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## American ideology, socialism and financial accounting theory: A counter view

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### ABSTRACT

This paper is a response to part three of Rob Bryer's (RB) analysis of the development of capitalism in the U.S., which focuses on the ideology underlying accounting practice rather than the practices themselves. We argue that the ideology that has dominated American history is not so much that of the independent producer as portrayed by RB, but a wider and more nuanced attachment to individual liberty that has coloured American history from independence to the present day. We dispute his analysis of the decline of socialism as being the outcome of ideological struggle, and in particular Irving Fisher's contribution to its demise. The paper also challenges RB's views on Adam Smith's legacy and Irving Fisher's influence over FASB's CF. Finally, it examines the historiographical implications of RB's study and our counter non-Marxist narrative.

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## 1. Introduction

This paper is a response to part 3 of Rob Bryer's history of the development of capitalism in the U.S. and the accounting implications (Bryer, 2013b, hereafter RB3). The series has succeeded in its aim of producing an "interesting" history that "allows us to understand important features of the past and their links to the present" (RB3, p. 612). However, enhanced historical understandings are best achieved through dialogue with competing viewpoints, a theme we return to later in the paper. Also, there are significant areas where we disagree with RB's methodology and interpretation of events. In our reply to RB's first paper (Bryer, 2012), which focused on the genesis of American business consciousness up to the mid-1800s, we questioned his notion of a clear point of divide between the "capitalist" and "pre-capitalist" worlds. We disagreed in

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particular with the idea that capitalism cannot exist absent particular accounting signatures, such as depreciation, that serve to hold agents accountable for the *capitalist* rate of return on investment (ROI).<sup>1</sup> Our response to this point is that the extant accounting record is only capable of proving attitudes present, not attitudes absent. Hence, the non-existence of particular accounting signatures by themselves cannot imply “that a structure of wage-based labour, a spirit of aggrandizement, and a mentality of accumulating wealth and seeking economic dominance (i.e., capitalism, as it is widely understood) did not exist” (Tyson et al., 2013, p. 394).

Furthermore, accounting/accountability signatures are as much a reflection of the form, size, and complexity of the business organization as any underlying *capitalist* or *pre-capitalist* mentality of the owners, as it is these factors that determine the extent of the control problem and the need for particular accountings. It follows that the second half of the 19th century is critical to proving the veracity of RB's theory as this was the era when America industrialized on a massive scale and business organizations grew in size and complexity although, according to RB, they had neither fully achieved capitalism nor had their owner/managers displayed an unfettered capitalist mentality. For his theory to work, RB would need to be able to demonstrate (1) that such organizations still lacked accounts that were capable of holding managers to account for ROI despite the increased size and scope of their operations; and (2) that business magnates who controlled large, non-publicly-held companies were not capitalists, whether they had or lacked particular accounts. Such evidence would support the conclusion that the appearance of capitalism was delayed in the U.S. until the turn of the 20th century, which is the thrust of his second paper. Here RB argued that “according to their accounts”, entrepreneurs in the textiles, railroads, and iron-and-steel sectors in the 19th century “remained advanced semi-capitalists, still only part capitalist” in orientation:

Managers, entrepreneurs and investors [in railroads and iron and steel] continued to use the SRP [simple rate of profit focusing on consumable surplus] to judge their ‘profit’, and used results control only for prime costs, excluding depreciation and other overheads, that is, produced accounts identical in approach to those used on large southern plantations and in the Boston textile mills (Bryer, 2013a, p. 276).

However, the main problems with this argument are that too few organizations are examined to reach such a definitive conclusion. Only two fully-fledged 20th century *capitalist* enterprises are considered (DuPont and General Motors) and all of the evidence is derived from secondary sources. In our reply to RB2, we argue that he is both too restrictive in his preconditions for capitalism and too dismissive of pre-20th century American enterprise, contrasted to later developments where he assumes too much. RB's view that capitalism did not emerge in the U.S. until c. 1900–1920 is counterintuitive considering the massive scale of output and capital accumulation/concentration in the U.S. prior to that point (Fleischman et al., 2013). It also contradicts the views expressed by noted American historians such as Gutman (1987, p. 382) who concludes that “by 1880, industrial capitalism was well advanced in the United States”. RB's unique chronology is retained in RB3, and he remains dismissive of the writings of historians who employ the terms “capitalist” and “capitalism” without his particular preconditions.<sup>2</sup>

And so we now come to the argument in RB3, which is different from his previous two papers because it focuses on the ideology underlying accounting practice rather than the practices themselves. The argument essentially summarized is that the material foundation of American society was the simple commodity producer cum semi-capitalist. This “exceptional starting point” explains much of what followed – the hold Adam Smith exerted over American political ideology, the resistance to capitalism that delayed its arrival in the U.S. compared to Britain, America's “exceptional political ideology”, and the country's “exceptional financial accounting theory” (RB3, p. 573).

