purposes. In a 1981 study by the AICPA State and Local Government Accounting Committee, a Consolidated Statement of Financial Activity was illustrated that closely resembles the current government-wide Statement of Activities that is required by GASB Statement No. 34 (see Figure 2). The illustrated statement combined all governmental and proprietary funds and reported on the entity as a whole, with no separate fund reporting.

Harold Steinberg, then the partner-in-charge of government service practices at Peat, Marwick, Mitchell & Co., feared the complete elimination of reporting by funds would have a negative effect on governments' accounting systems. In a 1979 Journal of Accountancy article, he indicated that some people suggested that fund accounting is acceptable for recording transactions but not for reporting purposes. He questioned this suggestion and reasoned that these two elements were interrelated and separating them was not acceptable [Steinberg, 1979, p. 49]. Many in governmental accounting shared Steinberg's belief that governmental entities should include funds in their external financial reports.

Measurement Focus: Another major issue in the 1970s was the proper measurement focus for governmental fund financial reporting. Should the measurement focus be on current financial...
resources or economic resources? Stated differently, should expenditures (i.e., decreases in financial resources for operations, capital outlay, and debt service) or expenses (i.e., costs of services or costs expired) be measured? Those who believed the measurement focus should be the flow of current financial resources argued that governments were different from commercial enterprises. The main concern of readers of governmental financial statements was whether the government had enough resources to maintain its current level of services. They also believed that

### FIGURE 2

Government-wide Statement of Activities

<table>
<thead>
<tr>
<th>Sample City</th>
<th>Statement of Activities For the Year Ended December 31, 2002</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Program Revenues</td>
</tr>
<tr>
<td></td>
<td>Charges for Services</td>
</tr>
<tr>
<td>Primary Government</td>
<td>Expenses</td>
</tr>
<tr>
<td>General government</td>
<td>$4,571,410</td>
</tr>
<tr>
<td>Public safety</td>
<td>34,604,749</td>
</tr>
<tr>
<td>Public works</td>
<td>18,278,330</td>
</tr>
<tr>
<td>Engineering services</td>
<td>1,599,645</td>
</tr>
<tr>
<td>Health and sanitation</td>
<td>6,736,767</td>
</tr>
<tr>
<td>Cemetery</td>
<td>2,735,464</td>
</tr>
<tr>
<td>Culture and recreation</td>
<td>12,372,350</td>
</tr>
<tr>
<td>Community development</td>
<td>2,910,389</td>
</tr>
<tr>
<td>Interest on long-term debt</td>
<td>6,960,122</td>
</tr>
<tr>
<td>Water</td>
<td>3,596,733</td>
</tr>
<tr>
<td>Sewer</td>
<td>4,912,853</td>
</tr>
<tr>
<td>Parking facilities</td>
<td>2,796,283</td>
</tr>
<tr>
<td>Total primary government</td>
<td>$35,393,689</td>
</tr>
<tr>
<td>Component unit</td>
<td></td>
</tr>
<tr>
<td>Landfill</td>
<td>$3,182,157</td>
</tr>
<tr>
<td>Public school system</td>
<td>31,204,448</td>
</tr>
<tr>
<td>Total component units</td>
<td>$34,386,605</td>
</tr>
</tbody>
</table>

#### General Revenues

<table>
<thead>
<tr>
<th>Taxes</th>
<th>Real estate</th>
<th>34,164,449</th>
<th>34,164,449</th>
<th>23,833,773</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other</td>
<td>2,310,487</td>
<td>2,310,487</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grants and contributions not restricted to specific programs</td>
<td>3,457,420</td>
<td>3,457,420</td>
<td>6,461,708</td>
<td></td>
</tr>
<tr>
<td>Interest and investment earnings</td>
<td>1,958,144</td>
<td>404,349</td>
<td>2,362,493</td>
<td>881,763</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>484,397</td>
<td>204,935</td>
<td>689,332</td>
<td>22,646</td>
</tr>
<tr>
<td>Total general revenues</td>
<td>35,377,389</td>
<td>379,384</td>
<td>3,452,446</td>
<td>28,259,240</td>
</tr>
</tbody>
</table>

**Excess (deficiency) of revenues over expenses before special items**

| (6,546,183) | 3,723,294 | (2,823,889) | 3,102,656 |

**Special Items**

| Gain on sale of park land | 2,632,488 | 2,632,488 |
| Excess (deficiency) of revenues over expenses | (4,615,495) | 3,723,294 | 365,799 | 3,102,656 |

| Transfers | 281,499 | 281,499 | |
| Change in net assets | (3,104,746) | 3,723,294 | 365,799 | 3,102,656 |
| Net assets (beginning) | 326,473,194 | 82,349,389 | 299,872,449 | 16,475,973 |
| Net assets (ending) | 323,358,428 | (744,564) | 3,544,844 | 3,102,656 |

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[GASB, 1997, p. E-14].
reports should demonstrate that a government's management was complying with legal restrictions. Those who believed the measurement focus should be the flow of economic resources argued that governments were essentially the same as commercial enterprises. They noted that many commercial enterprises were required to file reports that were not prepared using commercial GAAP, but this did not prevent them from issuing financial statements based on the flow of economic resources. They argued that readers, particularly citizens, desired to judge the efficiency of government and that operating statements that reported expenses would provide information about the cost of services that could be used to measure efficiency [Davidson et al., 1977; Steinberg, 1979].

Steinberg [1979] summarizes this debate by focusing on objectives. For a corporation, the objective is to earn a profit and provide a return on investment, while governments seek to show what resources have been available to the governmental unit and how they were used. However, he stresses that costs are also important as they are a recognition of the liability incurred as a result of not obtaining enough resources to equal the cost of services provided. [Steinberg, 1979, p. 50].

From this discussion of different purposes for governmental financial reporting, one is left to wonder how one set of financial statements could ever satisfy everyone. Steinberg [1979] pointed to a possible compromise. He suggested that governments use both measurement bases, not one to the exclusion of the other, and a reporting format that integrates and reflects the results of both [Steinberg, 1979, p. 50].

Role of the Budget: Again, in the 1970s much debate centered on which budget and actual comparison schedules should be included in a governmental financial report. Some [Coopers and Lybrand and University of Michigan, 1976; Anthony, 1978] believed that the budget was not very useful for external reporting purposes. They argued the budget was useful only for internal management purposes and should not be reported any more than the internal budgets of a commercial business. Others [Drebin, 1979; Steinberg, 1979] argued that the uniqueness of government, as distinguished from business, made external budgetary reporting important. Drebin expressed his view on the importance of budgetary reporting by saying that the public has an interest in knowing how resources were actually used in comparison to their planned allocation [Drebin, 1979, pp. 7-8].

Steinberg [1979] agreed that budgets should be included in
financial reports to demonstrate government's compliance with the law. He believed that comparing actual results to the budget provided a means of assessing accountability and managerial performance. The view that actual results should be compared to the budget prevailed.

FIGURE 3
Financial Reporting Pyramid

National Council of Governmental Accounting: Further efforts to refine the governmental reporting model can be traced to the work of the MFOA's National Council of Governmental Accounting (NCGA), which succeeded the MFOA's NComGA in June 1974, and became the standard-setter for state and local government's GAAP prior to 1984 [Freeman, 1976]. In March 1979, the NCGA issued Statement 1, Governmental Accounting and Financial Reporting Principles, which was a restatement of the 1968 GAAFR issued by the NComGA [NCGA, 1980]. This statement defined the measurement focus and basis of accounting for governmental and proprietary funds. The statement also
introduced the governmental financial reporting pyramid, which defines the reports that must be issued by a government as a part of a Comprehensive Annual Financial Report (CAFR) (see Figure 3). 5 A review of some of the provisions of NCGA Statement 1 should help explain the present status of governmental financial reporting.

In NCGA Statement 1, the NCGA classified fund types into three categories: governmental, proprietary, and fiduciary. Governmental fund types included the General, Special Revenue, Debt Service, and Capital Projects Funds. Governmental fund types were “expendable” and had a “spending” (or current financial resources) measurement focus that emphasized “financial flow” operating data—the sources and uses of “available spendable resources” during a period. With a “spending” measurement focus, expenditures (i.e., financial resources expended) were measured. The modified accrual basis of accounting was used to determine when to recognize a transaction. Proprietary fund types were the Enterprise and Internal Service Funds. These “nonexpendable” funds had a “capital maintenance” (or economic resources) measurement focus and reported expenses in their operating statements. Operating statements for proprietary funds were prepared using the accrual basis of accounting. The third category of fund types, Trust and Agency Funds, were accounted for essentially like either the governmental or proprietary funds dependent upon their measurement focus. That is, Expendable Trust and Agency Funds with a “spending” measurement focus would have expenditures recognized using the modified accrual basis of accounting. Nonexpendable and Pension Trust Funds with a “capital maintenance” measurement focus would have expenses recognized using the accrual basis of accounting [NCGA, 1980].

The NCGA introduced the Financial Reporting Pyramid to illustrate the financial section of the CAFR. The CAFR should include General Purpose Financial Statements (GPFS) by fund type and account group (i.e., combined statements), combining statements by fund type, individual fund statements, and schedules. GPFS were an answer to critics of the 1968 GAAFR who complained that the focus on individual fund statements did not permit the wide distribution of sufficiently condensed financial statements. The GPFS required to be presented, if applicable, by

5 Soon after the GASB was formed, it recognized NCGA Statement 1 as authoritative in GASB Statement No. 1; Authoritative Status of NCGA Pronouncements and AICPA Industry Audit Guide [GASB, 1984].
a government included [NCGA, 1980, p. 19]:

1. Combined Balance Sheet—All Fund Types and Account Groups,

2. Combined Statement of Revenues, Expenditures, and Changes in Fund Balances—All Governmental and Expendable Trust Fund Types,

3. Combined Statement of Revenues, Expenditures, and Changes in Fund Balances—Budget and Actual—General and Special Revenue Fund Types (and similar governmental fund types for which annual budgets have been legally adopted),

4. Combined Statement of Revenues, Expenses, and Changes in Retained Earnings (or Equity)—All Proprietary and Nonexpendable and Pension Trust Fund Types,

5. Combined Statement of Changes in Financial Position—All Proprietary Fund Types, and

6. Notes to the financial statements.

Considering the NCGA’s efforts in improving the governmental financial reporting model and requirements, its contribution to modern day governmental accounting can hardly be questioned. However, the NCGA did not provide a satisfactory answer to the critics who believed governmental reporting would be more understandable and useful if it followed commercial accounting principles and reporting guidelines. Thus, the debate regarding measurement focus for governmental financial reports continued.

THE GOVERNMENTAL FINANCIAL REPORTING MODEL—GASB STATEMENT NO. 34

In an effort to provide more independence and due process to governmental standard-setting, plus resources, the Government Finance Officers Association (GFOA) (the successor to the MFOA) and its NCGA; the National Association of State Auditors, Comptrollers, and Treasurers (NASACT); and others ceded to the Governmental Accounting Standards Board (GASB), created by the Financial Accounting Foundation (FAF) in 1984, the standard-setting authority for state and local governments. The GASB would be in a “brother-sister” relationship with the other FAF organization, the FASB, and derive efficiencies and synergies from this organizational structure.
The long history of the GASB’s Financial Reporting Model Project, one of the GASB’s original agenda projects in 1984, is testimony to the difficulty of dealing with its many issues. Initially, the reporting model project encompassed issues such as determining the nature and extent of aggregation and consolidation, the display of budget versus actual information, and the organization and content of the financial statements. The project was expanded to include other issues and portions of other projects after 1984, such as determining the proper measurement focus and basis of accounting for governmental funds [GASB, 1995].

Overview of Statement No. 34 Requirements: In June 1999, the GASB issued GASB Statement No. 34 (Statement 34), which requires governments to present a Management’s Discussion and Analysis, basic financial statements, and certain other additional required supplementary information (RSI) as the minimum external reporting requirements for state and local governments. Basic financial statements include government-wide statements and fund financial statements [GASB, 1999].

The government-wide statements report financial information at a more aggregated level than the fund statements. These include a Statement of Net Assets and a Statement of Activities. The primary government’s financial information (with separate columns for governmental and business-type activities) is reported separately from discretely presented component unit information. These statements are prepared using the economic resources measurement focus and accrual basis of accounting [GASB, 1999].

Fund financial statements report financial information at a more detailed level than do the government-wide statements and are presented after the government-wide statements. Separate fund financial statements are prepared for governmental, proprietary, and fiduciary funds. The measurement focus, basis of accounting, and required financial statements vary based on fund type being reported. Governmental funds are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Financial statements required for governmental funds include a Balance Sheet; a Statement of Revenues, Expenditures, and Changes in Fund Balances; and a Budgetary Comparison Schedule (or Statement). Proprietary funds are presented using an economic resources measurement focus and accrual basis of accounting. Financial statements required for proprietary funds include a Statement of Net Assets; a Statement
of Revenues, Expenses, and Changes in Fund Net Assets; and a Statement of Cash Flows [GASB, 1999]. (Because fiduciary activities do not benefit a government’s program (but rather benefits those outside the government), the GASB excludes the reporting of fiduciary activities in the government-wide financial statements and reports them simply in the fiduciary fund financial statements [Ives, Patton, and Patton, 2013]).

Three Operating Statements for Activities Reported in Governmental Funds: Statement 34 requires three types of operating statements for activities reported in governmental funds—using potentially three measurement focuses. The government-wide Statement of Activities (see Figure 2) is prepared using an economic resources measurement focus and accrual basis of accounting. This statement measures the net (expense) revenue of governmental activities, including depreciation expense of related capital assets [GASB, 1999].

FIGURE 4
Statement of Revenues, Expenditures, and Changes in Fund Balances

<table>
<thead>
<tr>
<th>General Fund</th>
<th>HUD Program</th>
<th>Community Redevelopment</th>
<th>School Construction Fund</th>
<th>Other Governmental Funds</th>
<th>Total Governmental Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$51,713,436</td>
<td>$———</td>
<td>$———</td>
<td>$4,090,192</td>
<td>$55,803,628</td>
</tr>
<tr>
<td>Franchise fees</td>
<td>$4,555,505</td>
<td>$———</td>
<td>$———</td>
<td>$———</td>
<td>$4,555,505</td>
</tr>
<tr>
<td>Public service fees</td>
<td>$8,689,857</td>
<td>$———</td>
<td>$———</td>
<td>$———</td>
<td>$8,689,857</td>
</tr>
<tr>
<td>Fees and fines</td>
<td>$690,946</td>
<td>$———</td>
<td>$———</td>
<td>$———</td>
<td>$690,946</td>
</tr>
<tr>
<td>Licenses and permits</td>
<td>$2,487,874</td>
<td>$———</td>
<td>$———</td>
<td>$———</td>
<td>$2,487,874</td>
</tr>
<tr>
<td>Intergovernmental</td>
<td>$6,119,838</td>
<td>$2,578,191</td>
<td>$———</td>
<td>$———</td>
<td>$8,698,029</td>
</tr>
<tr>
<td>Charges for services</td>
<td>$11,274,480</td>
<td>$30,736</td>
<td>$———</td>
<td>$———</td>
<td>$11,575,216</td>
</tr>
<tr>
<td>Investment earnings</td>
<td>$552,325</td>
<td>$———</td>
<td>$549,489</td>
<td>$279,561</td>
<td>$831,341</td>
</tr>
<tr>
<td>Investment income</td>
<td>$489,974</td>
<td>$———</td>
<td>$486,326</td>
<td>$———</td>
<td>$976,300</td>
</tr>
<tr>
<td>Total revenue</td>
<td>$66,324,176</td>
<td>$2,978,477</td>
<td>$598,969</td>
<td>$2,737,509</td>
<td>$87,492,647</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenditure</th>
<th>Total Governmental Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>General government</td>
<td>$6,930,495</td>
</tr>
<tr>
<td>Public safety</td>
<td>$39,729,023</td>
</tr>
<tr>
<td>Public works</td>
<td>$4,070,775</td>
</tr>
<tr>
<td>Engineering services</td>
<td>$1,299,645</td>
</tr>
<tr>
<td>Health and sanitation</td>
<td>$6,070,352</td>
</tr>
<tr>
<td>Cemetery</td>
<td>$706,305</td>
</tr>
<tr>
<td>Culture and recreation</td>
<td>$11,411,685</td>
</tr>
<tr>
<td>Community development</td>
<td>$2,954,386</td>
</tr>
<tr>
<td>Education—payment to school district</td>
<td>$21,899,273</td>
</tr>
<tr>
<td>Debt service</td>
<td>$23,899,273</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Capital outlay</th>
<th>Total Governmental Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>$2,045,871</td>
<td>$11,291,769</td>
</tr>
<tr>
<td>$3,150,250</td>
<td>$16,719,649</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Total Expenditure</th>
<th>Total Governmental Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>($2,811,151)</td>
<td>($1,123,360)</td>
</tr>
<tr>
<td>$1,817,321</td>
<td>$12,619,646</td>
</tr>
<tr>
<td>$15,107,914</td>
<td>$25,203,516</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Other Financing Sources (Uses)</th>
<th>Total Governmental Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds from sale of property</td>
<td>$3,476,686</td>
</tr>
<tr>
<td>Proceeds from bond issuance</td>
<td>$1,519,500</td>
</tr>
<tr>
<td>Proceeds from TIF</td>
<td>$3,996,186</td>
</tr>
<tr>
<td>Proceeds from other sources</td>
<td>$2,552,786</td>
</tr>
<tr>
<td>Proceeds from federal grants</td>
<td>$88,000</td>
</tr>
</tbody>
</table>

(GASB, 2000, p. 126).
The second operating statement is a fund financial statement—the Statement of Revenues, Expenditures, and Changes in Fund Balances (see Figure 4). It reports the inflows, outflows, and balances of current financial resources for a government's general fund, major special revenue funds, and other governmental funds in the aggregate. This statement uses the current financial resources measurement focus and modified accrual basis of accounting and is similar to the operating statement required under the pre-Statement 34 reporting model except for two substantive modifications. One modification is that a reconciliation of the fund statements to the government-wide statements must be included at the bottom of the fund statement or in a schedule [GASB, 1999]. Another significant modification to the pre-Statement 34 model was changing the focus of fund-based reporting from fund types to major funds. Reporting major funds in the fund financial statements provides much more detail about those funds than would occur when only reporting by fund type. However, non-major funds that do not meet the criteria established by the GASB for major funds are required to be reported in one column in the Statement of Revenues, Expenditures, and Changes in Fund Balances. This may result in less information about non-major funds than if they had been reported by fund type [GASB, 1999].

The third operating statement is the Budgetary Comparison Statement (or Schedule) (see Figure 5). Budgetary comparisons are required for the General Fund and major Special Revenue Funds with a legally adopted annual budget. The statement (schedule) reports the original and final appropriated budgets and the actual results for the period using the government's budgetary basis of accounting. Governments may present a Budgetary Comparison Statement rather than a Budgetary Comparison Schedule [GASB, 1999]. The main differences between the statement and schedule are the placement of the budgetary information within the financial report and the audit requirements for the information. Budgetary Comparison Statements are a part of a government's basic financial statements and auditors report on the fairness of their presentation. Budgetary Comparison Schedules are a part of RSI, reported after the notes to the basic financial statements, and auditors do not express an opinion on the fairness of their presentation.

Accountability: Two of the critical issues that the GASB faced in developing the current reporting model were whether financial statements should be aggregated or disaggregated and the
choice of a measurement focus for governmental fund financial statements. These issues had been discussed and debated for much of the century and were discussed by the GASB during much of its fifteen year existence. The Board’s decision to require both aggregated (government-wide) and disaggregated (fund) financial statements in Statement 34 and its related decision to continue using a current financial resources measurement focus for governmental funds was largely based on the Board’s view of accountability.

In Concepts Statement No. 1, the GASB discussed financial reporting objectives for governmental entities. Accountability was identified to be the primary objective for financial report-
ing [GASB, 1987, paragraph 56]. This concept of accountability broadened the traditional definition of accountability, which had emphasized fiscal accountability—that is, “the responsibility of governments to justify that their actions in the current period have complied with public decisions concerning the raising and spending of public moneys in the short-term (usually one budget cycle or year)” —to also consider the need to report governmental activities based on the concept of operational accountability [GASB, 1999, paragraph 203].

“Operational accountability is governments’ responsibility to report the extent to which they have met their operating objectives efficiently and effectively, using all resources available for that purpose, and whether they can continue to meet their objectives for the foreseeable future” [GASB, 1999, paragraph 203].

Incorporating a dual view of accountability (i.e., fiscal and operational) into a single set of financial statements proved difficult and was a major factor in the GASB’s requiring both government-wide and fund financial statements. Operational accountability for the government as a whole is addressed in the government-wide Statement of Net Assets and Statement of Activities that utilize an economic resources measurement focus [GASB, 1999]. Fund financial statements (Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances) are included to report on fiscal accountability (using the current financial resources measurement focus) for governmental funds of the primary government. The GASB [1999, paragraph 213] notes that requiring both types of statements allows users to assess the government’s cost of services for both governmental and business-type activities, while retaining the fiscal accountability information users have found useful.

Budgetary Comparisons: The Board reaffirmed the importance of reporting budget and actual comparisons in Statement 34 by requiring that either Budgetary Comparison Schedules (or Statements) be included for a government’s General and major Special Revenue funds. The Board’s reasons for including budgetary comparison information are similar to those expressed by Drebin [1979] and Steinburg [1979]. The Board agreed that budgetary reporting does provide important information about a government’s compliance with the legally adopted budget. Although some respondents to the GASB’s Exposure Draft for

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6 Fiscal accountability emphasizes the short-term flow of financial resources (or the flow of current financial resources), and thus, is necessarily linked to the current financial resources measurement focus.
Statement 34 argued that such information should only be disclosed in the notes when governments were not in compliance with budget, the Board decided that the best and most concise way to present this information was to present budgetary comparison schedules or statements [GASB, 1999].

The compelling reason for the Board requiring the presentation of budgetary comparisons, however, was not the argument that it was necessary to demonstrate compliance. The compelling reason was that budgetary comparisons provide the information necessary to assess whether resources were obtained and used in accordance with a government’s legally adopted budget. This is consistent with one of the objectives of financial reporting found in Concepts Statement 1 [GASB, 1999].

Although the Board continued to acknowledge the importance of reporting budgetary comparisons, it did not believe that such comparisons were essential to a user’s understanding of a government’s financial position and results of operations. Therefore, the GASB encouraged governments to present budget comparisons as RSI (behind the notes to the financial statements) instead of as a basic financial statement.

CONCLUSION

This study traced the development of governmental accounting and financial reporting in the United States, particularly as it relates to the governmental operating statements, from their development in the late 1800s to 1999. Through the years, much has changed, but much has also remained the same. Beginning in the late 1800s, the need for government accountability over financial resources became apparent. This began with exercising control over cash and reporting on cash flows, assets, and liabilities. Through the years, accountants disagreed about how much governmental financial reporting should be like commercial reporting.

This paper focused on several issues related to the proper reporting of governmental activities that have been debated over the years: the level of aggregation for governmental financial statements, the appropriate measurement focus, and the display of budgetary information. The GASB worked to provide an answer for these questions for 15 years and ultimately determined that no one answer was correct.

With the issuance of Statement No. 34 in June 1999, the GASB acknowledged that two types of accountability were important for financial reporting. Fiscal accountability, which has
a short-term emphasis, uses a current financial resources measurement focus. This has been the measurement focus for governmental funds since the days of Oakey and Morey. The GASB reaffirmed that current financial resources was the appropriate measurement focus for activities accounted for in governmental funds when it issued Statement No. 34.

However, the GASB also acknowledged the importance of operational accountability in reporting governmental activities. Therefore, the GASB requires governmental activities to be reported in government-wide financial statements using the economic resources measurement focus, which conceptually had been advocated by Cleveland, Metz, Hylton, and Taussig.

