The history of accounting and the transition to capitalism in England. Part two: evidence

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Abstract

An earlier paper (Part one) argued that to appreciate the social significance of accounting today we must understand its ideas and techniques as products and producers of history. It explained the importance of Weber and Marx’s theories of the transition to capitalism to historians of accounting. Weber’s use of accounting as an ideal-typical representation of calculative mentalities enabled him to avoid economic determinism. However, he presupposed the appearance of the capitalist ‘spirit’, and his understanding of modern accounting was inferior to Marx’s. The paper argued that translating Marx’s theory into a history of accounting makes it testable. The theory includes class conflict in trade and in agriculture, and calculative mentalities, as prime movers. It says the calculative mentality of modern capitalism, the maximization of the rate of return on capital employed in production, emerged from the historical interaction of capitalistic mentalities in agriculture and trade. From the middle of the sixteenth century landed and mercantile wealth pooled their capital in international trade. Following social conflict culminating in the bourgeois revolution of the mid-seventeenth century, the rate of return on capital became the dominant economic ethic. Capital from international trade flowed back onto the land, bringing with it the capitalistic rate of return mentality. Harnessing this to capitalistic farming produced the modern capitalist mentality. In this paper I argue that the history of accounting during the English agricultural, commercial, and bourgeois revolutions, is consistent with this theory. The paper examines evidence from farmers’ accounts from the sixteenth to the eighteenth century and agricultural texts and literature, and evidence on merchant accounting from the sixteenth and seventeenth century. The centrepiece is a case study of the development of accounting in the English East India Company from 1600 to 1657. The paper concludes by outlining the importance of accounting history and the need for archival research. © 2000 Elsevier Science Ltd. All rights reserved.

It has become more widely accepted over the last 20 years or so that we must understand the ideas and techniques of modern accounting, not as the expression of an external economic reality, but as the historical product and producer of changing social realities (Burchell, Clubb, Hopwood, Hughes & Nahapiet, 1980).1 Part one considered the relevance to historians of accounting of Weber and Marx’s theories of the social history of modernity, the appearance of modern capitalism (Bryer, in press). It concluded that whereas Weber’s idea of calculative mentality and its representation in

1 For reviews of some of this work see, for example, Carnegie and Napier (1996); Napier (1989).
accounting allowed him to avoid economic determinism, his neo-classical understanding of modern accounting undermined the attraction of his Protestant ethic theory. Part one argued that by bringing out the calculative mentality embedded in Marx’s political economy, his theory of the transition to capitalism also avoids determinism, and provides a richly realistic understanding of modern accounting. That paper translated Marx’s theory using accounting ideas. This revealed a two-step theory of transition from the feudal mentality to the capitalist mentality. First, the appearance of capitalistic mentalities in farmers using wage labour and in merchants who socialise their capital. The mentalities of capitalistic farmers are formally indistinguishable from those of feudal lords — both attempted to maximize consumable surplus (e.g. receipts minus payments). The vital contribution of capitalistic merchants was their rate of return mentality, initially still feudal surplus divided by the initial capital invested. Second, the historical interaction of these mentalities to produce the modern mentality of maximizing the rate of return on capital employed in production (Table 1).

In this paper I support this interpretation of Marx’s theory with evidence from the history of accounting during the agricultural, commercial and bourgeois revolutions. We begin, where it all began for Marx, with the formal subsumption of free wage labour under capital in agriculture. Here, consistent with the prediction in Part one, the limited published evidence suggests that there was only a class of capitalistic farmers from the late fifteenth century to the end of the sixteenth century. Although these farmers were assiduous employers of free wage labour, the calculative mentality signated in their accounts remained feudal. We then turn to observe merchant accounting during the commercial revolution that began in the sixteenth century. Marx’s theory predicts that feudal merchants only became capitalistic, signated by their use of double-entry bookkeeping (DEB) to calculate the feudal rate of return on capital, when they socialised their capital. An analysis of Yamey’s interventions in the ‘Weber–Sombart debate’, and a detailed case study of changes in the accounting system of the English East India Company (EIC) from 1600 to 1657, the centrepiece of this paper, support this prediction. What was driving the development of the EIC’s system of accounting were escalating socio-economic conflicts within the company mirroring conflicts in society. Resolving these conflicts ultimately required a bourgeois revolution in Marx’s sense. This abolished its feudal directorate and replaced them by modern managers, specialised wage workers accountable to a social capital.3 Given the social and economic importance of the EIC, this evidence is consistent with Marx’s theory that a society-wide bourgeois revolution occurred in mid-seventeenth century England. This revolution made the rate of return on capital the purpose of economic life, and, in Marx’s theory, provided the essential ingredient for the emergence of modern capitalism from capitalistic agriculture. Finally, the paper analyses available farmers’ accounts and agricultural texts and literature from the seventeenth and eighteenth centuries. It argues that the evidence available is consistent with Marx’s view that the capitalist mentality began to spread in agriculture from the late seventeenth century. In the concluding remarks I emphasise the potential importance of the history of accounting for understanding modern society and modern accounting, and outline some opportunities for archival research.

1. Accounting for formal subsumption in agriculture

In the middle of the fourteenth century the population of England, as elsewhere in Europe, was in steep decline and so was the income of the lords. Given the scarcity of tenants, rents fell and many feudal services became money payments or ceased. This was the golden age of the English peasant, until the population began to rise from

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2 When limited groups of individuals pool their capital it is socialised, for example, in partnerships.

3 When an investing society pools its capital it becomes social, for example, in listed joint-stock companies with limited liability (Bryer, 1993b; 1997). Whereas social capital is freely transferable between members of an investing society, socialised capital is not.
the middle of the fifteenth century. In some areas, particularly the Midlands where loss of population was severe, lords began to lease whole villages (sometimes clearing any remaining tenants) to relatively large farmers, often former bailiffs, etc., mainly for enclosed cattle and sheep farming employing wage labour (Fryde, 1996). Historians have often seen these fifteenth and sixteenth century farmers as capitalists, but the signatures revealed by the evidence available on their accounts say otherwise.

For example, Dyer asks whether, “on the basis of the strict definition of capitalism as a system of productive relations, can anyone in fifteenth-century England be described as a capitalist?” (Dyer, 1991, p. 10). Dyer says he means Marx’s definitions of the social relations of production, preferred to other definitions of capitalism because of its “precision” (Dyer, p. 2). He gives five reasons for describing Roger Heritage, from Burton Dassett in Warwickshire “as a capitalist” (Dyer, p. 11). None of them derive from Marx’s definition of the productive relations of capitalism, the distinctive method of extracting surplus value signified by its distinctive methods of accounting. Dyer’s five reasons are: the large size of Heritage’s farm (500 acres); his large labour force; production for the market; investment in buildings and equipment; and his status as a yeoman. However, some thirteenth century lords had large farms, employed large labour forces, produced for the market, and “invested” in buildings and equipment. This leaves the difference that the lords were not yeomen, and Dyer’s implicit view that yeomen were capitalists. Dyer recognises that to be a capitalist Roger Heritage must have a “business-like outlook”, but he does define what this means. Like Weber, he presumes this outlook because Heritage continuously made a “profit”. “He could never have made a success of 15 years and more as a demesne lessee without the mental equipment that enabled him to invest, employ labour, and sell at a profit” (Dyer, p. 15).

Although Dyer also does not define profit, he appears to mean Marx’s feudal surplus: “Heritage was able to make only limited profits. After he had paid his rent, servants’ wages, and repairs of buildings and equipment he would have been fortunate to have made as much as £10 in cash for himself” (Dyer, 1991, p. 12). In Dyer’s mind, profit seems to mean cash flow, the monetised version of Marx’s idea of feudal surplus. Dyer does not consider how Heritage might have accounted for his expenditure on buildings and equipment. He does not ask whether Heritage charged capitalist depreciation or saw them as feudal expenditures reducing consumable surplus, a vital distinction as we shall see in the final section. However, on the basis of “Some calculations... of Brome’s profit from fattening cattle on the pastures at Baddesley” in Warwickshire in 1445, it seems John Brome’s view of ‘capital investment’, and apparently Dyer’s, was feudal to the core. “As a middleman, Brome was achieving...a profit margin of...30% of the purchase price; once the expensive task of putting the enclosures in order had been completed, little capital cost was incurred. The animals do not seem to have been kept indoors... so that there was no need for expenditure on buildings” (Dyer, 1972, p. 9). In other words, Dyer seems to be saying that Brome made a large profit margin because he had little capital expenditure to incur. Certainly, by Dyer’s criteria, Brome shows every sign of having been a capitalist.

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Table 1
Accounting signatures of the transition

<table>
<thead>
<tr>
<th>Calculative mentality</th>
<th>Feudal</th>
<th>Capitalistic</th>
<th>Capitalist</th>
</tr>
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<tbody>
<tr>
<td>Accounting signature</td>
<td>Consumable surplus (CS)</td>
<td>CS Opening capital</td>
<td>Profit Capital employed</td>
</tr>
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4 Roger Heritage’s accounts do not appear to have survived. Dyer works from an inventory compiled at Heritage’s death, and his figures are hypothetical.
In some ways the management of the manor seems to have been advanced. ... [i] the layout of the lands, with their enclosures and predominant use as pasture and meadow, the willingness to invest capital in the improvement of land..., the reliance on urban markets for the purchase and sale of the cattle that provided the main source of profit, and the use of wage labour for all agricultural and industrial operations (Dyer, 1972, p. 11).

Dyer cautions that “the ‘advanced’ commercial element... should not be overstressed”. However, his complaint of Brome's bailiff’s accounts is not that they fail to distinguish between capital and revenue expenditures, but that they mix up manor and non-manor incomes and expenditures.

The bailiff accounts were not designed to allow a calculation of profits, either by contemporaries or by 20th-century historians. They include ‘foreign’ receipts and expenditures unconnected with the economy of the manor itself, and items of domestic and agricultural expenditure are inextricably mingled, so that any calculations made from them are hazardous (Dyer, 1972, pp. 11, 10).

It does not occur to Dyer that Brome designed his bailiff’s accounts to calculate Marx’s feudal surplus.

The accounts of Roger Heritage’s successor in the sixteenth century, and those of other sixteenth century farmers, also reveal the feudal mentality. In 1541 Peter Temple married the widow of Thomas Heritage, his cousin, and took over the lease of the pasture land in Burton Dassett. His calculative mentality is immediately signatured by the fact that “Peter recorded every detail of his farming and personal income and expenditure” from 1541 to 1555 (Alcock, 1981, Preface). His cattle accounts consist of expenditures on cattle purchases and associated expenses, and receipts from their sale, the net of which Alcock correctly summarises as ‘Net cash profit’ (Alcock, Table 2.2). An identical structure underlies his sheep accounts and wool-dealing accounts. Peter Temple also became the bailiff for the property of the owner of his farm at Burton Dassett, and his bailiff’s accounts are, naturally, charge and discharge. The same feudal signature shines through the accounts of the farm of the manor of Exton, Hampshire, for 1558–1560, notwithstanding Zell’s view that they “show... a sizeable, capitalist farming business” (Zell, 1979, p. 123). The feudal mentality shows first in the physical idea of ‘capital’ maintenance. As Zell says, “The method of calculation used in the first set of accounts is intended to show how far the occupant maintained the stock and corn at or below the level it was when he began his occupancy” (Zell, p. 123). Second, although called profit, the surplus is feudal: “The second account is of money income and cash expenditure during the two year period” (Zell, p. 122). We find an identical feudal signature in the sixteenth century Norfolk shepherds’ and sheep reeves’ accounts analysed by Allison. These are also income and expenditure accounts. Significantly, annual profit was after ‘capital’ expenditure. As Allison puts it, “Heavy expenditure on fresh stock accounts for the small profit in 1544–6 and more than counter-balanced the doubling of wool prices in 1548–9” (Allison, 1958, p. 111).

