

Accounting Historians Journal

Volume 31
Issue 2 December 2004

Article 11

2004

Accounting Historians Journal, 2004, Vol. 31, no. 2 [whole issue]

Follow this and additional works at: https://egrove.olemiss.edu/aah_journal



Part of the [Accounting Commons](#), and the [Taxation Commons](#)

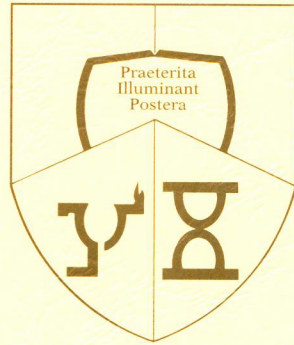
Recommended Citation

(2004) "Accounting Historians Journal, 2004, Vol. 31, no. 2 [whole issue]," *Accounting Historians Journal*: Vol. 31 : Iss. 2 , Article 11.

Available at: https://egrove.olemiss.edu/aah_journal/vol31/iss2/11

This Article is brought to you for free and open access by the Archival Digital Accounting Collection at eGrove. It has been accepted for inclusion in Accounting Historians Journal by an authorized editor of eGrove. For more information, please contact egrove@olemiss.edu.

Published by
The Academy of Accounting Historians

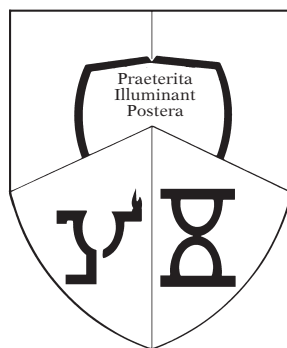


The *Accounting Historians Journal*

December 2004
Volume 31, Number 2

Research on the Evolution of Accounting
Thought and Accounting Practice

Published by
The Academy of Accounting Historians



The *Accounting Historians Journal*

December 2004
Volume 31, Number 2

Research on the Evolution of Accounting
Thought and Accounting Practice

The Accounting Historians Journal

Volume 31, Number 2

December 2004

2004 OFFICERS

President

Richard K. Fleischman
John Carroll University
PH: (216) 397-4443; FAX: 397-3063
email: fleischman@jcu.edu

Vice-President - Partnerships and International

Michael Gaffikin
University of Wollongong
PH: 61 2 42213718; FAX 61 2 42214297
email: gaffikin@uow.edu.au

President-Elect

Daniel L. Jensen
Ohio State University
PH: (614) 292-2529; FAX: 292-2118
email: jensen.7@osu.edu

Treasurer

John T. Rigsby
Mississippi State University
PH: (662) 325-1635; FAX 325-1646
email: jrigsby@cobilan.msstate.edu

Vice-President - Communication

Salvador Carmona
Insitute De Empresa, Spain
PH: 34 91 568 96 20
email: scarmona@profesor.ie.edu

Secretary

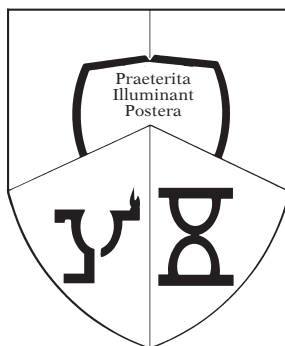
Sandra Welch
University of Texas at San Antonio
PH: (210) 497-1806; FAX: (210) 458-4322
email: swelch@utsa.edu

2004 TRUSTEES

Edward N. Coffman, Chairman

- Eugene H. Flegm (Bonita Springs, FL), Honorary Trustee, Emeritus
Garry D. Carnegie (Deakin University-Geelong), 2004-2006
Edward N. Coffman (Virginia Commonwealth University), 2004-2006
Joann Noe Cross (University of Wisconsin-Oshkosh), 2003-2005
Dale L. Flesher (University of Mississippi), 2004-2006
O. Finley Graves (University of North Texas), 2002-2004
Sarah A. Holmes (Texas A&M University), 2002-2006
Cheryl S. McWatters (McGill University), 2003-2005
Barbara Merino (University of North Texas), 2003-2005
Gary J. Previts (Case Western Reserve University), 2004-2006
Vaughan S. Radcliffe (University of Western Ontario), 2002-2004
William D. Samson (The University of Alabama), 2003-2005
Thomas N. Tyson (St. John Fisher College), 2002-2004
Mary S. Stone (The University of Alabama), Corporate Agent

In addition to publishing the *Accounting Historians Journal*, the Academy publishes *The Accounting Historians Notebook*, Monographs, and reprints of Accounting History Classics. Annual membership dues, including subscriptions to the *Accounting Historians Journal* and *The Accounting Historians Notebook*, are \$45 (U.S.) for individuals, \$55 (U.S.) for institutions and libraries and \$10 for students. Inquiries concerning membership, publications, and other matters relating to the Academy (other than submission of manuscripts to the *Accounting Historians Journal*) should be addressed to Kathy H. Rice, The Academy of Accounting Historians, The University of Alabama, Box 870220, Tuscaloosa, AL, USA 35487.



The *Accounting* *Historians* *Journal*

December 2004
Volume 31, Number 2

AHJ EDITORIAL STAFF

EDITOR

Stephen P. Walker
Cardiff University

REVIEWS EDITOR

Cheryl S. McWatters
University of Alberta

EDITORIAL BOARD

Salvador Carmona, Institute de Empresa
Garry D. Carnegie, Melbourne University Private
Mark A. Covalleski, University of Wisconsin
John R. Edwards, Cardiff University
Richard K. Fleischman, John Carroll University
Dale L. Flesher, University of Mississippi
Michael J.R. Gaffikin, University of Wollongong
O. Finley Graves, University of North Texas
Esteban Hernández-Esteve, Bank of Spain
Margaret Lamb, University of Warwick
Thomas A. Lee, University of Alabama
Ann Loft, Copenhagen Business School
Richard V. Mattessich, University of British Columbia
Alan G. Mayper, University of North Texas
Christopher J. Napier, University of Southampton
Leslie S. Oakes, University of New Mexico
Hiroshi Okano, Osaka City University
David Oldroyd, University of Newcastle
Lee D. Parker, University of Adelaide
Chris Poullaos, University of Sydney
Gary J. Previts, Case Western Reserve University
Alan J. Richardson, York University
Mary S. Stone, University of Alabama
Thomas N. Tyson, St. John Fisher College
Richard G. Vangermeersch, University of Rhode Island
Gloria L. Vollmers, University of Maine
Joni J. Young, University of New Mexico
Stephen A. Zeff, Rice University

The *Accounting Historians Journal* is a refereed, scholarly journal published semiannually in June and December, printed by the Birmingham Printing and Publishing Company, 3101 6th Avenue South, Birmingham, AL 35233. ISSN 0148-4182. *AHJ* does not assume responsibility for statements of fact or opinion made by its contributors.

ACCOUNTING HISTORIANS JOURNAL

Volume 31, Number 2

December 2004

CONTENTS

Articles

- Financial Crises and the Publication of the
Financial Statements of Banks in Spain, 1844-1868
— Mercedes Bernal Lloréns 1
- Economic Class, Social Status, and Early Scottish
Chartered Accountants
— Tom Lee 27
- Corporatism and Unavoidable Imperatives:
Recommendations on Accounting Principles and the
ICAEW Memorandum to the Cohen Committee
— Masayoshi Noguchi and John Richard Edwards . . . 53

Ancient Accounting

- Ancient Mesopotamian Accounting and Human
Cognitive Evolution
— Tom Mouck 97
- Kautilya on the Scope and Methodology of
Accounting, Organizational Design and the
Role of Ethics in Ancient India
— Balbir S. Sihag 125
- Accounting Systems and Recording Procedures
in the Early Islamic State
— Omar Abdullah Zaid 149

Interfaces

- Writing Accounting and Management History.
Insights from Unorthodox Music Historiography
— Luca Zan 171

- Noticeboard** 193

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.

ACCOUNTING HISTORIANS JOURNAL

Guide for Manuscript Submission

Three (3) copies of manuscripts for publication review should be submitted to Professor Stephen P. Walker, Cardiff Business School, Aberconway Building, Colum Drive, Cardiff CF10 3EU, U.K. 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:

1. An abstract of approximately 100 words on a page that includes the article's title but no identification of the author(s) .
2. A limited number of content footnotes.
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.

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.

Mercedes Bernal Lloréns
UNIVERSITY OF MURCIA

FINANCIAL CRISES AND THE PUBLICATION OF THE FINANCIAL STATEMENTS OF BANKS IN SPAIN, 1844-1868

Abstract: Financial crises have had a decisive influence on banking regulations in Spain. During the mid-19th century the publication of the financial statements of banks was considered key to the stability of the financial system. All new joint stock banking companies were to publish their statements in the *Madrid Gazette* in return for the privilege of limited liability. Similar obligations were placed on issuing banks. The copious publication of financial statements coincided with a period of financial prosperity. However, the crises that followed from 1864 to 1868 led to a reduction in the official publication of statements. This paper is concerned with an early response to crises in financial reporting. The study focuses on the relationship between the publication of accounting statements by banks and the GDP in Spain during the mid-19th century. The results suggest that the frequency of publication of financial statements may be an indicator of economic performance.

INTRODUCTION

As Hernández [1996a, p. 92] has noted, the ideas that helped to shape modern-day accounting in Spain originated in the 19th century. A number of short papers on accounting regulation in 19th century Spain have been published [Goxens, 1985; Fernández, 1988; Giner, 1993]. Explanations for change and the political, economic and social contexts in which it occurred have also been analyzed [Bernal, 2000]. Annisette and Macías [2002] revealed the financial reporting practices of the Banco de España. However, none of these contributions have

Acknowledgment: I am grateful to the two anonymous referees and the editor for comments and suggestions which helped to improve the paper significantly.

Submitted September 2002
Revised November 2003
Revised March 2004
Accepted April 2004

investigated changes in the accounting regulation of joint stock banking companies as a response to crises. Neither has there been any research into the relationship between financial disclosure and the trajectory of the economic cycle in mid-19th century Spain.

Kindleberger [1978] views the financial crisis of the 19th century as a key turning point in the business cycle and as the inevitable consequence of the preceding boom. He stresses the role of adverse expectations, forced liquidation and debt deflation. It has often been suggested that accounting regulation has changed as a response to financial crises and scandals [Previts and Merino, 1979, pp. 270-276; Merino and Neimark, 1982, p. 45; Walker, 1996, pp. 312-319; Bernal, 2000]. The shock effect of financial scandal has long been the catalyst for convincing legislators, businessmen and accountants of the need for reform [Edwards, 1996, pp. 66-67].

In Victorian Britain the lack of compulsory financial disclosure pertaining to manufacturing concerns contrasted with the reporting practices of public utilities, insurance companies, banks, and railroads, whose activities were more closely regulated and reported [Hawkins, 1963, p. 137]. Parker [1990, p. 69] explains the differential treatment of public utilities and regulated companies as being “for reasons of monopoly, privilege and safety, not just, or even primarily, for the protection of shareholders”. The British Parliament was not slow to legislate for increased disclosure in the case of particular sectors of the economy, especially where public interest had been aroused as a consequence of financial scandals, such as the City of Glasgow crash in 1878 [Napier and Noke, 1992, pp. 37-38; Walker, 1998].¹ Conversely, Bordo [1986, p. 191] argues that one of the key elements of a financial crisis is the fact that “Runs on particular banks . . . could lead to a general banking panic, where the public at large, fearful of suffering severe losses on their deposits should the banks fail, or of paying a premium on currency in the event of a suspension of payments, attempts to convert deposits into currency”. This situation can result in a significant reduction in the official publication of financial statements.

¹ Similarly, McCartney and Arnold [2002, pp. 401-417] have discussed changes in reporting practices by railway companies during the mid-19th century and provoked a re-examination of ideas about the impact of crises on financial reporting.

In this paper, I examine the essential features of the financial crises that occurred in Spain between 1844 and 1868, their influence on accounting regulation, and the publication of financial statements of the joint stock banking companies in the *Madrid Gazette*. The extent to which the volume of accounting publications was related to the level of economic activity is also explored. The study is based on the financial statements of bank and credit institutions published in the *Madrid Gazette*, 1844-1868 (8,760 bulletins). This period coincided with the reign of Isabel II, enabling an analysis of the reasons and consequences of the different accounting regulations that were passed under that regime. A series of financial statements of the numerous banks and credit institutions operating during the time were analyzed.

The findings reveal that the financial crises which occurred in mid-19th century Spain had a significant impact on the regulation and the financial disclosure practices of joint stock banking companies. As these new companies had the privilege of limited liability and the issuing banks had the right to issue notes, the publication of statements in the official government newspaper, the *Madrid Gazette*, was deemed necessary. Hitherto bankers were perceived as a form of trading concern [García López, 2000], subject to the rules of the Commercial Code, 1829 [Blanco, 1980; Hernández, 1996b]. Under this arrangement accounting information was confidential, although its disclosure and examination could be ordered in the event of proceedings in relation to succession or insolvency. Banks only published accounting information when obliged to do so by the state, and additional voluntary disclosures were seldom made.

The paper is structured as follows. The next section explores the background to bank disclosure practices in Spain. There follows a review of the financial statements of the joint stock banking companies and the impact of financial crises; an analysis of published financial statements, 1844-1855, a period when the creation of banks was very restrictive; an analysis of published accounts, 1856-1868, when the policy towards bank formation was more expansive. Then follows an examination of the correlation between the frequency of publication of financial statements and GDP in order to discover whether the extent of disclosure indicated greater macro-economic activity. This analysis of the correlation between financial disclosure and the Spanish GDP suggests that the frequency of publication of financial statements could be interpreted as an indicator of subsequent economic performance.

ANTECEDENTS

In 1833 the *London Gazette* began the monthly publication of notes in circulation issued by the Bank of England and the country banks in Britain [Gilbart, 1837, pp. 95-99]. However, the publication of statements about the assets and liabilities of the issuers and banking departments of the Bank of England, commonly called "the bank return", did not begin until the Joint-Stock Banks Regulation Act, 1844 required the publication of those statements [Parker, 1990; Jones and Aiken, 1994; Withers, 1910, pp. 70-71].² These disclosures increased the trust of the shareholders and the public and reduced the risk of bankruptcy of the joint-stock banks [Mill, 1848, p. 138].³

Courcelle-Seneuil [1857, pp. 289-299] states that a law in Massachusetts, 1829 obliged banks to periodically submit financial statements to the governor and arrange for their publication. Tucker [1839, p. 212] suggested that the American banks had become sensible of the advantages of publication experienced in Britain. In the same vein, Duncombe [1841, p. 244] indicated that the frequent publishing of statements by the American banks, together with the reports of the state directors following their examination and supervision of the institutions, would enable the public to understand the business of the bank, and to approve or disapprove of the measures taken by the directors.

In Spain, only the Banco Nacional de San Carlos was organized as a joint-stock company, in 1782.⁴ In 1829 it was liquidated and became the Banco de San Fernando. The Royal Decree of 12 July 1829 determined that the liquidation statements of the bank, with the table of the dividend and the state of the reserved fund, would be printed every six months, and copies distributed to any shareholders requesting them. Tedde [1999, p. 32] points out that on 10 July 1832 a Commission postponed the second issue of notes until a statement of the funds of the Banco de San Fernando, its operations and results were agreed at the first general meeting and disclosed in order for the public to verify the soundness of the institution. However, in March 1833,

²The Parliamentary Commission created to investigate the crisis of 1837, attributed to the excessive issue of notes of the private and commercial banks, recommended the periodical publication of the assets and liabilities of banks [Arrazola et al, 1852, pp. 468-469]. Gilbart [1837, pp. 99-101] highlighted the disadvantages of publishing the balances of the private banks.

³This opinion was incorporated in the sixth edition [1865].

⁴On early accounting by the Banco de San Carlos see Hernández [1989].

it was agreed to stop publishing the annual balance sheet of the bank to maintain secrecy with respect to “the chest where the mystery of the credit must be enclosed . . . a mystery that if published destroys its virtue” [Tortella, 1973, p. 29].

It was also established that the management of the Banco de San Fernando would be inspected by a commissioner, a royal appointee paid for by the bank. The commissioner was required to be a civil servant with sound financial knowledge. The appointment of a commissioner by royal appointment would feature in all the subsequent laws creating issuing banks. The commissioner's object was to scrutinize the books, registers and entries to guarantee the legality of the bank's operations, and to examine the report and balance sheet to be presented at the shareholders meetings, ensuring that these agreed with underlying books and documents.

During the mid-19th century it was considered that publication, the existence of capital proportionate to issues of notes⁵ and the verification of banking activity by competent inspectors, were essential to the stability of the financial system [Villaumé, 1857, p. 238].

FINANCIAL CRISES AND THE ACCOUNTING REGULATION OF JOINT STOCK BANKING COMPANIES

Although Spain was one of the cradles of liberalism during the 19th century, a stable political system could not be created and sustained in that country. During the reign of Isabel II (1843-1868) heated political dispute took place between two liberal factions: the *moderados* and the *progresistas*. Government was characterized by a high degree of state control [Artola, 1973, p. 212]. The economic situation was greatly influenced by the budgetary imbalances, which resulted from massive military spending during the 1793-1815 period. The country's impoverished state and the loss of colonies following the Spanish-American Wars of Independence (1810-1826) exacerbated the financial problems [Tortella, 1994, p.162]. However, from 1844 until the financial crisis of 1847 a period of growth ensued. This coincided with the end of the civil war and the expansion of the international economy.

⁵ Capie and Wood [1999, p. 4] suggest that the crises of 1847, 1857 and 1866 revealed the need to increase bank reserves in order to improve their protection during the financial crises.

In this period of economic well-being tradesmen and businessmen promoted joint stock banking companies. The object was to issue notes, thus securing the same rights as the Banco de San Fernando, the only issuing bank. In 1844 the Banco de Isabel II in Madrid and the Banco de Barcelona obtained this privilege, followed by the Banco de Cádiz in 1847.

Through the Law of 1 May 1844, the Banco de Barcelona was created. Its charters established that a double issue of notes was permissible when the "public had an exact knowledge of the sound bases that the credit of the bank rested upon". The Bank commenced activity on 1 September 1845. Its first report included a statement of operations and a balance sheet as at 31 January 1846. This would be published in the Barcelona newspapers and in the *Madrid Gazette*, where it was stated that the sound functioning of the bank was based on public knowledge of its operations. Under a Royal Decree of 25 February 1847 the Banco de San Fernando and the Banco de Isabel II merged. The government determined that the accounts of the merged bank would be published at specified intervals in the *Madrid Gazette*.

The Royal Order of 25 July 1847 approving the charters of the Banco de Cadiz established that the accounts of the bank were to be distributed to the shareholders, published in the *Madrid Gazette* and in the bulletin of the province of Cadiz. The Royal Order of 14 November 1848 also determined that the bank had to submit a statement, according to a model determined by the Treasury, every fifteen days, specifying the stock that it had in expired bills, and bills not collected or protested [Ruiz, 1977, p. 69].

The Crisis of 1847: The international crisis of 1847 affected Spain "violently" [Sardá, 1948, pp. 91-97]. Its nature was two-fold: agricultural, linked to the scarcity of cereals; and financial, caused by the rise in the price of silver. In Spain there was a great shortage of metals which increased the restriction on credit [Tortella, 1994, p. 176] resulting in financing difficulties for the state and the private sector. The nominal capital of the companies in the trade register of Madrid fell from an annual mean of 2,719.5 million "reales" in 1845-1846 to 554.9 million "reales" in 1847-1848 [Martín, 1993]. The majority of companies in the financial and insurance sector disappeared [Tedde, 1999, pp. 136-137].

The international crisis hastened approval of a law regulating companies on 17 February 1848. This imposed tight restrictions on the creation of issuing banks and reinforced inspection

and publication requirements. The Royal Order of 31 July 1848 emphasized that the main objective of the Law for the Regulation of Share Companies was to impose strict administrative order on companies and thereby protect the shareholders and those contracting with the company. This could only be guaranteed by frequent inspection and making operations visible through publicity. Such regulation was perceived as the price of limited liability. As a company was only liable in its contracts to the limit of share capital it was fair that those who contracted with it should know the limit of this guarantee.

The special characteristics of the issuing banks led the government to formulate specific regulations. This was especially the case with the most important bank, the Banco de San Fernando. An attempt was made in mid-1848 to tackle the discredit of its notes. The Royal Order of 21 June⁶ required the publication in the *Madrid Gazette* of the amount, series and numbers of all notes in order to reduce the number of notes in circulation [Arrazola et al, 1852, pp. 488-489]. An Order of 7 December 1849 determined that, within the first ten days of each month, the Governor of the Bank would send to the Treasury a statement declaring the operations of the previous month, the situation on the last day of the month, and the movement of notes and shares.

Further, the Law of 15 December 1851 reorganized the Banco de San Fernando and obliged the publication in the Monday issue of the *Madrid Gazette* of a statement showing notes in circulation, deposits, current accounts and stock, both in cash and gold or silver bars, and in fixed term current values and current values of probable execution in 90 days. Santillan, the Bank Governor, presented the first such statement on 16 February 1852 [Massa, 1858, p. 716]. He indicated that the form and content of the statement detailed the assets and liabilities of the Bank according to the practice of disclosing information to the board, which from hereon would be revealed to the public. Santillan added that the statement would not “extend to a greater number of entries without the risk of leading to faults or inexact appreciations . . . Now the statement must also include the debits for capital and profits, as well as the securities, which must face up to these interior obligations of the Bank, and due to their nature, not demandable”. He concluded by relating difficulties in relation to credits and the need to “accept them for the

⁶ See Santillan [1865, pp. 279-280].

value that corresponds to a prudential estimation" [Massa, 1858, p. 716].⁷

At the start of 1856 a Law of Issue Banks was approved, whereby the Banco de San Fernando became the Banco de España. At the same time a number of banks in the main towns were organized as joint stock companies and had the power to develop their activities in the same way as the banks of Barcelona and Cadiz, that is, under the control of the government, through a commissioner. However, a limit was placed on their activity through the requirement that the whole capital of the bank was to be deposited in cash. Although no limit was imposed on the issue volume, they were forbidden to make loans guaranteed by their own shares, or to overdraw or negotiate in government securities. In addition, they were obliged to publish statements each month⁸ in the government *Gazette* in a manner prescribed by the Treasury. This system was in force until 1874, when the majority of the banks ceased operating because an issue monopoly was granted to the Banco de España [Tedde, 1997, p. 378].

In the debate about the draft Law of Issue Banks, the deputy, Avecilla, outlined the action necessary to protect the wider interest: "The Government needs to exercise a tutorship and protective influence for the public interest and for the Bank ... luckily the first guarantee is that the whole capital of the Bank should be in cash. A second guarantee, which is enormous, consists of ordering the Debit and Credit statement to be published in the official newspapers, as well as the balance of all the operations, and for the public through that means, to be able to know the state of the operations of that establishment; and the third guarantee is that the Government will appoint the governors of the Banks" [*Diario de las Sesiones de las Cortes Constituyentes* 1854-1856, 15 January 1856, No. 288, p. 9883].

Credit Institutions: Also in 1856 the Law of Credit Institution Companies was approved with the aim of fostering industrial development. The credit institution has its origins in France,

⁷In the Royal Order of 18 February 1852 it was determined that the format sent on the 16th to the Treasury should be maintained.

⁸This is contained, in the Charters of the following Banks: *Banco de Malaga* (Royal Order of 28 June 1856), *Banco de Sevilla* (Royal Order of 1 December 1856), *Banco de Valladolid* (Royal Order of 1 May 1857), *Banco de Zaragoza* (Royal Order of 14 May 1857), *Banco de Santander* (Royal Order of 16 May 1857) and *Banco de Bilbao* (Royal Order of 19 May 1857).

though banks for promoting industrial development were created earlier elsewhere, such as the Société Générale in Brussels and the Seehandlung in Berlin [Landes, 2000, p. 246]. During the debate on the Law of Credit Institution Companies,⁹ the deputy, Mariategui, argued that the publication of financial statements was in the public interest.

In Spain credit institutions were enabled to devote themselves to an extensive range of financing activities with the exception of note issue. Thus they were able to carry out discounts, loans to promote firms, advance payments to the government and issue short-term bonds. In short, they acted as deposit, discount and investment banks. The government was empowered to approve the creation of credit institutions by royal decree and had a right of immediate inspection. In addition, article 8 of the law required the monthly publication of financial statements in the *Madrid Gazette* and also to provide, whenever the government requested, cash statements, portfolio and summaries of operations.¹⁰ The government could also examine, whenever it deemed advisable, the operations and accounts of the companies, and verify the state of their deposits.¹¹ For this purpose the companies had to present all books, documents and securities. All these duties would be referred to in the Charters establishing the credit institutions.¹²

The growth of the credit institutions was impressive. In barely ten years, 34 institutions were created.¹³ Under the Law they were free to adopt the liquidity and investment policy that

⁹The Draft Law extended the concessions made to the credit institutions to the railroad companies [*Diario de Sesiones de las Cortes Constituyentes 1854-1856*, 18 June 1856, No. 392, pp. 14294-14295].

¹⁰In the debate on this article concern for the interests of the shareholders and the public was expressed [*Diario de Sesiones de las Cortes Constituyentes 1854-1856*, 17 January 1856, No. 291, pp. 9958-9961].

¹¹Cameron [1971, pp. 141-143] points out how, during the creation of the Société Générale de Crédit Mobilier in 1852, members of the French Government had requested the inclusion of this institution in the tax system and control by government. This would be enforced by an obligation to send periodical financial statements to several government offices and in the examination of the company books by a representative from the Treasury.

¹²Examples of this include: *Crédito Mobiliario Español* (Royal Order of 22 March 1856), *Española Mercantil e Industrial* (Royal Order of 2 April 1856), *Compañía General de Crédito de España* (Royal Order of 26 April 1856), *Catalana General de Crédito* (Royal Order of 30 April 1856) and *Crédito Mobiliario Barcelonés* (Royal Order of 28 June 1856).

¹³On the spatial distribution and origin of capital, see Sánchez-Albornoz [1968].

most suited them. Some, such as the Crédito Mobiliario Español, had an investment portfolio that included railroads, insurance, urban services, real estate construction, national and foreign public debt and investments in French firms [Tedde, 1997, p. 380].

The new legislation on credit companies and a Railroad Law of 1855 encouraged the creation of a large number of companies. The government did not have sufficient trained personnel to perform statutory inspection of the growing number of companies. One commentator, Deputy Gaminde, also observed that the inspectors did not have sufficient accounting knowledge.¹⁴

The Crisis of 1857-1858: Limited economic recovery during 1849-1852 was disrupted by political and financial turmoil in 1853-1854. Weak governments and corruption scandals at the highest levels of the state precipitated the revolution of 1854¹⁵ and rendered unstable the government of the *progresistas* until July of 1856. In 1857 a new international crisis coincided with the effects of an abysmal cereal harvest in 1856-1857. The scarcity of cereals increased the chronic trade deficit and encouraged the release of monetary metals abroad. The effect of these adversities was partly offset by the increase in fiduciary circulation associated with economic activity generated by the banking and railway laws [Sánchez-Albornoz, 1977, pp. 27-67].

In response to the financial crisis of 1857 the Spanish government attempted to bolster the inspection of share companies. A Regulation of 12 December 1857 established that in addition to a journal, ledger and an inventory record, firms would also keep a share transfer book, a minute book of general meetings, and any other books "advisable for better accounts and order". It was established that having carried out checks, which included particular scrutiny of the existence of shares that the executives should have in "guarantee of their management", a copy of the financial statements for each quarter would be sent to the government, as well as a report on the recent trading and state of the company.

¹⁴See *Diario de Sesiones de las Cortes Constituyentes 1854-1856* [17 January 1856, No. 291, p. 9959].

¹⁵The revolution of 1854 resurrected the hopes, foregone in the 1848 revolution, of the European revolutionaries, inspiring Marx and Engels to write *Revolution in Spain*. See also Kiernan [1966].

In the years immediately following the crisis efforts were made to generate sufficient resources to finance industrialization and, above all, the construction of the railway network. Political stability was maintained from 1859 until 1863. This prosperity was only partly disrupted by the effects of the American Civil War.¹⁶

The Crisis of 1865-1868: By the end of 1864 economic expansion slowed. Expectations of high profits in the railways sector disappeared once the main lines were constructed and income was insufficient to cover the payment of minimum guaranteed interest. The risks assumed by the railway companies and, above all, by the credit institutions, which possessed the majority of their shares and bonds, together with the financing needs of a bankrupt government, caused a fall in security bonds and the subsequent restriction of both national and foreign credit to the private sector. This incited the bankruptcy of many of the newly created credit institutions [Sánchez-Albornoz, 1963, 1967]. The greatest panic took place in May 1866 and coincided with an international financial crisis following the closure of Overend, Gurney & Co. in London. This crisis affected Spanish industry and trade, and together with the bad harvests of 1867 and 1868, resulted in social and political unease. These events culminated in the revolution of September 1868 and the dethronement of Isabel II.

Santillán [1996, p. 462] has highlighted inefficiencies in the system of inspection conducted by commissioners under royal appointment or government delegates, in preventing abuses in the banks and credit institutions. These inefficiencies must have become more evident as the economic situation in Spain worsened. Tortella [1973, pp. 254-274] shows that during the first six months of 1864 ten credit institutions and four issue banks were opened. However, from October onwards, the *Compañía General de Crédito*, the *Banco de Valladolid* and the local credit institutions went into receivership, due to corruption scandals. The government's reply was to approve the Regulation for the Inspection of Joint Stock Credit Institutions of 30 July 1865. This Regulation was speedily developed from the Budget Law of 15 July. The reasons for the Law indicated that the existing inspection regime had not prevented abuses. The shareholders

¹⁶During May 1861 the customers of the *Banco de España* queued at its doors to withdraw their funds [Santillán, 1865, pp. 207-208].

had also been shown to be apathetic in protecting their interests.

The Regulation of 30 July 1865 required the banking and credit institution companies to compile financial statements, which revealed their financial status and disclosed cash, portfolios and a summary of their operations. Once examined these statements were to be sent monthly, via the General Inspector, to the Treasury. In addition, a civil servant prepared a quarterly summary of the state of the company. These summaries were also published. Further, companies were obliged to submit a literal copy of the minutes of shareholders meetings, the general balance statements together with the necessary notes and explanations, and reports and documents referred to in general meetings.

The inspection model for banks and credit institutions introduced by the Regulation of 30 July 1865 was that already applied to companies granted public works following the issue of bonds.¹⁷ The main difference was that a particular inspector was not allocated to a specific company, leaving the shareholders the task of watching over their interests and of monitoring the managers of the company. The inspection was to be carried out by special inspectors and delegates. These were public employees who were expected to hold degrees or doctorates in administration or jurisprudence.

The inspectors were required to examine the monthly financial statements, the cash statements, and portfolio and operations summaries. Inspectors could make regular or extraordinary visits and seek explanations about any aspect of the financial statements. During ordinary visits, the inspectors were to audit bonds, check cash counts with great care, as well as ensuring the accuracy of the balance statements that were sent to the Treasury following approval at the general meeting. Care was also to be taken that the issues of bonds were in due proportion to the capital realized, and did not exceed legally established limits. Inspectors were also bound to examine operations such as loans on the bank's shares and the acquisition of government securities. Another of the inspectors' tasks was to check that the company had not distributed dividends on the basis of profits not realized, and that the administrators had deposited their shares in guarantee of their management. The results of

¹⁷Royal Order of 17 February 1862. [*Colección Legislativa de España*, Volumen LXXXVII, pp. 188-189].

the inspection visits were to be notified as quickly as possible, and the discovery of offences reported immediately.

Whenever an extraordinary visit was made, the inspector or delegate had to prepare a statement or balance sheet and draft reports in accordance with the books of account. If the government considered it in the interests of the shareholders or the public the results of such visits could be published in the *Madrid Gazette*. If an inspector did not fulfill his tasks notice of his removal from office was published in the *Gazette*.

To summarize. In the period studied, the three main financial crises that took place in Spain resulted in regulatory change in financial reporting and inspection. The financial crisis of 1847-1848 precipitated the Law and Regulation of Share Companies, 1848; the agricultural and financial crisis of 1857-1858 was associated with the Regulation for the Inspection of Share Companies, 1857; and the financial crisis of 1865-1868 encouraged the formulation of the Regulation for the Inspection of Joint Stock Credit Institutions, 1865.

FINANCIAL STATEMENTS PUBLISHED IN THE *MADRID GAZETTE*, 1844-1855

This section of the paper examines the publication of the financial statements of banks from 1844 to 1855, the period in which the policy towards the creation of new banks was highly restrictive. As revealed in Table 1 disclosures increased markedly from the later 1840s.

No uniformity¹⁸ has been observed in the use of account names and the order in which account categories were presented in the financial statements published by the banks. The use of the same account name by different banks does not imply identical meaning. As a result comparisons of the financial affairs of any two banks are problematical. This lack of uniform presentation is, perhaps, to be expected given the limited theoretical development of Spanish accounting at the time.¹⁹

The statements and balance sheets of banks published in the *Madrid Gazette* were structured similarly and presented in double sided format. The statement was akin to a monthly list of ledger balances; the balance sheet was in the familiar traditional format. It is possible that the six-month balance statement was a

¹⁸In the UK uniformity was considered for financial institutions during the passage of legislation relating to banks in 1879 [Parker, 1990, p. 417].

¹⁹See, for example, Castaño [1861] and Tejedor [1876].

basis for determining the distribution of profits, since an extract of the profit and loss account was included. The statements were aimed at informing the public of the situation of the bank, especially in relation to: whether the limits of issue and minimum cash requirements were fulfilled, the amount of loans in relation to shares, and the recoverability and value of doubtful debts.

TABLE 1

**Number of Financial Statements of Banks Published in the
Madrid Gazette, 1844-1855**

Year	<i>Banco de San Fernando</i>		<i>Banco de Barcelona</i>		<i>Banco de Cádiz</i>		Total
	Balance sheets	Notes in circulation and cash	Balance sheets	Balance sheets	Statements of situation	Bank operations ²⁰	
1844	—	—	—	—	—	—	—
1845	—	—	—	—	—	—	—
1846	—	—	1	—	—	—	1
1847	—	—	—	—	—	—	—
1848	—	—	—	2	—	6	8
1849	—	5	5	1	10	6	27
1850	—	4	14	2	23	3	46
1851	—	5	10	—	18	4	37
1852	37	1	7	1	15	6	67
1853	47	—	8	1	9	—	65
1854	47	—	6	2	7	—	62
1855	41	—	—	—	—	—	41
Total	172	15	51	9	82	25	354

As can be seen, the Banco de San Fernando only offered information to the public following the years of financial instability, 1847 and 1848. Weekly circulation statements of notes and coins were only published in the *Madrid Gazette* for 14 weeks during 1849-1851. After February 1852 the publication of the weekly balance sheets referred to in the Law of 15 December 1851 commenced. These were published in the *Gazette* without interruption from 1852 to 1855. It should be pointed out that

the Banco de San Fernando, as well as being closely linked to the government, was quoted on the Stock Exchange of Madrid. Santillán [1865, p. 87] acknowledged that statements showing the full financial status of the Bank were not published, adding, "care was taken not to show the General Meeting more than what could not be hidden". This throws some doubt on the quality of the information published in the *Gazette*.

From its inception in December 1847 the Banco de Cádiz, published detailed six-monthly balance statements and extracts from its profit and loss account in the *Madrid Gazette*. The exception being 1851. It also published fortnightly statements from June 1849 onwards, which became monthly in 1853. In addition, the Bank published summaries of monthly operations from 1848 to 1852. With the onset of the government of the *progresistas*, in June 1854, the Banco de Cádiz and the Banco de Barcelona ceased publishing their financial statements until mid-1856. Exhibit 1 provides an example of a published statement for the Banco de Cádiz.

EXHIBIT 1

Financial Statement of the Banco de Cádiz, 1850

NUMERO 51.

BANCO DE CADIZ.

DIA 31 DE DICIEMBRE DE 1850.

ACTIVO.		PASIVO.	
Metalico en caja	12.517,500	Capital desembolsado por el 16 por 100 exigido á los accionistas	7.949,120
Billetes en caja	»	Importe de los billetes emitidos	10.848,000
Letras y pagarés en cartera a realizar	13.182,729 .14	Depósitos	793,000
Préstamos sobre metales preciosos	»	Cuentas corrientes	10.794,674 .27
Idem sobre efectos públicos	30,000	Efectos á pagar	»
Idem sobre otras materias, según especificación separada	2.809,500	Dividendos a pagar	3.454 .12
Efectos protestados de cobre probable	»	Débitos varios.....Ganancias y pérdidas	393,353 .15
Idem de cobro dudoso	»	Corresponsales de	4,143
Propiedades del Banco	1.565,804 .18		
Créditos por corresponsales	494,898 .6		
Idem dudosos	50,000		
Gastos generales	136,279 .9		
	30.786,711.13		30.786,711.13

NOTAS

- 1° Rs. Vn. 100.000,000 capital nominal.
49.682,000 i.d. de las acciones emitidas.

- 2° El Banco tiene rescatado un crecido número de acciones.

RESUMEN

Total activo.....	R.s. vn.	30.786,711.13.
Idem pasivo		30.786,711.13.
Igual.....	R.s. vn.	»

Especificación de los préstamos sobre varias materias.

Sobre acciones varias.....	1.863,500
Primeras materias	946,000
	Rs. vn. 2.809,500

Cádiz 34 de Diciembre de 1850. El Subdirector, J.M. Colom. Vº.Bº El comisario regio, Basilio de Peñalver

EXHIBIT 1 (continued)**Financial Statement of the Banco de Cádiz, 1850****BANK OF CADIZ**

ASSETS		LIABILITIES	
Coin in cash (in hand)	12.517,500	16% capital paid out as per shareholders demand	7.949,120
Bank notes in cash (in hand)	»	Total amount of bank notes issued	10.848,000
Bill of exchanges (Bills) and promissory notes (IOUs) to be realized	13.182,729..14	Deposits	793,000
Loans on precious metals		Current accounts	10.794,674..27
Idem on government securities	»	Notes payable	»
Idem on other materials, according to separate specifications	30,00	Dividends payable	3,454 ..15
Referred documents of likely collection	2.809,500	Debits variousProfits and losses	393,353
Idem of doubtful collection	»	Agents of	4,143
Properties of the bank	»		
Credits to agents	1.565,804..18		
Idem doubtful	494,896..6		
Overheads	50,000		
	136,279..9		
	30.786,711.13		30.786,711.13

NOTES

1/ Rs. Vn. 100.000.000 nominal capital
 49.682, 000 i.d. of the issued shares
 2/ The bank has an important number
 of redeemed shares

SUMMARY

Total assets Rs. Vn. 30.786,711.13
 Total liabilities Rs. Vn. 30.786,711.13
Equals Rs. Vn. »

Specification of loans on various materials

On shares various 1.863,500
 Raw materials 946,000
 Rs .Vn. 2.809,500

**FINANCIAL STATEMENTS PUBLISHED IN
 THE MADRID GAZETTE, 1856-1868**

In 1856 the financial climate was favorable to a more expansive policy towards company formation. This led to the approval of the Railway Law and the Laws of Issuing Banks and Joint Stock Credit Institutions. These encouraged the formation of new issuing banks and credit institutions and an inflow of foreign technical resources and capital necessary to develop the railway network. Together with the legal obligation to disclose,

the competition between financial institutions resulted in an increase in the publication of accounts.

Under the Law of Issuing Banks the banks were only to publish monthly statements. The financial statements display relative uniformity in form and content. This is likely to have been a response to the government's request for a detailed balance sheet with a defined structure to facilitate inspection.²¹ The information disclosed reflected the need to inspire public confidence: fiduciary circulation, minimum cash requirement, current accounts and deposits. Other operations were not detailed and the lack of detailed disclosure relating to bank portfolios gave rise to much concern, as this included bills and IOUs, loans guaranteed by shares or public bills, and investments in companies [Pérez, 1991, p. 88].

The statements published by the credit institutions were very succinct. Only four asset accounts and four liabilities accounts were disclosed. These statements were not uniform with respect to the name and ordering of the accounts. It appears that the statements were prepared with the aim of concealing as much information as possible. In 1858 the government prepared a set of draft model statements, which offered greater detail and comparability [Pérez, 1991, pp. 87-91]. However, standardization was not achieved and credit institutions continued to publish information that only partly reflected their financial state. Exhibit 2 reveals the limited extent of the disclosures made.

Table 2 reveals the frequency of accounting publication in the *Madrid Gazette*. The issue banks and the credit institutions regularly fulfilled the legal obligation to publish their statements from 1856 until the end of 1864. The rate of disclosure of financial statements was 84% for the issue banks, and 77% for the credit companies. It should be emphasized at this point that although the publication of accounts was obligatory and an inspection system existed, the state had a limited capacity to force companies to obey the rules. There were no formal penalties for non-compliance. When a failure to disclose occurred, it was the Treasury which published the financial statements in the *Madrid Gazette*.

In 1865 the financial crisis caused panic on the stock exchanges in Spain²² and this extended to the banking and credit

²¹ This occurred due to the Order of 29 January 1863 relating to the Banks of Cadiz, Seville and Jerez de la Frontera.

²² At this time the Stock Exchanges of Madrid and Barcelona operated. The *Banco de España*, the *Banco de Barcelona* and the most important credit companies of those towns were quoted with various degrees of regularity.

EXHIBIT 2**Financial Statement of the
Crédito Mobiliario Español, 1856****SOCIEDAD GENERAL***DE CREDITO MOVILIARIO ESPAÑOL**Estado en 31 de Diciembre de 1856*

En caja	{	En efectivo.....	2.252,897..92
		Cartera y títulos	23.168,495..74
En poder de varios			57.791,248..08
Diversos.....			1.049,378..76
Acciones			387.600,000
Rs. Vn.....			471.862,020..50
Capital.....			456.000,000
Cuentas corrientes			15.862,020..50
Rs. Vn.....			471.862,020..50

S.E. ú O. Madrid 31 de Diciembre de 1856.==Conforme==
 el administrador delegado, E. Duclerc.==El Jefe de
 Contabilidad, Bernardo de Copeda.

SOCIEDAD GENERAL
DE CRÉDITO MOBILIARIO ESPAÑOL

	Coins and bank notes	2.252,897 ..92
In cash		
	Portfolio	23.198.495..74
In other hands		57.791,248..08
Various		1.049,387..76
Shares		387.600,000
Rs. Vn.		471.862,020..50
Capital		456.000, 000
Current accounts		15.862,020..50
Rs. Vn.		471.862,020..50

institutions that had to attend to queues of customers wishing to withdraw their funds. In response the financial institutions temporarily ceased the publication of their accounts. This gave rise to mounting mistrust [Rosés, 1993, pp. 452-453]. During the period 1865 to 1868 there were months of high rates of disclosure and months when no statements were published. Overall, the rate of disclosure in this period fell to 50% for the issue

banks and 47% for credit companies. The Treasury attempted to reduce uncertainty, and in compliance with the Regulation on the Inspection of Credit Institutions, published quarterly statements for all companies, 1866-1868.

TABLE 2
Number of Financial Statements of Banks and Credit Institutions Published in the Madrid Gazette, 1856-1868

Year	Banks		Credit Institutions		Totals	
	No.	Statements of situation	No.	Statements of situation	No.	Statements of situations
1856	4	20	6	25	10	45
1857	10	55	6	65	17	120
1858	10	101	7	57	17	158
1859	10	115	7	69	17	184
1860	10	116	7	74	17	190
1861	10	109	8	79	18	188
1862	10	120	14	99	24	219
1863	12	129	18	138	30	267
1864	20	157	25	150	45	307
1865	21	141	32	158	53	299
1866	21	104	32	203	53	307
1867	21	125	30	156	51	281
1868	21	100	27	118	48	218
Totals		1,392		1,391		2,783

To further explore the reaction of financial institutions to crisis a further analysis of publication patterns was performed. This involved constructing a de-seasonalized series by means of adjusted moving averages.²³ The results are revealed in Table 3.

The data contained in Table 3 show that the lowest rates of disclosure occurred in the second quarter of 1865 and 1866 and in the second and fourth quarters of 1867 and 1868 (indicated in

²³For each month of each year the frequency of publication was calculated by dividing the number of published statements by the number of potential published statements. In order to determine the trend the moving averages method is used, thereby enabling us to replace the original series with a softer one, which is taken as a general tendency. Table 3 was obtained by dividing the first series obtained (publication frequency) by the seasonal movement index, thereby obtaining a de-seasonalized series.

TABLE 3
Moving Averages of Financial Statements Published
in the *Madrid Gazette*, 1856-1868

	1856	1857	1858	1859	1860	1861	1862	1863	1864	1865	1866	1867	1868
January	0.293	0.444	0.667	0.8	0.782	0.4	0.64	0.808	0.746	0.791	0.746	0.693	0.648
February	0.27	0.82	0.722	0.82	0.82	0.664	0.738	0.82	0.755	0.656	0.385	0.64	0.558
March	0.324	0.982	0.865	0.982	0.982	0.982	0.707	0.894	0.835	0.049	0.049	0.766	0.619
April	0.384	1.164	0.931	1.164	1.164	1.164	1.164	0.966	0.99	0.058	0.058	0.908	0.043
May	0.46	1.116	1.255	1.395	1.255	1.255	1.13	1.157	1.191	0.069	0	0.069	0.069
June	0.433	0.787	1.05	0.787	1.313	1.063	1.181	0.866	0.958	0	1.148	0.076	0.065
July	0.716	0.651	0.759	0.542	0.976	0.293	0.879	0.629	0.814	0.792	0.455	0.738	0.738
August	0.286	0.72	0.694	0.781	0.7	0.781	0.867	0.867	0.711	0.867	0.729	0.546	0.043
September	0.588	0.508	0.891	0.624	0.802	0.722	0.891	0.82	0.677	0.695	0.748	0.561	0.561
October	0.721	0.846	0.769	0.865	0.779	0.961	0.961	0.884	0.846	0.606	0.404	0.048	0.5
November	0.719	0.844	0.863	0.863	0.959	0.959	0.959	0.806	0.479	0.854	0.652	0.095	0.124
December	0.487	0.974	0.974	0.974	0.613	0.876	0.974	0.818	0.623	0.915	0.682	0.097	0.126

bold print) when the statements of the issue banks disappeared from the *Madrid Gazette*. These were also the periods of deepest financial crisis.

THE PUBLICATION OF FINANCIAL STATEMENTS AND GROSS DOMESTIC PRODUCT

The historical dynamics of accounting publication in Spain point to a certain relationship between the extent of publication and the level of economic activity. We may test the hypothesis that the number of publications is a surrogate of the financial situation of banks. To explore this apparent relationship a series for the arithmetic mean of the publications X (first column of Table 4), and a series for the Gross Domestic Product at factor cost (second column of Table 4) were compiled [Prados, 1995].

TABLE 4

Arithmetic Averages of Financial Statements Published and Gross Domestic Product

<i>Years</i>	X	$GDP(Y)$	$GDP.X$	$GDP(Y)^2$	X
1856-1857	0.469	734.8	344.6212	539,931.04	0.219961
1857-1858	0.783	773.5	605.6505	598,302.25	0.613089
1858-1859	0.694	774.1	537.2254	599,230.81	0.481636
1859-1860	0.867	813.3	705.1311	661,456.89	0.751689
1860-1861	0.9025	829.1	748.26275	687,406.81	0.814506
1861-1862	0.821	859.1	705.3211	738,052.81	0.674041
1862-1863	0.905	871.4	788.617	759,337.96	0.819025
1863-1864	0.853	881.9	752.2607	777,747.61	0.727609
1864-1865	0.783	892.3	698.6709	796,199.29	0.613089
1865-1866	0.5675	873.1	495.48425	762,303.61	0.322056
1866-1867	0.5125	824.6	422.6075	679,965.16	0.262656
1867-1868	0.4425	824.1	364.66425	679,140.81	0.195806
1868-1869	0.361	808.8	291.9768	654,157.44	0.130321
<i>Totals</i>	8.961	10,760.1	7,520.4936	8,933,232.4	6.625484

The data presented in the first two columns of Table 4 was used to conduct a correlation analysis between the average bank publications and the GDP for both the current year and the following year. The results are shown in Table 5. This reveals that no relation exists between the number of publications for the current year and the GDP of the same year. However, the analysis confirms a relationship between the average number of

bank publications and the GDP for the following year. It is thus possible to state that there is some relationship between the average number of publications and subsequent economic growth.

TABLE 5
Pearson Correlation Coefficients

	<u>GDP_n</u>	<u>GDP_{n+1}</u>
Publn	0.089	0.394

With these results in mind, a linear regression was conducted of the GDP for the 1856-1869 period in $n+1$ over the number of average publications in n . The number of banks and credit houses was used as a control variable, since the number of financial institutions is also an indicator of economic growth, as indicated by the correlation with the GDP (0.460). Table 6 reveals results that are highly significant (see significance of F-statistic) and have a high explanatory power (adjusted R-square of 0.789). Both the average publications in n and the number of banks in $n+1$ are positively related with GDP $+1$, with both variables being highly significant (see significance of t-statistics). The variance inflation factor (VIF) shows that no problems of co linearity exist between the independent variables.

TABLE 6
**Regression of GDP_{n+1} on Publications and
No. of Banks and Credit Societies**

Dependent variable: GDP _{n+1}					
Number of obs. = 13					
Model F-statistic = 23.449					
Significance of F-statistic = 0.000					
R-square = 0.824					
Adjusted R-square = 0.789					
Std. Error = 21.8233					
Independent variables	Coefficient	Std. Err.	t-statistic	Signific. (t-statistic)	VIF
Constant	581.972	37.181	15.652	0.000	
Publn	231.405	39.205	5.902	0.000	1.448
Banksocn1	2.809	0.455	6.169	0.000	1.448

GDP_{n+1} = Gross Domestic Product in $n+1$

Publn = mean publications in n

Banksocn1 = n of banks and credit societies in $n+1$

VIF = variance inflation factor to evaluate co linearity.

CONCLUSIONS

The publication and inspection of statements of accounts by joint stock banking companies in Spain was a means of providing the banking system with stability and a remedy for the effects of financial crises. This behavior followed examples set in the US and UK.

This paper has attempted to further our understanding of the disclosure practices of the banking sector in Spain during the 19th century. It has been shown that in terms of the level of disclosure (as revealed by the frequency of published statements in the *Madrid Gazette* during the period when the right to issue notes was exclusive to the Banks of San Fernando, Barcelona and Cádiz), was irregular. The issuing banks published more financial statements than the other credit institutions, and addressed their publications to shareholders and bondholders. In relation to the quality of these disclosures we have found that the information presented was not, in general, very detailed or uniform, despite government efforts to encourage standardized presentation.

