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**THE CASE FOR A POLITICAL ECONOMY OF ACCOUNTING:
A CRITIQUE OF THE ARGUMENTS**

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**THE CASE FOR A POLITICAL ECONOMY OF ACCOUNTING:
A CRITIQUE OF THE ARGUMENTS**

Abstract

The paper is oriented towards concern with the way in which the concept of political economy has been ‘adopted’ by academic accountants. However, a number of issues relating to the underlying concept require first to be debated if the main topic is to be viewed in context.

Regarding accountants’ use of the political economy concept, one thread that certainly may be identified is that which looks upon the subject as providing rationale for an approach suggesting that developments in the accounting arena can only be fully appreciated if the societal implications of such developments are properly understood. But there is another interpretation, which conceives of political economy as providing an alternative explanation of companies’ information disclosures to their stakeholders to that provided by an organisational legitimacy stance. According to this view, corporate social reporting becomes a far more proactive activity, with corporate executives pursuing their own self-interest and through selective information disclosures attempting to set the agenda for debate.

The present paper indicates how both approaches fall short of demonstrating all the necessary features of a ‘true’ political economy approach, and attempts to reconcile the radically differing interpretations of political economy proffered, by suggesting they both stem largely from the use of the expression “political economy of accounting” more or less as a ‘slogan’, without much of an attempt having been made to justify its adoption.

INTRODUCTION

To Tinker (1980) goes credit for first conceptualising a political economy of accounting, commenting that “political economy relies on the social relations of production:¹an analysis of the division of power between interest groups in a society and the institutional processes through which interests may be advanced” (pp. 147-8). Although admittedly in a different context, in a later paper (Neimark and Tinker, 1986, p. 379), Tinker again commented upon the social dimension of control and the working out of its dominant patterns of power and appropriation. This view is clearly supported by Cooper and Sherer (1984), in their contention that the study of accounting should recognise the power (and conflict) which exists in society, such that the effects of accounting reports² on the distribution of income, wealth and power in society should be a focus of enquiry (p. 218).

But an alternative proposition is proffered by Guthrie and Parker (1989), wherein they conceive of a political economy of accounting as providing a substitute to previously-articulated arguments for organisational legitimacy in explaining corporate social responsibility disclosures. Thus, in the case of this latter concept, the situation is perceived as corporate (social) reporting representing a reactive response to societal demands. Hence the underlying assumption is that business operates via a social contract with society, and has to justify its continued existence by proving to society that it is doing the ‘right’ things (Parsons, 1956, 1960; Shocker and Sethi, 1974; Dowling and Pfeffer, 1975; Wilkinson, 1983; Woodward *et al.*, 1996). A political economy of accounting (at least, according to Guthrie and Parker, undated) suggests, alternatively, that corporate social reporting is a far more proactive activity, with corporate executives pursuing their own self interest and thereby attempting to “set and shape the agenda of debate and to mediate, suppress, mystify and transform social conflict” (Guthrie and Parker, 1989, p. 351).

The organisational legitimacy perspective having previously been debated at length (Woodward *et al.*, 1996), it is now combined with the more recently-articulated political economy model in Figure 1 (Woodward *et al.*, 1999).

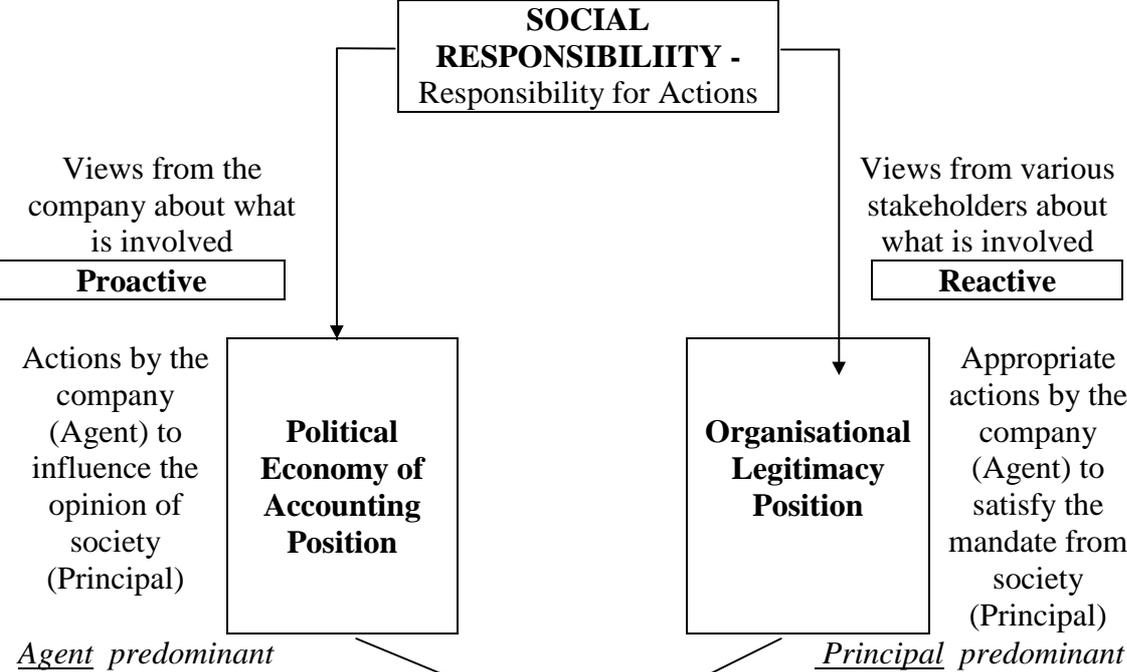
In this figure, organisational legitimacy is perceived as an organisational stance of *reaction*. In other words, adoption of a principal:agent view of the organisation:societal interface would suggest the principal (society) has the ability to command appropriate actions (and one assumes the reporting thereon) from the agent (company), and thus it is the *principal’s interests that predominate*.

In demonstrating justification for their sustained existence, problems for organisations might arise and they may seek to close any perceived ‘legitimacy gap’ by employing one of four broad strategies: educating stakeholders about corporate intentions; changing perceptions about actual events; distracting attention from issues of public concern; and changing expectations about performance (Lindblom, 1994).

¹ James Mill (1844, p. 4) indicated the ‘science’ was additionally concerned with distribution, exchange and consumption.

