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A Dialogue towards Political Economy of Accounting

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ABSTRACT

"Practical men who believe they are immune to academic influences are almost always slaves of some long-defunct economist" (Keynes, 1936, p. 383). Tony Tinker's paper appears to be inspired by Lord Keynes' observation that practical men frequently rely on outdated theories and theorists. This statement appears to apply equally to practical or instrumental sciences, such as accounting, as it does to practical men. The significance of Tinker's claim that "the marginal underpinnings of accounting are deficient on logical grounds" will be examined in this paper. After reviewing the arguments for using political economy to analyze economic performance, the Delco case study is examined.

Finally, I discuss some of the ramifications of Tony Tinker's thesis, particularly in light of his assertion that accounting is an ideology. The observations in this work are largely inspired by my conviction that neoclassical economics will not "wither away." I believe that for a variety of reasons, and I analyze some of these alternate possibilities. As a result, this study is sympathetic to Tinker's thesis and tries to investigate challenges and potential areas for future research that are relevant to Tinker's argument.

INTRODUCTION

Accounting nowadays can be defined as a controlled institutional process and a built model for reporting and communicating the impact of economic activity (owing to temporal and spatial displacements) and associated accumulation regimes. It is a profit-driven company's external reporting system (Boczko, 1997, p. 13). Through institutional collecting (such as laws and agreements), as well as norms and cultural habits, the regulated process ensures capitalist reproduction. Laws, governmental policy, political practice, rules of negotiation and bargaining, consuming culture, and societal expectations all contribute to a capital accumulation regime (Amin, 1994, p. 8). Tinker (1985, p. 84) claims that accounting is a belief-forming informational commodity that assesses and appraises the terms of transaction between various social constituencies, assists in resource allocation, and establishes a distribution of income all at the same time. Accounting has become a part of the trade process by assisting enterprises in making economic exchange decisions. Competitive pressures would eliminate it as an unnecessary cost of manufacturing if accounting practice did not participate in this way.

According to Tinker (1985, pp. 14-15), share prices do not reflect previous asset valuations, but rather the predicted earnings from such assets. As a result, managers should use news releases, which contain accounting reports such as firm annual reports, to persuade capital sources that management is capable of managing those assets at the maximum levels of efficiency. ICR (intellectual capital reporting) presents two distinct scenarios in this aspect. To begin with, unlike social and environmental reporting, ICR is currently unregulated, allowing businesses to choose what to disclose, when to report, and where to report. Second, ICR is proactive reporting because it is not required to comply with any regulatory or accounting criteria, allowing enterprises to fictionalize ICR in order to increase their market worth and recruit and retain capital sources.

WHAT IS NEOCLASSICAL ECONOMICS?

Supply and demand are the driving forces underlying the creation, pricing, and consumption of products and services, according to neoclassical economics. It first appeared around 1900 to compete with conventional economic theories. One of the main early assumptions of neoclassical economics is that the most significant factor in establishing the value of a product or service is the utility to consumers, not the cost of production. Based on publications by William Stanley Jevons, Carl Menger, and Léon Walras, this approach was created in the late nineteenth century.

UNDERSTANDING NEOCLASSICAL ECONOMICS

In the year 1900, the phrase "neoclassical economics" was coined. According to neoclassical economics, a consumer's primary concern is to enhance personal satisfaction. As a result, people base their purchasing decisions on their assessments of a product's or service's utility. This theory is similar to rational behavior theory, which claims that people make logical decisions when it comes to money.

Furthermore, according to neoclassical economics, a product or service has value above and beyond its production costs. While traditional economic theory holds that a product's value is determined by the cost of materials plus the cost of labor, neoclassical economists believe that customer perceptions of a product's value influence its price and demand. The concepts of Keynesian economics, as well as neoclassical economics theories, underpin modern-day economics. Although the neoclassical approach is the most generally taught economics theory, it is not without its critics. Finally, competition leads to an efficient allocation of resources within an economy, according to this economic theory. Market equilibrium is established by the forces of supply and demand. The neoclassical school of economics, in contrast to Keynesian economics, believes that savings influence investment. It concludes that market equilibrium and full employment growth should be the government's top economic aims.