Assuming that the publication of financial statements is a surrogate of the financial situation of the bank, the analysis indicates a strong relationship between sound financial situation and abundant publication, and financial crises and reduced publication. Likewise, the study has suggested that the average number of publications could serve as an indicator of future economic activity in Spain during the 19th century. Throughout the period covered by this study there was a widespread tendency among banks and credit institutions not to publish their financial statements during the year which preceded a decline in economic activity.

Finally, the existence of a relationship between the state of the economy and the volume of disclosure would seem to indicate a certain strategic behavior on the part of financial entities. Unlike other countries during the period in question, Spain had a regulated institutional framework. However, the government lacked the necessary means to enforce regulation and accountability practices continued to be substantially dictated by the directors of the banking houses. The main motivation for such behavior was to gain or maintain the trust of the financial market.

REFERENCES

- Artola, M. (1973), *La Burguesía Revolucionaria (1808-1869)* (Madrid: Alianza/Alfaguara).

- Annissette, M. and Macías, M. (2002), "The Bank of the State and the State of the Bank: Annual Accounts of the Banco de España, 1872-94," *European Accounting Review*, Vol. 11, No. 2: 401-417.
- Arrazola, L. et al (1852), *Enciclopedia Española de Derecho y Administración*, (Madrid: Imprenta de Díaz y Compañía).
- Bernal Lloréns, M. (2000), "The Crisis of 1847-1848 and the Regulation of Company Accounting in Spain," *Accounting History*, Vol. 5, No. 2: 13-30.
- Blanco Campaña, J., (1980), *Régimen jurídico de la Contabilidad de los Empresarios* (Madrid: Blanco Campaña).
- Bordo, M.D. (1986), "Financial Crises, Banking Crises, Stock Market Crashes and the Money Supply: Some International Evidence, 1870-1933," in Capie, F. and Wood, G.E. (eds.), *Financial Crises and the World Banking System* (St. Martin's Press: New York): 190-248.
- Cameron, R. (1961), *France and the Economic Development of Europe, 1800-1914*, (Princeton University Press: New Jersey). Spanish translation (1971) *Francia y el Desarrollo Económico de Europa 1800-1914* (Madrid: Tecnos).
- Capie F. and Wood G. E. (eds.) (1999), *Banking Theory 1870-1930* (London: Routledge).
- Castaño, F. (1861), *La Verdadera Contabilidad*, 22.^a ed., (1901), (Madrid: Imprenta de la viuda e hijos de Gómez Fuentenebro).
- Colección Legislativa de España*.
- Courcelle-Seneuil, J.G. (1857), *Traité Théorique et Pratique des Opérations de Banque* (Paris: Librairie de Guillaumin et Cie).
- Diario de las Sesiones de las Cortes Constituyentes 1854-1856*.
- Duncombe C. (1841), *Duncombe's Free Banking: An Essay on Banking, Currency, Finance, Exchanges, and Political Economy* (London: Routledge/Thoemmes Press), 1996 reprint.
- Edwards, J.R. (1996), "Financial Accounting Practice 1600-1970: Continuity and Change," in Lee, T.A. Bishop, A. and Parker R.H. (eds.), *Accounting History from the Renaissance to the Present. A Remembrance of Luca Pacioli* (New York: Garland Publishing Inc.): 31-70.
- Fernández Peña, E., (1988), "Legislación sobre Sociedades Anónimas en la España de mediados del siglo XIX," *Revista Española de Financiación y Contabilidad*, Vol. 17, No. 56: 373-390.
- García López, J.R. (2000), "Banking Merchants and Banking Houses: The Hidden Key to the Workings of the Spanish Banking System in the Nineteenth Century," *Accounting, Business & Financial History*, Vol. 10, No. 1: 37-56.
- Gilbart, J.W. (1837), *The History of Banking in America* (London: Routledge/Thoemmes Press), 1996 reprint.
- Giner Inchausti, B. (1993), "'Spain' in "Company Law and Accounting in Nineteenth-Century Europe,"" *European Accounting Review*, Vol. 2, No. 2: 353-361.
- Goxéns Duch, A. (1985), "Un Antecedente de la Auditoría de las Sociedades Anónimas," *Técnica Contable*, Vol. 37, No. 433: 19.
- Hawkins, D.F. (1963), "The Development of Modern Financial Reporting Practices among American Manufacturing Corporations," *Business History Review*, Vol. Autumn: 135-168.
- Hernández Esteve, E. (1989), "Apuntes para una Historia de la Contabilidad Bancaria en España," *Revista Española de Financiación y Contabilidad*, Vol. 18, No. 58: 21-96.
- Hernández Esteve, E. (1996a), "Problemática general de una historia de la contabilidad en España. Revisión genérica de las modernas corrientes epistemológicas y metodológicas, y cuestiones específicas," in *En torno a la*

- elaboración de una Historia de la contabilidad en España* (Madrid: AECA): 45-114.
- Hernández Esteve, E. (1996b), "Merchants Organizations and Accounting Regulation in Eighteenth-Century Spain," *Accounting, Business & Financial History*, Vol. 5, No. 2: 237-269.
- Jones, S. and Aiken, M. (1994), "The Significance of the Profit and Loss Account in Nineteenth-Century Britain: A Reassessment," *Abacus*, Vol. 30, No. 2: 196-230.
- Kiernan, V.G. (1966), *The Revolution of 1854 in Spanish History* (Oxford: Oxford University Press).
- Kindleberger, C.P. (1978), *Manias, Panics, and Crashes: A History of Financial Crises* (New York: Basic Books).
- Landes, D.S.(1998), *The Wealth and the Poverty of Nations* (New York: W.W. Norton and Co). Spanish translation (2000), *La Riqueza y la Pobreza de las Naciones* (Barcelona: Crítica).
- Martín Aceña, P. (1993), *La creación de Sociedades en Madrid (1830-1848). Un análisis del primer Registro Mercantil*, Programa de Historia Económica, Documento de Trabajo 9303 (Madrid: Fundación Empresa Pública).
- Marx K. and Engels F. (1939), *Revolution in Spain* (Lawrence and Wishart Ltd and International Publishers). Spanish translation (1961), *Revolución en España*. (Barcelona: Ediciones Ariel).
- Massa Sanguinetti, C. (1858), *Diccionario Jurídico Administrativo*, Tomo I, (Madrid: Imprenta de la Revista de Legislación y Jurisprudencia).
- McCartney, S. and Arnold, A.J. (2002), "Financial Reporting in the Context of Crisis: Reconsidering the Impact of the 'Mania' on Early Railway Accounting," *The European Accounting Review*, Vol. 11, No. 2: 401-417.
- Merino B.D. and Neimark M.D. (1982), "Disclosure Regulation and Public Policy. A Sociohistorical Reappraisal," *Journal of Accounting and Public Policy*, Vol. 1, No. 1: 33-57.
- Mill J.S. (1848), *Principles of Political Economy* (London: Augustus M. Kelley, Publishers), 1987 reprint.
- Napier, C. and Noke, C. (1992), "Accounting and Law: an Historical Overview of an Uneasy Relationship," in Bromwich, M. and Hopwood, A. (eds.), *Accounting and the Law* (Hertfordshire: Prentice Hall International): 30-54.
- Parker, R.H. (1990), "Regulating British Corporate Financial Reporting in the late Nineteenth Century," *Accounting, Business & Financial History*, Vol. 1, No. 1: 51-71.
- Pérez García, M.P. (1991), *La Bancarrota de un Banco emisor: El Banco de Valladolid* (Madrid: Instituto de Contabilidad y Auditoría de Cuentas).
- Prados de la Escosura, L. (1995), *Spain's Gross Domestic Product, 1850-1993: Quantitative Conjectures* (Working Papers, Universidad Carlos III de Madrid).
- Previts, G.J. and Merino, B.D. (1998), *A History of Accountancy in the United States* (Columbus: Ohio State University Press).
- Rosés i Vendoiro, J.R. (1993), *Primeras hipótesis sobre la función de los bancos en la industrialización catalana (1829-1883)* (V Congreso de la Asociación de Historia Económica, Universidad del País Vasco).
- Ruiz Velez-Frías, F. (1977), *Los Bancos de Emisión de Cádiz en el siglo XIX* (Córdoba: Universidad de Córdoba e Instituto de Historia de Andalucía).
- Sánchez-Albornoz, N. (1963), "La crisis de 1866 en Barcelona (notas para su estudio)," in *Homenaje a don Ramón Carande, II* (Madrid: Sociedad de Estudios y Publicaciones): 421-436.

- Sánchez-Albornoz, N. (1967), "La crisis de 1866 en Madrid: la Caja de Depósitos, las sociedades de crédito y la Bolsa," *Moneda y Crédito*, No. 100: 3-40.
- Sánchez-Albornoz, N. (1968), "Los bancos y las sociedades de crédito en provincias: 1856-1868," *Moneda y Crédito*, No. 104: 39-67.
- Sánchez-Albornoz, N. (1977), *España hace un siglo una economía dual* (Madrid: Alianza).
- Santillán, R. (1865), *Memoria Histórica sobre los Bancos* (Madrid: Banco de España), 1982 reprint.
- Santillán, R. (1960), *Memorias (1808-1856)* (Madrid: Tecnos), 1996 reprint.
- Sardá, J. (1948), *La Política Monetaria y las Fluctuaciones de la Economía Española en el Siglo XIX* (Barcelona: Altafulla), 1998 reprint.
- Tedde de Lorca, P. (1997), "La Banca," in Jover Zamora, J.M. (ed.), *Historia de España* (Madrid: Espasa Calpe): 355-390.
- Tedde de Lorca, P. (1999), *El Banco de San Fernando* (Madrid: Alianza Editorial).
- Tejedor y González, F. (1876), *Tratado Completo de Contabilidad* (Madrid: Manuel Rodríguez).
- Tortella Casares, G. (1973), *Los Orígenes del Capitalismo en España* (Madrid: Tecnos).
- Tortella Casares, G. (1994), *El Desarrollo de la España Contemporánea* (Madrid: Alianza).
- Tucker G. (1839), *Theory of Money and Banks* (London: Routledge/Thoemmes Press), 1996 reprint.
- Villaumé, M. (1857), *Nouveau Traité D'Économie Politique* (Paris: Guillaumin et Cie, Libraires).
- Walker, S.P. (1996), "Laissez-faire, Collectivism and Companies Legislation in Nineteenth-century Britain," *British Accounting Review*, Vol. 28, No. 4: 305-324.
- Walker, S.P. (1998), "More Sherry and Sandwiches? Incrementalism and the Regulation of late Victorian Bank Auditing," *Accounting History*, Vol. 3, No. 1: 33-54.
- Withers, H., Inglis Palgrave et al (1910), *The English Banking System* (Washington: Government Printing Office), reprinted 1999 in Capie F. and Wood G.E. (eds) *Banking Theory 1870-1930*, Vol. 4, (London: Routledge).

Tom Lee
UNIVERSITY OF ALABAMA

ECONOMIC CLASS, SOCIAL STATUS, AND EARLY SCOTTISH CHARTERED ACCOUNTANTS

Abstract: A recent study by Jacobs [2003] examines economic class bias in the contemporary recruitment practices of public accountancy firms. The study bases its argument on a historical review that suggests such bias has its origins in early Scottish chartered accountancy. This paper challenges the Jacobs thesis by examining the notion of economic class in relation to the social status of professions, and provides archival evidence of the effects of the recruitment practices of Scottish chartered accountants from mid 19th century until the beginning of the First World War. This evidence demonstrates a dual effect. The first is a considerable change during this period in the economic class origins of the general community of chartered accountants in Scotland and the second is relative stability in the economic class origins of their leadership. Scottish chartered accountancy immigrants to the US provide a clear example of the general community effect. They also reveal how economic class was not a significant factor in the success of their American professional careers. The data also highlight differences in these matters between chartered accountants from each of the three Scottish bodies and suggest generalizations about early Scottish chartered accountancy are inappropriate. Overall, therefore, and contrary to the argument of Jacobs, the early Scottish chartered accountancy bodies did not maintain their social status in terms of the economic class origins of their general memberships. Instead, they coped with the economics of a growing market for their services by increasingly recruiting men from lower middle class and working class backgrounds while maintaining their social respectability as a professional grouping with leaderships almost exclusively of upper class and upper middle class origins.

Acknowledgments: This has proved to be an exceedingly difficult paper to write because of the complexities and ambiguities associated with the notions of economic class and social origins, and the data preparation problems of categorizing these matters. I am therefore exceedingly grateful for the detailed and expert advice I received from the paper's two reviewers and the editor. As always, my failures are not theirs.

Submitted June 2003
Revised November 2003
Revised January 2004
Accepted January 2004

INTRODUCTION

The purpose of this paper is to examine the issue of “class” and its relationship through time to the organization of a maturing profession. Scottish chartered accountants in the middle of the 19th century are the initial focus of the study and their history to the beginning of the First World War provides evidence of the existence of class in a professional project intended to achieve both control over markets for services and social closure.

Motivation for the study comes from research by Jacobs [2003] on contemporary social closure practices by public accountancy recruiters in the UK. Jacobs uses a general review of the early history of Scottish chartered accountants to build his argument about the longevity of recruitment bias in this professional grouping in order to maintain its social status. In contrast, the present paper examines empirical data describing the economic class origins of the founders of Scottish chartered accountancy and compares these with data relating to subsequent members, including an important subset that developed public accountancy careers in the US. The various analyses reveal a clear change in the economic class origins of Scottish chartered accountants between 1854 and 1914 despite relative stability in the economic class profile of their leaders during the same period. The overall picture provided is of a professional group sufficiently flexible to accommodate growing demand for economic services without diminishing its social status. Further analyses identify the relative success of Scottish immigrants in the American profession and their leadership in its early development and maturation. This reveals a lack of obvious connection between economic class origins and professional success in such a context. Overall, the paper challenges the Jacobs thesis that early Scottish chartered accountants successfully maintained their economic class origins through several generations by means of social closure practices.

The paper contains several sections to present this history of economic class, social status, and professional success. It starts with a brief comparative discussion of class and status from a sociological perspective before considering the relationship of these concepts to professions. The next section uses the structure of the Victorian economic class system as a background to review the early history of the Scottish bodies of chartered accountants as perceived by Jacobs [2003]. A further section contains various empirical analyses of available data

concerning the economic class origins of Scottish chartered accountancy founders, post-foundation members, and immigrants to the US. These comparisons also contain data on the leaders of the Scottish bodies and contrast their economic class origins with those of other members over time. There is also an empirical contrast of the success of Scottish chartered accountancy immigrants in America with their economic class origins. Interpretations and conclusions form the final section of the paper.

CLASS AND STATUS

The purpose of this section is to compare and contrast the connected concepts of economic class and social status and argue for the use of the former as an analogy for the latter as occurs in various studies of the sociology of the public accountancy profession. The discussion focuses initially on the work of Weber [1962].

Weber [1962] reviews class, status, and power inequalities in communities organized to facilitate the distribution of goods and services. In particular, he describes the organization of these communities in terms of three related characteristics of power. He perceives classes as an economic order, status groups as a social order, and parties as a political order. In other words, Weber regards class as a form of sociological shorthand to describe individual economic interests with respect to the possession of goods and opportunities to earn income within economic markets. It is a sociological description of the economic situation in which individuals find themselves. In contrast, Weber sees status groups as factual sub-sets of a community, in which status exists through social honor and perceptions of cultural factors (e.g. breeding) rather than because of economics. According to Weber, class and status are therefore not equal or equivalent and one may precede the other in sociological terms. More specifically, in a particular organized community, social status may be more important to its members than economic class – as, say, with respect to the honor of an impoverished gentleman. The Weber perspective of class therefore contrasts with that of Marx [1867] in which the focus is on economic class as a social power struggle resulting from the production of economic goods and services. Class according to Marx is determined at birth and relates to prevailing attitudes, beliefs, and behavior. Unlike Weber, there appears to be little or no room for social mobility in the Marxian perspective of organized communities. Thus, because of the complexities of the contrasts

inherent in the Weberian and Marxian philosophies, the remainder of this paper focuses on the ideas of Weber. In particular, they relate more easily than those of Marx to the notion of a profession in contemporary society.

CLASS, STATUS, AND PROFESSIONS

In a detailed examination of the maturation of professions in the UK since 1880, Perkin [1989, p. 2] recognizes a horizontal hierarchy of professions within a "vertical swathe" of economic class that extends from landowner to laborer and from merchant to artisan. Consistent with Weber, he does not accept professions as a ruling class. Instead, he observes professionals permeating society from top to bottom within a hierarchy of inequality. The professional ideal according to Perkin is merit. This compares with the equivalent ideals of independence for the landowner, risk for the entrepreneur, and survival for the laborer. Such ideals are separate from but related to the economics of markets for goods and services and, thus society according to Perkin [1989, pp. 4-5] is a three-sided Weberian pyramid of economic class, social status, and political power that continuously changes through time. What professions attempt to achieve within this context is foster a community understanding of the indispensable nature of their members' intellectual capital, control of markets for their services, and conversion of capital and control into economic wealth, social status, and power. As such, Perkin's model is consistent with the Weberian philosophy of professionalism. In particular, because of its root dependence on intellectual capital, Perkin argues that the professional ideal relates potentially to everyone in an educated society and is therefore not as limited or limiting as the ideals of property ownership and industrial capital. There is therefore room for social mobility in the Weber model.

Macdonald [1995] provides a complementary analysis of professions and economic class to that of Perkin and focuses on the sociological arguments of Larson [1977]. In particular, he notes a relatively recent historical change in perceptions of professionals. This relates to a transition from the traits approach of researchers such as Carr-Saunders and Wilson [1933] and the functionalist approach of those such as Durkheim [1982] with an emphasis on ethics, to the power relations perspective of Larson based on ideas of Weber (and Marx) and rooted in issues of economic class and social status. Modern studies of professions such as Larson are therefore dependent on the general

notion of what professionals do rather than what they say they do with respect to translating intellectual capital into economic rewards, social status, and power. Such studies emphasize the argument of Weber that social actions are the most important ingredients in observations of professions. Modern writers such as Macdonald therefore see professions as projects in collective social mobility, with a hierarchy of élite and non-élite members and a persistent focus on the objective of social respectability. In particular, Macdonald [1995, p. 32] describes the professional project as two-pronged. The first prong concerns a sequence of economic order, market monopoly, and relations with the state. The second prong deals with connections between social order, status and respectability, and the prevailing culture. When the two prongs combine, the project achieves market control, social closure, and appropriate social status.

As Jacobs [2003] correctly argues, the work of Bourdieu [1988] is relevant to a review of professions. Professionals have what Bourdieu called *habitus* or the habit of shared beliefs and dispositions that generate the economic, cultural, and social capital necessary to maintain their power in society through time. What is essential to the survival of professions with social power is their capacity to sustain *habitus* through reproduction and recruitment from relevant economic classes. In this sense, Bourdieu uses economic class as an analogy for social status or what he describes as “symbolic capital,” with the latter “filtered through the prisms of class domination” [Fowler, 1997, p. 20]. More specifically, Bourdieu is consistent with Weber regarding the unique characteristics of economic class and social status but also recognizes that in Western society, economic class is an important ingredient in the more complex notion of social status. This is particularly true of Victorian society in which fluidity in economic class achieved mobility in social status. “The calico-printer and the cotton-master becomes, within two generations, the baronet and the big-wig” [Wilson, 2002, p. 60]. Walker’s [1988] study of early Edinburgh chartered accountants is precisely in this genre.

Bourdieu’s [1988] major study of class reproduction in professions concerns the strategy of French intellectuals to maintain *habitus* by recruitment of faculty and students predominantly from élite schools and universities. However, when these recruitment sources were insufficient to supply the numbers required to maintain *habitus*, the results were recruitment from non-élite sources, potential breakdown in the structure of shared beliefs and dispositions, perceived devaluation of the

academy's economic, cultural, and social capital, and active involvement in the French revolution of the late 1960s. In other words, Bourdieu demonstrates that socially dominant groups may seek to defend the *habitus* of the Weberian social hierarchy built on the supporting pillars of economic class, social status, and political power. This appears at variance, although is not entirely inconsistent, with the process described by Perkin [1989] in relation to professions of a fluid social structure in which changes in class and status take place. Lee [1999] provides a recent accounting illustration of *habitus* in the history of the American Accounting Association. Since the Association's foundation in 1916 to the present day, graduates from a small number of élite doctoral programs in the US have provided the Association's leadership and received all of its honors despite a widespread recruitment from all economic classes. Such a history is not unlike that of the early Scottish chartered accountancy bodies.

VICTORIAN CLASS SYSTEM AND PROFESSIONAL PROJECTS

Studies of the Victorians reveal the economic class system to be one of their unique innovations [Wilson, 2002]. Class is the means by which they perceived individuals climbing a social hierarchy, with education as much as economics a vital ingredient in the resultant re-distribution of individuals in society. Wilson characterizes the Victorian class system as fluid and anyone with money, luck, and panache could penetrate it. This was particularly true of professions where education created intellectual capital to convert into economic and social rewards, and power. Victorian professions are therefore relevant illustrations of Weber's pyramid in action, with economic class, social status, and political power interacting through time.

The Victorian period also witnessed considerable change in the economic structure of Scotland. There was economic prosperity from the 1850s until the 1870s, a brief recession in the 1870s, and then further industrial expansion in "North Britain" from the 1880s as it became the "world's workshop" during the growth of Empire [McCaffrey, 1998; Devine, 2000]. In this period, demand for public accountancy services expanded to include corporate audits in areas such as banking, insurance, railways, local governments, as well as industries such as steel and shipbuilding. Investigation, liquidation, and reconstruction services also added to traditional areas such as court-related

services, arbitrations, and actuarial work. Walker [1993] illustrates these changes in the leading Edinburgh firm of chartered accountants, Lindsay, Jamieson & Haldane, in which there were eight clerks in 1857 and fifty-four in 1887.

Institutional public accountancy in Scotland in the second half of the 19th century also changed significantly as illustrated by Walker [1988] with respect to the Society of Accountants in Edinburgh (SAE) and Kedslie [1990] in relation to the SAE and its equivalent bodies, the Institute of Accountants and Actuaries in Glasgow (IAAG) and the Society of Accountants in Aberdeen (SAA). These writers based much of their analysis on the concept of economic class as an analogy for social status. They observed, for example, that many of the early SAE members had origins above that of a mid 19th century public accountant and typically were categorized with lawyers in terms of economic class. IAAG members, on the other hand, were usually associated with the mercantile community in mid century – this group having considerable social status in the West of Scotland. For Edinburgh and Glasgow accountants at this time, therefore, it was vital in their professional projects not only to convert their expertise into monetary rewards, but also to maintain their social status with, respectively, lawyers and merchants. As part of these projects, they attempted social closure through examination and training, and established credentials that signaled a structured social inequality [Macdonald, 1984].

The SAE and IAAG managed their professional projects in different ways, and it is clear that SAE leaders regarded their members as socially superior to IAAG members [Shackleton, 1995]. The SAE saw no need to restrict the number of apprentices contracted to individual members whereas the IAAG did. The IAAG, on the other hand, and in contrast to the SAE, had no indenture entry fee. The SAE attempted persistently to persuade the IAAG to change this policy. In 1890, the IAAG and the SAA opened their memberships to experienced accountants without the required education and training always insisted on by the SAE. As a result, Dundee accountants preferred to join the IAAG rather than the SAE until the merger of these bodies into the Institute of Chartered Accountants of Scotland in 1954. These differences reflect the difficulty of judging issues such as economic class and social status outside the historical and geographical contexts in which they took place. For this reason, the following section briefly examines contextual matters of history in both the US and Scotland that are relevant to this study.

AMERICAN AND SCOTTISH PROFESSIONAL DEVELOPMENTS

The history of the public accountancy profession in the US appears in numerous writings and does not require detailed coverage in this paper. Writers such as Miranti [1990] and Previts and Merino [1998] are the sources for the following comments.

American public accountants were slow to professionalize and organize compared with their British counterparts. Despite considerable economic expansion in the US throughout the 19th century, visiting British accountants provided much of the early public accountancy services needed to protect the interests of UK investors in industries such as iron and steel, mining, brewing, and railways. These temporary assignments led to the identification of long-term opportunities to provide professional services and, in the last decades of the 19th century, professional bodies (e.g. the American Association of Public Accountants) and firms (e.g. Barrow, Wade, Guthrie & Company) appeared with significant British chartered accountancy input. Expansion of this early professional provision, however, created employment opportunities that exceeded the number of available American-born accountants with sufficient skills and led to continuous recruitment over several decades of young chartered accountants from the UK. Scottish men formed an important element in this migration and many were influential in the early history of the American public accountancy profession [Lee, 2002a and b].

These American events coincided with a period in Victorian Scotland when there was a limited supply of recruits with economic class origins consistent with those of the founders of chartered accountancy. Thus, economic and social incentives associated with upward social mobility encouraged many lower middle class and working class families to make considerable sacrifices for sons to achieve economic wealth and social respectability as chartered accountants. Walker [1988, p. 255], for example, reports that approximately six of every ten SAE members between 1855 and 1914 were upwardly mobile and approximately one in every 25 were downwardly mobile. Kedsle [1990, p. 80] reveals a similar trend between 1854 and 1904 in the overall figures for the Edinburgh, Glasgow, and Aberdeen bodies.¹ Her data suggest that, whereas at foundation nearly

¹ It should be noted that Kedsle [1990] does not provide an explanation of her economic class categories. They are different from those of Walker [1988]

two-thirds of chartered accountants had fathers of independent means or professional background, this proportion fell post-foundation to less than 50%. Conversely, lower middle class and working class recruits increased from approximately one in every ten to two in ten. Entry hurdles such as fees and training periods obviously may have deterred some but did not put off many others. In addition, apprenticeships were relatively inexpensive means for established Scottish chartered accountants to provide client services in an expanding but highly competitive and unstable market in Victorian Scotland. The economic necessity to be profitable appears to have overtaken any concern there may have been regarding diminished social status and *habitus* – at least as long as the professional leadership reproduced satisfactorily.

A third factor to consider in this historical context is the over-supply of chartered accountants in Scotland by the beginning of the First World War [Walker, 1988, pp. 40-51]. New apprentices with aspirations for upward social mobility provided cheap labor but were often surplus to requirements when apprenticeship contracts expired. There was always a large enough pool of newly qualified chartered accountants from which existing partners could select a new or replacement partner with the appropriate background – i.e. what the SAE described in its rules as individuals of “good character.” Walker’s [1988, p. 44] figures reveal the consequence of oversupply. Between 1855 and 1914, 23% of members admitted to the SAE immigrated overseas. This movement persistently increased from two percent of new members in the first decade to 37% between 1905 and 1914. Twenty-nine percent of this migration was to the US and, given the relatively low social status of American public accountancy at this time compared to the UK, it is reasonable to suggest immigration was due more to the lack of opportunity in Scotland than the lure of prospects in America. According to research for the current study, approximately one in 20 of nearly 3,000 members of the three Scottish bodies resided in the US by 1914.

JACOBS’ THESIS

None of these detailed contextual aspects of the professional projects of the three Scottish bodies of chartered accountants

who does provide definitions. For this reason, Kedslie’s data can only be described in this paper in general terms and have not been used in later analyses to provide specific coverage of the 1880 to 1914 period for the IAAG and SAA.

appears in Jacobs' [2003] study. He purports to explore the relationship between economic class and professions and alludes to the notion of public accountants maintaining their social status by means of recruitment practices. In this respect, Jacobs follows the common approach of using economic class as an analogy for social status and ignores the historical reality of Scottish chartered accountants recruiting from the lower middle class and working class while maintaining an upper class and upper middle class leadership. He argues that the current recruitment forms of the largest public accountancy firms favor middle class applicants, with particular regard to generic and transferable skills such as leadership. He further states that the profession's *habitus* remains in this way, based on a middle class environment. Of relevance to this paper is his argument that this social bias is long-standing and has its origins in the social closure practices of the early Scottish chartered accountants. In particular, he cites Walker's [1988] work on the SAE's early members and the search by it for "competent and respectable accountants" and "gentlemen of professional standing" [Jacobs, 2003, p. 573]. He therefore implies that Walker demonstrates the establishment and perpetuation of a viable middle class through an explicit system of inheritance and transfer of position from one generation to the next.

These arguments are unsustainable in terms of Weber's social theory as it applies to professions and inconsistent with the empirical evidence of social historians. Public accountants according to the Weber model of organized communities are not an economic class but, instead, a collective group that weaves through the vertical structure of class. Their social status relates to the groups with which they are best associated at particular points in time – landowners and lawyers in the SAE case and merchants and manufacturers in the IAAG case, both during the mid 19th century. In addition, the empirical evidence of the economic class origins of Edinburgh, Glasgow, and Aberdeen chartered accountants from 1854 to 1914 presented in the following section reveals that, for a variety of reasons, the social closure predicted by the professional project as defined by Larson [1977] was not achieved with respect to general membership. The use of entrants from lower economic class origins as cheap labor in an expanding market for public accountancy services eventually resulted in an over-supply of chartered accountants in the late 19th and early 20th centuries. However, as previously explained, this coincided with a corresponding lack of supply in the US and many Scottish chartered accountants

achieved professional success in that country irrespective of their economic class origins. The remainder of this paper is devoted to outlining and analyzing this evidence.

EVIDENCE OF ECONOMIC CLASS CHANGE

The initial analysis in this study is a review in Table 1 of economic class changes within the chartered accountancy community in Scotland between 1854 and 1914.

TABLE 1										
Overall Economic Origins of Scottish Chartered Accountants 1854-1914										
Economic Class	Founders 1854 & 1867		Founders 1854 & 1867 Council		Members 1855-79		Migrants 1875-14		Council 1914	
	Grandfathers	Fathers	Grandfathers	Fathers	Grandfathers	Fathers	Grandfathers	Fathers	Grandfathers	Fathers
	%	%	%	%	%	%	%	%	%	%
Upper	35	17	30	8	1	5	26			
Upper Middle	59	71	63	76	47	87	71			
Lower Middle	1	5	7	10	34	8	3			
Working	5	7		6	18					
Total	100	100	100	100	100	100	100	100	100	100
Number	165	120	27	212	161	37	66			
No data	85	5		9						
Total	250	125	27	221	161	37	66			

The analysis uses a social status classification constructed by Walker [1988, pp. 269-281]. It uses economic occupations which range from independent means (in this paper termed “upper class”), through the professions, manufacturers, commerce, and farmers (termed “upper middle class”), to distribution and processing, and white collar (termed “lower middle class”), and finally to skilled manual, and semi and unskilled labor (termed “working class”). Walker’s index was informed by contemporary classifications such as that of Heiton [1859] who described the residents of Edinburgh in terms of a social caste system, thus conflating the concepts of economic class and social status. Heiton’s work is relevant in this context as it reflects the attitude of Victorian Scots to the related notions of class and status and is therefore appropriate for a study of class changes in Scottish public accountancy in the last half of the 19th century. In other words, Walker’s index describes economic occupation but also signals contemporary perceptions of social status.

The data in Table 1 reflect the stated situation for the SAE, IAAG, and SAA combined. The first column describes the economic class origins of the grandfathers of the founders of the Scottish bodies. The remaining columns reveal the paternal origins of founders, founder council members (1854 and 1867), post-foundational members (1855-79), US immigrants (1875-1914), council members (1914), and office bearers (1854-1914). The data come mainly from on-line databases in the Scottish Records Office supplemented by contemporary records and texts. The 1855-79 data, however, are amendments of earlier research by Stewart [1977] that proved erroneous in certain cases. Percentages reported are proportions of actual observations from databases. Missing observations are greatest for founders’ grandfathers (85 or 34%) due mainly to problems of identification when identical names appear multiple times on specific birth dates prior to 1852.

Overall, Table 1 reveals two effects. The first relates to members of the three bodies and the second to their council members and officers. With respect to members, there were some changes in economic class origins up to 1879 followed by a considerable change from then until 1914 with respect to the US migrants. More specifically, 94% of founders’ grandfathers were upper class or upper middle class compared to 88% of founders’ fathers. The most obvious change was between upper class and upper middle class with the proportion of the former reducing by 18 percentage points and that of the latter increasing by 12. The paternal origins of post-foundational members

tend to mirror the foundational pattern with 84% being upper class or upper middle class. There was also some substitution from upper class to upper middle class and a small increase in lower middle class and working class representation. This last effect is particularly noticeable for the migrant group. Overall, a majority (52%) of migrants to the US came from lower middle class or working class origins and this reflects a considerable change in recruitment practices from the foundational positions. If the migrants are representative of the total memberships of which they were a part then, in the period 1880 to 1914, the SAE, IAAG, and SAA were unable to reproduce the economic class origins of their founders. This conclusion is not true, however, for council members and officers. Table 1 reveals that almost all foundational council members (93%), 1914 council members (92%), and 1854-1914 officers (97%) came from upper class and upper middle class backgrounds. Such stability is inconsistent with the general membership changes and reflects the achievement of economic class reproduction among the leadership of the three bodies. Appendix 1 supports these conclusions in more detail.

Appendix 1 provides detailed analyses of the figures in Table 1. This detail relates to each of the SAE, IAAG, and SAA and includes SAE membership numbers from 1880 to 1914. The latter come from data reported by Walker [1988, p. 256]. The various analyses reveal differences between the three bodies and are reminders of the importance of recognizing variations in local conditions when making sociological comparisons.

The SAE data in the first section of Appendix 1 provide a complete analysis of economic class for the period from 1854 to 1914. There was some downward social mobility between grandfathers and fathers of SAE founders. Forty-five percent of classifiable grandfathers were upper class compared to 26% of fathers. The upper middle class category increased from 50% to 66%. The lower middle class and working class representation was 5% for grandfathers and 8% for fathers. This pattern repeats for members in the period 1855 to 1879 – 89% were either upper class or upper middle class, with a switch from the latter to the former. For the period 1880 to 1914, however, there was a sizeable minority of lower middle class (27%) and working class (9%) members of the SAE, with the upper class category falling to 4%. These figures almost mirror those for the US immigrant group from 1875 to 1914, revealing that the latter was a representative subset of the overall group in the case of the SAE. For council members and office bearers, the pattern was different

from the general membership of the SAE and consistent with the overall results in Table 1. The foundation council members were entirely from upper class and upper middle class origins and the configuration was more consistent with that for founders' grandfathers than fathers. The same is true for SAE officers between 1854 and 1914 with one-half upper class and one-half upper middle class. The 1914 council retained its élite origins as it consisted almost entirely of upper middle class individuals (93%). Thus, as in the overall data in Table 1, the SAE data reveal an increasing lower middle class and working class element in its general membership whereas its leadership was consistently upper class and upper middle class throughout the period 1854 to 1914. The Edinburgh data confirm the long-term inability of the SAE to reproduce in economic class terms with respect to its general membership while maintaining its élite leadership and *habitus*.

Complete and comparable data were unavailable for members of the IAAG and the SAA. As reported earlier in footnote 1, Kedsle [1990] reports economic class data for the period 1854 to 1904 for each of the three Scottish bodies but does not use the classification of Walker [1988] adopted for this study. Appendix 1 therefore omits data on members for these bodies from 1880 to 1914, although Kedsle's [1990, pp. 87-88] data reveal similar patterns to those of Walker. The IAAG and SAA data in Appendix 1 also reveal similar trends over time to those for the SAE. The grandfathers and fathers of the Glasgow and Aberdeen founders were predominantly upper middle class (73% and 78%, and 67% and 67%, respectively), consistent with the commercial and industrial élite of these cities. The IAAG foundation council mirrors this situation with 78% from the upper middle class. In Aberdeen, on the other hand, there was a lower working class element of 33%. As far as the 1855 to 1879 membership for the IAAG is concerned, there was a small increase of 11 percentage points from the foundational position with respect to lower middle class and working class individuals. In Aberdeen, the equivalent change was more marked with 33% from these categories. The US migrants reveal a definite inability of the IAAG and SAA to reproduce their memberships in economic class terms. With the IAAG, 59% of migrants were lower middle class and working class in origin. The equivalent figure for the SAA is 43%. Meanwhile, there was stability in the leadership of both bodies in economic class terms. In the case of the IAAG, 87% of the 1914 council was upper class or upper middle class. With the SAA, the figure was 88%. Overall, between 1854 and 1914,

TABLE 2
Economic Origins of Scottish Chartered Accountant Migrants 1875-1914

Economic Class	Society of Accountants in Edinburgh			Institute of Accountants & Actuaries in Glasgow			Society of Accountants in Aberdeen			Total		
	Migrants 1875-14	Migrants 1875-14 Fathers %		Migrants 1887-14	Migrants 1887-14 Fathers %		Migrants 1889-14	Migrants 1889-14 Fathers %		Migrants 1889-14	Migrants 1889-14 Fathers %	
Upper	8	4		3						4	1	
Upper Middle	39	58		41	41		39	57		40	47	
Lower Middle	20	27		23	38		31	22		23	34	
Working	33	11		33	21		30	21		33	18	
Total	100	100		100	100		100	100		100	100	
Number	90			165			23			278	161	
No data	6			33			5			44		
Total	96	48		198	99		28	14		322	161	

the officers of both bodies were predominantly upper class and upper middle class (100% for the IAAG and 88% for the SAA). The IAAG and SAA data in Appendix 1 therefore also confirm the overall impression in Table 1 of an increasing working class component in general membership, and of leadership reproduction.

Table 2 provides an additional analysis of the economic class origins of the immigrants to the US.

Although the data in Table 1 reveal that the US immigrants were considerably more lower middle class and working class in origin than were the founders and early new members of the three bodies, they were nevertheless part of an exercise in upward social mobility within the context of their family histories. Table 2 provides these data by comparing the economic class origins of the grandfathers and fathers of the immigrants. As before, there are missing observations for a small minority of grandfathers. Overall, as per the total column, there are small increases between generations with respect to upper middle class (40% to 47%) and lower middle class (23% to 34%), accompanied by small decreases in upper class (4% to 1%) and working class (33% to 18%). Each of the three bodies exhibits the same tendency over time. The biggest change appears in the SAE data. For example, a 26 percentage point increase in upper middle class and lower middle class men accompanied a 22 percentage point decrease in working class individuals. In Glasgow, the equivalent figures were 15 and 12 percentage points, and in Aberdeen nine and nine percentage points respectively. Thus, although the migrants represented a group of Scottish chartered accountants with distinctly different economic class origins from the founders, they also reflect the upward social mobility generally evident in late Victorian society in Scotland.

One further analysis of immigrant background was undertaken and this relates to when immigration took place (Table 3). Two groups appear in the tabulation – those who left within a year of qualification as chartered accountants, and those who took longer to leave for the US. The purpose of this study is to provide a broad indication that economic class bias was a determining factor in immigration – i.e. those chartered accountants from lower middle class and working class backgrounds being pushed and pulled to the US more quickly than those from upper class and upper middle class origins.

TABLE 3
Economic Class Origins of Scottish Chartered Accountant Migrants
and Time of Immigration

Economic Class	Society of Accountants in Edinburgh			Institute of Accountants & Actuaries in Glasgow			Society of Accountants in Aberdeen			Total		
	Left a Year	Within a Year	After a Year	Left a Year	Within a Year	After a Year	Left a Year	Within a Year	After a Year	Left a Year	Within a Year	After a Year
	%	%	%	%	%	%	%	%	%	%	%	%
Upper			7									3
Upper Middle	47	66		36	49		50	75		40	57	
Lower Middle	42	17		41	33		20	25		39	26	
Working	11	10		23	18		30			21	14	
Total	100	100	100	100	100	100	100	100	100	100	100	100
Number	19	29		66	33		10	4		95	66	

The overall situation appears in the total columns. These suggest that immigrants from upper class and upper middle class backgrounds tended to delay post-qualification immigration longer than did those men from lower middle class and working class origins. Sixty percent of the latter categories left Scotland for the US within one year of qualification, whereas 60% of the former categories left after one year of that event (many after several years). The same pattern appears with each of the three bodies. For the SAE, the equivalent data were 53% and 73%, the IAAG 64% and 49%, and the SAA 50% and 75%. These data are obviously subject to an arbitrary cut-off of one year of post-qualification experience, but suggest that the pressure to immigrate to the US was greatest among men from lower middle class and working class backgrounds in each of the three bodies. This further suggests not only the consequences of oversupply of Scottish chartered accountants at this time but also the post-qualification employment problems faced by men with economic class origins different from the élite leadership of the profession.

SUCCESS OF IMMIGRANTS

In order to determine whether class as defined by economic origins was a determining factor in the career success for the Scottish chartered accountant immigrants in the US, an index of "success" was constructed based on their association with public accountancy firms and institutions in the US. There are four levels of career success identified from data reported in earlier studies [Lee, 2002a and b]. Success at a "national" level relates to an immigrant having a partnership in a national firm (or a senior executive position in a national corporation) and involvement with a national or local public accountancy body. "Local with national/local" success describes a partnership in a local city firm (or a senior executive position in a local corporation) and involvement with a national and/or local public accountancy body. "Local" success describes a partnership in a local city firm (or senior executive position in a local corporation) only. All three categories described thus far include a small number of immigrants who completed their US careers in Canada following transfers within American national firms. All other cases are titled "no" success and refer to either lack of success (predominantly due to illness and early death) or returns to the UK. Those who returned typically pursued a local career as general practitioners of chartered accountancy or

became accountants in industry. There were therefore few immigrants who clearly failed in their public accountancy careers, and only a handful relinquished their membership of the Scottish chartered accountancy bodies prior to retirement. Table 4 reports the data reflecting these distinctions.

TABLE 4
Economic Class Origins of Scottish Chartered Accountant Migrants and US Success

Economic Class	National Success	Local/ National Success	Local Success	No Success or Return	Total
	%	%	%	%	%
Upper	2	7			1
Upper Middle	44	36	48	53	47
Lower Middle	35	43	33	30	34
Working	19	14	19	17	18
Total	100	100	100	100	100
Number	43	14	64	40	161

The figures in Table 4 show clearly that, for the immigrant community as a whole, career success in the US varied. A little more than one-third (36%) achieved “national” or “local with local/national” success, 40% had “local” success, and a further 25% had “no” success. These proportions are almost identical for those of the SAE and IAAG immigrants (see Appendix 2). In the case of the SAA, on the other hand, although a comparable proportion of the group (29%) achieved “national” success, there are material differences in the remaining categories. No SAA immigrant achieved “local with local/national” success, only 28% had “local” success, and 43% had “no” success. No explanation of these differences is obvious.

Table 4 also reveals that, within the success categories of the immigrant group as a whole, there are no significant differences as compared to the economic class composition of the group. For example, 52% of all immigrants had lower middle class or working class backgrounds. This proportion for these categories appears in each of the career success categories – 54% in “national,” 57% in “local with local/national,” 52% for “local,” and 47% for “no” success. These results therefore suggest that, overall, economic class was not a significant determinant of career success for these immigrants to the US. However,

when the data for individual chartered accountancy bodies are examined (Appendix 2), it is clear that some differences exist and these are not easy to explain.

In the case of the SAE, 62% of its immigrants were from upper class or upper middle class backgrounds. These proportions repeat approximately with respect to the "national" and "local" success categories. However, with "local with local/national" and "no" success, the proportions are much higher at 80% and 75% respectively. This may be a function of small numbers in the analysis although it may also reflect the ability of these immigrants to either perform well at both local and national levels (for those that stayed) or to return to the UK and restart a career there. A similar type of difference appears with the IAAG data. Forty-one percent of Glasgow immigrants were upper class or upper middle class and these proportions appear approximately in all success categories with the exception of "local with local/national" (22%). Again, the ability of men in these classes to perform at local and national levels is a possibility. In the case of the SAA, the upper class and upper middle class representation in the group is 57%. Confusingly, none of the success categories mirror this proportion, with two higher and two lower. The effect of small numbers should not be ignored here.

CONCLUSIONS

The previous analyses reveal the danger of generalizations regarding economic class structure within the context of a maturing profession. Following the arguments of Weber and Perkin, this study examines what three Scottish chartered accountancy bodies achieved in their professional projects rather than what they implied they would achieve in terms of their social closure practices. Despite differences in detail, each of the three bodies had entry hurdles in place that suggested an attempt to reproduce in terms of economic class in order to maintain social status and *habitus*. In practice, however, each body had to cope with the realities of the labor market. Growing demand for economic services, coupled with entry hurdles, resulted in changes to the structure of economic class origins of Scottish chartered accountancy memberships. Overall, there was a gradual switch in economic class origins through time – i.e. from the founders' grandfathers in the last half of the eighteenth century to the fathers of US migrants in mid 19th century. The change reflected fewer upper class and upper middle

class men and more from lower middle class and working class backgrounds in the memberships of the SAE, IAAG, and SAA. The change was relatively insignificant prior to 1879 but accelerated thereafter. The most complete data available relates to the SAE but similar effects are also evident with the IAAG and SAA.

In parallel with this membership effect, there is equally clear evidence of the maintenance of the social status and *habitus* of the Scottish chartered accountancy profession as a whole by means of relative stability in the economic origins of the leaders of the three bodies. With respect to foundation councils, councils in 1914, and officers between 1854 and 1914, more than nine of every ten individuals were from upper class and upper middle class backgrounds. This contrasts sharply with the economic class origins of members who immigrated to the US as a result of over-supply of chartered accountants in Scotland and professional opportunities in the US. Immigrants in this study represented the changing economic class order in the three Scottish bodies and were predominantly from lower middle class and working class backgrounds (particularly in the case of the IAAG). Migrants from the upper class and upper middle class typically delayed immigrating after qualification longer compared to men from the lower middle class and working class – thus suggesting possible employment discrimination in chartered accountancy in Scotland. However, economic class origin does not appear to have been a significant factor in the overall professional success of the total immigrant group in the US. Differences with respect to each of the three bodies suggest upper class and upper middle class immigrants had backgrounds more likely to achieve success at local and national levels or return to the UK. More research needs to be done in this area.

Overall, this study emphasizes the importance in historical study of archival data to support or reject specific research propositions. It also reveals differences in local professional conditions as adjacent as Edinburgh, Glasgow, and Aberdeen. And it demonstrates the relevance of observing actual consequences of actions in a professional project rather than relying solely on the possibilities associated with these actions (in this case, the introduction of entry hurdles). It also reveals the complexity of explaining and commenting on social structures based on notions of economic class and social status.

REFERENCES

- Bourdieu, P. (1988), *Homo Academicus* (Stanford, CA: Stanford University Press).
- Carr-Saunders, A. M. and Wilson, P. A. (1933), *The Professions* (Oxford: Oxford University Press).
- Durkheim, E. (1982), *The Rules of Sociological Method* (London: Macmillan).
- Devine, T. M. (2000), *The Scottish Nation: A History 1700-2000* (Harmondsworth: Penguin).
- Fowler, B. (1997), *Pierre Bourdieu and Cultural Theory* (London: Sage Publications).
- Heiton, J. (1859), *The Castes of Edinburgh* (Edinburgh: John Menzies).
- Jacobs, K. (2003), "Class Reproduction in Professional Recruitment: Examining the Accounting Profession," *Critical Perspectives on Accounting*, Vol. 14, No. 5: 569-596.
- Kedslie, M. J. M. (1990), *Firm Foundations: The Development of Professional Accounting in Scotland 1850-1900* (Hull: Hull University Press).
- Larson, M. S. (1977), *The Rise of Professionalism: A Sociological Analysis* (Berkeley, CA: University of California Press).
- Lee, T. A. (1999), "Anatomy of a Professional Elite: The Executive Committee of the American Accounting Association 1916-96," *Critical Perspectives on Accounting*, Vol. 10, No. 2: 247-264.
- Lee, T. A. (2002a), "UK Immigrants and the Foundation of the US Public Accountancy Profession," *Accounting, Business & Financial History*, Vol. 12, No. 1: 73-94.
- Lee, T. A. (2002b), "US Public Accountancy Firms and the Recruitment of UK Immigrants: 1850-1914," *Accounting, Auditing & Accountability Journal*, Vol. 14, No. 5: 537-564.
- McCaffrey, J. F. (1998), *Scotland in the Nineteenth Century* (Basingstoke: Macmillan Press).
- Macdonald, K. M. (1984), "Professional Formation: The Case of Scottish Accountants," *British Journal of Sociology*, Vol. 35, No. 2: 174-189.
- Macdonald, K. M. (1995), *The Sociology of Professions* (London: Sage Publications).
- Marx, K. (1867), *Das Kapital* (Hamburg: Otto Meissner).
- Miranti, P. J. (1990), *The Development of an American Profession 1886-1940* (Chapel Hill, NC: University of North Carolina Press).
- Perkin, H. (1989), *The Rise of Professional Society: England Since 1880* (Routledge: London).
- Previts, G. J. and Merino, B. D. (1998), *A History of Accounting in America: A Historical Interpretation of the Cultural Significance of Accounting* (Columbus, OH: Ohio University Press).
- Shackleton, K. (1995), "Scottish Chartered Accountants: Internal and External Political Relationships, 1853-1916," *Accounting, Auditing & Accountability Journal*, Vol. 8, No. 2: 18-46.
- Walker, S. P. (1988), *The Society of Accountants in Edinburgh 1854-1914: A Study of Recruitment in a New Profession* (New York, NY: Garland Publishing).
- Walker, S. P. (1993), "Anatomy of a Scottish CA Practice: Lindsay, Jamieson & Haldane 1818-1918," *Accounting, Business & Financial History* Vol. 3, No. 2: 127-154.
- Weber, M. (1962), *Basic Concepts in Sociology* (New York, NY: Citadel Press).
- Wilson, A. N. (2002), *The Victorians* (London: Hutchinson).