According to RB, it was the independent producer ideology that dominated business and drove American politics until it was eventually subsumed within the ideology of *corporate liberalism* (a term coined by later writers) following an intense period of social struggle that lasted from around 1880 to 1920 that witnessed the rise and fall of socialism. The catalyst for this struggle was the development of big business and, in particular the “trusts”, massive monopolistic corporations. Such organizations contradicted “the ‘independent producer’ ideology of workers and farmers, and the ‘individual liberalism’ of small manufacturers and merchants” (RB3, p. 572). Taken at face value, corporate liberalism was a socially inclusive worldview in the sense that it encompassed notions of shared social responsibility and the common good – big business interests, workers, small employers, and “the new middle class”, all sharing in the fruits of economic growth – whereas, in reality, it was a ploy by big business to deflect opposition and hence retain its hegemony in society (RB3, pp. 586–89).

It is at this point that financial accounting enters RB's historical narrative as a major constitutive force in American society. Alongside the ideal of a shared wellbeing came the idea that corporations should be held accountable through the publication of annual accounts. However, “when faced with opposition from business leaders successive federal governments” pulled back from making accounting disclosures mandatory (RB3, p. 590). Again there is the suspicion of duplicity on the part of business leaders, as the conservative nature of the accounts that were published enabled them to deceive their workers about the true extent of their profits, and hence helped ward off labour conflict (RB3, pp. 589–91).

<sup>1</sup> ROI = profit after prime costs, overheads, and depreciation divided by capital employed at the end of the period.

<sup>2</sup> RB is careful to use the term “[sic]” when he cites the following authors in RB3 who use the word “capitalist”, apparently signifying his disagreement with them: Clark (1990, p. 17), Clark and Hewitt (2000, p. 6), Dawley (1976, p. 17), Dobb (1973, p. 13), Kulikoff (1992, p. 5), Mills (1951, p. 4), Salvatore (2007, p. 13), Wilentz (2005, p. 15) and Wood (1993, p. 6).

The second entrance of financial accounting into the political arena revolved around the personality of Irving Fisher, an ardent opponent of socialism. If company accounts were instrumental in concealing the extent that corporations were exploiting their workers, Irving Fisher's theory on *The Nature of Capital and Income* was instrumental in disproving the validity of Marx's labour theory of value to America's intelligentsia (and probably the middle classes generally), thereby undermining socialism in the U.S. and possibly dealing it a fatal blow (RB3, pp. 573–4, 608–10). According to RB, Fisher's theory of accounting was born out of ideological struggle (RB3, p. 612) and founded on a flawed understanding of double-entry bookkeeping (DEB) (RB3, pp. 597–8). Fisher in turn exerted a defining and heretofore largely unrecognized influence over the future development of accounting theory, the upshot being the "pathological" theory of financial accounting emanating from Fisher that now dominates modern conceptual frameworks (CF) (RB3, p. 574).<sup>3</sup>

RB3 is a monumental work in its conception, stretching from the American Revolution to the 1920s. It explains the genealogy of FASB's assets and liabilities approach to income measurement in terms of shifting ideologies in American history and the political conflicts ensuing when the dominant independent producer mentality came under challenge from big business. The CF is a topical issue, and RB's paper will have a resonance with critics, who, for example, argue that the CF ignores the reality of the type of information demanded by capital providers (Walker, 2010; Miller and Oldroyd, 2012).

However, the key question posed by RB's narrative is not so much about whether the CF is "pathological" in its comprehension of financial accounting, although RB clearly holds this view. What is at stake historically is whether the ideas behind the CF owed their inception to pathological circumstances, namely the desire to fend off labour conflict and defeat socialism in the U.S. At this point it should be noted that if it proved true that Fisher's theory dealt socialism a fatal blow in America, this would make Fisher one of those significant characters in history who exercise a disproportionate and unpredictable influence on events. Such an outcome would run counter to the inevitable and predictable association between cause and effect implicit in RB's Marxist model of accounting change, whereby the accounting signatures reflect the stages of capitalist development in an unproblematic manner. That Fisher should have exerted such a profound influence on the future development of financial reporting could not have been predicted in any causal model of accounting change, especially if RB is correct that Fisher's theory was rooted in a misunderstanding of DEB.

The paper continues with a discussion of American ideology and the decline of socialism before turning our attention to Fisher's legacy where we argue that there is little evidence to suggest that he influenced the theory or practice of accounting in a lasting way. The paper concludes with a discussion of the historiographical implications of RB's study and our counter non-Marxist narrative. We will leave it to others to debate the pathological nature of the CF.

## 2. Americanism

The argument in this section is that the ideology that has dominated American history is not so much that of the independent producer as portrayed by RB, but a multi-faceted one that includes fear of domination, loss of personal liberty, resistance to tyranny, and an exceptional work ethic. Thomas Jefferson's "cherished" vision of an "independent middle class . . . as the backbone of the republic" (Reynolds, 2009, p. 248) was in fact a subset of the overriding antipathy to subjugation by outside parties, be they rulers, the federal government, interest groups, or demagogues. This was the ideology laid down in the American Revolution which helped shape the strongly regional and inherently conservative nature of American politics that continues to this day.