Beginning in the late 1950s, Hylton and Taussig were advocates for preparing consolidated financial statements for state and local governments. In 1971, the American Accounting Association’s Committee on Accounting Practice of Not-for-Profit Organizations recommended a form of consolidated financial statements be prepared. Based on a 1976 study by Coopers and Lybrand and University of Michigan, their researchers recommended a single set of integrated financial statements be prepared for a government as a whole.

With the issuance of Statement No. 34 in June 1999, the GASB required both fund financial and government-wide statements. Ultimately, the GASB’s decision was consistent with the approach Steinberg had discussed in 1979. That is, governmental activities could be reported using both the current financial resources measurement focus and the economic resources measurement focus, but in different reporting formats.

Finally, the GASB reaffirmed the importance of budgetary reporting when Statement No. 34 required either Budgetary Comparison Statements (or Schedules) be prepared for the General and major Special Revenue funds. The amounts reported on the budgetary comparison schedules (or statements) are based on the measurement focus and the basis of accounting used by the government to budget. Overall, an examination of the historical development of the financial reporting model for state and local governments provides unique insights and an appreciation for the development and importance of GASB Statement No. 34 [1999].

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Patton and Hutchison, *Development of the Financial Reporting Model* 53

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National Committee on Municipal Accounting. (1941), *Bulletin No. 12; Municipal Accounting Statements*, revised edition (Chicago, IL: Municipal Finance Officers’ Association of the United States and Canada).
Abstract: This study has a two-fold purpose. First, it seeks to determine the importance of financial accounting information to railroad investors (and speculators) in 1880s America. Second, a further goal is to ascertain what financial accounting information was readily available for use by these investors. Based on a comprehensive search of books of the era, the 1880s were a time of expanding advice for railroad securities holders that required the use of financial accounting information. Furthermore, new information sources arose to help service investors’ needs. *Statistics* by Goodsell and *The Wall Street Journal* were two such sources. This article reviews these publications along with the ongoing *Commercial and Financial Chronicle* and *Poor’s Manual of the Railroads of the United States*. Each of these sources helped railroad investors to follow contemporary advice of gathering financial accounting and other information when investing.

INTRODUCTION

This study investigates the importance of financial accounting to railroad investing in 1880s America. It examines railroad investors’ information wants as depicted in books and the availability of information in financial periodicals. Hence, it enhances understanding of the evolution of financial accounting and its role in investing in railroad securities.

Financial accounting became important to railroad invest-

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ing in the late 1840s and 1850s as railroads came to rely on securities markets as a source of capital. Initially, periodicals and railroad manuals supplied some rudimentary information to security market participants. In the 1870s, information increased in depth and frequency. Poor’s *Manual* became more comprehensive while *Hunt’s Merchants’ Magazine* published weekly instead of monthly [Thompson, 2008, 2011].

This research examines stock market advice and sources of information in the 1880s. Authors expanded their advice, some of which is still with us today. Financial information on railroads proliferated. Poor’s *Manual* and the *Commercial and Financial Chronicle* and *Hunt’s Merchants’ Magazine* (*Chronicle*) extended their coverage. *Statistics* [Goodsell, 1883], primarily a railroad manual, began publication as did *The Wall Street Journal* as a daily business newspaper.

To carry out this research, relevant books and serial publications were identified from WorldCat [2007 - 2010] using a comprehensive list of stock and bond market terms. Searching was not restricted to railroad securities, but invariably the sources dealt with railroads, the dominant business of the day. Included are American publications obtainable via interlibrary loan about the New York Stock Exchange (NYSE) or general works on investing and speculation. Excluded are regional and legal publications.

The method employed herein differs from that used by others in studying the financial reporting of railroads in the nineteenth century. Some authors examined the annual reports of specific railroads to learn of financial reporting practices including Boockholdt [1978], Previts and Samson [2000], and Flesher, Previts, and Samson [2006]. Other authors studied railroads in conjunction with a particular accounting issue such as capitalization versus expense [Brief, 1963], early auditing [Boockholdt, 1983], income smoothing [Buckmaster, 1992], and depreciation [Heier, 2006]. Such studies emphasize a preparer’s perspective, focusing on descriptions and procedures in financial reports. This research emphasizes a user’s perspective, concentrating on what investors wanted to know and what information was available to them. It addresses financial reporting’s primary objective of providing information for investing (and creditor) decisions [Financial Accounting Standards Board, 2010].

Organization of this article is as follows. In the first section, I portray the securities markets of the 1880s, the backdrop for the study. In subsequent sections, I review the advice offered
to railroad investors and the contents of those informational sources. The conclusion places railroad investment practices of the 1880s in perspective.

RAILROADS AND THE SECURITIES MARKETS IN THE 1880S

Railroads dominated the American economy in the 1880s. They grew tremendously, adding 73,000 miles of track, more than any other decade of the 19th century. In so doing, they helped spur the doubling, or nearly so, of coal and pig iron production and the tripling of iron ore shipments from 1879 to 1890. By 1890, railroad revenues exceeded $1 billion compared with about $400 million income for the federal government. Railroad debt of $5.1 billion was almost five times that of the federal government [Platt, 1905; Garraty, 1995; Gordon, 2004].

Railroads also dominated the securities markets. Table I shows that the number of railroad securities dwarfed most other types. Moreover, for the week ending July 12, 1889, for example, active railroad stocks accounted for 71% of the shares traded on the NYSE [Chronicle, 1889b].

Several events affected the securities markets in the 1880s. The most notable was the Grant & Ward panic of 1884. This incident illustrates that investors had to be wary of fraudulent manipulations. Ferdinand Ward conducted a Ponzi scheme that unraveled on May 6, 1884 when he could no longer raise funds to pay off old lenders who wanted their money back. Marine National Bank failed that same day as it had advanced over $4 million to Grant & Ward. Other banks and brokerage firms followed. Stock prices faltered. Six actively traded stocks declined more than 50 percent from their March 1884 highs to their June 1884 lows.

1 Much of the impetus for this new construction was competition among the railroads. After the failure of pooling agreements like that of Albert Fink's Eastern Trunk Line Association, railroads resorted to building their own large independent systems in order to ensure adequate traffic and rates [McCraw, 1984; Chandler, 1977].

2 Trust stocks accounted for 25% of the trading volume with National Lead Trust accounting for 18% of the total volume. For the year 1889, overall trading volume on the NYSE was about 72 million, including 11 million for unlisted shares [Platt, 1905].

3 Although not as severe as the panics of 1873 and 1893, contemporary writers of the time [Clews, 1887; Stedman and Easton, 1905] considered 1884 a panic year.

4 Ponzi schemes remain common as demonstrated by Bernie Madoff and Allen Stanford [Waggoner, 2009; Associated Press, 2012].
lows [Stedman and Easton, 1905]. Moreover, 51 of 54 stocks reported in the New York Times (NYT) on May 6 declined an average of nearly 30 percent by June 28 [NYT, 1884a, b]. Prices recovered somewhat in the second half of 1884 and even more so in the bull market of the following year as railroad earnings, prices of steel rails and coal, and retail trade all improved [Stedman and Easton, 1905].

TABLE I

Number of Security Quotations in the Chronicle

<table>
<thead>
<tr>
<th>Category</th>
<th>Number</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States Bonds</td>
<td>9</td>
<td>.4</td>
</tr>
<tr>
<td>State Securities</td>
<td>85</td>
<td>3.6</td>
</tr>
<tr>
<td>City Securities</td>
<td>241</td>
<td>10.2</td>
</tr>
<tr>
<td>Railroad Bonds</td>
<td>1,023</td>
<td>43.2</td>
</tr>
<tr>
<td>Railroad Stocks</td>
<td>316</td>
<td>13.3</td>
</tr>
<tr>
<td>Canal Bonds</td>
<td>13</td>
<td>.6</td>
</tr>
<tr>
<td>Canal Stocks</td>
<td>5</td>
<td>.2</td>
</tr>
<tr>
<td>Miscellaneous Bonds</td>
<td>28</td>
<td>1.2</td>
</tr>
<tr>
<td>Miscellaneous Stocks</td>
<td>35</td>
<td>1.5</td>
</tr>
<tr>
<td>Coal &amp; Mining Stocks</td>
<td>19</td>
<td>.8</td>
</tr>
<tr>
<td>Express Stocks</td>
<td>4</td>
<td>.2</td>
</tr>
<tr>
<td>Trust Stocks (pre-holding companies)</td>
<td>8</td>
<td>.3</td>
</tr>
<tr>
<td>Telegraph</td>
<td>16</td>
<td>.7</td>
</tr>
<tr>
<td>Telephone</td>
<td>8</td>
<td>.3</td>
</tr>
<tr>
<td>Electric Light Stocks</td>
<td>22</td>
<td>.9</td>
</tr>
<tr>
<td>Trust Companies (financial institutions)</td>
<td>19</td>
<td>.8</td>
</tr>
<tr>
<td>Gas Stocks</td>
<td>37</td>
<td>1.6</td>
</tr>
<tr>
<td>Mining Stocks (New York and San Francisco)</td>
<td>67</td>
<td>2.8</td>
</tr>
<tr>
<td>Boston Mining</td>
<td>16</td>
<td>.7</td>
</tr>
<tr>
<td>Manufacturing (mostly New England)</td>
<td>80</td>
<td>3.4</td>
</tr>
<tr>
<td>Bank Stocks</td>
<td>260</td>
<td>11.0</td>
</tr>
<tr>
<td>Fire Insurance Stocks</td>
<td>54</td>
<td>2.3</td>
</tr>
<tr>
<td>Marine Insurance Scrip</td>
<td>6</td>
<td>.3</td>
</tr>
<tr>
<td>Totals</td>
<td>2,371</td>
<td>100.0*</td>
</tr>
</tbody>
</table>

*rounded

Source: Chronicle [1889c]

A significant event in 1885 was the beginning of the “unlisted department” on the NYSE where shares of corporations
making manufactured products, eventually known as industrials, traded. Many of these industrials organized as trusts.\footnote{Trusts allowed their trustees to control corporations in multiple states. By the 1890s, about fifty trusts were in existence. However, when New Jersey’s 1889 law allowed the formation of holding companies, trusts began to convert to that form. Most trusts converted in the early 1890s though Standard Oil, having started the trust organization in 1882, converted in 1899 [Navin and Sears, 1955; Geisst, 1997].} The NYSE did not require financial information from these organizations and they provided little information to their shareholders. This contributed to the prominence of railroads not only in financial publications, but also in the securities markets as well [Stedman and Easton, 1905; Navin and Sears, 1955; Hawkins, 1968; Chandler, 1977].

Another important event in the 1880s was the passage of the Act to Regulate Commerce in 1887. Through this Act, Congress reacted to the U. S. Supreme Court’s decision to overturn an Illinois law that prohibited the Wabash, St. Louis and Pacific Railroad from charging different rates for long versus short hauls. They ruled that Illinois could not regulate interstate commerce [Garraty, 1995].

Provisions of the Act prohibited rebates, drawbacks, and traffic-sharing (pooling) agreements. Railroads had to publish their rates and could not change them without public notification. The Act also created the first federal regulator, the Interstate Commerce Commission (ICC). Initially, the ICC had limited powers as they could not set rates, but only take railroads to court when they thought the rates unreasonable. Hence, it was not very effective in its early years [Merino and Coe, 1978; Garraty, 1995].

By this Act, Congress began the process of standardizing financial reporting by railroads. It required financial accounting information on capital stock, dividends, surplus, funded and floating debts, interest, property, franchises, equipment, salaries, improvements, earnings and receipts, operating and other expenses, profit and loss balance, and financial operations including a balance sheet. It also permitted development of a uniform system of accounts and methods [Forty-Ninth Congress of the United States of America, 1887]. While the type of required information was similar to that provided previously in railroad manuals for many years, railroads did not follow uniform procedures. The ICC’s attempt at uniformity in 1894, \textit{Classification of Operating Expenses}, largely failed as both railroads and state railroad commissions resisted. Railroad accounting methods
were not standardized until the passage of the Hepburn Act in 1906 [Baskin and Miranti, 1997; Heier, 2006].

With respect to accounting standards, the accounting profession lacked sufficient influence to develop them in the 1880s.\(^6\) As an example of the need for standards, replacement accounting for property and equipment provided wide discretion by railroad managers for capitalizing or expensing expenditures. This likely led to confusion for investors and speculators.\(^7\) Moreover, railroads often acted in their self-interest whether capitalizing assets to increase their base for rate setting or expensing costs to lessen income in order to avoid excess profit taxes [Brief, 1963; Boockholdt, 1978; Previts and Merino, 1998].

**ADVICE FOR RAILROAD INVESTORS FROM THE 1880S**

Clews [1887] stated that there were two controlling factors to the market – intrinsic and external.\(^8\) The intrinsic factor included the operations of cliques and large operators, the overbought or over-sold state of the market as reflected by the interest rate on loans for stocks, influential stocks, margin amounts, and short sales. The external factor related to the general state of the country including crops, manufacturing, trade, transportation companies’ earnings, imports and exports, appeal of securities in foreign countries, precious metals, money markets, laws, courts, labor, and political and social considerations. Hence, Clews recognized that railroad earnings mattered to the stock market.

Clews considered reasons for losses in speculation. Speculators should not have [pp. 201-202] “any natural idiosyncrasies” such as extremes in terms of knowledge, boldness, confidence, action, self-esteem, or credulity. He added that “Many speculators lose because the information on which they base their

---

\(^6\) Public accounting began in America only in the early 1880s with the American Association of Public Accountants incorporating in 1887. However, bankers, lawyers, and executives did not generally recognize public accounting as a profession until after 1893 [Anyon, 1925a, b, c].

\(^7\) Littleton [1933] noted that depreciation expense was not included in railroad reports submitted to the ICC in the late 1880s.

\(^8\) Henry Clews was a banker/broker on Wall Street, having joined the NYSE in the late 1850s. By 1887, he owned the Banking House of Henry Clews & Co that had offices opposite the NYSE and six branches in New York. His firm held memberships in the NYSE, New York Produce Exchange, New York Cotton Exchange, New York Coffee Exchange, and the Chicago Board of Trade [Clews, 1887]. His book contained over 700 pages of his recollections of people and events in Wall Street.
operations is insufficient; more because it is false; and others because, while their information is correct, they do not know how to turn it to account" (all italics are in the original text). Furthermore, many lost because they did not take the time to find out the full story or because of faulty reporting in the financial press. Thus, Clews acknowledged the importance of complete and reliable information.

Others essentially echoed Clews’ comments. The stock market participant of the 1880s had to be wary of manipulators including directors of railroads that sometimes operated in their own best interests. For example, they might sell their own company’s stock short and then release statements belittling their railroad in order to drive the price of the stock down. Once driven down, they would cover their shorts and go long. Their assessment of the railroad then became positive, driving prices up [Swann, 1886].

These traps often caught inexperienced stock traders. Many such novices bought high and sold low, leading to their dismal failures. Although forewarned, many such operators could not resist the temptation of possibly becoming rich quickly, using the stock market as a casino. This was possible by buying stock on margin of 10% of par value. Hence, $1,000 controlled 100 shares of $100 par value stock. An increase in the market value of the stock of $10 per share generated $1,000 in profit and doubling one’s initial investment, not counting brokerage commissions and interest.

Despite the dangers of manipulation and the excitement of a casino, some writers of the time considered earnings, dividends, and other information valuable in investment decisions. Recipes for success included information along with advice such as buying after a panic and selling while prices were high, using high margins, not trading too often, and being aware of railroad rate wars and competition. For example, Davis & Co. [1888, pp. 52-53] commented that when assessing a stock:

A more vital question is whether the condition of the

---

9 Stock manipulators still exist. Recently the Securities and Exchange Commission suspended the trading of 379 over-the-counter stocks because of the probability of “pump-and-dump schemes.” In these schemes, the stockowners use press releases to tout the prospects of their companies enticing gullible investors to buy the stock. Once the price has risen sufficiently, the original owners sell their stock at a profit. These schemes succeed because the companies do not provide any financial information [Krantz, 2012].

10 As will be discussed in conjunction with Poor’s Manual, by 1889 most railroads provided earnings (operations data). Industrials did not usually do so.
property, its freedom from disastrous competition, the permanence of its earning capacity, the cost of its operations, the proportion of fixed charges to net earnings, the character of its officers and management, the priority of obligations, the facility or the difficulty of enforcing the rights of the security holders, etc., are all such that the investor may count upon continued satisfaction and profit.

Swann [1886, p. 79] added that while some debt helped, “A railroad which is hopelessly overburthened (sic) must some day or other face the axioms of the multiplication-table, and recognize that two and two make four, and not five.” Such railroads likely struggled and “tempted to disguise to a greater or less extent its floating debt, and to ignore engagements on paper which have not matured.” Hence, both Davis & Co. and Swann recognized the vital importance of accounting data in assessing companies for investment. Noteworthy, Davis’s “earning capacity” currently corresponds with future earnings analysis and the relationship of fixed charges to net earnings essentially mirrors a margin of safety analysis.

One author [Anonymous, 1881] gave the following rules:

- Buy stocks once a year; sell them once a year.
- Buy when the market has decreased.
- Do not operate for a decline.
- Patently wait for a decline in stocks and hold stocks once purchased.
- Know what you are buying.
- “Property that is not open to the ready inspection of all is the best property in the world to let alone.” [p. 64]

In the latter case, the author emphasized having readily assessable information.

Samson [1884, pp. 150, 153-154] advised, “Get all possible information but do not borrow judgment” and buy dividend paying stock as “any business enterprise which earns a net profit is worthy of more confidence than one which does not.” In contrast, “Fancy, or non-dividend paying stocks, often times pay a large profit, it is true, but they are subject to violent fluctuation.” Smith [1887] also recommended being an investor for dividend income. He considered crops and their potential for export, export and import of gold, railway earnings and changes, and railroad conflicts. Note that both Samson and Smith considered
earnings important when selecting investments.

Dando [1885] advised ascertaining the highest and lowest price of a stock during the last three years. Next, he determined the dividends that had been paid [pp. 63-64] “and, as far as possible, the present earning capacity and condition of the properties.” The author suggested buying the stock at three or four percent less than its middle value over the last three years. If prices fall, buy more stock: “This system is termed averaging, and is adopted universally by the most distinguished financiers.” He sold when the stock price reached three percent above the middle value. Such an “averaging down” strategy endures on Wall Street [Downes and Goodman, 1991].

Dando illustrated operating for a fall using Lake Shore stock [pp. 68 and 70]:

Looking at the condition of the road at that period, the traffic receipts and expenses for a few months previously, and having regard to the fact that the Stock had risen seventeen per cent., it would have appeared a safe sale for a reaction of at least three or four per cent.

Conversely, operating for a rise was also possible: “As a rule, a fall of ten or fifteen per cent. is followed by a sharp rally; through which moderate profits can be secured by an operator.” One must try to find the causes of the fall such as “traffic receipts and expenditures, and the condition of trade generally.” Among his rules he included [pp. 118 – 121] “Sound and reliable information should be sought after,” but “Information volunteered, should be received with reserve.” In modern terms, Dando’s strategy combined technical analysis and fundamental analysis, with earnings capacity, traffic receipts, and expenses playing a prominent role.

As for the prospects for the stock market, Kosboth [1880], in his solicitation of investors for his mutual fund, thought that prices would go higher and that it was the best time to invest since prior to the panic of 1873. He expected a record grain crop and increases in manufacturing, merchandise sales, and immigration resulting in “unparalleled earnings” for the railroads in 1880. Obviously, Kosboth considered earnings a key to investment. He also advised that [p. 7] “an operator in stocks and bonds will be safe upon every good fair decline in prices, in purchasing the securities of our good steady dividend paying roads, or those that have recently entered the dividend lists.”

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11 As it turned out, stock prices did improve in 1880. In a study of the prices
Interestingly, Cramer & Co. [1881, p. 13] emphasized that large price changes are advantageous as “Profits are made when fluctuations occur in the market.” Cramer & Co. explained that price declines were due to events such as the assassination of the President, bank failures, and stringency in the money market. Price increases were caused by events such as declaration of dividends, advantageous railroad combinations, election of “strong men to Directorships,” “large reported earnings,” good crop reports, and the United States’ government purchasing bonds. Again, accounting earnings played an important part of successful investing.

Ross [1888, pp. 60-62] commented that “The successful operator requires a mind of crystal, a heart of adamant, and a will of iron; these, when combined with a mind indifferent to the rumor of the gossipmongers, or to the temporary shrinkage of the price of securities, will bring safety and profit.” Operators succeeded by gathering information about a dividend paying stock, buying, waiting for a sufficient price rise, and selling. Hence, although more general, Ross remarked on the crucial role of information. He added, with modern insight, “The greater the risk the greater the profit seems like a paradox, but it is generally true.” The author noted, “A most weighty maxim, verified by Wall Street experience, is to ‘cut short losses and let your profits run’.” In the end, though, the hope of gain and the fear of loss drove the stock market: “The fluctuations of the stock market represent in a great measure a strife between hope and fear.”

### SOURCES OF INFORMATION IN THE 1880S

As shown in the previous section, many authors recommended the acquisition of company information, including earnings and other accounting information, before investing or speculating. This section investigates sources of information routinely and readily available. The *Commercial and Financial Chronicle and Hunt’s Merchants’ Magazine*, the premier source for securities, published security descriptors and prices on a weekly basis. Poor’s *Manual of Railroads of the United States*, the premier manual for railroads, described railroad physical operations and financial results.12 In addition to these continuing

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12 Another popular investment journal in the mid-nineteenth century, *American Railroad Journal*, went out of existence in 1887. Henry V. Poor edited this journal for a time. It merged to become *The Railroad and Engineering Journal*
sources of information, this study reviews two new information sources: *Statistics* by C. M. Goodsell and *The Wall Street Journal*. These sources were extremely important as investors and speculators did not typically examine available annual reports even as late as the 1920s [Lyon, 1926].

*Commercial and Financial Chronicle* and *Hunt's Merchants' Magazine* (Chronicle): The 1889 *Chronicle*, like its 1879 issues [Thompson, 2011], had three key parts - the weekly issues, the monthly “General Quotations of Stocks and Bonds,” and the bi-monthly *Investor's Supplement* [Chronicle, 1889a, b, c, d, e]. Although the 1889 weekly issues were only slightly longer than those in 1879, the *Investor's Supplement* grew to about 150 pages from 30.

The 1889 weekly issues of the *Chronicle* were better organized and more thorough than their counterparts were in 1879. They began with “Clearing House Returns,” “The Financial Situation,” and several articles (often on recent railroad earnings). Following these, a table provided the highest and lowest monthly prices of railroad and other stocks on the NYSE. Economic data such as imports, exports, and conditions on Wall Street was offered as well as recent daily or weekly security price information.

Not surprisingly, given the investment advice discussed in the previous section, accounting earnings also played a prominent role. One table, “Railroad Earnings,” gave the latest weekly or monthly comparative gross earnings for railroads and comparative year-to-date results. Figure 1 shows an excerpt from the July 6 issue that covered 231 railroads. Subsequent tables reported comparative gross earnings for the fourth and third weeks of June and the month of June. Another table presented comparative monthly and year-to-date gross and net earnings. Hence, the *Chronicle* published several tables of both weekly and monthly earnings as soon as possible, updating their previous results as time passed. It also provided one or two annual reports...
followed by “General Investment News” that described individual company’s security issues, defaults, mergers, organizations, etc.