² There is surely an element of cart-before-horse in this contention, in that the distribution of income has already occurred by the time the financial report is ‘posted’? That accounting reports might affect future investment decisions and the consequent future distribution of income seems a separate issue.

Figure 1 - CORPORATE RESPONSIBILITY/REPORTING IN AN ORGANISATIONAL LEGITIMACY/POLITICAL ECONOMY FRAMEWORK



	Principal	Agent
Organisational Legitimacy	Grants mandate to company to exist	Appropriate action to justify that existence
Political Economy	Allows itself to be influenced	Sets the agenda to influence



The alternative view highlighted in the model presented in Figure 1 is one which suggests information provided by a company is from a managerial perspective of what is required to influence societal opinion of the organisation and to 'shape' the company's world. This is a political economy of accounting formulation, which is accordingly *proactive* in nature. Here again, the adoption of a principal:agent interpretation would suggest that the conventional power expectation formulation has been reversed, with power wrested from the principal so that the *agent has become able to dictate the agenda*.

The critical development of the model occurs in its lowest part, where it is suggested that within an organisational legitimacy formulation, stakeholder analysis would enable identification of those societal interest groups to whom the business might be considered accountable, and therefore to whom an adequate account of its activities would be deemed necessary. This could be on the basis of an assumed 'contractual' relationship between organisational stakeholders (Cooper and Sherer, 1984, p. 212), although the 'contract' does not, of course, have to be written or have legal force (Laughlin, 1990). A political economy of accounting perspective, on the other hand, would suggest concentration by the company only on those stakeholders considered important by the company in its ability to control its environment, and to whom selective reporting might then be expected to occur.

The model, as presented, must clearly be distinguished from the work of both Gray *et al.* (1995) and Adams (1996), both of whom seem to perceive stakeholder theory as being an *alternative* to organisational legitimacy, and both concepts then as part of political economy:

“‘stakeholder theory’ and ‘legitimacy theory’ are ... seen as two (overlapping) perspectives ... which are set within a framework of assumptions about ‘political economy’” (Gray *et al.*, 1995, p. 52).

A SHORT HISTORY OF POLITICAL ECONOMY

There appears a reasonable consensus that the original use of “political economy” occurred in the 18th and 19th centuries, although the origins of the topic can be traced back much further than that – indeed, even to Ancient Greek and Roman times. Developments since are also relatively easy to trace. History in this case thus being uncontentious, and the more interesting topics which fall to be discussed, and which are relevant to the major theme of this paper, comprise such issues as: do “political economy” and the more recently developed “economics” cover the same subject matter?; is the discipline normative or positive in character?; what is the relationship between political economy and the other social sciences, particularly sociology?; and, finally, is there a power dimension involved, and how does that ‘work’?

The attached Table 1 attempts to summarise the development of political economy over the centuries traced by Groenewegen’s entry in *The New Palgrave Dictionary of Economics*³ (Eatwell *et al.*, 1987) - a piece which, in turn, appears to owe much to the earlier contribution by Arndt (1984), despite Groenewegen’s (1985) strong criticism thereof, and King (1948).

³ Interestingly, in its earlier edition(s) this volume was itself a *Dictionary of Political Economy*.

Mid-late 19th Century - as the Theoretical Analysis of Society

Criticism of accepted view (1) – unsatisfactory scope and method	A search for the anatomy of civil society	Marx (1859) Dobb (1937)
	The theoretical analysis of modern bourgeois society	Engels (1859)
Criticism of accepted view (2) – name had become misleading	Plutology (the theory of efforts to satisfy human wants)	Hearn (1864)
	Economics (science which treats of the laws which govern the relations of exchangeable quantities)	MacLeod (1875) Marshall & Marshall (1879) Jevons (1879, 1905)

Modern – the Relationship of Political Economy to Economics

Viewed as synonymous terms	Both seen as the study of mankind in the ordinary business of life	Marshall (1820) Groenewegen (1985)
Economics redefined in marginalist form	Human behaviour as a relationship between ends and scarce means	Robbins (1932)
New definitions of economics	Resource allocation problem combined with Keynes' findings on unemployment equilibrium	Samuelson (1955) Rees (1968)
A distinction between the terms	PE for monopoly and government activity; economics a system of theoretical and positive knowledge	Dobb (1937) Robbins (1939) Schumpeter (1954) Mishan (1982)
Resurrection of PE	The concern of some contemporary economists via the 'surplus' approach	Baran (1957)

For each of the five periods of history identified (and it is readily accepted these have been somewhat crudely delineated, although sufficiently well to suit present purposes), there are highlighted the major movements which assisted in the development of the discipline of political economy. The references indicated obviously represent a sample only of those contributing to these developments through their writings on the topic – enthusiasm for the subject was substantial, and commentary upon it considerable. The substance of the major developments is indicated in the middle column in each case, with the hatched areas summarising what is considered to best describe the overall political economy philosophy in each period specified.

Clearly, for the present purpose of critiquing political economy of accounting developments, Table 1 has to be utilised with some care. The initial formulation of political economy, in terms of constituting the careful management of finances, would appear to have little

relevance to the current concern. The production and distribution of wealth (the 17th and 18th century formulation), comes closer to that present concern although, as will be later demonstrated, this particular interpretation perhaps has more to do with an ‘economics’ formulation than a ‘political economy’ one. Equally, the 19th century view of political economy, as constituting an inquiry into the existence of regulatory laws, suggests more of a positive than a normative discipline – a judgement enhanced even more by the mid-late 19th century interpretation, where an ‘economics’ view appears really to have come to the fore. But since the proposal for a political economy of accounting has only been made within the last two decades, perhaps it is justified to confine its comparison to the fundamental precepts of political economy identified as relevant during this period. The last possible formulation of Table 1 then becomes apposite, where it is suggested there is a distinction between economics and political economy: the first being concerned with positive precepts; the latter finding a home for suggestions for improvement. Societal implications and the influence of power in this context, implicit in a political economy of accounting formulation, would both have a part to play in the latter case.

Given the obvious changing nature of the discipline of political economy over the centuries, Schumpeter’s (1954, p. 21) reservation that “political economy meant different things to different writers” should probably be noted, even though he conceded that “in some cases it meant what is now known as economic theory or ‘pure’ economics.” It thus becomes necessary to distinguish ‘political economy’ from ‘economics’, since if, indeed, the two concepts are the same (as certainly seems suggested by the second quotation), then a “political economy of accounting” could equally well be expressed as an “economics of accounting,” although nowhere does that suggestion appear to have been proposed.