APPENDIX 1
Economic Origins of Scottish Chartered Accountants 1854-1914

Economic Class	<i>Society of Accountants in Edinburgh</i>									
	Founders		Founders		Foundation		Members		Members	
	Grandfathers	Fathers	Grandfathers	Fathers	Council Members	Fathers	1855-79	Fathers	1880-14	Fathers
	%	%	%	%	%	%	%	%	%	%
Upper	45	26	42	13	4	4	4	4	4	4
Upper Middle	50	66	58	76	60	60	60	60	60	60
Lower Middle	1	3		6	27	27	27	27	27	27
Working	4	5		5	9	11	11	11	11	11
Total	100	100	100	100	100	100	100	100	100	100
Number	96	62	12	110	603	48	48	48	48	48
No data	32	2		6	16	16	16	16	16	16
Total	128	64	12	116	619	48	48	48	48	48

APPENDIX 1
(continued on page 50)

APPENDIX 1
(continued from page 49)

Economic Class	Founders Grandfathers	Founders Fathers	Society of Accountants in Edinburgh					Migrants 1875-14	Council Members 1914	Officers 1854-14
			Foundation Council Members	Members 1855-79	Members 1880-14					
Upper	18	11	22	3				41	7	15
Upper Middle	73	78	78	75				38	80	85
Lower Middle	2	7		15				21	13	
Working	7	4		7						
Total	100	100	100	100				100	100	100
Number	60	46	9	93				99	15	27
No data	38	3		2						
Total	98	49	9	95	NA			99	15	27

Economic Class	Founders Grandfathers	Founders Fathers	Society of Accountants in Aberdeen					Migrants 1889-14	Council Members 1914	Officers 1854-14
			Foundation Council Members	Members 1868-79	Members 1880-14					
Upper	33		17	67				57	88	12
Upper Middle	67	67	50	11				22	12	76
Lower Middle		8	33	22				21		12
Working		25								
Total	100	100	100	100				100	100	100
Number	9	12	6	9				14	8	17
No data	15			1						
Total	24	12	6	10	NA			14	8	17

APPENDIX 2

**Career Success of Specific Scottish
Chartered Accountant Migrants 1875-1914**

Economic Class	<i>Society of Accountants in Edinburgh</i>				Total
	National Success	Local/ National Success	Local Success	Return/ No Success	
	%	%	%	%	%
Upper	8	20			4
Upper Middle	50	60	57	75	58
Lower Middle	33		30	25	27
Working	9	20	13		11
Total	100	100	100	100	100
Number	12	5	23	8	48

Economic Class	<i>Institute of Accountants & Actuaries in Glasgow</i>				Total
	National Success	Local/ National Success	Local Success	Return/ No Success	
	%	%	%	%	%
Upper					
Upper Middle	37	22	46	42	41
Lower Middle	41	67	32	35	38
Working	22	11	22	23	21
Total	100	100	100	100	100
Number	27	9	37	26	99

Economic Class	<i>Society of Accountants in Aberdeen</i>				Total
	National Success	Local/ National Success	Local Success	Return/ No Success	
	%	%	%	%	%
Upper					
Upper Middle	75		25	67	57
Lower Middle	25		25	17	22
Working			50	16	21
Total	100	100	100	100	100
Number	4		4	6	14

Accounting Historians Journal
Vol. 31, No. 2
December 2004

Masayoshi Noguchi
HOKUSEI UNIVERSITY
and
John Richard Edwards
CARDIFF BUSINESS SCHOOL

CORPORATISM AND UNAVOIDABLE IMPERATIVES: RECOMMENDATIONS ON ACCOUNTING PRINCIPLES AND THE ICAEW MEMORANDUM TO THE COHEN COMMITTEE

Abstract: This paper re-examines the conclusion reached by Bircher [1991], and other researchers, that the Institute of Chartered Accountants in England and Wales (ICAEW), through the content of the series of Recommendations on Accounting Principles (RoAPs) that it developed and then incorporated into its memorandum submitted to the Cohen Committee on Company Law Amendment, molded the radical accounting provisions contained in the Companies Act, 1948 (CA48) "in the form of its own programme" [Bircher, 1991, p.293]. It is argued that (1) the Board of Trade (BoT), through the formation of the Cohen Committee, prompted the qualitative change in the content of the second five RoAPs, which were drafted to accord with the content of its submission to the Cohen Committee, and (2) before the ICAEW memorandum was submitted to the Cohen Committee in February 1944, a corporatist structure is discernable in the relationship between the BoT and the ICAEW causing the leaders of the ICAEW to align its interests with the BoT's priorities for the amendment of company law.

Acknowledgment: We wish to express our sincere gratitude and appreciation to Professor Trevor Boyns (Cardiff) and Mr. Malcolm Anderson (Cardiff) for sound and constructive comments made at a draft stage of this paper. This study has also benefited from the helpful comments made by Professors Christopher Napier (Southampton), Stephen Walker (Cardiff Business School), Christopher Noke (LSE), other participants at the 9th World Congress of Accounting Historians held in Melbourne on 30th July-2nd August 2002, and two anonymous referees. Finally, we are pleased to acknowledge funding provided for this research by the Institute of Chartered Accountants of Scotland.

Submitted November 2003
Revised February 2004
Revised May 2004
Accepted May 2004

The publication of the Report of the Cohen Committee on Company Law Amendment is one of those outstanding events that is certain to leave its mark indelibly on the history of company law . . . [The Accountant, 28 July 1945, p.42].

INTRODUCTION

The British limited liability company, formed by registration under the companies acts, was created in 1855. Although the decades around the middle of the 19th century saw “the high tide of *laissez-faire*” [Taylor, 1972, p.16], they also saw a marked increase in state intervention in certain areas. Whereas the “industrial sphere” was broadly left to “the will of the manufacturers and the abstract laws of political economy” [Fay, 1937, p.368], a measure of paternalistic control by the state was increasingly considered desirable in certain areas, particularly social administration. Spheres that were the subject of regulation include provision for the poor, safety at work, employment practices, policing, public health and education [Conway, 1990, p.71]. It was also a period that saw steps taken to require statutory accountability from many entities where, in today’s parlance, there existed “a legitimate demand for the information that its financial statements would provide” [Accounting Standards Board, 1999, p.113]. These included: companies formed to run railways, public utilities and financial institutions [Parker, 1990]; local government bodies such as municipal corporations and county and district councils [Coombs and Edwards, 1996]; and mutual associations in the form of friendly societies, building societies and industrial and provident societies [Edwards and Chandler, 2001].

The limited liability company remained substantially free from corresponding statutory intervention. Whereas the newly-created “registered” joint stock company had been subjected to the requirement to publish an audited balance sheet in 1844, these provisions were swept away twelve years later for reasons that remain unclear. While it is true that the obligation to present an audited balance sheet to the annual general meeting was revived in 1900, there persisted, for almost a century, “the liberal ideologies which had generated the formative companies legislation of the 1850s” [Walker, 1996, p.320; also Stewart, 1991, p.49]. The enduring nature of that philosophy is revealed in the following extract taken from the Report of the Company Law Amendment Committee, 1926:

The system of company law and practice in force in England and Scotland has been gradually evolved to meet the needs of the community at large and the commercial community in particular. . . . It is a system well understood by those who have to deal with it, it has stood the test of years, and in our opinion *should not be altered in any matter of principle* except where alteration is imperatively demanded [*emphasis added*, quoted in Edwards, 1980, p.79].

The ensuing Companies Act, 1929 (CA29) was consistent with these sentiments, and it was therefore at a time when statutory accounting requirements were minimal – the early 1940s – that the accounting profession began to assume a degree of formal responsibility for corporate financial reporting practices. The largest British accountancy body at that time, the Institute of Chartered Accountants in England and Wales (ICAEW), had traditionally taken the view that the form and content of accounts were matters for shareholders and directors, with any intervention from auditors prompted by professional judgment rather than as the consequence of ICAEW fiat [Bircher, 1991, p.233]. From 1942, however, the Council of the ICAEW began to issue the famous series of Recommendations on Accounting Principles (RoAPs) (forerunners of Statements of Standard Accounting Practice) to serve as practical guidelines on financial reporting “for the information of members” [*The Accountant*, 12 December 1942, p.354]. According to a leading accountant of the day, RoAPs, which were based on procedures that were widely deemed to represent best practice, “met with a remarkable degree of acceptance not only from members of the profession but, what was even more striking, from directors of companies and their advisers. The consequent impact on the standards of accounting in the country was little short of tremendous” [quoted in Zeff, 1972, p.23]. Twenty-nine RoAPs were issued between 1942 and 1969 (Appendix 1). The substantive provisions of those issued early were incorporated by the state in the Companies Act, 1947.

This paper employs the concept of corporatism to improve our understanding of how the relationship between the ICAEW and the state affected the content of RoAPs issued by the ICAEW and subsequently enshrined in Companies Act, 1947. The paper therefore aims to add to a literature that has employed a corporatist framework to study accounting regulation in different countries [Puxty et al, 1987; Willmott et al, 1992] and, more germane to our own work, to achieve a better under-

standing of the relationship between the profession and the state in a particular geographic locale [Cooper *et al.*, 1989; Richardson, 1989; Chua and Poullaos, 1993; Walker and Shackleton, 1995 and 1998; Stoddard, 2000; Rodrigues *et al.*, 2003].

PRIOR LITERATURE

The Companies Act, 1947 (CA47) represented a break with prior liberal ideology. It significantly expanded statutory disclosure requirements by introducing provisions for filing with the Registrar of Companies and presenting to shareholders an audited balance sheet and profit and loss account containing fairly detailed accounting information. The reforms of CA47 have thus been interpreted as significant in achieving the disclosure of relevant and effective information for investor decision-making [Board of Trade, 1945, pp.7-8; Edey, 1950, p.308; Ryan, 1967, pp.95-97; Baxt, 1968, pp.301-306]. The new Act was founded on reforms recommended by the Company Law Amendment Committee, chaired by Mr. Justice Cohen (the Cohen Committee),¹ that were submitted to the President of the Board of Trade (BoT) in June 1945.² The Bill drafted by the BoT was presented to Parliament in June 1947 and passed comparatively non-controversially into law in August 1947 [*The Accountant*, 4 October 1947, p.209].³ British company law was consolidated in June of the following year as the Companies Act, 1948 (CA48).

The leading professional accounting journal of the day commented as follows on the relationship between the accounting recommendations contained in the Cohen Committee's report and the memorandum of evidence submitted in February 1944

¹ The "Introductory" section sets out, in paragraph 5, the Committee's basic philosophy: "[t]he Companies Acts have been amended from time to time to bring them into accord with changing conditions, but if there is to be any flexibility opportunities for abuse will inevitably exist. We consider that the *fullest practicable disclosure* of information concerning the activities of companies will lessen such opportunities and accord with a wakening social consciousness . . . We have included a number of proposals to ensure that as much information as is reasonably required shall be made available both to the shareholders and creditors of the companies concerned and to the general public" [Board of Trade, 1945, pp.7-8, *emphasis added*].

² A chronology of key events is contained in Appendix 2.

³ Some features of the new Companies Bill were amended by the House of Lords [Bircher, 1991, p.267]. The changes were principally designed to simplify the planned regulations relating to group accounts, and the outcome was to produce a statutory requirement more closely aligned to the content of RoAP 7.

by the Council of the ICAEW: "chartered accountants had every reason to congratulate themselves on the detailed terms of the [Cohen Committee's] Report because throughout its very extended length it adopted time and time again the substance of the ICAEW evidence" [*The Accountant*, 28 July 1945, p.42]. Further, "the specific recommendations made as to the contents of published accounts [by the Cohen Committee] conformed with remarkable closeness to the points put forward by the representatives of the ICAEW" [*The Accountant*, 18 August 1945, p.78].

The idea that the ICAEW was instrumental in bringing about the radical accounting content of CA48 has been accepted by accounting historians. For example, Bircher [1991, p.293] concludes that "[t]he form and content of CA48 owes much to the ICAEW's development of its reform programme and the exercise of its influence to *mould the legislation in the form of its own programme*" (*emphasis added*). Maltby [2000, p.35] interprets the legislation as "a successful attempt by the accounting profession to retain jurisdiction over accounting disclosure". The important prior event consistent with these inferences is the advance publication by the ICAEW (starting December 1942) of its series of RoAPs. According to Bircher, RoAPs established the ICAEW, in the eyes of government, as the only accountancy association with direct practical experience of accounting regulation [Bircher, 1991, pp.231-232, also p.260]. The memorandum submitted to Cohen, drawing on the content of RoAPs, was considered by the BoT and by Parliament as a professionally well-informed review of what was feasible in regulatory terms [Bircher, 1991, p.281]. This linkage between RoAPs, the ICAEW memorandum to Cohen and subsequent legislation is accepted by other writers:

Much of the contents of the first eight Recommendations [published from December 1942 to July 1944] eventually found expression in the 1945 Report of the Cohen Committee and in the revised Companies Act itself [Zeff, 1972, p.16].

Indeed, in framing its recommendations, the [Cohen] committee drew heavily on the ICAEW's submission which was, in turn, based on the Recommendations issued through its Taxation and Financial Relations Committee, beginning in 1942. The [Cohen] committee's recognition of the prime position of the ICAEW in bringing about improvements in financial reporting procedures, and its willingness to provide a back-up system in the form of statutory support for Recommen-

dations which had proved successful, undoubtedly improved the status of each of these [Edwards, 1989, p.209].

The early recommendations of the ICAEW formed the basis of the sweeping reforms in the accounting requirements which were recommended by the Cohen Committee on Company Law Amendment [Stewart, 1991, p.43].

The purpose of this study is to re-examine the view that the ICAEW, through the content of the series of Recommendations that it developed and then incorporated into its memorandum submitted to the Cohen Committee, molded the radical accounting provisions contained in CA48 in the form of its own programme. It is argued that

(1) the BoT, through the formation of the Cohen Committee, prompted the qualitative change that occurred in the content of RoAPs 6-10, issued by the ICAEW, that were drafted to accord with the content of its submission to the Cohen Committee, and

(2) before the ICAEW memorandum was submitted to the Cohen Committee in February 1944, a corporatist structure is discernible in the relationship between the BoT and the ICAEW causing the leaders of the ICAEW to align its interests with the BoT's priorities for the amendment of company law.

The remainder of this study proceeds as follows. First, we explore aspects of corporatist theory to provide an analytical framework for understanding the relationship between the ICAEW and the BoT. The attitude of the ICAEW's Council towards corporate accounting disclosure pre-Cohen is next considered, and the reason for the emergence of the BoT's specific and autonomous interest in the amendment of company law is then clarified. Then follows our analysis of the emergence of a corporatist structure coloring the relationship between the BoT and the ICAEW; a relationship that caused the latter to align the memorandum submitted to the Cohen Committee with the state's priorities for the reform of company law. The significance of the hierarchical structure that existed between the Council of the ICAEW and the district societies, in preparing the ICAEW memorandum for submission to the Cohen Committee, is next demonstrated. The process of drafting RoAPs is reviewed, in light of the above findings, to show that the content of the second five RoAPs was purposely designed to accord with the content of the ICAEW memorandum to Cohen.

CORPORATISM

We have noted above the fact that Britain's governments largely abstained from intervention in industry and commerce during the nineteenth century. This changed dramatically during the first half of the twentieth century [Tolliday, 1987, pp. 285-293; Wilson, 1995, p. 168; Hobsbawm, 1968, p. 242], and this transformation is partly reflected in the fact that government expenditure as a proportion of gross national product rose more than three-fold, from 12.7% to 39%, between 1910 and 1950. To help explain the relationship between the state and organized interests, where there is a high level of state intervention, corporatist theory applicable to liberal democracies, or neo-corporatism, began to be developed in the mid-1970s. The first serious attempt to develop a substantial model of corporatism as an institutional structure, and to reveal its theoretical relevance, was Schmitter's well-known essay of 1974 which defines corporatism as:

a system of interest representation in which the constituent units are organized into a limited number of singular, compulsory, non-competitive, hierarchically ordered and functionally differentiated categories, recognized or licensed (if not created) by the state and granted a deliberate representational monopoly within their respective categories in exchange for observing certain controls on their selection of leaders and articulation of demands and supports [reproduced in Schmitter, 1979, p.13].

Schmitter saw corporatism as an institutionally structured system of interest representation which operates in a manner that restricts competition and openness among organized interests. Central to the corporatist model is its recognition of "the *state*, as opposed to *government*, as the key public actor in interest group politics" [Williamson, 1989, p.121, *emphasis in original*]. This means that:

the wider state institutions such as the bureaucracy, public enterprises and law enforcement agencies, are not guided solely, if effectively at all, by the decisions of democratically elected governments...This view assigns major importance to the increasing institutional size and complexity of the modern liberal state, such that it is argued that it has become an organizationally powerful entity able to free itself of popular preferences or class power, and thereby pursue its own autonomous

institutional interests as determined by state elites [Williamson, 1989, p.123].

Under corporatism, the state is thus seen as a powerful entity able to pursue its own autonomous interests through its size, complexity and bureaucratic processes.

If the behavior of organized groups poses a fundamental challenge to the interests of the state, it seeks to change their behavior. According to Cawson [1983, p. 179], where targets of intervention are 'interests constituted on the basis of their socio-economic function', as seen in the domain of economic management or industrial policy, 'the intervention has to be purposive-rational, this is justified in terms of effective results rather than legitimate procedures'. If the state has difficulty in securing such results by means of authoritative regulation, the intervention into the socio-economic function requires the co-operation of functional groups. Groups called 'producers', representing sectoral business interests including professional and management interests, have fundamentally different resources of influence to wield from those of consumers or others; producers can wield a range of sanctions (e. g., strikes, non-cooperation and refusal of essential information) and specialized skills and knowledge which raise serious obstacles to intervention by the state [Cawson, 1985, p. 12]. The state, therefore, has to enter into negotiations with producers in policy formulation, and to reconcile tension and contradiction with such groups, to ensure effective intervention [Williamson, 1989, p. 125].

A key feature of corporatism is, therefore, the switch from the individualistic to the organizational level in negotiations for the ordering of society, in which sectoral associations of business interests, called "producer associations", play a decisive part in deciding individual producers' interests [Williamson, 1989, p.76]. Consequently, the individual producers' priorities are susceptible to redefinition and molding, in a possibly distorted form, by such associations.

Corporatist writers point to the fact that corporatism causes producer associations to exhibit certain inter-related features amongst which the following are of relevance to this study: a dependence upon the state, founded on the attribution of public status [Offe, 1981, pp.136-137]; and, a bureaucratically hierarchical structure "under the dominant influence of the leadership rather than responsive to membership demands" [Williamson, 1989, p.75].

In exchange for some form of state recognition, producer

associations necessarily surrender a degree of autonomy with the consequential risk of being less able to respond to the interests of their members. As Williamson [1989, p.207] puts it: “[t]here is an exchange whereby the state supports the organization in various ways in exchange for some constraint upon its articulation of demands” on the state, which has a distorting effect on the representational function of producer associations.

The role that producer associations need to play within corporatism therefore has implications for the way in which they are structured: “[t]he permanent staff . . . of such associations have to have specialist knowledge, exercise particular skills and hold considerable information to be able to effectively negotiate” with the state [Williamson, 1989, p.80]. Streeck [1983, pp.268-269, 281] adds that, to fulfill these roles, producer associations must acquire internal features that resemble the state’s bureaucratically hierarchical structure.

A corporatist relationship with the state requires that an association’s members are excluded from direct involvement in negotiations and decision-making, which means that decisions reached may not command widespread support from the membership. For negotiated arrangements to work, however, the leadership of producer associations must have some means of ensuring members’ compliance where their decisions do not command widespread support [Williamson, 1989, pp.81-82]. Corporatist writers refer to the way in which events can be manipulated by the leadership [Schmitter, 1982, p.260; Crouch, 1983, p.458; Grant, 1985, pp.20-21], with Williamson [1989, p.208] attaching particular emphasis to “the delimitation of the opportunities for the members to oppose decisions taken by the leadership” by controlling the flow of information within the organization. As a result, leaders can make the decisions *appear* to be in the self-interest of individual members [Sabel, 1981, p.213].

Relevant to this study is the fact that professional associations possess, in many respects, the kind of institutional traits that are identifiable within a corporatist structure. First, they generally achieve an effective monopolistic position “in respect of their right to exercise particular skills” based on a body of specialist knowledge [Williamson, 1989, p.171]. Second, “members of a profession are licensed to carry out their occupation by relevant professional associations” which are recognized in some way by the state [Williamson, 1989, p. 172]. Third, the associations “have to defend their position” and to maintain necessary regulation over the behavior of members [Williamson,

1989, p.172]. Finally, they claim to “act in an altruistic or public-regarding manner” in exchange for having a monopolistic position [Williamson, 1989, p.172].

The ICAEW was granted, on formation in 1880, exalted public status through the award of a Royal Charter, which is the most prestigious method of incorporation for a professional association because a Charter has “symbols or badges of honour that allegedly signify exceptional virtues and trustworthiness in the provision of specialist expertise” [Willmott, 1985, p.47]. In the petition for a Charter, the ICAEW claimed that its formation would serve the public benefit and, for that purpose, set forth strict rules of conduct of members and relevant disciplinary procedure in the Bye-laws. As the result of licensing by Royal Charter, members were placed in a dominant position⁴ in the accountancy labor market in England and Wales. In 1941, the ICAEW was the largest professional accounting association in Britain. With 13,694 members, it accounted for 38.4% of the total membership of the seven senior accounting bodies at that time [Matthews et al, 1998, p.62]. In 1921, Ernest Cooper, a former president of the ICAEW, stated that members of the ICAEW “possess no monopoly, but . . . have charge of about 95% of the auditing business of substantial concerns” [Ms. 28432/19]. In 1943, Lord Plender, President 1910-12 and 1929-30, boasted that “I doubt if any material change in the percentage has taken place since [1921]; if so, I fancy it would be favourable to us . . . the Institute should show how great is its influence compared with other bodies, quoting the percentage” [Ms. 28432/19]. Indeed, the first paragraph of the ICAEW memorandum to Cohen stated that “[i]ts members are auditors of the large majority (estimated at over 90%) of the public companies of which particulars are given in the Stock Exchange Official Yearbook” [Ms. 28432/19].

These conditions suggest that the corporatist framework could be a useful way of analyzing the dialectical relationships between the state authorities and the ICAEW, given its position as the leading producer association within the accountancy profession.⁵ In the next but one section, we will further explore this

⁴This situation persisted despite the fact that the growing market for accountancy labor promoted the formation of organizations for excluded practitioners. As at February 1930, for example, at least 17 accountancy bodies existed [Stacey, 1954, p.138].

⁵As revealed in the next but one section, there is no evidence to suggest that the BoT, when selecting a suitable accountant for appointment to the Cohen Committee, seriously considered choosing someone from outside the member-

possibility through tracing the emergence of the state's specific and autonomous interests in the amendment of company law. First, we consider the stance of the ICAEW's Council on the improvement of corporate financial reporting procedures prior to the appointment of the Cohen Committee.

THE ICAEW AND CORPORATE ACCOUNTING DISCLOSURE PRE-COHEN

The Council of the ICAEW had traditionally insisted that the form and content of corporate published accounts were matters for agreement between shareholders and directors. Council maintained that excessive disclosure in accounts was harmful to the business interests of British firms as it entailed making available valuable information to competitors. In 1925, when the ICAEW, as a society representing professional accountants, made its first submission to a BoT's Company Law Amendment Committee, it argued that "to attempt to prescribe either a statutory form of Balance Sheet or what a Balance Sheet must disclose or that there should be in addition a Profit and Loss Account is considered to do more harm than good". Their overall conclusion was unsympathetic and uncompromising: "[i]t is impossible by legislation to protect fools from their own folly" [quoted in Edwards (ed.), 1980, p.120].

It is clear from comments made by its leaders in the aftermath of the Royal Mail case of 1931 [Edwards, 1976, p.299] that the ICAEW had become more sympathetic to the need for improved corporate accountability, but it believed that the achievement of this objective did not require statutory intervention.⁶ In 1934, the ICAEW's Council acknowledged the need for action by

ship of the chartered institutes, and the signs are that they expected the appointee to be a member of the ICAEW [BT58/356]. CA47 and CA48 nevertheless introduced the so-called "auditor provision" which allowed auditors to be members of the ICAEW, the Society of Incorporated Accountants and Auditors, the Association of Certified and Corporate Accountants, or the Scottish chartered bodies or persons who were recognized as eligible by the BoT. Members of all these bodies were therefore recognized under CA48, and the BoT established, in October 1947, a consultative committee reflecting the interests of all these bodies, namely the Accountancy Advisory Committee [BT58/446, pp.116-118].

⁶A persuasive explanation for the ICAEW's antipathy towards legislative regulation is contained in the following comment made by H. L. H. Hill, President 1931-32 and 1933-34: "I am thankful to believe that the time will never come when legislation can be so definite and comprehensive that auditors will be reduced to mere automata, to obey audit programmes laid down by statute. The whole value of our work is dependent upon our proper exercise of judgement" [*The Accountant*, 9 January 1932, p.46].

the business community to bring about a *voluntary* improvement in disclosure practices. A. E. Cutforth, President 1934-36, voiced the following appeal to members attending the 1934 autumnal meeting of the ICAEW: "it is better that any desirable reforms should come about voluntarily by an improvement in general practice than that an attempt should be made to enforce them by legislation" [*The Accountant*, 20 October 1934, p.545]. On 23rd January 1935, the Parliamentary and Law (P&L) Committee of the Council formed "a sub-committee to make preparations for future possible amendment of company law" (SCCLR) [Ms. 28420/3, p.88].⁷ Cutforth advised the 55th annual meeting of the ICAEW, held in May 1936, that:

it is within our knowledge that the [government] department concerned is watching the situation closely. Sooner or later, no doubt, a Committee or Commission will be set up to deal with company law amendment; and bearing this in mind the Council has for some considerable time been collecting data and sifting opinions through the medium of a special Committee in order that when the occasion arises the Institute may be ready with concrete and well-considered recommendations [*The Accountant*, 9 May 1936, p.722].

The fundamental stance that emphasized *voluntary* improvement of disclosure practices was retained, however, as demonstrated in the address made by R. N. Carter, President 1936-37, to the 56th annual meeting in May 1937:

the Council have continued to collect information and opinions on balance sheets and the audit of the accounts of limited companies in order that they may be ready, when the time is ripe, to submit views on any amendments to the Companies Act which may be considered necessary . . . the profession itself is directing attention to more information being afforded both in the balance sheet and in the profit and loss account. It is probable that this can be *better* achieved in that way than by legislation [*The Accountant*, 8 May 1937, pp.663-664, *emphasis added*].

A report from the SCCLR was submitted to the P&L Committee on 25th July 1938, and its extensive proposals for greater disclosure in published accounts are detailed by Bircher [1991,

⁷Members of the SCCLR were: the Chairman of the P&L Committee (Sir Henry McAuliffe); President (Cutforth); Vice-President (R. N. Carter); H. M. Barton; W. Cash; H. L. H. Hill; and Sir Harold Howitt [Ms. 28420/3, p.88].

pp.147-155]. Having reviewed its contents, Bircher [1991, p.156] considers it “surprising that the ICAEW chose not to publish it or even to express more favourable views on the possibility of company law reform”. Elsewhere, however, we find Bircher [1991, p.152] making observations that are consistent with our interpretation of ICAEW’s actions in the 1940s and its developing relationship with the state:

this report is rather at odds with public statements by ICAEW representatives that reform of accounting practice by legislation was not feasible. However, it is clear from the report that by the middle of the 1930s there was a private recognition by the ICAEW that reform by legislation was possible (although not necessarily desirable).

The decision of the ICAEW’s Council to issue RoAPs, commencing in December 1942, may be interpreted as public recognition of the fact that it was possible for disclosure practices to be prescribed in detail, and, by implication, that statutory regulation was a feasible proposition which would no longer “do more harm than good” [ICAEW submission to the Company Law Amendment Committee in 1925, quoted in Edwards, 1980, p.120]. Even the RoAP programme did not, however, appear to signify, at the outset, Council’s conversion to the need for legislative intervention. As revealed in the preamble to the first two recommendations issued on 12th December 1942, RoAPs were merely expected to “be helpful to members in advising directors as to what is regarded as the best practice” [*The Accountant*, 12 December 1942, p. 354]. A transformation of the ICAEW’s traditional stance was made public soon afterwards, however, following the appointment of the Cohen Committee. As will be shown in this paper, the Council of the ICAEW, through the submission of its memorandum to the Cohen Committee, now recognized that reform by legislation had become necessary, or at least inevitable.

THE BOARD OF TRADE AND COMPANY LAW REFORM

The desire of the state to institute “a broad inquiry into the basic principles underlying the company law” originated with the bureaucrat, Sir Edward Hodgson, Second Secretary of the BoT⁸ who submitted his ideas to Hugh Dalton, President of the BoT 1942-45, on 22 December 1942:

⁸ Relevant government officials and their position are given in Appendix 3.

The experience of the Department . . . strongly suggests that the law should be strengthened to provide greater publicity in regard to the formation and affairs of a limited liability company and of better safeguards for investors and shareholders. It may be doubted whether existing company law sufficiently recognises modern social trends in investments. The small investor, whose numbers are now legion, is virtually a sleeping partner with neither the wish nor the opportunity to undertake any of the management responsibilities which underlie the present legal conception of a shareholder, and he therefore needs special protection [BT58/356].

In the 1930s, the BoT had been exposed to pressures to reform company law from certain quarters, such as A. M. Samuel, M. P., and Henry Morgan, President of the Society of Incorporated Accountants and Auditors (SIAA) 1929-32 [BT146/17]. The BoT had resisted such pressures, up until the end of 1942, for reasons that included: the lack of unanimity within the accounting profession concerning the need for legislation [Edwards, 1976, p.299];⁹ the observation that "it cannot yet be considered that experience of the working of the present Act is sufficient to ensure that amendment is necessary"; and because "it is almost a truism that the practice of many companies and auditors goes beyond the requirements of the law".¹⁰ The radical change of BoT policy in favor of company law reform, as revealed in Hodgson's communication to Dalton, is, in Bircher's view [1988, p.117], best understood "as a reflection of the changes in social attitudes stimulated" by World War II, which brought about unprecedented mobilization and control over resources used by the state. According to Hancock and Gowing [1949, p.541]:

There existed, so to speak, an implied contract between Government and people; the people refused none of the sacrifices that the Government demanded from them for the winning of the war; in return, they expected that the Government should show imagination and seriousness in preparing for the restoration and improvement of the nation's well-being when the war had been won. The plans for reconstruction were, therefore, a real part of the war effort.

⁹ Lord Plender was a particularly vociferous opponent of change in a series of speeches made in 1932 [Bircher, 1991, pp.112-113].

¹⁰ Memorandum prepared by J. G. Henderson, Principal of the Companies Department of the BoT [quoted in Bircher, 1988, p.113].

In this atmosphere, Dalton prepared a memorandum, dated 15 February 1943, that urged enhanced transparency in the affairs of limited liability companies. The document expressed concern that “the interests both of the public and of the [large number of] small shareholder may be insufficiently safeguarded”. Dalton continued:

I am not satisfied that the existing framework of the Company Law is altogether suited to modern needs . . . Much will depend after the war, both for the nation and for the individual, on ordered development and responsible conduct of limited liabilities companies . . . The provisions with regard to private companies have, in the experience of the Department, been gravely abused and here again the question of reform needs urgent consideration. There are other questions such as . . . holding companies, subsidiaries companies, and the requirements in regard to the accounts of companies, which call for enquiry. I propose, therefore, to set up at once a small Committee under a strong independent Chairman, to examine the principles of the Company Law and to consider whether any major reforms are necessary to provide better safeguards for the investor, the shareholder and the public interest, and greater publicity in regard to the formation and affairs of a limited liability company; and, if so, to suggest what they should be, so that a measure may be prepared for introduction at the appropriate moment [BT58/356].

Dalton circulated his memorandum to Sir William Jowitt, Minister for Reconstruction (1942-44), and Sir Kingsley Wood, Chancellor of the Exchequer (1940-43), requesting support for his initiative and suggesting that they collaborate to fix the membership of the proposed committee [BT58/356]. Jowitt and Wood responded enthusiastically, and the “autonomous” interest of the state in amending company law was firmly instituted. The BoT’s departmental Committee on Company Law Amendment was appointed on 26th June 1943 with Mr. Justice Cohen at the helm in response to Hodgson’s plea for “a strong chairman who would command universal confidence” (BT58/356).

In arranging the remaining membership of the Cohen Committee, the BoT “took care to include people who were likely to be sympathetic to new ideas” [Edwards, 1989, p.207]. According to Bircher [1988, p.117], “the principal battle for change in accounting practice had been won in the establishment of the committee of inquiry”. As to the ideal qualifications for a suitable accountant to serve on the committee, a letter from Sir

Arnold Overton, Permanent Secretary of the BoT, to Arthur F. B. fforde, Deputy Director of Contracts at the Ministry of Supply, dated 2 February 1943, listed the following attributes: "a really first-class man . . . of the younger school . . . while not generally known (necessarily) as a first-class man, regarded as such by those best able to judge" [BT58/356]. In a reply dated 4 February 1943, fforde mentioned several names.¹¹ Apart from Dowling and Burleigh (both Scots), those listed were all members of the ICAEW [BT58/356]. Two letters addressed to senior BoT officials favoring the appointment of Russell Kettle, of Deloitte, proved decisive. One from a Treasury official to Dalton's colleague, Hodgson, dated 29 January 1943, stated that:

Thinking over your request the other day for any Treasury suggestions of names of accountants who might serve on your Advisory Committee on Company Law, I find it a little difficult not to put Mr. Kettle first. It is not very long since he was appointed our accountant adviser, to help us on accountancy questions arising, amongst other things, out of our war expenditure [BT58/356].

Another letter, this time from Kingsley Wood to Dalton dated 15 April 1943, stated that:

as regards an accountant, would you care to consider Kettle of Deloitte's, who is, of course, well known to your Department. I gather that he was partly instrumental in starting up an unofficial committee of the Institute to examine the question of the amendment of the Company Law,¹² and this might be a useful link. Of his personal qualifications I need hardly speak [BT58/356].

Kettle became heavily involved with drafting the accounting recommendations of the report of the Cohen Committee and, afterwards, the corresponding provisions to be incorporated in the Companies Bill, 1946. Indeed, Kettle, together with T. B. Robson, were described as the BoT's "advisers in the drafting and during the passage of the Companies Bill" [BT58/446,

¹¹ Those named were: Sir Harold Howitt, H. M. Barton, H. A. Benson, T. B. Robson, J. T. Dowling, J. C. Burleigh and G. D. Shepherd.

¹² The reconstituted SCCLR, as described below.

¹³ Kettle received a knighthood in 1947 in recognition of his work as a member of the Cohen Committee and for advising the government when drafting the consequential legislation [Kettle, 1957, p.138]. At approximately 56 years of age, Kettle was hardly a young man, but it is perhaps the case that reference

p.117].¹³ In the next two sections, we consider the extent to which corporatist structures were utilized by the leaders of the ICAEW in formulating its submission to the Cohen Committee.

BUILDING A CORPORATIST STRUCTURE: THE ROLE OF THE RECONSTITUTED SCCLR

From the 1880s onwards there were recurring attempts to achieve state recognition for some or all qualified accountants as monopoly suppliers of accounting services. Walker and Shackleton [1995] employ a corporatist framework to analyze initiatives in the period 1930-1957, and show that a key episode was the formation, in 1942, of a Co-ordinating Committee, comprising delegates from the councils of the major accounting bodies. The object was to secure, through licensing, "a legal monopoly of public practice" for their members [Walker and Shackleton, 1995, p.467]. The initial approach to the Minister for Reconstruction, Sir William Jowitt, was made by R. W. Bankes, Secretary of the ICAEW, on 7th July 1942, to discuss the general question of post-war reconstruction. The first meeting of the Co-ordinating Committee was held on 7 August 1942. This was followed, in September of that year, by a meeting between the minister and representatives of the ICAEW. At the next meeting of the Co-ordinating Committee held on 5th October 1942, C. J. G. Palmour, President of the ICAEW 1938-44, reported that Jowitt had stated that "the Accountancy bodies should get together and form some scheme for the co-ordination of the profession" [Ms. 28428, p.3]. The ICAEW delegates continued to play the leading role in this ultimately flawed initiative [Walker and Shackleton, 1995, pp.486-496], starting work on drafting a Public Accountants' Bill on 24th October 1942. We conclude that the decision to mount the co-ordination initiative, at the same time that the BoT was revealing its determination to achieve a radical reform of company law, may have been a factor that encouraged the leaders of the ICAEW, in their submission to Cohen, to align the ICAEW's interests with those of the state.¹⁴ This is consistent with one of the central features of a

to "younger school" was intended to rule out leading accountants such as Kettle's senior colleague, Lord Plender (81 years old when the Cohen Committee was appointed), who had steadfastly favored a policy of non-intervention.

¹⁴We acknowledge the difference between the nature of the producer association seeking a corporate relationship with the state in relation to the co-ordination initiative and that seeking one in relation to the reform of company law. Whereas the relevant producer association, in the latter case, was the

corporatist structure, by revealing a producer association's dependence upon the state based on the attribution of public status.

The preparation of the ICAEW's submission to the Cohen Committee was the responsibility of the P&L Committee whose key role within the ICAEW's organizational structure, at this time, can be inferred from its membership profile. This included, besides the current President, all five past Presidents remaining on Council as at 29th March 1943 (Appendix 4). No other committee had so many past Presidents. A further characteristic of the P&L Committee was that members were partners in leading London accountancy firms.¹⁵ It was likely to be the case that partners in the large London firms were best known throughout commerce and industry. It was certainly the case that they were the accountants well known to government departments. The relationship between the state and accountants had accelerated during World War I when many accountants were called upon to supply their specialist expertise in support of the war effort. It blossomed during the inter-war period when numerous accountants were engaged to help reconstruct and reorganize British industry [Matthews et al, 1998, pp.151-159]. The participation of accountants in government affairs achieved further impetus during World War II with their recruitment to the many new and expanded departments that resulted from renewed wartime intervention in industry [Howitt, 1966, pp.253-256; Garrett, 1961, pp.210-214; Parker, 1980].

To help prepare a memorandum for submission to Cohen, the P&L Committee reconstituted the SCCLR at a meeting held

ICAEW, it was the Co-ordinating Committee comprising the major accountancy bodies who sought state preferment as the monopolistic supplier of accounting services. However, as noted above, the ICAEW was the leading professional accounting body and its delegates played the dominant role on the Co-ordinating Committee. Indeed, it is likely that the ICAEW's leaders included other accountancy societies in the discussions, because, as implied by the comment attributed to Jowitt, it would otherwise have been impossible to obtain state approval for the desired monopoly position.

¹⁵ From the Companies Act, 1862 through to the Companies Act, 1967, there existed a provision prohibiting partnerships of more than 20 members. The number of qualified accountants employed in accountancy firms, rather than the number of partners, is considered to be a better indication of size. The average number of accountants employed in 1939 by firms whose partners were members of the Council was 17.5 per firm, whereas for members of the P&L Committee the corresponding figure was 37.5 per firm. In addition, the seven largest firms out of 54 firms that had at least one partner on Council in 1939 were also represented on the P&L Committee.

on 29th March 1943.¹⁶ In the remainder of this section, we explain how the leaders of the ICAEW ensured that the re-constructed SCCLR included people sympathetic to the government's conversion to the need for a radical revision of company law and, thus, would be capable of enhancing the desired corporatist relationship with the state.

The characteristics of the P&L Committee, described above, were broadly replicated in the membership of the SCCLR¹⁷ with only Cooper Brothers & Co., of the five largest accountancy firms in 1939, not represented. The SCCLR included the current President (Palmour), two past-Presidents (Freeman, 1925-26, and Carter, 1936-37) and four others who were to become Presidents of the ICAEW within ten years (Barton, 1944-45; Howitt, 1945-46; Kettle, 1949-50; and Robson, 1952-53). All except Carter were partners in London firms and all had close and regular contact with government departments through their wartime efforts. At least five (including Kettle), in a personal capacity or as representatives of the ICAEW, had been in administrative or advisory positions providing expert advice or participating in policy-making to the authorities listed in Table 1. The other three members of the new SCCLR (Freeman, Carter and Robson), plus Barton, had constituted a sub-committee of the General Purposes Committee of the Council to prepare the Memorandum on Excess Profits Tax (EPT) submitted to Sir Kingsley Wood in March 1942. They also attended, with Palmour, a meeting with the Chancellor and the Chairman of the Board of Inland Revenue, Sir Cornelius Gregg (1942-48), to discuss the memorandum [Ms. 28416/8, pp.85, 103].¹⁸ Perhaps most significant of all is the fact that the new SCCLR included four (Barton, Howitt, Kettle and Robson) of the six members of

¹⁶ Membership is given in Appendix 5 as is their role in the preparation and publication of the first ten RoAPs.

¹⁷ It is likely that the pool of Council members from which the SCCLR could be selected was restricted by two factors: the need for them to possess appropriate technical skills; and, in wartime conditions, to be readily available to attend meetings in London. The latter factor, in particular, might have biased the composition of the membership in favour of individuals with the characteristics described below.

¹⁸ Among the membership of the SCCLR, Yeabsley, a partner in Hill, Vellacott & Co., appears, at first sight, to be the "odd man out", being on neither Council nor the P&L Committee and never serving as President of the ICAEW. Yeabsley's appointment to the SCCLR probably reflects the P&L Committee's desire to include someone having very close connections with the BoT, serving as an "adviser" to that government department [*The Accountant*, 15 August 1942, p.95; see also *The Accountant*, 29 June 1946, p.364].

the ICAEW mentioned by government officials as suitable accountants for appointment to the Cohen Committee (Appendix 5). A comparison of the original and newly constituted SCCLR is also instructive. Of the seven members of the original SCCLR, three (Carter, Barton and Howitt) joined the new committee and three others had by then resigned from Council and were therefore ineligible for appointment. The only member of the original SCCLR not to find a place in the new committee was, therefore, H. L. H. Hill, President 1931-32 and 1933-34, a known opponent of the statutory regulation of corporate financial reporting procedures.¹⁹

TABLE 1
Governmental Organizations Served by Council Members During World War II Prior to Their Appointment to the SCCLR

<i>Member</i>	<i>Government authority</i>
Palmour	Ministry of Labour and National Service (through the Advisory Council of the National Register)
	Ministry of Labour and National Service (through the Accountancy Committee of the Central Register)
Barton	Ministry of Aircraft Production (through the Authorized Controller of General Aircraft Ltd.)
Howitt	Air Council
	Air Supply Board
	Air Training Corps (through the Board of Finance)
	NAAFI Council
	Building Materials Board
Kettle	Ministry of Works
	Treasury
Yeabsley	Ministry of Aircraft Production
	Central Price Regulation Committee
	BoT in relation to the fixing of prices under the various utility schemes

Sources: Howitt, 1966, pp.255-256; Garrett, 1961, pp.213-214, 221; Parker, 1980; Jones, 1981, pp.188, 191-192; Williams and Nicholls, 1981, pp.545-546; *Who's Who*, 1954, p.175; *The International Who's Who*, 1956, pp.424, 482, 1024.

¹⁹In his presidential address to the 51st annual general meeting of the ICAEW, Hill stated that "[t]he Institute has always opposed legislation which would prescribe in detail the precise form or content of accounts or the duties of auditors, and, for myself, I am in entire accord with this attitude" [*The Accountant*, 7 May 1932, p.628].

It is the duty of organizational collectives to enhance the position of their members within the market for specialist skilled labor as demonstrated by, for example, the co-ordination initiative starting in August 1942. The wartime conditions had contributed to a situation where the state had expressed (in December 1942) its determination to strengthen the law “to provide greater publicity” [BT58/356]. It is our understanding that, in March 1943, the ICAEW’s Council, through its influential P&L Committee, sought to protect, and possibly enhance, its members’ dominant position within the labor market by constructing a SCCLR comprised of members who were, on the one hand, aligned with the BoT’s initiative in reforming company law as “a real part of the war effort” [Hancock and Gowing, 1949, p.541] and, on the other hand, people with a record of public service likely to enhance their credibility with the responsible government department. The likely influence of the state over the P&L Committee’s selection of members of the new SCCLR, coupled with the appointment of Kettle to the Cohen Committee by the BoT, indicates that, on reconstitution of the SCCLR in March 1943, and thus well before the submission of the ICAEW memorandum to the Cohen Committee, on 25th February 1944, a corporatist structure is discernible in the relationship between the ICAEW and the BoT. As Schmitter [1979, p.13] observes, the alignment of the interests of a producer association with those of the state, through control or influence of the latter over the selection of its leaders, is an important indication of corporatism. It is this influence of the state, represented by the BoT, over the “articulation of demands” by the ICAEW that leads us to depart from Bircher [1991] in our assessment of the dominant factors affecting the development of CA48.

In light of the above, the draft memorandum, dated 25 October 1943, prepared by the SCCLR and submitted to the P&L Committee,²⁰ unsurprisingly proved sympathetic to the BoT’s initiative to reform company law. The message conveyed (by head eight of the synopsis of main observations) is in stark contrast to the submission to the Company Law Amendment Committee in the 1920s, and the stance taken following the revelations of the Royal Mail case in 1931:

The Institute is in favour of the *maximum practicable disclosure* of information in annual accounts but is op-

²⁰ The P&L Committee then submitted the draft memorandum to the Council on 3rd November 1943.

posed to standardisation of form. It makes a number of recommendations with respect to the details which should be disclosed in Balance Sheets and expresses its views as to the disclosure of inner reserves. It considers that the time has now arrived *when statutory guidance should be given* as to the contents of profit and loss accounts and indicates the general principles which, in its opinion, should apply; it also submits a suggestion which might form the basis of a clause designed to prescribe the information which should be disclosed [Ms. 28432/19, *emphasis added*].

With these words, the Council of the ICAEW revealed its conversion to the notion that general statutory regulation should cover the substantial content of corporate published accounts.

Bircher and others have observed that the report of the Cohen Committee, submitted to the BoT in June 1945, was heavily influenced by the ICAEW memorandum:

Its [the ICAEW] memorandum of evidence was very detailed, comprehensive and clear, more so than any other submission. Its evidence amounted to an ambitious but authoritatively informed review of the potential of and need for company law reform. The experience of the ICAEW in issuing its Recommendations, which the BOT had expressly acknowledged as valuable, established the ICAEW as the only accounting body with direct experience of regulation. Even without Kettle's influence on the [Cohen] Committee, the ICAEW evidence would have exerted a powerful effect [Bircher, 1991, p. 260].

The influence of the ICAEW on the accounting provisions of the report of the Cohen Committee is of course there for all to see. Many explanatory and analytical sentences or paragraphs in the "Accounts" section were taken from the ICAEW memorandum. For instance, in paragraph 98, "Function of balance sheet", the report cited, verbatim, material contained in the ICAEW memorandum.²¹ However, this study is not concerned with the fact that the Cohen Committee accepted the detailed

²¹ Specific recommendations, as well as explanatory material, can be traced to the ICAEW memorandum. For example, the proposed definition of fixed and current assets and almost all the recommended disclosure items originated in the ICAEW memorandum. Bircher [1991, p.263] adds that the direct influence of the ICAEW memorandum can also be found in the recommendations of the Cohen Committee on the disclosure of the foreign exchange conversion method and the pre-acquisition profits and losses of subsidiary companies.

accounting recommendations contained in the ICAEW's submission;²² its purposes are to explain why the substance of the ICAEW submission favored the introduction of general statutory regulation, and to demonstrate how the content of its submission then controlled the content of RoAPs 6-10. We have shown that the composition of the SCCLR was a significant factor in building a corporatist structure with the state and undoubtedly contributed towards enhancing the acceptability of the ICAEW memorandum. Further, it is our view that Kettle's position as the only accountant on the Cohen Committee made acceptance of the ICAEW memorandum more secure. Indeed, the BoT's internal documents reveal that, in preparing the report of the Cohen Committee, Kettle played the leading role in drafting the accounting recommendations [BT58/374].

In the next section, we consider how support was engineered from the general body of members for this transformation in the ICAEW Council's fundamental attitude towards compulsory disclosure by legislation.

A HIERARCHICAL STRUCTURE

We have seen that Williamson [1989, p.75] asserts that a producer association, striving to achieve a corporatist relationship with the state, will be characterized by a bureaucratically hierarchical structure "under the dominant influence of the leadership rather than responsive to membership demands". The following features of the structural arrangements made by the Council of the ICAEW for the purpose of gathering comments on its draft proposals when formulating the memorandum for submission to the Cohen Committee are relevant in this context.

First, members were required to submit recommendations to the Council through a formal process involving their district societies. The limitation which this placed on the ability of individual members to make their views known suffered further

²²Their successful opposition to calls for the standardization of accounts, from for example *The Economist*, might well be interpreted as indicating the fact that the leaders of the ICAEW were actively seeking to "mold" the detail, rather than the overall aim, of the provisions of CA47 and CA48. We acknowledge this possibility and suggest that the behavior of the ICAEW, in seeking to mold the detail of new accounting regulations, should be understood through a corporatist concept – private interest government – whereby producer associations take on a quasi-public status of self-regulation, on behalf of the state, in order to protect themselves against direct state intervention [Streeck and Schmitter, 1985, pp.19-20].

restriction because, except for the London and District Society, there existed no automatic right to membership of a local society. The membership of district societies depended on the willingness of chartered accountants to pay an additional subscription and was generally quite low.²³ It is therefore uncertain whether the committees of the district societies truly represented the opinion of the general body of members.

Second, the lack of cross-sectional communication between district societies. Information submitted by each society was collected and collated by the Council, but the accumulated data were not remitted to the district societies. Submitted opinions were circulated only amongst members of the SCCLR [Ms. 28411/13, p.55]. Even individual members of the Council appear not to have been fully informed of the entire balance of opinions.

The Council circulated its draft memorandum to district societies for comment on 4th August 1943 [Ms. 28411/13, p.55]. Most historical records relating to this aspect of our study have been destroyed, and it is therefore impossible to be fully informed about how the contents of the memorandum were received. Certainly, there is no evidence of any serious challenge from the membership to the fundamental shift in favor of compulsory disclosure embodied in the ICAEW memorandum. Indeed, some district society committees, such as London and Liverpool, actively supported the recommendations made. The Liverpool Society specifically suggested that the ICAEW memorandum should incorporate RoAPs already published [Ms. 28432/19].

Nonetheless, some dissatisfaction smoldered at district level concerning certain proposals made, to which the above structural arrangements were effectively applied to delimit the opportunity for members to oppose the Council's decision. The committee of the Leicestershire and Northamptonshire Society, for example, complained to the Council that its recommendation on the abuse of majority rights in private companies had not surfaced in the ICAEW memorandum and inquired whether there would be any objection to it "communicating direct with the Chairman or Secretary to the Cohen Committee on that point?" [Ms. 28432/19]. The Council replied that it did not "see its way to make further representations" [Ms. 28420/3, p.238] and, significantly, added that the Council was of the "opinion that sepa-

²³ It varied from 18.4% to 53.4% of the membership of individual societies and averaged 29% overall [Ms. 28432/19].

rate representations by any District Society would be inappropriate" [Ms. 28420/3, p.238]. A further letter from the Sheffield Society, dated 24 August 1944, requested the Council to withdraw its recommendation on Section 133 (1) (b) of CA29.²⁴ Rejecting this request, the Council replied that "it is perhaps not to be expected that suggestions which found favour with certain districts or members would appeal equally to other persons considering them" [Ms. 28420/3, p.242]. The ability of individual societies to press their case suffered from a lack of knowledge of the views of the others. Council ensured monopoly control over available information²⁵ – the second hierarchical feature noted above – and this effectively forced each district society to accept the choices that it made.