FIGURE 1
Railroad Earnings in the Chronicle

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>1889.</td>
<td>1888.</td>
</tr>
<tr>
<td>Allentown Val. May</td>
<td>175.18</td>
<td>163.211</td>
<td>89.273</td>
</tr>
<tr>
<td>Ash. &amp; Newport</td>
<td>76.90</td>
<td>93.540</td>
<td>63.129</td>
</tr>
<tr>
<td>Atl. &amp; S. E.</td>
<td>841.502</td>
<td>905.981</td>
<td>845.972</td>
</tr>
<tr>
<td>N. &amp; E. L.</td>
<td>82.036</td>
<td>110.891</td>
<td>109.671</td>
</tr>
<tr>
<td>Gulf &amp; Ohio</td>
<td>117.235</td>
<td>127.301</td>
<td>119.301</td>
</tr>
<tr>
<td>California Central</td>
<td>23.825</td>
<td>23.825</td>
<td>23.825</td>
</tr>
<tr>
<td>California Southern</td>
<td>194.907</td>
<td>189.607</td>
<td>189.607</td>
</tr>
<tr>
<td>Total System</td>
<td>1,378.102</td>
<td>1,378.102</td>
<td>1,378.102</td>
</tr>
<tr>
<td>Alton &amp; Atch</td>
<td>150.423</td>
<td>148.971</td>
<td>150.423</td>
</tr>
<tr>
<td>Atlantic N. W.</td>
<td>27.757</td>
<td>27.757</td>
<td>27.757</td>
</tr>
<tr>
<td>Atlantic N. E.</td>
<td>177.191</td>
<td>177.191</td>
<td>177.191</td>
</tr>
<tr>
<td>Pacific &amp; L.</td>
<td>121.293</td>
<td>121.293</td>
<td>121.293</td>
</tr>
<tr>
<td>Total</td>
<td>546.853</td>
<td>431.533</td>
<td>431.533</td>
</tr>
<tr>
<td>Working Line Max.</td>
<td>1,789.781</td>
<td>1,789.781</td>
<td>1,789.781</td>
</tr>
<tr>
<td>Central Pacific</td>
<td>196.21</td>
<td>196.21</td>
<td>196.21</td>
</tr>
<tr>
<td>Southern Pacific</td>
<td>35.901</td>
<td>35.901</td>
<td>35.901</td>
</tr>
<tr>
<td>Total</td>
<td>232.119</td>
<td>232.119</td>
<td>232.119</td>
</tr>
</tbody>
</table>

Source: *Chronicle* [1889a, p.19]

The *Chronicle* also featured security prices. Figures 2 and 3, respectively, display portions of the weekly tables of NYSE stock and bond prices. Note that for stocks, the *Chronicle* reported shares sold along with daily high and low prices as well as the year-to-date price range. For bonds, it presented weekly closing prices and year-to-date price range. In its third issue of the month, the *Chronicle* provided “General Quotations of Stocks and Bonds.” These tables gave bid and ask quotations for a multitude of securities (as summarized in Table I), and filled six pages of the *Chronicle*. Investors needed reliable pricing information.

FIGURE 2
NYSE Stock Prices in the Chronicle

Source: *Chronicle* [1889c, p.72]
FIGURE 3
NYSE Bond Prices in the Chronicle

Source: Chronicle [1889c, p.73]

The Investors’ Supplement contained extensive “Stock and Bond Tables” (Figure 4). United States Bonds, State Securities, and City Securities occupied the beginning of these tables. However, most of the Investors’ Supplement concentrated on railroad securities. Of the 130 pages (out of 150) devoted to these in the July 1889 issue, a table (and notes) filled 57 pages while railroad maps filled the rest. In contrast, this table was only 16 pages in length in 1879 and there were no maps. Note in Figure 4 the emphasis on security payments. Extensive supplementary notes took up three-quarters of each page. Though briefer than the information in Poor’s Manual, they were somewhat similar and described attributes of bond issues as well as foreclosures and reorganizations. Other tables addressed canal, bank, and other issues.

FIGURE 4
Stock and Bond Tables in the Investors’ Supplement

Source: Chronicle [1889e, p.14]
The *Investors’ Supplement* in September and November [
*Chronicle*, 1889f, g] essentially followed July’s format. However, these issues also reported “Monthly Earnings of Principal Railroads” for about 58 railroads, presenting gross earnings (revenues). Figure 5 exhibits part of this table. Overall, the *Investors’ Supplement* supplied comprehensive pricing, gross and net earnings, and other information.

**FIGURE 5**

Monthly Earnings of Principal Railroads in the *Investors’ Supplement*

![Table of Monthly Earnings of Principal Railroads](source: Chronicle [1889e, p. 150])

*Manual of the Railroads of the United States (Manual)*: In its twenty-second year, over a thousand pages of Poor’s [1889] massive volume provided information on individual railroads in the United States, Canada, and Mexico. It also included supplemental information on “auxiliary” companies (e.g., communication companies such as Western Union Telegraph Co. and American Bell Telephone Co.) as well as appendices on states’ debts and liabilities, dividends, other railroads (e.g., street), and railroad commissioners and officers. Twenty-one regional foldout maps showed railroad routes.

The introduction comprised numerous tables and commentary. Significantly, Poor presented operating results for railroads covering about 145,000 miles of the 154,000 miles of track completed by the latest fiscal year end, with most of the difference due to the fact that not all newly constructed track was yet in operation. In other words, unlike the 1879 *Manual* [Poor, 1879], Poor obtained financial information from most railroads. This could have been due to the influence of the newly formed ICC as well as greater diligence on the part of the older state railroad commissions.
In the introduction, Poor provided overall results and regional breakdowns of track mileage, operating data, balance sheet accounts, and income information. Interestingly, the “Comparative Statement” for each of the years from 1883 through 1888 gave various per mile calculations for the overall rail system such as capital stock per mile of completed road and freight earnings per mile of road in operation. Also included were operating data such as average distance per passenger and average haul per ton. Tables included freight and freight rates, passengers and passenger rates, rolling stock, and types of rails. Poor also commented on railroad issues such as the wisdom of recent expansions given the decline in railroad rates and dividends; so he did not restrict himself to merely presenting facts.

The main purpose of the Manual was to provide physical operating and financial information on individual railroads. Illustrative of the longer entries is the one for the New York Central and Hudson River Railroad Company. Exhibit A, organized by subheadings, lists most of the types of information presented. Especially noteworthy, are the number of per mile calculations such as earnings, debt, and passengers. These allowed ready comparisons between railroads.\(^{16}\) Hence, Poor did not just collect and present accounting and other data, but included analyses. In addition to the information described in Exhibit A, he gave data on the “allotment” of expenses to passengers and freight, the number of employees, wages, the percent of wages to total expenses, annual stockholders’ meeting date, dates for opening and closing books for the annual meeting and dividends, and where the stock and bonds were listed.

EXHIBIT A

Poor's Entry for the New York Central and Hudson River Railroad Company

**Main line of road:** terminus and distance of lines (main, branch, leased); gauge and rail types.

**History:** lease terms, acquisitions of more recent lines, reference for prior history, track mileage table (main and additional); steel and iron track mileage.

**Rolling and Floating stock:** numbers of engines, cars, ships, and barges.

\(^{16}\) Balfour [1848] made railroad per mile calculations. They also appeared in the Baltimore and Ohio Annual Report for 1848 [Previts and Samson, 2000].
Operations (year ending Sept. 30, 1888): gross earnings (passenger, freight, and four other types), expenses (maintenance of way, transportation, and four other types), net earnings, payments (interest, dividends, and three other types), and surplus for the year; adjustments to surplus, total surplus; per mile amounts for gross earnings, expenses, and net earnings.

General Balance Sheet (Sept. 30, 1888): Assets (cost of road and equipment and six other accounts) and Liabilities (capital stock, funded debt, and nine other accounts); schedule of stocks and bonds of other companies including dividends or interest received.

Summary of Financial Transactions (current year): Resources (cash balance at beginning of year, surplus for the year, issues of stocks and bonds, and two other amounts) and Appropriations of Resources (construction accounts, three other amounts, and cash balance at year-end).

Statement of Capital Account (1870 through 1888): capital stock, funded debt, cost of road and equipment, number of stockholders, and miles of track operated; statement of funded debt at September 30, 1888 including the average funded debt per mile of road and details of debt.

Statement of operations, capital account, etc. (1882 through 1888): railroad and track mileage, rolling stock, balance sheet information, per mile amounts for gross earnings, expenses, and net earnings, and percentage of expenses to gross earnings.

Leased lines: date of lease, road miles, track miles, stock, bonds, cost of roads, rental payments (interest, dividends, state tax, and organization expenses).

Other tables: mileage (e.g., passenger trains) with averages (e.g., passengers per train mile), freight (e.g., moved one mile, profit per freight train mile), earnings (gross, etc.,) with calculations (profit per passenger train mile), freight descriptions (type, tons, and percentage).

Railroads leased and owned: history, terms of agreements, and some financial information.

Other: board of directors, officers, principal office.

Source: Poor [1889]

Figure 6, showing the table for the subheading “Statement
of operations, capital account, etc,” demonstrates the extensive comparative details provided by Poor. Note the various per mile calculations and the ratio of expenses to earnings reported at the bottom of the table. Again, such calculations enabled comparisons among railroads.

FIGURE 6
Poor's Statement of Operations for the New York Central & Hudson River

<table>
<thead>
<tr>
<th>Year</th>
<th>Miles of Road Opened</th>
<th>Miles of Track Operated</th>
<th>Miles of E. R. Operated</th>
<th>Miles of T.V. &amp; C. Lines</th>
<th>Leases on D&amp;H &amp; O.</th>
<th>Total Leased</th>
<th>Rental</th>
<th>Earnings</th>
<th>Interest</th>
<th>Other Costs</th>
<th>Income Earned</th>
</tr>
</thead>
</table>

Source: Poor [1889, p.196]

The entry for the New York Central in the 1889 Manual (nine pages) was almost twice as long as the entry in the 1879 Manual, including a greater number of tables covering more years. The earlier entry gave an extended history of the railroad, but, unlike the 1889 entry, described the leased lines under their own headings. In 1889, the entry included a “Summary of
Financial Transactions,” essentially a cash flow statement, and more averages such as “average number of miles each passenger carried.”\textsuperscript{17}

Other longer entries were similar to that for the New York Central, generally differing in only the extent of details provided. Occasionally, additional information presented included the changes in the income account, cost of maintenance, and a multi-year table on capital structure as for the New York, Lake Erie and Western.

Shorter entries in Poor’s 1889 \textit{Manual} were very similar in organization, though usually more detailed than those of the 1879 \textit{Manual}. Headings included main line of road, history, rolling stock, operations, financial statement, and directors. The caption of “history” was new, but Poor had presented a brief history under “line of road” in the earlier \textit{Manual}. Poor added the annual meeting date and sometimes the listing exchange and registrar.

There were fewer entries in the 1889 \textit{Manual} than in the 1879 \textit{Manual} due to the consolidation of railroad systems in the 1880s and a change in the \textit{Manual’s} organization; leased or operated lines were included under the heading of the operating railroad rather than separately. Poor’s \textit{Manual} continued to be the quintessential source of railroad information of the time.

\textit{Statistics}: \textit{Statistics} by C. M. Goodsell [1883] was a collection of financial data on railroads and other companies along with economic data on commodity prices, bank information, exports and imports, and public debt. This annual volume was a part of a series that eventually became \textit{The Manual of Statistics} running from 1879 into the 1920s. The 1883 volume was the oldest conveniently obtainable.\textsuperscript{18} With respect to railroads, Goodsell intended [pp. 124-125] “to present the latest attainable information in a condensed form, uniting brevity and clearness.” The railroad information was from company and State Commission reports with some numbers adjusted “owing to obscure or vicious methods of accounts”\textsuperscript{19} Goodsell made a special effort to provide the most recent information, especially for the

\textsuperscript{17} Other railroads had reported what were essentially cash flow statements earlier and some had transitioned to a working capital funds flow statement by the 1880s [Boockholdt, 1978].

\textsuperscript{18} No library could be located that had the initial 1879 edition.

\textsuperscript{19} Goodsell does not explain what he meant by “vicious.” For the most part, states that required annual reports from railroads made their own rules. Apparently, Goodsell took exception to some of the formats/methods.
tardy reports from New York. The author proudly stated his data “brought up to a year later than can be found in Poor's Manual, or any other reliable publication.” Obviously, more timely information benefited railroad investors.

About two-thirds of the 184 pages in this volume covered individual railroads. The entries were relatively brief with only 9% of the railroads allotted more than one page. Exhibit B is the New York Central and Hudson River Railroad entry. Included are terminus and length, rolling stock, stock, funded debt, earnings, and disposition of net earnings. Observe the conciseness of this entry compared to that of Poor's [1889]. However, unlike Poor, Goodsell did not include any per mile calculations or other ratios.

EXHIBIT B
Reproduction of Goodsell's Entry for New York Central & Hudson River

Road owned, New York to Buffalo, 442 miles; branches, 307 miles; leased and chiefly owned, 110 miles; leased, 134 miles; total worked, 993 miles. There are 508 miles of second track, 316 miles third track, and 296 miles fourth track. Locomotives, 646; passenger cars, 588; freight cars, 22,465.

Stock ........................................ $89,428,300

Funded Debt.
Premium Bonds, 6 per cent., 1883 ................. $6,632,300
Bonds of 1854, 6 per cent., 1883 ................... 74,500
Bonds of 1853, 6 per cent., 1883 ................... 592,000
Real estate bonds, 6 per cent., 1883 ............... 162,000
Renewal bonds, 6 per cent., 1887 ................... 2,391,000
Hudson River 2d mort., 7 per cent., 1885 .......... 1,492,900
New mort., 7 per cent., 1903 ...................... 22,465,000
      “     6 per cent., 1903 ......................... 14,733,333
Total ........................................ 48,473,033
Annual interest charge .......................... 2,847,261

Last dividend, 2 per cent., quarterly, January 15, 1883. Regular dividends (8 per cent. yearly) are paid.

There were $5,000,000 new bonds issued last year and the proceeds applied to permanent improvements.

20 The New York Commission was not only slow in providing information, they were not required to share information on a railroad's condition or management unless they thought it served a public interest [Railroad Gazette, 1883].
Earnings
Year ending Sept. 30.

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross</th>
<th>Net</th>
</tr>
</thead>
<tbody>
<tr>
<td>1878-79</td>
<td>$28,398,584</td>
<td>$12,273,511</td>
</tr>
<tr>
<td>1879-80</td>
<td>$33,175,913</td>
<td>$15,320,019</td>
</tr>
<tr>
<td>1880-81</td>
<td>$32,348,397</td>
<td>$12,883,610</td>
</tr>
<tr>
<td>1881-82</td>
<td>$30,628,781</td>
<td>$11,232,807</td>
</tr>
</tbody>
</table>

All miscellaneous receipts are included in earnings. The disposition of net earnings was as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Net earnings</th>
<th>Charges</th>
<th>Surplus</th>
<th>Amount</th>
<th>Pr. ct.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1878-79</td>
<td>$12,273,511</td>
<td>$4,679,025</td>
<td>$7,594,486</td>
<td>$7,139,528</td>
<td>8</td>
</tr>
<tr>
<td>1879-80</td>
<td>$15,326,019</td>
<td>$4,756,799</td>
<td>$10,569,220</td>
<td>$7,141,513</td>
<td>8</td>
</tr>
<tr>
<td>1880-81</td>
<td>$12,883,610</td>
<td>$4,990,783</td>
<td>$7,892,827</td>
<td>$7,138,344</td>
<td>8</td>
</tr>
<tr>
<td>1881-82</td>
<td>$11,232,807</td>
<td>$5,488,903</td>
<td>$5,743,904</td>
<td>$7,145,513</td>
<td>8</td>
</tr>
</tbody>
</table>

In 1881-82 the dividends paid exceeded the surplus by $1,401,609, leaving a deficit to that amount.

Source: Goodsell [1883, pp. 71-72]

The entries for the other railroads were similar though typically shorter with less than four years of data or earnings information included with the leasing railroad's results. For many companies, a single table gave all the earnings information under the headings gross, net, charges, and surplus. A sentence stated the percentage of any dividends. Notes on capital structure covered items such as interest payments by receivers and their plans while notes on earnings discussed issues such as reasons for a deficit.

A few entries had information on non-railroad companies including Wells, Fargo Express Co., Western Union Telegraph Company, and coal and mining companies. Goodsell published far less information for companies outside of railroads.

In summary, for the dominant industry of the time, Goodsell provided information for railroads including route, rolling stock, capital structure, and earnings. He emphasized concise-
ness and up-to-date information. Goodsell also presented annual price range information for both stocks and bonds, something apparently not readily available.

*The Wall Street Journal (WSJ)*: Volume I, No. 1 of the *WSJ* appeared on Monday, July 8, 1889. An editorial explained [*WSJ*, 1889a, p. 3] that “Its object is to give fully and fairly the daily news attending the fluctuations in prices of stocks, bonds and some classes of commodities.” It focused on news, not opinions, with “a faithful picture of the rapidly shifting panorama of the Street” along with “the events which have moved or are moving prices, together with the drift of opinion in the Street.” The editorial also referred to Dow Jones & Co. news service that began in November 1882. It had correspondents in major cities in the United States and Europe that provided news to New York by telegraph. Dow Jones & Co.’s “fundamental principles” were “To get the news. To publish it instantly, whether bull or bear.” The overriding policy was “to have the news always honest, intelligent and unprejudiced.”

The first article in the first issue of the *WSJ*, “Average Movement of Prices,” reported the average price of 12 stocks along with the turning points since July 2, 1885. A daily feature, subsequent editions typically placed this column later in the paper. The next article, “The Market To-Day,” discussed general trends as well as specific events. For example, it claimed that bear traders had sent sell orders to London to depress the prices of American securities before the New York market opened and that New York bankers were pressuring the railroads to settle their differences. The “Market To-Day” column became the lead article starting on July 10 [*WSJ*, 1889c].

The following describes those columns published during 1889 that focused upon financial accounting and corporate securities. Security prices were a daily feature showing the familiar opening, high, low, and closing prices. In the “General List” for stocks from July 12 [*WSJ*, 1889e], all but two of the 30 stocks appear to be railroads with the exceptions being Chicago Gas and Western Union. This list grew to 45 active stocks by the end of the year [*WSJ*, 1889q]. There were three “Unlisted” stocks at the end of the list. The *WSJ* also published total shares traded. “Bond Quotations” included almost all bonds listed on the New York Stock Exchange, excluding those that were inactive. Similar to today, the table from July 12 [*WSJ*, 1889e] reported maturity date, last prices, and yield-to-maturity, a ready method of comparing bonds. It contained about 320 bonds, growing to
over 400 bonds by year-end.

“Railroad Net Earnings” presented the most recent year-to-date results along with the changes. Figure 7 shows three railroads for the Jan. 1 to June 30, 1889 period. Additional railroads were reported under the Jan. 1 to May 31 and Jan. 1 to April 30 headings. In all, the column covered about 50 railroads, with a similar number covered at year-end.

FIGURE 7
Railroad Net Earnings in the WSJ

Source: WSJ [1889e, p.4]

Starting on July 9 [WSJ, 1889b], the WSJ often printed “Railroad Earnings” showing comparative earnings for various periods (week, month, or quarter) and their increase or decrease from the prior period. Figure 8 displays “Railroad Earnings” from July 11. A column on “Railroad Fixed Charges” reported annual payments such as interest, taxes, and rents (Figure 9). The introductory note stated that with these fixed charges and the net earnings for these railroads, “calculations can be readily made,” apparently alluding to a margin of safety type calculation. “Dividends and Dates” first appeared on July 31 (Figure 10). Presumably, “Books Close” and “Books Open” warned of ex-dividend dates. The WSJ also publicized companies seeking listing in “Applications to the List.” It published “Transfer Offices” (stock transfer agents) and various analyses of price changes including “Movement of Stocks” [WSJ, 1889k], “Decline in Stocks” [WSJ, 1889l], and “Twelve active stocks yesterday” [WSJ, 1889m].
FIGURE 8

Railroad Earnings in the WSJ

<table>
<thead>
<tr>
<th>New York Central</th>
<th>1889</th>
<th>1888</th>
<th>Inc. Dec</th>
</tr>
</thead>
<tbody>
<tr>
<td>Month June</td>
<td>$3,111,443</td>
<td>$2,896,216</td>
<td>$215,226</td>
</tr>
<tr>
<td>Quar. end. June 30</td>
<td>$8,746,066</td>
<td>$8,469,837</td>
<td>$276,229</td>
</tr>
<tr>
<td>Buff., Roch. &amp; Pitts.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1st week July</td>
<td>$35,692</td>
<td>$35,481</td>
<td>$210</td>
</tr>
<tr>
<td>St. Louis, Ark. &amp; Texas</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1st week July</td>
<td>$51,437</td>
<td>$47,129</td>
<td>$4,308</td>
</tr>
<tr>
<td>Mexican Central</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1st week July</td>
<td>$103,765</td>
<td>$87,292</td>
<td>$16,473</td>
</tr>
<tr>
<td>Western New York &amp; Pennsylvania</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1st week July</td>
<td>$67,000</td>
<td>$60,000</td>
<td>$7,000</td>
</tr>
<tr>
<td>Canadian Pacific</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1st week July</td>
<td>$285,000</td>
<td>$261,000</td>
<td>$24,000</td>
</tr>
<tr>
<td>Toledo &amp; Ohio Central</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1st week July</td>
<td>$20,061</td>
<td>$16,229</td>
<td>$3,832</td>
</tr>
<tr>
<td>Denver &amp; Rio Grande Western</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4th week June</td>
<td>$41,475</td>
<td>$30,475</td>
<td>$11,000</td>
</tr>
<tr>
<td>Month June</td>
<td>$114,875</td>
<td>$97,250</td>
<td>$17,625</td>
</tr>
<tr>
<td>Milwaukee &amp; Northern</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1st week July</td>
<td>$21,800</td>
<td>$21,049</td>
<td>$251</td>
</tr>
<tr>
<td>Evansville &amp; Indianapolis</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1st week July</td>
<td>$4,512</td>
<td>$3,721</td>
<td>$790</td>
</tr>
<tr>
<td>Evansville &amp; Terre Haute</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1st week July</td>
<td>$14,619</td>
<td>$14,594</td>
<td>$24</td>
</tr>
<tr>
<td>Peoria, Decatur &amp; Evansville</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1st week July</td>
<td>$11,234</td>
<td>$10,696</td>
<td>$537</td>
</tr>
<tr>
<td>Memphis &amp; Charleston</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4th week June</td>
<td>$25,144</td>
<td>$20,616</td>
<td>$4,527</td>
</tr>
<tr>
<td>Month June</td>
<td>$110,956</td>
<td>$107,636</td>
<td>$3,320</td>
</tr>
<tr>
<td>East Tennessee, Va. &amp; Ga.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4th week June</td>
<td>$121,240</td>
<td>$131,594</td>
<td>$10,354</td>
</tr>
<tr>
<td>Month June</td>
<td>$438,752</td>
<td>$431,623</td>
<td>$2,128</td>
</tr>
<tr>
<td>Texas Pacific</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1st week July</td>
<td>$97,145</td>
<td>$96,843</td>
<td>$302</td>
</tr>
</tbody>
</table>

Source: WSJ [1889d, p.1]
FIGURE 9
Railroad Fixed Charges in the WSJ

Source: WSJ [1889f, p.3]
FIGURE 10

Dividends and Dates in the WSJ

This article will be changed daily, if necessary, in order to give a complete record of the opening and closing of books, the amounts of dividends, dates of annual or special meetings, etc., etc. We shall be pleased to have any missing data sent to us:

<table>
<thead>
<tr>
<th>COMPANY</th>
<th>BOOKS CLOSE</th>
<th>BOOKS OPEN</th>
<th>DIV.</th>
<th>PAYABLE</th>
<th>MEETING</th>
</tr>
</thead>
<tbody>
<tr>
<td>Boston &amp; Montana</td>
<td>July 31</td>
<td>Aug 15</td>
<td>1%</td>
<td>Aug 20</td>
<td>...</td>
</tr>
<tr>
<td>Canadian Pacific</td>
<td>July 27</td>
<td>Aug 19</td>
<td>1%</td>
<td>Aug 19</td>
<td>...</td>
</tr>
<tr>
<td>Canada Southern</td>
<td>July 15</td>
<td>Aug 15</td>
<td>1%</td>
<td>Aug 15</td>
<td>...</td>
</tr>
<tr>
<td>Central Ohio</td>
<td>...</td>
<td>...</td>
<td>3%</td>
<td>July 31</td>
<td>...</td>
</tr>
<tr>
<td>Central Pacific</td>
<td>July 20</td>
<td>Aug 1</td>
<td>1%</td>
<td>Aug 1</td>
<td>...</td>
</tr>
<tr>
<td>Cleve. &amp; Mahon. V</td>
<td>June 27</td>
<td>Aug 7</td>
<td>...</td>
<td>Aug 7</td>
<td>...</td>
</tr>
<tr>
<td>Distillers &amp; C. F.</td>
<td>July 22</td>
<td>July 6</td>
<td>...</td>
<td>Aug 1</td>
<td>...</td>
</tr>
<tr>
<td>Flint &amp; Pere Marq.</td>
<td>July 19</td>
<td>...</td>
<td>3%</td>
<td>Aug 15</td>
<td>...</td>
</tr>
<tr>
<td>Housatonic</td>
<td>July 13</td>
<td>Aug 14</td>
<td>...</td>
<td>Aug 13</td>
<td>...</td>
</tr>
<tr>
<td>Illinois Central</td>
<td>Aug 13</td>
<td>Sept 4</td>
<td>3%</td>
<td>Sept 3</td>
<td>...</td>
</tr>
<tr>
<td>Jersey Central</td>
<td>July 16</td>
<td>Aug 1</td>
<td>1%</td>
<td>Aug 1</td>
<td>...</td>
</tr>
<tr>
<td>Lake Shore</td>
<td>July 15</td>
<td>Aug 19</td>
<td>3%</td>
<td>Aug 15</td>
<td>...</td>
</tr>
<tr>
<td>Long Island</td>
<td>July 10</td>
<td>Aug 2</td>
<td>1%</td>
<td>Aug 1</td>
<td>...</td>
</tr>
<tr>
<td>Louis. &amp; Nashville</td>
<td>Aug 16</td>
<td>Aug 21</td>
<td>3%</td>
<td>Aug 19</td>
<td>...</td>
</tr>
<tr>
<td>Michigan Central</td>
<td>July 15</td>
<td>Aug 19</td>
<td>3%</td>
<td>Aug 15</td>
<td>...</td>
</tr>
<tr>
<td>Mahoning Coal R.R</td>
<td>July 30</td>
<td>Aug 2</td>
<td>1%</td>
<td>Aug 1</td>
<td>...</td>
</tr>
<tr>
<td>Manitoba</td>
<td>July 21</td>
<td>Aug 1</td>
<td>1%</td>
<td>Aug 1</td>
<td>...</td>
</tr>
<tr>
<td>M. L. S. &amp; W</td>
<td>July 20</td>
<td>Aug 16</td>
<td>34%</td>
<td>Aug 15</td>
<td>...</td>
</tr>
<tr>
<td>N. Y., Prov. &amp; Bos</td>
<td>July 27</td>
<td>Aug 10</td>
<td>24%</td>
<td>Aug 10</td>
<td>...</td>
</tr>
<tr>
<td>Oregon Improvem’t</td>
<td>July 20</td>
<td>Aug 2</td>
<td>1%</td>
<td>Aug 1</td>
<td>...</td>
</tr>
<tr>
<td>Pullman</td>
<td>July 28</td>
<td>July 30</td>
<td>1%</td>
<td>Aug 1</td>
<td>...</td>
</tr>
<tr>
<td>Provid. &amp; Ston. S.S</td>
<td>July 27</td>
<td>Aug 10</td>
<td>24%</td>
<td>Aug 10</td>
<td>...</td>
</tr>
<tr>
<td>Quincy</td>
<td>July 20</td>
<td>Aug 5</td>
<td>2%</td>
<td>Aug 15</td>
<td>...</td>
</tr>
<tr>
<td>Rome, W. &amp; O</td>
<td>Aug 1</td>
<td>Aug 15</td>
<td>3%</td>
<td>Aug 16</td>
<td>...</td>
</tr>
<tr>
<td>Rock Island</td>
<td>June 28</td>
<td>July 30</td>
<td>1%</td>
<td>Aug 1</td>
<td>...</td>
</tr>
<tr>
<td>S. L. &amp; S. F</td>
<td>July 27</td>
<td>Aug 12</td>
<td>3%</td>
<td>Aug 19</td>
<td>...</td>
</tr>
<tr>
<td>Terre Haute &amp; Ind.</td>
<td>...</td>
<td>...</td>
<td>3%</td>
<td>Aug 1</td>
<td>...</td>
</tr>
<tr>
<td>United States Ex</td>
<td>Aug 1</td>
<td>Aug 16</td>
<td>...</td>
<td>Aug 16</td>
<td>...</td>
</tr>
<tr>
<td>Wheeling &amp; L. E</td>
<td>Aug 2</td>
<td>Aug 15</td>
<td>1%</td>
<td>Aug 16</td>
<td>...</td>
</tr>
</tbody>
</table>

Source: WSJ [1889g, p.3]

The “Average Movement of Prices” column changed to “The Course of the Market” on September 24 [WSJ, 1889j]. For over a year, the WSJ based average prices on 12 stocks. However, in response to criticisms that this was too small a number to be meaningful, the WSJ expanded the average to 20 stocks. Not only did the two averages have essentially the same turning points, so did an average comprised of most of the stocks on the NYSE. The 12 companies in the averages, comprised of ten rail-
roads, one telegraph company, and a steamship company, were:

- St. Paul
- Lake Shore
- Northwest
- New York Central
- Lackawanna
- Delaware & Hudson
- Northern Pacific preferred
- Western Union
- Union Pacific
- Pacific Mail
- Missouri Pacific
- Louisville & Nashville

Eight additional railroads were included in the average of 20: Canadian Pacific, Omaha common, Oregon Transcontinental, Richmond Terminal, Kansas & Pacific, Erie, Texas Pacific, and Jersey Central.

“The Market To-Day” column on December 10 [WSJ, 1889n] analyzed the 12 stocks in the average. It reported their respective prices on December 7, 1886, the dollar amount of their decline in prices through April 2, 1888, and the dollar amount of their recovery to December 7, 1889. It concluded that “[p. 1] “This table shows how merit controls prices in the long run.” A brief synopsis followed for some of the companies that reflected stock analysis thinking of the time. Louisville & Nashville and Northern Pacific increased in value since December 7, 1886 because they started paying dividends while St. Paul declined since it stopped paying dividends. Similarly, Lake Shore increased in value as it paid an extra dividend and had accumulated surplus. Delaware & Hudson increased because of retiring bonds. On the other hand, New York Central declined due to its acquisition of West Shore, Missouri Pacific because it might need reorganization, and Pacific Mail since it was not “active.” 22 Consequently, the WSJ advised stock investors to (p. 1) “find properties not too

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22 The WSJ did not provide further details. New York Central likely had too much capacity as the West Shore line paralleled the original New York Central line, Missouri Pacific probably had excessive debt, and Pacific Mail had not paid a dividend since 1885 [Poor, 1889].
high, of real merit and likely to be situated so as to be able to exhibit that merit a little later.” Buffet [2001] gives similar advice.

The *WSJ* also frequently published financial and other results for individual companies. Figure 11 displays the results for New York Central that included more information than for most companies. In addition to a straightforward comparative income statement of sorts (including dividends), the column also presented information on freight and passengers, changes in funded debt, floating debt, and other selected asset and liability accounts, dividends and interest received (apparently not included on its income statement), and payroll.

**FIGURE 11**

New York Central in the *WSJ*

![Figure 11: New York Central in the WSJ](image)

Source: *WSJ* [1889p, p. 1]
Contrast New York Central’s income statement with the one reported for St. Paul given in Figure 12. Note that after “net,” St. Paul included “other income,” “interest,” and “old accounts charged off.” Clearly, generally accepted accounting principles were lacking. The column also calculated earnings and surplus as a percentage of common stock (apparently book value), an early example of ratio analysis.23

FIGURE 12

St. Paul in the WSJ

Source: WSJ [1889i, p.2]

The article for Western Union (Figure 13) gave quarterly information (partly estimated). Again, observe the calculation of

the ratio of earnings to stock, for both the quarter and year. The final sentence stated, “The surplus is expended on the property each year, and is capitalized occasionally.” Apparently, surplus absorbed certain property (presumably, equipment and railroad) payments. In turn, the company sometimes increased the recorded value of property, although the offsetting increase is unclear (capital stock through stock watering?).

**FIGURE 13**

Western Union in the WSJ

![Western Union table]

The statements for the Sept. 30 quarter are partly estimated:

<table>
<thead>
<tr>
<th>Year</th>
<th>Net revenue</th>
<th>Int. &amp; S. F.</th>
<th>Balance</th>
<th>Div.</th>
<th>Surplus</th>
<th>Surplus July 1</th>
</tr>
</thead>
<tbody>
<tr>
<td>1889</td>
<td>$1,750,000</td>
<td>210,000</td>
<td>$1,540,000</td>
<td>$1,077,385</td>
<td>$402,615</td>
<td>8,611,401</td>
</tr>
<tr>
<td>1888</td>
<td>$1,550,000</td>
<td>204,802</td>
<td>$1,345,198</td>
<td>1,077,366</td>
<td>$267,832</td>
<td>7,492,548</td>
</tr>
<tr>
<td>1887</td>
<td>$1,400,000</td>
<td>142,500</td>
<td>$1,257,500</td>
<td>812,000</td>
<td>$445,500</td>
<td>7,002,185</td>
</tr>
<tr>
<td>1886</td>
<td>$1,200,000</td>
<td>143,615</td>
<td>$1,056,485</td>
<td></td>
<td>$1,056,485</td>
<td>4,309,833</td>
</tr>
</tbody>
</table>

Sur. Oct. 1... $9,074,016 $7,766,380 $7,447,685 $5,366,318

Net revenue in 1885 was estimated at $1,450,000; 1884, $1,750,000; 1883, $1,650,000.

The exact figures for the year ending June 30 are now furnished and the annual report for 1888-9 will show:

<table>
<thead>
<tr>
<th>Year</th>
<th>Net</th>
<th>Charges</th>
<th>Balance</th>
<th>Dividends</th>
<th>Surplus</th>
<th>Price stock in September</th>
</tr>
</thead>
<tbody>
<tr>
<td>1889</td>
<td>$6,218,039</td>
<td>836,215</td>
<td>$5,381,824</td>
<td>4,309,519</td>
<td>$1,072,305</td>
<td>87 85 85 83 79 74 67</td>
</tr>
<tr>
<td>1888</td>
<td>$5,070,570</td>
<td>570,258</td>
<td>$4,500,000</td>
<td>4,049,949</td>
<td>$450,363</td>
<td>85 83 83 83 83 79 74 67</td>
</tr>
<tr>
<td>1887</td>
<td>$4,037,280</td>
<td>563,830</td>
<td>$3,473,000</td>
<td>812,000</td>
<td>$2,611,400</td>
<td>74 74 74 74 74 74 74 74</td>
</tr>
<tr>
<td>1886</td>
<td>$3,019,856</td>
<td>594,452</td>
<td>$3,385,404</td>
<td>3,390,573</td>
<td>$14,169</td>
<td>74 74 74 74 74 74 74 74</td>
</tr>
</tbody>
</table>

The actual net revenue for the June 30 quarter exceeded the estimate by $11,041.

The regular dividend of 14% was declared payable Oct. 15. Books close Sept. 20 and remain closed, for the annual meeting Oct. 9, until Oct. 10.

The earnings on the stock for the Sept. 30 quarter were 1.75%. For the fiscal year there was earned on the stock 6.24%. The surplus is expended on the property each year, and is capitalized occasionally.

Source: WSJ [1889h, p.1]
Interestingly, the lead article on December 13 [WSJ, 1889o] published the financial results for Missouri Pacific. The source of this official statement was not the “Kansas report,” referring to the tardiness of the Kansas Railway Commission in providing reports to the public.

Thus, the WSJ played a role in disseminating company financial information. This not only included comparative earnings information, but also balance sheet amounts as well. Among these were comparative analyses of both funded debt and floating (short-term) debt. It also reported various ratios including earnings or surplus as a percentage of common stock along with traditional calculations such as freight rates per mile. This reflected growth in the sophistication of financial analysis.

RAILROAD INVESTMENT PRACTICES OF THE 1880S IN PERSPECTIVE

Elements of railroad investment practices of the 1880s appear in the more advanced analyses developed later. For example, Earling [1890], in his primarily qualitative work, considered the ability of companies to pay their floating debt an important theme. Woodlock [1895] also emphasized floating debt, but added some quantitative analyses such as net earnings per mile and the operating ratio of operating expenses to gross earnings to gauge whether a railroad capitalized operating expenses as assets [Janson and Thompson, 2005]. As shown, in the 1880s publications reported floating debt, various per mile calculations, and the operating ratio.

Selden [1913] and Escher [1914] also espoused the benefits of the operating ratio and net earnings as a percentage of stock value, the same as the WSJ. Furthermore, they quantified the margin of safety as excess of net earnings over interest payments (recall Davis & Co. and WSJ’s suggestions of comparing earnings to fixed charges) and dividend yield (dividends as a percentage of stock prices). Malkiel [2007] noted the continued importance in bond investing of yield-to-maturity reported in the WSJ. Others like Clay [1915] classified the riskiness of securities based on the relative value of pledged assets to the amount of a bond issue. Again, 1880s financial periodicals prominently reported these measures or their components such as dividends and stock prices.

Similarly, the common advice from the 1880s of buying stock of dividend payers persisted into the next century and beyond. Seyler [1919], for example, recommended buying dividend pay-
ers subject to his danger signals such as companies not providing financial statements. Cramer [2005] claims that the best investments over the long-term are high quality dividend paying stocks.

By the 1880s, railroad investment considerations required knowledge of earnings. Clews [1887] included railroad earnings as part of his external factor affecting the stock market. Many other advisors of the 1880s commented on the importance of railroad earnings and other financial information in making investment and speculation decisions. Earnings mattered. They still do; as Cramer states [2006, p. 30]: “value companies based on their earnings, their future expected earnings, and their growth.”

Each of these authors, past and present, needed reliable financial accounting information. However, the information in the 1880s lacked standardization. As early as 1873, Vernon [1873] wanted better rules for determining operating expenses for railroads. Perhaps, this also bothered Goodsell in his reference to “vicious” accounting methods. Moreover, as shown, the income statements in the *WSJ* in 1889 used a variety of formats. Woodlock [1895] complained about not only the lack of comparability between railroads, but also the lack of consistency for the same railroad over time. However, as mentioned, the ICC grappled with standardization, but failed to achieve it until the passage of the Hepburn Act in 1906. Improvements in generally accepted accounting principles for general corporate reporting awaited the formation of the Securities and Exchange Commission and the subsequently developed financial reporting rule-making bodies such as the Committee on Accounting Procedure and its successors.

Investors wanted timely information and the newer sources were timelier than Poor’s *Manual* and the weekly *Chronicle*. Goodsell’s *Statistics* prided itself on more up-to-date information than Poor’s. The *WSJ* gave stock market results on a daily basis. It also employed telegraph correspondents around the country and in Europe to provide breaking news.

In the 1880s, Poor’s *Manual* published the most comprehensive railroad information. It covered both physical operating and financial information, sometimes in calculations with each other.24 The *Chronicle* presented the most thorough security

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24 The Quincy Mining Company included non-financial operating data in their annual reports in the 19th century, but abandoned the practice [Michael, 1996]. The AICPA’s Special Committee on Financial Reporting [1994] recently revived the idea of reporting non-financial operating data.
pricing information and earnings reports. Goodsell in *Statistics* focused on a railroad’s capital structure, earnings, interest and dividend payments, and surplus.

Less systematically, but more frequently, the *WSJ* provided railroad information. This information went beyond earnings to include comparative analyses of floating debt and other balance sheet amounts. It also sometimes published novel ratios such as net earnings as a percent of common stock in addition to the traditional calculations of freight and passenger rates per mile. The *WSJ* periodically included columns on company earnings, dividends, and fixed charges.

In summary, railroad investment advice and the amount and frequency of readily available information grew in the 1880s. Yet, market participants had to be leery of insiders and other manipulators, misleading newspaper articles, small margins, trading too frequently, and buying high and selling low. As earlier, a rigged casino atmosphere continued to prevail in the stock market. Nevertheless, publications made strides informing investors and speculators as to what they were buying. The financial accounting and other information published by Poor in his *Manual*, the *Chronicle*, Goodsell in *Statistics*, and Dow Jones in the *WSJ* helped meet investors’ needs for information to make rational decisions.

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THE WHISKEY TAX OF 1791 AND THE CONSEQUENT INSURRECTION: "A WICKED AND HAPPY TUMULT"

Abstract: This paper examines the development of the Whiskey Tax of 1791 and its criticality in the funding of early federal government debt and operations. By considering some of the provisions of the tax and the collection and enforcement procedures, the financial and social impacts of the Whiskey Tax are clarified. Civil disobedience in resisting the tax and the “Whiskey Rebellion” of 1794 are explored in that context. Whether the Whiskey Tax effectively served as the first income tax is considered. Images of original record documents are included.

INTRODUCTION

Just where he hung the people meet.
To see him swing was music sweet.
A Barrel of whiskey at his feet.¹

In March of 1791, the first Congress of the United States passed An Act Repealing, after the Last Day of June Next, the Duties Heretofore Laid upon Distilled Spirits Imported from Abroad, and Laying Others in their Stead, and Also upon Spirits Distilled within the United States and for Appropriating the Same [U.S. Senate Journal, February 10, 1791; U.S. Senate, 1911, pp. 338 – 355]. This law, the “Whiskey Tax,” placed an excise tax on spirits

¹ Poem from anti-excise cartoon by an unknown artist depicting the lynching of a revenue agent, 1792, located at the Atwater Kent Museum of Philadelphia History.
distilled in the United States and became the first tax ever levied by the United States on a domestic product [review of *The Debates and Proceedings of the Congress of the U.S....March 3, 1789 – March 3, 1791*]. The excise tax was immediately controversial, and resistance developed into the 1794 Whiskey Rebellion, an insurrection that has achieved almost mythic status.

This paper will examine the development and purpose of the Whiskey Tax. It will also discuss the distilled spirits operations in Pennsylvania and neighboring states at the time of the tax, the financial impact of the excise, and briefly examine the Whiskey Rebellion. An argument will be made that the Whiskey Tax, rather than being purely an excise tax, effectively served as the country’s first income tax.

**TAXATION IN THE 1780S**

The post-Revolution U.S. government operated under the Articles of Confederation, which granted no power to levy taxes. Strapped for the cash needed to pay for the significant expenditures related to the Revolution, the Continental Congress accepted loans from France. In order to pay off those loans and to meet federal expenses, the early government had the choice of either printing more money or obtaining other loans. Levying taxes was not an option, both due to a lack of legal authority to do so and the political caution that balked at alienating the citizens of the fledgling American country who had just gone to war with the British over the issue of taxes. Those state governments who required their citizens to pay taxes experienced strong, and sometimes violent, protests against the administration of taxation, such as Shay’s Rebellion in Massachusetts [Becker, 1980].

Congress did print money, which led to hyperinflation, and interest rates on state and federal debt rose to the dreadful level of 5 to 12 percent *per month* [Penna. Gen. Assembly, 1785]. The government struggled to pay off the loans from France, stopping payment of interest in 1785, and defaulting on installments due in 1787 [U.S. Dept. of State, undated]. The country had also borrowed from the Spanish government and Dutch investors, and was in a precarious financial state. Scholars estimate that federal debt in 1787 exceeded $54 million [Chernow, 2004, p. 297], coupled with state debt of $25 million [Anderson, 1983], and U.S. Treasury Department data confirm that federal debt was well over $75 million by January 1791 [Congress Senate Committee Report, 1790; U.S. Dept. of the Treasury, undated]. Robert Morris, whom George Washington called “the invaluable ...
financier of the Revolution” [Custis and Custis Lee 1861, 328], in acknowledgement of the substantial personal credit extended on behalf of the patriots, was already headed toward bankruptcy and debtor’s prison and had no further means with which to help the federal government.

Following the adoption of the Constitution in 1787, its subsequent ratification by eleven states, and the election of George Washington as President, the nascent government of the United States began operating January 1, 1789, complete with the “power to lay and collect taxes” [U.S. Constitution art.1, sec. 8, cl. 1]. Edling [2003] argues that the very writing of this Constitution was a defining moment, creating the American equivalent of a European fiscal-military state, with the ability to tax and the responsibility to defend its citizens.

The first Secretary of the Treasury, Alexander Hamilton, championed a peacetime tax regime based on tariffs and tonnage fees2 [Hamilton, 1787]. In its first two sessions, the Congress adopted tariffs on a wide variety of imported goods, including wine, tea, coffee, hemp, shoes, china and glassware, clothing, and hammered or rolled iron [An Act for Laying a Duty ..., 1789; An Act Imposing Duties ..., 1789]. Pelatiah Webster, a Philadelphia merchant and economist, argued that those customs duties were “voluntary” taxes, since no person was “compelled to pay any of the taxes, unless he chooses to be concerned in the articles taxed” [Webster, 1791, p. 468], most of which were considered luxury goods. Since they were duties on articles of consumption, such taxes might affect patterns of consumption but did not touch the property of citizens in the way a direct tax would, and there was no threat of tax debts or foreclosure from such imposts.

While many are of the opinion that these import tariffs were intended to protect the fragile manufacturing industries in the new nation, there was substantial debate even at the time about whether these tariffs should be for revenue-raising purposes alone or to strike back against those countries that imposed barriers against U.S. goods [Debates and Proceedings of the Congress of the U.S....March 3, 1789 – March 3, 1791]. That debate pitted Secretary of the Treasury Hamilton against

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2 The First Session of the 1st Congress passed tariffs on imported goods, primarily those from France and England, and tonnage (weight) fees on cargo navigation superseding those imposed by individual states. James Madison led the passage of these acts supported by strong arguments from Hamilton, and then “actively promoted” Hamilton’s appointment to head the new Treasury Department [Miller, 1960].
Secretary of State Thomas Jefferson and his ally James Madison. Hamilton strongly advocated non-discriminatory import duties to raise revenue to finance government expenditures and fund the public debt, in contrast to Jefferson and Madison who sought to impose countervailing restrictions reciprocating Britain’s treatment of U.S. goods. Domestic manufacturers were disappointed with Hamilton’s proposed moderate tariffs, since they were not adequate to discourage imports [Irwin, 2004]. Ultimately, the revenue-raising aspect of import duties seems to have prevailed. In 1792, one of the few years for which data are available, the customs duties collected accounted for about $3.4 million of the $3.7 million federal government receipts [Nourse, 1838], indicating the criticality of those duties to support federal spending and debt service.

Despite the substantial tariffs on imported goods, there remained a considerable shortfall between income and expenditures. Duties from the first tariff acts consisted of three parts: specific duties on 36 particular “luxury” commodities not produced in the United States, ad valorem duties on most other imports, and duty-free treatment for seventeen goods considered necessities such as saltpeter and brass. In order to address the revenue shortfall, the specific duties were “fine tuned” almost immediately to provide additional income [Irwin, 2003]. The Tariff Act of 1790 increased the 1789 duty on wine, tea, coffee, and many spices by 50 percent or more, among other adjustments [U.S. Senate, 1911, pp. 330 – 336]. Many duties were further raised by the Tariff of 1792 [U.S. Senate, 1911, pp. 355 – 361], explicitly to fund military expenditures to protect the western frontier, offering additional support to the revenue-raising purpose of import duties.

