Abstract

Accounting and Capitalism linkage has been discussed in many fora. In this paper, the main objective was to discover the role played by accounting in promoting capitalism. To achieve this, library searches for extant literature on related works was undertaken, with specific interest in and focus on the works of academic and accounting historians. While such search did not show a consensus agreement that accounting begot capitalism, findings however revealed that the activities of the early merchants and traders indicated this linkage. Besides, the searched works of accounting historians revealed that though accounting helped capitalism, such a relationship was not holistic; but that accounting was required to reflect the demands of the times.

Introduction

Some economic historians (Belkaoui, 2000) have linked relationships between accounting and capitalism. Succinctly, scientific accounting, identified with double entry booking (DEB), played an important role in releasing, activating, stimulating or accentuating the rational pursuit of unlimited profits, an essential element in the capitalist spirit (Sombart, 1930; Winjum, 1971). Assertions have been that DEB and capitalism were indissociably interconnected (Chiapello, 2002). This however aroused the interest of accounting historians to prove the role played by accounting in promoting capitalism.

Arguments are that accounting might not have played a holistic role in promoting capitalism but writers such as Bryer (2002) and Winjum (1971) highlight the link between accounting and capitalism. Bryer (2002) leans on accounting signature and accounting influence; Carruthers and Espeland (1991) see the link, not in terms of its technical connection, but as a rhetorical bond and a justification. Yamey (1964) particularly considers the positive link or relationship accounting has with capitalism. Yamey (1964), though a hostile commentator and opposition, against capitalism-accounting linkage, acknowledges the role of DEB in promoting capitalism. Caruthers and Espeland conclude (2002) that accounting contributes to the legitimacy of practices originally considered illegitimate. DEB is proxied by accounting.

We have seen more works by non-Nigerian accounting historians. Nigerians have contributed not much to the copious growing literature from Nigeria as evidenced by the dearth of works. This paper is therefore an attempt to present the linkage(s) between accounting and capitalism, relying on earlier works and bringing a new dimension and focus on the inextricable connection between accounting and capitalism.

Literature Review

Double Entry Booking (DEB) and Accounting

Winjum (1971) describes DEB as a system in which the only criterion is the equality of debits and credits. Chiapello (2002) refers to DEB as a system of record keeping in which real and nominal accounts are integrated within a coordinated and internally consistent structure capable of simultaneously producing reports on both the accounting entity's progress and its status. From the above two extremes or divides, at least, four definitions of DEB could be carved out:

(i) DEB as a book keeping system constantly in equilibrium in which the only criterion is the equality of debits and credits.

(ii) The first definition above plus a capital account as an addition

(iii) The use of nominal and real accounts (revenues, expenses, ventures, and so on.) in addition to the capital account in ii above, but with an irregular closing of these accounts to the capital account. Under this system, there is no periodic calculation of net income.

(iv) The same as in iii except for the periodic closing of nominal accounts to capital and the annual calculation of net income.

As Chiapello (2002), argues, having these four definitions, that the system in iii above, incorporates nominal accounts, which provide informational capability superior to those of systems i
and ii. He further argues that the requirement of periodic closings under system iv is not always necessary. He therefore concludes that system iii was the one described by the early authors and implemented by merchants in the eighteenth century.

**Conceptual Definition of Capitalism**

The concept of Capitalism was believed to have emerged during the 19\textsuperscript{th} century. According to Chiapello (2002), capitalism was first used in 1850. It was said to have been traced to Louise Blanc in his treatise "Organisation du Travail". There was the presumption of private appropriation of capital. Sombart (1930) glorifies the use of capitalism and associates it with DEB. According to Sombart (1930), the word, capitalism, took off on the intellectual and political scenes, at the turn of 20\textsuperscript{th} century, becoming the natural autonom of socialism.

Sombart (1930:5) captures this submission, so succinctly in the following:

"The function of such a conception of an economic system is to enable us to classify the fundamental characteristics of economic life of a particular time, to distinguish it from the economic organisation of other periods, and thus to delimit the major economic epochs in history".