One of the main imperatives of the 1777 Articles of Confederation, formulated before the conclusion of the American Revolution, was to limit the authority of the federal government (Gerston, 2007, p. 24). By 1787, when delegates met in Philadelphia to frame the Constitution, the need for a functioning federal government to promote the national interest and uphold equal rights within the Union (slaves excepted) was evident (Robertson, 2012, pp. 20–21), but the solution that was adopted protected the interests of the individual states in the selection of the three branches of the federal government: Congress, the presidency, and the judiciary (Gerston, 2007, pp. 28–29). The sovereignty of the states to make laws and determine policy within their boundaries was also upheld, which is the situation today (Robertson, 2012, pp. 1–3).

According to Campbell (1971, p. 14), "conservative Americans feared the power of the people almost as much as that of the King" in the aftermath of the Revolution. A further feature of the new structure was the limits it placed on democracy whereby only the House of Representatives was directly elected by the public (Gerston, 2007, pp. 38–40).<sup>4</sup> How one could reconcile the American Revolution's ideal that sovereign power resided in the collective will of the people with the reality that the people also needed to be ruled was a recurrent theme in the constitutional debates from Independence to the Civil War (Fritz, 2008, pp. 3–4, 123, 279, 284–285, 299).

Tyranny may have appeared "less likely" and democracy "less dangerous" as the 19th century progressed (Campbell, 1971, p. 16), but the aversion to external domination and interference with personal liberties remained. As Gerston (2007, p. 35) puts it: "tradition not only holds people together, but keeps them on a proven path." Resistance to government intrusion, be it regulations to protect workers, end slavery, limit gun ownership, outlaw gas-guzzling cars, carry federally issued ID cards, etc. is a dominant characteristic of the American spirit. It is playing out today in the controversy over the

<sup>3</sup> Symptoms of the disorder include the "divorcing" of accounts from "the reality of business transactions" (RB3, p. 572) and the viewing of assets in terms of their future economic benefits (RB3, pp. 603–5).

<sup>4</sup> The indirect election of U.S. senators continued until the Seventeenth Amendment was ratified in 1913 (Gerston, 2007, p. 38).

federal government spying on U.S. citizens' emails and phone calls. Although the allegations also relate to the U.K., the level of public furor against government surveillance appears muted there in comparison. CCTV cameras in public places are also more pervasive in the U.K.

The antipathy to interference with personal liberty helps explain the ruthlessness with which strikes were broken from the mid-to-late 19th century in a way that the ideology of the independent producer falls down. Resistance to domination, whether it emanated from the federal government or a large business enterprise, is a long-standing tradition in America. And industrial action, whether in the form of work slowdowns or strikes, occurred in the U.S. long before RB's transition period (Fleischman et al., 2013).<sup>5</sup> These came about in response to bad conditions of employment, not because the workers were aspiring independent producers. Equally, strike-breaking was by and large tolerated by the public, not because the strikes contravened the independent producer ideology, but because radicalism was perceived as a threat to people's liberties. RB unwittingly acknowledges this point:

In 1868, Congress passed an eight-hour law for federal employees, and President Grant signed National Eight Hour Law Proclamation 'requesting' government officers to follow the law in 1869. However, in the face of employer intransigence neither the states nor the federal government enforced it, and when workers backed their demand by a wave of strikes, and supported manufacturers' demands for paper money to make credit cheaply available (by issuing 'greenbacks'), Republicans retreated from Radicalism (RB3, p. 583).

These tensions played out in the bitter Pullman strike of 1894, where initial public support of the strikers dissipated as the strike descended into violence and rioting. The action of the federal government in using federal troops to intervene was also condemned by local politicians and the press as an abuse of power and therefore a threat to liberty (Hirsch, 2003, pp. 26, 34, 39–41; Reynolds, 2009, pp. 263–264). According to O'Brien (1998, p. 3), it was the desire to safeguard "individual rights" against the "collective voice of organized labor" that guided Republican policy towards the trade unions in the years following the First World War.

It is our contention, therefore, that RB has misinterpreted this elemental facet of the American spirit, which was more nuanced and deeply rooted than simply being attached to a particular mode of production during a particular period in history. It was not therefore necessary for Fisher to "rewrite American history" by reconciling "the mentalities of simple commodity producer, semi-capitalist, and money capitalist" for capitalism to become acceptable in the U.S. (RB3, pp. 596, 610). Capitalism and the economic opportunities it created had been widely embraced by native-born Americans and immigrants alike from the mid-19th century, notwithstanding the reality of a patchwork of winners and losers with the southern and eastern Europeans, non-whites, and women workers tending to fare the worst (Dubofsky, 1985, p. 13).<sup>6</sup>