In short, this limited evidence suggests that from the late fifteenth century free wage labour was only formally subsumed and the farmers were only capitalist. In Marx’s theory, the formal subsumption of labour in agriculture is one starting point of the transition. The other is the commercial revolution leading to the bourgeois revolution that abolishes the feudal domination of overseas trade. To understand developments in accounting during the commercial revolution, and the transitional signatures they provide us, we must first understand this revolution and its outcome as a process of class struggle within feudalism, as the struggle for the freedom of socialised capital in overseas trade.

5 Accounts produced by Thomas Heritage have survived from 1532 to 1540. Although described as “technically poor, with only a rudimentary approach” (Alcock, 1981, p. 112), the preoccupation of these accounts is receipts and expenditures.

6 The accounts were for a legal case claiming a breach of the terms of a will specifying the maintenance of the ‘level’ of stock on the farm, the numbers of sheep, etc.
2. The English commercial revolution

From the fourteenth century, freedom from feudal domination of the major cities in northern Italy allowed the free flow of capital in international trade. By the fifteenth century, Italian merchants socialised their capital in forms approaching the modern joint-stock company (Ball, 1977, p. 25). In England, where feudalism retained its grip, the development of merchant capital was at first tightly controlled by the gild merchant. Gild merchants allowed capital almost no freedom to socialise. As Scott says, the gild system “acted as a check on the extension of partnership...[,] there were immense obstacles to the association of capitals owned by different persons...[and] a tendency, during the period the gild merchant was most flourishing, to separate capital into what might be called watertight compartments” (Scott, 1951, vol. 1, p. 6). In the fifteenth century, the principle of any gild member’s right to share in the purchase of a fellow member — the only way capital could have an independent existence — was “widened, and the gild appointed certain officials to make [joint]...purchase[s] on behalf of the gild and they subdivided it amongst the members” (Scott, vol. 1, p. 8). However, even in the fourteenth century the craft gilds and companies of merchants were eclipsing the gild merchants, particularly towards the end of the century and the early years of the next. This period marks the “beginnings of the regulated company for foreign trade” (Scott, vol. 1, p. 8). These companies firmly repressed the freedom of capital. Throughout the fifteenth and sixteenth centuries, exports of wool cloth dominated English overseas trade. This was the strict preserve of the Merchant Adventurers, dominated by a small number of wealthy London merchants who, with the support of the Crown, regulate the business to reap rich monopoly profits (Brenner, 1993, pp. 54–55; Hilton, 1976, p. 26). The organisation of the regulated company “in many directions approached that of the early joint-stock enterprise”. Nevertheless, “once these bodies had been organized and were able to enforce their rules, the commenda could not flourish”, and their apprenticeship requirements “tended to limit partnership” (Scott, vol. 1, pp. 10–11). Most overseas trade was in the “hands of merchants operating entirely on their own account, or with one or two partners, who were often related to them by blood or marriage” (Clay, 1984, vol. 2, p. 191).

The history of how capital came to win its freedom from feudal hegemony in overseas trade is, first, the history of the appearance of free capital in joint-stock companies for exploration and privateering from the mid-sixteenth century. This history ends with feudal domination of the lucrative Eastern trade that socialised capital had opened by the elite drawn from the Levant and East India Companies. This, we shall see, shows clearly in the signature in surviving accounts of the merchant elite from the fifteenth to the mid-seventeenth century who, even when they use DEB, do so in a thoroughly feudal manner. Second, it is the history of the appearance and development of socialised capital in the colonial trades, abandoned by feudal merchant capital, and the emergence of a new social class of merchants drawn from the middling orders, with distinct capitalistic mentalities. This class Brenner (1993) dubs the ‘new merchants’. It plays a vital role in the seventeenth century conflicts and in the EIC where the bourgeois revolution that the new merchants help to carry through, secures freedom for socialised and social capital in the Eastern trades. Although the early joint stock company “represents an important innovation which played a key role in the geographical expansion of English overseas trade” (Clay, 1984, vol. 2, p. 194), it did not lead directly to modern capitalism. For the merchant elite who provided most of the finance, they were only necessary vehicles for exploration. Feudally regulated companies rapidly took over the trades the joint stock companies opened for the benefit of a few. However, the early joint-stock companies played a vital role as a crucible in which the calculative mentalities of the merchant and the feudal lord could begin to fuse into the outlook of modern capitalism. While merchant capital predominated, “one-third of the membership and almost one fifth of the capital of the companies established between 1575 and 1630 was non-mercantile, coming mostly from landowners” (Clay, vol. 2, p. 194).
2.1. The struggle for freedom for capital in overseas trade

In 1490 the first cargoes of pepper and spices reached Lisbon directly from India. The western route to the “Indies” was discovered in 1492. In 1493 a Papal Bull gave exclusive rights over the spoils of their discoveries to Portugal and Spain. English merchants with crown backing began to search for a northeast or northwest passage to ‘Cathay’ to avoid conflict and find a shorter route (Hunter, 1899, vol. 1, pp. 186–195). To finance these voyages required joint stock companies (Scott, 1951, vol. 1, p. 17). Long ocean-going voyages demanded expensive fleets of large, heavily armed vessels and there were long delays in realising the capital and great risks (Davis, 1967, p. 12).

Fruitless voyages in search of the northeast passage occurred in 1498, 1500, 1502, 1527 and 1536. In 1551 London merchants promoted a company to finance the Chancellor–Willoughby expedition that also sought a northeast passage free from Portuguese interference. This was the first of the “great English joint-stock companies for foreign trade” with an initial membership of over 200 (Clay, vol. 2, pp. 193–194; Scott, 1951, vol. 2, pp. 36, 39). It was, in effect, the first English East India Company (Hunter, 1899, vol. 1, pp. 195–199). Although the Chancellor–Willoughby expedition discovered no northeastern passage, one of the three ships survived to land at Archangel and negotiated access to valuable Russian commodities. In 1555 the Merchant Staplers and Merchant Adventurers predominated. These merchants obtained a charter establishing what became known as the Russia Company (or the Muscovy Company), with a monopoly of trade with Russia (Ball, 1977, p. 41; Scott, vol. 2, p. 38). By 1566 “invasions of the charter become frequent”, and the company applied to Parliament to have its privileges confirmed and tightened. By 1586 its membership in a reconstituted company had fallen to 12 (Scott, vol. 2, pp. 41, 42, 48). The monopoly survived an attack in Parliament in 1604 to go on to claim monopolies in whaling and the Greenland trade, and to earn “handsome profits” for its owners (Scott, vol. 2, p. 64). As Ball says, “The Company increasingly resembled a Regulated Company, though it remained formally a joint-stock company until around 1620” (Ball, p. 42).

From the 1530s several English merchants began to strive peacefully for a slice of the trade in commodities from the East and West, but conflict with the Spanish and Portuguese was inevitable (Andrews, 1964, p. 11; Hunter, 1899, vol. 1, p. 207). Although privateering under French licences had already begun under Mary, with the “accession of the Protestant princess [Elizabeth] in 1558 a host of projectors appeared” (Hunter, vol. 1, p. 202), offering schemes to find the northwest passage, potentially challenging Spain’s claim to America. Some challenged Portugal and Spain to the South. A series of African voyages terminated in 1562 when John Hawkins, unwilling to wait for favourable political relations between England and Spain, “seized 300 negroes by force and shipped them to Spanish plantations. This expedition was profitable, and two others were undertaken in 1564 and 1567” (Scott, 1951, vol. 1, p. 34).7 Others followed. After seizures by the Portuguese in Guinea and by the Spanish in the West Indies, in the late 1560s “the Hawkinses, Fenners and Winters pursued their private war with Spain and urged an aggressive, anti-Spanish policy for the nation” (Andrews, 1964, p. 13). Anglo-Spanish conflict disrupted Spanish trade from 1569 to 1573, following which the London merchants trading there sought a monopoly charter (Brenner, 1993, p. 15). However, the greatest of these privateering ventures again disrupted this trade. “From the return of Drake’s expedition of 1577–78, English privateering increased, both in numbers of voyages and in the size of each venture” (Scott, vol. 1, p. 85). The Spanish occupation of Portugal in 1580 also disrupted the Antwerp entrepot, until then the main source of Eastern commodities for English merchants. There was public discussion of the danger of allowing the Spanish to dominate the western Mediterranean and Indian seas. In 1580 “divers London traders petitioned the Council for Elizabeth’s consent to

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7 Privateering under English licence also began in 1562 (Andrews, 1964, p. 16).
an expedition direct to India” (Hunter, vol. 1, pp. 210, 225). English and Dutch merchants had begun to obtain supplies through the Mediterranean in the 1570s. In 1580–81 twelve investors, the majority of whom were Muscovy and Spanish Company members, formed the Turkish Company as a joint-stock that obtained a charter with a monopoly. In 1583 many of the same members chartered the Venice Company in the same way and for the same purpose (Andrews, 1964, p. 14; Brenner, 1993, pp. 17–18). These trades “begin to yield quite sizable profits... and a relative handful of merchants quickly succeeded in monopolizing them” (Brenner, p. 53). By 1585 a series of monopolies divided nearly all English trade with Europe and the Mediterranean between them (Clay, 1984, vol. 2, pp. 197–198). After the defeat of the Spanish Armada in 1588, the same feudal merchants took control of the Eastern trades by extending the scope of Turkey Company’s charter to India (Brenner, p. 18). This provided the feudal foundation for the EIC, and the source of the seventeenth century conflicts between its directorate and the generality of its investors and others promoting the freedom of capital in overseas trade. An early example of this conflict, where socialised capital pressed against the limits of feudal control, was the Spanish trade, the major early source of Eastern commodities by both peaceful and violent means.

The Spanish Company’s charter of 1577 barred all but its members from trade with Spain. However, with the outbreak of the Spanish sea war from the summer of 1585, the charter lapsed. From then to the early years of the seventeenth century, with or without official letters of reprisal, hundreds of private expeditions were organised for plunder; merchantmen on trading voyages were also expected to take prizes when opportunity offered; promoters of colonisation, exploration of new trade routes usually authorised their commanders to do likewise” (Andrews, 1964, p. 4). For 20 years or so, privateering was a major English maritime activity. “[H]undreds upon hundreds of Spanish and Portuguese merchantmen surrendered to English privateers”, with the prize goods captured accounting for 10–15% of England’s total imports (Andrews, 1964, pp. 21, 124, 128). Of necessity, such adventures socialised their capital in varying degrees, with the elite socialising the least.

The ships, equipment and provisions for a voyage were normally supplied by a variety of individuals. Most of the principal adventurers were shipowners... [with up to] eight partners. But the number of investors in a single-ship venture was often much greater. Small contributions of money, victuals and other provisions to the value of a few pounds each were common in the smaller enterprises, and these investors would often be seamen or local tradesmen.... A wide distribution of shares was probably less typical of the larger sort of expedition (Andrews, 1964, p. 46).