Marx (1990), goes ahead to describe capital as any money thrown into the sphere of circulation for the purpose of being recovered with surplus and this cycle is seen as endless. Chiapello (2002) concludes that it is surely thoroughly unlikely that a definition of capital, so appropriate to business accounting practices and summing up so perfectly the system of sources and applications evident in double entry booking, could not have been arrived at without accounting knowledge. If this theory is correct, then accounting practices of the time made a significant contribution to Marx's (1990) definition of capital, which is consistent with Sombart (1930).

**Periods and Related Economic Systems**

Chiapello (2002) identifies various periods and their related economic systems. This was at the origin of the idea of capitalism as an epoch of history, but also the idea that there were separate identifiable periods within capitalism. These were the:

*European Economic History*: emphasizes the importance of the spirit of capitalism and its influence on the evolution of modern capitalism. Three stages were discernable in the development of capitalism:

(i) Early capitalism-which was said to have existed from 13\textsuperscript{th} to mid 18\textsuperscript{th} centuries

(ii) Full capitalism - which was said to have existed in 18\textsuperscript{th} to 1\textsuperscript{st} World War

(iii) Late capitalism - since 1914

This approval of economic phenomena explains Sombart (1930) interest in all cultural developments taking place as capitalism unfolded. Sombart (1930) identifies a certain number of stages as summarized below:

(i) First appearance of accounts in 13\textsuperscript{th} century Italy

(ii) Development of DEB about 14\textsuperscript{th} century, e.g. the accounts of the city of Genoa

(iii) Introduction of capital account (Profit and loss accounts) used to close all the ledgers

(iv) The introduction of stock taking event in closing procedures principally in order to restate stock value, if necessary.

**Accounting and Capitalism: Relationship**

Yamey (1949), who was Sombart (1930), most hostile commentator, acknowledges the contribution of DEB to the development of capitalism. Such acknowledgement relates to the increasing discipline and order to business transactions at that time. This confirms Sombart (1930) first identified period of early capitalism in about 13\textsuperscript{th} century, that "the first appearance of accounts brought order to the inextricable confusion of merchants' records."

Winjum (1971) argues that sixteen-century to eighteenth-century England had partnerships and joint stock companies which had their assets placed in the care of management of one body of administrators or under one manager or partner. These organizations most of which were on temporary basis presented a need for a system of accounting that could provide relevant organized and impartial information in a situation where ownership and management were separated. Chiapello (2002) and Winjum (1971) align in their understanding of the meaning of DEB as a prelude to assisting in the analysis of the role of DEB in post medieval Europe.
Lemarchand (1994) and Chiapello (2002) contend that two types of accounting co-existed; they were the DEB system inherited from merchants' records and the financial system derived from accounting practices of landowners. These two systems were fused into a DEB system. This, to an extent, confirms Yamey (1964) argument that the actors of capitalism had other calculation and valuation methods available to them, beside DEB. Lemarchand (1994) was also interested in the distinction between fixed capital and circulating capital which Sombart (1930) believes, is derived from accounting practices. In sum, Lemarchand (1994) holds out the view and, in fact, prefers to think that accounting thought, like economic thought, was influenced by the merchant's practical experience.

Carruthers and Espeland (1991), in their submission, describe the connection between accounting and capitalism in terms of "legitimacy", which varies according to the capitalism periods. The 15th and 16th Merchants, according to Carruthers and Espeland (1991) took advantage of the legitimacy conferred on their activity by the practice of mathematical skills. The constant equilibrium guaranteed by the equal value of debits and credits in DEB could make businesses appear fair and legitimate. By and large, accounting records guaranteed profitability and rationality. Chiapello (2002) corroborates the submission of Carruthers and Espeland (1991) that "little by little, accounting became the incarnation of rationality with the advancement and development of literacy and numeric skill".

Bryer (2000) talks about, not double entry or single entry, but accounting signature associated with each calculative mentality. Bryer (2000) suggests that the calculations performed reflected the mentalities and the spirit of a period. This no doubt brings Sombart (1930) classification of periods earlier described. His point of interest is the possibility of the analysis of accounting methods identified with various business sectors and countries, the periods when capitalistic mentalities appeared and the way they developed. His aim, according to Chiapello (2002), was not to link accounting to the development of capitalism but to date the various stages of capitalism by reference to accounting and to validate man's historic theory on the transition from feudalism to capitalism.