We can therefore conclude that this delimitation of "the opportunities for the members to oppose decisions taken by the leadership" [Williamson, 1989, p.208], by restricting the communication route and controlling the flow of information within the organization, contributed a key institutional trait central to the successful creation of a corporatist structure.

FORMATION AND OPERATION OF THE GASC

The ICAEW's Taxation and Financial Relations (T&FR) Committee was formed on 11th June 1942. The job of drafting RoAPs for approval by Council was delegated to the General Advisory Sub-Committee (GASC) which was created during the first meeting of the T&FR Committee held on 22nd July 1942. The terms of reference established for the GASC included the requirement "to consider, inter-alia, general questions of accounting principles and procedure and any other matters of *mutual interest to practising and non-practising members*" [Ms. 28423, p.11, *emphasis added*]. We can therefore see that the GASC was created to improve liaison between practising and

²⁴Section 133 (1) (b) provided, in the case of private companies, an exception to the general rule that officers or employees should not serve as auditor. The ICAEW memorandum in this connection recommended that "the exception in the case of private companies as set out in Section 133 (1) (b) should be withdrawn as being wrong in principle. It also suggests that not only every officer but also every employee of a company should be ineligible for appointment as its auditor" [Ms. 28432/19].

²⁵A formal mechanism for district societies to exchange information and ideas had been dismantled, as early as 1937, as the result of the Council's decision to suspend the annual meeting between representatives of the Council and the committees of each district society [*The Accountant*, 30 October 1937, p.582].

non-practising members, while its most famous output, the series of RoAPs, was launched in response to the requests for guidance “constantly stressed especially by its industrial members” [Ms. 28432/19] such as F. R. M. de Paula and P. M. Rees, who held full-time posts in industry or commerce. Bircher [1991, p.239] rightly emphasizes the significance of “the generative ferment”, that existed within the drafting sub-committee of the GASC consisting of de Paula²⁶ and Rees, together with K. A. Layton-Bennett, in persuading the Council to issue RoAPs. This part of our study shows, however, that practitioners in highly influential positions on the P&L Committee and the Council – Barton, Howitt and Kettle – played a crucial role in achieving approval from the Council for RoAPs.

The GASC’s initial drafts of RoAPs 1 and 2 were received by the P&L Committee on 23rd November 1942 and then referred to its own drafting committee consisting of Barton, Howitt and Kettle [Ms. 28420/3, p.191]. Given the standing of these three practitioners within the ICAEW’s Council, it seems almost certain that they were in a position to decide the success or otherwise of the RoAP programme.²⁷ The minutes of a meeting of the Council held on 2nd December 1942 report the following decision: “the Memorandum prepared by the Taxation and Financial Relations Committee be approved as amended” [Ms. 28411/12, p.384]. RoAPs 1 and 2 were issued on 12th December 1942 and three further RoAPs, created in a similar manner, were published on 13th March 1943 [Ms. 28420/3, p.199; Ms. 28423, p.21]. *The Accountant* records that the first five RoAPs dealt with technically difficult and intricate matters “of the most fundamental importance while yet being amongst those which have occasioned the most varied discussions in the business and professional world” [*The Accountant*, 20 March 1943, p.145], specifically the treatment in accounts of taxation in general, and Excess Profits Tax in particular. A few months later, Rees pub-

²⁶ de Paula chaired the T&FR Committee meetings from the spring of 1943 through to 1945. Kitchen and Parker [1980, p.111] point to the fact that “the subjects of the Recommendations (nos. VI to X) published between October 1943 and June 1945 followed exactly the list of subjects identified by de Paula in his 1933 Preface to *Principles of Auditing*”.

²⁷ The typical operational procedure of the T&FR Committee in drafting technical documents, particularly the drafting of RoAPs, is explained by Zeff [1972, pp.11-12]. The essence of the procedure saw the Council taking a great deal of trouble to maintain control over the drafting of technical documents by the T&FR Committee. In practice, such control was exercised through the P&L Committee [P&L Committee Minutes Book G, pp.96-97].

licly observed that these were “matters which were particularly urgent” [*The Accountant*, 7 August 1943, p.75].

The series of RoAPs then moved on to a new phase; the planned role of RoAPs, commencing with Recommendation 6, was expanded to deal with more general financial reporting issues. Bircher [1991, pp.238-241] acknowledges the qualitative change that occurred with the second five RoAPs issued, but he does not explain why this happened. Below, we address this issue and locate it within our corporatist analysis.

The minutes of a meeting of the GASC, held on 12th March 1943, state:

It was decided that the next subjects for consideration should be (a) Reserves, including Undisclosed Reserves, (b) Stock in Trade and (c) Depreciation; and that Reserves should be proceeded with at once. The Secretary was requested to invite the members of the Sub-Committee [GASC] and the Regional [T&FR] Committees to submit their suggestions by 30th March . . . It was decided to write to the Parliamentary and Law Committee . . . informing them that the Sub-Committee [GASC] proposes to deal in order with the points arising on looking at a published Balance Sheet and to ask if the Committee has any comments to make; in particular whether the Sub-Committee [GASC] shall put forward any draft recommendations on Subsidiary and Sub-subsidiary Companies [GASC Minutes Book A, p.7].

The P&L Committee, at a meeting held on 24th May 1943, approved “in principle the Programme and suggest that the “Form of Disclosure of the Results of Subsidiary Companies” should also be a matter for their consideration” [Ms. 28420/3, pp.208-209].

In developing this new direction for RoAPs, and preparing drafts for submission to the P&L Committee, two industrial members of the GASC, de Paula and Rees, again seem to have played an important role.²⁸ The P&L Committee’s approval of

²⁸ de Paula, Rees and H. J. Page comprised the sub-committee appointed to draft RoAP 6, entitled “Reserves and Provisions” (issued 23 October 1943) (Appendix 5). Rees and de Paula also undertook to produce initial drafts of RoAP 7 (issued 12 February 1944) and RoAP 8 (issued 15 July 1944) [GASC Minutes Book A, pp.9, 11-12]. Rees further undertook to prepare preliminary and revised drafts of RoAP 9 (issued 12 January 1945) and RoAP 10 (issued 15 June 1945) [GASC Minutes Book A, pp.21-22, 25-26]. When the P&L Committee met to consider draft RoAP 6, on 18th October 1943, de Paula and Rees attended as representatives of the T&FR Committee [Ms. 28420/3, p.220].

the outputs from the new "Programme", which proved forthcoming, was a necessary precondition for ensuring that the GASC's initiative, in shifting the direction of RoAPs, would receive Council's approval. Given their commitment to, and close involvement in, the creation of the first five RoAPs, we conclude that Barton, Howitt and Kettle continued to be influential supporters of the GASC's initiative on the P&L Committee and, in due course, the Council.

The minutes of a meeting of the P&L Committee held on 29th March 1943 begin to shed light on the factors that led to the GASC's initiative:

A letter dated the 16th March, 1943, from the Secretary of the Taxation and Financial Relations Committee was considered, asking whether the Sub-Committee set up in 1935 to consider amendments to the Companies Act [SCCLR] desire points brought to the attention of the Regional [T&FR] Committees to be referred to the Sub-Committee [SCCLR] [Ms. 28420/3, pp.205-206].

The coincidence of the timing between the decision to take RoAPs in a new direction (12th March 1943) and the offer of assistance to the SCCLR (16th March 1943) imply that the GASC resolved to initiate a change in the nature of RoAPs in response to the preparations being made at the BoT for a new inquiry into company law, that is, the formation of the Cohen Committee which had been in progress within the BoT since December 1942. There is no definitive evidence to support this hypothesis, but the chronology of events (Appendix 2) and the evidence uncovered by this study cause us to conclude that the qualitative change in RoAPs was prompted by the desire of the ICAEW to align itself with the priorities of the BoT in relation to the working of the Cohen Committee.

In accepting the offer of assistance from the GASC, the P&L Committee, as noted earlier, revived and reconstituted the SCCLR [Ms. 28420/3, p.206], with Barton, Howitt and Kettle, who we have argued were key supporters for the GASC's initiative, amongst its membership (Appendix 5). These three, relatively younger practitioners²⁹ were likely to find radical change acceptable, as demonstrated by their earlier nomination, by gov-

²⁹The age of each member of the reconstituted SCCLR, as at March 1943, was as follows: Palmour, 65; Barton, 60; Freeman, 68; Carter, 73; Howitt, 56; Kettle, 55; Robson, 46; Yeabsley, 44; Binder, 66 (average 59.2 years) (Appendix 5). The average age of the members of the P&L Committee, as at March 1943, was 64.3.

ernment officials, as suitable appointees to the Cohen Committee. The GASC's affiliation with the new SCCLR was strengthened by the co-option of Rees,³⁰ who had been elected Chairman of the GASC in April 1943, to the SCCLR in July 1943, and the appointment of Rowland, Secretary of the T&FR Committee, as Secretary of the SCCLR in June 1943 [Ms. 28420/3, pp.212, 216] (Appendix 5). RoAPs were now interlocked, through the affiliation between the new SCCLR and the GASC, with the ICAEW memorandum to be submitted to the Cohen Committee. Rees, together with Barton and Robson, then formed the sub-committee appointed to settle the content of the ICAEW memorandum which was presented to the Cohen Committee by Howitt and Robson. The structure and relationships between the BoT, the Cohen Committee, the Council of the ICAEW, the P&L Committee, the T&FR Committee, the GASC, the SCCLR, RoAPs and the ICAEW memorandum are summarized in Exhibit 1.

There is sufficient explicit evidence to support our contention that the new programme of RoAPs was dominated by concerns amongst the ICAEW leadership over its acceptability to the state. At a meeting of the GASC held on 19th August 1943, before any of the five more wide-ranging RoAPs (6-10) were issued, Rees "explained the importance of avoiding any conflict between the Recommendations and evidence to be tendered by the Institute to the official Committee on Company Law Amendment" [Ms. 28423, p.38]. This comment, consistent with further evidence presented below, indicates that the composition of RoAPs 6-10 was purposely designed to accord with the content of the ICAEW memorandum.

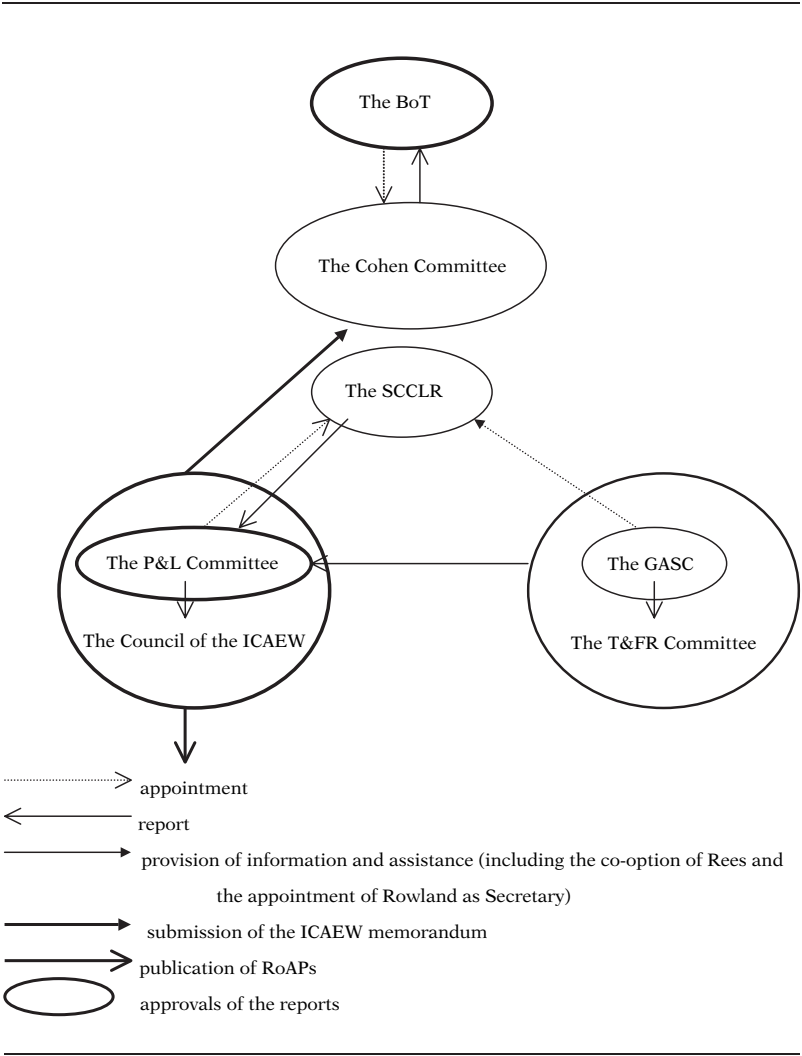
The intertwining of RoAPs with the ICAEW memorandum led to the P&L Committee intensifying its control over the GASC's drafting activities. In particular, the P&L Committee was cautious about proceeding with the publication of further RoAPs on the grounds that it could result in possible conflict with the conclusions that might be reached by the recently appointed Cohen Committee [Ms. 28420/3, p.212].³¹ The Council

³⁰Rees appears to have been particularly influential in drafting the content of the first ten RoAPs. At the P&L Committee meeting, held on 28th May 1945, a "vote of thanks was passed to Mr. P. M. Rees for his work in connection with the whole series of recommendations" [Ms. 28420/3, p.247].

³¹The leaders of the ICAEW showed less caution, and foresight, 30 years later (May 1974) in issuing Provisional Statement of Standard Accounting Practice 7, entitled "Current Purchasing Power Accounting", despite the government's prior appointment of a Committee of Enquiry (January 1974) [Tweedie and Whittington, 1984, pp.81-82]. The Sandilands Committee's

EXHIBIT 1

Structure and Relationships among the BoT, the Cohen Committee, the Council of the ICAEW, the P&L Committee, the T&FR Committee, the GASC, the SCCLR, RoAPs and the ICAEW Memorandum



strident criticism of CPP did much to undermine the reputation of the Accounting Standards Committee.

instructed Palmour to approach the BoT in order to seek the views of its President and those of the Chairman of the Cohen Committee on the publication of RoAPs [Ms. 28411/13, pp.54-55]. The reply from Hodgson, and how it was interpreted by the P&L Committee, is summarized in the following extract from the Committee's minutes:

[Hodgson] expressed his satisfaction that the Institute had approached the Board of Trade on the matter, and stated that the Departmental view on the matter is that the balance of advantage is strongly against any suspension of the beneficial service which the work of the Institute is providing for the business and professional communities. The [P&L] Committee decided to continue publication [Ms. 28420/3, p.218].³²

The decision of the Council to seek the sanction of the BoT for further publication of RoAPs clearly shows that the Council actively intended to align its action, in publishing the second five RoAPs, with the BoT's initiative to reform company law. Given the highly positive response from Hodgson, the Council could now be reasonably confident that the conclusions of the Cohen Committee would be consistent with its own pronouncements.

CONCLUSION

Researchers into developments within the accountancy profession have drawn on the corporatist model as an insightful mechanism for analyzing the dialectical relationship with the state.

Cooper et al [1989, p.254] have argued that:

In return for the monopolisation of audit services and the advantages of self regulation, the accounting profession is expected to both act in the interests of the state and control the membership of the profession to act in those interests.

They continue:

the accounting profession, in the form of its central organisations such as the Councils of the six major accounting institutes, the Consultative Committee of Ac-

³² Members of the Council (Barton, S. R. Cooper, Howitt and Robson) then met representatives of the T&FR Committee to discuss the publication of RoAP 6 and further RoAPs [Ms. 28420/3, p.216].

counting Bodies (CCAB) and its sub-committees (notably the Accounting Standards Committee), take considerable care to try to identify (and influence) the interests of the state. This takes the form of state representation on the Accounting Standards Committee, formal and informal discussions with the civil service in relevant departments and regulatory bodies, the movement of personnel into and out of the respective organisations and of course the general socialisation process prevalent in British Society.

The analytical framework of the corporatist model has been shown by other writers to provide a useful basis for understanding relationships between the accounting profession and the state. Walker and Shackleton's [1995, p.474] study of initiatives designed to achieve state recognition of a unified accountancy profession between 1930-57, and particularly during the 1940s, rehearses the outcomes that can be expected from the successful pursuit of corporatist arrangements with the state:

Governing institutions enter into interdependent and co-operative relationships with government, have functional responsibilities bestowed upon them, are rewarded with preferential access to policy makers, and thereby become an integral part of the extended state.

In this paper we have followed Walker and Shackleton [1995] in applying corporatist analysis to understand events occurring in wartime conditions,³³ with the state at that time making arrangements to fulfill its part of the "implied contract between Government and people" [Hancock and Gowing, 1949, p.541]. During the process of setting up the Cohen Committee, prominent references were made by state bureaucrats to the need "to provide better safeguards for the investor, the shareholder and the public interest, and greater publicity in regard to the formation and affairs of a limited liability company", while particular mention was made of the need to protect the interests of the "small investor, whose numbers are now legion". Fully aware of the BoT's determination to enhance significantly the level of statutory disclosure in the accounts of limited liability companies, the ICAEW's P&L Committee appointed a committee (the reconstituted SCCLR) responsible for drafting the memorandum for submission to Cohen comprising individuals

³³For their analysis, Walker and Shackleton [1995] draw more heavily on the British variety of corporatism, "corporate bias".

who had (i) previously cooperated successfully with state officials on a range of issues and (ii) been identified by government officials as suitable accountants for appointment to the Cohen Committee.

We find evidence of further action taken by the ICAEW's leadership to organize affairs and control the actions of members so as to align its interests and outputs with state priorities. In particular:

1. the district societies were marginalized through the Council's rejection of unwelcome proposals, by maintaining monopoly control over available information and by refusing them the opportunity of making independent submissions to Cohen;
2. the affiliation between the SCCLR and the GASC ensured that RoAPs 6-10 were consistent with the content of the submission to Cohen;
3. the Council, through the P&L Committee, maintained a firm grip on the work of the GASC, where industrial accountants were prominent, through the drafting responsibilities of three *practitioners*, Barton, Howitt and Kettle, who were also members of the SCCLR;
4. Howitt and Robson were the two members of the ICAEW who gave evidence before Cohen; and
5. Kettle³⁴ was selected by the state to serve as the accounting profession's representative on the Cohen Committee and, together with Robson, subsequently served as the BoT's "advisers in the drafting and during the passage of the Companies Bill".

Pointing to the dominant influence of the ICAEW memorandum over the accounting content of the Cohen Committee's Report and thus CA48, Bircher [1991, p.293] asserts that "[t]he form and content of CA48 owes much to the ICAEW's development of its reform programme and the exercise of its influence to mould the legislation in the form of its own programme". He continues:

The ICAEW's actions were to be very influential and the CA48 provisions cannot be appreciated without an understanding of the centrality of the ICAEW role. Yet those actions also have to be related to their generative

³⁴ Kettle authored a series of articles published in *The Accountant* [25 October 1947, pp.258-259; 1 November 1947, pp.274-275; 8 November 1947, pp.294-295; 15 November 1947, pp.306-307; 22 November 1947, pp.323-324, 335] entitled "The accounts and audit provisions of the Companies Act".

context. The relationship between action and generative context however is a contingent one, for the response of the ICAEW to the contextual changes was at least potentially different. There was no unavoidable contextual imperative for the ICAEW to act as it did and the CA48 therefore represents the consequences of the interplay between the actions that created it and the contingent generative structure of those actions [Bircher, 1991, p.297].

The centrality of the ICAEW's role in reforming company law is not disputed, while the "generative ferment" created by de Paula and Rees in the drafting sub-committee of the GASC is undoubtedly part of the story. However, we differ from Bircher in terms of recognizing the influence of the state, represented by the BoT, over the "articulation of demands" [Schmitter, 1979, p.13; Williamson 1989, p.207] by the leaders of the ICAEW. Bircher concludes that the ICAEW succeeded in molding "the legislation in the form of *its own programme*" (*emphasis added*), whereas we have argued that the ICAEW's programme was directly influenced by, and designed to respond to, the BoT's initiative.

The Council of the ICAEW had of course recognized the possibility of company law reform in the 1930s, but reached the conclusion that voluntary improvement was the preferred way forward. Even when it became convinced of the need to issue RoAPs, these documents were initially perceived as fulfilling no more than an advisory role. This changed when the Council mounted, in parallel, the co-ordination initiative and became aware of the BoT's determination to achieve radical new company legislation. It is fair to say that the ICAEW was the leading professional accounting association at this time – certainly in terms of size, responsibility for company audits, and degree of involvement in state matters – and it was keen to protect and enhance this dominant position. It therefore sought to create an agenda for reform that would meet with state approval, one that was consistent with the more generalist RoAPs that it now proceeded to issue and for which, following correspondence with Hodgson at the BoT, it could be reasonably confident of obtaining support.

It is true that the creation of a particular form of corporatist structure is dependent upon specific historical circumstances, but once producer associations become part of a corporatist structure their behavior is generally constrained by the emergence of a relationship within which the interests of the state

inevitably prevail. In contrast to Bircher's interpretation that there was no "unavoidable contextual imperative" for the ICAEW to act as it did in developing its reform programme and exercising its influence, the conclusion of this study is that the ICAEW, when drafting both its memorandum for submission to the Cohen Committee and the second five RoAPs, functioned within a structure where the interests of the BoT inevitably prevailed.

REFERENCES

Manuscript Sources

- Guildhall Library, London: Ms. 28411/12-13; Ms. 28416/8; Ms. 28420/3; Ms. 28423; Ms. 28428; Ms. 28432/19.
 ICAEW, Milton Keynes: GASC Minutes Book A; P&L Committee Minutes Book G.
 National Archives, London: BT58/356; BT58/374; BT58/446; BT146/17.

*Books and Periodicals**The Accountant.*

- Accounting Standards Board (1999), *Statement of Principles for Financial Reporting*, reprinted in *Accountancy* (March 2000): 109-138.
 Baxt, R. (1968), "True and Fair View: A Legal Analysis," *Accountant's Journal*, April: 301-310.
 Bircher, P. (1988), "Company Law Reform and the Board of Trade, 1929-1943," *Accounting and Business Research*, Vol.18, No.70: 107-119.
 Bircher, P. (1991), *From the Companies Act of 1929 to the Companies Act of 1948* (New York/London: Garland Publishing).
 Board of Trade (1945), *Report of the Committee on Company Law Amendment* (Cmd. 6659).
 Cawson, A. (1983), "Functional Representation and Democratic Politics: Towards a Corporatist Democracy," in Duncan, G. (ed.), *Democratic Theory and Practice* (Cambridge: Cambridge University Press): 178-198.
 Cawson, A. (1985), "Introduction. Varieties of Corporatism: The Importance of the Meso-Level of Interest Intermediation," in Cawson, A. (ed.), *Organized Interests and the State: Studies in Meso-Corporatism* (London: Sage Publications): 1-22.
 Chua, W. F. and Poullaos, C. (1993), "Rethinking the Profession-State Dynamic: The Case of the Victorian Charter Attempt," *Accounting, Organizations and Society*, Vol.18, No.7/8: 691-728.
 Conway, S. (1990), "Bentham and the Nineteenth-Century Revolution in Government," in Bellamy, R. (ed.), *Victorian Liberalism. Nineteenth-Century Political Thought and Practice* (London: Routledge): 71-90.
 Coombs, H. M. and J. R. Edwards (1996), *Accounting Innovation: The Case of Municipal Corporations 1833-1935* (N.Y./London: Garland Publishing).
 Cooper, D. J., Puxty, A. G., Lowe, T. and Willmott, H. C. (1989), "The Accounting Profession, Corporatism and the State," in Chua, W. F., Lowe, T. and Puxty, T. (eds.), *Critical Perspectives in Management Control* (London: Macmillan Publishers): 245-270.

- Crouch, C. (1983), "Pluralism and the New Corporatism: A Rejoinder," *Political Studies*, Vol.31, No.3: 452-460.
- de Paula, F. C. (1957), *The Principles of Auditing*, 12th edition (London: Pitman).
- Edey, H. C. (1950), "Reflections on the Accounting Provisions of the Companies Act, 1948 - I," *Accountancy* (September): 308-310.
- Edwards, J. R. (1976), "The Accounting Profession and Disclosure in Published Reports, 1925-1935," *Accounting and Business Research*, Vol.6, No.4: 289-303.
- Edwards, J. R. (1989), *A History of Financial Accounting* (London: Routledge).
- Edwards, J. R. (ed.) (1980), *British Company Legislation and Company Accounts, 1844-1976*, Vol.2 (N.Y.: Arno Press).
- Edwards, J. R. and Chandler, R. (2001), "Contextualizing the Process of Accounting Regulation: A Study of Nineteenth-Century British Friendly Societies", *Abacus*, Vol.37, No.2: 188-216.
- Fay, C. R. (1937), *Great Britain from Adam Smith to the Present Day: An Economic and Social Survey*, 4th edition (London: Longman, Green & Co.).
- Garrett, A. A. (1961), *History of the Society of Incorporated Accountants 1885-1957* (Oxford: Oxford University Press).
- Grant, W. (1985), "Introduction," in Grant, G. (ed.), *The Political Economy of Corporatism* (London: Macmillan Publishers): 1-31.
- Hancock, W. K. and Gowing, M. M. (1949), *The War Economy* (London: H.M.S.O.).
- Hobsbawm, E. (1968), *Industry and Empire: An Economic History of Britain since 1750* (London: Weidenfeld & Nicolson).
- Howitt, Sir H. (1966), *The History of the Institute of Chartered Accountants in England and Wales 1870-1965* (London: William Heinemann).
- ICAEW (1961), *Recommendations on Accounting Principles* (London: Gee & Company).
- Jones, E. (1981), *Accountancy and the British Economy 1840-1980: The Evolution of Ernst & Whinney* (London: B.T. Batsford).
- Kettle, Sir R. (1957), *Deloitte & Co. 1845-1956* (Oxford: Oxford University Press).
- Kitchen, J. and Parker, R. H. (1980), *Accounting Thought and Education: Six English Pioneers* (London: ICAEW).
- Maltby, J. (2000), "Was the Companies Act 1947 a Response to a National Crisis?," *Accounting History*, Vol.5, No.2: 31-60.
- Matthews, D., Anderson, M. and Edwards, J. R. (1998), *The Priesthood of Industry: The Rise of the Professional Accountant in British Management* (London: Oxford University Press).
- Offe, C. (1981), "The Attribution of Public Statutes to Interest Groups: Some Observations on the West German Case," in Berger, S. (ed.), *Organizing Interests in Western Europe* (Cambridge: Cambridge University Press): 123-158.
- Parker, R. H. (ed.) (1980), *British Accountants: A Biographical Sourcebook* (N.Y.: Arno Press).
- Parker, R. H. (1990), "Regulating British Corporate Financial Reporting in the Late Nineteenth Century", *Accounting, Business & Financial History*, Vol. 1, No. 1: 51-71.
- Puxty, A.G., Willmott, H. C., Cooper, D. J., and Lowe, T. (1987), "Modes of Regulation in Advanced Capitalism: Locating Accountancy in Four Countries," *Accounting, Organizations and Society*, Vol.12, No.3: 273-291.
- Richardson, A. J. (1989), "Corporatism and Intraprofessional Hegemony: A Study of Regulation and Internal Social Order," *Accounting, Organizations and Society*, Vol.14, No.5/6: 415-431.

- Rodrigues, L. L., Gomes, D. and Craig, R. (2003), "Corporatism, Liberalism and the Accounting Profession in Portugal since 1755," *Accounting Historians Journal*, Vol.30, No.1: 95-128.
- Ryan, F. J. O. (1967), "A True and Fair View," *Abacus*, Vol.3, No.3: 95-108.
- Sabel, C. (1981), "The Internal Politics of Trade Unions," in Berger, S. (ed.), *Organizing Interests in Western Europe* (Cambridge: Cambridge University Press): 209-244.
- Schmitter, P. C. (1979), "Still the Century of Corporatism," in Schmitter, P. C. and Lehmbruch, G. (eds.), *Trends toward Corporatist Intermediation* (London: Sage Publications): 7-52.
- Schmitter, P. C. (1982), "Reflections on Where the Theory of Neo-Corporatism has gone and Where the Praxis of Neo-Corporatism may be going," in Lehmbruch, G. and Schmitter, P. C. (eds.), *Patterns of Corporatist Policy Making* (London: Sage Publications): 259-279.
- Stacey, N. A. H. (1954), *English Accountancy 1800-1954* (London: Gee & Company).
- Stewart, I. C. (1991), "The Ethics of Disclosure in Company Financial Reporting in the United Kingdom 1925-1970," *Accounting Historians Journal*, Vol.18, No.1: 35-54.
- Stoddart, E. K. (2000), "Political Influences in Changes to Setting Australian Accounting Standards," *Critical Perspectives on Accounting*, No.11: 713-740.
- Streeck, W. (1983), "Between Pluralism and Corporatism: German Business Associations and the State," *Journal of Public Policy*, Vol.3, No.3: 256-284.
- Streeck, W. and Schmitter, P.C. (1985), "Community, Market, State – and Associations?: The Prospective Contribution of Interest Governance to Social Order," in Streeck, W. and Schmitter P.C. (eds.), *Private Interest Government: Beyond Market and State* (London: Sage Publications): 1-29.
- Taylor, A. J. (1972), *Laissez-Faire and State Intervention in Nineteenth-Century Britain* (London: Macmillan Publishers).
- The International Who's Who*, 20th edition (1956) (London: Europa Publications).
- Tolliday, S. (1987), *Business, Banking and Politics. The Case of British Steel, 1918-1939* (Cambridge Mass.: Harvard University Press).
- Tweedie, D. and Whittington, G. (1984), *The Debate on Inflation Accounting* (Cambridge: Cambridge University Press).
- Walker, S. P. (1996), "Laissez-Faire, Collectivism and Companies Legislation in Nineteenth-Century Britain," *British Accounting Review*, Vol.28, No.4: 305-324.
- Walker, S. P. and Shackleton, J. K. (1995), "Corporatism and Structural Change in the British Accountancy Profession, 1930-1957," *Accounting, Organizations and Society*, Vol.20, No.6: 467-503.
- Walker, S. P. and Shackleton, J. K. (1998), "A Ring Fence for the Profession: Advancing the Closure of British Accountancy 1957-1970," *Accounting, Auditing & Accountability Journal*, Vol.11, No.1: 34-71.
- Who's Who*, 106th edition (1954) (London: A. & C. Black).
- Williams, E. T. and Nicholls, C. S. (1981), *The Dictionary of National Biography 1961-1970* (Oxford: Oxford University Press).
- Williamson, P. J. (1989), *Corporatism in Perspective: An Introductory Guide to Corporatist Theory* (London: Sage Publications).
- Willmott, H. C. (1985), "Setting Accounting Standards in the UK: The Emergence of Private Accounting Bodies and Their Role in the Regulation of Public Accounting Practice," in Streeck, W. and Schmitter, P. C. (eds.),

- Private Interest Government: Beyond Market and State* (London: Sage Publications): 44-71.
- Willmott, H. C., Puxty, A. G., Robson, K., Cooper, D. J., and Lowe, E. A. (1992), "Regulation of Accountancy and Accountants: A Comparative Analysis of Accounting for Research and Development in Four Advanced Capitalist Countries," *Accounting, Auditing & Accountability Journal*, Vol.5, No.2: 32-56.
- Wilson, J. F. (1995), *British Business History, 1720-1994* (Manchester: Manchester University Press).
- Zeff, S. A. (1972), *Forging Accounting Principles in Five Countries: A History and an Analysis of Trends* (Champaign, Illinois: Stipes Publishing).

APPENDIX 1

Titles and Publication of RoAPs

<i>RoAP No.</i>	<i>Publication</i>	<i>Titles</i>
1	12/12/1942	Tax Reserve Certificates
2	12/12/1942	War Damage Contributions, Premiums and Claims
3	13/03/1943	The Treatment of Taxation in Accounts
4	13/03/1943	The Treatment in Accounts of Income Tax deductible from Dividends payable and Annual Charges
5	13/03/1943	The Inclusion in Accounts of Proposed Profit Appropriations
6	23/10/1943	Reserves and Provisions
7	12/02/1944	Disclosure of the Financial Position and Results of Subsidiary Companies in the Accounts of Holding Companies
8	15/07/1944	Form of Balance Sheet and Profit and Loss Account
9	12/01/1945	Depreciation of Fixed Assets
10	15/06/1945	The Valuation of Stock-in-Trade
11	19/07/1946	Excess Profits Tax Post-war Refunds
12	14/01/1949	Rising Price Levels in relation to Accounts
13	11/03/1949	Accountants' Reports for Prospectuses: fixed assets and depreciation
14	12/08/1949	The Form and Contents of Accounts of Estates of Deceased Persons and Similar Trusts
15	30/05/1952	Accounting in relation to Changes in the Purchasing Power of Money
16	13/11/1953	Accountants' Reports for Prospectuses: adjustments and other matters
17	18/10/1957	Events occurring after the Balance Sheet Date
18	10/1958	Presentation of Balance Sheet and Profit and Loss Account
19	10/1958	Treatment of Income Tax in Accounts of Companies
20	13/11/1958	Treatment of Investments in the Balance Sheets of Trading Companies
21	29/02/1960	Retirement Benefits
22	16/11/1960	Treatment of Stock-in-Trade and Work in Progress in Financial Accounts
23	02/1965	Hire-purchase, Credit Sale and Rental Transactions
24	03/1967	Accounting Treatment of Investment Grants
25	02/1968	Accounting Treatment of Major Changes in the Sterling Parity of Overseas Currencies
26	05/1968	The Land Commission Act 1967: accounting implications
27	07/1968	Treatment of Taxation in Accounts of Companies
28	08/1968	Accounts of Investment Trust Companies
29	11/1969	Trust Accounts

Source: ICAEW [1961].

APPENDIX 2

Chronology of Key Events

<i>Event</i>	<i>Date</i>
Appointment of the original SCCLR by the P&L Committee	23 January 1935
Submission to the P&L Committee by the SCCLR of its report	25 July 1938
Outbreak of World War II	1 September 1939
Formation of the T&FR Committee	11 June 1942
The first meeting of the Co-ordinating Committee	7 August 1942
Formation of the GASC by the T&FR Committee	20 August 1942
Representatives of ICAEW meet with Jowitt to discuss post-war reconstruction	24 September 1942
Palmour's introduction of the alleged statement by Jowitt that "the Accountancy bodies should get together"	5 October 1942
The start of the drafting work of the Co-ordinating Committee to establish the Public Accountants' Bill	24 October 1942
Publication of RoAPs 1 and 2 by the Council	12 December 1942
Hodgson's submission to Dalton of his original idea to reform company law	22 December 1942
fforde's nomination of suitable accountant members on the Cohen Committee	4 February 1943
Dalton's determination to reform company law	15 February 1943
GASC's resolution to develop a new direction for RoAPs 6-10	12 March 1943
Publication of RoAPs 3-5 by the Council	13 March 1943
GASC's communication to the P&L Committee to offer assistance to the SCCLR	16 March 1943
Reconstitution of the SCCLR by the P&L Committee and acceptance of the offer of assistance by the GASC	29 March 1943
GASC's communication to the P&L Committee on the new direction for RoAPs 6-10	14 April 1943
Kingsley Wood's recommendation of Kettle to serve on the Cohen Committee	15 April 1943
P&L Committee's approval of the new direction for RoAPs 6-10	24 May 1943
Appointment of the Cohen Committee	26 June 1943
P&L Committee's recommendation to postpone the publication of RoAP 6	30 June 1943
Council's decision to approach the BoT for their view on further publication of RoAPs by the ICAEW	4 August 1943
Hodgson's reply to the approach made by the ICAEW	7 September 1943
Publication of RoAP 6 by the Council	23 October 1943
Submission of the draft memorandum by the SCCLR to the P&L Committee	25 October 1943
Submission of the draft memorandum by the P&L Committee to the Council	3 November 1943
Publication of RoAP 7 by the Council	12 February 1944
Submission of the ICAEW Memorandum by the Council to the Cohen Committee	25 February 1944
Publication of RoAP 8 by the Council	15 July 1944
Publication of RoAP 9 by the Council	12 January 1945
Publication of RoAP 10 by the Council	15 June 1945
Submission to the BoT by the Cohen Committee of its report	June 1945
Introduction of Companies Bill, 1946 to Parliament	June 1947
Enactment of CA47	6 August 1947
Consolidation of CA48	30 June 1948

APPENDIX 3

Relevant Government Officials and Their Position

<i>Name</i>	<i>Position</i>
Hugh Dalton	President of the BoT (1942-45)
Sir Arnold Overton	Permanent Secretary of the BoT
Sir Edward Hodgson	Second Secretary of the BoT
J. G. Henderson	Principal of the Companies Department of the BoT
Sir William Jowitt	Minister for Reconstruction (1942-44)
Sir Kingsley Wood	Chancellor of the Exchequer (1940-43)
Arthur F. B. fforde	Deputy Director of Contracts at the Ministry of Supply
Sir Cornelius Gregg	Chairman of the Board of Inland Revenue (1942-48)

Source: Ms. 28423; BT58/356; Bircher [1991].

APPENDIX 4

Membership of the P&L Committee as of 29th March 1943

<i>Name</i>	<i>Firms</i>	<i>Location</i>
C. J. G. Palmour (President)	Whinney, Smith & Whinney and Whinney, Smethurst & Co.	London
H. M. Barton (Vice-President)	Barton, Mayhew & Co.	London
W. S. Carrington	Whinney, Smith & Whinney and Whinney, Smethurst & Co.	London
R. N. Carter (1936-37)*	Carter, Chaloner & Kearns, W. Charlesworth & Co. and Carter, Chaloner & Meggison	Manchester
L. W. Farrow	Sissons, Bersey, Gain, Vincent & Co.	London
C. E. Fletcher	Cooper Brothers & Co.	London
G. R. Freeman (1925-26)*	Gane, Jackson, Jefferys & Freeman	London
H. L. H. Hill (1931-32 and 1933-34)*	Hill, Vellacott & Co. and Hill, Vellacott & Bailey	London
Sir Harold Howitt	Peat, Marwick, Mitchell & Co.	London
Russell Kettle	Deloitte, Plender, Griffiths & Co.	London
Harold M. Moore	Edward Moore & Sons	London
Herbert J. Page	Hudson Smith, Briggs & Co., Kemp, Chatteris, Nichols, Sendell & Co. and Fisher, Randle, Kemp, Sendell & Co.	London
The Lord Plender (1910-12 and 1929-30)*	Deloitte, Plender, Griffiths & Co.	London
T. Walton	Walton, Watts & Co.	Manchester
Sir Nicholas Waterhouse (1928-29)*	Price Waterhouse & Co.	London

* after the name indicates that members concerned were past Presidents and years in parentheses indicate the years of presidency.

Source: Ms. 28420/3.

APPENDIX 5 **Members of the Reconstituted SCCLR and Their Role in Preparation and Publication of the First Ten RoAPs**

<i>Membership of the reconstituted SCCLR, March 1943 (age in parenthesis)</i>	<i>Status of each member within the reconstituted SCCLR</i>	<i>Principal Members (including Secretary) of the GASC of the T&FR Committee (dates in parenthesis)</i>	<i>Role in preparation and publication of the first five RoAPs (1-5)</i>	<i>Role in preparation and publication of the second five RoAPs (6-10)</i>
C. J. G. Palmour# (65) (President)	ex-officio member, as President			
H. M. Barton*# (60) (Vice-President)	ex-officio member, as Vice-President (also, member of original SCCLR)	Chairman (July 1942-Mar. 1943) of the T&FR Committee	Member of the P&L Committee responsible for drafting RoAPs 1-5	Member of the P&L Committee responsible for RoAPs 6-10 (and drafting Cohen Committee Memorandum)
G. R. Freeman# (68) (Chairman of the P&L Committee)	ex-officio member, as Chairman of the P&L Committee		Member of the P&L Committee responsible for drafting RoAPs 3-5	
R. N. Carter# (73)	member of original SCCLR			Member of the P&L Committee responsible for RoAPs 6-10 (and drafting Cohen Committee Memorandum)
Sir Harold Howitt*# (56)	member of original SCCLR		Member of the P&L Committee responsible for drafting RoAPs 1-5	
Russell Kettle*# (55)	newly appointed member in March 1943		Member of the P&L Committee responsible for drafting RoAPs 1-5	
T. B. Robson* (46)	newly appointed member in March 1943 (not a member of the P&L Committee, but so from July 1943)			Member of the P&L Committee responsible for RoAPs 6-10 (and drafting Cohen Committee Memorandum)

APPENDIX 5 (continued)

<i>Membership of the reconstituted SCCLR, March 1943 (age in parenthesis)</i>	<i>Status of each member within the reconstituted SCCLR</i>	<i>Principal Members (including Secretary) of the GASC of the T&FR Committee (dates in parenthesis)</i>	<i>Role in preparation and publication of the first five RoAPs (1-5)</i>	<i>Role in preparation and publication of the second five RoAPs (6-10)</i>
R. E. Yeabsley (44)	newly appointed member in March 1943 (neither a member of the Council nor of the P&L Committee)			
B.H. Binder (66)	member appointed to replace Kettle when the latter was appointed to the Cohen Committee (not a member of the P&L Committee)			
S.W. Rowland (Secretary) (c.55)	appointed Secretary of the reconstituted SCCLR in June 1943	Secretary of the T&FR Committee	Participated in drafting RoAPs 1-5 when Secretary of the T&FR Committee	Participated in drafting RoAPs 6-10 when Secretary of the T&FR Committee
P.M. Rees (59)	co-opted member from the GASC in July 1943	Vice-Chairman (Aug. 1942-Mar. 1943) and Chairman (Apr. 1943 -) of the GASC	Participated in drafting RoAPs 1-5 when Vice-Chairman of the GASC	Participated in drafting RoAPs 6-10 when Chairman of the GASC
		F. R. M. de Paula (60), as Vice-Chairman (July. 1942-Oct. 1943) and Chairman (Nov. 1943 -) of the T&FR Committee	Participated in drafting RoAPs 1-5 when Vice-Chairman of the T&FR Committee	Participated in drafting RoAPs 6-8 when Vice-Chairman of the T&FR Committee
		K. A. Layton-Bennett (53), as Chairman (Apr. 1943-Oct. 1943) of the T&FR Committee and Chairman (Aug. 1942-Mar. 1943) of the GASC	Participated in drafting RoAPs 1-5 when Chairman of the GASC	

* after the name indicates that members concerned were recommended, as suitable, for appointment to the Cohen Committee.

after the name indicates that members concerned were members of the P&L Committee as at March 1943.

Source: Ms. 28420/3; Ms. 28423; GASC Minutes Book A; BT58/356.

Tom Mouck
UNIVERSITY OF NEW MEXICO

ANCIENT MESOPOTAMIAN ACCOUNTING AND HUMAN COGNITIVE EVOLUTION

Abstract: Recent archaeological evidence supports the claim that the first system of writing and the first use of abstract numerical representation evolved from the clay token accounting system of ancient Mesopotamia. Writing and other abstract symbol systems have subsequently transformed human cognitive capacities within only few millennia, a time period too short for any substantial changes in our biologically-evolved brains. This paper uses Merlin Donald's theory of human cognitive and cultural evolution [in *Origins of the Modern Mind*; 1991] to identify the role played by ancient accounting in these evolutionary processes. Specifically, it is argued that this early accounting system paved the way for writing by instigating revolutionary cognitive structures for processing visual/symbolic artifacts and establishing a primitive but very powerful form of external memory (external to the brain). The paper also explores the role that accounting systems continue to play in the provision of "cognitive scaffolding" with respect to our organizational and institutional environments, and provides a cursory overview of the pioneering developments of ancient Mesopotamian accounting in this regard.

INTRODUCTION

Thanks to the work of the archeologist Denise Schmandt-Besserat [1978; 1986a; 1986b; 1992], an ancient accounting system developed by the Sumerians of Mesopotamia some 10,000 years ago has been attracting a remarkable amount of attention. The reason for the attention is her claim (backed by extensive evidence) that both the first known writing system and the first

Acknowledgments: The author is very appreciative of the helpful comments of the two anonymous *AHJ* reviewers, one of whom provided especially challenging, but extremely constructive, comments. The result is an immensely improved manuscript.

Submitted July 2002
Revised August 2003
Revised April 2004
Accepted May 2004

known use of abstract numbers were direct outgrowths of that ancient token accounting system.¹ This role of ancient accounting has thus been highlighted in many of the recent works examining the history of human cultures and the evolution of the modern human mind, including the Pulitzer Prize winning *Guns, Germs and Steel* by Jared Diamond [1999].

Schmandt-Besserat's work has not gone unnoticed by accounting historians. Parker [1990] provided a brief but succinct overview of Schmandt-Besserat's findings, and Vollmers [2003] has discussed Mesopotamian accounting in the context of ancient accounting historiography. But Mattessich is the accounting scholar who has written most extensively in this area. Mattessich [1987] for instance, has argued that Schmandt-Besserat's research sheds important light on "the problem of representation". Specifically, he argues that it provides "evidence for the usefulness of the correspondence theory of representation" [p. 83] that was at the center of Wittgenstein's early work, *Tractatus Logico-Philosophicus* [1922]. Mattessich also argues that "those ancient people of the Middle East had record keeping systems, the basic logical structure of which was virtually identical with that of modern double entry" [1987, p. 80]. Related arguments about ancient Mesopotamian accounting being a precursor to contemporary accounting methods and practices is further elaborated in a series of other works by Mattessich [1989; 1994; 1998; 2000]. A radically different perspective on the implications of ancient token accounting is explored by Ezzamel and Hoskin [2002]. Whereas Mattessich tends to view accounting as a tool for representing pre-existing values and improving the efficiency of economic activities, Ezzamel and Hoskin use the post-structural perspectives of Foucault and Derrida to demonstrate how the early token accounting system promoted new forms of valuing, new economic practices, and new power and knowledge relationships.

The present paper examines the significance of the ancient token accounting system from yet another perspective, the per-

¹This claim has recently been challenged by Günter Dreyer, a German archaeologist, who purports to have found evidence of a slightly earlier form of writing in Egypt. In a review of this development, Mattessich [2002] points out that Dreyer's claim has yet to be "thoroughly evaluated and assessed by Egyptologists, Assyriologists and archaeologists in general" [p. 202], and that preliminary evaluation "casts doubt on Dreyer's claim" [p. 203]. Schmandt-Besserat's claim, on the other hand, has been documented in great detail [Mattessich, 2002, p. 203].

spective of human cognitive evolution. Specifically, it uses Merlin Donald's [1991] book, *Origins of the Modern Mind: Three Stages in the Evolution of Culture and Cognition*, to identify the crucial role played by the token accounting system in altering cognitive structures and transforming human cognitive capabilities. In a nutshell, this accounting system consisted of cognitive devices that existed outside the human brain; devices that served as external memory storage and computational aides. Ancient token accounting facilitated the development of what the cognitive philosopher Andy Clark [1997] has characterized as "cognitive scaffolding", allowing us to do far more than the naked brain could ever do. Indeed, it is the author's contention that accounting history could usefully be studied as a history of developments that facilitated scaffolded cognition, and from this perspective the accounting system of ancient Mesopotamia is the appropriate place to begin. The present paper is intended as a step in that direction.

The methodological affiliation of this project is with "embodied realism" as articulated by Lakoff and Johnson in their 1999 book *Philosophy in the Flesh: The Embodied Mind and Its Challenge to Western Thought*. Consistent with Donald's [1991] view of human cognitive evolution, Lakoff and Johnson argue that human thought and language are rooted in a pre-linguistic conceptual structure; a neural-based conceptual structure that has evolved during millennia of interaction between brain, body and world. The resultant "embodiment of meaning", according to Lakoff and Johnson, "locates meaning in the body and in the unconscious conceptual system" [p. 462]. Embodied realism thus claims that important basic level conceptual structures are shared by human beings by virtue of having the same perceptual systems, the same sensori-motor systems, the same biological needs, and by the fact that they share the same physical world. Yet as Donald [1991] makes clear, and as Lakoff and Johnson acknowledge, the same basic level structures can support the addition of differing culturally-specific conceptual structures as human cultural evolution takes divergent paths through geographical space and historical time. This view of biologically-based conceptual structures, together with culturally-evolved additions and modifications, provides the context for the present project – namely, to identify the role played by ancient accounting practices in these evolutionary processes.

The first section below provides a broad overview of human cognitive/cultural evolution, drawing primarily on Donald's

[1991] book. The next section provides a brief review of Mesopotamian accounting and the origin of writing. This is followed by a closer look at Donald's scheme of cognitive evolution, which is used to locate precisely the nature of the contribution made by these early accounting systems in terms of new cognitive pathways involving visual/symbolic processing and external memory devices. Finally, the last major section provides a cursory exploration of accounting techniques as devices for cognitive scaffolding and argues that the ancient Mesopotamians were pioneers in such development.

COGNITIVE/CULTURAL EVOLUTION – AN OVERVIEW

Chimpanzees, our closest biological relatives, have demonstrated an ability to integrate patterns of action associated with relationships and events, as evidenced by their manufacture and use of rudimentary tools, and their (limited) forms of social cooperation [Donald, 1991, pp. 155-156]. Their apparent ability to recall situations, events, and action patterns has been characterized as “episodic memory” by Donald, and their “culture”, which is based upon episodic memory, is referred to as “episodic culture”. But even though they are at the pinnacle of ape cultures and cognitive capabilities, their representational capabilities are limited to episodes or series of episodes involving concrete situations and events. They apparently are not capable of re-presenting situations or of developing shared understandings based on representational knowledge of events, situations and circumstances.

On the evolutionary tree, early hominid species split off from the apes some five or six million years ago, but there is little in the archeological evidence to indicate that the early hominids transcended the episodic-type cognitive capabilities of apes. This is not the case, however, with respect to *homo erectus*, the hominids that emerged some 1.5 million years ago. Unlike earlier hominids, the archaeological evidence indicates that *homo erectus* had significantly larger brains, developed very distinctive tools, constructed shelters, used fire, engaged in mass migrations, and used base camps for seasonal hunting activities. These types of activities involve pedagogical practices, social communication and social coordination that are unlikely with episodic cognitive capabilities.