THE ECONOMICS/POLITICAL ECONOMY DEBATE

There is certainly a body of academics that wishes to view “political economy” and “economics” as synonyms. There is, clearly another group that wishes with equal vigour to view the subjects as different. So whilst mainstream economists after Marshall might very well have been prepared to embrace the newer term for subject identification purposes, they nevertheless “kept ‘political economy’ up their sleeves to be available when they wanted to put forward views on public policy involving value judgements and interpersonal comparisons” (Arndt, 1984, p. 269). It should also be observed that when writing less than two decades ago (and not when penning a tome on the history of the topic, when retention of the ‘old’ name would obviously have been valid), the eminent Ezra Mishan, constructed an *Introduction to Political Economy* (1982), not an *Introduction to Economics*.

It is probably Robbins who has had most to say on this particular issue. Thus in his *Essay on the Nature and Significance of Economic Science* (1932), he indicated that “economics” had come to be applied to the general study of the discipline, whilst “political economy,” on the other hand, “impli(ed) judgements of value of which we do not wish to be accused (and) has tended to drop out of use” (p. xxvii). Nevertheless, he suggested the expression “should be revived as now covering that part of our sphere of interest which essentially involves” (*loc. cit.*) those very situations. Early in his career, Robbins (1937) had already made a distinction between economics and political economy, considering that the latter, whilst it applied the *apparatus* of economics, was nevertheless concerned with the realisation of aims whose formulation lay outside that discipline. Thus in *Political Economy: Past and Present*

(Robbins, 1976), part was devoted to “a discussion of the principles of public policy in the economic field” (p. 3).

Thus whilst “political economy” in the time of Steuart (1767)⁴ and Smith (1776) “covered the entire universe of discourse of economic science and the theory of economic policy” (Robbins, 1976, p. 1), and in recent years it had become customary to use “economics” to “designate the analysis and description of economic phenomena and to regard the discussion of what is desirable in the way of policy as a distinct, though related, speculative area” (*op. cit.* p. 2), Robbins nevertheless argued that a terminology which preserved the distinction involved had much to recommend it, and he bemoaned that “there are still some who are apparently congenitally incapable of seeing the difference” (*loc. cit.*).

Earlier, but certainly into the present century, Wicksell (1901-6) had retained the older title, arguing that “in accordance with the modern outlook, the subject matter of political economy is becoming more and more the doctrine of economic phenomena in their interrelations, seen *as a whole*” (pp. 1 f., cited Arndt, 1984, p. 267)⁵. Yet adjacent in time was Nicholson (1903, p. 1) who, referencing a work by M^cCulloch (1845) more than half a century earlier, and which apparently listed over 800 authors, and twice that many books, in the political economy domain, then concluded (*op. cit.* p. 2) “Such and so great is the literature of *economics*” (emphasis added).

The case for treating “political economy” and “economics” as different rather than synonymous, is considered to have been substantially supported by the material here presented, representing the informed opinion of many of those prominent in the field. But it would be unfair to present a completely one-sided view, and it is therefore interesting to record some dissenting comments. Thus there can be little doubt that for some academics, an old expression has simply been replaced by a newer one, with apparently no change required in the underlying subject matter. This is certainly the case for Groenewegen (Eatwell *et al.* 1987, p. 906) – “they can essentially be regarded as synonyms;” and, again, Groenewegen, (1985, p. 749) – “there is absolutely no historical justification to argue for distinct meanings of political economy and economics.” Such a claim by an eminent scholar in the field cannot be easily dismissed, particularly when supported by such as the Marshalls (Marshall and Marshall, 1879), whose contents page to *Economics of Industry* indicated their introductory chapter would be concerned with discussing “The work of Political Economy *or* Economics (p. ix, emphasis added)⁶.

A final quotation provides an appropriate link with the next section of this paper, dealing with the normative *versus* positive aspect of the political economy ‘debate’:

(political economy) does not lay down moral precepts or deliver moral judgments. And the reason is not that moral and religious elements are not of importance in practical problems, but simply that they are outside the sphere *of economics*” (Nicholson, 1903, p. 7, emphasis added).

⁴ Steuart is often credited with being “the father of political economy” in the same way as Smith is frequently considered to be “the father of economics” (which is a little perverse, given both the latter’s professorial title at Aberdeen and the fact that the newer term did not appear until towards the end of the last century). However, Marshall (1920, p. 756 footnote) indicates that Jevons accorded this particular accolade to Cantillon, a physiocrat who wrote *Sur la Nature de Commerce* in 1755.

⁵ Arndt’s caveat that the original German term of Wicksell, *Nationaloekonomie*, may have been incorrectly translated as “political” rather than “national” economy, should be noted.

⁶ Robbins (1981) has felt constrained to call such eminent involvement a “conspicuous beginning” (p. xxvii).

A TALE OF THREE CONSIDERATIONS – THE ESSENTIAL CHARACTERISTICS OF A POLITICAL ECONOMY APPROACH

Introduction

If the (ir)relevance of a political economy approach to the study of accounting is to be appreciated, then the crucial features of political economy have first to be teased out. This is a complicated area, and the obvious imposition of restricted length on the present paper indicates the subject matter cannot be investigated to the fullest extent. However, for purposes of the current debate, it is probably adequate to concentrate on three central aspects of the subject discipline. Thus there will be considered:

- that political economy is not concerned with what is (which, following the earlier economics *v.* political economy debate, might best be considered the province of the first of these), but rather with what ought to be;
- that links between political economy and the other social sciences, particularly sociology (“the study of the development, organisation, functioning and classification of human societies”), are important;
- the power dimension, particularly the aspect of power relations amongst social groups, has great significance.

Why these three issues are considered significant to the present discussion will be explained subsequently.

The First Consideration – Is Political Economy Normative or Positive?

This is an issue debated in the less-than-recent (*i.e.* in the 19th Century) literature, wherein the conventional presentation was in terms of a debate between ‘art’ (normative, prescriptive, and hence indicating what should/ought to be) *versus* ‘science’ (positive, descriptive, and hence indicating what is), attributes of the subject.