THE LEVYING OF THE WHISKEY TAX

Despite the additional import duties imposed by the Tariff Act of 1790, a substantial federal deficit remained. Actual federal operating and debt expenditures were less than federal income, and would have resulted in a government surplus, had it not been for the federal assumption of state debts related to the revolution [Congress “Assumption Bill,” 1790]. Federal expenditures in 1792 amounted to approximately $5.1 million, yet government revenue for that year was only $3.7 million [Irwin, 2009, p.19], resulting in a deficit of about $1.4 million, or 27 percent of the federal budget. The U.S. was able to cover its revenue shortfall only through a sizeable loan from the Nether-
lands [Riley, 1978]. Interest on the debt alone amounted to more than $2.8 million per year [Hamilton, 1790]. With a considerable need for additional revenue, Hamilton revisited an idea initially broached in his *Report Relative to a Provision for the Support of Public Credit* – the idea of a duty on spirits distilled within the United States. Hamilton argued that the monies raised would facilitate a properly managed national debt and “render [a national debt] a national blessing” [Hamilton, 1790].

There are multiple reasons Hamilton targeted distilled spirits rather than other domestic products. First, Hamilton [1790] argued in his *Report … of Public Credit* that distilled spirits were not a necessity but a luxury item – a “national extravagance” – that was only consumed by those who, by logical inference, could afford to pay the new tax. Not only are distilled spirits luxury items, Hamilton alleges they are inelastic in demand: “Experience has shewn, that luxuries of every kind, lay the strongest hold on the attachments of mankind, which, especially when confirmed by habit, are not easily alienated from them.” Since demand is inelastic, merchants will not suffer as a result of the imposition of “considerable duties on such articles,” since they will “command a proportional price.” Neither would the imposition of a duty thwart the revenue-raising purpose of the proposed excise. Since Hamilton anticipated any decrease in consumption to be in a small degree, it would not “frustrate the expected benefit to the revenue from raising the duties.”

Hamilton and his allies also argued that distilled spirits had become a threat to public health. Despite the evident inconsistency between Hamilton’s assertion that liquor is a luxury good, and his claims in the same *Report … of Public Credit* that “The consumption of ardent spirits... [is] very much on account of their cheapness,” Hamilton presented a letter to Congress from the Philadelphia College of Physicians that claimed, “domestic distilled spirits, the cheap drink of the laboring classes, had become a ravaging plague requiring immediate treatment” [Hogeland, 2006, p. 63]. In his *Report … of Public Credit*, Hamilton calls spirits a “pernicious luxury” and a source of national impoverishment. “The consumption of ardent spirits... is carried to an extreme, which is truly to be regretted, as well in regard to the health and the morals, as to the economy of the community.” Consequently, any decrease in consumption of spirits “would be, in every respect desirable.” This is in clear contradiction to his argument that demand would be inelastic and, therefore, the desired additional revenues would be maintained. But this argument proved to be effective, winning-over the perpetual thorn in
his side, James Madison. Madison thought a tax on spirits may have useful societal benefits, since it would increase “sobriety and thereby prevent disease and untimely deaths” [Madison, 1981, p. 366].

On top of the argument that distilled spirits are price-inelastic luxury goods, and the seemingly conflicting argument that liquor is a cheap and pernicious threat to public health, Hamilton also advocated for the excise tax on the basis that it would benefit agriculture by encouraging “the substitution of cyder and malt liquors,” with the consequent opening of a “new and productive source of revenue” [Hamilton, 1790]. The suggestion that cider and malt liquor would be popular substitutes for distilled spirits makes the price-inelasticity argument somewhat specious. More questionable, though, is the argument that agriculture would benefit from the new duty, since “the excise first fell most heavily on the frontier farmers” [Reid, 1979], an effect that ultimately manifested in the Whiskey Rebellion.

Whether or not the members of Congress bought Hamilton’s convoluted public health, luxury tax, or other explanations (and many of them did), they really had no other option but to sign off on the revenue bill that instituted the federal excise. The United States had a legal obligation to pay back debts to lenders who had bought bonds during the American Revolution. The only way to meet these debts was either to impose an excise tax or to resort to even more unpopular direct measures like a land tax, an income tax, or a wealth tax3 [Hogeland, 2006, p. 63]. Madison brought considerable support to the excise tax on domestic spirits, insisting, “as direct taxes would be still more generally obnoxious and as imports are already loaded as far as they will bear, an excise is the only resource and of all articles distilled spirits are least objectionable” [Madison, 1981, p. 344].

It was on this foundation that Congress passed, in early 1791, An Act Repealing, after the Last Day of June Next, the Duties Heretofore Laid upon Distilled Spirits Imported from Abroad, and Laying Others in their Stead, and Also upon Spirits Distilled within the United States and for Appropriating the Same [U.S. Senate Journal, February 10, 1791; U.S. Senate, 1911, pp. 338 – 355]. This Whiskey Tax act (the Act) passed in the House on January

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3 “Direct” taxes are those paid directly by an individual to the taxing entity, such as a real estate or income tax. Indirect taxes, such as sales taxes, may be shifted to an intermediate entity. Tariffs are duties on imported goods, while an excise tax is on goods produced within the borders.
The Whiskey Tax of 1791

Krom and Krom, The Whiskey Tax of 1791

27, 1791, by a vote of 35 yeas to 21 nays, passed the Senate on February 12, 1791, by a vote of 20 to 5, and was signed by the President on March 3, 1791 [U.S. Senate, 1911, pp. 337 – 338]. In both the House and the Senate, Pennsylvania delegate votes were split equally, giving no hint of the trouble to come.

The duties on distilled spirits were quite costly. Most expensive were the taxes on liquors distilled domestically from imported molasses and sugar, primarily rum. Those “more than 40 per cent above proof,” were taxed at 30 cents per gallon. Between 20 and 40 percent above proof the taxes were 20 cents per gallon, with decreases in the tax commensurate with reduced alcohol level down to those spirits “more than 10 per cent below proof,” which bore a tax of 11 cents per gallon. Spirits distilled domestically from local crops benefited from a slightly lower tax burden, ranging from 25 cents per gallon for 40 per cent above proof to 9 cents per gallon for the lowest proof products. At a time when the average wage was less than twenty-five cents per day for the small number of people who earned actual wages (David and Solar, 1977), the tax on spirits amounted to as much as a full day’s wages per gallon.

DISPROPORTIONATE IMPACT OF THE WHISKEY TAX

The tax on whiskey was particularly economically burdensome to the people of the western frontier. In the early 1790s, the United States could not come to an agreement with Spain to open the Mississippi River to trade, and thus the Mississippi River remained closed to American shipping. “The Mississippi problem robbed westerners of chances for the small-scale commercial development through which they longed to free themselves from depression, barter economies, and dependency on landlords and creditors” [Hogeland, 2006, p. 56]. Without the use of the Mississippi for easy shipping, the farmers of western Pennsylvania were forced to turn their grain into whiskey. The substantial reduction in volume resulting from the distillation of grain into whiskey greatly reduced the cost to transport their crops to the populous east coast – the only place where there were markets for their crops. More than one fourth of the whiskey stills in the United States were located at the forks of the Ohio River in western Pennsylvania [Hogeland, 2006, p. 70], and those families were hit the hardest by the Whiskey Excise tax.

The farmers at the western frontier were disproportionately likely to sell their crops as alcohol rather than grain, so were more likely to have to pay the new excise tax. Additionally, the
transportation costs per gallon were much higher for those farmers at the frontier, so the per-gallon profit was reduced disproportionately by the per-gallon tax. This was a tax on distillation, not on consumption, so the tax was borne by the farmer not by the customer. As a result, the Whiskey Excise taxed rural frontier farmers unfairly compared to those who lived in more convenient places where they were closer to an eastern commercial center.

The fact that this was a tax on distillation created other problems. Section 17 of the Act required that the duties be paid before the liquor was removed from the distillery, with a tax abatement of 2 cents for every 10 gallons.

**FIGURE 1**


For those distillers who were unable to make the payment, a three-month surety bond\(^4\) was an option.

Anyone caught with a cask of spirits for which the tax certificate could not be produced were subject to seizure and forfeiture, not only of the casks, but also of their horses or cattle, carts, harness, tackle, and any other vessels or boats that may be in use. As such, the farmers had to pay the taxes prior to taking their goods to market or risk losing everything. Section 21 of the Act also imposed an annual tax on stills of 60 cents per gallon of

\[^4\] Given the economic conditions at the time, these bonds are likely to have borne a very high interest rate, but no contemporaneous data were found.
capacity. The still duty was to be paid “half yearly,” in January and July. Non-payment could result in forfeiture and sale of all personal goods.

FIGURE 2

Image of a "Promise to Pay" Tax Inspector John Hughes (Pennsylvania 3rd Survey District) an outstanding debt for $64.15 in whiskey taxes dated August 2, 1797, and signed by Joseph Stevenson in the presence of witnesses Christian Riddle and James Mitchel.

Source: Tax receipts records at National Archives.

In addition to the onerous taxes were burdensome record-keeping requirements. Sections 24 and 35 mandate a daily log book, or accounts book, indicating the quantity of spirits distilled, the quantity sold, and inventory on hand. For uneducated, often illiterate, frontier farmers, record keeping was an arduous, if not impossible, task. Failure to keep the daily record, whether
through negligence or refusal, carried a penalty of $100 [Section 35]. Detailed requirements for signage and public notice were also specified.

FIGURE 3


A number of sections describe the powers of inspecting officers, including their right to enter any relevant building and inspect at all times in the daytime, and the right to sample or taste any goods. Penalties for using mismarked casks, or defacing inspector’s marks on casks, were very high at $100 per cask [Sections 30 and 31]. Counterfeit or altered certificates carried a penalty of $500 per certificate [Section 45].

The Whiskey Excise had a disparate impact on the poorest
people of western Pennsylvania who used whiskey as a commodity with which to barter. The people of the frontier were cash-poor “accomplished monetary innovators” [Sylla, 2006, p. 76] who relied on whiskey as a means of payment – laborers usually were paid in a portion of the grain they harvested and landlords took whiskey as rent payment. Indeed, many of the families on the frontier would never see cash money in the course of a decade [Bouton, 2007], relying completely on a barter and subsistence economy. Barter was the tool that kept rural people free of debt and dependency [Hogeland, 2006, p. 67]. Even in more developed regions of Pennsylvania there was “an extreme scarcity of circulating specie” causing farmers to sign petitions and condemn state officials [Carlisle Gazette, 1788, p. 1; York County Petition, 1784]. In Pennsylvania, a dominant part of the post-Revolution experience was a “profound scarcity of money and credit,” resulting in property foreclosure, unpaid private debts and public taxes, and the misery of losing everything one owned including mattresses, mugs, and spoons as well as the items needed to make a living [Bouton, 2000]. By 1790, the circulation of money had dropped to only 31 cents per person, in contrast to the $5.33 per person during the “currency shortage” of the Revolutionary War [State of the Finances..., 1790].

Despite the critical shortage of cash, and the prevalence of the barter economy particularly in rural areas, whiskey could not be tendered in payment of the excise tax – it was required to be paid in cash, which was an inconceivable hardship [Hogeland, 2006, p. 68]. “Without money, or the means of procuring it, consuming their whiskey only in their families or using it as a system of barter, which, though in some respects answered the place of money, yet would not be received in pay for the excise tax, they thought it hard to pay as much tax on what sold with them but at from two shillings and six pence, as they did where it brought double that price” [Findlay, 1985, p. 79]. Thus, the Whiskey Tax was not the “mere luxury-tax-with-concomitant-health-benefit” that Hamilton presented to Congress. The demand for cash payment seems to contradict Hamilton’s [1787] own declaration that the ability of citizens to pay taxes “must always be proportioned...to the quantity of money in circulation, and the celerity with which it circulates.”

By taxing the only feasible source of income for frontier families the Whiskey Excise Tax may have effectively functioned as the nation’s first income tax. Compounding the effect of the Whiskey Tax was the actual experience of taxation, which was unfamiliar to Pennsylvanians. Unlike people in other states,
“Pennsylvanians were unused to paying taxes, as the state had hitherto financed itself almost exclusively through land sales” [Edling, 2003]. This onerous taxation of farmers in western Pennsylvania stands in clear contrast to the preferential tax treatment received by farmers since the passage of the Revenue Act of 1913 imposing the federal income tax [Barney and Flesher, 2008]. Likewise, the disparate effect of this tax on poor frontier farmers violated the arguments advanced in the 19th century suggesting that an income tax was the most equitable form of taxation, since an income tax “does not impinge upon the limit of subsistence of those possessing but small incomes, as do the customs and excise taxes” [Howe, 1894]. Thus, the Whiskey Excise Tax “redistributed wealth by working itself deeply into rural people’s peculiar economic relationship with whiskey” [Hogeland, 2006, p. 64].

Hugh Henry Brackenridge, a first-hand observer of the impact and consequences of the Whiskey Excise Tax, noted that the worst element of the federal excise was its method of enforcement. Delinquent distillers who could not pay the federal tax collectors were given trials – a fact that Hamilton used to convince Congress that this tax was not like classic excises that had infringed liberties. However, these trials were not conducted in local courts but in the federal court in Philadelphia, which is about three hundred miles from the homes and farms of western Pennsylvanians. Distillers who could not pay the cash excise would be compelled to travel to Philadelphia at the sacrifice of their farms and the ruin of their families [Slaughter, 1986]. The trip to Philadelphia was long and arduous. The expense of the trip was nearly equal to the value of their homesteads [Brackenridge, 1859, p. 67], and the families left behind at the frontier were exposed to many dangers including Indian invasion. Since one of the grievances in the Declaration of Independence was that England took persons “beyond Seas” for trial, the requirement of travel to Philadelphia likewise added insult to injury.

GENERAL NEVILLE, THE INDIAN PROBLEM, AND WESTVLANIA

In the spring of 1791, General John Neville was appointed to enforce and collect the Whiskey Tax in western Pennsylvania.

Neville was an ambitious, wealthy large-scale distiller. He was an English Episcopalian from Virginia in an area of western Pennsylvania where the vast majority of residents were Scots-Irish or German Presbyterians and Quakers. He and his Virgin-
ian aristocratic wife, Winifred Oldham, built their mansion on top of a hill on ten thousand acres in western Pennsylvania, calling it Bower Hill. It was “the fanciest home in that part of the west” and one of the only homes that was large and wealthy enough to own slaves (and not Quaker) [Hogeland, 2006, p. 99].

FIGURE 4

Cover of "Abstract of duties arising on Country Stills employed in distilling spirits from domestic materials under the management of John Neville, Inspector of the 4th Survey dist. of Pennsylvania. Year ending 30 June 1794." The notation for the five divisions within the 4th district (most of western Pennsylvania) indicates $39,379.12 in whiskey tax was collected during the year.

Source: Tax receipts records at National Archives.
FIGURE 5

Inside summary of "Abstract of duties arising on Country Stills employed in distilling spirits from domestic materials under the management of John Nevill for the fourth Survey in the District of Pennsylvania, commencing July the 1st, 1793 and ending June the 30th 1794." The notation for the five divisions within the 4th district (most of western Pennsylvania) indicates $40,056.12 in whiskey tax was collected during the year, in contrast to the document in Figure 4 covering the same time period and same geographic area.

Source: Tax receipts records at National Archives.

The “Neville Connection” was General Neville’s family business – a conglomerate of industrial, mercantile, and social interests with business centered in Pittsburgh. The Neville Connection worked in conjunction with other powerful families of the area to run ironworks and boatyards, broker deals, and grow grain on large plots of land. The Neville Connection essentially monopolized any business with which it was interested.

Pittsburgh was staging area for military expeditions against the Indians in 1791 and 1792. The Neville Connection seized the new market for food, drink, and supplies that had landed in its lap, and largely dominated buying and selling at the army garrison [Hogeland, 2006, p. 101]. Whiskey was one of the most essential products to supply to an army, and Neville leaped at the chance to sell his whiskey to the army at a high cost. As the excise tax collector, Neville strictly enforced the Whiskey Excise
to make sure that no illegal whiskey from smaller distilleries got into the hands of the army, benefiting his personal business interests as well as following orders from Washington. In addition to dominating the whiskey-supply market in Pittsburgh, the Act specified that Neville collected a $450 annual salary and a 1% commission from all of the taxes he collected from his neighbors. It is easy to understand, then, why Neville was not well-liked by small-scale whiskey distillers. Aside from the fact that he was the enforcer of the dreaded Whiskey Excise, he was also a shrewd businessman who used his power and influence to sure-up permanent markets and to push out small-scale businesses from the Pittsburgh area.

While the appointment of General Neville was a vexation, the “Indian Problem” helped propel the frontiersmen to insurrection. The settlers of western Pennsylvania had ongoing interactions with the Indians of the region, most of which were bloody and violent on both sides. “An afternoon trip to church or town could become a scene of butchery. At night a cabin could be abruptly filled with whooping warriors, swinging children by their feet to open their skulls, slicing limbs and taking scalps, disappearing into the woods with wailing captives” [Hogeland, 2006, p. 56]. England supported these western Indian tribes and amplified the harassment of the American settlers [Anonymous, 1847, Chapter XI]. The people of western Pennsylvania looked to the federal and state governments to assist them in keeping the Indians at bay, but neither government seemed concerned with the plight of the rural frontier settlers, partly because these same rural settlers rarely voted [Hogeland, 2006, p. 54]. Additionally, Virginia and Pennsylvania constantly fought over who owned the western territory – both tried to collect taxes and issued competing land titles to former squatters and absentee speculators [Barksdale, 2003]. “Having two governments was tantamount to having none,” and the region of western Pennsylvania went largely without government throughout the late-eighteenth century [Hogeland, 2006, p. 15].

As a response to the lack of government aid or attention, many settlers in western Pennsylvania began to talk of a single independent western state, which they called “Westylvania,” de-

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5 The Proclamation of 1763, in which England prohibited colonists from settling further west than the Appalachian Mountains, drew many Delaware Indians in Ohio to side with the British during the Revolutionary War. These “British Indians” feared (correctly) that they would have to relinquish their land due to western expansion if the Colonists won [Hurt, 1996].
spite a state law that made it a capital crime to discuss independence. Though illegal, in western Pennsylvania, and particularly in Washington County, citizens held meetings about the Westylvania movement and created committees of correspondence to communicate with settlers in Kentucky and western Virginia who would also make up the state of Westylvania. Kentucky even held a convention to discuss Westylvania in response to a circular letter out of the western Pennsylvania meeting [Slaughter, 1986].

INSURRECTION

Talk of secession added to the rural insurgency activities in post-Revolution Pennsylvania. Beginning in 1787, on at least 62 occasions, Pennsylvania farmers created formidable obstructions making roads impassable for many months at a time [Bouton, 2000, p. 855]. The passage of the excise tax brought immediate protests, with a fierce anti-excise meeting held in July 1791 in Brownsville, Pennsylvania, led by Colonel Edward Cook and Albert Gallatin. That meeting resulted in the publication of a set of “resolutions expressing the sense of their constituents on the subject of the excise law” in the Pittsburgh Gazette [Brackenridge, 1859, pp. 22 – 23]. Formal anti-excise conventions were held in Pittsburgh in September 1791 and again in July 1794, resulting in a petition in the form of a circular letter and general address to the neighboring counties in Pennsylvania. This circular letter was part English/colonial rhetoric on infringement of liberty and part full of new “western”/frontier rhetoric insisting that the excise tax favored the rich and hit westerners hardest.

Peaceful protest was paralleled by a series of violent acts. In September 1791 the excise officer for Washington and Allegheny counties, Robert Johnson, was tarred and feathered6 and left for dead [Clouse, 1991, pp. 27 – 28]. In August of 1792, Captain William Faulker was attacked because he had allowed his house to serve as an office of inspection for the Inspector of Revenue in Washington County [Hamilton, 1792]. In April 1793 the home of Fayette County excise officer Benjamin Wells was burned (he was also tarred and feathered that fall), followed by the June tarring and feathering of John Lynn, deputy Westmoreland

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6 While often discounted as merely a form of public humiliation, this practice could have dire consequences. The victim was either dunked in hot tar or pine pitch, or had it poured/painted over him, and was then rolled in feathers. This resulted in burns over most of the body, and removal of the tar ripped skin and often required the use of kerosene or turpentine. Infrequently, death from overheating or ensuing infection could occur [The Effects of Varnishing the Skin, 1877].
County excise officer [Brackenridge, 1859, pp. 28 – 30]. Mob violence extended into neighboring counties in Virginia (modern West Virginia), including a siege in Morgantown, which briefly became the national fulcrum for anti-excise tax activity [Barksdale, 2003, p. 8].

In a particularly unfortunate incident in October 1791, a mob attacked Robert Wilson, an obviously cognitively disabled man (Alexander Hamilton calls him “an unhappy man” who was “manifestly disordered in his intellects”) who had made inquiries about the various whiskey stills in town [Hamilton, 1794, p. 35]. It seems that Wilson imagined himself to be a clandestine agent sent to recover information for the Treasury Department, but he was not a spy nor was he connected with the government in any way. Unfortunately, Wilson’s imaginary position as government auditor fooled the people of western Pennsylvania, and he became the target of an attack carried-out by a black-faced gang. They took Wilson out of his bed and marched him five miles away to a blacksmith’s shop, where they stripped him naked and prodded him with the blacksmith’s hot iron, which burned him in several places, before they tarred and feathered him [Hamilton, 1794, p. 35]. Sadly, Wilson’s dedication to his imaginary position was such that he refused to renounce the tax or ask for mercy “no matter how horrific the pain” [Hogeland, 2006, p. 104]. Because Wilson was not actually affiliated with the government, despite his willingness to die for their cause, he had no one to take his grievances to or to report this harassment to. Alexander Hamilton used the attack on “the unhappy sufferer” as proof that Daniel Hamilton’s gang was ruthless and was willing to target even those who were not affiliated with the excise. However, it is clear that the mob of frontiersmen were convinced that Wilson was involved with the government and were not just randomly harassing innocent men.

A dramatic meeting was held at Mingo Creek in July 1794, with Major General David Bradford rising to lead the incensed farmers. The Mingo Creek Association and the local militias demonstrated the new nature of their “mob” – large, organized, armed, and militant. The Mingo Creek Association and their militias numbered 600 rebels in a formal muster at the Bower Hill manor of General Neville, “Chief Inspector of the Revenue” [Brackenridge, 1859, pp. 46 – 49]. “No blackface now, no wild disguise. This wouldn’t be a raid by a gang but an expedition by a large, disciplined fighting force, mobilized without order from any legal authority, offering to do battle with a division of the U.S. Army” [Hogeland, 2006, p. 151]. The battle at Bower
Hill was not a small act of mob violence but an all-out war. Both sides opened fire in earnest; gunfire raged at Bower Hill and the ad-hoc army of rebels made a massive bonfire of General Neville’s furniture and belongings (igniting it, ironically, with the General’s whiskey). There was only one casualty of the battle at Bower Hill – Captain James McFarlane, a local hero of the American Revolution militia who served as the leader of the Whiskey Rebels’ Bower Hill operation. McFarlane was probably shot accidentally when he came out from behind a tree [Hogeland, 2006, p. 151 – 154].

Not all still owners embraced the burgeoning violence. Drawing attention to those not joining the “expedition against that insolent exciseman John Neville”, “Tom the Tinker” placed a series of advertisements in The Pittsburgh Gazette and other newspapers. Though his true identity is subject to debate, Tom the Tinker specifically named John Reed of Washington (PA) who “came not forth in the suppression of the execution of said law.” The advertisements threatened that non-supporters “will be deemed as enemies” and threatened “punishment according to the nature of the offence” [Tom the Tinker, 1794].

A few weeks later, in August, 1794, delegates from Pennsylvania and West Virginia held a large gathering at the Jean Bonnet Tavern, near modern Bedford, Pennsylvania, and erected a large liberty pole inscribed “Liberty and no Excise! No Asylum for Traitors and Cowards!” Lead by Albert Gallatin, Edward Cook, and Hugh Henry Brackenridge, this gathering had two principal objectives – to organize tax resistance and to draft a definitive anti-tax declaration [Brackenridge, 1859, pp. 157 – 172]. By the end of August, “western Pennsylvania’s Whiskey Rebels had their own flags, their own army, and their own martyr: Captain James McFarlane” [Barcousky, 2008].