Homo erectus had apparently developed new cognitive capabilities which were intermediate between episodic cognition and the cognitive capabilities associated with language. Con-

trary to the view that consciousness requires language,² Donald [1991] theorizes that they had developed the ability to engage in conscious mimetic communication. “Mimetic skill or mimesis rests on the ability to produce conscious, self-initiated, representational acts that are intentional but not linguistic” [Donald, 1991, p. 168]. Whereas apes demonstrate limited forms of self-awareness, the mimetic mind must be able to integrate self-awareness with “voluntary action schemas” and to combine models of the self in action with the contents of episodic memory to produce mimetic re-presentations of recalled events and situations [Donald, 1991, p. 192]. With mimesis individuals could communicate information about feelings, about animals, food sources, dangerous places, etc. They could communicate information about how to hunt, how to maintain a fire, how to build shelter, and how to make tools. And not insignificantly, they could engage in reciprocal game-playing. The significance of mimetic games is the way such games promote ideas about social roles, consequences of social actions, the development of shared attitudes, and social conformity. Mimetic game-playing is also closely related to mimetically based ritual, the outcome of which may be shared understandings of the world and shared understandings about the society itself. In sum, “mimetic culture” was radically more sophisticated and complex than the episodic cultures of apes and early hominids. Contrary to some widely held views of language and human culture,³ mimetic culture was, according to Donald [1991], “the first truly human culture” [p. 193].

Indeed, Donald [2001] argues that the next great revolution in cognitive capabilities (the one associated with *homo sapiens* and the evolution of language 50,000 or more years ago) was in many respects an extension of cultural directions already put in motion by mimetic culture. With language it was possible to construct more finely tuned descriptions of places, things, events, and techniques than was possible with mimesis alone. In and of itself, this meant that humans could expand their shared informational data base, they could improve the effectiveness of

²As Donald [2001, p. 35] points out, Jaynes’ [1976] theory links consciousness to language. More recently, Dennett [1991] has made a sophisticated argument for a language-based theory of consciousness. For contrary theories – i.e., that consciousness does not require language, and that certain non-human species exhibit consciousness, see Churchland [1995] and Damasio [1999].

³Ong [1982, p. 2] for example, asserts that “Human society first formed itself with the aid of oral speech”.

pedagogy with respect to tool-making and other skills, and they could enhance their social coordination and planning with respect to migration, hunting and defense. But even more importantly, they could construct abstract narratives that, in essence, generalized across the concrete information about specific episodes; they could construct shared stories about their immediate world and about the nature of the universe. The ultimate products of such shared stories were the grand unifying thematic worldviews that have subsequently been characterized as mythological. As Donald [1991] notes, in hunter-gatherer societies “[m]yth permeates and regulates daily life, channels perceptions, determines the significance of every object and event in life” [p. 215]. He accordingly characterizes such cultures as “mythic cultures”.

If we limit our consideration to biological evolution, the evolution of language can be seen as the last major revolution in human cognitive capabilities. But Donald [1991; 2001] argues that there was another revolution, a non-biological revolution, in human cognitive capabilities. This, of course, was the revolution that added external symbol systems, external memory and external computational devices to the human cognitive tool kit. The first significant steps toward this revolution were arguably the use of two and three-dimensional pictorial representations, beginning 30,000 to 40,000 years ago during Paleolithic times. The most famous Paleolithic art works are the cave paintings near Lascaux, France. These paintings were apparently interrelated to convey “narrative-type” representations relating to hunting and fertility, which according to Donald [1991] were “the two great mythic themes of hunter-gatherer societies” [p. 282]. As narrative-type representations, these paintings constitute a form of external memory, an external storage system for representations of important shared ideas and events. But such pictorial representations did not tend to undermine the orally-based mythic culture; they were essentially used “to explore and develop the mythic ideas that were already the governing cognitive constructs of human society” [Donald, 1991, p. 282].

In Donald’s view, the first truly significant development that would eventually begin to undermine mythic culture was the development of writing some 5,000 years ago in Mesopotamia. But before continuing with Donald’s story of that transition, the reader should be alerted to the one shared characteristic of all contemporary theories of writing – they are all, to some extent, controversial. Unfortunately, an in-depth review of this contested territory is beyond the scope of the present paper. But it

may be helpful to briefly locate Donald's view of writing with respect to two prominent aspects of the controversies. In the first place, there is disagreement about whether writing is essentially a mechanism for transferring speech to a more permanent visible medium. Those who hold that this is indeed the case, are dubbed *scriptists* by the noted writing theorist Roy Harris [2000, pp. 234-5]. In his 1986 book, *The Origin of Writing*, Harris indicts the scriptists for promoting what he terms "the tyranny of the alphabet"; i.e., the notion that alphabetic writing provides "the central paradigm of a writing system" [p. 37] and uses alphabetic writing as the basis for invidious comparisons with other writing systems and indeed "as a model of what the spoken reality ought to be" [p. 46]. Harris sees this as reflecting "the ethnocentric bias of a European approach to non-European languages" [p. 37]. In any case, until recently the scriptist account was the mainstream academic view. Beginning in the 1960s, however, an *anti-scriptist* school began to take shape. McLuhan is the most famous of the anti-scriptists, but Harris includes Havelock and Ong as other prominent members of this school. "Their major thesis is that writing, far from being merely speech made visible in the guise of inscriptions, constitutes a radically different cognitive enterprise. In their account, writing is not just a convenient way of recording speech, but involves a restructuring of thought" [Harris, 2000, p. 235]. As will become clear below, Donald's views can be located solidly in the anti-scriptist camp.⁴

Another dimension of the contested territory surrounding theories of writing has to do with the cultural implications of writing and is typically addressed under the heading of 'literacy and orality'. Rosalind Thomas [1992], one of the foremost voices in this controversy, identifies the two main trends in studies of literacy and orality as follows: "Put crudely, the first seeks broad psychological and cultural implications (or effects) of literacy.

⁴Harris also rejects the scriptist view, but he suggests that the nature of writing has not yet been fully understood. He argues for a rethinking of writing from the standpoint of what he calls *integrational semiology*. From an integrationist perspective, signs are used to integrate activities, either one's own individual activities or social activities. The semiological value of signs thus "depends on the circumstances and activities in which, in any particular instance, they fulfill an integrational function" [Harris, 2000, p. 69]. From this perspective, "there is no simple, universal relationship between the written sign and the spoken sign of the kind that Saussurean semiology postulates" [p. 81], and semiological meaning "emerges from the integration of activities" [p. 92].

The second pursues detailed, culturally specific studies of the manifestations of literacy in a given society, often eschewing entirely any of the wider claims made for the effects of literacy" [p. 15]. Thomas' own work is a notable example of the latter trend, and she is highly skeptical of attempts to draw broad cross-cultural implications regarding the influence of writing on cultural and cognitive evolution.

Donald's work, on the other hand, is characteristic of the trend that looks for broad psychological and cultural implications of literacy. As noted above, he claims that writing played a crucial role in the transition from a predominantly mythic to a predominantly theoretic culture. But in contrast with many of the views that Thomas targets for criticism, Donald's theory makes no claim that literacy, in and of itself, produces a quick, uniform and complete cultural transformation. For Donald, the cultural transformation must be seen in longer, evolutionary terms in which both narrative-type pictorial art and writing emerged as new visuographic forms of representation. But whereas pictorial representations were primarily indexical and/or iconic representations, writing evolved a means of using abstract symbols that could be arranged and rearranged in an infinite number of ways to capture the world of linguistic representations in a media external to the individual human mind. But more importantly, it eventually opened up the possibility that humans would begin to reflect upon their own construction of representations; their own collective views of their social world, the physical world and the veracity of their own, previously taken-for-granted, knowledge.

With Greek culture in the 1st millennium B.C., these possibilities came to fruition as "[i]deas on every subject, from law and morality to the structure of the universe, were written down . . ." [Donald, 1991, p. 342]. As written commentaries were shared and discussed, processes of critique and evaluation were developed, including the famous Socratic dialectic which was immortalized in written form by Plato. "The result was that, for the first time in history, complex ideas were placed in the public arena, in an external medium, where they could undergo refinement over the longer term, that is well beyond the lifespan of single individuals" [Donald, 1991, p. 344]. The Greeks thus cultivated new habits of critical, analytical thought that were largely alien to mythic thought. They developed the logic of formal argument, systematic taxonomies, and formal methods of measurement and verification. They developed elaborate theoretical systems of thought in areas such as philosophy,

mathematics, biology and ethics; systems of thought which bore little resemblance to mythological thought. As Donald [1991] notes, "Ancient Greece, from around 700 B.C., was undoubtedly the birthplace of theoretic civilization" [p. 340].

The theoretic accomplishments of the Greeks would not have been possible without the development of new cognitive skills. The habits of analytical thought and the metalinguistic skills associated with presentation and evaluation of ideas were formally taught to generation after generation of Greek students. These skills were honed in the formal study of rhetoric, which "emphasized the large-scale, on-line structuring of linguistic thought products" [Donald, 1991, p. 348]. The rigor of Greek rhetoric as a field of study is manifested in Aristotle's three-volume work on the subject. The formal teaching of these habits of thought were subsequently carried forward in one form or another by the Romans and then by Medieval universities, eventually playing a major role in laying the foundation for the development of modern science.

In sum, the development of writing opened up vast possibilities for the external storage of human knowledge, including knowledge of language and analytic thought processes. Furthermore, although writing was initially used in the service of solidifying and disseminating mythological perspectives, the impetus toward critical, analytical thought was essentially a demythologizing move. And although mythology continued to play a major role in subsequent cultures, including our own, the products of theoretical thought processes have taken over an increasingly influential role in major institutions related to education, business, science and politics. In this sense, the development of writing can be seen as the major development that initiated the chain of events by which the forces of theoretic culture have eclipsed those associated with mythic culture.

MESOPOTAMIAN ACCOUNTING AND THE ORIGIN OF WRITING

Accounting played a crucial role in the transition from mythic culture to theoretic culture. Specifically, ancient accounting provided the bridge between mythic culture and the origin of writing. In fact, the first known writing system emerged some 5,000 years ago in Mesopotamia in the form of written accounting records. This development has been explored in considerable detail by Schmandt-Besserat [1992] and by Nissen et. al. [1993], and their findings have been introduced into

the accounting literature by Mattessich [1987; 1989; 1994; 1998; 2000] and Ezzamel and Hoskin [2002]. Thus, only a brief review of these and related developments is provided before turning (in the next section) to an analysis of their relevance to human cognitive evolution.

Until recently, the reigning hypothesis about the development of cuneiform writing in Mesopotamia was that a relatively concrete pictographic writing had evolved first and gradually been modified into the more abstract cuneiform writing as evidenced by the many clay tablets that have been discovered by archeological researchers. This hypothesis has essentially been overturned by the archeological research of Schmandt-Besserat, which was first published in the late 1970s. Schmandt-Besserat [1978; 1986a; 1986b; 1992] has provided persuasive evidence that the Mesopotamian cuneiform writing system developed not from a previously existing pictographic writing system but from an ancient clay token accounting system which originated at least 10,000 years ago. In this accounting system, baked clay tokens were used to represent various agricultural goods (such as sheep, wheat and oil), and later manufactured goods (such as pottery and rugs). Certain shapes and sizes of tokens, and tokens with certain markings, were used to represent and to count specific types of items: "Sheep were counted with disks, small and large measures of grain with cones and spheres, and ovoids served to compute jars of oil" [Schmandt-Besserat, 1986a, p. 266].

This system was modified in the 4th millennium B.C. when the Mesopotamian accountants began enclosing tokens in clay envelopes (bullae) and impressing the tokens on the outside to indicate the contents. In fact, it was a clay envelope found in the late 1920s that provided "the key to understanding what the tokens were" [Schmandt-Besserat, 1992, p. 8]. The cuneiform inscriptions on the outside of the envelope have been interpreted as follows by Schmandt-Besserat [1992, p. 8]:

Counters representing small cattle:

21 ewes that lamb
 6 female lambs
 8 full grown male sheep
 4 male lambs
 6 she-goats that kid
 1 he-goat
 3 female kids

The seal of Ziqarru, the shepherd.

When the envelope was opened, it contained 49 clay tokens, corresponding to the number of animals indicated in the above list. Since this example provides a clear indication that the tokens were “used for bookkeeping”, Schmandt-Besserat characterizes it as “the Rosetta stone of the token system” [1992, p. 9].

By the middle of the 4th millennium B.C., however, some of the ancient accountants began impressing the image of the tokens directly into solid clay tablets, a step that would lead to the obsolescence of clay envelopes and the tokens. As Schmandt-Besserat puts it, “Whereas the markings on envelopes repeated only the message encoded in the tokens held inside, the signs impressed on tablets were the message” [1992, p. 129]. The next significant development began around 3,100 B.C. when a pointed stylus was used to incise pictures of tokens in clay tablets instead of impressing the tokens themselves. This in fact, was the beginning of pictographic writing in ancient Mesopotamia and, as pointed out by Nissen et. al. [1993], the cuneiform characteristic of this early writing began to emerge when a pointed stylus was replaced by a writing instrument with a triangular tip: “By pressing the tip of the stylus into the smooth clay surface and drawing it down, a short, straight wedge-shaped impression . . . was made” [p. 118]. The Latin word *cuneus* means wedge [Nissen et. al., 1993, p. 118]; thus, the name cuneiform for the writing that developed in ancient Mesopotamia.

Developments in the token accounting system are directly associated not only with the world’s first writing, but also with the development of numerals and “abstract counting”. In fact, it was the development of abstract counting, according to Schmandt-Besserat’s theory, that paved the way for the development of the Mesopotamian cuneiform writing system. The early token system involved a very *concrete* form of counting in which the concept of number was not distinct from the concept of the type of item counted. “Ovoids were used to count jars of oil and spheres to count measures of grain; vice-versa, jars of oil could only be counted with ovoids and measures of grain with spheres” [Schmandt-Besserat, 1992, p. 190]. A quantity such as three sheep would, accordingly, be represented by three sheep tokens: “Such a group of three tokens indicated, literally ‘sheep, sheep, sheep’ instead of the modern western usage, ‘3 sheep’ (or ‘three sheep’)” [Schmandt-Besserat, 1986a, p. 266]. Schmandt-Besserat [1992], however, has marshaled an impressive amount of archeological evidence to support her claim that gradual modifications of this accounting system led to an increasingly

abstract form of counting. Indeed, as she points out, the practice of impressing the image of tokens in clay tablets and clay envelopes was a move toward greater abstraction. "Compared to three-dimensional clay counters, the two-dimensional markings represented commodities in greater abstraction since they could no longer be grasped in the hand and manipulated" [1992, p. 191]. Then about 3,100 B.C., ancient Mesopotamian accountants "invented the first numerals" [p. 192] when they began incising a pictograph of a *token* for a type of good together with impressed signs denoting numbers. "For example, a tablet from Uruk features two accounts of '5 sheep' shown by the pictograph for 'sheep' (a circle with a cross) and '5' appearing as five impressed wedges..." [p. 192]. This example indicates a clear separation of the numerical concept separate from the concept of the item counted; a crucial step for the development of abstract counting.⁵

According to Schmandt-Besserat, the development of abstract counting was, in turn, the crucial move in the development of writing. It had a freeing effect on the system of pictographs in the sense that they could be modified more easily, and expanded, to represent concepts that were not immediately associated with counting. Thus, the system of pictographs "could expand to communicate any subjects of human endeavor" [Schmandt-Besserat, 1992, p. 194]. This capability was further enhanced as signs began to be linked with phonetics early in the 3rd millennium B.C. Thus, Nissen et. al. [1993] note that, "[f]rom the early third millennium B.C., script had factually the potential to faithfully represent spoken language" [p. 117]. And due to the flexibility of the cuneiform script system [Nissen, et. al., 1993, p. 123], it was adaptable by languages other than Sumerian, thus facilitating the spread of writing "to Egypt, Elam, and the Indus Valley" [Schmandt-Besserat, 1992, p. 1].

As noted by Hallo [1992], Schmandt-Besserat's views have been refined to deal with previous challenges, and at least some of the revisions presented in *Before Writing* will probably be challenged. *Before Writing* [1992], however, "furnishes to date

⁵The Mesopotamians went on to develop several different numeral systems that were used in differing contexts [Nissen, et. al., 1993, p. 27]. The most important of these was the sexagesimal place value system, widely associated with signs for the numbers 1, 10, 60, 600, and 3600. The sexagesimal system, invented sometime around 2000 B.C., "afforded Babylonian scribes the means to develop general methods of computation similar to those we use today" [Nissen, et. al., 1993, p. 143]. They could add, subtract, multiply, divide, use fractions, etc.

the most coherent working hypothesis to account for the pre-history of the historic invention known as writing" [Halla, 1992, p. xi]. According to that account, the ancient clay token accounting system of Mesopotamia played a major role in the development of writing and the invention of numerals. But Schmandt-Besserat pushes the claim a bit further by noting that the token accounting system actually ushered in a revolution in human cognitive capabilities: "Tokens and clay tablets functioned as an extension of the human brain to collect, manipulate, store, and retrieve data" [Schmandt-Besserat, 1992, p. 197]. She doesn't elaborate on this claim, but it is a claim that is quite congruent with Donald's [1991] theory of human cognitive evolution. The goal here, accordingly, is to employ Donald's theory to focus attention on the role played by this early accounting system in the establishment of new cognitive pathways that, in turn, paved the way for the cognitive skills used in writing and reading.

ANCIENT ACCOUNTING AND NEW COGNITIVE PATHWAYS

Donald's [1991] account of human cognitive-cultural evolution involves four stages – episodic, mimetic, linguistic (oral mythic culture), and external symbolic storage (theoretic culture). For each new stage, new neural-cognitive pathways were required to enable new types of representations and new types of cognitive processing. The first two transitions – from episodic to mimetic and from mimetic to linguistic – required the biological evolution of new innate neural systems. The third transition – from oral-linguistic to external symbolic storage – was not accompanied by any change in the innate biological brain. It was a transition that relied solely on the plasticity of neural networks. That is, the cognitive changes related to the third transition are changes that rely upon the ability of the brain to literally generate new neural circuitry as a result of our experiences in the world (both physical and socio-cultural). The neuro-cognitive research program that supports this perspective on plasticity is increasingly referred to as "neural constructivism" and two of its most influential proponents are Steven Quartz (Director of the Social Cognitive Neuroscience Laboratory at the California Institute of Technology) and Terrence Sejnowski (Director of the Computational Neurobiology Laboratory at the Salk Institute). A technical outline of their view was published as "The neural basis of cognitive development: A constructivist manifesto" [1997]. A more accessible version,

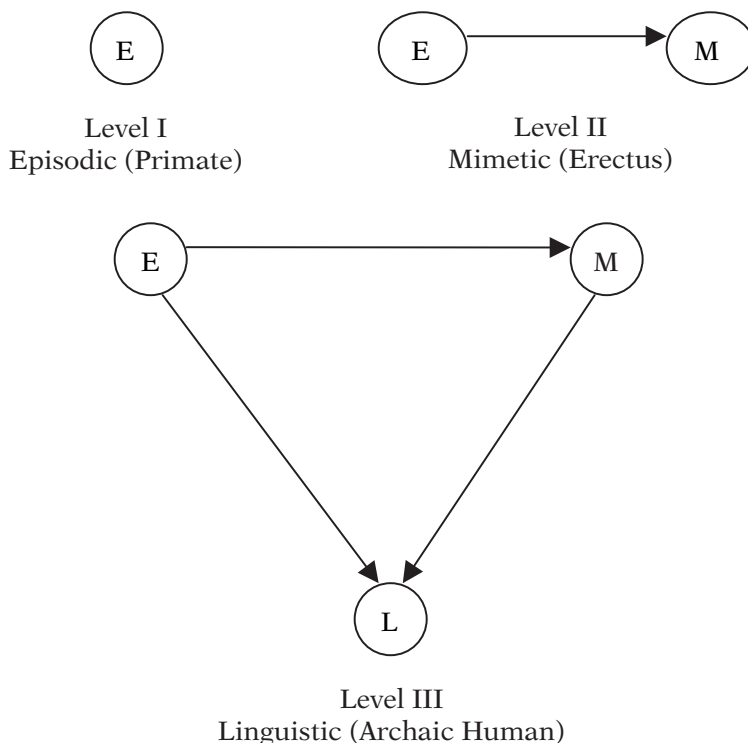
which is interwoven with an exploration of implications for understanding human socio-cultural evolution, is available in their book *Liars, Lovers, and Heroes: What the New Brain Science Reveals About How We Become Who We Are* [2002]. A full review of neural constructivism is beyond the scope of the present paper, but some of the ideas will be introduced below in support of Donald's account of cognitive/cultural evolution.

Donald's diagrammatic portrayal of the first two transitions is reproduced below as Figure 1. The cognitive processes associated with the event perceptions of episodic culture are indicated by an E enclosed in a circle. The cognitive processes associated with mimetic representations are indicated by an M enclosed in a circle. And those associated with linguistic representations are indicated by an L enclosed in a circle. Note the asymmetric relationship between the "episodic system" (E) and the 'mimetic system' (M). The event perceptions of E can be modeled mimetically, but the episodic system has no way to model the voluntary action schemas inherent in mimetic representations. Likewise, note that both the event perceptions of E and the mimetic representations of M can be represented linguistically, while neither E nor M is capable of representing language. The evolution of language required major additions to the cognitive structure of the mimetic mind. For the production of speech, it required neuro-cognitive systems capable of encoding human ideas and representations into abstract sound units, as well as the related muscular-skeletal structures capable of producing the rapid, finely modulated sounds that constitute human speech. For hearing and understanding, it required neuro-cognitive networks capable of distinguishing the sounds of human speech and decoding them.

The transition to literacy, on the other hand, required no changes in the innate biological brain. The new cognitive structures associated with the construction and interpretation of abstract visual symbols have been accomplished by experiential training and re-structuring the neural systems of the innate brain. This is evidenced by the fact that anthropologists have studied many pre-literate human cultures that have the full use of spoken language and display the full ability to *learn* the skills of literacy, and by evidence that the time frame for the evolution of writing has been too short for any significant change in the biologically-evolved brain. Also, the aforementioned neural constructivist research program provides scientific support for this view. Quartz and Sejnowski [1997, p. 538] note that "the currency of cognition is representations", and that cognitive

FIGURE 1

The First Two Transitions in Donald's Theory of Human Cognitive Evolution
(Adapted from Donald's [1991] Fig. 8.4.)



neuroscience is capable of characterizing “representational change in terms that correspond to structural changes in the [brain’s] learning mechanism”. Basically, they argue that solid neuro-scientific evidence exists to support the theory that representational neuronal structures grow in complexity as a result of interaction with one’s environment (both physical and socio-cultural).⁶ Such interactions promote an increasingly complex

⁶Quartz and Sejnowski note that the name *neural constructivism* “reflects the Piagetian view that there is an active interaction between the developing system and the environment in which it is embedded” [1997, pp. 538-539]. They further point out that, “Like Piaget’s theory, ours also emphasizes the constructive nature of this interaction...” [1997, p. 539]. But neural constructivism does not depend upon Piaget’s view that “a universal endogenous process guides the construction” [Damerow, 1988, p. 129].

representational structure that is capable of “constructive learning”; learning that, to use a computer metaphor, involves not only the software, but “causes major changes to the underlying hardware” [Quartz and Sejnowski, 1997, p. 537].⁷ In sum, both the anthropological evidence and cutting-edge neuro-cognitive research support Donald’s view that the new cognitive structures associated with the construction and interpretation of abstract visual symbols have been accomplished by experiential training and re-structuring of the neural systems of the innate brain.

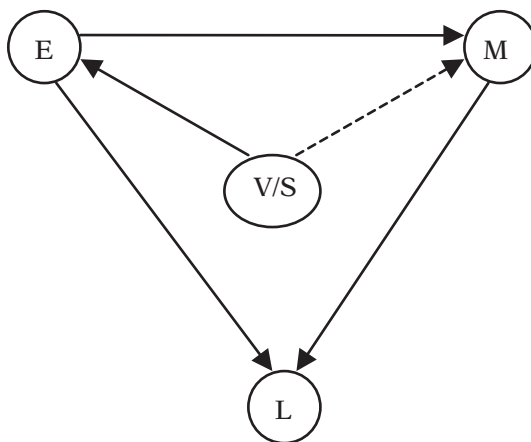
It is at this level, the transition to literacy, that the ancient accounting techniques of Mesopotamia made their crucial contribution in terms of a ‘visuo-symbolic system’. But this contribution needs to be put in historical perspective. The early cave paintings, for instance, were apparently used to ‘tell stories’ about hunting and fertility; ‘stories’ that were certainly visual, and in a loose sense probably contained symbolic references. Thus, in Donald’s [1991] theory of cognitive evolution, they suggest a development beyond the stage of mimetic cognition; a development that required new cognitive pathways for the construction and processing of abstract visual symbols. This is indicated in Figure 2 (below) by adding a V/S enclosed in a circle, with related linkages to the E and M systems. However, since the symbolic aspect was more indexical and/or iconic than it was abstract, Donald argues that the linkage between the V/S system and the M system was tentative and not solidly established. This is indicated in Figure 2 by showing a solid line linking V/S with E and a dashed link linking V/S with M.

Consider, however, the change in cognitive structure that was entailed by the early token accounting system. According to Schmandt-Besserat [1978, p. 57], the basic types of tokens were

⁷The evidence presented in their 1997 article is primarily in terms of growth in the number of synapses, and the spread of dendritic and axonal connections as a result of environmental interactions during development. But they make clear in their 2002 book that our constructive learning mechanism continues to change throughout life. If you learn to play the piano as an adult, the structure of your brain is altered [2002, p. 41]. When a blind person learns Braille, the visual cortex is “transformed into one for processing touch information for Braille” [2002, p. 40]. And when one becomes more and more adept at playing a new computer game, evidence suggests that special brain circuits are developed; circuits devoted to the game [2002, p. 245]. Furthermore, this perspective is quite consistent with Damerow’s conclusions regarding ancient Mesopotamian accounting and the cultural evolution of arithmetical thinking; i.e., that it suggests “a substantial influence of culturally transmitted representations on the emergence of cognitive structures in ontogenetic development” [1988, p. 150].

FIGURE 2

**New Cognitive Pathways Linking Visuo-graphic Cognitive Structures with Episodic and Mimetic Cognitive Structures
(Adapted from Donalds's [1991] Figure 8.4.)**



Level IVa

spheres, discs, cones and cylinders. Unlike the cave paintings, these were used as abstract symbolic representations of things of value. The basic tokens surely bore little, if any, indexical or iconic relationship to the things represented. In terms of Donald's diagrammatic depiction of cognitive structures, the use of these tokens entailed a solidifying of the linkage between V/S and M, and they entailed the tentative establishment of a linkage between the V/S structure and an emerging 'external memory field' (EXMF). Donald [1991] describes an external memory field as "essentially a cognitive workspace external to biological memory" [pp. 296-297]. He elaborates in a footnote: "The EXMF usually consists of a temporary array of visual symbols immediately available to the user. The symbols are durable and may be arranged and modified in various ways, to enable reflection and further visual processing" [1991, p. 297].

In accordance with this definition, the accounting tokens and their potential arrangements constituted a potential EXMF. And since Donald uses the term "external symbolic storage system" to refer to "all memory items stored in some relatively permanent external format" [1991, p. 306], the token accounting

system also constituted an ESS and any related EXMF would be a subset of the ESS (the portion that is in use at any given time).⁸

The ESS represented by the token accounting system expanded as additional sub-types of tokens were created, as the tokens were modified by incisions and punch marks, as the representations of the tokens themselves were imprinted into clay envelopes, and as the related cuneiform writing was developed. In terms of cognitive structure, the EXMF is linked (initially, in a relatively tentative manner) to the visuo-symbolic cognitive system which, in turn, is tentatively linked with the linguistic cognitive system, as indicated in Figure 3. With each evolutionary step of this ancient accounting system the cognitive linkages between the V/S system and the budding EXMF became more substantial. These new cognitive developments are shown diagrammatically in Figure 3.

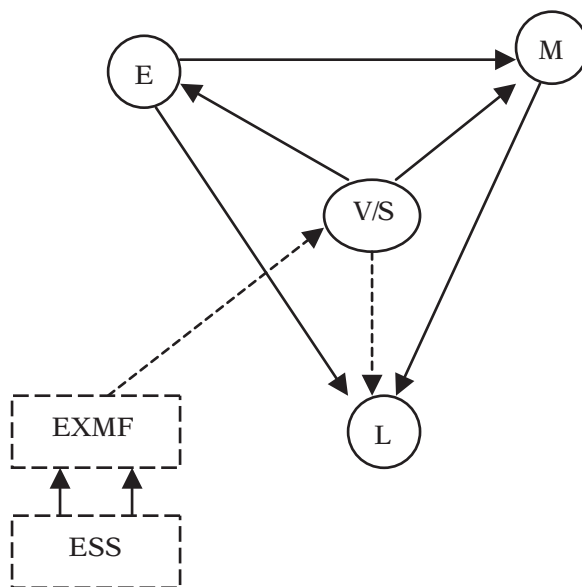
But even as the evolution of the accounting system approached a full-fledged system of cuneiform writing, as described earlier, Donald does not consider the ESS sufficiently developed to support the transition to 'theoretic culture'. The early forms of writing that evolved from the Mesopotamian accounting system were extremely difficult and time consuming to master. As a result they were learned by a small elite who were, in turn, charged with maintaining records of economic and legal transactions, and with preparing official accounts related to religious and political matters. It was only with the evolution of the Greek phonetic alphabet that writing and reading became accessible to a wider range of individuals and writing became a catalyst for critical reflective thought on *all* aspects of life, the world and human affairs. Beginning with the Greeks, written stories, reflections, speculations, and critiques formed an increasingly elaborate 'external symbolic storage system' (ESS) which was available to the EXMF.

Thus, while the writing systems of the ancient Mesopotamians, Egyptians, and others constituted external symbolic

⁸ Donald's precise differentiation of the ESS and the EXMF is as follows: "The ESS is distinguished from the EXMF on the basis of its availability and permanence. The term ESS applies to all memory items stored in some relatively permanent external format, whether or not they are immediately available to the user. The EXMF is a temporary arrangement of some of the material in the ESS, for the use of one person. Thus, I may have a whole library of material available for a project, but I can remove only a few items and arrange them for my immediate needs; the former is part of the ESS, while the latter constitutes my EXMF for the moment" [1991, p. 306].

FIGURE 3

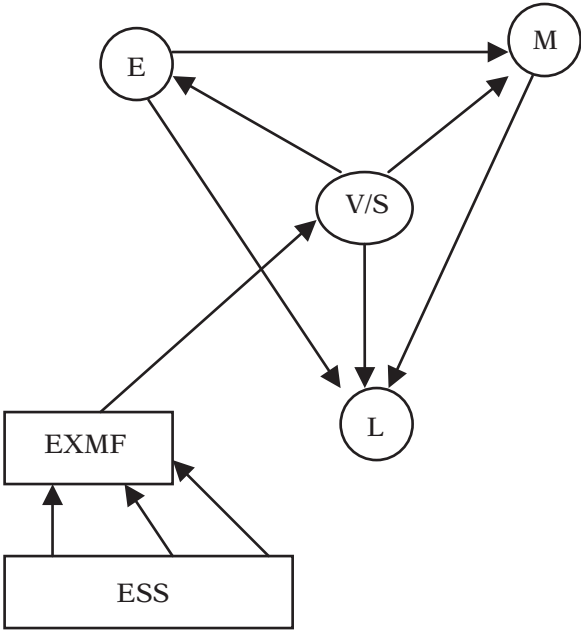
**The Beginnings of an External Memory Field (EXMF)
and Tentative Linkages Between the V/S System
and the Oral Linguistic System
(Adapted from Donald's [1991] Figure 8.4.)**



Level IVb

storage systems, their cultural impact was much more circumscribed than the ESS developed by the Greeks. Stimulated by the Greek phonetic alphabet, the growing body of books and other written artifacts began to have an increasingly potent influence on the conduct of human affairs, culminating eventually in a transition from a predominantly mythic culture to a predominantly theoretic culture. Thus, in Donald's diagrammatic scheme, the phonetic alphabet can be seen as the beginning of the most recent phase of human cognitive evolution, with a solidly established ESS and cognitive pathways linking the ESS, via the EXMF, to the V/S cognitive structures. And finally, the phonetic writing system created direct linkages between the V/S structures and the cognitive structures of language, L. These cognitive structures and their linkages are indicated diagrammatically as Level IVc in Figure 4.

FIGURE 4
The Expanded ESS System and Related Cognitive
Structure Supporting the Development
of ‘Theoretic Culture’
(Adapted from Donald’s [1991] Figure 8.4.)



Level IVc

In summary, Donald’s thesis about the stages of human cognitive evolution are presented in diagrammatic form in Figures 1 to 4. Note that the fourth stage of cognitive structure, the one involving an EXMF and an ESS is indicated as going through three evolutionary phases indicated as Levels IVa, IVb, and IVc (portrayed in Figures 2, 3, and 4, respectively). In this scheme of cognitive evolution, the ancient Mesopotamian accounting system played the most influential role in the developments leading to cognitive level IVb [Figure 3]. This ancient accounting system solidified the linkage between V/S and M; it established a tentative EXMF with tentative linkage to the V/S system; and the system of writing that emerged from the accounting system

eventually incorporated the use of syllabaries, providing a tentative linkage between the V/S structures and the linguistic structures, L.

This diagrammatic scheme thus offers an interesting way to pinpoint the role of accounting in human cognitive evolution, but in and of itself it conveys only a partial and altogether too modest a picture of the cognitive significance of Mesopotamian accounting. A more complete picture can be fleshed out from the perspective of Clark's [1997] notion of scaffolded cognition; a notion that is thoroughly compatible and closely related to Donald's ideas about external memory fields and external symbolic storage systems.

MESOPOTAMIAN ACCOUNTING AND SCAFFOLDED COGNITION

According to Clark [1997], "scaffolding . . . denotes a broad class of physical, cognitive, and social augmentations – augmentations that allow us to achieve some goal that would otherwise be beyond us" [pp. 194-195]. Thus, just as physical scaffolding allows house painters to reach and paint at heights that would otherwise be unreachable, our capabilities for working with abstract symbol systems allow us to perform tasks and solve problems that would be impossible for the "naked brain" (Clark's term). A succinct example of cognitive scaffolding discussed by Rumelhart, et. al. [1986, p. 45] and reiterated by Clark involves the multiplication of large multi-digit numbers. Whereas we can easily multiply 6×7 in our heads to get 42, few of us are able to multiply $6,348 \times 9,235$ in our heads. But with the aid of pencil and paper we can set up the problem in a way that facilitates breaking it down into a series of smaller problems (5×8 ; 5×4 ; etc.) that we can solve by pattern recognition, write down the result (i.e., store it in 'external memory' on paper), and move on to the next small pattern recognition problem.

But the significance of cognitive scaffolding goes far beyond the leveraging effect that it has with respect to the cognitive capabilities of individuals. Cognitive scaffolding is a crucial prerequisite for the complex organizational structures of contemporary human society. Our schools, businesses, transportation systems, and our governmental systems require elaborate systems that can be characterized as cognitive scaffolding. Consider, for instance, the importance of written signs and labels that we build into our environments to provide information, to warn, to recommend, etc. From labels such as 'Ground Floor' on an el-

evator panel to signs with street names, from 'Out of Order' to 'Road closed 2 miles ahead', signs and labels are used extensively to enable us to plan, to find places, things and people, and to navigate through buildings, airports and cities that we have never seen before. We work in organizations that have been designed to pursue constrained goals and objectives. We perform tasks that are more or less well defined and tightly constrained. We navigate daily through streets, offices and factories that are designed to ease the cognitive load on individual brains. In Clark's words, we function within "designer environments" in the sense that "[w]e manage our physical and spatial surroundings in ways that fundamentally alter the information-processing tasks our brains confront" [1997, p. 63]. The cognitive cues and crutches that we build into our environments allow us to function in a vast, elaborate network of social institutions, organizations, coordinated social practices and physical artifacts that organize information for us, channel our actions, and constrain the decision-making situations we face.

Accounting has obviously played a huge role in the production of 'designer environments'. Accounting organizes information in the form of documents, journals, ledgers, and reports. By means of formal information systems and procedures manuals, accounting organizes and controls the sequence of information processing. Accounting enlists technology in the form of calculators and computers to assist in the processing of information. It formulates budgets and standards that serve to channel action. It provides calculative techniques, such as discounted cash flow and capital budgeting, that serve to focus decision making. And it defines targets such as contribution margin, return on investment, earnings per share, and so forth, that serve to guide efforts and focus attention. In these ways accounting can be seen as playing a major role in the construction and maintenance of the 'designer environments' in which most of us spend our working lives. Indeed, much of management accounting could be portrayed as a history of designing and implementing cognitive scaffolding within organizations.

But this role is not a new one for accounting. In their book, *Archaic Bookkeeping*, Nissen et. al. [1993] present evidence that during the 3rd millennium B.C. the Mesopotamians were developing ever more sophisticated accounting techniques to keep track of grain production, storage and use, together with detailed records concerning the distribution of grain and grain-based products. As an extensive illustration, they devote an entire chapter to analysis of the accounts of an administrator

putatively named Kushim, who is mentioned in a total of 18 tablets: "Kushim was apparently entrusted with the administration of a storage facility containing the basic ingredients for the production of beer" [Nissen, et. al., 1993, p. 36]. One tablet shows Kushim's 'signature' and a sign indicating distribution, together with the sign for barley and a designated amount. Beneath this information is a second signature of an official who frequently acted "as a co-signatory in documents concerning barley allocations" [p. 39]. The other side of this tablet shows four separate amounts (adding up to the total on the previous side) and an official's signature below each amount. Another tablet discussed, shows "calculations pertaining to the exact ingredients required for nine different cereal products and eight different kinds of beer in a tabular compilation" [p. 43]. And yet another shows details of the distribution of different quantities and different kinds of beer, and Nissen, et. al. suggest that "[t]he difficult reverse of the tablet probably contains references connected to the labor time which various named brewers required for the production of the beer" [1993, p. 46].

Examples from later periods (the mid and later centuries of the 3rd millennium) indicate that the types of clay tablet record-keeping which were previously characterized as proto-cuneiform script, had developed into full-blown cuneiform writing together with the ability to record accounts in considerably more detail. These examples also demonstrate a sophisticated development of production standards, techniques for comparing actual with expected performance, the calculation of production 'deficits' and 'surpluses'. The deficits and surpluses were treated as balancing entries for the accounting period and were carried forward to the subsequent period. As noted by Nissen, et. al., "A precondition for the feasibility of such global balancing of all expected and real performances was the standardization and calculability of the expected performances..." [1993, p. 49]. They point out that "performance standards" and "value equivalences" can be reconstructed. "Depending on the economic sector, the means of comparison or the measure of standardized norms and duties could be silver, barley, fish, or 'laborer-days', that is, the product of the number of workers multiplied by the number of days they worked" [Nissen, et. al., 1993, p. 51]. As an example, they analyze a very elaborate tablet which contains the accounts of a foreman who apparently was in charge of female workers involved in grain milling processes. The tablet shows the deficit (in female laborer days) from the previous year, the expected production (again in female laborer days), the actual

flour produced and converted into female laborer days, and the resulting “increased deficit” [p. 54].

The milling of grain, the production of bread, beer and other food items were made possible, of course, by the agricultural activities of Mesopotamian farmers. And here too there is evidence that budgeting and production planning and other forms of management control had achieved a rather sophisticated form by the middle of the 3rd millennium. Clay tablets included reports and budgetary-type information concerning the amount of grain to be set aside for seeding. Other tablets manifested the use of surveying, sketched plans for fields, and calculations of area measurements. Indeed, the technique used for surveying irregularly shaped fields is a classic example of how the ancient Mesopotamians used their external ‘symbolic storage system’ as scaffolding to solve a difficult cognitive problem. According to Nissen, et. al. [1993, pp. 68-69], an irregularly shaped field was sub-divided into smaller triangular sections, which were then measured individually and the measurements were “entered into the plan” [p. 69]. The areas of the smaller sections were then calculated and entered into the plan and summed to obtain the approximate area of the larger irregularly shaped field.

Accounting for sheep, goats, cattle and other domesticated animals was even more detailed. Records were kept with details regarding sex and age of animals, production quotas for cheese, milk and dairy fat, and the amount of fodder needed for monthly feed requirements. “One unusual document” discussed at length by Nissen, et. al. [1993, pp. 97-102] shows the hypothetical ten year growth of a cattle herd, together with the annual expected production of dairy fat and cheese.

Examples such as these leave no doubt that the Mesopotamians were pioneers in the development and use of scaffolded cognition. Their accounting systems were used to sort and store information, to formulate production standards, and to produce detailed plans for the future. These accounting and related calculative techniques served to define targets, focus attention, and channel action; all of which was made possible by the extensive use of information which was recorded and stored in external memory devices, namely clay tablets. Their accounting systems enabled them to achieve a high level of comprehension and control over the economic aspects of their lives. As Crosby [1997] has noted with respect to double-entry bookkeeping and Renaissance European merchants, accounting enabled the Mesopotamians (at least the ruling classes) “to achieve comprehension

and, thereby, control of the moiling multitude of details of their economic lives" [p. 208].

It must be pointed out, however, that these claims regarding scaffolded cognition cannot be used to infer socio-political progressiveness. Indeed, as Nissen, et. al. point out, the civilizations of ancient Mesopotamia were made possible by centralized planning and strict control over state-controlled laborers: "One of the unanswered questions", they note, "is whether the individuals in the labor force should be called slaves or whether they should be regarded as having simply restricted freedom" [1993, p. 70]. In a previous chapter, however, they cite evidence that strongly suggests slavery: "So-called inspection texts regularly report on large numbers of escaped laborers. In view of the total control the laborers were subjected to, it is not difficult to imagine why they tried to flee" [1993, p. 54]. Nevertheless, the advances in scaffolded cognition pioneered by the Mesopotamians has had a huge impact, for better or worse, upon the subsequent evolution of human cultures, at least in the West.

CONCLUDING OBSERVATIONS AND COMMENTS

Within a few millennia, a very short period from an evolutionary perspective, human cultures have been totally transformed. They have been transformed from hunter-gatherer societies dominated by oral-mythic traditions, mimetic ritual and narrative thought to hierarchically-stratified, post industrial societies dominated by shared theoretic world-models, large scale theoretic artifacts and massive external symbolic networks [Donald, 2001, p. 260]. While it may seem bizarre to claim that something as mundane as accounting played any significant role in this transition, it is an increasingly well documented fact that the development of writing was the salient catalyst in this transition, and that the first system of writing evolved from a system of keeping accounting records in ancient Mesopotamia. In fact, this early accounting system paved the way for writing by instigating revolutionary cognitive structures for processing visual/symbolic artifacts and establishing a primitive but very powerful form of external (to the brain) memory.

Perhaps surprisingly, the evolution of writing did not involve any significant change in the innate biological brain. It did reflect a massive change in cognitive capabilities, but those enhanced capabilities are more aptly characterized as the product of cognitive scaffolding, that is, the use of external devices to leverage our cognitive abilities, to enhance memory, to focus

attention, to assist in processing information, and to aid decision-making and guide action. The leveraging power of writing is captured very succinctly by Diamond [1999] in his description of its role in the patterns of conquest:

Writing marched together with weapons, microbes, and centralized political organization as an agent of conquest. The commands of the monarchs and merchants who organized colonizing fleets were conveyed in writing. The fleets set their courses by maps and written sailing directions prepared by previous expeditions. Written accounts of earlier expeditions motivated later ones, by describing the wealth and fertile lands awaiting the conquerors. The accounts taught subsequent explorers what conditions to expect, and helped them prepare themselves. The resulting empires were administered with the aid of writing. While all those types of information were also transmitted by other means in preliterate societies, writing made the transmission easier, more detailed, more accurate, and more persuasive [pp. 215-216].

But cognitive scaffolding has played a less dramatic, though perhaps more insidious, role in recent cultural evolution. And it is here that accounting can certainly be identified as one of the major players. Cognitive scaffolding has been employed in the service of fine-tuning and controlling much of the environment that we occupy on a daily basis – our schools, our workplaces, our governmental offices, and other major institutional settings. Accounting practices such as budgeting and performance standards in conjunction with the construction of abstract spaces of responsibility such as ‘cost centers’, ‘investment centers’ and ‘profit centers’ are prime examples of cognitive scaffolding deployed to focus attention and guide action. Such techniques and practices are usually thought of as relatively recent outcomes of the rise of management accounting. The fact is, however, that the ancient Mesopotamians pioneered the use of such techniques some 5,000 years ago. By the 3rd millennium B.C., they had developed a primitive form of cost accounting, elaborate techniques of budgeting and planning, and calculative techniques for devising labor standards.

In sum, the ancient Mesopotamian accounting practices played the key role in the development of writing and the use of these early accounting techniques were highly instrumental in pioneering some basic aspects of cognitive scaffolding that are so evident in the contemporary post-industrial world. Having

said this, however, it must be reiterated that these claims for ancient accounting are not to be taken as unadulterated claims of praiseworthiness. They are claims concerning the actual course of events, even though that course of events has, in many ways, been far from laudatory. As Diamond [1999] notes, "Early writing served the needs of political institutions (such as record keeping and royal propaganda), and the users were full-time bureaucrats nourished by stored food surpluses grown by food-producing peasants" [p. 236].

REFERENCES

- Churchland, P. (1996), *The Engine of Reason, The Seat of the Soul: A Philosophical Journey into the Brain* (Cambridge, Massachusetts: The MIT Press).
- Clark, A. (1997), *Being There: Putting Brain, Body, and World Together Again* (Cambridge, Massachusetts: The MIT Press).
- Crosby, A. (1997), *The Measure of Reality: Quantification and Western Society, 1250- 1600* (New York: Cambridge University Press).
- Damerow, P. (1988), "Individual Development and Cultural Evolution of Arithmetical Thinking," in S. Stauss (ed.), *Ontology, Phylogeny and Historical Development* (Norwood, New Jersey: Ablex Publishing): 125-152.
- Dennett, D. (1991), *Consciousness Explained* (Boston: Little, Brown & Co.).
- Diamond, J. (1999), *Guns, Germs and Steel: The Fates of Human Societies* (New York: W.W. Norton & Company).
- Domasio, A. (1999), *The Feeling of What Happens: Body and Emotion in the Making of Consciousness* (New York: Harcourt Brace & Company).
- Donald, M. (1991), *Origins of the Modern Mind: Three Stages in the Evolution of Culture and Cognition* (Cambridge, Massachusetts: Harvard University Press).
- Donald, M. (2001), *A Mind So Rare: The Evolution of Human Consciousness* (New York: W.W. Norton & Company).
- Ezzamel, M. and Hoskin, K. (2002), "Rethorizing Accounting, Writing and Money, with Evidence from Mesopotamia and Ancient Egypt," *Critical Perspectives on Accounting*, Vol. 13, No. 3: 333-367.
- Hallo, W. (1992), "Foreword" to Schmandt-Besserat, *Before Writing, Volume I: From Counting to Cuneiform* (Austin, Texas: University of Austin Press).
- Harris, R. (1986), *The Origin of Writing* (London: Gerald Duckworth & Co.).
- Harris, R. (2000), *Rethinking Writing* (London: Gerald Duckworth & Co.).
- Jaynes, J. (1976), *The Origin of Consciousness in the Breakdown of the Bicameral Mind* (Boston: Houghton Mifflin).
- Lakoff, G. and Johnson, M. (1999), *Philosophy in the Flesh: The Embodied Mind and Its Challenge to Western Thought* (New York: Basic Books).
- Mattessich, R. (1987), "Prehistoric Accounting and the Problem of Representation: On Recent Archaeological Evidence of the Middle East from 8000 B.C. to 3000 B.C.," *Accounting Historians Journal*, Vol. 14, No. 2: 71-91.
- Mattessich, R. (1989), "Accounting and the Input-Output Principle in the Prehistoric and Ancient World," *Abacus*, Vol. 25, No. 2: 74-84.
- Mattessich, R. (1994), "Archaeology of Accounting and Schmandt-Besserat's Contribution," Parker, R. H. (1990) "Regulating British Corporate Financial Reporting in the Late Nineteenth Century", *Accounting, Business & Financial History*, Vol. 4, No. 1: 5-28.

- Mattessich, R. (1998), "Recent Insights into Mesopotamian Accounting of the 3rd Millennium B.C. – Successor to Token Accounting," *Accounting Historians Journal*, Vol. 25, No. 1: 1-27.
- Mattessich, R. (2000), *The Beginnings of Accounting and Accounting Thought – Accounting Practice in the Middle East (8000 B.C. to 2000 B.C.) and Accounting Thought in India (300 B.C. and the Middle Ages)* (New York: Garland Publishers).
- Mattessich, R. (2002), "The Oldest Writings, and Inventory Tags of Egypt," *Accounting Historians Journal*, Vol. 29, No. 1: 195-208.
- Nissen, H., Damerow, P. and Englund, R. (1993), *Archaic Bookkeeping – Early Writing Techniques of Economic Administration in the Ancient Near East* (Chicago: University of Chicago Press).
- Ong, W. (1982), *Orality and Literacy: The Technologizing of the Word* (New York: Methuen & Co.).
- Parker, R.H. (1990), "How Accountants Invented Counting and Writing," *The Accountant's Magazine*, January: 26-27.
- Quartz, S. and Sejnowski, T. (1997), "The Neural Basis of Cognitive Development: A Constructivist Manifesto," *Behavioral and Brain Sciences*, No. 3: 48-57.
- Quartz, S. and Sejnowski, T. (2002), *Liars, Lovers and Heroes: What the New Brain Science Reveals About How We Become Who We Are* (New York: HarperCollins Publishers).
- Rumelhart, D., Smolensky, P., McClelland, and Hinton, G. (1986), "Schemata and Sequential Thought Processes in PDP Models," in Rumelhart, D., McClelland, J. and the PDP Research Group (eds.), *Parallel Distributed Processing: Explorations in the Microstructure of Cognition*, Vol. 2 (Cambridge, MA: MIT Press): 7-57.
- Schmandt-Besserat, D. (1978), "The Earliest Precursor of Writing," *Scientific American*, Vol. 238, No. 6: 50-59.
- Schmandt-Besserat, D. (1986a), "Tokens: Facts and Interpretation," *Visible Language*, Vol. XX, No. 3: 250-273.
- Schmandt-Besserat, D. (1986b), "An Ancient Token System: The Precursor to Numerals and Writing," *Archaeology*, Vol. 39, November-December: 32-39.
- Schmandt-Besserat, D. (1992), *Before Writing, Volume I: From Counting to Cu-neiform* (Austin, Texas: University of Texas Press).
- Thomas, R. (1992), *Literacy and Orality in Ancient Greece* (Cambridge: Cambridge University Press).
- Vollmers, G. (2003), "Accounting Historiography Using Ancient Sources: Problems and Rewards," in R. Fleischman, V. Radcliffe, and P. Shoemaker (eds.), *Doing Accounting History: Contributions to the Development of Accounting Thought* (Oxford: JAI): 49-62.