This debate is an important one, and not easy to resolve – Schumpeter’s comment that in discussing the issue “We are not yet out of the wood; in fact, we are not yet in it” (1954, p. 7) deserves recording; as also does his contention that we are here dealing with “a particularly difficult case” (*op. cit.*, p, 9). However, all this suggests that whilst economics may essentially be “a system of theoretical and positive knowledge” (Fraser, 1937, p. 30), political economy (*à la* Robbins) should then be reserved for the more applied aspects of monopoly, protection, planning and government fiscal policy.

The two authorities who have probably contributed most to this particular debate are Senior (1836) and Sidgwick (1883). It was the latter of these who best posed the fundamental question at issue, *viz.* “Is (political economy) concerned with “what is” or with “what ought to be”? ... Is it, in short – to use an old distinction recently revived in this connection – a Science or an Art?” (p. 12), and forcefully provide the answer to his own question, indicating

the generic “economy” had *always* been an art and not a science, and adding the adjective “political” had not changed things (*op. cit.* p. 14)⁷.

Senior, on the other hand, seems less than enthusiastic about the whole issue. His own perception of political economy was “of the Science which treats of the Nature, the Production, and the Distribution of Wealth” (1836, p. 1). He contended attention should be confined to these (obviously, positive facets) since normative considerations, “whilst more interesting and more important,” nevertheless “no more form part of the science of Political Economy ... than Navigation forms part of the Science of Astronomy” (*loc. cit.*).

Whilst many have spoken of their discipline as a “science,” the epithet appears to have been largely adopted with neither rationale being offered nor thought applied as to its implications (see, for example, Marshall, 1920, p. v). Thus Robertson’s (1963, Vol. I, p. 16) claim that “the termination –ics⁸ indicates that our study is or aspires to be a science, like physics, dynamics and so forth” (cited Arndt, 1984, p. 267), provides inadequate rationale.

Adam Smith considered that the study of political economy embraced both positive *and* normative aspects (1776, p. 643; see also Schumpeter’s, 1984, p. 38 comment on Smith’s revealed value judgements; and Robbins, 1976, p. 1). Additionally, as Arndt (1984, p. 267) has indicated, most treatises by the classicists from Ricardo and Malthus to J S Mill and Jevons not only included “Political Economy” in their titles, but also indicated their understanding that the discipline included both analysis *and* policy prescription. Support for such a contention would also appear to come from M^cCulloch, who indicated the object of political economy “is ... to ascertain ... the proportions in which (wealth) is divided, and the mode in which it may be most advantageously consumed” (cited in Senior, 1836, p. 2, full bibliographical reference obscure, parenthesis added).

Hearn (1864), who advocated plutology (refer to Table 1) as an alternative to political economy, nevertheless recognised that if the latter discipline was to be defined in the terms normally ascribed to it, as “such management of the affairs of a State as is analogous to the prudent management of the affairs of an individual” (pp. 1-2, and which is very much *à la* Steuart, 1767), then political economy is “clearly an art” (*loc. cit.*).

Since Pareto (1971, p. 2) claimed not to be attempting to convince anyone regarding this issue, and simply to be investigating the “uniformities of phenomena”, slightly more helpful might be J S Mill’s indication (which he still, nevertheless, accepted was a less than totally satisfactory definition), that political economy may be perceived as “the science relating to the moral or psychological laws of the production and distribution of wealth” (1844, p. 133), on which basis political economy is “either ... not a science at all, or it is several sciences” (*loc. cit.*).

This comes over as slightly muddled thinking, so it is refreshing to encounter something as crisp as Mishan’s (1982, p. 12) exposition of the situation, indicating that “by the middle of the twentieth century, the distinction between a positive (or descriptive) economics and a

⁷ It should nevertheless be observed that Sidgwick later (*op. cit.*, p. 26) made a distinction between the “distribution” and “production” elements of the classical definition of political economy, indicating that the former was far less amenable of normative considerations than was the latter.

⁸ This indicates that Robertson was writing about economics rather than political economy. The ‘relaxation’ is nevertheless considered permissible to illustrate the present point.

normative (or prescriptive) economics⁹ was well established” (*loc. cit.*). Thus in Mishan’s terminology, “political economy”, “normative economics”, “welfare economics” and “allocative economics” all become close synonyms.

As a final piece of ‘evidence’ there may be cited the eloquence of Dobb (1937), who wrote on his own account as well as providing commentary upon Marx (1971, *Introduction*). Dobb chose to comment upon a single facet of political economy, *laissez-faire*, rather than the discipline in total, but in this context contributed: “Here the imposing unity of Political Economy as a theoretical system was translated into a consistent system of practical doctrine. Here abstract principles were clothed in the flesh of *actual policies*, and schematic interpretation of the world of events was fused with precept and action” (1937, p. 48, emphasis added).

From his convictions, Senior (1836) was moved to propose that, for the political economist, “conclusions, whatever be their generality and truth, do not authorise him in adding a single syllable of advice” (p. 3), although Arndt (1984, p. 267) considered this represented “not so much the scruples of the modern welfare economist as the view that policy requires a knowledge of other disciplines besides economics.” This is a mute point, although it does open up debate about the relationship of economics with the other social sciences, considered next.

The Second Consideration – the Relationship between Political Economy and Sociology

Whilst Hayek (1967, p. 267) commented comparatively recently that “He who is only an economist cannot be a good economist. There is hardly a single problem which can be adequately answered on the basis of a single special discipline” (cited Fleetwood, 1995, p. 3), much earlier support for such a position is ascertainable. Thus whilst J S Mill thought, for all practical purposes, political economy was inseparable from social philosophy (1994, *Introduction* by Riley, p. xvi), and was grounded in “a novel philosophical radicalism” (*op. cit.*, p. xlvi), and Schumpeter’s (1954) *magnum opus* deliberated on ‘contemporaneous developments in other sciences’ (pp. 25-32), thereby considering economics in conjunction with sociology, psychology and philosophy, it is only the first of these pairings that most writers in the political economy domain seem to find of major concern, with Wicksteed (1913, p. 260) concluding that “political economy must be the handmaid of sociology.”