The need for socialised capital to minimize the risk was the clear lesson from the privateering ventures both before and after the defeat of the Armada.

In both series there is the common element that all of them, of which there is any record, were conducted by joint stock companies. This plan had many advantages. Financially, it enabled the investor to distribute, and so minimize the risk of hazardous enterprise. Suppose, for instance, a capitalist [sic] was prepared to adventure £2000 in privateering, he could only fit out one ship of about 200 tons or two smaller ones. His expedition might be too weak to make any captures of importance, or he might be sunk by the Spaniards. If, on the other hand, he joined in

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8 In 1582 even the usually cautious Muscovy Company financed a southern trading voyage.

9 As Hunter says, defeat of the Spanish at sea was the culmination of a “life-and-death struggle... fought out, not only by royal fleets and armies alone, but also by merchants” (Hunter, 1899, vol. 1, p. 225). Although the Spanish merchants did not want war with Spain, when the sea war broke out they “became the chief force behind the privateering war” (Andrews, 1964, p. 15). “In 1585... [a] bellicose alliance of revengeful traders and rapacious gentry gained the adhesion of a powerful body of merchants, and the social force which was to dominate the sea war reached its full shape” (Andrews, 1964, p. 18).
several larger expeditions, even if one were a total failure, he had every prospect of obtaining handsome profits from his shares in the others (Scott, 1951, vol. 1, p. 73).

Exploration and privateering also provided an arena to begin forging the modern capitalist mentality. These voyages pooled capital accumulated in agriculture and trade. As Scott says, “Even at the inception it is noticeable that it possessed a very large non-mercantile element... persons engaged in other branches of commerce, those who had retired from industry, gentlemen and others... [creating] the union of these in one body with the mercantile classes” (Scott, 1951, vol. 1, pp. 443–444). Andrews wraps up the non-mercantile element as ‘the gentry’, all those with incomes derived from the land, whether directly or indirectly. He says there were “two aspects of English maritime ambition which tended to lead to conflict with Spain: the one mercantile, the other predatory; the drive for merchants to extend trade, and the drive of the gentry for plunder. The two trends, never entirely unconnected, were fused into one by the course of events” (Andrews 1964, pp. 10–11). In Marx’s view, this course of events was part of the primitive (initial) accumulation of capital. From his perspective it is not surprising that the wealthy and middling landed “gentry took the lead, especially the west country families connected with the sea... transform[ing] the petty Channel roving of the earlier years into the oceanic ventures of the seventies and eighties, fusing into one diversified movement the ambitions of plunderers and traders” (Andrews, 1964, p. 16).10

Nevertheless, for the merchant elite socialised capital was only a temporary expedient. They were the biggest investors, “and among the merchants a comparatively small body of magnates, mainly Londoners, dominated the field” (Andrews, 1964, p. 100). The ‘professionals’, those who made money at privateering, worked with the London syndicates. These Londoners, leading merchants of the City, in “dominating the whole business of sea-plunder, collaborating with each other, financing amateurs like Cumberland, working hand in glove with the professional seamen, buying up prize cargoes”, displayed some of the finest qualities of the modern capitalist mentality. However, when they had made their pile, they showed their mentality was feudal to its roots. “[I]n their old age they stood among a great community of magnates”, and when they retired as feudal lords of overseas trade their new wealth “overflowed into land purchases, mortgages and organised benefaction on an unprecedented scale” (Andrews, p. 122). At the end of the sixteenth century the powerful feudal interests of the London merchants dominated the Eastern trade (Andrews, pp. 147, 228, 230). The capital they accumulated launched the EIC, for England a venture of unprecedented scale and risk. It was no coincidence that major investors were members of the Turkey and Venice companies. These merchants had built armed fleets to engage in highly profitable privateering against Spain during the 1580s and 1590s, and to sell the proceeds (usually commodities) around the Mediterranean. The capital they accumulated built the ships used for the first EIC voyages at the turn of the century (Brenner, 1993, p. 48).

By its renewed charter of 1592 the Levant Company was only 53 persons, and 20 others chosen at the Company’s discretion on payment of hefty admission fee of £135. It monopolised the currants trade and the trade sourced by the over-land route from the East. Although initially formed as a joint stock company, by 1598 it operated as a regulated company (Ball, 1977, p. 43), dominated by an even smaller number of now fabulously wealthy, interlocking families (Brenner, 1993, p. 75). Key to maintaining their monopoly and wealth was the restriction of the trade to ‘mere’ merchants — those with no other occupation. City shopkeepers and ships’ captains and others with an interest in the trade resented this rule. In 1606 Parliament was dominated by capitalistic gentry, many of whom had invested in joint stock companies and would again. It withdrew the

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10 Not surprisingly because in Marx’s theory, and in fact, a growing section of the gentry was accumulating capital by ‘primitive’ means. That is, coercively, as they had since the end of the fifteenth century, either as capitalistic farmers promoting enclosures, or as landlords drawing increasing rents from growing cash surpluses, particularly from corn production, in the later sixteenth century (e.g. Coleman, 1977, p. 44).
Spanish Company’s charter and socialised capital flooded in. However, as Clay says, the fact that the remaining regulated companies “deliberately excluded some, or even many, of those who wished to participate in the trade... naturally caused some discontent... [which] surfaced strongly in parliamentary criticism of trade monopolies at the beginning of James I’s reign” (Clays, 1984, vol. 2, p. 199). Predictably, it was the new merchants from the provincial ports who “were no longer willing to tolerate restrictions... when their maintenance appeared to be motivated mainly by a determination to deprive them of a full share in the coming prosperity” (Clay, vol. 2, p. 199). The loss of the Spanish Company to the feudal elite was slight. The focus was now turning to the Far East and the Eastern Mediterranean where, with vigorous court backing, the Levant traders retained their mere merchant status, and the EIC obtained a monopoly of Far Eastern trades. This display of feudal power retained the basis for the class conflict that intensified and ultimately provoked the bourgeois revolution in the EIC in the mid-seventeenth century, and the overthrow of its London merchant elite.

Up to 1625, trade with Spain was the only sector of overseas commerce open to London’s tradesmen and ships’ captains. After 1625, new merchants flourished in the rapidly expanding trade with Virginia and the West Indies, first in tobacco and then sugar. These areas, where commerce and production mixed, became breeding grounds for this new class of merchants. This was particularly so for the group who became top colonial traders. Partnerships and family ties closely link this group, and it will “constitute an important underlying basis for the political and ideological struggles in London during the Civil War” (Brenner, 1993, pp. 89, 114). The merchant elite backed early efforts at colonisation through their favourite vehicle, the privileged company. However, their unwillingness to invest in production and wait for returns led them to abandon colonial development and trade. This marked difference between the mentalities of the feudal elite and the new merchants is consistent with Marx’s theory that the modern capitalist calculative mentality emerged from the fusion of the mentalities of socialised merchant capital and formally capitalistic production. These mentalities could, and did, mingle “in plantation development in early Virginia, [where] the distinction between merchant and planter tended to be blurred: merchants took up plantations, planters became merchants, and all sorts of merchant-planter relationships were formed... especially... at the top level of society, for in order to market large amounts of tobacco, it was generally necessary to combine plantation ownership with trade” (Brenner, 1993, p. 116). The same was true in the Caribbean from the later 1620s when the English began colonising, and by the 1640s sugar plantations and the triangular trades (sugar, slaves, provisions) were founded on capital socialised in various forms. Again, the capital is a mixture of mercantile and agricultural elements (Brenner, p. 162 see also, p. 160). Predictably, while English planters on Barbados learn their sugar growing and sugar making from the Portuguese in Brazil, they do not copy the strictly feudal Portuguese social relations of production. “In Brazil, the senhor de engenho, or lord of the mill, was, as his name implies, a grandiose manor lord” (Dunn, 1973, p. 46). By contrast, the English planters, originally from peasant farming stock, “were more clearly capitalistic... [as their] prime goal was to make money, not to become seigneurs”. At first they employed indentured wage-labour (progressively replaced with slaves by 1660). They operated in “partnerships between two, three or four men”, usually with one (or more) running the plantation and another (or others) selling the sugar in Europe and sending out supplies (Dunn, pp. 64–65). Also consistent with Marx’s theory, the elite group of planters who emerged from the mid-seventeenth century as the sugar market takes off, “seem to have commercial backgrounds in England... a high percentage... [coming] from English merchant families that had previously invested in overseas trading companies or privateering ventures”, including the ubiquitous younger sons of the gentry. The same pattern is evident in Virginia (Dunn, pp. 58, 78).

This is the context in which to understand the history of accounting during the commercial revolution of the sixteenth and seventeenth centuries. There was a flowering of socialised capital
in exploration and privateering. There was feudal domination of the most lucrative Eastern trades, leaving North America and the Caribbean as nurseries ‘beyond the line’ in which the continued mingling of socialised merchant capital and production fostered the capitalist mentality.\textsuperscript{11} As Brenner (1993) has shown, these arenas of endeavour provide an important economic and social foundation for challenging the feudal control of overseas trade and the ultimate victory of these new merchants in the bourgeois revolution. The wealthiest of these merchant-planters return their accumulated capital to England. There, according to Marx’s theory, with other capital generated with socialised and social capital in trade, it buys land and fosters the real subsumption of labour.

In Part one we saw that some historians believe that merchants were inherently capitalists. In the following section we examine the available evidence on the use of DEB in England during the commercial revolution. This is consistent with the implication of Marx’s theory that the great London merchants who dominated overseas commerce during the sixteenth and early seventeenth century were feudal in their calculative mentality. Very few used DEB, and those that did show little or no interest in using it to calculate the rate of return on capital. They use DEB to calculate feudal surplus. This conclusion casts a critical light on Yamey’s ‘Weber–Sombart’ thesis that mere use of DEB indicates the existence of modern capitalism, but it also questions Yamey’s view that this evidence shows DEB was irrelevant to its development.\textsuperscript{12} Evidence from Grassby (1969) suggests that only merchants with experience of socialised capital used DEB capitalistically.

### 2.2. Accounting for the English commercial revolution

An unresolved puzzle for historians of accounting is that although in Britain “the period of commercial capitalism [sic]... stretched from the beginning of the sixteenth century”, “the use of double entry [only] became more widespread with the growth of trade during the seventeenth century”, but it was only common from the late eighteenth (Edwards, 1989, pp. 56, 11, 57). Marx’s theory of the transition can explain this. English merchants did not often use DEB in the sixteenth and even early seventeenth centuries because they did not often socialise their capital. Marx’s theory says we should only expect the capitalistic signature, the use of DEB to calculate the rate of return, for socialised capital. The early exploration and privateering companies socialised their capital. Did these companies use DEB? Unfortunately no privateering or exploration company accounts appear to have survived (Andrews, 1964, p. 46; Scott, 1951).\textsuperscript{13} What is available are the first textbooks on DEB, and a small number of studies of sixteenth and seventeenth century merchants’ accounts. Both sources are consistent with Marx’s theory.

Books on double-entry in English appear as the commercial revolution begins. The first is Hugh Oldcastle’s ‘A Profitable Treatyce’ in 1534. The English translation of Ympyn’s ‘A Notable and very Excellente Woorke’ appeared in 1547; James Peele’s ‘The Manner and forme of how to kepe a perfecte Reconying, etc.’ in 1553, and ‘Pathe-way to perfectness’ in 1569; and John Weddington’s ‘Bre/C128e Instruction’ in 1567. Mellis reprinted and elaborated Oldcastle in 1588. All these closely follow Luca Paciolo’s pioneering publication on

\textsuperscript{11} In the sixteenth and seventeenth century to avoid constant conflict at home over disputed ‘rights’ in the Americas, the European powers drew an imaginary line down the middle of the Atlantic. Beyond the western side of this line the normal rules of social conduct no longer held (Dunn, 1973).