The widespread objection to the trusts was not because they contravened the independent producer ideology per se, but because the level of power they exercised combined with the lack of accountability smacked of despotism. Characterizing the population of the U.S. as aspiring independent producers smacks of Turner's frontier thesis that has been discredited by historians as an explanation of the pattern of U.S. development (Billington, 1966). It also discounts archival evidence which suggests that the growth of large-scale enterprises in the U.S. became comparable in size and scope to their U.K. and European counterparts well before the turn of the 20th century.<sup>7</sup>

As we have argued in our replies to RB's first two papers, there are simply too many exceptions to sustain RB's unique reading of American history. For instance, RB does not reconcile the independent producer idea with the notion of slavery, peonage, or the immigrant "wage slaves" seeking to make a living in any available capacity. In essence, we do not see any philosophical differences between the U.S. and U.K. in terms of capitalist development. Yes, there were differences in chronological terms, starting points, and processes, but the notion that the transition to capitalism was constrained in the U.S. by the independent producer worldview as reflected in the writings of Adam Smith is not borne out by the evidence. In actuality, competition between the U.S. and U.K. cotton mills had been taking place since the early 1800s, and those who were most successful in both countries displayed a capitalist's mentality. For example, Nathan Appleton, one of the founders of the Lowell Manufacturing Company, provided the following remarks to the U.S. House of Representatives:

... the first inquiry manufacturing makes is the original cost of the article with which he proposes to complete. . . does the gentleman suppose that any rational man would erect a cotton mill to manufacture goods for exportation without ascertaining precisely what goods could be furnished for from Manchester (Appleton, 1832, p. 10)?

<sup>5</sup> Harris (1938, pp. 16, 38) notes that in 1825, "six hundred carpenters in Boston went out on strike for the ten-hour day" and in 1833, "carpenters went on strike to raise their wages from \$1.37 ½ to \$1.50 a day". Ware (1959, p. 5) notes that the eight-hour movement began before the Civil War ended. Gutman (1977, p. 47) concludes that "the fifty-year period between 1843 and 1893 was not conducive to permanent, stable trade unions, but these decades were a time of frequent strikes and lockouts and other forms of sustained conflict".

<sup>6</sup> Such workers would not have recognized Spalding's (1902, p. 43) comments: "Our great good fortune lies in our infinite wealth of opportunity. Whoever feels within himself force of mind, or heart or body, finds work to do that brings reward; and as he moves forward, avenues open out at every step that lead or promise to lead to much that men most eagerly desire".

<sup>7</sup> For example, Wright (1882, p. 16) states: "While the inauguration of the factory system in the United States was some fifteen years later than its birth in England, the extension of the system has been more rapid and its application more varied here than in any other country". Gutman (1977, p. 33) similarly notes that "in 1894 the United States led the field: its manufactured product nearly equaled in value that of Great Britain, France, and Germany together".

Thus in both the British and American industrial revolutions, it was men with guts and vision, access to capital, and something of a capitalist mentality who were willing to exploit a work force, perhaps not as ruthlessly as Marx envisioned it, in order to maximize their economic opportunities.

One area where it has been suggested that the American transition to capitalism was “exceptional” compared to Britain and Europe was in its work ethic. While Gutman (1977, p. 85) discounts the notion of a “Protestant work ethic” that others have accredited, he notes that American urban industrial workers were younger on average than their U.K. and European counterparts and, thus, had the physical ability to work harder and for longer hours. Similarly, Stott (1985) presents many examples of British mid-nineteenth century immigrant workers who attested to the greater regularity of attendance (i.e., the absence of “St. Mondays”), faster work pace, and longer work days in America than they experienced in their home countries. The greater work effort of industrial workers was often accompanied by higher pay compared to Europe, especially for skilled workers, notwithstanding that the living standards for many remained appalling (Dubofsky, 1985, pp. 20–24, 28–29). Hence, while it is true that some immigrant workers, particularly from Germany, “transported European anti-capitalist working-class ideologies to America” (Gutman, 1987, p. 394),<sup>8</sup> most embraced the stringent work discipline imposed by capitalism (Dubofsky, 1985, pp. 28–30).

### 2.1. Adam Smith

Before leaving this section on “Americanism”, it is necessary to say a word about Adam Smith, as RB would lead us to believe that Smith was “exceptionally influential in America” precisely because his theories reflected the independent producer, semi-capitalist ideology prevalent throughout U.S. society (RB3, pp. 572–3). Smith allegedly did not understand the circulation of capital (RB3, p. 576). As a result, the “capitalist” profit that he articulated in his *Wealth of Nations* was in reality the profit of the “semi-capitalist” because it comprised “the amount available for consumption” after maintaining the “original capital advanced.” Hence, “Smith’s calculation gives us the semi-capitalist, simple rate of profit (SRP), the consumable surplus divided by initial capital”, not the capitalist ROI discussed in Section 1 above (RB3, pp. 577–8). In other words, RB uses the same accounting-signature argument to label Smith’s ideas “anti-capitalism” (RB3, p. 575) as he does to demonstrate that capitalism did not appear in the U.S. until the start of the 20th century. As we commented in our replies to his first two papers on the subject, this represents an unsustainably narrow view of capitalism (Tyson et al., 2013; Fleischman et al., 2013). Moreover, RB’s explanation for Smith’s popularity among Americans that they, like Smith, were not capitalists as evidenced by the accounting signatures implicit in his calculations, is a total *non sequitur*.