Ingram was perhaps the first to introduce ‘softer’ elements into the political economy discipline¹⁰, and has been credited with being “a leader among a group of men who have been successful in introducing humanitarianism into political economy” (*Introduction to Ingram*¹¹, 1915, Ely, p.xiii). Ingram characterised ‘the new school of economics’ under four heads (in his *Preface to Ely*, 1914, p. 4), indicating as one dimension that, “There is ... properly speaking, but one Science of Sociology, of which Economics forms a single chapter.” Hutchison, in his *Introduction to Smyth* (1962), has commented upon the scope of economics,

⁹ From which we have to assume Mishan meant political economy.

¹⁰ Although he found potential support in Marshall (1920, p. vi), where is considered the notion of the actions of (rational) ‘economic man’ not being necessarily mechanical and selfish, but potentially being modified by altruism. The identification by Riley in his *Introduction to J S Mill’s Socialism* (1994) “of the possibility that many individuals might develop higher moral and aesthetics sentiments” (p. xiv) perhaps has similar connotations?

¹¹ This was a person of monumental intellect – able mathematician, fine philologist, writer on Shakespeare and Tennyson, poet of distinction, philosopher, Regius professor of Greek at Dublin – a person considered by his associates at his death as probably the most learned man in the world.

distinguishing between the broadly 'social' extreme of Ingram (1878), compared with the far narrower conceptualisation of Senior (1860).

To illustrate the narrowness of Senior's purpose, it is pertinent to quote from his presidential address to Section F (economists and statisticians) of *The British Association for the Advancement of Science* (Senior, 1860), where he indicated "The political economist, as such, has nothing to do with any of the other physical or moral sciences, or with any of the physical or moral arts, excepting so far as they affect the production or distribution of wealth" (p. 21). Such a narrow interpretation was criticised by Sidgwick (1885, p. 90).

But Ingram and Senior both post-dated J S Mill, of course, by a good margin. This individual "recognised that political economy was only one branch of sociology" (Winch's, 1970, *Introduction to Mill*, 1848, p. 24), and closely related to this was what Mill called "ethology, or the study of the laws of the formation of character in different societies" (*op. cit.*, p. 23), and which "would serve another useful purpose in demonstrating the influence of laws, customs, and public sentiment on forms of government, and in showing the precise limitations of assumptions, like those made in political economy" (*op. cit.*, p. 25, emphasis added).

More recently, some post-Keynesian economists have resurrected the political economy 'label', amongst them Kregel with his *Reconstruction of Political Economy* (1973). As Arndt (1984, p. 269) points out, "post-Keynesian theory, like that of Ricardo and Marx, emphasized social relations and the distribution of income, as well as changes and growth over time." Indeed, what Ricardo had in mind as "the principal problem of political economy" (1817, Vol. I, p. 5) was the distribution of income between the different social classes – landlords, capitalists and workers¹². This seems particularly important in the present 'stakeholder economy', where the rights of owners are not considered exclusive, and has implications for academic accountants' adoption of political economy as a descriptor of corporate action.

Bastable (1894) brings support to Ingram's broader conception of the subject, although in somewhat muted terms, whilst Bonar (1898, pp. 169-170) tends not to. The *Contents* of Marshall's classic (1920, p. xix) indicate that "Economics is both a study of wealth and a branch of the study of man." This is more anthropology ("the study of man, including his social relationships") than sociology ("the study of the development of human society"), but clearly the links between the two are strong.

Nicholson (1903) contended that one of the ways of demonstrating the scope of political economy was by illustrating its relation to "other sciences. It must be classed with the group of moral or mental sciences because it deals primarily with human beings as possessing certain moral or mental characteristics" (p. 6). But a middle course in the debate is steered by Sidgwick (1885), "taking a judicious smack at each of the extremists in turn" (Hutchison's *Introduction to Smyth*, 1962, p. 17), whilst Cunningham (1889) seeks to mediate between the conflicting views expressed.

Cairnes appears to have encountered great difficulty setting out precisely what political economy should be concerned with, indicating that any definition could only be taken as provisional, and hence liable to be modified, or set aside completely, "as the exigencies of advancing knowledge may prescribe" (Cairnes, 1888, p. 147). Given the uncertainty involved, Cairnes' position in this particular debate is perhaps difficult to discern, and a similar lack of

¹² See also the reference to *Letters to Malthus* cited Dobb (1937, p. 16).

clarity is obvious from reading Sidgwick (1883, p. 14), where he discusses political economy as being one branch of a much larger subject, although he unfortunately does not then go on to indicate quite what that larger subject is.

Perhaps a comment from Marshall (1920, p. 764) will do to summarise this section:

“Economics ... is getting to pay every year a greater attention to the pliability of human nature, and to the way in which the character of man affects and is affected by the prevalent methods of the production, distribution and consumption of wealth.”

Given Marshall’s failure to distinguish between economics and political economy, as earlier demonstrated, and this comment can obviously be held to have equal relevance to the latter topic. It clearly also has relevance to a political economy of accounting.

The Third Consideration – the Significance of Power

The imbued power relationship(s) associated with the ‘classical’ interpretation of political economy require drawing out, before the views of the principal protagonists in the political economy of accounting debate are re-presented and discussed.

Whilst significant to the subsequent discussion, this particular issue does not appear to have bulked large in the writings of one of those most influential in developing the discipline of political economy, J S Mill. Mill had the following to contribute:

“Political Economy’ ... does not treat of the whole of man’s nature as modified by the social state, nor of the whole conduct of man in society. It is concerned with him solely as a being who desires to possess wealth, and who is capable of judging the comparative efficacy of means for obtaining that end. It predicts only such of the phenomena of the social state as take place in consequence of the pursuit of wealth” (J S Mill, 1844, p. 137).

Similarly, whilst Arndt (1984) has suggested that the study of power relations amongst social groups and their effects on the distribution of income and wealth has not been established as an area of concern of the economist (p. 270, but note the terminology), he does not go on to indicate any group that he thinks *might* have a better claim to such activity. This has fundamental relevance to a political economy of accounting, should this make proposals for an alternative mode of wealth distribution.

Arndt’s concern does not appear to be the same as that expressed by Winch (1970, in his *Introduction* to J S Mill, 1848) that many radicals, socialists and other representatives of working class opinion viewed political economy with some suspicion, since it “attempted to place insuperable barriers in the way of social reorganization” (Winch, 1970, p.33). Presumably there was a power dimension to the vested interests involved?