Sombart (1930:23) declares that "capitalism and double entry booking are absolutely indissociable", emphasizing the importance of the spirit of capitalism and its influence on the evolution of modern capitalism. Winjum (1971) and Belkaoui (2000) confirm Sombart (1930) hypothesis that a spirit of capitalism existed as a unique force in the development of an expanding capitalistic economy, highlighting four reasons to explain the role DEB played in the economic expansion that occurred.

**Double Entry Contribution to a New Attitude towards Economic Life**

Since double entry is imbued with the search for profits, it was assumed a major contributing factor in the replacement of the spirit of subsistence by the spirit of acquisition. The introduction of nominal accounts and their integration with real accounts within the accounting framework made it possible for the entrepreneur to think of profits on a product, venture or periodic basis and to establish his goals accordingly. The calculation of enterprise income, Winjum (1971) argues, was directly related to the determination of enterprise capital in the double entry system. Double entry's ability to provide an interlocking record of enterprise progress and status gave substance to the assertion that this method might be termed capital-income accounting.

Sombart (1930) argues, just as Marx (1990) much later gave in his definition of capital, that a capitalist economy continually enlarged its base through successive periods of profitable operations. Though Winjum (1971) was of the view that capital income can be independently computed, Jamey (1949) believes that DEB was not inherently superior to other types of recordkeeping. Littleton and Zimmerman (1962) are of the belief that double entry had overriding advantage over any other method of income determination, as it provide management with analytical data which the inventory approach or the 'count and price' method or process cannot provide. They further argue that calculation by inventory or count and price at different dates can produce two totals for enterprise net capital and the difference between these two amounts would normally indicate the profit or loss for the time interval.

**Economic Rationalization and Decision Making**

Winjum (1971), notes the accounting role of refinement of economic calculation. Anao (1991) leans on the measurement of welflorness in accounting, which had made possible the growth of economic rationalism. Rationalization could be based on rigorous calculation as the use of an integrated system of interrelated accounts made it possible for the entrepreneur to pursue profits.
rationally. Winjum (1971) and Chiapello (2002) mention that accounting ledgers with enough detail and organisation for calculation of profit or loss on each venture, market or commodity existed as early as the 16th century. Winjum (1971) refers to the importance the earliest texts attributed to the role of accounting in monitoring the general state of affairs. It thus appeared that even though DEB’s potential contribution to the rationalization process was clearly not activated in every merchant’s affairs as, Yamey (1971) suggests that some of the merchants took up the opportunity fairly early. Winjum (1971:339) submits, “that calculation of total enterprise income and capital for decision-making purposes was of considerable importance for the overall control of a merchant’s affairs, though such calculation might be inappropriate for the day to day operating decisions.

**Double Entry Permitted Systematic Organisation**

Belkaoui (2000) argues that the growth of the large stock company brought about order in the accounts and the organisation in the firm. Winjum (1971) confirms this, stressing that accounts were seen right from the start as a tool for fostering order. Winjum (1971) further asserts that order and systematic organisation were necessary for prosperity, and that source of order was DEB. Sombart (1930) opines that the characteristic pattern of business organisation, resulting from systematic bookkeeping has been of crucial importance for the development of capitalism in its most essential aspects. Ramsey and Isham (1962) suggest that the problem of bankruptcy that increasingly haunted the sixteenth century was largely due to the lack of proper bookkeeping, resulting in the merchant’s ignorance of the true state of his affair.

**Permitted Separation of Ownership from Management/Promoted Growth of The Large Joint Company.**

By permitting, a distinction between business and personal assets, DEB made possible the autonomous existence of the enterprise (Belkaoui, 2000 and Chiapello, 2002). The oldest surviving records in double entry, those of the Massari of the Genoese commune for the year 1340 reveal such separation (Winjum, 1971), indicating that people were aware of this opportunity in DEB from the earliest days, though it was not used by most merchants who had no need for it (Chiapello, 2002). The Separate entity created a structure, which was capable of producing relevant accounting data, reflecting the efforts, accomplishments and status of business enterprise. This enabled the businessperson to view his activities as a coordinated whole rather than as a series of scattered operations (Winjum, 1971). Carpenter (1632) emphasizes a system of accounting that encouraged many to join their small stock together.