\textsuperscript{12} Recall that while Sombart naively claims DEB signatures modern capitalism, Weber did not make this error. Although Yamey sweeps up Weber with Sombart, we shall see his unconscious agreement with Weber’s mistaken neo-classical understanding of the role of modern accounting undermines his conclusions.

\textsuperscript{13} While some later seventeenth century and eighteenth century Jamaican ‘crop accounts’ survive (Sheridan, 1965, p. 294; Pares, 1960), and “There are some excellent estate records of seventeenth-century sugar plantations” (Dunn, 1973, p. xvi), neither published analyse nor examples appear to exist. Although the calculative mentality revealed in the surviving accounts of West Indian and the North American new merchants and colonisers is an important topic for future research, the case study of the EIC indicates their capitalistic calculative attitudes and accounting preferences.
DEB in 1494 designed to instruct merchants. A possible cause of this sudden interest in teaching, writing and selling books on DEB in England is that, as capital becomes socialised in exploratory and privateering ventures, it begins to obey the basic social law of an equal return for equal capital. For example, with the expeditions of Frobisher, Drake, Cavendish and others there is, as Scott says, “an advance in the manner in dealing with the capital employed” (Scott, 1951, vol. 1, p. 75). Before this advance, goods “were dealt with on the basis of a [fixed] share in the profits, whereas subsequently ships or commodities were valued and become part of the capital. In 1561 Elizabeth lent ships to join the voyage to Africa. Her compensation was a fixed share of the profit. In 1577, again on subscribing to Frobisher’s second voyage, a very careful and minute valuation was made, and ‘shares in the stock’ given her accordingly” (Scott, vol. 1, p. 75, emphasis added). A broad socialised capital formed by investors from the highest levels of society eagerly supported Frobisher’s second voyage in search of gold.14 In Drake’s strategic West Indies raid in 1585 Elizabeth supplied two ships and £10,000, giving her “an investment officially assessed at £20,000 in a total stock of £60,400” (Andrews, 1964, p. 5). Drake’s fleets sailed in 1587, 1589, and 1595 on a similar basis. While in Andrews’ description of the division of prizes there are clear feudal elements, it also reveals the operation of the fundamental law of socialised capital. “At the end of the voyage what was in fact a ‘terminable joint stock’ would be wound up by the apportioning of the prize goods. The Lord Admiral was entitled to a tenth, and the queen to her . . . five per cent; of the remainder one-third was supposed to go to the owners of the ships, one-third to the victuallers and one-third to the crew. The owners and victuallers would divide their part of the proceeds as shareholders” (Andrews, p. 46, emphasis added).

Whether any of these ventures used DEB to calculate the rate of return on capital is unknown. Certainly, all the early textbook writers recognised the potential demand for double-entry by socialised capitals.

During the sixteenth to eighteenth centuries, there did exist in England a number of partnerships and joint stock companies in which the assets of several individuals were placed either under the control and management of one body of administrators or under one partner or manager. These organizations, most of which were on a temporary basis, presented a need for a system of accounting that could provide relevant, organized, and impartial information in situations where ownership and management were separated. All the authors during this period recognized this and devoted special sections of their books to the problems of ‘company accounts’ (Winjum, 1971, p. 349).

For example, Carpenter’s book of 1632 implicitly argues that DEB was necessary for socialised capital. As he put it, where “men are obliged to join in Partnership, which often blowes up with great discord, if they have not kept a true form to satisfie those Concerned what is become of their Stocks, that their success be what it will, one may not be wronged more than another” (Carpenter, 1632, p. 1). However, in a feudal context it is not surprising that most of the treatises aimed primarily at the “ordinary merchant rather than the large business organization” (Winjum, 1971, p. 349). As we shall see, the ‘ordinary merchant’ in overseas trade was the individual feudal merchant.

Yamey focuses his fire on Weber and Sombart’s supposed “exaggerated statements concerning the inter-connections between accounting techniques, double-entry in particular, and the conduct and motivation of business enterprise” (Yamey, 1956, p. 6). In Yamey’s view, there can be little doubt that the attraction of DEB was its supposedly greater comprehensiveness and its automatic check on accuracy. However, over the third main ‘advantage’, that the bookkeeping method (if properly and fully applied) automatically produces the

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14 Martin Frobisher led three joint-stock expeditions. The first was for the northwest passage, but the second and third for gold, attracting investment from a large number of the court and the wealthy merchants involved in the Spanish, Moroccan and Russian Companies (Brenner, 1993, p. 20; Hunter, vol. 1, pp. 202–206).
means — profit and capital — to calculate the rate of return on capital, there is a dispute.

This leaves the third quality of double entry, the fact that it makes possible the development, as part of the system, of summary statements of profit and loss and of proprietary interests and assets. Was double entry valued for this quality by its practitioners in its first few centuries? In seeking to answer this question two opposing points of view are encountered concerning the role of the profit and loss account and the balance account in early double entry. On the one hand are those who hold that these synoptic statements, expressing profit and capital in precise quantitative terms, were highly prized end-products of double entry, that through their instrumentality the double entry system made possible or sharpened the so-called ‘rationalistic pursuit of profit’, and that mainly in this way... the system was essential to the development of nascent capitalism. On the other hand, there is the more prosaic view that the profit-and-loss accounts and the whole process of balancing the ledger primarily served narrow bookkeeping purposes related to the first two qualities.... [If] the first point of view be accepted, double entry would have been both a manifestation of the spirit of capitalism in its formative decades as well as a propulsive agency furthering a significant economic and cultural development (Yamey, 1956, pp. 8–9).

Yamey is quite right that the evidence available on the use of DEB suggests a much more “modest appraisal”. As we shall see, these DEB accounts produce feudal surplus, not capital and profit. Yamey explains the spread of DEB from Italy to Europe as “largely the result of the influence of treatises describing and explaining the system” (Yamey, 1956, p. 9). In his first paper he restricts himself to the books on DEB from 1494 (Yamey 1949, p. 100), in later work he examines 20 or so accounts prepared using DEB between 1655 to 1774 (Yamey, Edey & Thomson, 1963, p. 180). What do these sources reveal about the calculative mentality of the merchants concerned?

Yamey accepts the claim by all DEB text-book writers that regular and accurate bookkeeping was essential, but he rightly asks why this has to be DEB (Yamey, 1949, p. 105). He is also right to ask whether bookkeepers knew about the “special properties” of DEB, and if so does this prove it “was valued specifically on that account, or that the balance account, for example, was specially drawn up to exhibit the financial situation from time to time”? As he says, “evidence from the texts... favours the conclusion that the accounts were not balanced regularly, but generally only when the ledger or journal was full, or when the merchant wished to have a new set of books, or when some special circumstance required the formal closing of the books” (Yamey, p. 106). Yamey supports this conclusion in later work by examining eight account books, where he finds a complete lack of interest in using the accounts to calculate the rate of return on capital, just as he finds this in the texts.

Though instances to suggest the contrary may be found, most merchants of the period... did not use their bookkeeping, whether by double-entry or otherwise, to keep a regular and accurate check on their capital and profits. There is scant evidence of any attempt at a precise calculation of profits and capital. Accounting practice, judged from the texts, does not suggest the ‘quantification’ of possessions, the comparison of profits and invested capital, and the separation of the owner from his enterprise, which have been mentioned as some of the more important ways in which accounting has contributed to economic rationalism.... The evidence is largely against the view that the merchants of the period required anything more from their ledgers and journals than a clear and ready record of transactions for easy reference, and details of their cash, merchandise, and other assets bought and sold (Yamey, 1949, p. 110).

However, Yamey neglects to ask whether lack of concern for calculating the rate of return on capital arose because the early English text-book writers are attempting to sell their books mainly to
top feudal merchants, and only incidentally to joint stock companies. He also fails to ask whether the merchants whose account-books he and others have analysed actually constitute a test of the significance of DEB to the appearance of capitalism, that is, whether his merchants were capitalists at all. Yamey does not question this, merely their use of DEB. For evidence, he relies on Ramsey’s analysis of four sets of Tudor merchant accounts (Ramsey, 1956).

Ramsey concludes that, although “the principle and practice of keeping accounts was well established, it seems clear that in the great majority of cases these accounts were of a very simple nature, little more than lists of purchases and sales” (Ramsey, 1956, p. 187). This is exactly what Marx’s theory predicts for feudal merchants, simply the consumable excess of sales over purchases, income minus expenditure. Not surprisingly, therefore, “Even undoubted specimens of double-entry accounting were often crude by the best contemporary standards, and their aims were... rather different from those of modern bookkeeping” (Ramsey, p. 187). Ramsey’s four merchant’s were all members of regulated companies. Thomas Howell was a member of the Drapers Company trading chiefly to Spain (1522–1527). John Johnson was a merchant of the staple of Calais (1534–1538). Thomas Laurence was a Merchant Adventurer (1565–1569). Sir Thomas Gresham was a member of the Mercer’s Company (1519–1579). The other differences from modern practice in their use of DEB provide further evidence that all have feudal mentalities. These are: (a) “There was more than one trading account in the ledger. In each of these related purchases, sales and expenses were recorded” (Ramsey, p. 193). (b) No distinction is made between the private affairs of the merchant and his business affairs, and (c) there is either no capital account or no concern to calculate profit as the realised increment to capital.

The feudal merchant organised his surplus account as he organised his life into temporary, separate, ventures. He thinks of these either as the venture of various commodities in particular markets, or as the venture of particular commodities to various markets, and he accounts for them accordingly. “All charges specifically related to the venture or commodity in question are debited to the account” (Ramsey, 1956, p. 194). However, without qualification it is misleading for Ramsey to add that “the balance on one of these accounts, after due allowance had been made for stock in hand, represented the net profit or loss on the commodity or venture in question” (Ramsey, p. 194). As Yamey shows for later accounts (Ramsey provides no details), the profit or loss was simply cash receipts minus cash expenses with no attempt to adjust for accruals or to charge for fixed assets (e.g. for the costs of warehouses or storage buildings). Unlike the modern capitalist, the feudal merchant did not focus on profit, but on the consumable surplus of his household. Thus, “no distinction is made between the private affairs of the merchant and his business, and the identification of the two affected not only the treatment of expenses, but also... the estimation of profit and loss [sic]” (Ramsey, p. 195). It is therefore inappropriate to criticise these accounts as “show[ing] some confusion in their treatment of expenses”, and to compare them unfavourably with the accounts of the Affaitadi and the Borromeo Company, both family firms employing socialised capital. It is likewise inappropriate to criticise the use of an account for all other miscellaneous gains and losses as “simply as a dumping-ground for the items that the book-keeper could not fit in anywhere else” (Ramsey, p. 195).