The notion of power appears fundamental to an appreciation of a political economy formulation, and could also be an important element in the economics *versus* political economy debate presented earlier, if we accept Nell’s (1972, p. 35) contention that, whilst “Orthodox economics tries to show that markets allocate scarce resources according to

relative efficiency; political economics¹³ tries to show that markets distribute income according to relative power.” This can probably be classified as part of the neo-Marxist critique of economics under the banner of “political economy” (Arndt, 1984, p. 269) and thus may not be generally held; nor, therefore may Mermelstein’s (1970, p. 3) observation that “classical ... ‘political economy’ referred to a study of the social laws governing the production and distribution of goods, and thus social classes and their conflicts were the economist’s legitimate concern.” The whole orientation of neo-Marxist political economy was naturally towards the replacement of capitalism with a socialist system, with vested power interests clearly being a significant issue in this context.

A further, and highly relevant, development identified by Arndt (1984, p. 269), was the resurrection of political economy by the ‘Radical Left’ in the 1960s. This was with three connotations: an emphasis on distribution rather than growth; an emphasis on power relations between social classes as the main determinant of that distribution; and a refusal to confine the subject to positive social science as contrasted with advocacy. The first of these three characteristics is considered less important to the debate this paper will subsequently mount than the other two, whilst the second (*viz.* the positive *v.* normative argument) has already been debated.

AN ASSESSMENT OF THE VALIDITY OF THE PROFFERED POSITIONS ON A POLITICAL ECONOMY OF ACCOUNTING

It might be considered somewhat perverse to introduce three areas of apparent discord (*viz.* is political economy normative or positive in orientation; does political economy have strong links with sociology; and, finally, what is the place of power relations in the debate) *before* indicating their relevance to the recently-developed concept of a political economy of accounting. But that is, nevertheless, the way the present authors have decided to investigate the topic.

But having now put forward what it is hoped are three cogent arguments, vested in the available literature in the field, their significance can now be established:

- political economy is not concerned so much with what is (since that is largely the province of economics), but rather with what ought to be. Thus proposals for alternative (perhaps fundamentally different) wealth distribution models are within its ambit;
- the established link of political economy with sociology suggests concern with the effects of possible alternative distributions of income;
- finally, the power dimension suggests the ability of strong societal groups to influence that distribution.

Collectively, the established framework enables consideration of the application of political economy precepts to an additional and innovative division within the overall social science discipline, and one hitherto not considered by the classicists (that of “accounting”), to be undertaken.

¹³ The expression is assumed synonymous with “political economy.”

As indicated in the Introduction to this paper, there are probably two broad approaches to a political economy of accounting which can be discerned: the one proposed by Tinker and other ‘critical’ theorists (in a variety of publications); the other stemming largely from the work of Guthrie and Parker (1989, and undated), although other accounting academics do appear to have drawn upon the sentiments there expressed. Thus in their conflicting opinions, Tinker on the one hand, and Guthrie and Parker on the other, have rather been elected as champions of their respective ‘causes’ – both can muster support from the ranks of accounting academics.

As an example, whilst, as previously indicated, it was Tinker (1980) who first proposed a “political economy of accounting,” it was nevertheless largely left to Cooper and Sherer (1984), to delineate the implications of such an approach, even if they are perhaps not singing from quite the same hymn sheet as Tinker (see footnote 2, earlier). According to Cooper and Sherer, the crucial features of the approach (although restricted to those relevant to the present enquiry), may be identified as follows:

- the approach questions the partial equilibrium analysis orientation of prevailing approaches for evaluating the form and content of (alternative) corporate accounting reports and the bias they exhibit in favour of shareholder and manager classes (p. 217; see also Dietrich and Woodward, 1999). This has potentially been to the detriment of the interests of other concerned classes (p. 225); thus
- “the study of accounting should recognise power and conflict in society and consequently should focus on the effects of accounting reports on the distribution of wealth and power in society (p. 218). Other groups in society besides that of the owners (and their agents, management) have been recognised to exist both “at the conceptual level” (p. 225), and, incidentally, in actuality (Woodward, 1999);
- there is active involvement by the state in managing the economy (a point also drawn attention to by Gray *et al.*, 1995, p. 62, in their indication of the ‘re-empowerment of capital’ which occurred during the Thatcher era, and which would certainly appear to establish common ground with the *laissez-faire* strictures of the classicists – even though that might not be how it was perceived); therefore
- a more “emancipated view of human motivation” (p. 219) needs to be adopted and the role of accounting in society recognised i.e. its ability to reflect differing interests and concerns.

Such considerations presumably are assumed to provide a corollary to the situation identified by Puxty (1986, p. 98), wherein accounting “is supposedly a provider of truth and a means of increasing openness of communication in an increasingly complex, fragmented, ambiguous society. This makes its role as a mystifier of social relations and a legitimator of power and domination the more insidious and threatening.”

As has been earlier demonstrated (refer to Table 1), ‘classical’ political economy was certainly concerned with the provision of “a plentiful revenue or subsistence for the people” (Smith, 1776, p. 643), the means of such provision (Mirabeau, 1760), the management of state affairs (Steuart, 1767) and governmental policy decisions involving value judgements (Robbins, 1932; Mishan, 1982). But it is difficult to read into these areas of concern, agreement with Tinker’s contention that:

“Political economy attributes the division of income (and therefore the rate of profit accruing to capital) to the distribution of power in society and the social-political and institutional structure that mirrors that distribution of power” (Tinker, 1980, p. 147).

No authority is quoted in support of this claim, but the contentions it represents do not widely diverge from the ‘traditional’ position presented in the previous section. Although not drawing upon the political economy literature and, indeed, whilst talking about management control systems rather than a political economy of accounting, Tinker (in Neimark and Tinker, 1986), seems to be expressing similar thoughts about power distribution, and the consequent ability to control, when contending in the context of theories based on orthodox models in the management control arena, that such theories “can be used by sectional interests to legitimise and maintain their positions of social dominance and privilege and to impede the eradication of inequality and ideology” (p. 370).

The concern with a single controlling class in society, be this the state or capitalists, receives endorsement in Cooper and Sherer’s (1984) paper, where it is explicitly stated:

“ A political economy of accounting emphasizes the infrastructure, the fundamental relations between class in society. It recognizes the institutional environment which supports the existing system of corporate reporting and subjects to critical scrutiny those issues (such as the assumed importance of shareholders and securities markets) that are frequently taken for granted” (p. 208; a point re-iterated on p. 217).