Balbir S. Sihag
UNIVERSITY OF MASSACHUSETTS LOWELL

KAUTILYA ON THE SCOPE AND METHODOLOGY OF ACCOUNTING, ORGANIZATIONAL DESIGN AND THE ROLE OF ETHICS IN ANCIENT INDIA

Abstract: Kautilya, a 4th century B.C.E. economist, recognized the importance of accounting methods in economic enterprises. He realized that a proper measurement of economic performance was absolutely essential for efficient allocation of resources, which was considered an important source of economic development. He viewed philosophy and political science as separate disciplines but considered accounting an integral part of economics. He specified a very broad scope for accounting and considered explanation and prediction as its proper objectives. Kautilya developed bookkeeping rules to record and classify economic data, emphasized the critical role of independent periodic audits and proposed the establishment of two important but separate offices - the Treasurer and Comptroller-Auditor, to increase accountability, specialization, and above all to reduce the scope for conflicts of interest. He also linked the successful enforcement of rules and regulations to their clarity, consistency and completeness. Kautilya believed that such measures were necessary but not sufficient to eliminate fraudulent accounting. He also emphasized the role of ethics, considering ethical values as the glue which binds society and promotes economic development.

INTRODUCTION

The virtuous one despises prosperity attained through ignominy. The bounds of good conduct should never be

Acknowledgments: I am grateful to Bhoopendra P. Sinha for encouraging me to explore this topic. I am equally indebted to Linda Kistler and Richard Mattessich for their many invaluable suggestions, which were helpful in improving content and clarity. I am also grateful to the referees and Stephen Walker for their penetrating comments and suggestions for improving the presentation and sharpening the analysis. Only I deserve prosecution for any remaining errors.

Submitted May 2002
Revised October 2002
Revised April 2003
Revised October 2003
Accepted November 2003

crossed. Truth and charity are the roots of righteousness. Righteousness is the ornament of all [Kautilya's *Sutra*, Subramanian, pp. 39, 47, 62].

It is possible to know even the path of birds flying in the sky but not the ways of government servants who hide their (dishonest) income [Kautilya's *Arthashastra*, p. 283].

Vishnugupta Chanakya Kautilya (popularly known as Chanakya) has been addressed as an Acharya or guru (professor or teacher) and a statesman. Nehru [1998, p. 123] describes Kautilya as follows: "He sat with the reins of empire in his hands and looked upon the emperor more as a loved pupil than as master. Simple and austere in his life, uninterested in the pomp and pageantry of high position."

Kautilya is credited with destroying the Nanda (tyrant) rule and installing Chandragupta Maurya (321-297 B.C.E.) on the throne. No one really knows the dates of his birth or of his death. It is almost certain that he and Chandragupta Maurya were adults in 321 B.C.E. when they succeeded in toppling the Nanda Dynasty. It is reasonable to assume that he was older and undoubtedly wiser than Chandragupta in order to command the respect necessary for success in destroying the Nanda rule. Kautilya was probably born around 360 B.C.E., was very influential during Chandragupta's rule (321-297 B.C.E.), and might have lived beyond the latter date. This implies that he was a junior contemporary of Aristotle (384-322 B.C.E.). However, there is no evidence that Kautilya was aware of Aristotle's ideas.

Kautilya wrote *The Arthashastra*, the science of wealth and welfare, during the latter half of the 4th century B.C.E.. *The Arthashastra* contains 150 chapters, which are classified by topic in 15 books. It consists of three reasonably well developed parts: (i) national security issues including a foreign policy, (ii) administration of justice including crime and punishment issues, and (iii) policies related to economic development, taxation, labor management and financial management. The latter includes a discussion on the critical role of accounting. *The Arthashastra* is a theoretical treatise designed to instruct kings everywhere and for all time. Kautilya also completed two other works: *Chanakya-Sutras* (Rules of Science) and *Chanakya-Rajanitisastra* (Science of Government Policies).

Kautilya's contributions to accounting may be classified under four headings: (i) the development of principles of accounting, (ii) the specification of the scope and methodology of

accounting, (iii) the codification of financial rules and regulations and the creation of an organizational structure to reduce the potential for conflicts of interest, and (iv) the role of ethics in the restraint of fraudulent accounting (often spawned by excessive greed), in the maintenance of law and order, the efficient allocation of resources, and the pursuit of happiness.

Mattessich [1998] sheds light on Kautilya's contributions under the first heading. He identifies elements of modern principles of accounting in Kautilya's *Arthashastra* and shows that it contains more accounting theory than Pacioli's *Summa*. Mattessich deserves much credit for his interpretations of Kautilya's implicit analysis. He makes insightful and bold observations, noting that many studies in accounting history have focused too narrowly on the search for the origin of double-entry bookkeeping. He places Kautilya's *Arthashastra* on a par with Pacioli's *Summa*.

In this paper, I concentrate on Kautilya's contributions under the remaining three headings. A modest attempt is made to offer glimpses into Kautilya's grand vision and his impeccable logic.

The second section of the paper contains Kautilya's ideas on the scope and methodology of accounting. Two types of arguments are presented to show that Kautilya considered explanation and prediction as the objectives of analytical inquiries related to accounting. First, it is argued that he did not recommend separating accounting from economics. He proposed testable hypotheses and thus implied that accounting had an equal claim to the use of the scientific method. Second, according to Kautilya, even if accounting is considered a discipline separate from economics, its methodology is still scientific. It appears on closer examination that Kautilya understood the importance of the accurate measurement of economic performance to economic growth. He linked decisions on production and trade patterns to profitability and implicitly considered innovation in accounting methods as a general-purpose technology (GPT), which improved the efficiency of the whole economy. Kautilya's ideas on the importance of the financial health of the Treasury to achieve the various objectives of the state are also included in this section.

According to Kautilya, the major underlying factor for resorting to aggressive and creative accounting (which he calls 'false accounting') is excessive greed, and he attempted to contain it through moral persuasion and legal means. He considered the conditions for ensuring honesty and systemic

efficiency. The third section of the paper lays out Kautilya's ideas on the necessary conditions for increasing efficiency and compliance. He proposed at least three conditions. First, he believed that citizens (including government officials) have to be informed of the laws. With that in mind, he modified, extended, and above all, codified the existing rules and regulations. Second, he proposed an organizational structure that reduces the scope for conflicts of interest. Third, he suggested comprehensive schemes of rewards and punishments to increase compliance. He suggested ways to handle problems that may arise whenever a principal (owner, shareholder, or even a king) entrusts financial operations to his agents (managers). This section of the paper also recognizes Kautilya's contributions on systematic record keeping, periodic accounting, budgeting, and independent auditing.

Kautilya was aware that ethical values encompass much more than the social values codified in rules and regulations. He believed that even the most comprehensive set of rules and regulations was insufficient for checking greed and eliminating the potential for fraudulent practices. The fourth section of the paper contains his ideas on the critical role of ethical values in maintaining law and order and the creation of wealth. He emphasized the role of virtue ethics in building good character. Recognizing that the concept of virtue ethics was already well developed in the *Vedas*, the Hindu religious scriptures and philosophy, he focused primarily on the action-oriented principles of ethics, such as the golden rule, fairness, and 'servant leadership' and undertaking various measures to improve the ethical climate. Before exploring these dimensions of Kautilya's work a brief introduction to *The Arthashastra* is provided in the next section.

A BRIEF INTRODUCTION TO KAUTILYA AND *THE ARTHASHASTRA*

Mattessich [1998] noted that Kautilya developed some rudimentary principles of modern accounting and stated: "One may even raise the question of why the *Arthashastra* concerns itself, at least to some extent, with accounting issues, while the even more comprehensive writings of Aristotle (despite revealing an awareness of economic issues) are silent about accounting theory." Kautilya had a grand vision for building an empire, one that was prosperous, secure, stable, and based on fairness. He realized that the attainment of prosperity required not only

human effort but also the accumulation of capital, which was not possible without the development of accounting methods.

Kautilya's Vision: Kautilya [pp. 120-121] stated his vision thus:

The kingdom shall be protected by fortifying the capital and the towns at the frontiers. The land should not only be capable of sustaining the [native] population but also outsiders [when they come into the kingdom] in times of calamities. It should be easy to defend from [attacks by] enemies and strong enough to control neighboring kingdoms. It should have productive land (free from swamps, rocky ground, saline land, uneven terrain and deserts as well as wild and [unruly] groups of people). It should be beautiful, being endowed with arable land, mines, timber forests, elephant forests, and good pastures rich in cattle. It should not depend [only on] rain for water. It should have good roads and waterways. It should have a productive economy, with a wide variety of commodities and the capacity to sustain a high level of taxation as well as a [large] army. The people shall be predominantly agriculturists [artisans and craftsman], devoted to work, honest, loyal and with intelligent masters and servants [6.1.8].

Kautilya realized that there was a large gap between his ideal economy and that prevailing in 4th century B.C.E.. His genius lies in anticipating the possible problems that may arise in eliminating such a gap and devising policies to resolve them. According to Kautilya, it was the moral duty (as well as enlightened self-interest) of a king to increase prosperity, judicial fairness and national security; and he constructed a complete conceptual framework and suggested practical measures to achieve these objectives. The level of abstract reasoning achieved in *The Arthashastra* was unique for its time.

Kautilya's *Arthashastra* was written in Sanskrit. Now, fortunately, many English translations are available. It hardly matters which translation is used, because all are accurate. Kangle's [1972, Part II] translation of *The Arthashastra* is considered the most authentic but is somewhat pedantic, and in adhering strictly to the Sanskrit language, lacks clarity in some instances. Rangarajan [1992] improves the textual clarity.

Two examples illustrate the differences between the two translations. First, original reference [1.19.34] to the Sanskrit Shloka (stanza) in Kautilya's *Arthashastra*. Kangle [Part II, p. 47] translates this as: "In the happiness of the subjects lies the happiness of the king and in what is beneficial to the subjects his

own benefit. What is dear to himself is not beneficial to the king, but what is dear to the subjects is beneficial (to him).” Its translation by Rangarajan [p. 149] is: “In the happiness of his subjects lies his happiness; in their welfare his welfare. He shall not consider as good only that which pleases him but treat as beneficial to him whatever pleases his subjects.” Second, the original reference [2.1.16] in Kautilya’s *Arthashastra*. Its translation by Kangle [Part II, p. 56]: “For, a king with a small treasury swallows up the citizens and the country people themselves.” Rangarajan [p. 253] translates thus: “A King with a depleted Treasury eats into the very vitality of the citizens and the country.” Occasionally in this paper, Kangle’s translation is used; but to a large extent my observations and interpretations are based on the version edited, rearranged, translated, and introduced by Rangarajan. The page references are from this translation but references to the original ones are also provided (to illustrate, [1.15] means Chapter Fifteen of Book One of *The Arthashastra*).

Date and Authorship of The Arthashastra: Much controversy surrounds the date and authorship of *The Arthashastra*. Many Western writers have advanced the hypotheses that it was not written during the 4th century B.C.E. and that many scholars authored it. Most of these hypotheses are advanced on the basis of ‘stylometric’ analysis - the frequency of use of certain words like *ca* (and) and *va* (or) which vary among different parts of *The Arthashastra* - and the fact that it is written in the third person. Recently, Mital [2000] devotes his entire book to rigorously and meticulously examining the statistical methods and evidence used, particularly by Trautmann, to test such hypotheses. He [p. 90] finds “This also shows that the difference in the use of *ca* and *va* is based on subject-matter and not on authorship.” Mital concludes that the methods used by Trautmann are both arbitrary and often contradictory and therefore, inadequate to prove his claims.

Other critics, analyzing the writing style, question whether Kautilya was the sole author of *The Arthashastra*. The writing style, at least in ancient India, was quite different from that prevailing today. Mital [pp. 22-23] notes, “On the basis of the opinions of Kautilya expressed in the third person, the view is put forward by Hillebrandt that it is not the work of Kautilya but of a school, and this is also the opinion of Keith and Winternitz. But Kane says: “In order to avoid looking too egotistical ancient writers generally put their views in the third person.”

Today, there exists no direct evidence against Kautilya being the sole author of *The Arthashastra*, nor evidence that it was not written during the 4th century B.C.E.. The indirect evidence, such as the writing style of various segments of *The Arthashastra*, is insufficient to challenge either the date of its writing or Kautilya as the sole author.

Possible Reasons for the Neglect of The Arthashastra: Kautilya's text was very widely referred to and revered by scholars for more than a thousand years after its writing. Ray [1999, p. 119] observes "Apart from the many authors like Asvaghosa, Kalidas, Bana, Visakhadatta, Dandin and others who were conversant with it, we have references to it and quotations from it right down to the days of Millnatha and Charitravardhana in the 14th and 15th centuries A.D. It may have lost much of its validity with the establishment of the Mogul Empire and particularly with the advent of the British rule."

It is remarkable that *The Arthashastra* survived the activities of some of the rulers of India. The fact that the text was written in Sanskrit did not facilitate its dissemination. The work resurfaced in 1904 when a manuscript was handed to Mr. Shamasastri, the Librarian at the Mysore Government Oriental Library.

KAUTILYA ON THE SCOPE AND METHODOLOGY OF ACCOUNTING

The use of science is the sight of truth [Kautilya's *Sutra*, Subramanian, p. 83].

Cushing [1989] observed: "Contemporary academic accountants have not deserted science, but they have in a fundamental sense deserted accounting. The majority of the research in today's leading academic accounting journals applies the research paradigms of economics and psychology within the institutional setting of accounting." He called this a crisis in accounting and suggested that one of the ways to resolve it is to simply redefine the scope of accounting. He concluded, "Accounting may be redefined in scientific terms as the science that attempts to explain and predict the economic performance of individuals or groups responsible for the utilization of economic resources." By contrast, according to Kautilya, explanation and prediction are the key goals for any objective inquiry in accounting. This means that by applying scientific methods, contemporary accountants do not abandon accounting; rather they

restore its original status and are prepared to realize its full potential.

Book 15 of *The Arthashastra* contains just one chapter, 'The Method of Science' but surprisingly it deals exclusively with methodology and interestingly, is placed at the end rather than the beginning of the work. It contains some stylistic rules of the kind that one might find in 'University of Chicago Manual of Style' or the style guide of *Accounting Historians Journal*. But other rules are more substantive, such as, stating a hypothesis, a verbal (non-technical) reasoning to prove it, a conclusion and a recommendation. It is not claimed, however, that it has the sophistication described by Backhouse [1997, Chapters 3-7], Godfrey-Smith [2003] or Mattessich [2000, Chapter 1].

The content of Kautilya's work indicates that the prerequisites for the establishment of the discipline of accounting already existed in India during 4th century B.C.E.. Kautilya used fractions, percentages, summation and subtraction operations, and even permutations and combinations quite extensively, displaying a deep knowledge of arithmetic. He developed not only bookkeeping rules but also the procedures for preparing periodic income statements and budgets and performing independent audits. Ifrah's [2000] findings also supports the existence of the required capabilities in arithmetic to support a separate discipline of accounting in the period under study. He [p. 434] writes, "Before the beginning of the fifth century B.C.E., then, all the necessary "ingredients" for the creation of the written place-value system had been amassed by the Indian Mathematicians."

Kautilya did not see the need for separating accounting from economics and believed that any demarcation of the boundary between them would be arbitrary. He considered accounting an integral part of economics. By contrast, he explicitly treated Political Science and Philosophy as separate disciplines. This view is supported by the fact that the role of accounting was considered to be embedded in economic policy. Kautilya perceived 'explanation and prediction' as the true objectives of a scientific inquiry and applied these to analyze the impact of various policies on the creation of wealth. He applied these objectives, both explicitly and implicitly, to inquiries relating to accounting. This leads to the conclusion by Kautilya that explanation and prediction lay within the rightful domain of accounting.

Kautilya on the Importance of Wealth: Kautilya methodically

approached economic issues by first explaining the importance of wealth and then suggesting policies for its creation. He [p. 637] observed “Man, without wealth, does not get it even after a hundred attempts. Just as elephants are needed to catch elephants, so does wealth capture more wealth. Wealth will slip away from that childish man who constantly consults the stars. The only [guiding] star of wealth is itself; what can the stars of the sky do [9.4.26-27]?” According to Kautilya, wealth complemented human effort (by enhancing labor productivity) in creating prosperity, which in turn creates more wealth.

Kautilya [p. 149] added, “In the absence of fruitful economic activity, both current prosperity and future growth are in danger of destruction. A king can achieve the desired objectives and abundance of riches by undertaking productive economic activity [1.19.35-36].” He advanced the hypothesis that the pursuit of productive activities was the key to stabilization of the current income and its rapid growth in the future.

Incentives to Encourage Creation of Wealth in the Private Sector: Kautilya explored all possible means of creating wealth. He suggested many policies to encourage capital formation in the private sector. For example, he [p. 231] recommended (i) *Tax Holidays*: “Any one who brings new land under cultivation shall be granted exemption from payment of agricultural taxes for a period of two years. For building or improving irrigation facilities exemption from water rates shall be granted [3.9.33].” (ii) *Full Protection of Private Property Rights*: Kautilya [p. 121] wrote “The wealth of the state shall be one acquired lawfully either by inheritance or by the king’s efforts [6.1.10].” He [p. 231] added, “Water works such as reservoirs, embankments and tanks can be privately owned and the owner shall be free to sell or mortgage them [3.9.34].” (iii) *Concessionary Loans*: He [p. 179] recommended, “[On new settlements] the cultivators shall be granted grains, cattle and money which they can repay at their convenience [2.1].” (iv) *Duty Free Imports*: Kautilya [p. 238] suggested “Any items that, at his discretion, the Chief Controller of Customs, may consider to be highly beneficial to the country (such as rare seeds) [2.21] are to be exempt from import duties.”

Kautilya on the Factors Relevant to Creating Wealth: Kautilya [p. 255] stated:

The following are the means of increasing the wealth of the State: ensuring the prosperity of state activities; continuing well tried policies; eliminating theft; keeping

strict control over government employees, increasing agricultural production; promoting trade; avoiding troubles and calamities; reducing exemptions and remissions and increasing cash income [2.8.3].

Obstruction, misuse of government property and false accounting by government servants lead to a reduction of wealth [2.8.4].

With no distraction, the people will be fully involved in the work in the fields and there will be an increase in the supply of labor, money, commodities, grain and liquids to the treasury [2.1.33-35].

He added, "Calamities to the treasury can be any internal or external action which has the effect of reducing the revenue. Financial health can be affected by misappropriation by chiefs, remission of taxes, scattered collection, false accounting and looting by enemies and tribes before the revenue reaches the Treasury [8.4.49]."

Two observations are in order. First, according to Kautilya 'false accounting' could be a serious threat to the creation of wealth. Second, this warning was central to core economic policies relating to economic growth, fiscal management and labor management. He discussed each of these means of creating wealth and the need to prevent loss by developing accounting methods.

Fiscal Policy: Kautilya recommended a mixed economy and argued for a very active role by the government. He explored ethically possible avenues to maximize the level of wealth in the public sector. He was aware of the limits placed on governments to raise revenue through taxation. Spengler [1971, p. 72] summarizes Kautilya's fiscal policy as follows:

Kautilya's discussion of taxation and expenditure, apparently in keeping with traditional doctrine, gave expression to three Indian principles: taxation power is limited; taxation should not be felt to be heavy or excessive; and tax increases should be graduated. One of his main concerns seems to have been the collection and expenditure of revenue in such ways as to build up the permanent revenue-yielding capacity of the economy. While he manifested little knowledge of tax shifting and incidence, he emphasized the long run, cautioned against too heavy taxation in the short run, and noted that a ruler could not tax at his pleasure, particularly in frontier regions where disgruntled taxpayers could flee to neighboring countries.

Incidentally, this functional relationship between the rate of income tax and the magnitude of tax revenue is now expressed in the Dupuit-Laffer curve.

Kautilya on the Importance of Financial Health: Kautilya emphasized heavily the financial health of the state and understood that a sound treasury was a prerequisite to accomplishing other goals. He [p. 253] stated, "All state activities depend first on the Treasury. Therefore, a King shall devote his best attention to it. A King with a depleted Treasury eats into the very vitality of the citizens and the country [2.8.1-2]." In fact, according to Kautilya [p. 147], a King should begin his day by receiving "reports on defense, revenue and expenditure." He [p. 145] added "Artha (sound economics) is the most important; for, dharma and kama are both dependent on it [1.7]." He [p. 255] continued "If receipts and expenditure are properly looked after, the King will not find himself in financial difficulties [5.3.45]." According to Kautilya, therefore, a king must carefully manage the financial affairs of the state.

Explanation and Prediction: Kautilya recommended both preventive and remedial measures to deal with natural disasters. He [p. 116] asserted: "In the interests of the prosperity of the country, a king should be diligent in foreseeing the possibility of calamities, try to avert them before they arise, overcome those which happen, remove all obstructions to economic activity and prevent loss of revenue to the state [8.4, 8.5]." It may be noted again that Kautilya considered the prevention of loss of revenue as crucial to economic prosperity.

Kautilya on the Evaluation of a Policy and the Anticipation of Analysis of Variance: Kautilya did not know how to measure risk or separate the total variation (in the dependent variable, wealth) into explained and unexplained (random) components. However, his insights into issues related to risk are revealed in his work. For example, he was aware of a risk-return trade-off and risk premium. He [p. 619] stated "As between land dependent on rain and land with flowing water [i.e. a river], a smaller tract with flowing water is preferable to a larger drier one because with flowing water, which is always available, the production of crops is assured [7.11]." He [p. 426] suggested an interest rate of 120% and 240% on commercial loans involving highly risky travel through forests and by sea respectively [3.11]. Incidentally, this indicates that capital was in short supply in

Kautilya's India. There were no usury laws to regulate interest rates at that time.

Similarly, Kautilya [p. 554] stated, "Events, both human and providential, govern the world [and its affairs]. Acts of God are those which are unforeseeable and whose origin is unknown. If the cause is knowable and hence foreseeable, its origin is human. If an act of God results in [helping] the achievement of one's objective, it is good fortune; otherwise, it is misfortune. [Likewise,] any human action which increases one's wealth is a good policy; otherwise, it is a bad policy [6.2.6-12]." This statement implicitly contains the following regression model:

$$W = X \beta + e \quad [1]$$

Where, W = wealth is the dependent variable, X = exogenous policy variables which may be used to create wealth or prevent any reduction in it, e = random error, the acts of God.

Kautilya used the word "knowable" for finding the causes that promote wealth and the word "foreseeable" for the ability to predict the impact of the various policies. It may be noted that the phrase 'if the cause is knowable and, hence, foreseeable' implies that Kautilya believed that if something can be explained, one should be able to predict it. In practice, that is not always possible. For example, Hahn [1984, p. 10] points out that while scientists are able to explain why earthquakes occur they cannot predict their occurrence.

Additionally, Kautilya [p. 120] stated, "A councilor or minister of the highest rank should be a native of the state, born in a high family and controllable [by the king]. He should have been trained in all the arts and have logical ability to foresee things. He should be intelligent, persevering, dexterous, eloquent, energetic, bold, brave, and able to endure adversities and firm in loyalty. He should neither be haughty nor fickle. He should be amicable and not excite hatred or enmity in others [1.9]." The requirement 'the logical ability to foresee things' for hiring a councilor or a minister is of interest since this 'forward looking' human behavior is the cornerstone of the recent rational expectations revolution.

Kautilya's analysis shows that the application of scientific methodology to accomplish the objectives of 'explanation and prediction' is embedded in accounting. He contended that innovations in accounting methods make two types of contributions. First, his analysis implies that just like innovations such as writing, printing, steam-engine, the electric dynamo and computer

microchips, accounting innovations are a general-purpose technology (GPT) which improves the efficiency of the whole economy (see Lipsey et al. [1998a,b] for a discussion on GPT). Second, he understood the importance of accounting methods in preventing loss of revenue by detecting fraud and thus contributing to the creation of wealth. Let me elaborate on these themes.

Importance of Accurate Measurement of Profits: Kautilya [Subramanian, 2000, pp. 32, 67, 73] in his *Sutras* advances these hypotheses: "Fortune follows human effort. Prosperity depends on the intellect. Intellect depends on education." Kautilya was aware that an efficient allocation of resources depended on appropriate measurements of profits, which were critical to enhancing economic growth. He linked production-patterns and trade-patterns to expected profitability. He not only emphasized the estimation of expected profits for direction but also insisted on strict adherence to the prescribed uniform standards and accurate measurements of actual profits. It seems that he realized that in the absence of uniform standards and accurate measurement of economic performance, resources could not be allocated efficiently – measurement errors (whether inadvertent or deliberate) led to the mal-allocation of resources.

Kautilya, Production-Patterns and Economic Performance: Kautilya revealed an awareness of the concept of value added and suggested devoting resources where net returns were highest. Accordingly, he argued that growing rice was best, vegetables were the next best and sugarcane was the worst. He [p. 230] explained, "Sugarcane is very difficult to grow being susceptible to diseases and requiring much more expenditure [2.24]." Similarly, while discussing the protection of crops against calamities, he would protect the ripe crops first. He [p. 231] argued, "A loss of [ripe] crops is worse than a loss of seedlings, because, with grown crops, the labor put in is also lost [8.2]."

Profitability and Trade-Patterns: Kautilya [p. 237] stated:

The Chief Controller of State Trading shall ascertain the profitability of a trading operation with a foreign country using the following method. The price of the goods to be sold in the foreign country and the price likely to be realized on the goods imported in exchange shall be estimated. From the gross margin, all expenses, as described below, shall be deducted:

For caravans: customs duty, road cess, escort charges, tax payable at military stations, ferry charges, daily allowances paid to merchants and their assistants and the share payable to the foreign king.

For trade using ships: all the above plus the following additional charges: i.e., the cost of hiring ships and boats, provisions for the journey.

He shall, in general, trade with such foreign countries as will generate a profit; he shall avoid unprofitable areas [2.16].

It may be noted that Kautilya suggested predicting the prices of exports and imports for estimating expected profit. This he considered a critical factor for engaging in trade.

Kautilya and Innovation in Accounting Methods as a General-Purpose Technology: According to Kautilya, prosperity depended on capital, manpower, and an efficiency parameter (A). This in turn depended on proper accounting methods and general knowledge, ethical values, public infrastructure, and political stability (including law and order and protection of private property rights). Only in recent years has the efficiency parameter (A) received its due attention. For example, Hall and Jones [1996] ask "Why do some countries have higher levels of productivity, physical capital, and human capital than others?" They find, "Broadly speaking, our answer is infrastructure, which we take to include characteristics of the government, the culture, and the climate of a country." Kautilya's ideas may be expressed by the following production function:

$$Y = A (H, S, M, R) F (K, L) \quad [2]$$

Where Y = Gross Domestic Product (GDP), H = knowledge, which includes accounting methods, S = political stability and national security, M = ethical values, R = public infrastructure, (e.g., roads), K = capital (tools etc.), and L = manpower.

Lately, economics has been labeled an imperial science. For example, Stigler [1984] and Lazear [2000] point out that economics has been colonizing other disciplines such as sociology, history, political science, and law [also Spiegel, 1991, p. xxiv]. Similarly, Kautilya applied economic analysis to issues related to legal matters and to the problem of reneging (now called the time inconsistency problem) in negotiating treaties with foreign kings. Kautilya considered accounting to be an integral part of economics, thus implying that accounting could not colonize itself. Accountants were not deserting their discipline when pur-

suing the objectives of 'explanation and prediction'. According to Kautilya, the methodology of accounting is scientific and its scope very broad, thus making it unnecessary to redefine it. It is therefore apparent that the scientific methodology was used in accounting long before the paradigm of double-entry bookkeeping was popularized by Pacioli.

KAUTILYA ON CREATING THE NECESSARY CONDITIONS FOR REDUCING FRAUD

The ruler should avoid appointing persons who are fraudulent, dishonest, cruel, without enthusiasm, incompetent and cowardly [Kautilya's Rajanitisastra, Subramanian, p. 128].

Kautilya believed that prosperity requires the creation of wealth both in the private and public sectors. He suggested many economic policies to encourage the creation of wealth in the private sector. He also advocated minimizing government spending on administration in order to generate the maximum surplus for building the necessary public infrastructure. Additionally, in his scheme, some enterprises, such as, liquor sales and gambling, were to be managed by the government. Kautilya prescribed that each public enterprise be required to generate a maximum amount of profit without crossing ethical bounds. Therefore, accurate measurement of the economic performance of a public enterprise and the elimination of opportunities for misappropriation of public funds by government employees was deemed absolutely critical. For these reasons, adoption of an appropriate format for bookkeeping and codification, and compliance with financial rules could not be left to the discretion of individual enterprises. Kautilya attempted to develop solutions to mitigate such problems through uniform bookkeeping rules for recording data systematically and by advocating frequent periodic reporting and the adoption of independent audits to reduce system failures. He suggested incentive-based compensation mechanisms to reduce what we now recognize as moral hazard problems. As noted below, the Comptroller-Auditor (one official), who was ultimately responsible for financial matters, was required to be knowledgeable, efficient and incorruptible.

Kautilya realized that the fiscal health of the Treasury depended not only on developing an economically sound policy that increased the taxable capacity of the economy through economic development, but also on honest and efficient financial management. He was quite concerned about the possibility of

fraudulent accounting by government servants. He listed 40 possible ways in which corrupt employees could cheat and considered that it was not easy to detect cheating. He [p. 281] stated, "Just as it is impossible to know when a fish moving in water is drinking it, so it is impossible to find out when government servants in charge of undertakings misappropriate money [2.9]." He [p. 283] continued, "It is possible to know even the path of birds flying in the sky but not the ways of government servants who hide their (dishonest) income." Kautilya's primary goal was to minimize the scope of such eventualities.

He provided insights to possible inadvertent as well as deliberate accounting errors or irregularities, which decreased the revenue of public enterprises. He believed that revenue losses could be caused by system failures and moral failures. Accordingly, he identified the potential sources of such losses as: inadvertent recording errors, deliberately deceptive accounting, collusion among employees to misappropriate revenue, loss in productivity due to in-fighting among employees; and most importantly, he observed that principles are only as good as the people who practiced them.

Kautilya suggested three measures to deal with the problem of fraud. First, people have to be informed of the existing laws, since it is not possible to obey them in the absence of proper information. He codified (along with modifications and extensions) all the rules and regulations. According to Kautilya, the laws must be unambiguous and as comprehensive as possible. Second, he proposed an organizational structure, which reduced the scope for conflicts of interest. Third, he suggested long lists of punishments for cheating the government and rewards for commendable service. Each of these measures is now discussed in turn.

Laws Must have Clarity, Consistency, Completeness and be in Written Form: Kautilya wrote [p. 213] "The rule of kings depends primarily on [written] orders; even peace and war have their roots in them [2.10]." He believed that effective enforcement of rules and regulations requires clarity (no 'confusion'), completeness ('is avoiding redundancy or deficiency of letters, words and subject matter; citing reasons, quotations and illustrative examples'), and consistency ('non-contradiction') and must be in a written form. He [p. 213] suggested that the Royal Scribe "Have a [thorough] knowledge of all conventions, be quick in composition and have good handwriting. He shall also be able to read [clearly] documents and edicts [2.10.3]." Kautilya recommended

that the Royal Scribe be one of the highest paid (48000 panas) employees to emphasize and ensure that the Royal Edicts were accurately recorded. Kautilya [p. 215] went so far as to suggest "Cutting off both feet and a hand or a 900 panas" for the "Royal Scribe deliberately writing down wrongly a Royal Edict, by omission or commission [4.10.14]."

Designing an Organizational Structure to Minimize the Scope for Cheating and Conflicts of Interest: Kautilya realized that no financial management is possible in the absence of accurate and complete records. He proposed the establishment of two very important offices to monitor and manage the financial health of the state: the positions of Treasurer and Chief Comptroller-Auditor. Both were to be very well paid, and in turn they were to be incorruptible and efficient. It is very interesting to note that Kautilya divided financial responsibility between the Treasurer and the Comptroller-Auditor. Both were supposed to report directly to the king.

The Treasurer was responsible for managing assets while the Comptroller-Auditor handled: the construction and maintenance of the Records Office, maintenance of Records, compilation of rules, inspection, audit, and preparing and presenting financial reports to the king. Thus Kautilya attempted to encourage specialization, accountability and to limit the scope for conflicts of interest.

According to Kautilya [p. 225] "The Comptroller shall be responsible for the compilation of all fixed rules as well as the conventions used [2.7.3]." It appears that in 4th century B.C.E. India there were some accounting conventions, the application of which were monitored by the Comptroller-Auditor.

Kautilya was aware of other situations in which conflicts of interest could arise. He recommended that a king should appoint advisers and consult them according to the nature of the project. However, [p. 200] "No one who belongs to the side likely to be adversely affected by the project shall be consulted [1.15.46]." Similarly, he recommended an income tax on agricultural income and a kind of occupational tax on non-agricultural income to deny opportunities for income-shifting to merchants. He [p. 271] stated, "The tax shall be recovered, in cash, from those skilled in their work. Their offences shall not be forgiven, for they are apt to [evade the tax and] pretend that the sales made by them were on behalf of someone else [5.2]." Apparently, he was aware of the difficulty of collection of an income tax on the non-agricultural income.

Labor Management Policy: Finally, according to Kautilya, labor management policies were important to reducing fraud. Book-keeping was not restricted to compiling data, but also to correcting inadvertent errors and to discouraging and reducing manipulation or fraud. Similarly, audits tests could not ensure that all transactions were recorded accurately. Kautilya was concerned about the possibilities of overstating expenditures and understating revenues by employees siphoning off state resources. Kautilya recommended a judicious mix of monitoring, inspection and good wages. He understood the needs, nature and aspirations of workers. For example, he [Subramanian, 2000, p. 108] stated "One should avoid the country where there is no reward for work, no activity, no relatives or no means of learning." According to Kautilya [p. 283] "The king shall have the work of Heads of Departments inspected daily, for men are, by nature, fickle and, like horses, change after being put to work [2.9.2-4]." It was impossible for the king to supervise the Heads of Departments personally because they were stationed at distant locations. Therefore, the king should pay incentive wages to the Heads of Departments and also get their work inspected to reduce shirking. Similarly, he prescribed [p. 289] that the Chancellor and the Treasurer would be paid 24000 panas annually, "enough to make them efficient in their work." Such a high reward should be compared to the yearly minimum wage for an unskilled worker, which was only 60 panas at this time.

Kautilya recommended that errant individuals should be disciplined. He called for the creation of an intelligence service for apprehending violators, pursuing fair trials and punishing the guilty, depending on the nature and gravity of their offences. He recommended a judicious mix of incentive-based compensation, inspection, supervision and appropriate punishment to reduce cheating and shirking.

Spengler [1971, p. 74] summarizes Kautilya's labor management policies as follows: "His analysis, of course, was implicit, not explicit; it rested upon the assumption that individual behavior could be controlled in large measure through economic rewards and penalties, particularly when these were commensurate with the action to be encouraged or discouraged. Accordingly, while Kautilya looked at economic issues through the eyes of an economic administrator, he was aware that rules must fit man's economic propensities and foster rather than repress useful economic activity."

OTHER ACCOUNTING-RELATED PRESCRIPTIONS

As mentioned above, according to Kautilya, the level of net worth and its growth were of critical importance. Therefore, statements of the revenues and expenditures of public enterprises and of the state budget were required to monitor the growth in net wealth. He developed the necessary apparatus and financial rules and regulations to achieve the goal of sound financial health. He devised a system of bookkeeping rules and financial rules or codes of conduct to manage the financial affairs of the state.

Kautilya on Bookkeeping, Maintenance of Records and Periodic Accounting: Kautilya developed a format for 'recording, classifying and summarizing' data on financial variables. He suggested a comprehensive approach to maintaining accounts for revenue, expenditures and net balances for each department. According to Kautilya, the Comptroller-Auditor would maintain detailed accounts. He [p. 225] suggested "The Closing Day for the Accounting Year shall be the full moon day of the month of Asadha [June/July], the year consisting of 354 days (according to the lunar calendar) with a separate book for the intercalary month [2.7]."

Financial Rules for Appropriate Conduct: Kautilya specified many accounting rules. On the proper maintenance of accounts he [p. 278] stated, "All accounts shall be maintained in the proper form and legibly written without corrections. Failure to do so shall be a punishable offence [2.7.35]." On the timely submission of accounts he suggested, "Day-to-day accounts [to be submitted once a month] shall be presented before the end of the following month and late submission shall be penalized [2.7.26, 27]." He also instructed the account officers "Not lie about the accounts and not try to interpolate an entry as if it was forgotten [2.7]." He [p. 279] added "High officials shall be responsible for rendering the accounts in full for their sphere of activity without any contradiction in them. Those who tell lies or make contradictory statements shall pay the highest level standard penalty [2.7.25]."

It may be added that Kautilya was a realist. For example, he [p. 283] suggested, "The king shall forgive a trifling offence and be content even if the [net] revenue is small [p. 2.7.41]." Since he [p. 281] reasoned, "Just as it is impossible not to taste honey or poison that one may find at the tip of one's tongue, so it is

impossible for one dealing with government funds not to taste, at least a little bit, of the King's wealth [2.9.32]."

KAUTILYA ON THE ROLE OF ETHICS

Righteousness is the root of happiness. Greed clouds the intellect. Another's wealth, even if it be husk, should not be stolen [Kautilya's Sutras, Subramanian, pp. 20, 46, 51].

Issues relating to ethical conduct have been discussed since antiquity. Kautilya was no exception. He offered many insights, such as: no amount of rules and regulations or auditing can prevent unethical behavior, both character-building and action-oriented ethical values are essential for a solid grounding in ethics and in offering guidance to practice ethical behavior, ethical behavior helps in the maintenance of law and order and the creation of wealth, which promotes economic prosperity, and religious scriptures and philosophy are the sources of ethical values. However, only the first two insights, which have a particular relevance to accounting, are presented here.

Kautilya on the Sanctity of Contracts and Magnificence of Conscience: Kautilya used the word 'dharma' (which in general means duty) and righteousness in personal and social conduct. He [p. 107] described the basic ethical (dharmic) values as follows: "Duties common to all: Ahimsa [abstaining from injury to all living creatures]; satyam [truthfulness]; cleanliness; freedom from malice; compassion and tolerance [1.3.13]."

Kautilya believed that not only was it important to adhere to the principles of accounting but those who practiced them should behave ethically. He [pp. 133-134] stated: "Some teachers say that oppression by the Treasurer is worse because he harasses by finding fault with whatever is done and levies fines [which he pockets?]. The Chancellor, on the other hand, cannot do much harm since he is supervised by an [audit] bureau and can enjoy only what is legitimately assigned to him [8.4]." Kautilya was of the view that "The Treasurer can only appropriate what is brought into the treasury by others. But the Chancellor collects his own revenue first and then he may collect the king's revenue or even let it go to ruin; he can do as he pleases with other people's property [8.4]."

These statements imply that Kautilya considered that independent audits were necessary but insufficient in eliminating financial misappropriations. He noted that the financial affairs

of the Chancellor, who was responsible for collecting revenue from the countryside, was audited but could cause more financial loss than the Treasurer who was not audited. He urged the king to make every effort to appoint incorruptible individuals to such key positions.

Kautilya on Character-Building and Action-Oriented Values: The Greek philosophers Plato and Aristotle considered ethical values as virtues, emphasized the building of a person's good character and believed that good conduct would naturally follow. Post et al [2002, p. 129] notes: "Moral values acknowledged by Aristotle include courage, temperance, justice, and prudence. St. Thomas Aquinas added the Christian values of faith, hope, and charity to the list of morally desirable virtues. Additional virtues include honesty, compassion, generosity, fidelity, integrity, and self-control."

While Aristotle addressed the principle of virtue ethics he did not discuss any action-oriented principles of ethics. Kautilya referred to both virtue ethics and action-oriented principles of ethics. But he elaborated only on the action-oriented ethical values, such as, the golden rule, rights, fairness, and servant leadership. He [Subramanian, p. 83] wrote: "Proper behavior is more important than being virtuous." Kautilya was well educated in *Vedas* and philosophy but he thought that a discussion regarding personal character-building was beyond the scope of *The Arthashastra*. For example, he stated [p. 142] a prince "Should learn philosophy and the three *Vedas* from authoritative teachers, economics from the heads of [various government] departments, and the science of government from [not only] theoretical exponents of political science [but also] from practicing politicians."

Two remarks are in order. First, Kautilya believed that instilling ethical values in a child kept him ethical later in life whether he worked as a public servant (a politician or bureaucrat) or as a merchant (or an accountant) in the private sector. Second, the grounding in ethics, such as, the development of the capacity to follow one's conscience, look beyond self-interest and show benevolence toward others, was as important as learning professional skills.

Kautilya on Measures to Improve the Ethical Climate: Kautilya emphasized the creation of an ethical climate in the state and also suggested various measures to enhance it. He argued that bureaucratic organizations were necessary since nothing can be

accomplished without them but was very apprehensive about the potential for corruption and the difficulty of detecting such practices. He recognized that a good system of bookkeeping and auditing were necessary but not sufficient to guarantee ethical practices. In other words, an accounting method, no matter how sound, would not defeat 'aggressive and creative' accounting practices.

Kautilya [p. 286] identified several types of officials who might cause loss to the Treasury. A discussion of two types reveals the nature of his insights. According to Kautilya, an official who causes loss may be arrogant "about his learning, his wealth or the support he gets from highly placed persons" [2.7.10]. The phrase 'support he gets from highly placed persons' implies the potential for abuse from undue access to high officials. Similarly, an official may be greedy, "which prompts him to use false balances, weights or measures, or to make false assessments and calculations" [2.7.10]. Kautilya insisted on character references before a person was hired.

Kautilya suggested various measures to the king to improve the ethical climate. He [p. 121] stated: "A king endowed with the ideal personal qualities enriches the other elements when they are less than perfect [6.1]," adding [p. 123] "Whatever character the king has, the other elements also come to have the same [8.1]." According to Kautilya, a king should uphold the highest ethical standards and rule through his leadership and not by his authority. Among the other recommendations proposed were measures covering the laws against sexual harassment, child labor, and the establishment of an ethical code of conduct.

CONCLUSIONS

Kautilya offered a complete conceptual framework and a set of concrete policy measures to promote economic development and fairness. He specifically emphasized innovations in accounting methods along with the accumulation of capital, designing a fool-proof set of rules and regulations for reducing the potential for fraud, building of an impeccable character and promoting ethical values to achieve economic prosperity. The foregoing indicates that Kautilya developed a comprehensive system of accounting, including bookkeeping rules, periodic accounting, preparation and reporting of income statements and independent audits to monitor, manage and assess financial status.

Mattessich [1998] concluded that the origin of accounting principles found in Kautilya's *Arthashastra* place it on a par with

Pacioli's *Summa*. Kautilya's other contributions relating to the scope and methodology of accounting, the necessary conditions for reducing the potential for fraudulent accounting and conflicts of interest, facilitating compliance with rules and regulations, and the role of ethics have been discussed in this paper. It is claimed that Kautilya viewed accounting as an integral part of economics, placing explanation and prediction within its rightful domain, implying that the scope and methodology of accounting encompasses much more than mundane bookkeeping and auditing. Kautilya's encouragement of innovation in accounting methods may be compared with other general purpose technologies such as innovations in writing and printing.

According to Kautilya, the major underlying factor which drove aggressive and creative accounting (which he calls 'false accounting') practices was excessive greed. Kautilya attempted to contain false accounting through moral persuasion and legal means. He concluded that the successful enforcement of rules and regulations depended on their unambiguous codification. Further, organizational structures should be designed in a way which limited the scope for conflicts of interest. With that in mind, he suggested the establishment of two separate offices of Treasurer and Comptroller-Auditor. Also, he proposed the establishment of a reasonably complete system of governmental accounting comprising: bookkeeping rules, accounting conventions, financial reports, periodic accounting and independent auditing to increase compliance.

Kautilya understood the importance of virtue ethics and believed that they were sources of 'joy and bliss'. He confined his discussion primarily to action-oriented ethical principles and vigorously advanced them as essential to the maintenance of law and order, and to the promotion of economic development. According to Kautilya, a king must set high ethical standards, be a person displaying the highest moral character and must ensure that his successor was equally 'noble'.

Hence, more than a millennium before Pacioli's *Summa*, an Indian guru recognized the centrality of accounting to economic development and was promoting innovations in accounting methods.

REFERENCES

- Backhouse, R.E. (1997), *Truth and Progress in Economic Knowledge* (Cheltenham: Edward Elgar).
- Cushing, B. E. (1989), "A Kuhnian Interpretation of the Historical Evolution of Accounting," *Accounting Historians Journal*, Vol. 16, No. 2: 1-41.

- Godfrey-Smith, P. (2003), *Theory and Reality, An Introduction to the Philosophy of Science* (Chicago: The University of Chicago Press).
- Hahn, F. H. (1984), *Equilibrium and Macroeconomics* (Oxford: Basil Blackwell).
- Hall, R. E. and Jones, C. I. (1996), "The Productivity of Nations," *National Bureau of Economic Research, Working Paper 5812* (Cambridge: NBER).
- Ifrah, G. (2000), *The Universal History of Numbers* (New York: John Wiley & Sons).
- Kangle, R. P. (1965), *The Kautilya Arthasastra, Part III* (Delhi: Motilal Banarsidass), 2000 reprint.
- Kautilya, V. C. (4th Century B.C.E.), *The Kautilya Arthasastra, Part I, Sanskrit Text with a Glossary, 2nd Ed.* 1969 by Kangle, R. P. (Delhi: Motilal Banarsidass), 2000 reprint.
- Kautilya, V. C. (4th Century B.C.E.), *The Kautilya Arthasastra, Part II, An English Translation with Critical and Explanatory Notes, 2nd Ed.* 1972 by Kangle, R. P. (Delhi: Motilal Banarsidass), 2000 reprint.
- Kautilya, V.C, (4th Century B.C.E.), *The Arthashastra, Edited, Rearranged, Translated and Introduced* by L. N. Rangarajan, 1992 (New Delhi, New York: Penguin Books).
- Lazear, E. P. (1999), "Economic Imperialism," *Quarterly Journal of Economics*, Vol. 115, No. 1: 99-146.
- Lipsey, R., Bekar, G. and Carlaw, K. (1998a), "What Requires Examination?" In E. Helpman (ed.), *General Purpose Technologies and Economic Growth* (Cambridge, US: MIT Press): 15-54.
- Lipsey, R., Bekar, G. and Carlaw, K. (1998b), "The Consequences of Changes in GPTs." In E. Helpman (ed.), *General Purpose Technologies and Economic Growth* (Cambridge, US: MIT Press): 193-218.
- Mattessich, R. (1998), "Review and Extension of Bhattacharya's Modern Accounting Concepts in Kautilya's Arthasastra," *Accounting, Business & Financial History*, Vol. 8, No. 2: 191-209.
- Mattessich, R. (2000), *The Beginnings of Accounting and Accounting History- Accounting Practice in the Middle East (8000 B. C. to 2000 B. C.) and Accounting Thought in India (300 B. C. and the Middle Ages)* (New York: Garland Publishing).
- Mital, S. N. (2000), *Kautilya Arthashastra Revisited* (New Delhi: PHISPC).
- Nehru, J. (1946), *The Discovery of India*, The Signet Press (New Delhi: Oxford University Press), 1998 reprint.
- Post, J. E., Lawrence, A. T. and Weber, J. (2002), *Business and Society, 10th ed.* (Boston: McGraw-Hill).
- Ray, B. N. (1999), *Tradition and Innovation in Indian Political Thought* (Delhi: Ajanta Books International).
- Spengler, J. J. (1971), *Indian Economic Thought* (Durham: Duke University Press).
- Spiegel, H. W. (1991), *The Growth of Economic Thought, 3rd Ed.* (Durham: Duke University Press).
- Stigler, G. J. (1984), "Economics - The Imperial Science," *Scandinavian Journal of Economics*, Vol. 86, No. 3: 301-313.
- Subramanian, V. K. (1980), *Maxims of Chanakya* (New Delhi: Shakti Malik, Abhinav Publications), 2000 reprint.

Omar Abdullah Zaid
UNIVERSITY OF BAHRAIN

ACCOUNTING SYSTEMS AND RECORDING PROCEDURES IN THE EARLY ISLAMIC STATE

Abstract: Despite advances in historical knowledge the precise origins of accounting systems and recording procedures remain uncertain. Recently discovered writings suggest that accounting has played a very important role in various sections of Muslim society since 624 A.D. This paper argues that the accounting systems and recording procedures practiced in Muslim society commenced before the invention of the Arabic numerals in response to religious requirements, especially zakat, a mandatory religious levy imposed on Muslims in the year 2 H.

INTRODUCTION

In an influential contribution Parker [2000] wrote that “the writing of accounting history is increasingly dominated by writers in English discussing private-sector accounting in English-speaking countries of the 19th and 20th centuries . . . the scope of accounting history is much wider than this” [p. 66]. This paper seeks to further advance our increasing knowledge of the history of accounting outside English-speaking countries in periods earlier than the modern era. It also contests de Ste. Croix’s claim [1981, p. 114] that “there seems to have been no really efficient method of accounting, by double or even single entry, before the thirteenth century”. Analysis of medieval bookkeeping systems in Muslim society throws doubt on this assertion.

The paper seeks to explore the work of early Muslim scholars on accounting in the context of zakat (religious levy) and the

Acknowledgments: The author acknowledges the valuable assistance and constructive comments suggested by Stephen P. Walker, Cardiff University, Professor Russell Craig from Australian National University, and two anonymous referees.

Submitted September 2000
Revised August 2001
Revised April 2003
Accepted September 2003

expansion in the revenues and expenditures of the Islamic state, the structure of business in the Islamic state and the religion that shaped the economic and social life of Muslims. This remains a subject which "has not been explored in depth" [Hamid *et al.*, 1993, p. 132]. It will be shown that the accounting systems developed and practiced in parts of the Muslim world, especially the Middle and Near East, were advanced. In focusing explicitly on accounting systems and recording procedures the paper goes beyond Zaid [2000a] which was specifically concerned with the accounting books developed in the Islamic state. It departs from Zaid [2001] and Nobes [2001] where the question of the origins and terminologies of double entry bookkeeping were at issue.