The feudal attitude shows in Sir Thomas Gresham’s accounts, the only one of the four to even have a ‘capital’ account. All we find there is the net of the opening entries of assets and liabilities, but excluding his ‘fixed assets’ (manors, houses, lands). He only attempts to calculate his ‘profit’ once. He does not transfer the result to the ‘capital’ account, and from the capitalist viewpoint it would indeed “be inappropriate to compare the recorded net income with the value of the recorded net assets since this would overstate the rate of return on capital” (Ramsey, 1956, p. 196). However,

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15 When considering the question of whether it would be possible to derive final accounts from these merchants’ incomplete records Ramsey later admits that to do so would require an “allowance for depreciation of stock or, of course, for the depreciation of fixed assets” (Ramsey, 1956, p. 199).
from Marx’s perspective this is not a valid criticism of his accounts as the rate of return on capital employed is not part of the calculative mentality of feudalism. As Ramsey admits, these characteristics of Tudor merchant accounts “suggest they were intended to serve purposes rather different from those of a modern double-entry system”, particularly “the calculation of profit and loss” (Ramsey, p. 196). If so, Ramsey is again unnecessarily critical of Gresham because, for example, he “habitually anticipates profits, crediting the ‘Damage and Gain’ account with rent payments six months before they are due and entering interest payments in it at the time the loan is made” (Ramsey, pp. 197–198). Ramsey comes near to seeing the feudal mentality in his surmise that “It might be inferred that Gresham was more concerned with having a suitable record of moneys due to him than with calculating his profit accurately”, that is, a record from which he could estimate his consumable income. He also comes close in his suggestion that most merchants calculated ‘profit and loss’ by a simple comparison of the opening and closing ‘values’ of their assets, presumably their net realisable values, what Ramsey calls the “increase or decrease in his net assets”. Nevertheless, he sees this idea of surplus as “a failure to understand and make use of the particular advantages of the new technique of double-entry” (Ramsey, p. 201). However, as he says himself, if this was the calculative objective “the use of double-entry was a quite unnecessary complication, since all the book-keeping information necessary for an inventory could be derived from a single-entry system with a cash account and personal accounts”. Certainly, therefore, “It must be suspected that those English merchants who did adopt double entry in the sixteenth century did so without any clear idea of the advantages [sic] to be derived from it” (Ramsey, p. 198). They may, perhaps, have adopted DEB to display their modernity, or because they happened to learn this method of bookkeeping on their travels. However, it again reveals a misunderstanding of the feudal mentality to suggest that most merchants did not use it because it was not cost-effective: “since most merchants could obviously well afford to do without it, it is hardly surprising that it was not widely adopted” (Ramsey, p. 198). Yet, as a historian, Ramsey is clearly unhappy with this view for he implies, rightly from our perspective, that DEB was irrelevant to the calculative mentality of feudal merchants as there was no social pressure on them to calculate the rate of return on capital. As he says, “the distinction between business and private affairs would have seemed meaningless to a sixteenth century merchant, who was not accountable to anyone but himself” (Ramsey, p. 201).

Yamey studies eight double-entry accountbooks of individual merchants from the middle of the seventeenth century to the late eighteenth century in three later papers (Yamey, 1959, 1960, 1963). It is predictable that even in the eighteenth century, just as the feudal landlords who continued using charge and discharge even though their tenants were capitalistic, great merchants and financiers who retain feudal power carry on accounting for the consumable surpluses of their households. This appears to be what Yamey finds. For these great men, “The balancing process... was mainly concerned with more narrowly-defined bookkeeping purposes, and the calculation of profits, for example, was probably an unimportant by-product” (Yamey, 1963, p. 187). Again, there was much “mingling of business and private entries” in the profit and loss account. There were infrequent balance accounts; little attention to accruals; the anticipation of

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16 These are: William Hoskins (1655–1667), a merchant who lived in Cherbourg; Sir John Banks (1627–1699), a wealthy merchant-cum-landowner, member and later governor of the EIC; Sir Robert Clayton and John Morris (1669–1680), scriveners of the City of London, both aldermen; Sir Dudley North (1641–1691), Turkey merchant; Sir Charles Peers (1689–1695) member of the Salters Company; Richard du Cane (1754–1758), MP and director of the Bank of England and Peter du Cane (1713–1803), also director of the Bank of England and director of the EIC, and William Braund (1758–1774), merchant, shipowner, and shipping insurer, director of the EIC and of the Sun Fire Office. One is a partnership of two people — Sir Robert Clayton and John Morris — who acted as one. They lived together and shared expenses, never dividing profits.

17 Although examples of thoroughly modern uses of DEB appear, particularly in the eighteenth century. For example, the capital account of Braund (Yamey, 1963, p. 191).

18 Note, however, we shall see that for Sir John Banks, at least, Yamey’s statement is too sweeping.
profits; few merchandise accounts; no standard practice in valuing fixed assets; and revaluation surpluses on fixed assets were taken to profit (Yamey, pp. 191–197). Yamey concludes, “In the valuation of fixed assets, as in the allocation of revenues to accounting periods, there was no consistent or rigorous application of any clear concept of periodic profit or income, or of any single set of accounting procedures”, or for the treatment of bad and doubtful debts (Yamey, pp. 197–198, 200–201). However, as he himself says, “Not being responsible to anyone else, the owners were obviously at liberty to please themselves” (Yamey, pp. 189–190) — or, as a Marxian historian of accounting would say, at liberty to please their feudal mentality. Thus, Yamey does not criticise the merchants or their accounting. He merely criticises those, like Sombart and Weber, who believe that DEB has made a significant contribution “to the solution of problems of business organisation and administration”, by which he means “useful for business decision-making within th[e] enterprise” (Yamey, 1964, p. 119). Yamey is clearly right that the realised rate of return on capital is not useful for investment decision-making, and DEB is not necessary to produce it. Nevertheless, the foundation of his conclusion, unwittingly shared with Weber, the view of neo-classical economics that the primary role of accounting in modern capitalism is to provide investors with useful information for decision making, is highly questionable (Bryer, 1993b, 1999).

Clearly, an obsession with the rate of return was not an inevitable corollary of merchant capital. However, for socialised capital the rate of return should become the central focus of accounting. The major example is the EIC that appears to have introduced DEB in the 1630s to meet demands by the generality of its investors for calculations of the feudal rate of return on their capital whenever they wanted. We consider this in the following section. Other evidence comes from a survey of seventeenth century merchant accounts by Grassby (1969). In the first half of the seventeenth century, socialised merchant capital was rare. It therefore again comes as no surprise that “Genuine double-entry bookkeeping was extremely rare in practice, balancing was highly irregular, and businessmen who liked to watch the progress of their fortune simply produced inventories, at intervals, and compared them to ascertain their rate of accumulation” (Grassby, p. 748). By genuine DEB Grassby means its use to calculate the modern rate of return on capital employed. As he put it, “The rate of profit should represent the net annual rate of return on capital, invested solely in the commodity trade, before deductions for personal expenditure and interest payments on borrowed capital, and after allowance has been made for business overheads and capital depreciation” (Grassby, p. 724). As from our perspective these merchants were unlikely to really subsume labour under capital, not surprisingly he found it “impossible to produce... profit rates on such rigorous lines, because so few ledgers are suitable for modern cost analysis” (Grassby, p. 724). Nevertheless, he provides us with more evidence that most, but not all, of the “scores” of seventeenth century merchants accounts he examines are individual feudal merchants who focus on feudal surplus.

Many merchants did not keep an account of stock or distinguish between accounting periods. In the seventeenth, as in the sixteenth century, they were content with sporadic inventories of stock at the beginning of each ledger. George Warner, 1639–40, had an elaborate Profit and Loss Account, in which profits were clearly distinguished from interest, but it also included personal expenses, was never balanced, and meandered for several years. Henry Hunter, in 1666, made an inventory of all his goods, money and debts owing, and took his surplus to stock, but between 1679 and 1698 he relied entirely on his Profit and Loss Account. In many ledgers, income appears in Profit and Loss without an entry in the capital account, and though specific trading accounts were usually balanced and carried to Profit and Loss, the balance of the latter is not always carried to the account of stock.... Nor can the balance on Profit and Loss be safely regarded as trading profit. Most merchants did not distinguish commercial from other investments, private from
business expenditure, or gross from net returns. ... [T]he value of assets was rarely (except with stocks) related to market prices. Capital costs and overheads were usually ignored and no provision was made for depreciation of fixed assets or for amortization (Grassby, 1969, pp. 722–723).

Grassby’s complaints of most merchants of the seventeenth century reveals only that the dominant idea of profit remained feudal, consumable surplus. Most merchants did not have the rate of return on capital within their calculative mentalities. However, unlike the fifteenth and sixteenth century, when a capital account usually did not exist, ‘some’ if not ‘many’ seventeenth merchants did have a capital account. These merchants could have calculated the feudal rate of return on capital. Some, Henry Hunter for example, by taking his surplus to stock, appeared to go a step beyond the feudal rate of return towards calculating the modern rate of return on capital. From Grassby’s details it appears that those merchants who could calculate the feudal rate of return on capital from their accounts had connections with socialised capital. These connections are only suggestive. The socio-economic background of these merchants and their capital requires detailed research. George Warner, for example, did not have a capital account, and it appears from the lists in Rabb (1967, chapter III) that he did not invest in joint-stock companies. Henry Hunter, by contrast, did have a capital account and was a member of the Levant Company, which formed as a joint-stock company, and had close connections with the EIC. Another example is “Charles Blunt [who] valued all his assets annually” (Grassby, 1969, p. 723), who was both a privateer and an investor in the Spanish Company (Rabb, p. 248). Sir John Banks’ accounts are almost impeccable, his only sin appears to be the failure of his ledgers to “not clearly separate capital gains from trading profits and financial deals” (Grassby, p. 723). Besides being a New Merchant Adventurer, Sir John was an investor in joint-stock companies for the colonisation of Ireland, the companies for the North West passage and the Bermuda Company (Rabb, p. 239). Richard Archdale, of whom Grassby notes the following, is also a good example: “Between 1631 and 1633, he had most of his capital in wine, cloth and sugar and, except for a share in the second Indian joint-stock, little out at interest. His annual average profit [sic] for these three years was 7.7% and the figure is exact, because he balanced his Profit and Loss account annually and transferred the balance to a stock account” (Grassby, p. 727). Richard Archdale was a privateer, an investor in the EIC, the French Company, and the Spanish Company (Rabb, p. 235). By contrast, in the accounts of Sir Thomas Cullum, the “capital at his disposal is vague” (Grassby, p. 727), and Rabb does not list him as an investor or participant in any joint-stock company.

In Marx’s theory the commercial revolution culminates in the mid-seventeenth century bourgeois revolution in which the rate of return mentality overthrows the feudal surplus mentality. The next section provides a detailed history of the development of accounting within the EIC on this critical element. Only by understanding the history of its accounting can we see that within the EIC there was, as Marx puts it for society in general at this time, a “contradiction and antithesis between, on the one hand, the relations of distribution... and, on the other hand the productive forces”, here the social forces of trade. As Marx says, in these circumstances “A conflict then sets in between the material development of production and its social form” (Marx, 1981, p. 1024). The outcome of this conflict within the EIC was victory for a social capital.