It is unclear how an “exceptional” influence can ever be demonstrated, since Smith was certainly a renowned and widely respected figure in his own country, and his popular, public lectures in Edinburgh and London were attended by professionals and academics alike. However, we are more troubled by RB’s later comments about Smith’s legacy when he writes:

Meek’s (and many others’) conclusion that Smith was a “genius” because he anticipated and theorized ‘capitalism’ as the developing norm from the exceptions he “apparently” observed (Meek, 1967, pp. 22–23, 25, 33) is *wrong* [italics added]. There were capitalists Smith could have observed, for example the Carron Company (Bryer, 2006a), but there is no evidence he did (RB3, p. 579).

Several scholars in fact suggest that Smith was quite knowledgeable about the Carron Company and its founders. Matthews and Ortmann (2000, p. 6) note that Smith cited the Carron Works in *The Wealth of Nations* and record that Smith had “well known friendships with, for example, Watt, the ‘father of the steam engine’, and Carron, the owner of the important Scottish iron works that bore his name.” Matthews and Ortmann also cite Hollander (1973, p. 217) who writes that “Smith was thoroughly familiar with the severe problems relating both to the perfection and commercial application of the steam engine” and that “David Hume discussed the finances of Carron with Smith”. Ross (1995, p. 357) similarly observes that Smith visited Carron in April 1784, where “Smith’s friend Dr John Roebuck. . . had founded a famous ironworks”.

While we have not examined the Adam Smith archives at Glasgow University to verify the level of Smith’s knowledge of Carron and his familiarity with its accounting practices, the findings mentioned above cause us to question RB’s contradictory characterizations of Adam Smith as a “semi-capitalist” theoretician and the Carron Company as a capitalist enterprise (Bryer, 2006), as well as his comments about the “exceptional influence” that Adam Smith exerted over American political ideology and business development. Archival evidence would alleviate our concerns and shed light on Smith’s actual impact and influence. However, none is included in RB3.

## 3. Decline of socialism

The years leading up to and immediately following the First World War were a turbulent period in American industrial relations, marred by episodes of violence, intimidation, and murder (Ramirez, 1978, p. 134; Parmet, 1981, p. 63; Taft, 1983, pp. 123–126; Dubofsky, 1985, p. 112). The period also witnessed the rise and fall of popular support for socialism in the U.S.

<sup>8</sup> Keil (1991) describes how German socialism imported into the U.S. lost its distinctive cultural identity as German immigrants adapted to American society.



However, when one tries to analyze the reasons, the attempt becomes immediately problematical as the American socialist movement comprised shifting and competing threads that were conflated with other areas of labour agitation, some of which continued beyond 1920, the date when according to RB socialism finally died in America (RB3, p. 591). First, there was the moderate socialism of the Socialist Party of America (SPA), whose presidential candidate, Eugene Debs, “believed that the real revolution needed in the United States was a return to the spirit of 1776” which big business had corrupted, rather than the communist one preached by Marx (Reynolds, 2009, pp. 264). This contrasted with the revolutionary ardour of the original Socialist Labor Party (SLP), which, by 1901, had become a remnant. Then there was the largest amalgamated craft union, the American Federation of Labor led by Samuel Gompers who, while opposing SPA, was in certain respects more radical. Some other unions endorsed SPA; others stood back (Dick, 1972, p. 111). Added to this were the varying degrees of radicalism expressed by different groups (the membership of which was not mutually exclusive), as well as internal divisions over policy, such as the relationship between political parties, unions, and businesses (Brooks et al., 1964, pp. 98–123; Rayback, 1966, pp. 239–241; Dick, 1972, pp. 48, 112–113; Taft, 1983, pp. 132–135; Dubofsky, 1985, p. 103; Reynolds, 2009, pp. 264–265). Into this mix was thrust the Industrial Workers of the World (IWW, also known as “Wobblies”), which appealed to the disestablished elements of American working class society, such as African Americans, recent immigrants, and migratory workers. Exploiting racial divisions within the workplace was a common device of employers to neutralize opposition, which the Wobblies tried to counter. They were perhaps the most radical wing of the socialist movement, but here too there were internal factions and divisions over policy (Dubofsky, 1985, pp. 100–111; Cole, 2007, pp. 168–169, 175–176; Reynolds, 2009, pp. 260–266). It follows that one is not simply looking at the one movement, one support base, one race, or even one ideology in charting the progress of socialism in the U.S., a point RB does not fully acknowledge. His only caveat is to refer to the “American brand of socialism advocated by Eugene Debs” by way of specification (RB3, pp. 571–2), which is only part of the story.