An additional part of the explanation might be the ability of a powerful class to systematically distort communication (Puxty, 1986, p. 98), of which social accounting (one descriptor of the Guthrie and Parker focus of concern) “is just one facet” (p. 108).

Perhaps part of the blame attaches to the behaviour of accountants, with the suggestion that studies should be undertaken to describe and interpret that behaviour, and also that of their discipline, taking into account “the context of the institutions, social and political structures and cultural values of the society in which they are historically located” (*op. cit.*, p. 221).

Turning now to the Guthrie and Parker (1989) view of a political economy of accounting, and this must be perceived as diverging from a Tinker *et al.* orientation. Whilst Tinker appears to perceive of power resting primarily with the state and only secondly with corporate executives, for Guthrie and Parker the latter is the locus of control in the modern corporation, with executives using their power to “set and shape the agenda, mediate (and) mystify ... the world” (undated, p. 5) - perhaps picking up here on an idea articulated by Cooper and Sherer (1984, p. 218), who commented upon the ability of accounting reports to operate in the interests of elites to ‘mystify and legitimate’ (see also Buhr, 1997). Hence Guthrie and Parker’s attempts to ‘rebut’ legitimacy theory through their longitudinal analysis of the Australian mining company, Broken Hill Pty (BHP), via an examination of ‘social’ disclosures along dimensions previously articulated. Note here the further divergence from a Tinker view, with the complete lack of emphasis on the profit motive.

In summary, Guthrie and Parker’s view of a political economy of accounting is that it constitutes an alternative to legitimacy theory. In the second of these formulations, organisational (re)action is seen as stemming from the cultural values of society and suggests business operates under a mandate from that society which can be withdrawn if organisations

are seen not to be doing the things society expects of them. Accounting plays a role in this legitimising process, with Richardson (1987) indicating the different approaches that might be adopted, whilst the role of accounting reports themselves have been elsewhere discussed (Bowman, 1976; Barr *et al.* 1992; Abrahamson and Park, 1994;)

Neimark and Tinker (1986, p. 373) have also recognised the ability organisations' managements possess to 'shape' their environments, although Benson (1982, p. 89) appears to be questioning whether such activity should ever extend beyond benefiting the owners, and presents an analysis which suggests no responsibility is typically recognised towards the 'general public' societal group (p. 94).

The issue of power is obviously essential to the issues here being discussed. Power enables control and influence not only to be exercised over specific social groups, of course. It can additionally be used in attempts to affect the totality of the environment within which an organisation operates, and accounting may thus have developed partly in response to the power centres in society (Puxty, 1986, p. 103). Thus du Boff and Herman (1980, cited Neimark and Tinker, 1986, p. 372), have argued that powerful firms will adopt both structures and strategies such as to achieve market dominance "and thereby transcend and reshape their environments." This could affect decisions about the environments in which corporations choose to operate (*loc. cit.*), but also introduces the concept of the organisation being proactive in creating its own environment (*op. cit.*, p.379).

In support of such a contention, Cooper and Sherer (1984, p. 214) have commented:

"...it is nonetheless evident that political issues cannot be divorced from economic analysis in relation to social choices. The fundamental issues revolve around power and whose interests predominate in society."

The power argument is picked up by Puxty (1986) in his response to Parker's (1986) proposal for standards in the social accounting arena, commenting that the type of discussion which would be necessary to reach an appropriate accord would be undertaken in a situation where there is domination of some in society by others, such that "the agenda is fixed by powerful interests" (Puxty, 1986, p. 104), where the possibility of a free and open discussion leading to formulation of a genuine consensus is "rendered impossible by the domination of one party by another" (*loc. cit.*; see also Neimark and Tinker's, 1986, p. 374 comment that seemingly 'fair' exchanges may be based on a structure of social relations which makes it inevitable that exchanges will be based on terms that favour some parties, or classes, over others). This might simply represent another facet of Cooper's (1980, p. 163) agreement with Tinker's (1980) view, *i.e.* that in order to understand income distribution within the advanced industrial countries, one needs to allow for the state of social relations extant.

Further support comes from Pfeffer and Salancik (1978, cited Neimark and Tinker, 1986, p. 374), who introduced to the debate the idea of the existence of "both inequalities in the distribution of power and resources and the capacity of power holders to impose definitions of social reality on the other participants;" and from Puxty (1986, p. 97), with his indication that:

"Financial information is legislated by the governing body of society (the state) which is itself closely linked to the interests of the dominant power group in society ... and regulated either by agencies of the state or by institutions such as exist within societies

... linked to the needs of the dominant power group in partnership with the state apparatus.”

The principal difference in the two major conceptualisations presented would appear to be that in the Tinker *et al.* case, power is assumed to be wielded by the dominant body in society, the state; whilst for Guthrie and Parker the crucial influence is that stemming from the executives who control organisations. But to that extent, both formulations are concerned with stakeholder relationships within the broad categories specified in *The Corporate Report* (ASSC, 1975) and subsequently expanded upon (by DOT 1976, Cmnd. 1977, Gray *et al.*, 1987 and Woodward, 1999).

At the margin, the two views on this one aspect become quite close, with Tinker *et al.*, for example, also recognising the power of capitalists¹⁴, indicating that the rate of profit declared by a company may reflect those capitalists’ interests¹⁵, being “indicative of social, institutional and monopolistic power rather than social efficiency and productivity” (Tinker, 1980, p. 148; his summary of the Delco case study position on p. 154; and Rothschild, 1971)¹⁶. A link may be perceived here with Marx’s distinction between ‘classical political economy’, “that economy which, since the time of W. Petty, has investigated the real relations of production in bourgeois society” (cited Dobb, 1937, p. 10), and the “vulgar economy ... which deals with appearances only” (*loc. cit.*) of the theoretical apologists.

However, the distinction between the two views is preserved by Guthrie and Parker’s (1989) concentration on agenda setting by corporate executives in the widest sense (being concerned with the environment, energy, human resources, products, and community involvement) where neither the making nor distribution of profit (apparently, Tinker’s major consideration) enter into the debate at all.