**3. The bourgeois revolution**

In Part one we saw that many historians think Marx claimed there was a class of modern capitalist farmers by the end of the sixteenth century. Until the 1960s this assumption underlay the
commonly accepted Marxist explanation of the religious and political conflicts of the seventeenth century that culminated in the revolutionary civil wars of the 1640s, the Commonwealth and, ultimately, the Glorious Revolution of 1688 (Brenner, 1989). Both Marxists and non-Marxists accepted the implication of this assumption, that the conflicts arose because a moribund feudal aristocracy thwarted a rising class of capitalist farmers and manufacturers. However, evidence that by the later sixteenth century the aristocratic landlord class was thriving on inflated rents undermined this explanation (e.g. Stone, 1965). Given the landlords’ and state’s capitalist outlook, in this interpretation of Marx there is no socio-economic reason for either the scale or intensity of the conflicts that ensued (Brenner, 1989, 1993). No such problem exists for our interpretation of Marx’s theory in which farmers and lords were still overwhelmingly only formally capitalistic, and their mentalities still in potentially unstable transitional forms. In our theory the socio-economic basis for the conflict was feudal domination of overseas trade.

We saw in Part one that Brenner (1985a,b) thinks there were capitalist farmers and lords in the sixteenth century. He also thinks the merchant elite of the sixteenth and seventeenth century were capitalists. From our perspective Brenner (1993) clearly portrays the feudal nature of the elite overseas merchants, emphasising that their monopoly rents were only possible with state backing. As he says, the company merchants’ “profits [sic] were... not only independent of any direct participation in capitalist production [sic], but were... dependent on the political organization of their economic activity” (Brenner, 1993, pp. 668–669). He highlights the challenge posed by the new merchants who grew from strength to strength during the early seventeenth century. He also thinks the merchant elite of the sixteenth and seventeenth century were capitalists. From our perspective Brenner (1993) clearly portrays the feudal nature of the elite overseas merchants, emphasising that their monopoly rents were only possible with state backing. As he says, the company merchants’ “profits [sic] were... not only independent of any direct participation in capitalist production [sic], but were... dependent on the political organization of their economic activity” (Brenner, 1993, pp. 668–669). He highlights the challenge posed by the new merchants who grew from strength to strength during the early seventeenth century. However, in his view the new merchants’ interest in production is the only difference between them and the company merchants. Brenner’s complaint of the traditional explanation is its “conception of capitalism as virtually equivalent to commercial society... and of the commercial classes as undifferentiatedly capitalist”, whereas in his view “the ‘commercial classes’... [were] far from uniformly capitalist” (Brenner, p. 649). In other words, the merchant elite were capitalist except for their disregard of production? Why else would Brenner find it “ironic... [that] there remained in the very constitution of the merchants property and, indeed, their whole approach to commercial development on the basis of that property, a critical, irreducibly politico-jurisdictional element of the sort that had long been transcended in the property of the landlord class” (Brenner, pp. 669–670)? In other words, why should Brenner find it ironic that the elite merchants were feudal in Marx’s sense unless he thinks they are essentially capitalist? In Marx’s theory, the conflict driving the bourgeois revolution is the commitment to ‘politico-jurisdictional’ surpluses in the face of socialised capital demanding an equal return for equal capital. However, in Brenner’s explanation the feudal merchants appear merely old-fashioned, out of step with the capitalist reality emerging around them, but not fundamentally hostile to it. I do not dispute Brenner’s history of the conflict.20 However, I do dispute his understanding of its socio-economic foundation, and his representation of the conflict within the EIC, for him an exemplar of the forces opposed in the conflict. As he says, on the one side the EIC’s “board of directors... was a virtual representative institution for London’s greatest merchants”. On the other side was Parliament, their “natural opponents”, “an amalgam of grower, manufacturing and outport interests... [with] an understandable desire for freer trade and thus for the weakening of the London merchants’ companies and privileges” (Brenner, pp. 202–203). However, as we shall see, it was not a weakening

20 In terms of Marx’s theory, in Brenner’s account a financially straightened Crown, sole possessor of military force, protects but milks the company merchants, whose surpluses sustain its conflict-generating feudal posture within its formally capitalistic shell. At a critical juncture, when Parliament’s capitalistic reforming edge, egged on by the new merchants and their landed supporters (the second earl of Warwick, in particular), becomes threatened by the Crown, Parliament’s new merchant supporters call on their allies in London. Physical conflict ensues as previously solid support amongst the landed gentry against the king collapses on the issue of ‘law and order’, many reverting to a feudal political coloration of their formally capitalistic outlook (see: Brenner, 1993, pp. 638–716, for a summary).
of these companies and privileges that the majority of the EIC’s investors demanded, but their abolition.

To go beyond Brenner it is necessary to explore the accounting signatures of the elite merchants and the new merchants, running up to, during, and after the intense conflicts of the 1640s. In a previous paper I hypothesised that the spread of DEB in northern Europe followed the advance of socialised capital in trade. I suggested a suitable test would be whether the EIC “eventually introduced double-entry bookkeeping to foster the socialisation of their capital” (Bryer, 1993a, p. 136). What follows is a case study of the development of accounting in the EIC, from its formation under Royal Charter in 1600 to the grant of its Commonwealth Charter in 1657, and the immediate consequences for accounting, consistent with this hypothesis. Although only two of the EIC’s financial statements have survived from 1600 to 1663 — none of its journals and ledgers have survived (Chaudhuri, 1978, p. 413) — most of its court minutes have. In the minutes of its many meetings there is much previously unanalysed material about the development of its system of accounting.\(^21\) I use them and other materials to trace the flowering and ultimate resolution of the contradiction between the social forces and relations of trade embodied in the EIC’s founding constitution, its bourgeois revolution, through a history of its system of accounting.

3.1. The bourgeois revolution in the English East India company

Brenner (1993) shows that a major cause of the seventeenth century conflicts was who would reap the rewards of the very promising Eastern trades. The King claimed his absolute feudal right to tax foreign trade at will. Supporting him were the elite feudal merchants who, with the grant of a Royal monopoly and privileges, regulated the trade in their own and Royal interests. Opposed to this interest was a ‘commercially minded’ landed class represented in Parliament. Alongside them were the lesser gentry, yeoman farmers, independent new-merchants trading with North America and the Caribbean, successful ships’ captains, shopkeepers and manufacturers, and others, the ‘generality’ with money to invest, for whom feudal prerogative barred full participation in the Eastern trades. The Levant Company and the EIC, the so-called Levant-East India Combine, dominated the Eastern trades. Although these merchants wanted commodities to trade on their own account, and they would have preferred a regulated company, given the scale of investment required and the risks involved, they invited subscriptions. As its promoters said, “for that the trade of the Indies, being so far remote from hence, cannot trade but in a joint and united stock” (Sainsbury, 1964a, p. xxxvii).\(^22\)

To accommodate the interests of the merchant elite, the charter of the EIC created a hybrid between a joint stock company and a regulated company. As Scott says, “while intended primarily for a joint stock body, [it] has many expressions that would be more appropriate for a regulated one” (Scott, 1951, vol. 2, p. 97).\(^23\) In particular, its organisation as a series of separate, terminable stocks paying divisions of both the surplus of commodities and cash and the capital advanced, and the freedoms granted to its members to trade

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\(^{21}\) The major source are abstracts of the Company’s Court Minutes from 1599 to 1663 prepared and calendarised by Noel and Ethel Sainsbury. The EIC held a periodic ‘General Court’ of all the membership and ‘Courts of Committees’ that met as business dictated. A ‘Committee’ was an individual member of the Company elected to a position of responsibility for ‘committing’ the Company to acquiring bullion, building and repairing ships, garnering provisions, selling merchandise, and for running docks and warehouses, etc. Collectively, the Governor and the Committees are called the ‘directors’ or ‘directorate’.

\(^{22}\) Apart from the risks of long ocean voyages and trading in hostile parts, the adventurers knew they would be challenging Dutch and Spanish–Portuguese interests. The Dutch East India Company emerged in 1602 when the States–General amalgamated the many associations formed throughout the United Provinces into a joint-stock company. A central board of representatives came from the subscribing States in proportion to their subscriptions, which came overwhelmingly from the great merchants of Amsterdam (Hunter, vol. 1, pp. 233, 237–240). Unlike the EIC, the Dutch had a ‘seminational character’ and its objectives were colonisation and conquest, as well as trade, the sole preoccupation of the English merchant elite.

\(^{23}\) It is an oversimplification to say that the EIC was a joint-stock company (e.g. Brenner, 1993, p. 22; Clay, 1984, vol. 2, pp. 193–194).
on their own account. The EIC’s constitution embodied a fundamental conflict of interests. It gave the elite merchants the opportunity of making profit at the expense of the generality. The primary interest of the great feudal merchants who provided its Governors and Committees was acquiring commodities cheap to sell dear on their own account. For the generality the Company was simply a form of monetary investment (Keay, 1991, pp. 25–26). Ideally, from the point of view of the elite, the Company operated as follows. The elite and the generality pool their money. The ships leave with money and return with commodities. At the end of each voyage the merchant elite take out their subscriptions as commodities, and their share of the surplus of commodities over those sold to cover the Company’s expenses and charges. The Company sells them the remaining commodities to pay its expenses and charges, and to repay the generality their subscriptions and their share of the surplus in money. All these transactions are at wholesale prices. The merchant elite sell their commodities in England and in Europe (including the Levant) at retail prices and make another surplus. It was clearly in the interests of these merchants that “some of the distributions were made in commodities which were rated at the wholesale price or below it. It follows that the adventurer who accepted such a division had the opportunity of making a further profit on the realization of it” (Scott, vol. 2, p. 99, emphasis added). It was also clearly in the interests of the generality that the commodities acquired were sold at the highest possible price, and that payouts should be in cash to avoid high transactions’ costs.

In what follows I argue that successive changes in the Company’s system of accounting were responses to this escalating conflict of interest between the generality and the merchant elite. These changes mark stages in a revolution in its social relations through transitional forms, from a feudally dominated company in 1600 to a capitalist company in 1657. The developments analysed here are (i) the introduction of capital accounting from 1614; (ii) the formalisation of capital accounting in the Company’s Standing Orders or Lawes in 1621 requiring the auditors to certify the accounts were ‘fair’ and ‘true’ (Lawes, 1968); (iii) the apparent introduction of DEB in the early 1630s to allow the generality to have an ‘exact balance’ whenever they wanted; (iv) the introduction of an agreed system of management accountability by the late 1630s and early 1640s; (v) the declaration in 1657 that dividends were to be paid from profits.

3.2. Establishing the East India trade

The EIC started life on the 31st December 1600. Its charter incorporated 219 knights, aldermen, and merchants as the Governor and Company of Merchants of London trading into the East Indies with a 15-year monopoly of all trade from the Cape of Good Hope to the Straits of Magellan. The Company was to annually elect a Governor and 24 Committees who were “jointly to have the direction of the voyages, the provision of shipping, and merchandise” (Sainsbury, 1964a, p. 117). Although times were bad, and some subscriptions were difficult to collect, the first voyage, underway in 1601, raised £68,373, a sum much larger than any so far ventured in the East Indies trade. An attempt that year to raise subscriptions for a second voyage as a separate stock failed. The ships of the first voyage returned in 1603. The ships of a second voyage eventually set out in 1604 and returned in 1606. A third voyage sailed in 1607. After 1608 a fleet went to India every year. The Company liquidated the first voyage in 1609. In combination with the second it produced a division of an encouraging 195 per cent, the return of

24 Because the feudal merchants had a Royal monopoly of the wholesale trade they could also make profits at the expense of both shop-keeping retailers (some of whom were investors in the Company) and the new merchants. “The shop-keeping retailers... found themselves directly opposed to the wholesaling company merchants as an immediate result of the latter’s politically buttressed position, not only because of the inflated sale price of the [company] merchants’ goods made possible by their government sanctioned company privileges, but also because of the retailers’ exclusion from almost the entire field of overseas trade” (Brenner, 1993, p. 685).