While there are exceptions [Lall Nigam, 1986; Hamid *et al.*, 1993; Scorgie, 1990; Solas and Otari, 1994; and Zaid, 2000a and 2000b], few western and contemporary Muslim accountants have sought to document and explore early Muslim accounting. Lal Nigam [1986] has highlighted the role played by Indian accountants in the development of accounting prior to Pacioli's *Summa* of 1494. The author claims that the development of "a system of bookkeeping which predates and was far ahead in sophistication of its European counterpart. This system recorded the two aspects of each event, and took care of businesses of varying sizes and dimensions. Called *Bahi-Khata*, *Mahajanor Deshi-Name* as its indigenous to the soil, it is still practiced in most parts of the country" [1986, p. 149]. Scorgie [1990] examined "the evidence that supports a contention that the Indians imitated and adopted the bookkeeping systems conveyed by the Moguls who conquered India in the mid-sixteenth century" [p. 63]. Scorgie concludes that "[T]he similarity of words in Arabic and main languages of India suggests that the system used by Indian traders and families was derived from their Arab conquerors. That is, that the Indians were imitators rather than inventors and that the transport of double-entry accounting was from the West to the East rather than vice versa as asserted by Lal Nigam" [p. 69]. Scorgie's [1990] suggestion that accounting development "was derived from their Arab conquerors" [p. 69] is further strengthened by Solas and Otari [1994] whose focus was on "the governmental accounting practice in the Near East during the II Khan Dynasty period (1120-1350 A.D.)" [p. 117]. Their study concerned the Ottoman Empire, a Muslim empire. Solas and Otari [1994] conclude "that the rudiments of double-entry accounting were practiced in the Near East and were developed independently from the accounting practices used in the West" [p. 117].

Another study that refers to the contribution of Muslim scholars in the development of accounting was made by Hamid et al [1993]. Hamid et al [1993] suggest that "Islam has the potential for influencing the structure, underlying concepts and the mechanisms of accounting in the Islamic world" [p. 131]. The authors conclude that "the potential influence of Islam on accounting policies and practices could inject analyses of national accounting difference with a cultural dimension more profound than that emanating from the impact of indigenous secular law, general custom and commercial habit" [p. 147]. This conclusion was based on earlier developments evidenced by Zaid [2000a, 2000b].

The accounting historian Sieveking considered "that book-keeping arose as a direct result of the establishment of partnerships on a large scale" [Littleton, 1933, p. 9]. This viewpoint may reflect the situation in Europe around the 14th century but does not necessarily represent the motives for developments in earlier civilizations such as Babylonia, Egypt, China and the Islamic state that included the Middle East, most parts of Asia and Africa and parts of Europe. Although the role of partnerships cannot be underestimated, the needs of the state and individual entrepreneurs also merit attention. This is because "the need to keep records of financial and other business transactions is an ancient one" [Littleton, 1956, p. v]. Accordingly, it can be said that the exact location of the developments of accounting cannot be entirely associated with one civilization or nation because these developments took place over a period of time and possibly in different civilizations.

Lieber [1968, p. 230] suggests that Italian traders obtained their knowledge of sophisticated business methods from their Muslim counterparts. Furthermore, Heaps [1895] stated that "the first European who translated algebra from the writings of the Arabians is also supposed to have written the first treatise on bookkeeping ... bookkeeping would first be practiced by the first considerable merchants, and as these were the Arabians, he ascribes to them the invention" [p. 21]. Writers such as Heaps [1895] and Have [1976] assumed the contribution of Muslims as being synonymous with that of Arabs. In reality Arabs and non-Arabs contributed to developments in the Muslim world. Generally speaking, it appears that these authors were referring to Muslims as Arabs, perhaps due to the language spoken or the origin of early Muslims from Arabia. Examples of Arab Muslim scholars include Al-Kalkashandy, Jabir ibn Hayyan, Ar-Razy, Al-Bucasis and Al-Kindy. Examples of non-Arab Muslim scholars

consist of Al-Khawarizmy, Abicenne, Abu-Bacer and Al-Mazendarany. According to Islam, all these scholars are identified as Muslims regardless of their country of origin, race, language, colour or ethnic background. Accordingly, it is problematic to associate the development of accounting in the Muslim world with Arabs only and to ignore the contribution of non-Arab Muslim scholars. Al-Khawarizmy's work, in particular, was well known in Europe. Although Roman numbers were in use in the Italian republics during the 15th century, a feature of Pacioli's *Summa* was the use of Arabic numbers. Furthermore, it has been suggested that the introduction of Arabic numerals in the West was associated with the work of Al-Khawarizmy in the early 9th century [Macve, 1994, p. 12].

The development of accounting and other sciences in Muslim society was initiated by the teachings of Islam. Accordingly, this requires a brief explanation of the religion of Islam and its impact on the economic and social infrastructure that contributed to the development of several sciences including accounting.

ISLAM AND ACCOUNTING

The religion of Islam was founded in *Makkah*¹ in the year 610 A.D. [Abu Addahab, 2002, p. 649] with the revelation of the Quran to the Prophet Mohammad, peace be upon him.² At that time Arabs in the Arabian peninsula generally, and in Makkah especially, pursued a tribal life characterized by periods of war between the various tribes. Tribes were not subject to any conventional or written rule except the rules of the head of the tribe. Significant change occurred with the establishment of the Islamic state in 622 A.D. in Al-Madienah Al-Munaw'warah³ when the principle of brotherhood was introduced. This required that all Muslims act as brothers with no regard to country of origin, race, language, colour, ethnic group or any other factor dividing human beings. This principle was the foundation for social harmonization among those who embraced Islam. Muslims denounced revenge, supported each other financially and socially

¹ Commonly spelt Mecca but Makkah is the appropriate pronunciation and corresponding spelling.

² This is the mandatory Islamic expression used whenever the name of a prophet like Noah, Abraham, Ismail, Isaac, Moses, Joseph, or Mohammad is mentioned.

³ To the north of Makkah and was originally called "Yathreb" but the name was changed to Al-Madienah Al-Munaw'warah.

regardless of their historical differences. They understood Islam as being a comprehensive code for spiritual and material life. They commenced the study, interpretation and application of what was revealed in the Quran. A new state ruled by the Quran emerged to replace the tribal nations and the various tribal rules. The Quran offered guidance on social and commercial teachings. Examples of the social teachings are the rules of marriage and inheritance. Examples of commercial teachings are the rules of contract, finance, business, *zakat*⁴ and ethical rules for conducting business and writing contracts.⁵

Commerce extended beyond the Arabian peninsula to parts of Europe, Africa and the Far East. According to Ekelund et al [1990, p. 26] "[F]or five centuries, from 700 to 1200 Islam led the world in power, organization, and extent of government; in social refinements and standards of living; in literature, scholarship, science, medicine, and philosophy. . . . It was Muslim science that preserved and developed Greek mathematics, physics, chemistry, astronomy, and medicine during this half millennium, while the West was sinking into what historians commonly call the Dark Ages".

The expansion in trade promoted the development of a mechanism for ensuring adequate accountability for cash, goods received and disbursed. The introduction and organization of *zakat* in 624 A.D. encouraged accounting for the purpose of *zakat* calculation and payment. This development was enhanced with the formal introduction of accounting books, concepts and procedures during the time of the second Caliph, Omar bin Al-Kattab, who ruled between 13 and 23 *Hijri'iah*⁶ [H] (634-644 A.D.) [Zaid, 2000a, pp. 75-76]. The role of *zakat* was equally important for both the state and individuals, especially those engaged in business. Individual Muslims generally, and entrepreneurs specifically, were concerned with the development and implementation of accounting books, systems and recording procedures. This interest was inspired by the need to comply

⁴Zakat was a mandatory religious levy imposed on Muslims in the year 2 H (624 A.D.). It requires every Muslim to pay the levy on amounts exceeding certain limits. The rate of *zakat* is dependent on the nature of the item subject to *zakat*. The term *zakat* is an Arabic word meaning purification of earnings/wealth.

⁵See for example the Quran, Chapter *Al-Baqarah*, 2: 282-283.

⁶*Hijri'iah* refers to the Islamic calendar, which began with the establishment of the Islamic state in 622 in Al-Madienah Al-Munaw'warah (a city in present Saudi Arabia). The Gregorian year, is 11 days longer than the *Hijri'iah* year.

with the requirements of *Shari'ah Islami'iah*.⁷ An example of these requirements is the need for proper calculation and payment of zakat as the consequence of conducting business and making profits. This is provided in 30 *Aiah* [verses] of 18 *Surah* [chapters] of the Quran.⁸ Furthermore, the Quran requires the writing and recording of debts and business transactions in accordance with *Aiah* 282 and 283 of the second *Surah* of *Al-Baqarah*.⁹ The *Aiah* 282 is known as the debts *Aiah*. It is the longest *Aiah* in the Quran and specifies all the requirements for writing debts and business transactions.

⁷ *Shari'ah Islami'iah* is a very broad concept comprising the divine law governing the life of individual Muslims in their relationships with Allah, individual human beings as well as all other beings. It is based on the *Quran*, *Sunnah*, *Ijma'* and *Qiyas*. The *Quran* is the Godly book of Muslims, while the *Sunnah* reflects what Prophet Mohammad [pbuh] said, did, and agreed to as preserved by his companions. The *Quran* and the *Sunnah* are the basic two sources of *Shari'ah Islami'iah*. The third source is *ijma'* and applied only in the absence of an explicit answer to the issue in question. *Ijma'* represents the consensus of Muslim scholars about issues that are not explicitly mentioned in the *Quran* or the *Sunnah*. The final source is *Qiyas* which is represented in the analogical deductions from the *Quran*, the *Sunnah*, and the *Ijma'* for contemporary issues that are not directly mentioned in the *Quran*, the *Sunnah*, or the *Ijma'* but have similar characteristics as those existed in the past. Once a decision is made by either *Ijma'* or *Qiyas*, it becomes mandatory and cannot be overruled by future generations [Zaid, 1997, pp. 190-197].

⁸ Surah Al-Baqarah 2:43, 83, 110, 177 and 277; Surah An-Nisa' 4:77 and 162; Surah Al-Ma'idah 5:12 and 55; Surah Al-A'raf 7: 156; Surah At-Taubah 9:5, 11, 18 and 71; Surah Maryam 19: 31 and 55; Surah Al-Anbiya' 21: 73; Surah Al-Hajj 22: 41 and 78; Surah Al-Mu'minun 23: 4; Surah An-Nur 24: 37 and 56; Surah An-Naml 27: 3; Surah Ar-Rum 30: 39; Surah Luqman 31: 4; Surah Al-Ahzab 33: 33; Surah Fussilat 41: 7; Surah Al-Mujadilah 58: 13; Surah Al-Muzzammil 73: 20; Surah Al-Bayyinah 98: 5.

⁹ "O ye who believe! When you contract a debt for a fixed period, write it down. Let a scribe write it down in justice between you. Let no scribe refuse to write as Allah has taught him, so let him write. Let him (the debtor) who incurs the liability dictate, and he must fear Allah, his Lord, and diminish not anything of what he owes. But if the debtor is of poor understanding, or weak, or is unable to dictate for himself, then let his guardian dictate in justice. And get two witnesses out of your own men. And if there are not two men (available), then a man and two women, such as you agree for witness, so that if one of them (two women) errs, the other can remind her. And the witnesses should not refuse when they are called (for evidence). You should not become weary to write it (your contract), whether it be small or big, for its fixed term, that is more just with Allah; more solid evidence, and more convenient to prevent doubts among yourselves, save when it is a present trade which you carry out on the spot among yourselves, then there is no sin on you if you do not write it down. But take witnesses whenever you make a commercial contract. Let neither scribe nor witness suffer any harm, but if you do (such harm), it would be wickedness in

The development and practice of accounting in Muslim society thus reflected Islam as a comprehensive code of spiritual and material life. These developments and practices were documented by a number of early Muslim scholars from 150 H [768 A.D.] in numerous printed and handwritten books. Early Muslim scholars¹⁰ approached the practice of accounting in the Islamic state from a variety of perspectives. However, it should be mentioned that “the terms accounting and accountant were not used in the early and middle stages of the Islamic state. The exact date these terms came into use is not known but probably could be traced to the influence of colonization and the introduction of Western culture in the 19th century. The terms *Al-Amel*, *Mubasher*, *Al-Kateb*, or *Kateb Al-Mal* were the common titles for accountant/bookkeeper and accounts clerk. These titles were used interchangeably in different parts of the Islamic state. The title *Al-Kateb* became the dominant title and was used to include any person assigned the responsibility of writing and recording information whether of financial or non-financial nature” [Zaid, 2000b, p. 330]. These terms equate to “accountant” and as early as 365 H (976 A.D.) Al-Khawarizmy [1984] used the term “*Muhasabah*” for the function of accounting which indicates that the person responsible for this function is “*Muhaseb*” (Accountant).

Al-Mazenderany [1363] was one of the early Muslim scholars who documented the practice of accounting in Muslim society. While Al-Mazendarany's writings have been referred to by Solas and Otari [1994] in their study of governmental accounting practice in the Near East during the II Khan Dynasty (1120-1350) and by Zaid [2000a, 2000b, 2001] the wider implications of his contribution to the history of accounting deserve exploration. Al-Mazenderany's book, written in 765H (1363A.D.) can be

you. So be afraid of Allah; and Allah teaches you. And Allah is the All-Knower of each and everything [282]. And if you are on a journey and cannot find a scribe, then let there be a pledge taken (mortgaging); then if one of you entrust the other, let the one who is entrusted discharge his trust (faithfully), and let him be afraid of Allah, his Lord. And conceal not the evidence for he, who hides it, surely his heart is sinful. And Allah is All-Knower of what you do” [283].

¹⁰These early Muslim scholars include Imam Ash-Shafi, 150-204 H (767-820 A.D.); Abu Obaid 156-224 H (773-839 A.D.); Kudamah bin Ja-far, whose book was written in 306 H (919 A.D.); Al-Khawarizimi, the author of *Mafatieh Al-Uloom* (Keys of Sciences) 365 H (976 A.D.); Ibn Rushd Al-Hafied 520-595 H (1126-1199 A.D.); Al-Mazendarany, who wrote his unpublished book in 765 H (1363 AD); Ibn Khaldoun, the author of the renowned book *Mokaddamat Ibn Khaldoun* (Introduction of Ibn Khaldoun) in 779 H (1378 A.D.); and many other scholars such as An-Nuwairi and Al-Kalkashandy.

consulted in the Sulaimani'yah Library, Istanbul. It appears that the book was neither printed nor commercially published in its original Ottoman language and no evidence has been found to indicate that it was translated into other languages¹¹ According to the Arabic pronunciation, the book title reads *Risalah Falakiyyah Kitabus Siyakat*. This is the source used by Solas and Otar [1994] and identified by them as "Risale-I Felekiyya", which is the Turkish pronunciation of the same title.

Al-Mazendarany asserted that other books on accounting had been written before his own. He stated that these books explained accounting practices in Muslim society and in the Middle East in particular. It is likely that these works were written long before 1363 A.D. Al-Mazendarany further acknowledged the benefits he gained from earlier works when writing his book. Although the earlier works mentioned by Al-Mazendarany would prove valuable to students of the history of accounting the search for them may be frustrated by the fact that the "states of medieval Middle East, with the exception of the Ottoman Empire, were destroyed, and their archives, ceasing to serve any practical purpose, were neglected, scattered and lost" [Lewis, 1970, p. 81].

One work which predated Al-Mazendarany was *Mafatieh Al-Uloom* (Keys of Sciences). This appeared in 365 H (976 A.D.) and was authored by Al-Khawarizmy [1984]. Al-Khawarizmy discussed the types of records maintained in the Dewans and the book used to record accounts.¹² In one chapter dedicated to "Secretaryship", Al-Khawarizmy described the technical terms

¹¹The book uses the Arabic alphabet and is written in the Ottoman language. The author suggests that Al-Mazendarany was Persian because Mazendran is a city in Iran and some Persian words were used in the text. The use of Arabic words by non-Arabs was a common practice at the time as Arabic was the language of knowledge as well as of the Quran. Given that it was common for Muslim scholars to identify themselves by the city or country of their birth when they moved to other parts of the Islamic state, it is likely that Al-Mazendarany was born in Mazendran and moved to Turkey, the centre of the Islamic state; or that he was born in Turkey of a Persian family.

¹²The term *Dewan* was initially used in Muslim society during the time of the second Caliph Omar bin Al-Khattab. *Dewan* was renamed *Jaridah*. Some authorities claim that the term *Dewan* is an Arabized Persian word [Lasheen, 1973, p. 26], while Al-Kalkashandy argues that it is an Arabic word. According to Al-Kalkashandy [1913, Vol. 1, p. 89], who wrote his book in 767 H (1366), the term *Dewan* is the noun from the Arabic verb "*Dawwana*" (writing). This argument is valid and was supported in the earlier writings of An-Nahhas, the Arabic grammarian Sybaw'weh and the Muslim scholar Ibn Abbas. It was first used to mean the book of revenues as well as the office of recording and maintaining

that were common in Muslim society regarding the duties of the secretary and also described the accounting systems that were implemented during the 4th century *Hijri'iah* (10th century A.D.). It has also been suggested that Al-Khawarizmy's book was considered the most influential work of its time [Macve, 1996, p. 12]. Al-Mazendarany described the accounting systems used in the Islamic state in greater detail than Al-Khawarizmy. Accordingly, the current paper is based to a great extent on Al-Mazendarany's *Risalah Falakiyyah Kitabus Siyakat*. This book is the only work discovered by the author to date which details accounting systems and practices in early Muslim society.

ACCOUNTING SYSTEMS DEVELOPED IN MUSLIM SOCIETY

The development of accounting in the Islamic state was religiously motivated and associated with the imposition of zakat in the year 2 H (624 A.D.). Accounting appears to have commenced with the establishment of the Dewans for the recording of *Baitul Mal* (public treasury) revenues and expenses. The exact date of the first application of accounting systems in the Islamic state is unknown, but it appears that these systems were first documented by Al-Khawarizmy in 365 H (976 A.D.). The accounting systems were structured to reflect the type of projects undertaken by the Islamic state in compliance with its religious obligations. These projects included industrial, agricultural, financial, housing and service projects. The accounting systems comprised a set of books and recording procedures. Some of these procedures were of a general nature and applied to all accounting systems while others were prescribed specifically for a particular accounting system. As mentioned above, the person maintaining the books under these various systems was called *Al-Kateb*¹³ (bookkeeper/accountant).

The objective of accounting systems was to ensure accountability, facilitate decision making generally, permit the evaluation of completed projects. Although the systems were initiated for government purposes, it is likely that some were imple-

accounting books. At a later stage the term was restricted to mean 'office' only. At present *Dewan* is used in Yemen and some English-speaking countries to mean 'lounge'.

¹³ Other titles like *Al-Amel*, *Mubasher*, *Kateb Al-Mal* were also used but *Al-Kateb* became the dominant title and referred to any person assigned responsibility for writing and recording information, whether of a financial or non-financial nature [Zaid, 2000b, p. 330].

mented by private entrepreneurs in order to measure profit in conformity with the mandatory religious requirement of zakat. It is also likely that the successful application of accounting systems by government authorities promoted the adoption of similar procedures among private entrepreneurs especially for the purpose of zakat.

Accounting systems discussed and analyzed here were briefly mentioned by Al-Khawarizmy and were detailed by Al-Mazendarany. These accounting systems were income-statement orientated and designed to serve the immediate needs of the Islamic state. Some accounting systems incorporated monetary and non-monetary transactions while others were solely based on monetary measurement. The reason for the simultaneous use of monetary and non-monetary measurements was to ensure the proper collection, disbursement, recording and control of certain state revenues and expenses.

Seven specific accounting systems were developed and practiced in the Islamic state as documented by Al-Khawarizmy and Al-Mazendarany. Each of these is now explored.

Stable Accounting (Accounting for Livestock): This system was under the supervision of a stable manager and required that relevant transactions and events be recorded as they occurred. Transactions under this system included, for example, food for camels, horses and mules; caretaker wages; animals purchased, sold, donated, slaughtered or died. The design of a special system of stable accounting reflects the importance of livestock assets to individuals and the state. As well as being a source of food animals were the only means of transport for commercial, military and civil purposes. Livestock were used for carrying goods and persons across the Muslim world and beyond, and were especially important to communities that had no access to sea ports.

Although stable accounting was designed for the state's use, its application in the private sector was likely because a significant proportion of the population were engaged in the business of livestock, either for consumption or transportation and the need for a system of recording and measuring annual profits for the purpose of calculating payment of zakat. This is similar to current-day practices where "major incentives to the preparation of accounts showing the overall 'profit' or 'loss' of a modern farm are the requirements of the Inland Revenue, as well as lending bankers, and (in the case of farms organized as, or owned by, limited companies) of the Companies Acts for the

preparation of accounts for the absentee owners – the shareholders” [Macve, 1994, p. 75].

Construction Accounting: This system was used to account for construction projects undertaken by government. The construction accounting system required the maintenance of a separate journal for each construction site and required the recording of all relevant transactions and events from the commencement of the project to its completion. The construction accounting system required that the specifications of individual projects be listed at the front of the journal, followed by the terms of construction. Then followed the record of transactions and events. Transactions were recorded under the supervision of the person-in-charge of the project, namely, the architect. A similar supervision requirement was required in stable accounting and suggests the imposition of a form of internal control and accountability. Items recorded in the journals included materials received and wages paid to carpenters, bricklayers and other construction workers. The construction accounting system required that a surplus or deficit at the completion of the project would be accounted for and disclosed, and that any discrepancies be explained. This requirement suggests that a form of budgeting was used.

Rice Farm Accounting (Agricultural Accounting): This appears to have been a non-monetary system because it required the recording of quantities of rice received and disbursed and the specification of the fields that produced the rice. The system explained by Al-Mazendarany and Al-Khawarizmy did not indicate a segregation of duties between recording and managing the inventory. It seems that the bookkeeper had sole responsibility for both recording and keeping custody of the inventory. This was unusual - the other accounting systems incorporated specific internal and general control procedures. It appears that this form of agricultural accounting was designed for state-owned rice farms or for the purpose of accounting for the rice received and distributed as zakat in kind rather than in monetary form. The requirement to identify the field from which the rice was harvested and the venues of the zakat disbursement¹⁴ are also

¹⁴The disbursement of zakat either in cash or in kind is governed by the Quran, which requires zakat to be disbursed to “the Fukara’ (poor), Al-Masakin (the poor), and those employed to collect the zakat, and to attract the hearts of those who have been inclined (towards Islam), and to free the captives, and for

suggestive of this. The non-monetary rice farm accounting system was similar to the grain accounts of Zenon's or Appianus Egyptian estates, mentioned by Macve [1994, p. 59]. This also required the recording of receipts and issues of grain in physical terms and without reference to money measurement.

Warehouse Accounting: Warehouse Accounting appears to have been designed to account for the state's purchase of supplies. The system was placed under the direct supervision of a person known to be trustworthy. This system required the detailed recording of the type of goods received and the source of delivery in books prepared for the purpose. The immediate and adequate recording of the disbursement of goods in specified books was required. It appears that at least two classified books were used in this system. It is not stated whether the recording of goods received and issued was in monetary terms only, or in physical and monetary terms, though the latter appears most likely in practice. It was also a requirement that a stock count be conducted at the end of the financial year and its results compared with stocks recorded in the books. It was mandatory to investigate the causes of differences and to question the store man about them. The store man was personally liable for any shortfall between the book and actual inventory. It appears that the warehouse accounting system differed from that of "the ancient world, where the inventories of items were maintained solely in quantitative, physical terms" [Macve, 1996, p. 6]. This confirms that a system of internal control was in existence because the store man was not the bookkeeper. The scale of inventory referred to in warehouse accounting suggests that it was less likely to have been used by private entrepreneurs.

Mint Accounting (Currency Accounting): The mint accounting system was designed and implemented in the Islamic state before the 14th century A.D. It required the immediate conversion of gold and silver received by the mint authority into bullion or coins. It further required the immediate delivery of bullion and coins to the person in charge. This suggests that the system did

those in debt, and for Allah's cause (i.e. for Mujahidun - those fighting in a holy battle), and for the wayfarer (a traveller who is cut off from everything)" [At-Taubah, 9: 60]. Zakat use to be collected and paid either in cash or kind or both, but now it is mostly in cash. In the absence of the Islamic state, zakat is given directly by the individual zakat payers to those stated in the previous verse of the Quran. Some charitable organisations and government agencies are also involved in the collection of zakat and its distribution as mentioned in the Quran.

not allow either raw material (gold and silver) or finished products (bullion and coins) to be held on premises for any length of time. The requirement of immediate conversion, minting and delivery would have been initiated for security reasons to prevent theft. Bullion and coins would have been delivered to the equivalent of a contemporary public treasury. The mint accounting system required the use of three specialized journals. The first was used for recording inventory, the second for recording revenues, and the third for recording expenses. Purchases and wages were examples of costs incurred by the mint authority. It was also mandatory to record the terms and conditions of the services provided by the mint authority in the expenses journal. The revenue of the mint authority was calculated at either 5% of the cost of gold or silver, or in accordance with a predetermined amount. The criteria for the application of either calculation was not mentioned by Al-Mazendarany or Al-Khawarizmy.

Sheep Grazing Accounting: This form of farm accounting was initiated and implemented by government authorities in the Islamic state and its use by private entrepreneurs to measure the 'profit' or 'losses' for the purpose of zakat is likely. Sheep grazing accounting was different to Greek and Roman farm accounting "where the accounts did not purport to show any more than movements of cash and kind, any dependence or fixation on the accounting figures in forming ideas about profitability seems much less likely" [Macve, 1994, p. 78]. Under this system all animals given to the grazier or shepherd were recorded in a book designed for the purpose. Revenue received either in cash or kind was also to be recorded. Revenue in kind received by the grazier included animals and sheep products. It appears that this system used a number of specialized books because of the requirement to record 'animals given' - assets - in a different book from that used to record expenses. It is not clear whether animals received were recorded as revenues or were capitalized and recorded in the assets book. Neither Al-Mazendarany or Al-Khawarizmy elaborated on this issue. Proper classification and adequate disclosure was also a feature of farm accounting as it required the separate classification of male sheep, female sheep, goats and their offspring. It was also required to properly record and classify sheep slaughtered and meat products distributed. Once again, the relevant book or books were not specified by either Al-Mazendarany or Al-Khawarizmy. Losses were also recorded in the books, including those due to natural disasters such as drought.

Treasury Accounting: This was used by government and required the daily recording of all treasury receipts and payments. It appears that monetary and non-monetary measurements were used as recording treasury receipts and disbursements were in cash and kind. This system would have included inventory needed by the government and/or Sultan such as gold, silver, medicines etc. Although there was a general requirement to record transactions immediately applicable to all accounting systems, (see procedure number 1, below), unlike other systems, this was specifically mentioned as a requirement in Treasury accounting.

The Treasury accounting system required the provision of separate columns for cash transactions. Non-cash transactions were to be classified according to their nature, color and other specifications and then recorded in detail. The system was also distinguished from others in that it encompassed two methods of recording. These were the *Arabian method* and the *Persian method*. The *Arabian method* required the recording of inflows of cash and goods on the right side of the journal and outflows on the left side of the journal. This suggests that the journal functioned as both a journal and a ledger, and this may explain the absence of a separate ledger in this system. A separate page was also allocated for each item (account). The fact that the majority of bookkeepers were Arabs encouraged the use of the *Arabian method*. The *Persian method* required two separate books, one for the inflow of cash and goods and the other for the outflow of cash and goods. The *Persian method* did not require the itemizations of inflows and outflows of cash and goods as under the *Arabian method*, and this explains why the *Arabian method* was considered superior.

The need for standardized information appears to have been a priority in the design and implementation of the accounting systems. The same system was to be applied regardless of who was in charge or of the place of its application. Information standardization was also apparent in the mandatory accounting reports prepared at different times. Examples of these reports are *Al-Khitmah* (Monthly Report) and *Al-Khitmah Al-Jame'ah* (Comprehensive Final Report), prepared annually [Al-Khawarizmy, 1984, pp. 52, 81]. Compliance with the accounting systems and the need for the generation of reliable, standardized reports were further encouraged by the specification of supporting documents and mandatory general recording procedures. The latter are the subject of the next section.

RECORDING PROCEDURES IN MUSLIM SOCIETY

The development and implementation of accounting systems in the Islamic state was supported by mandatory recording procedures. Some of these procedures were of a general nature and applied to all accounting systems while others were of a specific nature and related to a particular system. The imposition of zakat and hence the diverse and large amounts of revenues, expenses and related activities of the Islamic state necessitated the establishment of control procedures. These control procedures enabled officials to adequately monitor activities and discover any deficit or surplus in the state treasury arising through imbalanced books. Two cases reflecting the effectiveness of these internal controls are worth noting here. The first was the discovery of a deficit of one *Derham* in the *Baitul Mal* (Public Treasury). This was the discovery of the *Sahaby* (Prophet's Companion) *Amer Bin Al-Jarrah* who wrote to the second Caliph, *Omar bin Al-Khattab*¹⁵, informing him about the deficit¹⁶ [Lasheen, 1973, p. 13]. Al-Mazenderany [765 H, 1363 A.D.] also outlined the importance of internal controls implemented in all *Dewans*. The second case was the discovery of an unrecorded expense that resulted in a deficit. This deficit caused the accountant to pay 1,300 Dinars for not recording the transaction. This omitted expense was subsequently uncovered when the book balance was compared with corresponding schedules and other balances in the main *Dewan* at the end of the financial year [Lasheen, 1973, p. 13]. This also indicates that a form of auditing was practiced after the establishment of the Islamic state in 622 A.D.

Lasheen [1973, pp. 163-165] noted some of the common recording procedures implemented after the 2nd century H (8th century A.D.). Examples of recording procedures developed and applied by government authorities and individual entrepreneurs in the Islamic state are as follows:

1. Transactions were to be recorded immediately when they occurred.
2. Transactions were to be classified according to their nature. This required similar and homogeneous transactions to be classified under one account and recorded as such.

¹⁵ He ruled during the period 13-23 H (634-644 A.D.).

¹⁶ It appears that this was the result of an audit.

3. Receipts were to be recorded on the right hand side of the page and sources of receipts were to be identified and disclosed.¹⁷
4. Payments were to be recorded and sufficiently explained on the left hand side of the page.
5. Recorded transactions were to be carefully explained.
6. No space was to be left between transactions. If a space was left for any reason, a line had to be drawn across the space. This line was called *Attarkeen*.
7. Corrections to recorded transactions by overwriting or deletion were prohibited. If *Al-Kateb* (the accountant/bookkeeper) had mistakenly overstated the amount, he was obliged to pay the difference to the Dewan. If an expense was omitted, *Al-Kateb* was required to pay the shortfall in cash even if it could subsequently be proven that the expense did occur.
8. When the account was closed, a specific sign was to be placed in the books to reflect the closure of the account.
9. All similar transactions recorded in the preliminary book were to be posted to the specialized books maintained for that type transaction.
10. The posting of similar transactions was to be performed by persons independent from those who recorded the transactions in the daily and other books.
11. The balance, called *Al-Hasel* (the difference between two amounts), had to be extracted.
12. A monthly and/or yearly report was to be prepared. This report had to be detailed and provide sufficient information to determine, for example, incoming crops, where they came from and how they were distributed.
13. At the end of each financial year, a report was to be prepared by *Al-Kateb* detailing all goods and funds under his custody and management.
14. Annual reports prepared by *Al-Kateb* were to be reviewed (audited) and compared with prior year reports and with records maintained in the main Dewan.

¹⁷This indicates that procedures 3 and 4 were not only applicable to the treasury accounting system but were of a general nature and applied to all accounting systems employed in the Muslim society. Furthermore, this was in compliance with the Arabic method as explained earlier in the "treasury accounting system".

Procedures 1 and 2, relating to the timing of recording and the importance of classification, could have been initiated for the purpose of zakat. In accordance with *Shari'ah Islami'iah*¹⁸ certain types of income are subject to zakat upon realization, while assets (other than those for personal use) are subject to zakat only if they are held for 12 months from the date of acquisition. This 12 month period is known as *Al-Hawl* (zakatable period). Thus a concept of 'periodicity' has featured in Islamic accounting since the year 624 A.D. Immediate recording and classification were of prime importance for the purpose of zakat computation on income and assets held. Assets were required to be classified by types such as equipment, debtors, cash etc. For the purpose of zakat, certain assets were required to be further classified. This was the case with debtors. Debtors were sub-classified into three categories known as *Ar-Ra'ej Men Al- Mal* (collectable debts), *Al-Munkaser Men Al-Mal* (uncollectable debts) and *Al-Mutha'adhdher Wal Mutahayyer Wal Muta'akked Men Al- Mal* (difficult, doubtful and complicated debts) [Al-Khawarizimy, 1984, p. 82]. This sub-classification was important because only collectable debts were subject to zakat (zakatable income).

Procedure 3 relates to credit entries while procedure four describes debit entries. Although Heaps [1985] states that "the ancients entered the receipts and payments of money on opposite pages in the way of Dr. and Cr." [pp. 19-20] he does not identify these "ancients" though they may include the Islamic state. Procedures 3 and 4 imply conformity with the "*Arabian method*" under the treasury accounting system which required the recording of inflows, "debits" on the right hand side and outflows, "credits" on the left hand side of the page. It is possible that two pages were used, in which debit entries were recorded on the right page and credit entries were recorded on the left page. Alternatively, the page was divided into two columns for recording debits and credits. This format in the Islamic state was different from Greek and Roman practice where the books were kept "mainly in terms of receipts and expenditure rather than debit and credit . . . they never got as far as the habitual separation of what we should call debit and credit entries by inserting them into separate columns, let alone an opposite pages of an account" [de Ste Croix, 1956, p. 14]. There is no evidence to suggest that this form of recording, as required by procedures three and four, represents a form of double-entry

¹⁸ See footnote No. 7.

bookkeeping, but this could have been a precursor to the development of double entry bookkeeping systems.

Procedure 5 required the careful explanation of transactions recorded. This is likely to have been associated with the audit requirement. Auditing was mandatory and focused on the books of account. Al-Kalkashandy¹⁹ [1913, Vol. 1, pp. 130-139] explained the role of the reviewer (auditor) by saying:

... it is common for a person not to see his mistakes but can see others' errors. It is necessary for the head of the Dewan to appoint a person to review the books. This person must possess a high standard of the language, be hafidh [a memoriser] of the Quran, intelligent, wise, trustworthy and neither prejudiced nor inimical. When the reviewer is satisfied with the contents of the book being reviewed, he should sign in the book as an indication of his satisfaction with the contents.

Procedure 6 required that no space be left between transactions and if a space was left for any reason, a line was required to be drawn across the space. This reflected the risk of misrepresentation and manipulation if blank lines or pages are left in the accounting books. This procedure complemented procedure 1 and was designed to avoid the intentional inclusion of transactions on dates other than their actual occurrence. It further indicates the significance of internal controls in the Islamic state.

Another form of internal control which complemented procedures 1 and 6 was specified in procedure 7. This prohibited overwriting and deletion in accounting books as a means of correcting recorded transactions. It can be interpreted as a warning to those who did not perform their duties with care as a penalty was imposed of the difference between the actual and recorded (overstated) amounts of revenue as well as the shortfall in cash for unrecorded expenses. The payment of the shortfall in cash by *Al-Kateb*, though harsh, appears to have worked in practice.

Procedure 8 was intended to prevent *Al-Kateb* from entering transactions after the closing date. This procedure required 'a specific sign in the book'. The nature of the 'specific sign' was not explained but refer to a unique mark such as the signature of the person in charge of the *Dewan* (accounting department). The requirement of this procedure further confirms the application of cut-off and periodicity.

¹⁹ His handwritten book was dated 821 H (1418 A.D.).

Procedure 9 required the posting of similar transactions from the preliminary book to the specialized books. The posting requirement could have been initiated for the purpose of the preparation of financial statements such as *Al-Khitmah* and *Al-Khitmah Al-Jame'ah*. Although it was not stated whether these specialized books were specialized journals or ledgers, it is most likely that they were ledgers. The use of specialized ledgers dates back to the fifth Caliph, Omar bin Abdul Aziz (Omayyad Caliphate), who lived between 61 and 101 H (681-720 A.D.) and ruled between 99 and 101 H (718-101 A.D) [Ibn Saad, 1957, Vol. 1, p. 400]. This recording procedure could have served as an internal control procedure for the collection and disbursement of zakat as it appears that the zakat collection and distribution were first recorded in the general journal and then posted to the relevant specialized journals representing the type of zakat collected or disbursed. This suggestion is supported by procedure 10 which explicitly required posting to be performed by a person independent from the one who recorded transactions in the preliminary book.

Recording in the general journal, and hence in the specialized ledgers, was subject to the preparation of *Ash-Shahed* (journal voucher) [Lasheen, 1973, pp. 131-132]. The existence of primary and secondary books and the classification of transactions according to their nature suggest that financial statements, at least in the form of an income statement, were used for decision making and for accountability with regard to projects undertaken by the state. *Al-Khitmah Al-Jame'ah* (comprehensive final report) was the form of accounting report used in the Islamic state [Bin Jafar, 1981, p. 35]. This was similar to a contemporary funds statement [Zaid, 2000a, p. 88]. The existence of *Al-Khitmah* and *Al-Khitmah Al-Jame'ah* indicates the possible existence of other financial reports and affirms the need for further research to investigate the development of other financial statements in the Islamic state.

Procedure 11 required the extract of *Al-Hasel* (the balance). The calculation of *Al-Hasel* as the balance between two amounts, in conjunction with the requirements of procedures 3, 4, 8 and 9, indicates further that concepts of debit and credit were known and practiced by Muslim accountants in their classification and posting of 'homogeneous transactions'. As stated earlier, no evidence of the actual practice of double-entry system was sighted in the research for this study although Solas and Otar [1994, p. 134] argue that "double-entry accounting was practiced in the Near East during the 1220-1350 period by the II

Khan state". This claim requires further research in the context of the Islamic state.

Procedures 12 and 13 required *Al-Kateb* to prepare monthly and annual reports. These reports represented the essence of the stewardship function. Procedure 13 required *Al-Kateb* to report on "goods and funds under his custody and management". Existing evidence indicates that these reports were mixed format - a form of income statement which also disclosed assets [Zaid, 2000a, p. 86].

Procedure 14 reflected the importance of the audit function described by *Al-Kalkashandy*²⁰ [1913] as "the review of the books ... to check what was written in the books" [p. 130]. This procedure indicates that auditing was used for a number of purposes, including comparison of results with budgets and assurances about the propriety of the books.

CONCLUSION

This paper reveals that various accounting systems were developed and implemented in Muslim society to suit the needs of the Islamic state in compliance with *Shari'ah Islami'iah*. Zakat was the major factor contributing to the development of accounting systems, books, recording procedures and reports. These accounting systems necessitated the establishment and specification of sophisticated recording and control procedures. Proper classification of transactions and disclosure were integral to the various accounting systems. Monthly and yearly financial statements were prepared on the basis of a concept of periodicity. Budgeting also featured in the accounting systems and was used as an internal control procedure as well as being a tool for analyzing and interpreting the monthly and yearly financial statements. Auditing was practiced in the Islamic state and was mandatory.

Although these systems were designed and implemented by government authorities, it is likely that Muslim entrepreneurs also adopted them for the purpose of zakat. It is apparent that some of the recording procedures developed and practiced in Muslim society were similar to those which were later applied in medieval Europe. Indeed, Ball [1960] stated "we can hardly suppose that the Italian merchants were ignorant of the methods of keeping accounts used by their best customers" [pp. 208-209]

²⁰ Al-Kalkashandy's book was actually written in 821 H (1418 A.D.).

and significant among these were Muslim entrepreneurs. The relationship between the accounting systems developed in the Islamic state and subsequent developments beyond it remain a subject for historical research.

REFERENCES

- Abu-Addahab, Ashraf Taha (2002), *Islamic Dictionary* (Cairo: Dar Ash-Hhorook).
- Al-Khawarizmy, Mohammad bin Ahmad bin Yousuf (1984), *Mafatieh Al-Uloom*, (Beirut: The House of the Arabic Book).
- Al-Mazenderany, Abdullah bin Mohammed bin Kiya, 765 H (1363), *Risalah Falakiyyah Kitabus Siyakat*, Sulaimani'yah Library, Istanbul, Manuscript No. 2756.
- Ball W. W. R. (1960), *A Short Account of the History of Mathematics*, (New York: Dover Publications).
- Bin Jafar Kudamah (1981), *Al-Kharaj Wa Sina'at Al-Kitabah*, Commentary by Dr. Mohammad Hussain Al - Zibet (Baghdad: Dar Ar - Rasheed Publishing).
- de Ste Croix, G. (1956), "Greek and Roman Accounting", in Littleton A. C., and Yamey B. S. (eds.), *Studies in the History of Accounting* (London: Sweet & Maxwell Limited), 14-74.
- de Ste Croix G. (1981), *The Class Struggle in the Ancient Greek World From the Archaic Age to the Arab Conquests*, (Gerald Duckworth & Co. Ltd, London).
- Ekelund J.R., Robert B. and Hebert R. F. (1990), *A History of Economic Theory and Method*, (USA, McGraw Hill, Inc).
- Hamid S., Craig, R., and Clarke F. (1993), "Religion: A Confounding Cultural Element in the International Harmonisation of Accounting," *Abacus*, Vol. 29, No. 2: 131 - 148.
- Have, O. ten (1976), *The History of Accounting* (California: Bay Books).
- Heaps, J. W. (1895), *The Antiquity of Bookkeeping: An Historical Sketch* (London: Gee and Co.).
- Ibn Saad, Mohammad bin Saad bin Manee Al - Mashoor be Kateb Al - Wakidy, 1377 H (1957), *At-Tabakat Al-Kubra* (Beirut: Beirut House for Printing and Publishing).
- Lall Nigam B. M. (1986), "Bahi-Khata: The Pre-Pacioli Indian Double-Entry System of Bookkeeping," *Abacus*, Vol. 22, No. 2: 148-161.
- Lasheen Mahmood Al-Mursy (1973), *At-Tandheem Al-Muhasaby Lil-Amwal Al-Ammah Fil-Islam*, M.A. Thesis (Faculty of Commerce, Al-Azhar University).
- Lewis B. (1970), "Sources for the Economic History of the Middle East," *Studies in Economic History of the Middle East from the Rise of Islam to the Present Day*, in Cook, M.A. (ed.), (Oxford University Press): 78-92.
- Lieber A.E. (1968), "Eastern Business Practices and Medieval European Commerce," *Economic History Review*, Vol. 21, No. 2: 230-243.
- Littleton A. C. (1933), *Accounting Evolution to 1900*, (New York: American Institute Publishing Co. Inc.).
- Littleton A. C. (1956), *Evolution of the Journal Entry*, (Illinois-USA, Richard Irwin Inc.).
- Macve R. H. (1994), "Some Glosses On Greek and Roman Accounting", in Yamey B. S. and Parker R. H. (eds.) *Accounting History: Some British Contributions* (Oxford: University Press): 57-87.
- Macve R. H. (1996), "Pacioli's Legacy," in Lee T. A., Bishop A., and Parker R. H. (eds.), *Accounting History From the Renaissance to the Present* (New York: Garland Publishing Inc): 3-30.

- Nobes C. W. (2001), "Were Islamic Records Precursors to Accounting Books Based on the Italian Method? A Comment," *Accounting Historians Journal*, Vol. 28, No. 2: 207-214.
- Parker, R. H. (2000), "The Scope of Accounting History: A Note", in Edwards, J. R. (ed.), *The History of Accounting. Critical Perspectives on Business and Management*, Volume 1 (London: Routledge): 66-70.
- Quran*, English translation of the meanings and comments, 1410 H – 1989 A.D., Kingdom of Saudi Arabia, King Fahd Holy Quran Printing Complex.
- Scorgie M. E. (1990), "Indian Imitation or Invention of Cash-Book and Algebraic Double-Entry," *Abacus*, Vol. 26, No. 1: 63-70.
- Solas, C. and Otari, I. (1994), "The Accounting System Practiced in The Near East During the Period 1220-1350 based on the Book Risale- I Felekiyye," *Accounting Historians Journal*, Vol. 21, No. 1: 117-135.
- Zaid O. A. (1997), *"The Historical and Theoretical Framework of Financial Accounting in the Muslim Society"*, (Amman - Jordan, Darul- Bashier for Publishing and Distribution), Second Edition. [Arabic].
- Zaid O. A. (2000a), "Were Islamic Records Precursors to Accounting Books Based on the Italian Method?," *Accounting Historians Journal*, Vol. 27, No. 1: 73 - 90.
- Zaid O.A. (2000b), "The Appointment Qualification of Muslim Accountants in the Middle Ages," *Accounting Education*, Vol. 9, No. 4: 329-342.
- Zaid O. A. (2001), "Were Islamic Records Precursors to Accounting Books Based on the Italian Method? A Response," *Accounting Historians Journal*, Vol. 28, No. 2: 215-218.

INTERFACES

Luca Zan
UNIVERSITY OF BOLOGNA

WRITING ACCOUNTING AND MANAGEMENT HISTORY. INSIGHTS FROM UNORTHODOX MUSIC HISTORIOGRAPHY

Focal text: Favaro, R. e Pestalozza, L. (a cura di), *Storia della Musica (History of Music)* (Milano, Nuova Carish, 1999)

Abstract: Few disciplines are probably more different than music and accounting. Nonetheless possible suggestions about historiography in accounting and management can be drawn from an innovative textbook on the history of music [Favaro and Pestalozza, 1999]. This is a rather unusual music history textbook. It has several distinguishing features which raise issues about: histories of the present, history and theory making, a non-linear sense of history, a social history of music, a pluralist view of genres, and a multi-geographical emphasis. These features have interesting parallels with accounting history and historiography.

'INTRO'

This paper focuses on the construction of disciplinary identity in accounting and management through their historiographies. It examines the process of structuring (and de-structur-

Acknowledgments: This paper is based on a plenary address delivered at the Annual Conference of the Academy of Accounting Historians in Santa Fe, November 2001. I would like to thank Finley Graves, Joni Young, Vaughan Radcliffe – organizers of the conference – for the opportunity they offered me; Barbara Merino for her helpful comments in the response to my presentation; and other attendees for their useful suggestions during the discussion. Cheryl McWatters provided a precious English editing service to the paper.

Submitted June 2003
Revised January 2004
Revised July 2004
Accepted September 2004

ing) genres and speculates on some aspects of historiography, referring to differences in writing accounting and management history. Indeed, one of the major concerns of the paper is to explore the potential for variety in writing accounting history and exchanges between historiographies.

The pluralist approach adopted by the authors of the focal text suggests the possibility of exploring different fields in order to investigate debates in historiography. The aim is to transfer a similar discussion to accounting and management history. It may be the case that differences in historiographies *within* disciplines are so profound that comparing historiographies *across* disciplines is more productive. Indeed, it could be argued that historiographies *per se*, irrespective of the field they specifically address, tend to share some common epistemological features [Southgate, 1996; Fay et al, 1998].

Starting from the writer's bias and interests in 'extreme' management and accounting research (investigating management and accounting in unusual, anomalous space/time settings, particularly in proto-industrial institutions [Zan, 2004] and in art organizations [Zan, 2000, 2002]), a bridge between history and art is proposed. In particular, music history and historiography will be drawn upon in search of possible implications, analogies and similarities that can be applied to management and accounting history.¹

PLURALIST HISTORIOGRAPHY: AN EXAMPLE FROM MUSIC

In this sense, an interesting parallel is provided by a textbook on music history recently published in Italy [Favaro and Pestalozza, 1999]. In Table 1, a selection of the contents of this book is provided (for reasons of space, the structure of the contents has been compressed rather arbitrarily, according to some of the aspects that I wish to underscore). It is a rather unusual volume, with six distinguishing features. These are explored below.

Firstly, the most astonishing feature of Favaro and Pestalozza, as a history book is the fact that it begins with the most recent periods. Section one is focused on 1890-1999, and

¹ All in all, this is not so bizarre, for when consulting a dictionary one finds a definition for the word "genre" which is not so alien to any of my poles of interest: "A category of artistic, musical, or literary composition characterized by a particular style, form, or content" [Merriam-Webster, 2000].

TABLE 1

HISTORY OF MUSIC: TABLE OF CONTENTS [FAVARO & PESTALOZZA, 1999]

SECTION ONE: 1890-1999 (R. Favaro, L. Pestalozza, P. Prato)

1945-1999: Changing Music

ITALY

GERMANY

Society, art and music in Germany after 1950

The division of Germany and the reconstruction process

Literature and art

Adorno and his philosophy of contemporary music

Darmstadt and Germany

German experiments after World War II

Experimentalism and reaction after Darmstadt

1949-1990: Music in the German Democratic Republic

FRANCE

USSR

SWITZERLAND

SPAIN

PORTUGAL

EASTERN EUROPE

UNITED KINGDOM

NORTHERN EUROPE

CUBA

UNITED STATES

CANADA

JAPAN

Pop music

What is pop music?

Origins

Song and dance in the 19th Century

The revolution of reproducible sound

From the Jazz Era to the Radio Age

The rise of pop and youth culture

Rock: from a cultural alternative to a dominant language

Rap and the dominance of Black America

Music from the periphery

Western Europe and North America

Eastern Europe

The Mediterranean region

Africa

The Middle East and the Pacific Rim

Latin America

Soundtrack and functional music

1890-1945: New Repertoire

FRANCE

AUSTRIA

GERMANY

Politics, culture and music life in Germany

Composers of the early 20th century

Bauhaus and functional art in the Weimer Republic: new objectivity
and functionality of music
Brecht theatre and the music of Kurt Weill, Hanns Eisler, Paul Dessau
Music of Hitler's Germany

RUSSIA

ITALY

SPAIN

HUNGARY

UK, SCANDINAVIA AND NETHERLANDS

USA

BRAZIL, MEXICO, ARGENTINA

SECTION TWO: 1750-1890 (C. Di Gennaro, R. Favaro, L. Pestalozza)

1750-1791: Music During the Age of Enlightenment

FRANCE

GERMANY AND AUSTRIA

History, society and culture: pietism, Enlightenment, Sturm und Drang

Development and importance of instrumental music

Vocal music

1790-1830: Between Classicism and Romanticism. Beethoven's Revolution

Revolutions, society, and the bourgeoisie

Space and economy of music

The new artist

The new legislation of copyright

Absolute and program music

Genres, forms, and languages

GERMANY AND AUSTRIA

ITALY

FRANCE

1830-1890: Nineteenth century: Various works

GERMANY AND AUSTRIA

ITALY

FRANCE

NATIONAL SCHOOLS

SECTION THREE: 1600 1750 (R. Favaro, G.N. Spanu)

1600-1650: Theory and practice of the appealing to emotions

1650-1750: Music in the Baroque Era

Theatres, machines and stages

Philosophy and science of love

Musicians and social status

Opera, instrumental, and sacred music

ITALY

FRANCE

GERMANY

UNITED KINGDOM AND SPAIN

SECTION FOUR: 200-1600 (G.N. Spanu)

1400-1600: Music in the Renaissance society

Contenance angloise

Dufay and his generation

Second generation of the Flemish

Canto monodico and the oral tradition

Choirs of the court
 The middle Renaissance and Josquin Despré
 The invention of musical notation and printing
 Music for instruments
 Tonality and harmonic thought
 The Protestant reform
 Poetry of the Italian madrigal
 National specificity of the Renaissance
 The Venetian school
 Flemish musicians in the second half of the 16th century
 The Counter-Reformation
 Rome and Palestine
 Late century Madrigals

200-1400: The Middle Ages

SECTION FIVE: The music of the ancient world: Greece and Rome (R. Favaro) **Greece and Rome**

the first chapter is about current music and its antecedents around World War Two (a subheading referring to Italy focuses on “Music in the 1980’s and 1990’s”, providing an “in-real-time” history). The subsequent sections go back to previous periods. By contrast, a more traditional music history narrative would present a standard periodization moving from the ancient and Middle Ages, the Renaissance, Baroque, and Classical periods, the Romantic era, to the 20th century (see for instance any internet site when searching ‘music history’). As a teaching textbook for use within Conservatories, the unusual structure adopted by Favaro and Pestalozza seems to be effective. Indeed one of the problems encountered with history textbooks in general is that the last chapters (which tend to mark discontinuity and periodizations between different class levels) are often overlooked because of lack of time. In a traditional textbook, there is a risk of providing students with a long-term comprehension of music evolution without an understanding of current music.