THE CASE AGAINST NEOCLASSICAL ECONOMICS

Its detractors argue that the neoclassical approach is incapable of correctly describing real-world economies. They argue that assuming consumers act rationally when making decisions misses human nature's propensity to emotional responses. Some critics also blame neoclassical economics for inequities in global debt and trade relations, claiming that the theory assumes that as a result of economic progress, labor rights and living standards will inevitably increase.

A NEOCLASSICAL CRISIS?

Neoclassical economists think that because the value of a product is determined by consumer perception, there is no upper limit to the profits that may be made by savvy capitalists. The economic surplus is the difference between the product's true costs and the price it is sold for.

However, it is possible that this kind of thinking contributed to the 2008 financial catastrophe. Modern economists felt that synthetic financial instruments had no price cap in the run-up to the crisis because investors thought the housing market's development potential was boundless. The market for those financial products failed because both the economists and the investors were wrong.

THE CASE STUDY OF DELCO

Tony Tinker has taken the uncommon step of researching the history of one multinational mining enterprise to demonstrate the use of political economy (presumably in comparison to marginal analysis). In the social sciences, the single case study is rarely employed. This is due in part to the generalizability issues that such a study entails. In this situation, the case study provides a plethora of information that makes periodization analysis easier. However, I would have liked to see some explanation of the generality of such analysis; Delco may be considered an outlier rather than a representative example of a general manner of analysis. Leaving aside the issue of generality, the Delco case study is used to demonstrate that neo-classical partial equilibrium analysis cannot provide an assessment of the efficiency or fairness of the allocations made to the various partners engaged in the business. The alternative, periodization, analysis is intended to demonstrate that the parties' respective allocations were a reflection of the socioeconomic and political regimes that prevailed in Sierra Leone. In the accounting (and economic) literature, this alternative argument is unusual. It's also logical. It's a shame that the paper's presentation leaves out information that would aid in evaluating the case study as data for the analysis. I was unhappy with the analysis even after consulting the Hoogvelt & Tinker (1978) study because of the lack of detail. The question of how much to include in any empirical study is always difficult to answer, but I believe Tinker went too far in this case. As a result, I felt compelled to embrace much of the analysis and interpretation "at face value." Consider the periodization analyses' identification of the periods. According to Hoogvelt & Tinker (1978), the periods are defined by a series of agreements (contracts) between the corporation and the Sierra Leone government's agents. But, in what ways do these accords signal changes in Sierra Leone's social and political institutions? Are there distinct societal changes in 1930, 1947, 1956, and 1967, when new accords were made? Tinker also mentions a 1972 agreement in the report; why does that agreement not reflect a new (though brief) period? If the periodization study is to be accepted, further information regarding Sierra Leone's social and political organization (and changes) is required. Tinker's dilemma is that such acceptance will be difficult to obtain from a skeptical accounting audience that is confronted with logical contradictions in their theoretical framework.

Another example of the need for more clarity is the explanations of changing profits distributions (which, incidentally, 1 assume to refer to gross revenues). The push for indigenization is used to explain changes in distributions and, eventually, the Company's departure from Sierra Leone. Are there any other possibilities, and why was indigenization picked as the "extra variable that gradually frustrated the company's financial position"? Table 5 shows that black salaries increased steadily from 1960 to 1975, but Table 4 shows that black pay only accounted for a little more than 4% of total earnings from 1968 to 1975. Tinker, in my opinion, needs to explain why he chose the variables he did. Table 4 shows that the proportion of total proceeds going to practically all of the listed types of participants varies over time. The Hoogvelt & Tinker paper (1978) offers some explanations for this variation, but these explanations must surely be necessary for the Tinker (1979) paper to show that "each regime consists of a configuration of socio-political forces that determine the distribution of revenue shown in the income statement." Finally, there is scant indication of who profited from the proceeds distribution stated in Table 4. Some of the listed parties, such as the United Kingdom and Sierra Leone governments, shippers, and suppliers, may have indirectly benefited others, such as black labor, owners, and investors. Although the paper by Hoogvelt and Tinker (1978) claims that the company built little permanent infrastructure for Sierra Leone, I'd like to see some evidence to back up the claim that "none of the...

government revenues directly or indirectly ever benefited the native workers, people, and local authorities in the iron producing province." Each of these requests for additional evidence could be considered nitpicking. The absence of information, however, lessens the effectiveness of the "description of the social processes that influence market pricing" when considered collectively. That's unfortunate if the paper's goal is to persuade us that market prices aren't set by impersonal, apolitical factors, as the neoclassical account suggests.