THE “WATERMELON ARMY” OR “ARMY OF THE WESTERN EXPEDITION”

Initially, national leaders generally presented the protests to the Whiskey Excise as “exaggerated responses to so inconsequential a tax on whiskey” [Slaughter, 1985, p. 10] and “intemperate” [Brackenridge, 1859, p. 263]. Those who took issue with the excise were considered to reflect the “paranoid style affecting politics at the time” [Slaughter, 1985, p. 10]. Although economic principles mattered to the people of western Pennsylvania, the tax itself was almost definitely not enough to incite violence. According to Hugh Henry Brackenridge, a first-hand
observer, “The major cause of violence resistance had nothing directly to do with the excise tax itself” [Brackenridge, 1859, p. 30] but was primarily due to the horrible penalties imposed for non-payment and the unavailability of the currency required to make the payments.

By the end of summer in 1794, however, the extent of the rebellion required serious attention. Alexander Hamilton published, under the name “Tully,” a series of letters denouncing the insurgents as enemies to the Constitution and to all orderly government [Hamilton Works]. Finally, President Washington called out the troops, stating that he would not permit “a small portion of the United States [to] dictate to the whole union” [Washington, 1794]. Nearly 13,000 soldiers – infantry, cavalry, and artillery – assembled to quell the rebellion [Baldwin, 1939, p. 225]. Remarkably, troops from each participating state were led by their state governor: Governor Mifflin (PA), Governor Henry Lee (VA), Governor Thomas Lee (MD), and Governor Howell (NJ). Even more extraordinarily, Washington himself commanded the army, widely considered the singular instance in which a sitting President of the United States led troops into battle. Whether due to the “rough conditions,” as some critics claim, or to judicious politics, as other historians assert, Washington turned back after rallying the troops in Bedford, Pennsylvania (at or near the aforementioned Jean Bonnet Tavern) [Baldwin, 1939, p. 229].

Horrible torrential downpours slowed the army, allowing time for the rebellion leaders to consider their response. Ultimately, cooler heads prevailed, and the bloodshed was minimal. “There was no resistance, either to the military or civil authority” [Brackenridge, 1859, p. 312]. However, hundreds of rebels were arrested, and generally treated poorly despite the amnesty that was promised. Accounts of the prisoners taken at Mingo Creek included placement in a cold, wet basement with neither food nor drink, followed by a twelve-mile march [Brackenridge, 1859, p. 320 – 321]. Most prisoners were eventually released by General Lee, acting under the President’s authority, despite their participation in the “wicked and unhappy tumults and disturbances lately existing” [Lee, 1794], but about twenty key players were subjected to military tribunals. Several men were sentenced to hang, although President Washington first reprieved, and then pardoned them [Baldwin, 1939, pp. 257 – 264], with the exception of the prominent leader Daniel Bradford. Bradford escaped to Spanish-controlled New Orleans, but was pardoned by President John Adams in March 1799 [Hoover, un-
dated]. Several thousand men were temporarily exiled to lands farther west, where many chose to make a permanent residence.

CONCLUSION

Ultimately, the Whiskey Insurrection failed, but manifested long coattails. Other economic forces, primarily the growth of large distillers, doomed the small distiller, many of whom pulled up their roots and headed to Kentucky and Tennessee (hotbeds of whiskey distilling even today). However, commerce and industry in western Pennsylvania grew dramatically, in part due to the presence of the army and the currency it injected into circulation. Within the decade, the Pittsburgh area was “launched on a course that was eventually to make it the ‘workshop of the world’” [Baldwin, 1939, p. 265].

Likewise, the insurrection gave support to Federalist calls for a standing army of the U.S., and probably influenced the elections of 1794 and 1796 at the very least. The Federalists controlled the White House and most of Congress through the presidencies of George Washington (1789 – 1797) and John Adams (1797 – 1801), during which excise taxes were limited “almost exclusively to goods and services consumed by the affluent” [Brownlee, 2006, p. 7], including wines, distilled spirits, sugar, carriages, vellum, parchment and paper. The Whiskey Tax became a critical issue in the tight presidential election of 1800, when Thomas Jefferson tied Aaron Burr in the Electoral College [Tally of the Electoral Votes..., 1801] and only won in the House of Representatives after 36 ballots over 6 days [Jefferson Victorious, 2010]. At the time of the election, it was conventional wisdom that “the whisky drinkers’ had made Jefferson president” [Simon, 2012]. The Whiskey Tax and all other internal taxes were repealed on April 6, 1802 after Thomas Jefferson took office as president [U.S. Senate Journal, 1802]. Jefferson’s signature also abolished all tax collection offices and the Supervisor of the Internal Revenue [An Act to Repeal the Internal Taxes, 1802], making it understandably popular.

As the first tax on a domestically produced product, the Whiskey Excise was an important development in the financing of the debt and operations of the federal government. Though officially an excise on distillation, for the vast majority of frontier farmers it effectively served as a tax on their only source of income, particularly as payment in coin was required. An argument can surely be made that the Whiskey Excise may have effectively functioned as the first U.S. direct income tax, more
Krom and Krom, *The Whiskey Tax of 1791*

than a half-century before the formal income tax briefly enacted to finance the Civil War. The events surrounding the Whiskey Excise Tax also presaged the social cleavage between the new industrial/mercantile “city slickers” and the “hicks from the sticks.”

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THE RELATIONSHIP BETWEEN RELIGIOUS BELIEFS AND THE ACCOUNTING AND ECONOMIC PRACTICES OF A SOCIETY: EVIDENCE FROM THE DEAD SEA SCROLLS

Abstract: This study explores the Dead Sea Scrolls to demonstrate how Essene socio-religious values shaped their accounting and economic practices during the late Second Temple period (ca. first century BCE to 70 CE). Our primary focus is on the accounting and commercial responsibilities of a leader within their community – the Examiner. We contend that certain sectarian accounting practices may be understood as ritual/religious ceremony and address the performative roles of the Essenes’ accounting and business procedures in light of their purity laws and eschatological beliefs. Far from being antithetical to religious beliefs, we find that accounting actually enabled the better practice and monitoring of religious behavior. We add to the literature on the interaction of religion with the structures and practices of accounting and regulation within a society.

INTRODUCTION

In this study, we explore the accounting and regulatory

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practices of the Essenes during the late Second Temple period (ca. first century BCE to 70 CE). Several Jewish sects emerged in Hasmonean times (140–37 BCE) including the Pharisees, Sadducees, and Essenes. The Essenes were an important group because they flourished and shared some views with other groups of the same time such as early rabbinic Jews and Christians. While the Essenes were scattered throughout Israel, many scholars think that a group of the Essenes settled at Qumran (an archaeological site about a mile inland from the Dead Sea’s northwestern shore) and stayed there until the site was destroyed during the First Jewish Revolt (66–74 CE) [Collins, 2010]. This is a contested issue, however, and we discuss the controversy in a subsequent section.

According to regulatory texts found at Qumran, one of their leaders, the Examiner (translated by others as Overseer or Guardian), was responsible for matters concerning sectarian membership admission, doctrine, discipline, purity and impurity, marriage and divorce, and – of particular importance to this study – property and commerce. The principal texts of the Dead Sea Scrolls examined in our study are the Damascus Document and the Community Rule.¹ We study these and other texts to highlight various accounting and regulatory functions that the Examiner was to carry out in commercial matters within the Essene communities. We focus on the Examiner as this figure is mentioned several times in various literary texts found at Qumran. The Examiner operated in a society where spiritual and economic regulation coexisted. We highlight the recordkeeping and disciplinary responsibilities of the Examiner and contend that he functioned somewhat similar to a commodity regulator, auditor, and tax agent within the religious community, and that the socio-religious values of the Essenes underpinned these economic functions. Ours is the first study to explore the Dead Sea Scrolls with the intent of emphasizing how the Essene belief system shaped the accounting and regulatory responsibilities of a leader within their society. We also explicate how certain Essene accounting practices may be understood as a ritual/religious ceremony and address the performative roles of the Essenes’ accounting and business procedures in light of their beliefs on purity and eschatology.

The needs of a society can impact organizations’ accounting practices [Hopwood, 1983; Hopwood and Miller, 1994; Puxty, ¹ There is scholarly debate on the relationship between these two texts [Kapfer, 2007]. We discuss this debate in a subsequent section.
1998]. Among religious groups, religion drives the needs of the society and can impact its accounting practices. The relationship between religion and accounting can provide new insights into how organizations use accounting [Birnberg et al., 1983; Fonfeder et al., 2003]. Indeed several studies examine the interplay between accounting and religious institutions.² We draw from this body of literature to compare the relationship between accounting and religion among other religious groups to the accounting-religion relationship within the Essene community. Rather than being opposed to the sacred, we find that accounting actually facilitated the better practice and monitoring of religious behavior.

This paper is structured as follows. The following section provides an overview of the Essenes and describes how their beliefs compare to other religious communities of the time. Discussion of the principal Hebrew texts used in our study and what they reveal about the Essenes’ economic views is presented in the next section. After this, we discuss the Examiner and the economic functions he carried out. Illustrations of how sectarian socio-religious values shaped Essene economic practices are integrated into our dialog. We also describe how certain sectarian accounting practices represent performative rituals that produce and reaffirm order [Ezzamel, 2009]. The subsequent section discusses how our findings contribute to the literature on the sacred-secular divide. The final section summarizes our study. Throughout this paper, we mostly footnote specific references to the Hebrew texts with the common citation system used by Dead Sea Scrolls scholars.³ References to English

² Prior research contexts of this type include a German-American religious commune [Flesher and Flesher, 1979], the New England Quakers [Fuglister and Bloom, 1991], the Church of England [Laughlin, 1988], Islam [Abdul-Rahman and Goddard, 1998; Zaid, 2004], the Episcopal Church in the U.S. [Swanson and Gardner, 1986], Australian churches [Lightbody, 2000; Parker, 2002; Irvine, 2005], the Church of Scotland [Jacobs, 2005], the ancient Jerusalem Temple [Nathan, 1991; Fonfeder et al., 2003], the Iona Community of Scotland [Jacobs and Walker, 2004], the Society of Jesus in Italy [Quattrone, 2004], ancient Egypt [Ezzamel, 2009], and Buddhist Siam [Kuasirikun and Constable, 2010].

³ This note briefly summarizes the abbreviations and sigla used to identify Dead Sea Scrolls texts. There are 11 caves at Qumran. If a text comes from cave one it is labeled 1Q and if it comes from cave four it is labeled 4Q. Q stands for Qumran and C stands for Cairo Geniza. Some documents have standard abbreviations such as D for Damascus Document and S for Serek ha Yahad (Community Rule). The documents found in each cave are numbered sequentially in some kind of order. Often the first documents numbered are Biblical documents. Groups of documents are numbered sequentially such as 4Q255-264 for Serek and 4Q266-273 for Damascus Document. A superscript such as d after a text labeled 4QD
translations within books and journal articles are cited in the normal format prescribed by this journal.

THE ESSENES

The Essenes were one of the sectarian groups mentioned by ancient historians such as Flavius Josephus, Pliny the Elder, and Philo. The Essenes probably emerged during Hasmonean times (140–37 BCE) and continued on into Roman times (began in 63 BCE). Josephus (37–100 CE) indicated that there were about 4,000 members of this group and that members were scattered in many towns and villages throughout the area now known as Israel [Josephus, 1970]. One of the gates in Jerusalem is even known as the Essene gate. The Dead Sea Scrolls, the first of which were discovered in 1947, contained literary texts with similar ideas about society as mentioned by the above historians in reference to the Essenes. Consequently, many scholars think that the people who lived at Qumran and used these texts were part of the larger movement of Essenes [Safrai and Eshel, 2000; Collins, 2010].

Still there are differences in the various classical texts and the Dead Sea Scrolls which cause some to wonder about the nature of the Essene groups. For instance, the Community Rule mentions no women and provides no guidance for marriage while the Damascus Document does. The ancient sources suggest celibacy for the Essenes. Archaeologists have found relatively few women buried in the cemetery. There remains considerable scholarly debate about the integration of this data. Some scholars today think that these texts reflect a number of different groups and that even the Essenes changed over time. Collins [2010] surveyed the controversy and evidence and believes that the Essene movement had multiple settlements and that there were different orders of the movement (one being celibate and one being married). We follow the Essene hypothesis in this paper because we think it best fits the evidence. Other scholars disagree, however. For example, Schiffman [1995] posits that the texts pertain to a sect of Sadducees. Consequently, we caution that our use of the term “Essenes” in this paper is a contested issue.

(i.e., “4QDd”) indicates that this is the fourth copy of the document found in cave four (superscript * would indicate the first copy). Biblical texts can be identified by later chapters and verse divisions that have become standard. Other texts can be identified in terms of columns and lines of a somewhat complete document. Sometimes fragments are numbered consecutively.
The community wanted to establish an economic system that would be more faithful to the Bible to prepare them for the post-apocalyptic world that they anticipated. Their eschatological vision was shaped by interpretations of past Biblical traditions [Murphy, 2002, p. 22]. Prophetic texts were read as predictions for the future. The Essenes spoke of themselves as the “sons of light” and others as the “sons of darkness” and believed that there would be a final battle between these forces as described in the War Scroll (a text found at Qumran). Community members believed that there would be a final judgment in which the wicked would be punished and the righteous would be rewarded, culminating in a new era where the Essenes would have the power and authority to control what happened in a New Jerusalem and Temple. Indeed, there are six copies of a New Jerusalem text which describes architectural plans for an eschatological Jerusalem of gigantic proportions.

The Essenes believed that they were living in an interim time before the end and attempted to establish a community that would emulate a flawless post-judgment society. The group endeavored to maintain this near-utopian precursor society by strictly adhering to their radical interpretation of purity laws and a careful sectarian admission process. The process of initiation into the community, characterized by instruction, extensive examination, and an oath, was not easy. There likely is a connection between acceptance into the Essene religious group and the final judgment. This process may have been viewed as analogous to being rewarded as righteous at the final judgment. The names of those who entered the Essene community were written in a book just as names must be written into the Biblical book of life at the final judgment (Exodus 32:33; Psalm 69:28; Malachi 3:16-17; Daniel 7:10). The assessment and evaluation of each potential community member and later evaluations may have been conducted in anticipation of the later rewards and punishments which would be carried out by God in the final judgment.

With respect to their business practices, Essene rules concerning purity and fidelity in economic matters were more stringent than those of the larger Jewish society. For example, sectarian commercial legislation on usury, work on the Sabbath, tithes, oaths, fraud, and the collection for the poor and needy are stricter in their application of Biblical laws than later rabbinic law [Murphy, 2002, p. 99]. Various Biblical texts including the Deuteronomic exhortation to covenant fidelity, the sabbatical and jubilee year legislation, the prophetic critique against economic offenses, and the wisdom tradition on the dangers of
wealth and vicious gain (e.g., through usury) provide a framework for understanding their views about economic practices [Murphy, 2002, p. 93].

**PRINCIPAL TEXTS**

The research method used in this study is similar to the socio-redactional approach employed by some New Testament critics [e.g., Malherbe, 1977; Grant, 1978; Stambaugh and Balch, 1986] whereby it is assumed that the traditions and practices of societies are shaped by the socio-political pressures they experienced.

The Dead Sea Scrolls consist primarily of literary texts such as copies of Bible passages and books, commentaries on the Bible, prayers, hymns, legal texts and wisdom texts. There are relatively few descriptive or documentary texts found at Qumran which preserve remnants of everyday economic concerns such as contracts, accounts, and bills of sale. We discuss these few documentary texts in a subsequent section. We now talk about the principal literary texts used in our research.

There are two major prescriptive texts found at Qumran outlining rules and regulations that provide guidance on how religious Jewish groups should live their lives together: the Community Rule and the Damascus Document. Eleven copies of the Community Rule were found at Qumran. A nearly complete copy was found in cave one and ten other fragmentary copies were found in cave four.4 There were ten fragmentary copies of the Damascus Document found in caves four, five, and six. The most complete copies of the Damascus Document come from the Cairo Geniza which dates from medieval times, suggesting that some Jewish group(s) must have preserved and used this text in later times.5 Since not all of the later Cairo Damascus Document was found in cave four documents at Qumran, the

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4 The Community Rule from cave one, which is nearly complete, was probably written between 100 and 75 BCE. Alexander [2000] indicates that paleographic dating of the cave four manuscripts ranges from about 125 BCE to 50 CE. While it is unclear when the text was first written, it must have been written before 100 BCE.

5 The texts found in Cairo Geniza are not a part of the Dead Sea Scrolls. A geniza is a place where old Hebrew documents which often are religious are stored before they are buried. The geniza was found in a storage area in a Jewish synagogue in Cairo, Egypt. The collection came to the public’s attention in about 1896 when two sisters, Agnes S. Lewis and Margaret D. Gibson, brought some fragments to England. Eventually fragments from some 300,000 manuscripts emerged from the collection.
materials of this document were changed over time. This means that not every detail of the later Cairo Damascus Document may have applied to the Essenes of ancient times.\(^6\)

The Damascus Document includes two major sections: an exhortation and a list of statutes. The exhortation contains religious teachings encouraging the sectaries to remain faithful, emphasizing fidelity to God’s covenant with Israel. The second section, of particular interest to the present research, consists of laws reflecting a sectarian interpretation of Biblical commandments and rules concerning the institutions and organization of the community. Similarly, the Community Rule contains a set of regulations ordering sectarian life as well as liturgical material which guides worship practices and theological materials which help people know what they should believe.\(^7\)

Although the Community Rule and the Damascus Document both contain collections of rules for religious communities, there are differences between the rules and there is scholarly debate about the historical relationship between the two documents and about whether they were used by the same communities or different ones. Kapfer [2007] discusses the relationship between the two texts and surveys arguments for the priority of the Damascus Document and arguments for the priority of the Community Rule. She uses the attitude towards the Temple in both documents and argues that the Damascus Document is older when there was still participation in the Temple even though the Temple was criticized. She believes that the Community Rule is later since it rejects the Temple and the community comes to be viewed as a spiritual temple. She also highlights differences in economics and leadership positions which we discuss below.

**Differences in group economic systems:** The Examiner is mentioned as a group leader in both the Damascus Document and

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\(^6\) Conversely, some materials found in the Qumran texts were not found in the later Cairo Geniza materials. The earliest copy of the Damascus Document, 4Q266, comes from Hasmonean times (ca. 150-30 BCE), close to the beginning of the first century BCE, and most of the other cave four copies are from Herodian times (ca. 30 BCE-70 CE). The texts found at Qumran are all fragmentary and correspond in part with the later and fuller texts at the Cairo Geniza. Cairo Geniza MS A is from the tenth century CE and MS B is from the twelfth century CE. The text was originally written before 100 BCE [Baumgarten, 2000].

\(^7\) Both the Damascus Document and the Community Rule are prescriptive, rather than descriptive, texts. These texts can be quite utopian and limited evidence exists suggesting that the instructions were actually implemented by members, including the Examiner.
the Community Rule and there are similarities between the functions of the Examiner in the different texts such as his role in the admission of initiates.\textsuperscript{8} There are also some differences. For example, the Examiner appears to be supported by a council in the Community Rule but not in the Damascus Document. There also seem to be differences in the economic systems discussed in the Community Rule and the Damascus Document which would cause the role of the Examiner to differ somewhat between groups. Rules concerning members’ trading with non-sectarians are provided in the Damascus Document but not mentioned in the Community Rule. Property seems to be strictly communal in the Community Rule whereas in the Damascus Document members retained personal property [Kapfer, 2007].\textsuperscript{9} A monthly tax of two days’ earnings is mentioned in the Damascus Document but not in the Community Rule. In fact, the economic responsibilities of the Examiner are mentioned only once in the Community Rule. This reference relates to his supervision of initiates’ registration of goods in the communal ledger.

Some scholars have tried to harmonize the Community Rule and the Damascus Document, arguing that the other economic responsibilities of the Examiner outlined in the Damascus Covenant may be implied in the Community Rule. Our analysis of the texts, however, prevents us from reaching this conclusion. Our interpretation is consistent with Zerbe [2006] who concludes that the texts were used by different social groups. Consequently, our discussion of the economic functions of the Examiner in a subsequent section should not be interpreted to relate to a leader of a single religious group at one time and location. Indeed, our discussion of the Examiner’s roles as a commodity regulator and tax agent applies more to the Damascus Document and our discussion of the Examiner’s role as an auditor applies more to the Community Rule.

We now discuss noteworthy aspects of the Essenes’ economic views as revealed in the principal texts. The remainder of this paper follows the summary of Essene accounting/economic

\textsuperscript{8} The Examiner is also mentioned as leader in a hybrid Community Rule–Damascus Document text (4Q265) and in the Communal Ceremony (4Q275).

\textsuperscript{9} There is one mention of stealing from the “possession of the camp” in the Damascus Document which would refer to common property that was not owned by an individual. This is the only mention of common ownership in the Damascus Document. A number of rulings in this text would only make sense if members maintained private property. Murphy [2002, p. 48] contends that although members of the Damascus community retained ownership over property, it was simultaneously considered part of the “abundance of the camp.”
practices and their underpinning socio-religious values as presented in Table 1.

**TABLE 1**

Summary of Essene Economic Practices and Underpinning Socio-religious Values

<table>
<thead>
<tr>
<th>Essene economic practice</th>
<th>Accounting/ economic area</th>
<th>Principal source text(s)</th>
<th>Underpinning socio-religious value(s)</th>
<th>Dead Sea Scrolls citations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Communal property</td>
<td>Asset management</td>
<td>Community Rule</td>
<td>Essene interpretation of a Deuteronomical command and Levitical Law</td>
<td>1QS I 11-15; CD XIII 11-12</td>
</tr>
<tr>
<td>Commerce within and outside of the community</td>
<td>Commerce</td>
<td>Damascus Document</td>
<td>Qumran-sect concept of justice</td>
<td>4QD 10 ii 1-2; CD MS A XIII: 14-15</td>
</tr>
<tr>
<td>Requirement to use currency in transactions with outsiders</td>
<td>Commerce</td>
<td>Community Rule; Damascus Document</td>
<td>Aversion to defilement (as conceptualized by an interpretation of Levitical Law) through transacting with a sinful economy</td>
<td>1QS V 16-17</td>
</tr>
<tr>
<td>The Examiner</td>
<td>Accountability</td>
<td>Rebukes of the Overseer; Damascus Document; Community Rule</td>
<td>Essene interpretation of Levitical Law</td>
<td>4Q477, 1QS V 24-VI 11; CD MS A IX 16-20</td>
</tr>
<tr>
<td>Requirement that any commerce with outsiders be sanctioned by the Examiner</td>
<td>Regulation</td>
<td>Damascus Document</td>
<td>Aversion to dealing with groups and institutions rejected by the community or handling tainted funds (as conceptualized by an interpretation of Levitical Law)</td>
<td>CD XIII 15-17; 4QD 1 X ii 1-2</td>
</tr>
<tr>
<td>Examiner's audit of newcomers to the community</td>
<td>Auditing</td>
<td>Community Rule</td>
<td>Mosiac Law and eschatological vision; societal importance placed on voluntary nature of asset transfer</td>
<td>CD XIII 11-12; CD XIII 13; 1 QS VI 13-14; 1QS VI 20-24</td>
</tr>
<tr>
<td>Monthly tax on earnings</td>
<td>Taxation</td>
<td>Damascus Document</td>
<td>Levitical Law</td>
<td>CD VI 20-21; CD XIV 12-19</td>
</tr>
</tbody>
</table>

*Communal property:* Members shared communal property. The Community Rule appears to be very strict in expecting property to be transferred to the community by new initiates. An ostracan discovered in Qumran in 1996 discusses the transfer of a house, vineyard, fig trees, olive trees, and a slave by a new sectarian member to the community [Safrai and Eshel, 2000].