As a book in-and-of-itself, Favaro and Pestalozza’s work reveals its distinctive nature – it (also) provides a *history of the present*. More than seeking to encourage understanding of the evolution of music, its aim is to place the history of current music materials (i.e., music composition and music consumption) in their historical settings.

Secondly, textbooks on music history usually provide accounts of music theories and aesthetics. The fact that textbooks tend to place less emphasis on current music simplifies the task,

allowing authors to set aside controversies which are more virulent when investigating recent history (Mila [1963], for example, dedicates 98 of 453 pages to contemporary music, in which "contemporary" dates back to 1870). The work by Favaro and Pestalozza [1999] is not merely a music history textbook. It is also a book on musicology and music criticism. Chapter 2 on Pop Music illustrates this approach. Basic questions about the foundation and definition of pop music are carefully explored as in a book on the aesthetics of pop music and culture. As opposed to a detached relationship with history *per se*, the (music) historian produces a (aesthetic) theory. In this sense, the book provides a contribution in which *making history* and *theory making* tend to coincide.

Thirdly, the inner structure of the book also implicitly suggests a *non-linear sense of history*, where past and present are dialectically linked, but wherein neither the present is determined by the past, nor is the past condemned to survive in the present. This is different from any other music history textbook. Usually, the reader is assumed and encouraged to move in a linear way from the first to the last chapter. Favaro and Pestalozza [1999] assume that one can understand the music of the last 50 years (Chapter 1) before (and possibly without) understanding the music of the early 20th century or earlier periods. Similarly, the structure of the book implies that one can understand the historical settings and the aesthetic value of, for example, a Romantic composer, without knowing what subsequently happened to this particular stream of music. This is a particularly innovative characteristic of the volume. While one could perceive such an approach as a negation of history *per se*, it is a possible solution to the epistemology of history from a postmodern viewpoint. History matters in this approach but it comprises more than a deterministic, well-defined succession of events, genres, and styles. Here, a different view is suggested, one that is fuzzier, emergent and perhaps ambiguous, a largely hidden dimension in the evolution of music.

Fourthly, focusing on the content of Favaro and Pestalozza [1999] in more detail, the textbook does not provide a history of music from a purely technical and aseptic view. It is also a *social history* of music. For example, the paragraph on Germany (Chapter 1: 1945-1999), which is expanded in Table 1, presents a cautious political and sociological view of the context for understanding the aesthetics of post war music in that country. Another example, provided in Table 1, is the chapter on 1890-1945 (New Repertoire), which, still referring to Germany, contains

interesting readings on the political context and philosophical debates. The chapter on 1790-1830 (Between Classicism and Romanticism. Beethoven's Revolution) provides another example of a sociological focus on the new climate, including the "New legislation of copyright".

In contrast to Favaro and Pestalozza [1999], very few insights can be found in mainstream textbooks on music history which rather focus on the evolution of aesthetics, periods, schools, and above all, names. How legislation and technologies (such as reproducible sound) shape the sociology of music production and consumption and thus also music aesthetics [Bessler, 1959], are subjects currently beyond the scope of most music history textbooks.

Fifthly, Favaro and Pestalozza's book [1999] reveals a deep (and once again, unusual) *pluralist view of genres*, both in respect of traditional distinctions and within them. Unlike most music history textbooks it presents more than an elitist view of classical, educated music (*musica colta*) with superficial reference to the music of The Beatles. A crucial chapter (the second in the first section) is devoted to pop music (about 56 pages out of 650). While presenting some of the important features underlined above (a social and institutional history, with attention to "The revolution of reproducible sound", "The rise of pop and youth culture"), this chapter also maintains a continuing dialogue between different genres (song and dance in the 19th century, jazz, rock, rap, and soundtracks). In this context, an important reference is made to ethnic music, and some pages (on "Eastern Europe", "The Mediterranean Region", "Africa", "The Middle East and the Pacific Rim", "Latin America") appear to weaken the western-world bias of most music history textbooks.

The fact that a music history textbook deals with a variety of genres (as opposed to focusing exclusively on classical music, and marginally on folk music to the extent that composers have given it attention (e.g. Béla Bartók)) could be interpreted in two different ways. Firstly, it is important to provide a wider view of different genres, assuming that even a classical violinist should know a bit of beat music, or that other traditions have a legitimate place in music history. Secondly, and more radically, distinctions such as classical, pop and jazz tend to be unsustainable labels given the dynamics of musical material and debates over time. According to such a view, present-day music cannot be understood without grasping the aesthetic of a variety of interacting genres.

A sixth feature of Favaro and Pestalozza [1999], which is also related to the above-mentioned pluralist view, is the *multi-geographical emphasis* of the book, at least as it relates to the western world. The textbook describes a history of music with particular attention to different countries. This is the case in relation to its treatment of current music (note in Table 1 the detailed list of countries under which the whole first chapter is organized), pop music, with interesting insights on “music from the periphery”, and the early 20th century (the third chapter on the period 1890-1945 is structured around a set of countries). In a traditional music history textbook no such attention is paid to local phenomena and traditions, aside from a very specific reference to “National schools” within music historiography of the 19th century. Favaro and Pestalozza [1999] pay attention to a variety of genres, styles, composers, etc. within various countries and different traditions. For previous periods, the book is mostly, once the limit of western bias is acknowledged, a continental history.

IMPLICATIONS FOR ACCOUNTING AND MANAGEMENT HISTORIOGRAPHIES

Admittedly, management and accounting are so distant from music as disciplines that one could legitimately doubt the wisdom of the above discussion. Clearly, there are differences of issues, topics and contents between the two disciplines, though curiously both accounting and music have a debt to mathematics, a relatively hidden component of both bodies of knowledge.

The major point, however, is that historiographies tend to share much more than the histories that they are assumed to “describe.” Narrating history *per se*, whatever the history refers to, tends to present very similar epistemological and methodological aspects in all contexts. Beyond differences at the “ontological” level, there are similarities of perspective. This makes it possible to consider how the work of Favaro and Pestalozza [1999] has relevance or implications for debates on accounting and management historiography. The following sections draw on the aforementioned defining characteristics of Favaro and Pestalozza’s work to revisit some of the controversies in our field. To reiterate, these features are: a history of the present; making history and theory making; a non-linear sense of history; a social history; a pluralist view of genres; and a multi-geographical emphasis.

History of the Present: A possible hidden dilemma when approaching management and accounting history is whether to focus on specialist's terms in management and accounting history or foster a more grounded historical view of management and accounting (is this perhaps something close to what Gaffikin [1998], refers to as "historical sociology"?). Subtle differences of epistemology exist between these two alternatives and here a major difference between management and accounting needs to be considered. In the broader area of management studies history has a marginalized role in attempts to understand current debates. Note, for example, the naive historical frame in the strategic management literature portrayed by Ansoff [1984] and the abstract and theory-biased understanding of the history of management offered by organization theory textbooks [Bonazzi, 1982] or, on occasion in journals, such as the *Journal of Management History*. Despite some exceptions [e.g. Padgett and Ansell, 1993] the latter shows little interest in the history of practices.² Limited interest seems to exist in the construction of a specialized area of "management history", a virtually non-existent label.³ There is, perhaps, an assumption that a management scholar with historical interests can find in the neighboring field of business history what she/he is looking for.

In accounting there is greater attention to history, as revealed by the existence of specialist journals, conferences, textbooks, and other institutional mechanisms that characterize

² Such a theory bias emerges, for instance, from the initial presentation of the journal: "The *Journal of Management History* is the first to offer a specifically academic assessment of current management trends in the light of the contributions made by major *thinkers* in the field. ...[It] critically evaluates the backgrounds, ideas and influences of the major contributors to management *thinking* ... By placing contemporary *thinking* in a historical context, management theorists and academics gain greater understanding of the roots of new management concepts and how they are developed in response to social, economic and political factors" (cf. <http://gort.ucsd.edu/newjour/j/msg02375.html>, emphasis added).

³ The vicissitudes of the above-mentioned *Journal of Management History* are in this sense very telling. Recently, the journal merged into *Management Decision* [cf. <http://www.emeraldinsight.com/jmh.htm>], though a sense of history is difficult to find in the characterization provided for that journal: "The rapid changes in the business environment brought about by technological innovation; socio-cultural development, economic fluctuations and other factors have demanded new answers, innovative approaches and fresh thinking. Management Decision has consistently provided a ready and informative source of all these elements" (<http://www.emeraldinsight.com/md.htm>).

modern scholarly work. However, the results of research in history are seldom imported into mainstream accounting textbooks and several contemporary questions remain unexplored. It is surprising, for example, that we still know so little about the evolution of, say, budgeting practices in Europe. Indeed one of the papers in a special issue on *Accounting History* [Carmona and Zan, 2001] still dwelt on these issues (according to one of the anonymous referees in the same special issue, this also applies to the US). In revealing the significance of historical scholarship to modern concerns special issues on accounting history in general accounting journals (see for instance, *Accounting, Organizations and Society*, 1991; *Accounting, Auditing & Accountability Journal*, 1996; *Critical Perspectives on Accounting*, 1998; *European Accounting Review*, 2001) are an important phenomenon. These contributions serve to bring a historical dimension to current debates and recognition of the dynamic nature of theories and practices.⁴

Making History and Theory Making: This feature of Favaro and Pestalozza [1999] also opens up the question of possible rationales for adopting a historical perspective beyond what is normally discussed in terms of utilitarian or intellectual interests (AAA [1970] and Goldberg [1974], as quoted by Parker [1981] see also Parker [1999]). The variety of management and accounting in different space-time contexts that emerge from a Favaro and Pestalozza-like perspective has implications for theory making.

Here the assumption of longitudinal approaches in organizational theory or strategic management is informative [Greiner, 1972; Normann, 1977; Mintzberg 1978, 1990, 1994; Kimberly and Miles 1980; Pettigrew, 1987, 1989, 1990; Whipp, 1987; Pascale, 1984]. The focus has been on an “in-real-time” historical approach to current analysis and theorizing. The fact that the new accounting history and longitudinal approach ignore each other, despite few epistemological differences, is an example of the disadvantages of a limited awareness of the evolution of historical debates.

⁴Thus, the term “history of thought” is not used in these pages in a strict Foucauldian sense, as a category of philosophy of history. Though sympathetic with such a view, what I am interested in here, somewhat speculatively, is a ‘historization’ of the present and practices, understanding their historical embeddedness and ‘always in progress’ nature. To what extent the latter metaphorical use of the expression ‘history of the present’ is associated with the former is something that I leave for future discussion.

But other reasons and rationales exist for adopting and strengthening an historical perspective. Studying management and accounting practices in previous periods tends to encourage a questioning of our understanding of current practice and focus attention on elements of change and innovation over time. This is particularly the case in the context of archival investigations of accounting practices in proto-industrial settings [e.g. Carmona et al, 1997]. For instance, the findings of Zan's [2004] study of the Venice Arsenal in the 16th century, based on published original documents and further research in the archives, has potential implications for current narratives in management and accounting. According to the institutional rules of the Venetian Republic, things not only had to be "managed", but it was also necessary to write, talk and transform them into the detached-from-concrete narratives that the managing process was all about. In short, the Arsenal shows the development of managerial capabilities and innovative organizational solutions in the 16th century which involved actors in a process of conceptualisation of narrative, and of artificial representation of what "managing" was all about. In that sense, it forms an early example of an abstraction process from day-to-day operations, of a discourse about the "management" process, or about the *maneggio*, as it was called at that time.

Understanding the past could help in understanding the present. A deeper understanding of management and accounting in the past helps us understand the processes of change in management and accounting "becoming what it was not" [Hopwood, 1987]. To some extent there is a tendency in the current literature to depict our ancestors as more naive than they probably were, an attitude which is peculiar to the management and accounting field. Historians of music, art, architecture, mathematics, physics etc would be more interested in the innovations of the Renaissance or the Baroque era. The modernist bias in accounting and management history, which maintains distance from the past through ignoring and negating its relevance, is perhaps best illustrated by the distinction of business eras into Fordist and post-Fordist, implicitly assuming Fordism as a major continuity with the past, while ignoring what existed before.

Further, a constitutive and disciplinary-building management and accounting history also emerges when comparing accounting historiographies or different histories emerging from different and isolated traditions [Zan, 1994]; or when comparing debates inside a community of scholars, as in the charge of

antiquarianism leveled by 'new' accounting historians towards 'old' accounting historians.⁵

Non-linear Sense of History: Such a view, wherein the past does not determine the present nor is it condemned to persist in the present, is particularly interesting in accounting history. Perhaps it is already supported by some non-positivistic approaches in accounting history, and surely by the 'new' accounting history.

The adoption of a similar epistemology would be disruptive for historiographies that are characterized by a strong sense of finalism. The unsustainable metaphors of precursors, forerunners, fathers and Maestro inside the Italian historiography of *Economia Aziendale* are one case in point [Zan, 1994]. It would also appear to question other conflicting research programs, such as that on the "genesis of managerialism" [Hoskin and Macve, 1994]. Managerialism, accepting the inner semantic ambiguity of the term, is something that is not necessarily found in current practices in certain spatial contexts (it is questionable that the whole notion applies to the entrepreneurial attitude of most managerial contexts in Italy, for instance, or in the context of running different, "anomalous" organizations such as museums [Zan, 2000]). Moreover, one could question whether it is something characterizing the "ontological" level of certain contexts, or whether it is simply another difference in perspective.

Indeed the very term 'genesis', even when referring to the broader concept of modern forms of managing, is in itself associated with a linear view of history. It implicitly assumes that there was a defining moment in which one could find the beginning of the process of managing. Having identified the moment one could reconstruct the evolution that links it with current practices. For several reasons, the expression 'early findings' seems more appropriate than 'genesis'. First, it does not close the door to new archival discoveries in the future that might be

⁵ For a discussion and an extensive literature review see Funnell [1996], Carnegie and Napier [1996], Merino [1998], Fleischman and Radcliffe [2003]. More particularly, the risk of epistemological inconsistency exists in the charge of antiquarianism to traditional accounting history: "The essence of this criticism seems to be that to some extent in accounting history there is an excessive concern with facts" [Stewart, 1992, p.58]. The positivist notion of 'facts', which has epistemological citizenship within a positivist approach, is here used from a post-modern position to criticize what is perceived as positivist (another example of what Merino [1998], defines as the "modernist trap").

pre-the genesis [also Ezzamel et al, 1990]. Second, it could also apply to elements, partial aspects, and fragments of the process of managing an organization in the past, without implying an entirely consistent form of 'modern' management. For instance, 'early findings' could refer to mere rhetoric and the exercise of putting day-to-day notions into narratives.

This indeed is the case of the "*discorso del maneggio*" at the Venice Arsenal [Zan, 2004], which leads us to the issue of cause-and-effect relationships, a further crucial dimension of methodology and epistemology. For instance, during the reviewing process of the Venice Arsenal paper, I resisted the request of one reviewer to investigate the impacts or "implementation of ideas" of the set of seemingly modern archival documents I was discussing, especially those around 1580-1590. My position is, firstly, that whether documents have an impact or not in the following period, they should be understood for what they meant in the context of their own times. Secondly, searching for 'implementation' – a term which, as Mintzberg [1978] clearly states, is misleading – seems to rest on the illusion of clear cut cause-and-effect relationships, an attitude particularly dangerous in historical research. This issue also arises in the current-day, identifying the impact of the implementation of consultant's reports is much more complex than merely looking for 'effects'. In the search for 'effects' the historian usually also suffers from incomplete, unstructured and disordered sets of documents. Debates such as the role of double entry bookkeeping in the evolution of capitalism is perhaps another example of issues relating to 'causes and effects'. In addition to differences in understanding and interpreting at the ontological level, the major questions in the Sombart/Yamey controversy seem to lie in the hidden differences in the world views of the two authors and their underlying views on decision making [Sombart, 1925; Yamey, 1962, 1980; Winjum, 1971; Parker, 1996. See also the discussion on that controversy in Miller and Napier, 1993; Merino, 1998].

The few examples provided here represent situations in which historians seem to force bits of reality into too clearly defined interpretations. On the one hand, overlooking the problematical relation between continuity and discontinuity (in the evolution of thought, in the search for the genesis and diffusion of managerialism, in confusing intentions and rhetoric with actual and successive changes). On the other hand, putting into too simplistic terms the relation between intentions, thought, and actions (as current organizational theory on decision mak-

ing would suggest, within a different perspective for understanding the evolution of organizations and organizing) or misunderstanding the influence of the observer perspective.

Solving the above mentioned anomalies in interpreting the evolution of practices and thought in management and accounting will improve our understanding of long-term processes and a greater awareness of the rhetorical nature of documents in themselves and how differences of perspective play a role.

Social History: The aforementioned issues are probably linked to the difference between the 'Analytical' versus the 'Continental' tradition in philosophy and history. This difference is rarely addressed in the management and accounting literature, nor is it perceived as a potentially relevant element in the dominance of the analytical framework in accounting debates.⁶

However, in the neighboring fields of business and economic history, the "juxtaposition between the two approaches in contemporary culture" is acknowledged and discussed [Toninelli, 1999]. As a specification of the distance between analytical and continental philosophy "It evokes and incorporates at

⁶Note however, that such a discussion, and the very vocabulary, is not a form of parochial debate between Continental scholars, but is also addressed rather centrally by Anglo-American scholars in the domain of philosophy, as the following sentences clarifies: "Philosophy at the end of the twentieth century presents a very different aspect. Two quite distinct complex (families of) philosophical traditions occupy the scene – Analytic and Continental philosophy. The terminology is neither happy nor stable. . . . Analytic philosophy is international; it is the dominant tradition in the English-speaking world, and in Scandinavia, and forms a large minority in, for example, Poland, Germany and Spain. Continental philosophy, like the Belgian Empire, is by and large a Franco-German creation, but its readership and influence are international. The term 'Continental philosophy' seems to have been popularized in North America, and both there and around the globe Continental philosophy has put a very firm mark on most of the humanities. Analytic philosophers spend their time doing very much what Husserl, Couturat and Russell urged philosophers to do at the turn of the century – arguing for and against or elucidating some proposition, analyzing and describing, drawing distinctions and constructing theories. Continental philosophers spend their time creating concepts and conceptual poetry, subverting, suspecting, unmasking, decoding, deconstructing and intuiting (for example, listening to) entities that are rarely as manageable as some particular thesis or theory and more often of the order of magnitude of this or that feature of the entire western tradition or, indeed, Being *tout court*. Analytic philosophers, of course, also deconstruct and subvert, but they tend to assume that it is better to subvert via argument or analysis than otherwise. Continental philosophers, on the other hand, invariably deconstruct and construct through the medium of commentary and exegesis; they present their views via readings of the great philosophical texts of the tradition; their attitude is what Barry Smith has called 'textual deference'" [Mulligan, 1998].

the same time the antithesis between the two cultures, literature and science; between logic and rhetoric; between analysis and interpretation; between conceptual clarification and elaboration of world views" [Toninelli, 1999, p. 66; also Fay, 1998]. The scientific approach to contemporary theory in history, which prevails in the Anglo-American world, is characterized by "a precise definition of methodological rules and standards, the improvement of elaboration technicalities, and above all a rigorous identification of disciplinary boundaries" [Toninelli, 1999, p. 62]. A more holistic stance characterizes the rhetorical approach, which dominates in the European context: "A merely economic treatment of economic issues was seen as meaningless, in addition to being misleading. Given that economic aspects are strictly intertwined with social, political, cultural, and anthropological ones, economic-history investigation cannot avoid taking them into account. Paradigmatic of a similar approach was the research program of the *Annales*, especially in the first two generations of historians (from Bloch to Braudel)" [Toninelli, 1999, p. 63]. Such a research program was characterized by attempts "to englobe social sciences within a history conceived as 'total history', as omniscient knowledge of social reality and its development" [Rossi, 1987, as quoted by Toninelli, 1999].

If this holds true for economic history, one wonders whether the situation is different in the fields of management and accounting history given the role played by the stream of "accounting in its social and institutional context" or strategic management approaches based on social embeddedness [e.g. Pettigrew, 1985] in the last decades. To some extent a social view of accounting history is already present, at least in some areas, if not in mainstream accounting and management. However, the impression is given of a partial taking-into-account of the foundational elements of the aforementioned debate. It is interesting to note that reference to the *Annales* itself tends to be rare in the Anglo-American literature [with a few exceptions, e.g. Gaffikin, 1998; Parker, 1997], while it is almost impossible for a European historian not to quote it. Indeed, Lemarchand [2000], makes some interesting points in this regard. The relation also appears controversial to Gaffikin [1998, p. 633]: "The new *accounting* history is not the same as what mainstream historians refer to as new history but it draws many of its presuppositions from this new history. The beginnings of this new history is usually associated with the French *Annales* school of historians".

Other approaches to a similar social view of management,

accounting and accounting history are possible, and are worth encouraging. A completely different narrative could emerge from such a perspective, as a review of accounting history in Europe by continental scholars would reveal [Lemarchand, 2000], while recognizing limits and inconsistencies which may be found in historiographies “from the periphery”, to borrow a phrase from Favaro and Pestalozza [1999].

Particular attention is required in relation to a comparative view of accounting historiographies [Zan, 1994; Carnegie and Napier, 1999]. Avoiding the positivist view of a “perfect scientific market” (according to which, better ideas and theories win the competition), one should take into account the reasons for and mechanisms of unfair competition. Indeed the dynamics of the very community of scholars [Whitley, 1984] would be better understood from a social history perspective, taking into account elements of academic sociology, the dominance of language barriers and Anglo-American contributions in management and accounting journals, a subject to which I will return later.

In short, two main implications emerge, drawing on the previous reading of Favaro and Pestalozza’s approach – a call for more robust research focused on social history and a social history aware of debates within the community of knowledge producers.

A Pluralist View of Genres: Although the call for a pluralist view in Favaro and Pestalozza [1999] is not new *per se*, certain aspects are. These include demands for higher degrees of internal consistency both in terms of objects, perspectives and analytical traditions. This point relates to the definition of disciplinary domains, which are sensitive to the institutional settings of the academic intellectual environment. Continental scholars observe the much more fragmented way of framing approaches and subjects in the Anglo-American context [Zan, 1994; Zambon, 1995; Zambon and Zan, 2000; also Edwards, 1994].

Just as Favaro and Pestalozza [1999] felt the need to include pop music in their history, I tend to discard an overly narrow definition of accounting history, and call for a broader view of management *and* accounting in historical perspectives [see also Parker, 1997, 1999] with possible ‘contaminations’ of business and economic history as well, within a broader multidisciplinary attitude [cf. the EIASM’s workshop series on Management and Accounting in Historical Perspectives in 1996, 1999 and 2002; Jones, 1997].

Greater pluralism is not merely an issue of widening the disciplinary boundaries but also raises questions about the kind of knowledge that is perceived as necessary in our field. The proliferation of social sciences and economic knowledge in the last decades (consider what has happened in relation to debates on theories of the firm, organizations, decision making, strategy, sociology of organizations, etc) is likely to question the theoretical tool-kit of any economic-business-management-organization-accounting historian.

While few are likely to openly resist the call for a pluralist view of genres in management and accounting history, its serious application is another issue. As an example, consider how many items in the bibliography of any accounting history paper references are made to decision-making or change literatures and debates. Further, plurality is not encouraged in accounting history by the conflict between 'old' and 'new' accounting historians. While the new accounting history movement seeks to "cultivate the growing diversity" of accounting history [Merino, 1998, p. 614], it does not appear to be tolerant of 'old' views [Carnegie and Napier, 1996; Merino, 1998]. This is unfortunate because, in situations of partial ignorance, any contribution and perspective helps to provide some sort of insight. 'Old' historians also have a valuable asset in their archival-research attitude.

There are two additional implications of too-narrowly-defined views of the research field in historical investigation. First, over-specialization is a product of its time, and it is likely to be ineffective in dialoguing with different, 'anomalous' space-and-time settings. Second, over-specialization runs enormous risks where there is discontinuity in archival materials. In the case of the research into the Venice Arsenal, accounting records were deliberately and systematically destroyed in 1813/1815. The historian therefore draws inferences about accounting practices by taking a broader view of management processes, and attempting to understand accounting through documents and sources relating to management.

Multi-geographical Emphasis: One of the most interesting features of Favaro and Pestalozza [1999] with implications for accounting and management history is the attention to different countries and regions (although within a western bias). One of the most peculiar aspects of the international debate on accounting and management history appears to be the Anglo-phone bias – the tendency to ignore what has been written in languages other than English (the view "after Pacioli nothing")

[Zan, 1994]) - and the associated recurring use and review of articles on the 'English-speaking literature'. This tendency is rarely found in any other historical subject area. According to a social history view, the issue is hardly understandable due to specific reasons concerning accounting practices *per se*. Historically speaking, where music, art and culture are flourishing well-developed trade and economic conditions are also likely to feature. Thus one would expect a geographical focus over time not very dissimilar to that of Favaro and Pestalozza. The fact that accounting practices in the Renaissance or Baroque periods in Continental Europe are of such marginal interest in the international literature on accounting history [Miller and Napier, 1993, p. 639] (not to mention the relative lack of interest to history in the mainstream American management field) are all signs of a cultural form of neo-colonialism, which is rarely found in other fields. I remain shocked by the figures provided by Engwall (1998) about authorship in 15 of the most important journals inside the management field, according to which native English authors wrote 92% of the papers.

As a writer who shares and appreciates some of the theoretical and methodological aspects of the Anglo-American tradition, and is conscious of keeping a self-critical approach to my own national traditions as opposed to the naive and neo-chauvinist view of continental adhocracies [Panozzo, 1997], what such a situation implies is the destruction of a variety of points of view, ways of framing issues and alternative notions. The lack and decline of variety and difference *per se*, are here perceived, as in any 'globalization process,' as a problem, notwithstanding the intrinsic value of single varieties that are at 'risk of extinction'. This lack of geographical diversity is one of the most critical limitations of management studies in general, and in accounting, and accounting history in particular. Curiously enough it is a charge that applies to 'old' as well as to 'new' accounting history, whose agendas (although interesting) seem to be strictly shaped according to the intellectual background and dynamics of Anglophone scholars. On the unsustainable justification of language barriers, it ignores the debates, traditions (ways of conceiving, notions, different frameworks and approaches) and literatures produced elsewhere in the recent decades and earlier centuries. For instance, count the number of non-English-speaking accounting historians who are quoted in the three special issues on accounting history published in *Accounting, Organizations and Society* [1991], *Accounting, Auditing & Accountability Journal* [1996]; *Critical Perspectives on Account-*

ing [1998]. For an alternative view see the literature review by Lemarchand [2000].

Far from calling for an 'anti-global', or chauvinist position to resist the colonialism of an English-speaking literature, an intermediate position is called for here: one which also takes into account national and regional differences in practices and theories in the narrative of international, comparative accounting and management history [Zan, 1994; Carnegie and Napier, 2000; Previts, 2000].

'OUTRO'⁷

Drawing on themes from Favaro and Pestalozza's [1999] unorthodox book on music history and applying a similar approach to management and accounting history, these pages propose a discussion focused on understanding the present in its historical setting and an attention to theory testing and theory making rather than aseptic historical reconstruction. Moreover, this approach embraces a non-linear and social view of history, with resolute attention to a pluralist notion of genres, contributions, approaches, and disciplines in terms of research object. This approach also embraces a greater sensitivity to the geographical variety of authors and traditions.

Indeed, the major concern of the paper has been the need for pluralism in writing accounting (or management) history and historiographies, accepting the notion of variety itself and calling for the development (or the recovery) of greater variety. The most radical implication of such a call for a pluralist view of genres is questioning the taken-for-granted view of chapters and paragraphs of any accounting (or management) history narrative: for any picture of accounting history and historiography simply tends to halt the time and debate in temporary and fragile categories.

It would be grand in the future to read a book on the history of accounting or management with a structure and contents similar to that of Favaro and Pestalozza on music. This would be music to our ears.

REFERENCES

- Adorno, T.W. (1980), *Einleitung in die Musiksoziologie* (Frankfurt: Zwölf theoretische Vorlesungen).

⁷'Outro', as opposed to intro, is a term which Merriam-Webster [2000] does not recognize, but which is used as slang in music notation.

- American Accounting Association (1970), "Committee on Accounting History," *Accounting Review*, Vol. 45, Supplement: 52-64.
- Ansoff, H.I. (1984), *Implanting Strategic Management* (Englewood Cliffs: Prentice Hall).
- Besseler, H.I. (1959), *Das Musikalische Hören der Neuzeit* (Berlin. Akademie-Verlag. Italian translation 1993, Bologna).
- Bonazzi, G. (1982), *Dentro e fuori della fabbrica. Storia ragionata della sociologia dell'organizzazione* (Milano: Franco Angeli).
- Carmona, S. and Zan, L. (2001), "Introduction," to Mapping Variety in the History of Accounting and Management Practices, *European Accounting Review*, Vol. 11, No. 2: 291-304.
- Carmona, S., Ezzamel, M., and Gutierrez, F. (1997), "The Spanish Royal Tobacco Factory," *Accounting, Organizations and Society*, Vol. 22, No. 5: 411-446.
- Carnegie, G.D. and Napier, C.J. (1996), "Critical and Interpretive Histories: Insights into Accounting's Present and Future Through its Past," *Accounting, Auditing & Accountability Journal*, Vol. 9, No. 3: 7-39.
- Carnegie, G.D. and Napier, C.J. (1999), "Exploring Comparative International Accounting History," *Accounting, Auditing & Accountability Journal*, Vol. 15, No. 5: 689-718.
- Edwards, R. (ed.) (1994), *Twentieth Century Accounting Thinkers* (London: Routledge).
- Ezzamel, M., Hoskin, K. and Macve, R. (1990), "Managing It All By The Numbers: A Review of Johnson and Kaplan's Relevance Lost," *Accounting and Business Research*, Vol. 20, No. 78: 153-166.
- Engwall, L. (1998), "Research Note: Asterix in Disneyland. Management Scholars from France on the World Stage," *Organization Studies*, Vol. 19, No. 5: 863-881.
- Favaro, R. e Pestalozza, L. (a cura di) (1999), *Storia della Musica* (Milano: Nuova Carish).
- Fay, B. (1998), "The Linguistic Turn and Beyond in Contemporary Theory of History," in Fay, B., Pomper, P. and Vann, R.T. (eds.), *History and Theory. Contemporary Readings* (Oxford: Blackwell).
- Fay, B., Pomper, P. and Vann, R.T. (1998), *History and Theory. Contemporary Readings* (Oxford: Blackwell).
- Fleischman, R.K. and Radcliffe, V.S. (2003), "Divergent Streams of Accounting History: A Review and Call for Confluence," in Fleischman, R.K., Radcliffe, V.S., and Shoemaker, A. (eds.), *Doing Accounting History: Contributions to the Development of Accounting Thought* (Amsterdam: Elsevier Science): 1-29.
- Fleischman, R.K., Kalbers, L.P. and Parker, L.D. (1996), "Expanding the Dialogue: Industrial Revolution Historiography," *Critical Perspectives on Accounting*, Vol. 7, No. 3: 315-337.
- Funnell, W. (1996), "Preserving History in Accounting: Seeking Common Ground Between 'New' and 'Old' Accounting History," *Accounting, Auditing & Accountability Journal*, Vol. 9, No. 4: 38-64.
- Gaffikin, M. (1998), "History is Dead, Long Live History," *Critical Perspectives on Accounting*, Vol. 9, No. 6: 631-639.
- Goldberg, L. (1974), "The Future of the Past in Accounting," *The Accountant's Magazine*, Vol. LXXVIII, No. 820: 405-410.
- Greiner, L.E. (1972), "Evolution and Revolution as Organizations Grow," *Harvard Business Review*, Vol. L, No. 4: 37-46.
- Hopwood, A.G. (1987), "The Archeology of Accounting Systems," *Accounting, Organizations and Society*, Vol. 12, No. 3: 207-234.

- Hoskin, K. and Macve, R. (1994), "Reappraising the Genesis of Managerialism: A Re-Examination of the Role of Accounting at the Springfield Armory, 1815-1845," *Accounting, Auditing & Accountability Journal*, Vol. 7, No. 2: 4-29.
- Jones, G. (1997), "Revising the Role of Profit-seeking in Management and Accounting History. A Report of the EIASM Workshop on Management and Accounting in Historical Perspective, Bologna, 15-16 December 1996," *European Accounting Review*, Vol. 6, No. 4: 791-798.
- Kimberly, J.R. and Miles, R.H. (1980), *The Organizational Life Cycle* (San Francisco: Jossey-Bass Publ.).
- Lemarchand, Y. (2000), "A Century of Research into Accounting History in Continental Europe," Plenary address at the *8th World Congress of Accounting Historians*, Madrid.
- Merino, B.D. (1998), "Critical Theory and Accounting History: Challenges and Opportunities," *Critical Perspectives on Accounting*, Vol. 9, No. 6: 603-616.
- Merriam-Webster (2000), *Merriam-Webster's Collegiate Dictionary* (<http://www.merriam-webstercollegiate.com>)
- Miller, P. Napier C. (1993), "Genealogies of Calculation," *Accounting, Organizations and Society*, Vol. 18, No. 7/8: 631-647.
- Miller, P., Hopper T., Laughlin R. (1991), "The New Accounting History: An Introduction," *Accounting, Organizations and Society*, Vol. 16, No. 5/6: 395-403.
- Mintzberg, H. (1978), "Patterns in Strategy Formation," *Management Science*, Vol. XXIV, No. 9: 934-948.
- Mintzberg, H. (1990), "The Design School: Reconsidering the Basic Premises of Strategic Management," *Strategic Management Journal*, Vol. XI: 171-195.
- Mintzberg, H. (1994), *The Rise and Fall of Strategic Planning* (New York: The Free Press).
- Mulligan, K. (1998), "The Great Divide," *Times Literary Supplement*, 26 June.
- Normann, R. (1977), *Management for Growth* (Chichester: John Wiley & Sons).
- Padgett, J.F. and Ansell, K. (1993), "Robust Action and the Rise of the Medici, 1400, 1434," *American Journal of Sociology*, Vol. 98: 1259-1319.
- Panozzo, F. (1997), "The Making of the Good Academic Accountant," *Accounting, Organizations and Society*, Vol. 22, No. 5: 447-480.
- Parker, L.D. (1997), "Informing Historical Research in Accounting and Management: Traditions, Philosophies and Opportunities," *Accounting Historians Journal*, Vol. 24, No. 2: 111-149.
- Parker, L.D. (1997), "Informing Historical Research in Accounting and Management," *Accounting Historians Journal*, Vol. 24, No. 2: 111-149.
- Parker, L.D. (1999), "Historiography for the New Millennium: Adventures in Accounting and Management," *Accounting History*, Vol. 4, No. 2: 11-42.
- Parker, R.H. (1981), "The Study of Accounting History," in Bromwich, M., Hopwood, A.G. (eds.), *Essays in British Accounting Research* (London: Pitman): 279-293.
- Parker, R.H. (1996), "Basil Yamey, Accounting Historian," *Accounting, Business and Financial History*, Vol. 6, No. 3: 234-246.
- Pascale, R.T. (1984), "Perspectives on Strategy: The Real Story Behind Honda's Success," *California Management Review*, Vol. XXVI, No. 3: 47-72.
- Pettigrew, A. (ed.) (1987), *The Management of Strategic Change* (Oxford: Blackwell).
- Pettigrew, A. (1989), "Longitudinal Field Research on Change: Theory and Practice," working paper, CCSC, Warwick.
- Pettigrew, A. (1990), "Studying Strategic Choice and Strategic Change," *Organization Studies*, Vol. XI, No. 1: 6-11.

- Previts, G.J. (2000), "Global Accounting History: Scholarship in the New Millennium," *Accounting and History. A Selection of Papers Presented at the 8th World Congress of Accounting Historians, Madrid, 19-21 July 2000*, AECA, Madrid.
- Rossi, P. (1987), *La Storiografia Contemporanea. Indirizzi e Problemi* (Milano: Il Saggiatore).
- Sombart, W. (1925), *Il Capitalismo Moderno* (Firenze: Vallecchi).
- Southgate, B. (1996), *History: What & Why* (London: Routledge).
- Stewart, R.E (1992), "Pluralizing our Past: Foucault in Accounting History," *Accounting Auditing & Accountability Journal*, Vol. 5, No. 2: 57-73.
- Toninelli, P.P. (1999), "Fra 'stile analitico' e 'stile continentale. La storia economica alla ricerca di uno statuto metodologico" (Between 'analytical' and 'continental style'. Economic history on search for an epistemological statute), *Rivista di Storia Economica*, Vol. XV, No. 1: 53-86.
- Whitley, R. (1984), "The Fragmented State of Management Studies: Reasons and Consequences," *Journal of Management Studies*, Vol. 21, No. 4: 331-348.
- Winjum, J.O. (1971), "Accounting and the Rise of Capitalism: An Accountant's View," *Journal of Accounting Research*, Vol. 9, No. 2: 333-350.
- Yamey, B.S. (1962), "Accounting and the Rise of Capitalism: Further Notes on a Theme by Sombart," in *Studi in Onore di A. Fanfani* (Milano: Giuffrè).
- Yamey, B.S. (1980), "Early Views on the Origins and Development of Book-keeping and Accounting," reprinted in Yamey, B.S. (1982), *Further Essays on the History of Accounting* (New York & London: Garland Publishing Inc.).
- Zambon, S. (1995), "Accounting and Business Economics Traditions: A Missing European Connection?" Introduction to the Research Forum: Accounting and Business Economics Traditions, *European Accounting Review*, Vol. 5, No. 3: 401-412.
- Zan, L. (1994), "Toward a History of Accounting Histories," *European Accounting Review*, Vol. 3, No. 2: 255-307.
- Zan, L. (2000), "Management and the British Museum," *Museum Management and Curatorship*, Vol. 18, No. 3, 221-270.
- Zan, L. (2002), "Renewing Pompeii, Year Zero. Promises and Expectations from New Approaches to Museum Management and Accountability," *Critical Perspectives in Accounting*, Vol. 13: 89- 137.
- Zan, L. (2004), "Accounting and Management Discourse in Protoindustrial Settings: the Venice Arsenal at the Turn of the XVI Century," *Accounting and Business Research*, Vol. 32, No. 2: 145-175.

NOTICEBOARD

Eleventh Accounting and Management History Conference

Thursday 17th and Friday 18th March 2005

ASSOCIATION OF FRANCOPHONE DE COMPTABILITE

**With the support of the Research Centre in Control and
International Accounting (CRECCI)
at the University of Bordeaux (Institute of Management)**

Businesses, Accounting Data and Law

The University of Bordeaux Montesquieu and the Research Centre in Control and International Accounting will hold the 11th Accounting and Management History Conference, with the support of the *Association Francophone de Comptabilité*, in March 2005.

The University of Bordeaux is one of France's oldest universities: *Burdigala* already had a Roman University in the fifth century A.D. and offered specialised training in grammar and the art of rhetorical speech for the whole Atlantic coast area. Being the equivalent of Narbonne, it gained its legal status of *Universitas famosa* in 1441, when Henri VI, 15th King of England (1422-1461) and the 207th Pope, Eugène IV (elected on the 11th March 1431, died on the 23rd February 1447) officially patronised it. The University continued to function until it was closed down by the municipality of Bordeaux in 1792, following the French Revolution. This decision was promulgated by the law of the 15th September 1793, and confirmed by the decree of the 25th February 1795. The University was reopened in 1870. The School of Law, in which the Institute of Management will continue to be based for several more months, was inaugurated in 1873. In 1969, the Schools of Law and Science founded the University of Bordeaux I.

The University of Bordeaux has trained Lawyers of international renown. Montesquieu, whose name was given to the School of Management, Law and Economics, was the most prominent. More recently, Léon Duguit, who is internationally renowned, Maurice Duverger and many others have started their careers in Bordeaux. Some of these Lawyers have turned their attentions towards accounting. Pierre Boucher, author of "Science des négocians et des teneurs de livres" was inspired by Mathieu de La Porte Gobain, author of three famous books on arithmetics and accounting. One could also cite Moulinier, author of "Grand trésor des marchands" or J. Rodrigues, who severely criticised E.T. Jones. Another important point to remember is that the first French Accounting Plan was printed in Bordeaux, in 1943, by Delmas editions, next to the current Institute of Management.

In many areas, Lawyers and Accountants share similar perspectives. At the same time, there are points of divergence. The conference will provide a forum in

which delegates can interact and network, with the topic areas focussing on businesses, law and accounting from a historical perspective. Papers are welcome on issues relating to any field linked to this subject area. Three sub-topics are proposed:

- Businesses and Law
- Businesses and Accounting
- Lawyers and Accountants: Parallel paths and points of divergence

Simultaneous translation will be available during conference sessions, so papers may be presented in French or in English.

SCIENTIFIC COMMITTEE: Nicolas Berland, Henri Bouquin, Trevor Boyns, Bernard Colasse, Jean-Guy Degos, Serge Evraert, Patrick Fridenson, Jacques Igalens, Yannick Lemarchand, Cheryl McWatters, Marc Nikitin, Robert Parker, Christian Prat Dit Hauret, Gary John Previts, Michèle Saboly, Stéphane Trébucq.

ORGANISING COMMITTEE: Jean-Guy DEGOS, Serge EVRAERT, Christian PRAT DIT HAURET, Stéphane TREBUCQ (CRECCI, University of Montesquieu – Bordeaux IV)

Eleventh World Congress of Accounting Historians

NANTES (FRANCE) 19-22 JULY 2006

First Announcement Call for Papers

Six years after the Madrid Congress in 2000, the WCAH will return to Europe, after stops in Melbourne in 2002 and St. Louis in 2004. In fact in July 2006, the Eleventh World Congress of Accounting History will take place in Nantes, and France will welcome this gathering for the first time.

Ideally situated, Nantes is only two hours from Paris by TGV (the high speed train with 20 round trips daily) and approximately two hours by plane from the majority of European Capitals. Gateway to Brittany and its ports, it is equally very close to a number of major tourist sites, such as Mont Saint-Michel, le Puy du Fou, the Futuroscope, and the "Chateaux of the Loire".

Settled over two millennia ago on the banks of the Loire, fifty kilometres from the Atlantic Ocean, Nantes was, during the middle ages, the capital of the Duchy of Bretagne. In the eighteenth century, the city became the great merchant port of the French crown, opening commercial and maritime routes of the Americas and Africa. The leading industrial shipyards of the western half of France from the nineteenth century, noted for its naval engineering and its canning industry, Nantes and the Loire estuary have developed into a leading metropolis for the service and high technology sectors. Economic capital of western France and the major French city in terms of its rate of demographic growth, Nantes draws interest not only for its economic achievements but also for its quality of life and its environment.

The Congress will take place on the campus of the University of Nantes, a few steps from the historic centre of the city and from the majority of the hotels likely to lodge congress attendees. In 1995, the *Journées d'histoire de la Comptabilité et du Management*, which takes place in France in March of each year, was organized for the first time in Nantes. The same year, the University of Nantes made a major acquisition of a collection of works dealing with accounting and its history, amassed by the Belgian Accounting Historian Ernest Stevelinck. Deceased in 2001, Ernest Stevelinck was the initiator and organiser of the first World Congress of Accounting Historians, which took place in Brussels in 1970. Holding the eleventh Congress in Nantes will therefore possess symbolic value and will be an opportunity to recognise his legacy.

Call for papers

Conference submissions can examine any aspect of the history of accounting, but the history of Nantes, the presence of the Stevelinck Collection, and the experience with the *Journées d'histoire de la Comptabilité et du Management* motivates us to encourage papers dealing with the following themes:

- Accounting and Ocean Routes: maritime trade, major commercial companies, colonisation . . .

- 1970-2006: 36 years of accounting-history research: thematics, authors, methodologies, prospective approaches . . .
- Accounting writers: biographies, works, influence . . . privileging new research approaches and new issues . . .
- Accounting in relation to other management disciplines: strategy, management, human resources management, marketing, finance . . .
- Interdisciplinary approaches to accounting history

Manuscripts must be submitted in English, and will be reviewed by the members of the Scientific Committee. Submissions by electronic mail are acceptable.

Submissions for proposals:

The deadline for proposed manuscripts is **January 15, 2006** and should be sent to:

Yannick Lemarchand

Congress Convenor

Centre de Recherches en Gestion Nantes-Atlantique CRGNA

Faculté des Sciences économiques et de gestion

Université de Nantes

BP 52331

44322 Nantes Cedex

FRANCE

Email: wcah@sc-eco.univ-nantes.fr

Authors of accepted papers will be advised at the latest by March 15, 2006.

Further information about the Eleventh WCAH will be available progressively on the Congress website: www.iae.univ-nantes.fr/11wcah

Accounting Business & Financial History

Call for papers (Special Issue)

Women, accounting and finance

In his study of investment in the nineteenth century, Preda comments that 'Women are always excluded from financial discussions, on the explicit ground that they cannot understand investments'. Certainly a number of nineteenth-century commentators treated women as likely to be victims of financial chicanery: 'the widow, the clergyman and the reckless' were grouped as potential losers on the markets. This is consonant with the 'separate spheres' view of women's history, seeing women as barred from finance as from other male domains.

Though widely held, the 'separate spheres' view has attracted some challenges. For some time there has been a recognition of the role of women in the accounting profession from the early twentieth century onwards. In the realms of bookkeeping, Connor has stressed the role of women in household accounting in the eighteenth century, while Walker has recently drawn attention to the extent to which women were encouraged in the nineteenth and early twentieth centuries to use accounting in order to run the household thriftily and effectively. He has also pointed out the role played by women as bookkeepers and cashiers in small businesses, before they started to make an entry into the professional world of accounting. Implicit here is the recognition that knowledge of accounting and financial practice was accepted as part of the skills needed of the accomplished woman, in the domestic as well as the business sphere.

It has recently been noted that women were active as investors where circumstances permitted or demanded it. The range of investors ran from middle-class women who needed to stretch a small fixed income to the affluent middle-classes and aristocrats who had considerable money at their disposal. This phenomenon began in the early eighteenth century in Britain with the South Sea Bubble, and acquired momentum after the series of Companies Acts beginning in 1844 made the limited liability company a widespread vehicle for investment. Some women investors were passive, others sought opportunities on the Stock Exchange and were active in the corporate governance context. Others again had holdings in private (family) companies.

The objective of this special issue is to draw together work on the financial role of women, whether as investors, managers, advisers or employees, in the period from the eighteenth century up to the Second World War. Submissions are welcome which deal with

- women as investors
- women as accountants
- women's financial priorities

in corporate, sectorial, local, regional, national and international contexts.

Informal enquiries or offers please to either Janette Rutterford (j.rutterford@open.ac.uk) or Josephine Maltby (j.maltby@sheffield.ac.uk).

We would like to receive completed papers no later than 30 June 2005 for publication in the November 2005 edition of *Accounting, Business & Financial History*.

Call for Papers

The fourth *Accounting History* International Conference University of Minho, Braga, Portugal 7-9 September 2005

Accounting History is the journal of the Accounting History Special Interest Group of the Accounting and Finance Association of Australia and New Zealand. The conference will feature papers which comply with the editorial policy of *Accounting History*. The journal publishes quality historical papers that may be concerned with the establishment and development of accounting bodies, conventions, ideas, practices and rules. The should attempt to identify the individuals and the local, time-specific environmental factors which affected accounting, and should endeavour to assess accounting's impact on organisational and social functioning.

Conference papers will be accepted across a wide range of topics, using a variety of approaches including biography, prosopography, business history through accounting records, institutional history, public sector accounting history, comparative international accounting history and oral history. The use of theoretical perspectives drawn from relevant disciplines such as sociology, economics and political theory is encouraged in conducting investigative, explanatory studies of accounting's past.

As part of the fourth *Accounting History* International Conference, the *Accounting History* Doctoral Colloquium will be held on 7 September 2005.

Submission and Review of Papers

Papers written in the English language should be submitted electronically by **31 May 2005**, to: 4ahici-group@deakin.edu.au

All papers will be subject to a double-blind refereeing process and will be published on the conference website, as refereed conference proceedings, unless otherwise advised.

Notification of Acceptance

Notification of papers accepted for inclusion in the conference program will be made by **30 June 2005**.

Conference information will be available through the Conference website at: <http://www.eeg.uminho.pt/4AHIC>

THE ACADEMY OF ACCOUNTING HISTORIANS

APPLICATION FOR 2004 MEMBERSHIP

Individual Membership: \$45.00

Student Membership: \$10.00

Name: (please print) _____

Mailing Address: _____

City: _____ State: _____

Zip Code: _____ Country: _____

Accounting History Area of Interest: _____

Phone: _____ Fax: _____

E-mail: _____

Method of Payment: ☐ check enclosed

☐ Mastercard ☐ VISA

Card Number: _____

Expiration Date: _____

Signature: _____

Mail to: Mrs. Kathy H. Rice
The Academy of Accounting Historians
The University of Alabama
Box 870220
Tuscaloosa, AL 35487
USA