ACCOUNTING AS AN IDEOLOGY

Ideologies are worldviews that restrict us from understanding the society in which we live and the possibility of altering it, despite their partial and potentially significant insights. They are worldviews that correspond to social classes. Accounting has long been regarded as an ideological phenomenon, used to maintain and legitimize current social, economic, and political structures. Accounting, according to Karl Marx, promotes a false sense of consciousness by confusing rather than disclosing the fundamental character of the social interactions that underpin economic endeavor. Accounting has also been viewed as a myth, symbol, and ritual that allows social agents to interact by creating a symbolic order. Both perspectives are reflected in the popular image of accounting as a tool of economic logic and a capitalistic society.

Weber best exemplifies the idea of accounting as an instrument of economic rationality, defining formal rationality as "the level of quantitative calculation or accounting which is technically conceivable and which is actually implemented." The same point is well made by Heilbronn, who says, "Capitalist practice transforms the unit of money into a tool of rational cost-profit calculations, of which the towering monument is double-entry bookkeeping, which is primarily the product of the evolution of economic rationality; the cost-profit calculus, in turn, reacts on that rationality by crystallizing and defining numerically, it powerfully propels the logic of enterprise."

Despite the points made in the preceding sections, I believe Tinker has proven that "in order to understand the processes of price formation and income distribution within advanced industrial societies, one must consider the second dimension of 'capital,' namely the state of social relations... Institutional and social forces must become central to the analysis."

We may go back to an earlier point about why neoclassical economics is likely to remain the foundation of accounting, and why institutional and social forces are unlikely to become fundamental to too much accounting study. But first, let us not be fooled by marginaleconomics' pervasiveness as the theoretical underpinning of accounting. Tinker has demonstrated that neoclassical economics is incapable of assessing the fairness of alternative income allocations (distributions). His argument is framed primarily in terms of profit distribution to enterprise participants (i.e. the various participants in the Delco project). It appears that accountants are unable to speak about an optimal resource allocation since there is no logically consistent concept of optimality. The quantitatively oriented management accountant cannot rely on the effectiveness of often recommended strategies like as linear programming, inventory models, capital budgeting procedures, and so on. These methods assume a given distribution of resources, a set interest rate, and equilibrium in all economic markets.

Tinker's approach can be used to a variety of situations. The prescriptive weakness of neo-classical economics, for example, affects most of the research on divisional performance measurement.

We don't seem to be able to demonstrate the fairness or efficiency of various divisional profit allocations logically. Furthermore, the optimality or social desirability of alternative resource allocations within a society cannot be established, making national income accounting questionable; the categories utilized in this accounting are problematic, reflecting primarily market exchanges. Why would neo-classical economics not wither away if the implications of Tinker's analysis (which, of course, follows the analysis of such renowned radical economists as Dobb, Meek, Robinson, Sraffa, and Sweezy) are so profound? I mentioned some more or less "technical" explanations in the previous portions of this note. I've come up with an alternate, and I believe more convincing, explanation for neo-classical economics and its applied offshoot, which we might call neo-classical accounting. ’

I believe that capitalism's assumptions trump contemporary accounting. Accountants, both thinkers and practitioners, accept the socioeconomic institutional system, demonstrating a startling lack of historical perspective in the process. We take it for granted that legal and social institutions, such as markets and private property, have always existed, are still existing, and will continue to exist. We take it for granted that the classifications that underpin our accounting theories have never changed and will never change. Our theories' boundaries are defined by capitalism's institutions, and accountants' responsibilities are defined within these constraints.