**Presence of Legitimacy**

Though this reason was not clearly advanced as a specific role, Carruthers and Espeland (1991) noted that merchants and businesspersons took advantage of opportunities DEB had to offer. They both charged that analysis of any link between DEB and capitalism should not be in terms of technical use, especially along the fine established by Yamey (1949) or Winjum (1964) but in terms of legitimacy. Such legitimacy found expression in the practice of mathematical skills in the 15th and 16th century merchants. The constant equilibrium guaranteed by the equality of credits and debits in DEB, could make business deals appear fair and legitimate.

**Development of Concepts**

A system of concepts came on stream with DEB, including those that were familiar because of the use, they were put in order to understand the world of the capitalism economy (Chiapello, 2002). It could be said that before DEB, the concept of capital was inexistential, and that without DEB, it would not have come into being. The same applies to the concepts of fixed and circulating capital, rotating capital and production (Sombart, 1930).

**Methods and Philosophy of Data Gathering**

We undertook a library research on the works done by academic and accounting historians. We chronicled all cultural developments taking place as capitalism unfolded, and the development of merchants and trading as the DEB developed. The works of Chiapello (2002) in identifying various periods and their related economic systems were handy. The works of other writers, as Sombart (1930), Yamey (1949, 1964) and Winjum (1971), among others, on the accounting-capitalism linkage, were assessed. These were compared with the origin of the idea of capitalism as an epoch of history; but also the idea that there were separate identifiable periods within capitalism.
Summary of Findings

Based on the search for accounting-capitalism linkage in literature, the following findings emerged:

* Accounting (proxied by DEB) and capitalism are related.
* Accounting introduced the concept of profit, which was the hallmark of capitalism.
* Accounting introduced the concept of valuation methods.
* Accounting introduced the measurement of 'welloffness' which was evidenced in the post medieval era (Anao, 1991).
* Accounting and capitalism were identified with various periods and their related economic systems.

Discussion of Findings

It could be re-called that the objective of this paper was to find out the conceptual linkages between accounting and capitalism, relying on earlier works in literature. A relationship was found to exist. This was confirmed by Sombart (1930), Winjum (1971) and supported by Chiapello (2002). This finding was echoed in the relevant, organized and impartial information in situations where ownership and management were separated.

The concept of profit became an offshoot of capitalism. Sombart (1930) argument of the use of nominal, real accounts as well as the capital account coupled with closing of these accounts to the capital account, fuelled capitalism. Nominal accounts and their integration with real accounts within the accounting framework made it possible for the entrepreneur to think of profits on a product, venture or periodic basis and to establish his goals accordingly. This finding was in line with Marx (1990) and Chiapello (2002).

The introduction of valuation methods through the practice of DEB assisted the actors of capitalism, who had some methods of calculating and valuing some assets like circulating, often called working capital, and fixed capital. Previous findings confirm the role DEB played in promoting capitalism (Yamey, 1964; Lemarchand, 1994; and Chiapello, 2002.)

Chiapello (2002) identification of various periods and their related economic systems agree with Sombart (1930) identification of first appearance of accounts in 13th century Italy and development of DEB about 14th century. This suggests an alignment with the spirit of capitalism.

Recommendation

In the light of this linkage, we recommend that any organisation that is mindful of valuation of its assets and liabilities, and interested in the welloffness of its employees, should also be attentive to the development of accounting as a career in the organisation. By extension, accounting professional bodies should be mindful of the proper training of their members to ensure that they are positioned to do the best for organizations and the nation.

Conclusion

This paper offers the accounting-capitalism linkage. Various submissions by accounting researchers and historians indicate that accounting made a positive contribution to the development of capitalism. DEB's capacity to accumulate data on individual operating activities combined with its ability to bring order to the affairs and accounts of these merchants stimulated and rationalized the economic activities of the early merchants and thus the development of capitalism. This is the linkage between accounting and capitalism.

References