Although most property in the Damascus Document seems to be privately maintained (mention of communal property in the text may relate to a fund from tax proceeds), the emphasis on community-based and oriented redistribution of resources and

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10 However, Yardeni [1997] challenges the reading of “community” in the text. The word must be reconstructed and she does not think the word should be reconstructed with this reading.
support for those in economic need appears central to members of the Damascus covenant [Zerbe, 2006]. The religious rationale for the sharing of assets comes from the Deuteronomic command to love God “with your whole heart, your whole soul, and your whole strength” (Deuteronomy 6:5) and the Levitical Law “to love your neighbor as yourself” (Leviticus 19:18). Murphy [2002, p. 97] argues that heart, soul, and strength from Deuteronomy echoes deeds, insight, strength, might, and wealth in the Community Rule and the Damascus Document. In fact, the term used for strength in Deuteronomy 6:5 is the same term used in the Damascus Document for communal assets and excess livestock, grain, wine, and oil. So “might” here is understood not abstractly in terms of physical strength but concretely in terms of economic goods.

Hodgson [2005] notes that performative rituals are characterized as both words and deeds, and institutionalized within a society through repetition and reiteration. The conduct of performative rituals represents a coincidence of signifying and enacting [Buttler, 1993, p. 198]. The sharing of property both signified and enacted (in words and deeds) one’s love of God with one’s whole heart, soul, and strength and represents a performative ritual within the Essene community.

**Commerce within and outside of the community:** A second interesting aspect of the Essenes’ economic life was the prohibition of intra-sect commerce for profit as mentioned in the Damascus Document. That is, members were forbidden to buy and sell goods with other community members:

None of those who have entered the covenant of God “shall either ask or give to” the sons of the dawn, except “from hand to hand” [Murphy, 2002, p. 57].

Another translation reads:

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11 See 1QS I 11-15 and CD XIII 11-12.
12 Communal property is not unique to the Essenes. Some modern religious groups such as the Shakers (1787–present) also use a communal system whereby members transfer all of their goods to the society. The Harmonists (1814–1824) placed all of their possessions into a common fund. The Harmony Society’s belief that the end of the world was imminent made members willing to give up their material possessions [Flesher and Flesher, 1979]. The Essenes also believed strongly in the imminence of the end of the world and their motivation for sharing assets may have been similar to the motivation of the Harmonists.
13 Assuming that property was strictly communal in the Community Rule, there would be no need for such a regulation.
14 See 4QDh 10 ii 1-2. “Sons of dawn” represent community members.
And let no man of all who enter the covenant of God buy from or sell to the Sons of Dawn, but rather (give) hand to hand [Baumgarten, 1983, p. 83].15

The Essenes used a barter system predicated not on the commercial basis of buying and selling, but on the fraternal concept of mutual help and exchange of services [Baumgarten, 1983, p. 83].16 The ban on commercialism within the community derives from the Qumran-sect concept of justice. Any activity which smacked of exploitation for profit was viewed as a threat to the inherent harmony and purity of the sect [Baumgarten, 1983, p. 85].

According to both the Damascus Document and the Community Rule, money should only be used in transactions with outsiders [Murphy, 2002]. In fact, sectarians were required to use money in commercial dealings with outsiders as outlined in the Community Rule:

No member of the Community shall ... eat or drink anything of theirs, or take anything from them except for a price [Vermes, 1997, p. 104].17

Murphy [2002, p. 58] argues that cash transactions with outsiders were a necessary buffer that shielded members from defilement in a more sinful economy, where wealth could have been obtained through violence or usury.18 Thus, this rule was to help maintain the religious focus and purity of the Essene community. Communal property, the ban on intra-sect commerce for profit, and the mandatory use of currency in commercial dealings with outsiders are examples of how religious values and ethical codes shape important aspects of the socioeconomic

15 See CD MS A XIII: 14-15.
16 Barter is also a common mode of exchange among other religious groups. For example, early American Quakers in West Falmouth, Massachusetts (1796–1860) avoided contact with others, engaged in small cottage industries, and used a barter system in doing business with other community members [Fuglister and Bloom, 1991]. Similar to the Essenes, religion came first to the West Falmouth Quakers, with business and other worldly occupations secondary [Fuglister and Bloom, 1991].
17 See 1QS V 16-17. The use of “theirs” and “them” in the text refers to outsiders.
18 There is evidence that other religious groups also conduct business differently depending on whether the transactions are with members or non-members. For example, a leader in the West Falmouth Quaker community drew lines through each ledger entry to confirm that an account with a member was settled, but did not draw lines through transactions with non-Quakers [Fuglister and Bloom, 1991].

**THE EXAMINER**

This section is organized as follows. First, we discuss the overall role of the Examiner as a leader in the community and some general recordkeeping tasks that he likely performed. We then illustrate how the Examiner was to function in a manner somewhat similar to a commodity regulator, auditor, and tax agent within the religious community and how the Essenes' socio-religious values underpinned these functions. The progression of this discussion aligns with the segment of Table 1 entitled “The Examiner.” Included in this section is discussion on how certain Essene accounting practices represent performative rituals which may be understood as a ritual/religious ceremony [cf. Ezzamel, 2009].

*The Examiner’s general role as a leader and record keeper:* There are hints about the social organization of the Essenes’ religious communities but we remain uncertain about the exact roles of particular leaders [Metso, 2009]. Weinfeld [1986, pp. 19-21] has suggested that there may be three different officials with different functions: a priest with religious functions, the *paqid* with an administrative function, and the *mebaqqer* who takes care of the economy and finances of the group. He also indicates that these last two terms may be derived from the Biblical prophets where leaders are referred to as shepherds who “watch” (*paqad*) over their flock (Jeremiah 23:1-2) and where shepherds “tend” (*bqr*) their sheep in Ezekiel 34:11-12. Both of the latter terms are translated by *episkopos* in the Greek Bible. It may be that both terms *mebaqqer* and *paqid* refer to the same individual, the Examiner.19

Although the Examiner is never explicitly identified as a priest in the texts, several scholars believe that he must have been one since some of his duties seem priestly. For example, he was to judge disputes (CD IX 17-22), instruct the community

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19 Sometimes one finds the expressions “Examiner over the camp” (CD XIII 7, 13), “Examiner for all the camps” (CD XIV 8-9), and “Examiner of the community” (4Q265 4 ii 5-6), and sometimes one finds the expression “Examiner of the many” (CD XV 8 and 1QS VI 12; 4Q265 4 ii 8). At other times one just finds the term “Examiner.” In one case in 1QS VI 14 one finds the expression “Overseer at the Head of the Many” which is a translation of a different Hebrew word than is usually used for the “Examiner.” The “Examiner” is mentioned along with “judges” who will collect a tax for the needy (CD XIV 8-16). Assumedly, these refer to the same person but it is not impossible that more than one person might have been involved in examination.
in God’s deeds (CD XIII 8), pass judgment on new initiates (CD XIII 11-12), and instruct the priest in cases of confusion over the law (CD XI 5-6) [Kugler, 2000, p. 689]. Steiner [2001] also draws attention to the parallel between the responsibilities of priests as discussed in the Biblical book of Ezra and the responsibilities of the Examiner:20

The Examiner is challenged to utilize his office carefully as revealed in the Damascus Document:

He shall love them as a father loves his children, and shall carry them in all their distress like a shepherd his sheep. He shall loosen all the fetters which bind them that in his Congregation there may be none that are oppressed or broken. [Vermes, 1997, p. 142].21

Such leaders seem responsible for various areas of life. Specifically, the Examiner had special duty to oversee communal assets and assemblies and had supervisory responsibility over the acceptance or rejection of incoming members, doctrine, discipline, marriage and divorce, purity and impurity, and property and commerce [Vermes, 1997]. Murphy [2002, p. 101] summarizes the role of the Examiner in the Damascus community's economic matters as follows:

It is the Examiner’s job to scrutinize the financial obligations and practices of potential members, as well as the initiate’s wealth and the members’ ongoing commercial activities. In addition to relieving initiates’ economic burdens, the Examiner plays a leading role in the regular distribution to the community's vulnerable members. Finally, he is responsible for registering commercial misdeeds such as lying about property, improper oaths in cases of misappropriated property, and commerce with Gentiles or apostates that transgresses the community’s legislation.

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20 A prominent view among scholars is that the Essenes were founded by a group of Zadokite priests who lost their power at the Jerusalem Temple. A text found at Qumran known as MMT (4Q394-4Q399) is addressed to those in power at Jerusalem. It discusses legal topics, outlining concerns and differences in interpretation of Biblical purity laws. The regulations in MMT are stricter about purity issues than those of the Jerusalem Temple cult. The responsibilities of priests as discussed in MMT are similar to the responsibilities of the Examiner as discussed in other texts.

21 See CD XIII 9-10. Murphy [2002, p. 42] speculates that the fetters (or chains) that bound incoming members might have included high interest debt, liens on property, contract labor agreements, and other obligations that the Examiner assumed or redeemed.
For the Examiner to carry out his duties, it would be necessary to be literate and to be able to keep written records. The Damascus Document seems to imply that the Examiner must have mastered the languages of humans. For instance, if each member is to contribute a portion of their income to the poor or transfer their assets to the community, recordkeeping would be necessary. In some cases there are specific rules mentioned that would require the Examiner to keep written records. Some of these records relate to economic issues but some relate to other issues as well.

Text 4Q477, “Rebukes of the Overseer,” describing various admonishments was probably written by the Examiner [Murphy, 2002]. While there is no specific mention of the Examiner in the text, it seems reasonable that the Examiner wrote this document because of a prescriptive text stating that he should keep such records. The need to rebuke others is found in Leviticus 19:17. Two passages in the Dead Sea Scrolls relate to this issue and there is a specific statement in the Damascus Document that the Examiner should prepare a report of rebuke. Assumedly, such written records could later be consulted and used if further problems arose. The Rebukes of the Overseer text gives us an example of recordkeeping. This text includes a list of at least three entries with the names of people and offenses for which these people were rebuked. There is a typical form for each entry: they reproved [personal name] for [transgression]. There is an empty space and mark in the margin (not quite a check mark) which indicates a new entry for a person with a transgression. While there are no clear violations concerning economic issues in this text, it still reflects recordkeeping – probably performed by the Examiner.

Accountability involves rendering accounts about an individual’s behavior or activities [Roberts, 1991] and is a way of making sense of the world by making it reportable and observable [Garfinkel, 1967]. Ezzamel [2009, p. 349] contends that accounting may be understood as a technology that underpins social, moral, and natural order, by functioning as a set of insti-

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22 See CD MS A XIV 9-10.
23 See 1QS V 24–VI 11 and CD MS A IX 2-4 for the texts on the need for rebuke of others and see CD MS A IX 16-20 for the text on the instruction for the Examiner to write down a report of rebuke. Similarly, as found in 4Q266 D* frg. 18, V 16, the Examiner was to write down a report for a person expelled from the camp [Reed, 1996].
24 Murphy [2002, p. 222] argues that these violations may indeed be associated with wealth.
tutionalized practices, a ritual/religious ceremony, or as a means of disciplining and controlling populations. He argues that order in pre-modern societies is conceived as a means of organizing society in the image of heavenly order that is maintained through a number of performative rituals of which accounting is an important part. The execution of rebukes within the Essene community involves more than simply recordkeeping. It represents an accountability-related performative ritual shaped by Levitical Law used to discipline and control Essene society.

There are also a few economic texts consisting of letters, deeds, and accounts or contracts found at Qumran that may have been prepared by the Examiner. We discuss one of these texts in greater detail in a subsequent section on the Examiner’s role as an auditor. Having outlined the overall role of the Examiner and some general recordkeeping/accountability tasks that he likely performed, we now turn to a more focused discussion on how the Examiner was to act in a capacity similar to a commodity regulator, auditor, and tax agent, and how Essene religious beliefs and ethical codes underpinned these functions.

The Examiner as a regulator: The Damascus Document specifies that the Examiner had administrative responsibility over all commercial transactions outside the community. Particularly, sectarian trade (i.e., buying and selling) with outsiders was permitted only if it was sanctioned by the Examiner:

No man shall form any association for buying and selling without informing the Guardian of the camp and shall act on [his] advice and they shall not go [astray] [Vermes, 1997, p. 142].

Another translation from a corresponding text reads:

… Let no one do anything to buy and or to sell except before the Examiner who is in the camp; he shall do it [ so that they do not err [Murphy, 2002, p. 57].

25 See 4Q342-4Q361. These texts were published in Cotton and Yardeni [1997]. For a variety of reasons which Cotton discusses, she contends that many of these texts came from other places in the Judean desert and were not from Qumran. Contrariwise, Eshel [2001] makes the case that at least some of these texts were from Qumran, and Murphy [2002] argues that many of these texts were indeed produced at Qumran. In general, it seems likely that the Examiner would have produced documentary texts like these.

26 See CD XIII 15-17.

27 See 4QD X ii 1-2. Italic text indicates text reconstructed on the basis of 4QD*. 
If a community member wished to enter into a business of selling and buying commodities such as dates or grain, the member was first required to register with the Examiner. Although it is not clear what information was required of the member, it is reasonable to posit that the Examiner demanded information as to the type of trading in which the member was interested, those with whom the sectarian would be trading, and how the business would operate. The Examiner likely also considered the financial condition of the member (recall that most property was privately maintained in the Damascus community), as the wealth of sectarians was the foremost object of the Examiner’s scrutiny [Murphy, 2002]. Consequently, it is possible that the Examiner obtained the necessary information regarding the financial status of the sectarian before making a decision on whether or not to approve the member’s proposed business venture.

The community’s stringent interpretation of purity laws severely restricted members’ potential trading partners. Whereas community members could, in certain circumstances, deal with Gentiles and mainstream Jews (with Examiner permission), members absolutely could not transact business with apostates and would be heavily penalized if found doing so [Murphy, 2002, p. 398]. A major concern in dealing with Gentiles is that they did not understand purity issues and, consequently, did not follow appropriate procedures necessary to maintain purity, such as the proper tithing of produce. Several references are made to sons (or men) of the “pit” in the Dead Sea Scrolls. While the phrase is frequently understood to be a derogatory metaphor for the community’s enemies, Murphy [2002, p. 76] contends that the phrase has a concrete referent in local economic practice. Ancient ostraca indicate “the pit” to be a place where commodities such as grain, wine, and oil were deposited, paid or stored. Therefore, the pit “was an economic hub long before the advent of the contemporary stock exchange” [Murphy, 2002, p. 373]. Since the phrase occurs in contexts where the economic practices of others are being condemned, sons (or men) of the pit might also refer to owners or merchants who managed pits where taxes, debts, or other assessments were paid in kind.

The Examiner authorized all cash purchases and sales

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28 Members could deal with Gentiles so long as the dealing did not involve violence or charity. Also, CD XII 8-9 states that clean animals or birds and grain should not be sold to Gentiles.

29 See CD VI 15, XIII 14, 1QS IX 16, 22, 19, and 4QD* 3 ii 20-21.
in an effort to prevent members from dealing with the wrong people such as Gentiles, apostates, or the sons of the pit, handling tainted funds obtained through usury, or contributing to institutions rejected by the community (e.g., the Temple and perhaps the tax-farming system) [Murphy, 2002]. The Damascus Document prohibits usury among members, and this prohibition is based on the Levitical Law against usury (see Leviticus 25:37; Ezekiel 18; Psalm 15). The community regarded money obtained through usury as violent gain. The sect’s socio-religious values such as their aversion to currency obtained in a manner condemned by Mosaic Law and their fidelity to the covenant in not dealing with “impure” individuals or contributing to institutions rejected by their society, created the need for a regulator to maintain their purity of life and faith in part by ensuring that community funds would not be intermingled with tainted funds – an intolerable outcome according to the Dead Sea Scrolls.

As found in the Damascus Document and in the Community Rule, community members are threatened with the prospect of penalties and fines to be imposed by the Examiner and others in cases of noncompliance with community rules regarding property and commercial matters:

[The one who] lies about money knowingly shall be [separated from the purity] for one year [and shall be punished] for six days [Murphy, 2002, p. 53].

If one of them has lied deliberately in matters of property, he shall be excluded from the pure Meal of the Congregation for one year and shall do penance with respect to one quarter of his food [Vermes, 1997, p. 107].

In fact, lying about property is the first sin mentioned in sectarian penal codes in both the Damascus Document and the Community Rule. Since buying and selling involves property, it is likely that community members who did not follow the prescribed protocol for outside trading were subject to penalties including partial excommunication or expulsion – a disciplinary responsibility of the Examiner in his role as a regulator.

30 See 4QD4 4 8-11.
31 See 1QS IX 9 and 4QS4 VII 8-9.
32 See CD XIV 20-21. The fragmentary text was reconstructed by Murphy [2002] using 4QDd 11 i 4-5, 14, and 1QS VI 24-25.
33 See 1QS VI 24-25. In the Community Rule, this probably was an issue only when people transferred their property to the sect upon initiation as, after the transfer, they (conceivably) had no private property.
The Examiner as an auditor: The Damascus Document and Community Rule indicate that the Examiner was responsible for examining and admitting newcomers to the community based on his assessment:

And everyone who joins his congregation he shall examine him for his deeds and his insight and his strength and his might and his wealth, and shall inscribe him in his place according to his inheritance in the lot of light [Murphy, 2002, p. 59].

No member of the camp shall have authority to admit a man to the Congregation against the decision of the Guardian of the camp [Vermes, 1997, p. 142].

Every man, born of Israel, who freely pledges himself to join the Council of the Community shall be examined by the Guardian at the head of the Congregation concerning his understanding and his deeds [Vermes, 1997, p. 106].

The Community Rule states an additional requirement in that after a one-year probationary period, the initiates’ property was to be transferred to the community:

... his property and earnings shall be handed over to the Bursar of the Congregation who shall register it to his account and shall not spend it for the Congregation ... then he shall be inscribed among his brethren ... his property shall be merged and he shall offer his counsel and judgment to the Community [Vermes, 1997, 106-107].

Thus, in the Community Rule, the Examiner’s inspection of new sectaries included overseeing the deposits of the initiate’s money or commodities [Murphy, 2002]. The Community Rule specifies that the initiate is to register his goods in the communal ledger “in his own hand,” and that at every stage his act is voluntary. In other words, the initiate himself would transcribe his inventory of assets onto the communal account ledger. The voluntary and independent nature of the transfer appears to have societal importance as the term “freely pledged” is used several times in the Community Rule in reference to

34 See CD XIII 11-12.
35 See CD XIII 13.
36 See 1 QS VI 13-14.
37 See 1QS VI 20-24.
38 See Murphy [2002, pp. 366, 370, 373] and 1QS VI 20.
sectarian membership. This conscription/inspection process was performed each time an initiate joined the community and represents another important performative ritual within the Essene community institutionalized into their society by repetition and reiteration [cf. Hodgson, 2005]. The conscription/inspection process represented a coincidence of signifying and enacting [cf. Buttler, 1993, p. 198] a new initiate’s acceptance into the religious community. This process may also be understood as a pre-screening of anticipated membership in a post-judgment society based on the group’s eschatological vision.

In addition to assessing the intangible assets of the initiate such as his deeds and insight, the Examiner also examined his wealth. Indeed, an initiate’s wealth was the primary focus of the Examiner’s scrutiny [Murphy, 2002]. The meaning of the verb “to examine” used in the Damascus Document is “to pay careful attention to or to examine” [Murphy, 2002, p. 59]. Although the precise nature of the Examiner’s scrutiny is ambiguous, it is likely that the Examiner checked the self-entered accounts of the initiate in the ledger against the actual possessions being enlisted. Since the initiate would register the goods in the ledger by his own hand, the Examiner would be independent of that accounting record and audit the ledger by cross-checking it against the actual money, commodities, and other property being transferred. Since the text indicates that the Examiner supervised the registration of goods in the initiate’s own hand in the communal ledger, positing that his supervisory function included verifying that the ledger was accurate is certainly reasonable, especially in light of evidence that auditing was being practiced in the ancient civilizations of Mesopotamia, Egypt, Greece, and Rome.

There are several direct and indirect references to auditing in the Bible [Davis, 1981; Smolinski et al., 1992]. For example, Davis [1981] contends that Joseph audited the records of subordinates in managing Potiphar’s estate (see Genesis 39) and

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39 For example, see 1QS V 1, 6-8, 22-23, VI 13-14.
40 This verb is used frequently in a papyrus record of Aramaic accounts of customs inspections from Egypt (ca. 450-400 BCE), for example: “On the 30th of Athyr they inspected (examined) for Egypt, 1 ship of Ionian, a large ship it is. The duty which was collected from it and made over to the store-house of the king: gold, 10 staters for gold, 8 shekels, 15 hallurs; silver, 10 karsh, 2 hallurs, 2 quarters” [Murphy, 2002, p. 374].
41 As found in Acts 5, Ananias and Sapphira were punished because they lied about what they handed over to the group. While the story in Acts 5 does not explain how Peter knew this, it infers that some sort of accounting was done here.
Hagerman [1980] notes several instances in the Old Testament where an audit was implied, such as in 2 Kings 22:5-7 where workers repairing the Temple were required to render an account of money. Further, clay tablets from ancient Mesopotamia reveal tiny marks next to accounting figures (e.g., amounts of grain) indicating that some type of checking was performed [Most, 1959; Smolinski et al., 1992]. A drawing from an ancient Egyptian tomb indicates that as grain was deposited in a granary, the amount was recorded independently by two scribes and a supervisor compared the two amounts [Smolinski et al., 1992]. There is also evidence that audit type duties were being performed during the Achaemenid Persian Empire (550–330 BCE) as revealed in the Persepolis Fortification Tablets [Vollmers, 2009]. Moreover, one of the few economic texts found at Qumran (4Q350) points to another area where the Examiner may have functioned as an auditor.42

4Q350 seems to be a ledger with three columns with twelve names. Cotton [2000] suggests that the first column is a list of names, the second column with letters underlined refers to amounts of grain, and that the third column represents checks added by the producer of the text which appear to be checks made by someone who is verifying the items and amounts. Other examples of such ledgers have been found in other sites in the Judean desert.43 Since this text is similar to those found at other sites, it seems reasonable that the Examiner might have written such a text and/or verified the items or amounts, although we cannot prove this.

As Mosaic Law compelled sectarians in the Community Rule to share property, and societal importance was placed on the voluntary and independent nature of the transfer of property to the community, we again see how the socio-religious values of a community can shape their accounting and auditing practices. A communal ledger on which entries were being made by various individuals (initiates) must be examined for accuracy, creating the need for an individual such as the Examiner to function

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42 4Q350 is a Greek economic text which is found on the back of a literary text, Narrative work and Prayer (4Q460), written in Hebrew. Some scholars have argued that this text must have been produced by someone else – perhaps even by the Romans who later occupied the site. However, Richey [2012, p. 186] claims that “4Q350 thus provides compelling evidence for the Covenanters’ daily business having been conducted, at least on occasion, in the Greek language and incorporating common recording techniques.”

43 For example, see Mur 89-107, Nahal Seelim (34Se 5), and Nahal Mishmar (Mish 2).
in this regard.

*The Examiner as a tax agent*: Another Mosaic Law influenced one of the community’s taxation systems. The command in Leviticus 19:18 “to love your neighbor as yourself” is quoted in the Damascus Document. Indeed, Josephus [1970] describes the Essenes as “lovers of one another.” This community ideal shaped a taxation practice aimed to help sectarians in need:

They shall place the earnings of at least two days out of every month into the hands of the Guardian and the Judges, and from it they shall give to the fatherless, and from it they shall succor the poor and the needy, the aged sick and the man who is stricken (with disease), the captive taken by a foreign people, the virgin with no near kin, and the maid for whom no man cares...[ Vermes, 1997, p. 143].