25 Initially, investors also sometimes wanted and took some of their capital and share of the surplus as commodities, although increasingly most preferred money, as we shall see.
both the capital and the surplus ‘clear of all charges’. The surplus on the third voyage when combined with the fifth was 234% (Sainsbury, p. xliii). Having established the trade and demonstrated its potential, in 1609 the Company obtained a new charter from James I that gave it “the whole, entire, and only trade and traffic to the East Indies”. “This new charter gave such encouragement to the Company that they immediately set about to build the largest merchant ship in England”, which the King named Trades Increase (Sainsbury, pp. xlv–xlvii). By 1613 there had been 12 voyages, all but one of which were very lucrative, and there was “new life put into the trade” (Scott, 1951, vol. 2, pp. 123–125). Instead of a thirteenth voyage, separate voyages were abandoned; the First Joint Stock was formed to run for four years; and during this period “the East India Company was... active in increasing its trade, and extending the basis of its operations by the settlement of factories wherever their ships arrived and permission could be obtained” (Sainsbury, 1862, p. xliii). Between 1616 and 1617 a Second Joint Stock for eight years raised £1,629,040 from 954 persons including “the greatest part of the Privy Council, the nobility, the judges, and gentry” (Sainsbury, 1964b, p. 185), the largest joint stock raised to that point. The Dutch Company operated with a capital of around £1m.

By 1620 there was a pattern of interrelated, tri-lateral trade exporting bullion and importing commodities from the Indies, re-exporting commodities to Europe and re-importing bullion, and the ‘country trade’ based on the exchange of Indian textiles for spices. A precondition for its success was the superior fighting abilities of its merchantmen. The early joint-stock privateers had found the manoeuvrability of agile, medium-sized ships more than compensated for their smaller fire-power compared with the Spanish and Portuguese juggernauts. Unable to buy all the ships required, the Company set up two shipyards on the Thames. By 1620 it had become one of the largest employers in the London area, also setting up iron foundries to make anchors, chains, nails and other ironware, a spinning house manufacturing cordage, and many stores for timber, canvas and provisions. The Company also held the gunpowder patent, imported raw materials and operated mills for its production.

After 1620 the Company’s fortunes declined. By this time, increased Dutch competition and dishonest factors had left its affairs in India ‘a bleeding’. To make matters worse, 1620 saw the start of a general crisis in England, and many of its lenders demanding repayment of their loans. The Company’s financial situation became so bad that in November 1621 it was temporarily unable to repay it debts. At this time the First Joint Stock was winding up. Though its first two voyages had been successful, the remaining were less so, the total division ultimately being a relatively modest 187.5%. In September 1623 the generality reacted badly to a call of £200,000 to reduce the debt, demanding instead return of their capital. In 1624, following the attack by the Dutch on the Company’s factors at Ambon (in the Molucca islands), and little hope of reparations, the financial difficulties of the Company became acute. Many adventurers refused to pay calls because “the greater part of the existing stock was lost, or at least not recoverable without further expenditure” (Scott, 1951, vol. 2, p. 108). Having invested heavily to establish the trade with the East Indies, after 1620 the main task of the Court of Committees was to “persuade the General Court to continue the trade in the face of a series of crises” (Chaudhuri, 1965, p. 18). As an anonymous Committee said in 1622, “since the Company are entered into and engaged in a great charge both for their Moluccas trade and of their 30 sails of shipping now abroad, that therefore such necessary supply may be sent yearly as may support this charge which will otherwise consume the principal” (Chaudhuri, p. 63). Central to the directorates’ attempt to persuade the generality is the development of a system of accounting for its capital. However, first the Company had to recognise capital as an independent social entity, and this coincides with the first deepening of the socialisation of its capital, the formation of the First Joint Stock.

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26 What these ‘charges’ might have been is considered in detail later.
27 ‘Factories’ were persons appointed to live in the East and arrange the purchase and safe storage of commodities for shipment to England.
3.3. The First Joint Stock and accounting for ‘capital’

The decision to merge the early separate voyages into the First Joint Stock in 1614 meant that for the first time the company had a single capital in which all investors had an interest. This move may explain a change in the company’s terminology. From 1614, instead of the word ‘stock’, the company began to use the word ‘capital’. On 20 September 1614 the court minutes call a payment to investors a ‘division of fifty on the hundred’. On 6 December they call it a division of a ‘half-capital’, and two weeks later they refer to it as a ‘capital in money’. After 1614 “payments expressed in terms of one or more ‘capitals’ are frequent” (Scott, 1951, vol. 2, p. 157). As Scott says, “The introduction of the term by the East India company into their minutes was a recognition of a practical difficulty, arising out of the different significations in which the more usual stock was used” (Scott, vol. 2, p. 158). In the regulated companies stock meant both the money advanced and the commodities it bought. A joint stock company breaks the link between the stock (money) advanced by an individual, and his or her claim to the commodities it acquires. Worse, if it was necessary to borrow, which for the EIC it was, the term stock now had three possible meanings: (i) the money advanced by an individual, (ii) the commodities acquired with it, and (iii) the total of the money advanced to the enterprise. As Scott says, “The tendency towards confusion became accentuated, when, on the foundation of the First Joint Stock, ‘stock’ acquired yet another meaning, namely as standing for a share of £100” (Scott, vol. 1, p. 158).

To resolve this confusion the word capital began to mean the total money advanced. As Cannan says, this was the generally accepted meaning of the word at this time. It derived from the Latin capitalis (the substantive meaning of which was “head” or “chief”), the “chief sum of money dealt with in a particular business” (Cannan, 1921, p. 469).

If this was the meaning attached to the word capital in the EIC, it reduced confusion by accurately describing its existence as an independent social entity. The word came with the formation of the First Joint Stock. Nevertheless, the idea of capital as the total money advanced appears to have provided the ground rules for winding up and amalgamating earlier voyages. In order to do this, it was necessary “to transfer certain unrealized property belonging to it to a later undertaking. [For example] ‘the remains’ of the first and second voyages were purchased at a valuation by the third, and those of the ninth voyage by the First Joint Stock” (Scott, 1951, vol. 2, pp. 103–104, emphases added). The introduction of the “rather exotic” word capital (Cannan, 1921, p. 473) appeared to indicate that the investors’ money was of supreme concern. If so, the valuation of ‘certain unrealized properties’ meant the cost of commodities expected to be recovered. This was certainly the common bookkeeping meaning of the word ‘remains’. As John Mellis put it in his work on DEB in 1588, “The remaine is the net rest, substance or capital of the owner” (Scott, vol. 1, p. 60), or net assets or net worth as we would say today. Clearly, as Scott says, “There would have been no gain in the adoption of ‘capital’ as a term of accountancy, unless it were used in its natural meaning” (Scott, vol. 1, p. 159).

In the good times up to 1620 the amalgamations go smoothly (Scott, vol. 1, p. 162) even though the accounting system is primitive (e.g. Sainsbury, 1964a, p. 155). However, to manage the conflict between its directors and its investors, which flared with the coming of adversity from around 1620, required that the independent capital for which the directorate were accountable be made ever more manifest in the Company’s accounting system.

3.4. The first ‘disturbance’ and the lawes of accounting

On 2 July 1619 the Court minutes note a “disturbance” attributed to ‘gentlemen who, having been taken into the company by courtesy, do aim to get all the government into their hands’, which is a business proper only for merchants... Desire of the generality to have auditors chosen from among themselves; resolved to offer four or six, as they please, ‘as a means to take away all exceptions, and to dash and quell all other plots, because nothing is done by the company but will justify itself’.
Speech of the Governor; as to the desire of
two of the generality to have the elections in
a different manner than formerly; also as to
the dissatisfaction with their accounts (Sains-
bury, 1964b, p. 282).

The generality elected six auditors. One of them
was Henry Robinson, future political indepen-
dent, and supporter of the new-merchants (Bren-
er, 1993, p. 398). At the end of July 1619 the
generality pass a resolution “concerning the gen-
eral auditors, and how to proceed with the
accounts”. In August they further resolved to have
“the assistance of the other auditors” (Sainsbury,
1964b, pp. 283, 285, 287). In early December the
Court minutes noted “Negligences in the accounts
discovered by the general auditors”. On 10th
December, the generality’s auditors become
involved, and conflict ensues. “Robinson’s request
to take some of the company’s books to his house
denied”. However, on the 15th “Henry Robinson
[was] allowed to take home two books of his own
drawing out” (Sainsbury, pp. 330–331). By the
end of the month the minutes note discussion
“Concerning... the auditing of the accounts by
the general auditors. Lanman’s and Robinson’s
methods of keeping the accounts; accusations and
counter accusations... opprobrious speeches of
Robinson against Lanman” (Sainsbury, pp. 330–
331). On the 21st January 1620 the minutes note
“Robinson’s desire to see the treasurer’s general
cash book” (Sainsbury, p. 345). At the end of
January 1620, Robinson states his “objections and
remarks” on the accounts: “he asserts that there
be debts to the amount of 50,000 l. due to the
company”. In other words, that the company had
understated the surplus by £50,000. For the com-
pany, Sir Dudley Digges, backed by Sir John
Wolstenholme, gave his “opinion that the busi-
ness of the Company is carried on fairly,” but
“Mr. Mellyn, of a contrary opinion,... [claimed]
an error of 100,000 l. in the first joint stock, which
caused many to sell themselves out of the adven-
ture” (Sainsbury, p. 348). Sometime during 1621

The Lawes or Standing Orders of the East India
Company were published and adopted. These Lawes
included, amongst other things, an Order and
Method that the Accomptants Generall shall observe
and performe in the Mannaging and digesting the
Accompt of the Company. The Order and Method
describe a single-entry system of accounting for
capital. Although there is nothing in the minutes to
explain the motive for publishing the Lawes
of accounting at this time, the continuing conflict over
the accounts and the seriousness of the accusations
provides a plausible explanation. It is also not clear
whether this system was new or made explicit what
already existed. A brief analysis reveals their foun-
dation in the feudal idea of surplus as the excess of
income over expenditures, and the absence of any
concern with the rate of return on capital.

The Order required the Accountant General to
keep two sets of journals and ledgers. One set, the
Accompts Proper, provided a summary of the state
of the capital. The other, the Accompts Currant,
provided a detailed catalogue and summary of the
movements of capital during the year, in which
the clerks entered and digested “all manner of
imployments and returns”. The system focused
on the Voyages outwards, grouped according to
their “Stocke generall”, or Joint Stock (at this
point, both the First and Second Joint Stock were
running together). In the Accompts Proper were
four sets of ‘Bookes’: a set showing the state of
affairs with each adventurer; accounts detailing
the capital at sea; accounts detailing the capital
sent to, earned, and returned by the factors, and
the profit and loss accounts of each voyage. For
each adventurer an account recorded his or her
subscription for particular voyages, the actual
contributions of capital, the entitlement to divi-
sions and any payments. The capital at sea
accounts, “every yeares totall imployment sent to
Sea”, summarised from the Accompts Currant the
merchandise, the ships and their victualling and
their share of the general overheads, sent out each
year for each Voyage, “in one accompt”. When a
ship set sail the accountant charged the total
expenditure to that point. This terminology con-
tinued even though from the sixteenth century for
joint-stock companies “the charge” or “charges”
increasingly meant “what, in modern language,

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28 Christopher Lanman was an accountant employed by the
Company.
would be called the capital outlay’’ (Scott, vol. 1, p. 61). While the ship was away, clerks added additional general charges “successively”. Thus, when balancing the accounts it would “readily appeare” how much capital went in what Voyage, and in what form. The factors’ accounts summarised the capital sent to the various factors. They also recorded any capital the factors generated from sales in the Indies, and their returns of commodities that, although coming back on different ships, the clerks allocated to each Voyage outwards. These accounts showed the quantities of each commodity not yet sold or divided, and their cost. Finally, the profit and loss accounts summarised the surplus or loss on each Voyage derived from the Accompts Currant, and showed the divisions due to individual adventurers and their payment.