While naming other factors in the demise of socialism in the U.S. such as “intense government repression during the [First World] War . . . and an employer onslaught in 1919 against workers and unions” (RB3, p. 591), RB characterizes this period in American history as an ideological battle between the Progressives and Socialists for the hearts and minds of the American middle class, in which the latter lost out in no small part owing to Fisher. We do not dispute that Fisher was a vigorous opponent of socialism who used his theory of capital and income to counter it (e.g. Fisher, 1956, pp. 29, 77). In this respect, Fisher stands out for the celebrity aspect of his character that helped popularize his views, kudos that he later lost for his part in failing to diagnose the Wall Street crash. According to Sandmo (2011 p. 282):

Fisher became an intellectual celebrity of his time . . . not because of any political radicalism, but because he had strong views on a number of different questions like teetotalism, eugenics, health food, and environmental protection . . . [on which] he wrote a large number of articles and books.

We therefore agree that it is “plausible” that Fisher played a part in undermining socialism among a wider middle class constituency in the U.S. than merely intellectuals and academics (RB3, pp. 608, 610), but doubt the significance of this factor given that electoral support for the SPA was firmly rooted in the urban, industrial working class (Dick, 1972, p. 162; Dubofsky, 1985, p. 102).

Our counter argument is that the reasons why socialism took less of a hold in the U.S. than in Britain, France, or Germany in the late 19th and early 20th centuries, and eventually declined, were less about ideological struggle and more about economic, geographic, and demographic factors, in particular mass immigration around this time which radically transformed labour relations in the workplace. Significant numbers of migrants had started to arrive in the U.S. from the mid-1800s, but the numbers increased exponentially between 1890 and 1920. Most of the new arrivals came from eastern and southern Europe in contrast to the earlier wave from Britain, Ireland, and northern Europe. In the anthracite coal industry, for example, this new group comprised 5% of the workforce in 1880. By 1890, the figure had risen to 20% and by 1900, to 40% (Blatz, 1994, p. 10). As we discussed in our response to RB2, these later arrivals were typically poorly equipped, did not speak the language, and found assimilation harder (Fleischman et al., 2013). These were the findings of the Immigration Commission in 1911 that had been established by Congress to address the widespread public concern over the economic and social impact of the open-door policy. Although some of the conclusions in its 41-volume report have been dismissed by historians as racially prejudiced, its pessimistic assessment of the prospects faced by this new wave of immigrants has been largely upheld (Hatton and Williamson, 1998, pp. 124–125, 152–153). That being said, many of these later migrants eventually attained middle-class respectability, aided by the less rigid class structure in the U.S. compared to Europe (Reynolds, 2009, p. 266). Some even achieved great wealth, and thus, not unlike the earlier influx, became hearty advocates of capitalism.

The prime motivation of such individuals upon arrival was to establish themselves economically in an alien world, not to engage in political agitation and debate (Parmet, 1981, p. 63; Reynolds, 2009, pp. 268–269). Eastern Europeans were derided as “Huns” or “Hunkies” by the other workers in the Pennsylvania steel industry who considered it “demeaning” to work alongside them (Parmet, 1981, p. 61). The steel mills became a deeply divided workplace, not simply along the lines of English speakers versus “foreigners”, but between the large variety of ethnic and religious groups, all of which militated against worker solidarity (Parmet, 1981, pp. 64–65).

Similar frictions existed in the coal industry, exacerbated by the deployment of “new” immigrant labour as strike breakers (Blatz, 1994, p. 107; Parmet, 1981, pp. 72–74). Differential rates of pay, with the incomers tending to fare the worst, also bred disharmony (Blatz, 1994, p. 58). The immigrants’ lack of English and the threat it posed to the safety of their

workmates underground was another source of tension (Parmet, 1981, p. 76). The history of coal in the U.S. shows the willingness of these new immigrants to strike, either independently or as part of a union action. However, their militancy tended to be pragmatic rather than political, the usual reason being dissatisfaction over pay. This is demonstrated by their wholesale abandonment of the United Mine Workers of America after 1902 because they no longer believed the union capable of delivering improved conditions for its members (Blatz, 1994, pp. 58, 172, 205, 211).

The relatively high degree of geographical mobility in the U.S. labour market also helped undermine the regional sense of worker solidarity that fuelled socialism in Britain and Germany (Reynolds, 2009, p. 266). Essentially the severe shortage of labour supply that developed as America industrialized prompted employers to look for workers from different areas, including foreign immigrants. By the time of the Civil War, major cities like New York and Chicago had become recruitment hubs where employers from outside concentrated their search for workers and job-seekers came to find jobs (Rosenbloom, 2002, pp. 5–6, 8–10). Workers were thus encouraged to move further afield, and the high demand for labour created opportunities for them to leave their current employment if dissatisfied. A typical response of immigrants to industrial grievances was simply to move on in search of work elsewhere (Blatz, 1994, pp. 135, 241). Trades like construction had no fixed location. Sometimes work was seasonal. In other cases, it was a normal part of familial expectations that young people would move to new areas to find work when they had reached maturity or had served apprenticeships (Dubofsky, 1985, pp. 14–15).