The phrase “at least” in the text indicates that in hard times greater contributions were probably raised on a voluntary basis [Capper, 2002]. Feeding and caring for the poor is not distinctively Essene, however, as many Biblical texts make the case for this practice. Capper [2002] states that this Damascus community tax remarkably anticipates Aristides’ account of early Christian charity and contends that Jesus took an interest in this organized poor-care network. The explanation of Jesus’ commandment that we should love one another in 1 John ardently concludes: “How does God’s love abide in anyone who has the world’s goods and sees a brother in need and yet refuses help?” (1 John 3:17).

The Examiner’s function as a tax agent here is an easy association to make. The Damascus Document reveals that it was the Examiner and judges who received the monthly contribution from sect members. It is not exactly clear what “earnings” represent, however. As outlined earlier, intra-sect commerce was on a barter system so earnings may be referring to money earned in Examiner-sanctioned commerce with outsiders. If this were to be the case, however, it remains unclear whether earnings refer to gross proceeds from selling commodities such as date honey or monthly “net income” from trading activity. It is also possible

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44 See CD VI 20-21.
45 See CD XIV 12-19.
46 Aristides the Athenian was a Greek Christian (2 CE) who wrote about Jews and early Christians.
47 Perhaps the role of the judges in the collection of this tax represents an internal control function.
that earnings refer to actual goods produced or caught (e.g., dates, soap, fish) as opposed to currency, or some combination of the two. However, taxes consisting of the commodities themselves are described with more specificity elsewhere in the Dead Sea Scrolls.48

Regardless of the form of the payment, the Examiner and judges were responsible for levying and collecting it each month. The taxes were used to support community members who needed assistance. This tax may also be viewed as a performative ritual. Members’ giving to the community’s needy both signified and enacted [cf. Buttler, 1993, p. 198] their love for neighbors as ordered by Levitical Law. This monthly ritual was institutionalized within Essene society by repetition and reiteration [cf. Hodgson, 2005]. The Examiner was also responsible for enforcing community rules (including their tax code) by taking disciplinary action against members who were deceitful in matters of property.

THE SACRED-SECULAR DIVIDE

In this section, we discuss how our findings on Essene accounting practices contribute to the literature on the sacred-secular divide. The notion of a sacred-secular divide in religious institutions was introduced into the accounting literature with Laughlin’s [1988] study on the Church of England [McPhail et al., 2005]. The sacred-secular dichotomy implies that accounting systems in a religious organization are not part of its sacred agenda and should not interfere with the more important spiritual endeavors of the institution [Laughlin, 1988; Laughlin, 1990]. According to this perspective, accounting is a profane support activity, separate from the legitimate sacred part of a church and the use of accounting in the church is viewed as an unwanted intervention into the sacred realm [Carmona and Ezzamel, 2006]. To illustrate, Laughlin [1988, p. 38] concludes “accounting systems, in this context, are legitimate aids…but they are not part of the sacred agenda and should not interfere with the more important spiritual endeavors of the Church of England.” A research framework based on the sacred-secular divide was further developed by Booth [1993] and some subsequent studies involving Australian Christian organizations adopted this perspective [Booth, 1995; Lightbody, 2000; Parker, 2001,

48 The Temple Scroll (11Q19 LX 8-10) stipulates that certain percentages of pigeons, wild animals, fish, and honey were to be given to the priests and Levites. The Temple Scroll is one of the Dead Sea Scrolls discovered at Qumran.
Accounting researchers have become increasingly skeptical of the sacred-secular divide, however, and are eager to move beyond it in their engagement with religion [McKernan and Kosmala, 2007, p. 731]. Irvine [2005] conducted interviews with key leaders and reviewed financial records and meeting minutes of an Australian Anglican church in considering the sacred-secular divide. Challenging the sacred-secular framework, she finds that attitudes toward accounting are inextricably intertwined with religious beliefs and that accounting can be a valuable tool in a cooperative attempt to implement a spiritual vision. Similarly, Jacobs’ [2005] findings based on interviews with accountants in the Church of Scotland also call into question the sacred-secular divide. He finds individual perceptions to be more consistent with jurisdictional conflict between accountants and clergy rather than evidence of a sacred-secular divide, concluding that sacred or secular accounting is an issue of perception. Jacobs and Walker [2004] explored the Iona Community of Scotland and found evidence that challenges the idea that accounting has no role in a sacred setting. Quattrone [2004] concluded that the sacred-secular interpretation does not hold in his analysis of the development of accounting practices in the Society of Jesus in Italy (16–17 CE), but rather their development was tightly intertwined with the ideology of the Roman Catholic doctrine of the Counter-Reformation.

Studies involving religious settings outside of western Christian churches also question the sacred-secular divide. Abdul-Rahman and Goddard [1998] studied two Islamic religious organizations in Malaysia and claim that Islam does not concede the sacred-secular dichotomy as Islam’s worldview encompasses both the worldly aspect and the religious aspect, with the worldly aspect seen as preparation for the religious aspect. Kuasiriken and Constable [2010] examined the cosmology of early Bangkok accounting (mid-19th century) and find no evidence of a sacred-secular divide. Ezzamel [2009] claims that ancient Egyptian temples (1552–1080 BCE) were sites of distinguishable but intertwined sacred and secular space and argues that accounting can be part of the sacred assembly. Fonfeder et al. [2003] studied the Hebrew Talmud’s account of internal controls in the ancient Jerusalem Temple (520 BCE–70 CE) and conclude that accounting did not represent a profane activity at odds with the Temple’s mission but rather was an integral part of the ritual process at the Temple.

Informed by this literature, we now consider whether the
sacred-secular framework applies to Essene accounting practices. Three Essene accounting/accountability activities are especially relevant to this analysis: disciplinary recordkeeping, taxation, and newcomer initiation. Some scholars believe that these accounting/accountability duties actually seem priestly [Kugler; 2000; Steiner; 2001] which is contradictory to the notion that accounting has no place amid the sacred. First, it is argued earlier in this paper that the execution of rebukes within the Essene community represents an accountability-related performative ritual shaped by Levitical Law used to discipline and control Essene society. Keeping records of transgressions was necessary in order to identify repeat offenders and potentially expel them from the camp. The goal of this entire process was to preserve the purity of the community. Recall that the Essenes’ vision was to establish a community on earth that would emulate a perfect post-judgment society and they worked to maintain this near-utopian precursor society in part by disciplining or removing those individuals who the Examiner believed were not likely to be a part of the imminent post-judgment society. Accounting was linked to their spiritual beliefs and used as a tool to implement the Essenes’ vision. This is consistent with Irvine’s [2005] conclusions. She finds that an Australian Anglican church uses a financial budget as a measure of spiritual vitality and a tool to assist in its vision. The Essenes likely used the record of rebukes as a measure of the community’s spiritual purity in anticipation of a perfect post-judgment society.

Second, community members demonstrated their obedience to the Mosaic command to “love your neighbor as yourself” by giving to the group’s needy. A taxation system whereby members paid a tax consisting of at least two days of every month’s earnings to the Examiner and judges was necessary to implement this spiritual goal of caring for one another. Accounting in this context does not appear to be a profane support activity peripheral to a sacred agenda, but rather an integral part of the community’s goal of strict adherence to Levitical law – necessary for them to remain spiritually pure.

Finally, newcomer initiation provides evidence that accounting was directly linked to the sacred admittance process. The Examiner oversaw the deposit of the initiate’s money and commodities to the communal fund and the initiate himself registered his goods in the communal ledger as the voluntary nature of the transfer had societal importance to the group. The names of all who were accepted into the Essene community were recorded in the ledger which was likely seen as a precursor
to the Biblical book of life. Once again, accounting in this context seems to be intertwined with the sacred, which is inconsistent with the sacred-secular divide perspective. Far from being antithetical to religious beliefs, we find that accounting actually enabled the better practice and monitoring of religious behavior.

SUMMARY AND CONCLUSION

In this study, we explored the Dead Sea Scrolls to demonstrate how Essene socio-religious values shaped their accounting and economic practices. We focused primarily on the accounting and commercial responsibilities of a leader within their community – the Examiner. We outlined how certain sectarian accounting practices may be understood as ritual/religious ceremony and addressed the performative roles of the Essenes’ accounting and business practices in light of their beliefs.

The principal literary texts used in our analysis are the Damascus Document and the Community Rule which outline rules concerning the institutions and organization of Essene communities. Our research indicates that the Examiner’s maintenance of a record of rebukes represents an accountability-related performative ritual that was formed by Levitical Law and used to discipline and control Essene society. Our research also reveals that in sanctioning members’ external trading activities in an effort to protect the Damascus community from dealing with the wrong people, handling tainted funds, or contributing to institutions prohibited by the sect, the Examiner performed the role of a commodity regulator. The religious values of the Essenes such as their compulsion to avoid defilement by trading with people they considered to be impure or by handling money obtained through usury created the need for a regulator within their society.

The Community Rule suggests that the Examiner functioned as an auditor within the community. The Examiner oversaw deposits of initiates’ money and examined their wealth upon admission into the group. We contend that the Examiner verified community records, and that the need for this audit function was produced by the socio-religious values of the Essenes. Finally, the text reveals that the Examiner (along with judges) acted as a tax agent by imposing and collecting monthly taxes (about 8% of earnings) from community members to help sectarians in need. The Levitical Law “to love your neighbor as yourself” influenced the taxation system and the need for a tax agent. In sum, the accounting and regulatory structures and
practices associated with each of these economic functions of the Examiner were shaped by the socio-religious values of the Essenes.

We find that accounting would have been essential in creating and maintaining an economy based on the community’s Biblically-inspired eschatological vision. An audit of the initiates would be required to ensure that only suitable individuals joined the religious community; regulation, taxation, recordkeeping, and discipline would be necessary to make certain that matters of property and commerce were being conducted in accordance with the community’s guidelines based on the society’s interpretation of purity laws. The Examiner was to play a leading role in each of these areas. We find that the accounting practices of the Essenes were intertwined with, as opposed to separate from, their belief system and used as tools to implement their spiritual vision. We add to the literature on the interaction of religion with the structures and practices of accounting and regulation within society – a topic that has been historically neglected or marginalized [Kuasirikun and Constable, 2010].

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Herda, Reed and Bowlin, *Religious Beliefs and Accounting*


Salmagundi*

The editor invites you to submit items of an interesting nature, including reviews, discussions about accounting theory or practice, responses to past articles in the journal. We encourage debate and thoughtful pieces that are brief but compelling. These will not be subject to a double blind review.

In this volume we’ve included a tribute to and a review of the works of our late colleague, Richard Brief, written by Robert Bloom, former student and friend of the Academy.

*A mixture or assortment; a potpourri.
Richard Brief’s Contributions to Accounting Thought: Enlivening Accounting History

Abstract: This is a personal appreciation of Richard Brief, the accounting historian and professor, who died in 2013. Dick served as a member of my doctoral dissertation committee in 1975-1976. The author of a number of provocative articles on the evolution of accounting practice in the United States and abroad, he published in The Journal of Accounting Research, The Accounting Review, and Business History Review. Brief was well-known for editing numerous books on accounting history in the United States and abroad. Additionally, his papers on the application of statistics to accounting issues and financial statement ratios were forerunners in the mathematical modeling of accounting research.

INTRODUCTION

Brief was a dynamic mentor who made historical accounting research fun. A unique academic accountant who primarily taught statistics, including regression and quality control, he held a joint appointment in the Quantitative Analysis and Accounting Departments at the Stern School. This unusual arrangement suited him well as his teaching interests pertained only to accounting history and theory, two courses that were seldom offered since the 1980s.

Brief received a bachelor’s degree and MBA from Dartmouth and, after serving in the military, a Ph.D. in economics from Columbia. He joined the NYU faculty in 1961 and remained there for 45 years, which included a seven-year stint as associate dean for academic affairs and visiting professorships at Dartmouth and Catholic University in Rio de Janeiro.

He edited a staggering 383 reprint volumes published by Arno Press and Garland Publishing, covering a wide range...
of topics: the history of accounting, the development of contemporary accounting thought, the dimensions of accounting theory and practice, accounting in transition, accounting history and the development of a profession, accounting thought and practice through the years, foundations of accounting, accounting history and thought, and new works in accounting history. Eleven books that he edited or authored himself focus on the following themes: nineteenth century capital accounting and business investment, Dicksee’s contributions to accounting thought, classics on double-entry bookkeeping, depreciation and capital maintenance, corporate financial reporting in the 19th and early 20th centuries, estimating the economic rate of return from accounting data, and Preinreich’s contributions to accounting thought. In 1983, he received the Hourglass Award from the Academy of Accounting Historians.

This paper reviews Brief’s articles. The conclusion offers an assessment of Brief’s legacy, providing comments from colleagues and students alike.

HIS RESEARCH

The general themes that run through many of Brief’s articles follow. Accounting data is inherently uncertain but conveys the opposite impression, especially in financial statements, which are often viewed erroneously as factual. To the contrary, most accounting numbers are estimates, if not guesstimates. Put another way, the figures reported on the financial statements are point estimates of statistical ranges, ranges which are not disclosed in the notes to the statements. Accounting as a statistical discipline fails to reflect the underlying uncertainty of the data it provides in financial statements.

Brief addressed the subject of income reporting in a number of his works. He argued that income measurement was indeterminable, given that the revenues and expenses comprising income cannot be known with certainty. Further, since there is no logical solution to the problem of allocating joint costs, there is no single way to measure periodic performance in their presence [Brief and Owen, 1970, p. 167]. Nevertheless, interim reporting can offer a test reading like a statistical sample of the future performance of the firm [Brief and Owen, 1975, p. 54]. He pointed out that income reporting following the Hicksian concept of earnings—the maximum amount that could be disposed of without impairing capital—was never envisioned to be applied to anything but historical cost [1982, p. 96-97]. Put
another way, he argued against applying other concepts of earnings to the Hicksian concept. In his publications on 19th and early 20th century financial reporting, Brief characterized the preparation of the financial statements essentially as a free-for-all, with companies having enormous latitude to reflect what they deemed appropriate in the absence of any standards [1975, p.295-296; 1987, p.144, 155]. In the course of his research, Brief found considerable variation among companies including innovation and experimentation in financial reporting methods, disclosures, and audit reports [1987, p. 148-151, 154-155]. Accounting errors during this time typically consisted of failing to distinguish between capital and revenue expenditures and failing to allocate the cost of fixed assets to expense over appropriate periods [1965, p. 14-31]. From his examination of the accounting literature, Brief found that cumulative or long run income (e.g., over a three year period) was often overstated to allow for dividend distributions, contrary to the doctrine of “conservatism” by which some prominent authors, including Yamey, characterized 19th century accounting [1965, p.29]. Brief observed a persistent upward bias in income that undoubtedly affected investment, output, and pricing decisions during that time [1965, p. 29-31; 1966, p. 20, 22].

In his research, he found that railroads and other industries, especially in the 19th century, reported no depreciation or used replacement cost depreciation, or used various forms of historical cost depreciation in their financial reports – there was no standard practice. In some cases, the cost of replacements was expensed and the cost of actual additions capitalized. In other cases, both replacements and additions were capitalized. In any case, Brief argues that in the long run replacement accounting serves to lower capital consumption [1965, p. 21] and to overstate assets and income [1965, p.29] which may have been a significant factor in business failure [1966, p. 22].

Brief often uncovered neglected articles and books from which he would quote and discuss in his manuscripts. An example of one such work pertains to the foundation of accounting depreciation by Ladelle (1890). Here is Brief’s analysis of Ladelle’s work [1967, p. 37]:

Ladelle saw the question of depreciation as an allocation problem, and he may have been the first to associate the problem of depreciation with the more general problem of allocating joint costs. ...[T]he cost of an asset is joint to the periods during which it is in use, and the allocation of depreciation to each period must be
based on the expected net enjoyment to be derived during the period, after adjusting for the … interest on the unallocated portion of cost. The interest that is earned during the period is equivalent to the ‘normal’ rate of profit.\footnote{Interest is used here in the present value sense, meaning that the value and therefore the purchase price of a fixed asset, which is viewed as an investment activity, reflects the present value of the cash flows from enjoying its use \citeyear[pp. 28, 37]{Ladelle}. Ladelle’s concept of depreciation as Brief observes is broad, including not just wear and tear and obsolescence, but also price changes and investment credits. \citeyear{Brief, Ladelle}.}

Brief further concludes from Ladelle’s piece that: “Gains or losses arising from unexpected changes in market values, interest rates… cannot be allocated to the period in which the unanticipated event occurs…”[\citeyear[p.37]{Ladelle}]. This idea can be related to the accounting practice today. Companies decide when to sell fixed assets, and hence manage their income by showing a gain or loss on the sale only in that period instead of reflecting the unrealized holding gains and losses as they occur.

On the subject of cumulative financial statements [Brief et al., 1980], Brief and his coauthors emphasize the long run nature of firms even though accounting adopts a short-term perspective \citeyear[p.483]{Brief et al.}:

“…[U]nless a firm has an infinite life, either cumulative cash flows eventually must rise to the level of cumulative income or cumulative income eventually must fall to the level of cumulative cash flows.”

In the long run, income and cash flows will equate. Accordingly, if an income statement were prepared for the entire life of the firm, this statement would be on a cash basis since there would be no need for accruals, deferrals, and cost allocations.

With respect to audits, one of his favorite subjects, Brief observed that in the 19th century, the overriding emphasis was on finding fraud and detecting numerical errors, less so on capturing misapplications of principle, though the latter could well be due to errors or fraud. In contrast, the purpose of a contemporary audit is primarily to detect errors in principle, secondarily to detect errors in numbers, and, lastly, if possible, to detect fraud \citeyear[p. 23, footnote 55]{Brief}.

Brief noted that in the late 19th and early 20th centuries there was no U.S. guidance in preparing audit or financial reports due to a lack of literature on these subjects. Laissez-faire governed the scope of the audit and the nature of the audit.
report. The content and length of the audit reports varied considerably [1987, p. 150]. He observed that the audit certificates “ranged from sketchy to detailed. Yet, in spite of this diversity, there is clear evidence of an awareness of accounting and reporting problems...” [1987, p. 149]. The independence of the auditor and the conflict between management and the auditor were issues since the 1800s [1975, p. 291]. Additionally, Brief contended that British 19th century audit reports, based on statutes enacted in that country, influenced U.S. audit reports in terms of calling for a balance sheet to be provided to stockholders and an opinion on whether this financial statement is “full and fair,” conveying a “true and correct” view of the affairs of the company [1987, p. 149].

The criticisms of contemporary audit reports clearly have a deja-vu flavor in light of Brief’s research. There is still a lack of transparency in these reports in terms of disclosing the specific work done by the auditors, the risks the company faces, and the risks of auditors’ missing significant errors, if not fraud. Moreover, U.S. audit reports today fail to disclose the name of the partner-in-charge of the audit, not to mention which particular offices of the audit firm conducted the audit tests.

A significant number of Brief’s published papers were cast in a mathematical framework. In fact, he was one of the earliest of academic accountants to couch his research in terms of statistics and calculus. In his judgment [1965, p. 14]:

“...[T]he components of error – sampling, procedural, and conceptual – enter into any discussion of statistical data. To classify accounting error into these components is a formidable task; for example, to determine conceptual error one must first determine an ‘ideal’ set of accounting procedures.”

Brief’s quantitative writings, particularly those coauthored with fellow NYU statistician Joel Owen in the 1960s, did not represent mainstream accounting research, and were not appreciated by academic accountants in general as I recall, despite publishing in the leading academic accounting journals in the 1960s and 1970s. In due course, however, this approach became an acceptable practice and eventually the norm in both theoretical and empirical accounting studies. Thus he was a forerunner in the application of mathematical modeling to theoretical and empirical research in accounting.
CONCLUSION

Dick Brief was fascinated with accounting history, and his enthusiasm was contagious. An independent thinker, he loved to dig into historical writings and evaluate their observations. In the process, he authored provocative pieces on corporate financial reporting and auditing from the past that are relevant to this day, encompassing such perennial issues as: (1) fair valuation, capital maintenance, and depreciation, as well as the conflict between management and the auditors, (2) the extent of disclosures in financial statements, and (3) the contents of the audit report. Additionally, Brief preserved many international classics on accounting history as the editor of many historic volumes. University libraries throughout the world include his numerous books in their accounting collections.

In Brief’s judgment, accounting issues are never new, but rather, are recycled periodically after being previously resolved. He argued that standard setting fails to come to grips with the paradoxical objective of accounting – providing information to users to reduce their uncertainty in decision making even though this information is inherently uncertain. As a discipline, Brief maintains that accounting does not adequately disclose the many uncertainties underlying the information it conveys—in particular, that income measurement involves uncertainty about the past and future because it is apprehensive about lawsuits from doing so. Accounting has long had a competitive attitude toward the legal profession and in the U.S., during the latter part of the 20th century, it sought to develop numerous rules in financial reporting, often emphasizing form rather than substance, to deter legal actions. That was not successful as the accounting fraud at Enron and WorldCom illustrate.

Raef Lawson, vice president of the Institute of Management Accountants, was one of his closest doctoral students [email, August 12, 2013):

“...Going through my PhD program was challenging – academically... and personally... Dick was the one faculty member who was always there for me, helping me through the program, helping me get started in publishing my research, and helping me begin my academic career. I owe so much to him...”

Kenneth Peasnell of the University of Lancaster observed [email, June 10, 2013]:

“He had a very unusual mix of quantitative and qual-
tative skills--a profile that seemed very much like a European generalist rather than the highly focused one needed to thrive in the US...In a time when academics became increasingly focused on getting 'hits' in the most prestigious journals, Dick stood out as a real intellectual, interested, first and foremost, in ideas."

Thankful to Brief for introducing him to classic “gems” in the Stern doctoral program, Suresh Radhakrishnan, now an accounting professor at the University of Texas at Dallas, misses his "sharp insight" from a seminar covering books by Paton, Littleton, and Hatfield [email, June 20, 2013].

As Joshua Livnat, Brief’s accounting colleague at NYU, recalled [email, June 20, 2013]: "After he was diagnosed with lung cancer and went through treatment ..., I asked him how he was coping with the uncertainty. He turned to me in amazement and asked: 'What do you mean? Do you know when you will die?'"

MY PERSONAL RECOLLECTIONS

I was privileged to audit a seminar on accounting theory that George Sorter, NYU’s chair of accounting at that time, and Brief taught jointly. Throughout the semester, this class was punctuated with provocative discussion and debate between those two eminent scholars. A beacon of ideas, Brief relished brainstorming and pursuing hypotheses with students and faculty alike. He took a special interest in the historical aspect of my dissertation, assisting me in developing this chapter, evaluating the information that I researched, and editing the entire manuscript.

I am particularly indebted to Dick for introducing me to Dicksee’s single-ship venture model, a one-period framework that I apply in teaching basic accounting concepts, including application of the cash basis, differentiation between historical cost and exit value depreciation, comparison of revenue and capital expenditures, and demonstration of the relevance of interim reporting.

Brief loved to start his courses with Dicksee’s simple framework, in which a ship is acquired for one voyage to transport goods and individuals and is sold at the end of the journey. Investors would participate in this venture, but once they make their investment they cannot later sell it in a secondary market [1975, p. 52-53]. At the termination of the venture, the proceeds from the sale of the ship go to the investors. In this scenario, there would be no accruals, deferrals, or cost allocations since
all the activity occurs within one period. The cash basis would be used. While historical-cost-based depreciation has no place in this framework, exit value depreciation—the decline in value of the ship from purchase to sale—is relevant. Furthermore, there would be no distinction between capital and revenue expenditures to consider. Forecasts of the expected cash inflows and outflows from this venture prior to sailing would be relevant to prospective investors in terms of deciding whether to invest. However, interim forecasts of the future cash flows once the ship launches would have no relevance because the price paid for the investment is sunk. Once students have achieved an understanding of accounting in this restrictive framework they can proceed to analyze more complex, multi-period models.

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