BASIL YAMEY*

Economic Historian and Accounting Historian

In this round-table intervention, I will limit myself to comments on three points which relate to the very interesting opening statement made by our President, a distinguished economic historian and also a distinguished accounting historian.

1

Professor Hernandez-Esteve remarked that intellectuals today often look down on accountants and the accounting profession. This may be so. I do not know how strong such attitudes are in my country, for example. But what I think is clear is that one "institution" of accounting, namely double entry bookkeeping, is widely thought of as a major achievement of medieval Europe and an invention which has been highly significant, indeed indispensable, for the development of capitalism as an economic and social system. Views of this kind are common, today, among intellectuals and among historians of many kinds – economic historians, cultural historians, and general historians. One finds, indeed, references to double entry bookkeeping in the most surprising places.

These views, I believe, almost invariably are inspired, directly or indirectly, by the work of Werner Sombart, namely his *Der moderne Kapitalismus*, published early in the twentieth century. Sombart was a sociologist, economic historian and economist whose work was very influential.

As regards double entry bookkeeping, he developed the following propositions:

- capitalism was inconceivable without the invention of double entry bookkeeping
- the "abstract" concepts of capital and profit depended on double entry bookkeeping
- double entry bookkeeping was responsible for the introduction of the profit motive in economic life
- double entry made possible the rationally calculating pursuit of profit

* **London School of Economics, United Kingdom**

- double entry bookkeeping gave rise to the profit-seeking firm as an autonomous entity or unit, distinct and separate from the family or other social unit.
- double entry bookkeeping changed the mentality of merchants and other business men: it changed their mind-set from pre-capitalist to capitalist.[1]

I must tell you that I do not agree with all this; but this is not the occasion to debate these propositions. For present purposes, it is enough to note that one can find many recent expressions of propositions of this kind. For example, undoubtedly influenced by Sombart's work, three distinguished French medieval historians have expressed such views: R-H Bautier, Yves Renouard and Jean Favier.

Thus many intellectuals and scholars, admirers of capitalism and also its critics, attach great importance to the economic and social significance of double entry bookkeeping. And the prestige of that system of accounting, in turn, has benefitted from its association with Luca Pacioli, the Renaissance mathematician, and associate, *inter alia*, of Piero della Francesca and Leonardo da Vinci.

2

Do economic historians need accounting historians? I am sure that knowledge of accounting practices, systems or arrangements in the period up to, say, 1800, is useful for those economic historians whose source material include business account books of that period. This is so whether the account books being examined were kept according to the double entry system or whether they were not.

It follows from this that accounting historians may be able to assist economic historians. But I would like to make the point that economic historians working on the surviving records of particular individual business firms have shown real skill in making use of ledgers and other account books, and of the details of transactions recorded in them.

And, of course, an economic historian working, for example, on foreign trade within Western Europe in the sixteenth or seventeenth century will have the benefit of detailed knowledge and understanding of intra-European trading networks and business practices as well as of the economic and political environment generally.

[1] One of the participants of the Conference discussed, very informatively, the abolition of the double entry system in the Soviet Union in 1922, on the grounds that it was a capitalist instrument. I suspect this attitude was prompted by Somb

I have time to mention only a few examples of published studies, which, incidentally, I have found particularly useful in my work in the history of accounting.

There is the classic by Frederic Lane, on Andrea Barbarigo, the fifteenth century "Merchant of Venice" – a model of its kind. Then there is the study by the Belgian economic historian, Wilfrid Brulez, which is based on the sixteenth century account books and papers relating to the Della Faille merchant business in Antwerp. Jan Della Faille began his career in Antwerp as the factor of an Antwerp merchant who had settled in Venice. Della Faille himself succeeded as a prominent merchant in Antwerp. Next, there is the work of the French economic historian, Lapeyre, on the celebrated sixteenth century Spanish mercantile family, the Ruiz. And, finally, I draw attention to Donald Coleman's book on Sir John Banks, a prosperous seventeenth century English financier and merchant.

The economic historians who wrote these studies were able to make very good use of the account books which have survived. And there are, of course, many other examples.

As our President has rightly observed, accounting history is perhaps best considered as a complement or adjunct to economic history. Accounting historians have much to learn from economic historians; and we have something to contribute, in turn, to economic historians (including, perhaps, correction of some over-enthusiastic views of the economic and social significance of double entry bookkeeping!).

3

I now come to my third topic, and again I am referring to the period up to about 1800 in Western Europe.

We know quite a lot about the account books kept by merchants of our period, though in fact, especially for the period after, say, 1500, relatively few surviving account books have been examined by <u>accounting</u> historians.

Having established what account books a particular merchant used, and which transactions were recorded and how they were recorded, the interesting questions are as follows: Why did the merchant use the particular arrangement of accounting entries in his account books, and what precise use did the merchant make of the material written in the account books?

There is no difficulty in answering the questions as regards accounting records of debts payable to the merchant and payable by him to third parties. Clearly, a merchant was necessarily very much interested in knowing what amounts third parties owed him. He needed a record of the debt, partly to support his memory but also to be of assistance if the debt became the subject of legal proceedings. For the fifteenth century, for example, we know that merchants in Florence frequently carried their books to the mercantile "court" for the settlement of disputes.

Similarly, it is clear why a merchant would have kept accounting records of the merchandise in his warehouse or sent to agents.

However, it is not so easy to understand how a merchant interpreted and used the balance figure disclosed in the profit-and-loss account when the ledger was balanced and closed regularly or at irregular intervals. Did the figure come as a surprise to him? And did he base any decisions on the information? To answer this sort of question, one has to know precisely how the merchant, or his bookkeeper, dealt with such matters as bad and doubtful debts, changes in the current value of assets such as equipment, buildings, ships, investments in government bonds, or shares in companies etc. etc.

It is clear that there were no general, standardized rules, or guiding principles, and a variety of treatments in practice – some of which modern accountants will find quite strange.

This is an area where accounting historians need to do much more work. My own impression is that already we may know enough to suggest that in very many cases the figure for a period's profit or loss in the firm's profit-and-loss account had very little real significance for the owner or owners of the business in question. The major exception was when a partnership was dissolved or the composition of a partnership was changed – that is, when the assets of the partnership had to be revalued for obvious reasons. But as I said before, more work is required.