The progress of the SPA was further impeded by the structure of government laid down following independence to safeguard against too much central control, but which also served to emasculate radical pressure groups (Campbell, 1971, pp. 54–55). One of the distinctive features of the American attachment to individual liberty, discussed in Section 2 above, is that it is not simply a matter of choice, but was written into the institutional arrangements. The complex system of political “checks and balances” acted as a “filtering” mechanism to limit the ability of interest groups, social classes, and factions to disrupt the liberties of others throughout the period of transition to capitalism and beyond, thereby “blunting” any threats of radicalism (Gerston, 2007, pp. 35, 38). Geographical expansion compounded the difficulties for protest movements. The proliferation of thinly populated new states up to the completion of the contiguous U.S. in 1912 expanded the range of conflicting economic interests, making agreement on issues less likely. The fact that the states with the least populations had the same representation in the Senate as the most populous ones made it difficult for popular movements to gain ground in politics at the national level (Campbell, 1971, p. 55). It is significant that all of the electoral gains of the SPA were at the local and state levels except for two seats in Congress (Dubofsky, 1985, p. 102).

#### 4. Fisher’s legacy for financial reporting

Irving Fisher is important to RB’s argument because he provides the connection between the “pathological” nature of the modern CF and the ideological conflict that RB says was raging between socialism and corporate liberalism at the turn of the 20th century. RB claims that Fisher’s theory of income and capital had a profound impact on FASB’s CF by “changing the language of American accounting” (RB3, p. 572):

There is no doubt that his theory began “the colonization of accounting by economics”, or that the “main currents of twentieth century accounting thought can be viewed as the ‘legacy’ of Irving Fisher” (Hopwood, 1992, pp. 128–130; Mouck, 1995, pp. 43, 47, 55–67). Through a string of accounting theorists, particularly Paton (1922) and Canning (1929), Fisher’s theory underlies the FASB’s CF (RB3, p. 574).

Clearly Mouck (1995) regards Fisher as important, but the same cannot be said of Hopwood (1992), contrary to what the above quote implies. While Hopwood (1992) criticizes the growing role of economic thinking in mainstream accounting research, as does Mouck, he never mentions Fisher specifically and does not include any citations to Fisher’s work. Indeed, the whole point of Mouck’s (1995) paper was to highlight the seminal contribution of a largely forgotten accounting thinker, which raises a question mark over exactly how influential Fisher was in FASB’s CF project given that it was conceived in the 1970s and 1980s, some seventy years after *The Nature of Capital and Income* was first published. Mouck (1995, p. 43, fn. 1) acknowledges what for him is a conundrum in the following terms:

Fisher’s role in accounting thought has not been totally ignored. It has been recognized in a handful of articles, such as Chambers (1971) and Lee (1975; 1979). But it has been omitted or mentioned only in passing by most works on accounting history. For instance, the American Accounting Association’s Statement on Accounting Theory and Theory Acceptance includes a discussion of “classical approaches to theory development” (1977, pp. 5–10) but includes no mention of Fisher. Mattessich (1984) states that “[t]he endeavour to cast the foundations of accounting into postulates forming the logical bases for other statements, goes back to Paton’s Accounting Theory (1922/73)” (p. 28). Gaffikin’s (1987, pp. 18–9) study of “The Methodology of Early Accounting Theorists” discusses Sprague’s *The Philosophy of Accounts* (1907) but omits any mention of Fisher. Previts and Merino (1979, pp. 169 & 222–3) include only a brief mention of Fisher’s influence. Other authors, such as Flegm (1984, p. 184), relegate Fisher to a footnote.

Given that Mouck was rediscovering Fisher as late as 1995, and that few other scholars have accredited Fisher with such a transformative role in accounting, Fisher’s impact on the earlier CF project cannot be assumed.

Indeed, the development of normative accounting theory did not flow in one direction in the period between Fisher and the CF. For example, Fisher's view of assets as equating to property rights was in vogue in the 1950s, but rejected by FASB in their Concepts Statement No. 6 (American Institute of Accountants, 1953, p. 13; Samuelson, 1996, p. 148). Similarly, it was the revenue and expenses view of income measurement that ran contrary to Fisher's theory which held sway in the 1940s, 50s, and 60s over the assets and liabilities approach adopted in the CF (Samuelson, 1996, pp. 148–149). Fisher did not invent neoclassical economics, and it is fair to describe his contribution to the subject as evolutionary rather than revolutionary (Sandmo, 2011, pp. 276–277, 283). The push for a scientific approach to business education in the 1960s and 70s provided another motive for grounding accounting theory in economics (Whitley, 1986; Mouck, 1995). It follows that there were various reasons apart from Fisher for adopting an economics-based approach to accounting theory during the period in which the CF was being developed by FASB. Chambers is a case in point as he too is credited with putting accounting on an economics footing. Chambers was aware of Fisher's work and wrote a paper on his legacy in which he criticized some of his ideas (RB3, pp. 599, 603–6). However, Fisher was but one of many influences on Chambers, who sought answers from various fields including accounting, finance, management, economics, psychology, sociology, and the history and philosophy of science in his quest to make financial reports more decision-relevant for their users (Al-Hogail et al., 2001). To sum up, Fisher may have been the first to ground financial accounting in economic theory, but in view of the time lapse, the discontinuities, and the lack of acknowledgement by later writers, his influence on the CF project remains ambiguous at best.