It is thus interesting to observe the Guthrie and Parker rebuttal of legitimacy theory in their longitudinal study of BHP, where they opined that the company’s disclosures did not appear to be in reaction to political conditions (p. 351 - they recognised economic and social aspects also as being of relevance), thereby introducing the possibility of a different impetus to disclosure on the various fronts they identified. Thus political economy of accounting theory “*may* prove to be a ... potential candidate” (*loc. cit.*, emphasis added – and therefore note the hesitation) in explaining the observed phenomena.

The big problem with the Guthrie and Parker (1989) enquiry of BHP is, of course, that they set out to attempt to ‘prove’ the relevance of legitimacy theory to the company’s social disclosures. Only when an absence of support for their contention became apparent (“the evidence ... has failed to confirm legitimacy theory” – p. 350) were they thrown back upon political economy of accounting as potentially providing a better ‘fit’ and did they then

¹⁴ An interesting point here might be the difference identified by Arndt (1984, p. 270) between the Marxists and so-called Chicago, or libertarian political economy, with the latter emphasising that power depends upon control of the means of production rather than ownership. This, presumably, simply reinforces the idea of the separation of ownership from control identified by such as Marris (1964).

¹⁵ Although note Benson’s reference to those economists (such as Marris, 1964; and Williamson, 1964) who maintain that managers who only own a small proportion of a company’s shares may settle for profits that are merely ‘good enough’.

¹⁶ Tinker’s observation in the same paper that political economy recognises two dimensions of capital “firstly as (physical) instruments of production and secondly as man’s relationship to man in social organisation” (p. 153, citing Bhaduri, 1969), does not have to detain us overmuch, since it would appear to illustrate the essence of the dichotomy previously illustrated between “political economy” and “economics.”

suggest its appropriateness (p. 352) – but without leaving themselves time to illustrate their case or, indeed, propose a suitable methodology.

Slightly more convincing might be Adams *et al.*'s (1998) enquiry into the social reporting practices of a European sample of companies, in which context they suggested, “voluntary disclosure has little to do with social responsibility and accountability, but may be seen as a useful way of reinforcing the Government’s ‘free market’ ideology and anti-legislative stance, ” with high disclosure indicating the ability of political economy theory “to explain motivations for corporate social disclosure decisions” (pp. 17-18). But, again, these authors also do not seem entirely convinced by their own ‘argument’.

SOME TENTATIVE CONCLUSIONS

This paper has delved into the history of the development of political economy in order to establish its critical features, thereby to establish the credentials for a political economy of accounting.

From that investigation, it has been possible to extract three threads of discourse which it is considered are fundamental to rationalising the use of a political economy of accounting. But the two principal views of a political economy of accounting that have been thus far been developed, it seems, both fall short of totally embracing the three identified dimensions. Yet if the name of a recognised area of study is to be applied in a new context, the expectation that the relevant features of the original discipline should be identified, and it demonstrated how and in what circumstances that (old) title is relevantly applied to the new circumstances surely seems justified? That does not appear to have happened. A summary of what *has* happened appears in the form of Table 2.

Table 2 indicates the areas where there is coincidence between the prescriptions of ‘classical’ political economy and the more recent suggestion for a political economy of accounting. It is apparent that *both* the Tinker *et al.* and Guthrie and Parker approaches only partially justify the title they have assumed to describe themselves.

Writing over a century-and-a-half ago (and ignoring the gender bias exhibited, acceptable at the time), J S Mill (1844, p. 137) commented:

“Every writer is entitled to use the words which are his tools in the manner which he judges most conducive to the general purposes of the exposition of truth; but he exercises this discretion under liability to criticism ... what should never be done without strong reasons (is) to have altered the meaning of a name which was appropriated to a particular purpose (and for which, therefore, a substitute must be provided), in order to transfer it to an object for which it was easy to find a more characteristic denomination;”

and the following:

Are we “inserting amongst (political economy’s) hypotheses a fresh and still more complex combination of circumstances, and so adding ... a supplementary theorem, to the abstract science?” (J S Mill, 1844, p. 152).

Table 2 – (DE)RATIONALISATION OF A POLITICAL ECONOMY OF ACCOUNTING: WHERE THE MAJOR CONTRIBUTORS FALL SHORT

The Protagonists

Tinker *et al.*

Guthrie and Parker

The Areas of Debate	The Positive v. Normative Aspects of Wealth Distribution	Partially considered – that shareholders’ interests should not predominate is considered crucial, but proposals for an(y) alternative(s) are vague	Not considered – concern is with societal interest group reporting. Profit does not enter into the formulation, and thus how it is distributed is irrelevant of consideration
	The Effects on Society of Alternative Distributions of Wealth	Considered – the fundamental relations between societal classes are critically examined	Partially considered – the interests of groups other than the shareholders are appreciated, although not from a wealth-enhancing perspective
	The Significance of Power in the Wealth Distribution Process	Partially considered – power is assumed to lie in the hands of the state (with a possible extension to corporate officials), but is largely taken for granted and thus considered uncontentious	Considered – power is assumed to be wrested away from other societal groups by corporate officials and used to further their own self-interest by setting and shaping the agenda for debate

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It might thus be suggested that both cautions have been breached, and that the concept of a political economy of accounting has been adopted to explain underlying phenomena more or less as a ‘slogan’ in the ‘critical’ literature, without there being much evidence supplied to justify its particular choice as a descriptor of what has been observed. There may be hope if the subject matter of enquiry is expanded to include all societal interests, of the type advocated by a more embracing ‘stakeholder’ analysis. However, suggestions in this regard

are outside the ambit of the present paper (although suggestions might very well be contained in Näsi, 1995; and Woodward, 1999).

Even then a problem might remain to be investigated. Is it a sign of insularity on the part of accounting researchers that the relationship between political economy and accounting appears to have been assumed uni-directional, with political economy *informing* accounting? Is there not also a case for something to be said about the possible influence of accounting on political economy?¹⁷ Scope would appear to exist for the investigation of this additional dimension.

¹⁷ This observation, based upon experience of the Accounting, Business and Financial History Conference, Cardiff, September 1998, was proffered by Christopher Napier, to whom the authors are accordingly grateful.

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¹⁸ Of these "Only a few copies were printed ... and these are lost" (*Chambers Biographical Dictionary*, M. Magnusson (Ed), Chambers: Edinburgh, p. 1204).

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