It is simply a little step further to presume that this particular social, economic, and political system is right. It's no surprise that Pareto "optimality," a social welfare criterion that considers only local shifts from an existing position, is the dominant criterion for measuring social welfare improvements. Accounting can be seen as a tool for maintaining and legitimizing current social, economic, and political structures. Is accounting viewed as a sort of ideology in this perspective? Although accounting prescriptions may hint that change is required at the margin, the status quo's underlying structure is deemed desirable. The overwhelming acceptance of neoclassical economics among accountants implies a refusal to explore alternative institutional arrangements, which is likely to last for decades. "Ideology is a set of worldviews that, despite their partial and potentially significant insights, impede us from comprehending the society we live in and the possibility of altering it. Because they presume (the framework of bourgeois society, ideas), they are condemned to perpetuate the issues and to reproduce the same one-sided remedies that will not address them in reality" (Shaw, 1972, pp. 33-34).

Accounting theories convey ideology in a way that resembles a "market for justifications" (Watts & Zimmerman, 1979). Prescriptions for income distribution and efficient resource allocation are legitimized when they are based on imposing theoretical edifices like neo-classical marginalism.

Furthermore, the towering architecture of neo-classical economics can be employed as a type of mystification, hiding the subject of the present society's social desirability. Accounting information is exploited to assist those parties who are now dominant in society, rather than giving a sound economic reason for action. By failing to propose a solution, you are putting yourself at a disadvantage. 1 Parts of the following argument are discussed in further depth in Cooper (in press). Ideology is defined as false consciousness in this context. Larrain (1979) goes into extensive length about the topic. Accounting, as a framework for assessing the fairness of this system of economic organization, runs the risk of becoming nothing more than a tool of these strong groups. Wages are a cost, but "interest" is a dividend to investors. Instead of any other allocation, residual funds are allocated (accounted for) as capital additions. In accounting theory, it is typical to insist on keeping the owners' capital or technical operational capability intact (and recent suggestions for practice). We don't appear to have thought about human capital or potential in a systematic way. Accounting, rather than treating each issue separately, might take a more holistic approach to businesses and their effectiveness.

Let me describe some of the aspects of accounting that represent world assumptions that are taken for granted. Accounting is frequently founded on the concept of market transactions, which are considered objective and free of bias. Property rights are implied in accounting reports, which are based on "private" expenditures and revenues. The components of performance that are measured are usually those that are viewed as critical. Profitability or cash flows to investors are used to evaluate performance. Yet, unless we are willing to assume the social optimality of existing resource distributions in society, equilibria in all markets in the economy, exogenous independent and equally important preferences for all people, and simultaneously deny the problem of social choice and the theory of second best, the correspondence between investor and societal welfare is problematic. Indeed, one writer noted that "the measure of acceptance... (neoclassical welfare economics) has achieved among professional economists would be surprising if its genealogy were not so extensive and respectable" (de Graaf, 1957, p. 142). Neo-classical economics and accounting are two examples of strategies to promote the assumption that society's current institutional arrangements are the only ones that can be made. It's a shame that so many accounting academics appear to be unaware of their own societal role in researching the status quo (as "positive scientists") and collecting funding from groups dedicated to studying just the current system. Tinker's paper brings out neoclassical economics' logical flaws and shows how a study of social and political systems is required to understand market phenomena and resource distribution. As a result, the article may motivate accountants to think about their own role in society (Gambling, 1974). I sincerely hope it succeeds.

FINDINGS

This is a frustrating paper in various ways. I'd like to learn more about the flaws in neoclassical economics and how these flaws affect the recommendations accountants have made and continue to make. In light of these flaws, capital maintenance principles, human resource accounting, and value added statements, for example, might all be reconsidered. I'd also like to learn more about the Delco case study and how a political economics analysis can bring insight and knowledge. Several concerns could be investigated in the future utilizing social and political analysis. The social formation of market prices is one issue. The link between individual welfare, societal welfare, and individual and societal viability is a second concern. A third topic is accounting's role in organizations and society, which includes an examination of its role in both justifying and offering rationales for human action.

CONCLUSION

The paper is a compilation of two previous publications that addressed some of these concerns. Only time will tell whether the arguments were successful in persuading an accounting audience. I hope they do because, as I attempt to demonstrate in this paper, the argument's ramifications for accounting theory and practice are significant. Many of our recommendations are based only on faith. Due to flaws in the theory that underpins the prescriptions, accountants (and economists) should understand that the effects of their prescriptions are unclear. If we want to figure out what these prescriptions are for and what function accountants play in our society, I propose that we think of our "theories" as ideology and ourselves as ideologists.

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