## 5. Historiographical implications

RB's thesis comprises two main elements: (1) the idea that one can identify the stage of capitalist transition from the signatures in accounts; and (2) the portrayal of the transition to capitalism as a struggle between competing ideologies emanating from the underlying modes of production. The argument relating to Irving Fisher's "pathological" influence over the future development of accounting theory is in fact a subset of the second aspect, as the point about Fisher is that he "changed the language of accounting" in order to counter socialism and justify capitalism. He is thus part of the ideological maelstrom out of which capitalism emerged.

What we object to from a historiographical perspective is RB's unproblematic association between cause and effect in the development of accounting signatures and his mono-directional interpretation of the pattern of discontent in the U.S. from the second half of the 19th century. On the first point, RB is formulating an accounting history that is consistent with Marx's interpretation of the transition to capitalism in Europe. On the second, he is explaining why the American transition followed a different path, while still utilizing an unwavering Marxist lens. Therefore the study is as much about proving the predictive ability of Marxism as a theory of accounting change as it is about explaining the underlying events.

We would suggest that RB's theoretical lens acts as a blinker rather than an aid to vision that goes beyond the inherent degree of bias present in all history arising from the backgrounds and belief-sets of the people who write it (Tyson, 1993; Oldroyd, 1999; Tyson and Oldroyd, 2007). While the current authors may stand accused of being especially unreceptive to theory-driven histories, criticism of theoretical history is well established in historiographical literature and was eloquently expressed as early as 1828 by Thomas Macaulay, one of the founding fathers of modern historiography. He had a particular grievance with James Mill's theory of government and the "pretensions" of some of his former colleagues at Cambridge who had embraced utilitarianism (Ellis, 1910, p. ix). Macaulay (1910, p. 30) summed up the problem in the following terms:

The best historians of later times have been seduced from truth, not by their imagination, but by their reason. They far excel their predecessors in the art of deducing general principles from facts. But unhappily they have fallen into the error of distorting facts to suit general principles. They arrive at a theory from looking at some of the phenomena; and the remaining phenomena they strain or curtail to suit theory.

This, in a nut-shell, is our criticism of RB's approach. There is no suggestion of deception, and we have absolutely no doubt about the sincerity of RB's long-standing beliefs, only that it is difficult to interpret evidence with a degree of objectivity when one's a priori theoretical leanings have determined in advance what the answer will be. Macaulay (1910, p. 30) explained this further:

Any proposition which does not involve a contradiction in terms may by possibility be true; and if all circumstances which raise a possibility in its favour be stated and enforced, and those which lead to an opposite conclusion be omitted or lightly passed over, it may appear to be demonstrated.

These difficulties are exacerbated in the case of RB's study by his complete reliance on secondary sources. Differences of interpretation are inevitable given that RB's evidence consists entirely of interpretations of secondary sources that are themselves interpretations of primary data extracted by researchers who had a different objective in mind than proving the existence/nonexistence of capitalism through the accounts. Much has been made of the differences between the so called "new", theoretically informed accounting historians and the "traditionalist", non-theoretical archival researchers. The latter are often relegated to the position of providing "grist for the paradigmatic mills" for the others to exploit (Fleischman and Tyson, 1997, p. 103). But the lack of conclusive evidence in RB's study illustrates the pitfalls of dichotomizing these roles.

Where does this leave us? Can we simply conclude that the current authors are correct in their interpretation of America's accounting history and RB is wrong? The reader is confronted by two competing worldviews: the one that is



compartmentalized into Marxist stages of capitalist transition that cross national boundaries; the other which sees events as too spasmodic and complex to be fitted neatly into a single theory of accounting change and business development. If history is inherently subjective owing to the difficulties of selecting and interpreting evidence, should one simply abandon the quest for objectivity altogether as Sy and Tinker (2005) propose, seeing history's only worth as a lobbying tool for social improvement? The answer lies in recognizing that history is a "multi-cellular creature" made up of different and overlapping points of view (Oldroyd, 1999, p. 98). Thus, progress in history is achieved by getting as close as possible to the archival data and the individual circumstances in which they were produced, but equally important, by entering into dialogue with conflicting interpretations. It is in this spirit that we have conducted the current debate. There have been a number of notable cross-paradigmatic studies of archival data in the field of accounting history mainly but not exclusively relating to the British industrial revolution. The challenge now is for RB to test his theory of the transition to capitalism in the U.S. either by examining the archives directly to provide corroborating evidence or engaging in collaborative archival ventures on the subject.

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