The Accompts Currant were based on four main accounts. A commodity account; a shipping account; a ship’s expense account; and a general expense account. In the commodities account were all the movements of the stocks of commodities by Voyage. In the shipping account details were kept of all the expenditures by ship of preparing them for sea, and in the ship’s expense accounts all expenditures for ‘victualling’ each ship, to give a total direct cost of each Voyage outwards. Finally, in the general expense account was kept details of all salaries, gratuities, rents, and other charges. In addition, there were accounts for the factors’ expenses, an account for valuing ships returned, and an account for wages and other charges for ships returned. The annual task for the accountants was to, first, “drawe out” from these accounts the total capital tied up in each voyage sent to sea. In other words, calculate the cost of the ships and the voyage, and their share of the general expenses. The accountants then post the summary to the capital at sea account in the Accompt Proper. Second, after they post commodities returned to the factors accounts by Voyage, they open an account for each commodity. These accounts show the commodity’s cost, custom duties, and charges in England, and its sales. The “nett Proceede” then “passe” to the Accompt Proper by separate Voyages when the stock of that particular commodity from a Voyage is “fully sold”. Divisions of capital and profit were either in commodities or money. Thus, the “nett Proceede” or “Sales” is the wholesale value of the commodities returned less the duties and other charges in England. Commodity sales pay expenses (or debts) and money divisions. Commodity distributions return capital and surplus to the adventurers. The Lawes give no specific instructions for calculating the ‘profit or loss’ on a particular voyage. However, from the above it seems likely that the accountants figured as follows. Whether a particular voyage made a profit or loss depended upon whether a sufficient wholesale value of commodities returned to repay the capital with a surplus, which was the ‘profit’, if there was one. For example, assume a capital of £5000. £2000 buys a ship and the remaining £3000 covers all other expenses of the outward voyage including the cost of the commodities bought. Assume the ship returns with commodities with a wholesale value of £10,000, incurs further expenses by factors and charges in England of £2000, and on its return the ship’s net realisable value is £1000. The ‘profit’ of the voyage is £11000−[£3000+(£2000−£1000)+£2000]=£4000. Of the £8000 of commodities available from the £10000 returned after additional expenses of £2000, plus the £1000 for the ship, a total of £9000 is available for distribution. Of this £4000 is ‘profit’ and £5000 is a return of capital.

Net ‘Sales’ of Commodities by Voyage
Less
Capital Sent to Sea by Voyage
Minus
The Value of Ships Returned
Less
Factors’ Expenses by Voyage
Wages and Charges by Voyage
Equals
Profit or loss by Voyage

As distributions were so many multiples of the capital, the company would have called this distribution the ‘division of a capital and eight tenths’ [£9000/£5000]. Evidence consistent with this feudal idea of surplus comes from the first surviving financial statement, shown as Fig. 1, specially produced around 1640 as a retrospective justification for the relatively low returns from
the Second Joint Stock, which ran from 1617 to 1631.

Baladouni is clearly correct that this financial statement is not a balance sheet derived from a system of DEB. There are no debits and credits and there is no balancing item. However, it is not possible to agree with him that “the statement as a whole seems to be the product of an uncertain conceptual framework” (Baladouni, 1986, p. 28).

29 Other evidence of the feudal mentality at this time is the calculation of the required ‘profitability’ of the trade by Thomas Munne, a well-known ‘political economist’, and Committee of the Company. He used the ratio of the value of capital returned in commodities to the capital invested in them, the ratio of net selling price to the buying price of commodities. This ratio underlay “his famous theory that to be profitable the East India trade required a return of 3.5 to 1” (Chaudhuri, 1965, p. 67; Sainsbury 1964d, p. 249). Various estimates of this ratio by others also described what they meant by ‘profitability’ (e.g., Sainsbury, 1964d, pp. 249, 351, 532; 1892, p. 376).
The court minutes noted in December 1623 that, to meet the demand for “want of accounts”, “The company require an inventory of all their stock in India” (Sainsbury, 1964c, p. 196). The statement is just such an inventory of capital, a summary of the major sources and uses of the capital of the Second Joint Stock, and its idea of surplus is the cash and commodities returned over the capital advanced. The figure of £4,074,840 3s. 5d. is described in the note as the sum of the distributions to the adventurers and the estimated losses sustained from the Dutch for which no recompense had been received or could reasonably be expected. In other words, the estimated total value to which the capital of the shareholders would have grown with no Dutch actions. This £4,074,840 3s. 5d. is the gross revenue the joint stock would have produced in a world of fair competition. Thus, the difference of £2,572,083 15s. 0d. is what the surplus would have been after recovery of the original capital (£4,074,840 3s. 5d. − £1,502,756 8s. 5d.). The difference between the supposed net revenue of £2,572,083 15s. 0d. and the total of the supposed losses and expenditure of £2,384,243 0s. 0d. 30 implies the Second Joint Stock made a consumable surplus of £187,840 15s. 0d., which equals the difference between the amount paid to the adventurers of £1,690,597 3s. 5d. and the capital of £1,502,756 8s. 5d. initially subscribed and paid. The statement excludes plantations held by the Dutch. However, the last sentence appears to imply that the return to the investors, based on the surplus as stated, was generous as there were no deductions for losses from bad debts.31

3.5. Accounting for conflict

The Lawes required the appointment of two highly paid ‘Auditors generall’ who were required to audit the accounts quarterly and check the reasonableness of the interest rate on any borrowing, and, along with all the other auditors, check the reasonableness of all other expenses. Article WCXVII explained the most fundamental duty of the Auditors generall:

They shall have care of the generall accounts, to see that all the other accounts and parcels be fairly and truly entered into them by the Bookekeepers, and that they be prepared to deliver up a perfect Ballance of all the said accounts unto the Company, by the last day of June yearely (Lawes, 1621, p. 70).

As in the nineteenth century, in the Lawes of the EIC ‘true’ appeared to mean factual, and ‘fair’ to mean unbiased (Bryer, 1998). The six ‘Auditors in the Court’ elected by the generality were required, in the event of differences found in the accounts “to examine and search out the Truth, and to deliver their opinions unto the Court, or else to determine and end those causes which shall be referred unto them” (Lawes, 1621, p. 68). One truth of interest was the value of ships returned from the Indies. The Orders that governed these valuations stressed fairness and the facts the ‘Just quantity and quality of every particular thing’ (Lawes, 1621, pp. 40–41)

Committees to Appraise the Companies Ships which returne

CLXXXVII

The Committees who shall be appointed with any others, to appraise the Companies Ships, from one Accompt to another, shall proceed with care and diligence, that all thinges may be esteemed and valued with such skill, that neither party may have just occasion to complaine.

CLXXXIX

They shall for their better direction make use of the Booke of Inventories, for olde provisions and Stores appertaining to the Ships, which they shall appraise, and therein take notice of the just quantity and quality of every particular thing.

However, regardless of the Lawes, Auditors for the generality, and two highly paid Auditors
generall, disputes over the accounts continued, and the generality’s demands for accountability continued to increase. The background was the fundamental conflict between the directorate as independent merchants and the generality of investors. As Chaudhuri says, “The exporting merchants were anxious to secure, in addition to the nominal profits included in the dividends, an extra one by taking out pepper as cheaply as possible from the Company and re-selling it at a higher price” (Chaudhuri, 1965, p. 147). For example, in October 1623 heated argument occurred between the generality and the Committees over whether calicoes, strongly in demand, were to be divided with the generality or sold for export by the great merchants. The generality, with an eye to sharing in some extra surplus, in this instance demanded them, and uttered “very wild words against the Governor, Deputy and the Committees” (Sainsbury, 1964c, pp. 159, 169). A new high in this conflict appears in August 1624. “Touching the publishing at the next General Court of a dividend of an eighth half-capital in pepper,” the court minutes note “the Governor saying that ‘there lies much scandal upon the Company by the nobility and gentry, as if the care were wholly to divide goods to the merchant and the rest unregarded’; which will cause make men strain to bring in their adventure” (Sainsbury, 1964d, p. 112, emphasis added). In September 1626 the minutes explain what these general books were in “‘A declaration how the East India Company’s books may be kept from negligent errors and examined for the finding out of wilful escapes’, presented by Hanson [an Auditor General]. Then follows lists of the several accounts with the manner in which they are to be kept, checked, and audited, viz: [including] — 9, the great book of accounts for stock and employment, whereinto all former accounts are to be entered and should be balanced yearly by the Accountants, which has not been done, only estimates delivered to the Committees wherein many errors have been discovered and reformed by the auditors” (Sainsbury, p. 243, emphasis added). Did the ‘great book of accounts for stock and employment’, the general ledger, contain a balance sheet, a summary of the capital advanced, and its investment in various assets produced by DEB? DEB could meet the demand for a ‘balance whenever it is wanted’ (Bryer, 1993a). A double-entry system would obviate the repeated and error-prone ‘collections’ and ‘estimates’ by the auditors. For example, the order in 1627 that they “collect out of the several books an estimate of the present state of the Company, so the Court may proceed in a resolution what to do” (Sainsbury, p. 341). However, if the declaration did call for the introduction of DEB it appears to have been only a statement of intent. The second surviving financial statement concerning the Third Joint Stock is consistent with DEB having been introduced into the EIC sometime between 1631 and 1632. As we shall see, it may have appeared in response to the continued demands that the
3.6. Winding up the Second Joint Stock

By 1627 it had become clear that the Second Joint Stock could not continue and for the rest of 1627, and throughout 1628, there were many lengthy debates about what to do. Investors of the Second Joint Stock refused to continue financing the stock because of a series of losses at sea, aggressive competition from the Dutch and little help from the King in securing reparations, and the heavy burden of interest (Sainsbury, 1964d, p. 535). The outcome was a proposal for the so-called Persian Voyages, a temporary reversion to trading in separate voyages in response to the problems with the South East Asian trade. This merely stoked the fires of conflict.

In 1628 the call for subscriptions for a Third Joint Stock had flopped, raising only £13,000 because “the outlook was judged too uncertain to justify the investment of capital for a term of years”. “[A]s a last resource to keep the charter alive”, the decision was made to revert to independent voyages and £125,000 was adventured in the First Persian Voyage (Scott, 1951, vol. 2, p. 109). It was in this context that in July 1628 “internal quarrels really reached serious proportions”. A faction led by Thomas Smethwike, a persistent and well-known critic of the Company’s directorate, demanded the use of a ballot box for the election of the Governor and Committees as well as regular quarterly meeting of the General Court. One of the Committees recognised the challenge these demands posed to the Company’s social relations. Raising a theme to which heated debate was to return, the Committee “signified that the Governor, Deputy, and Committees were not the Company’s officers, but their neighbours, friends and fellow adventurers, and chosen by themselves” (Sainsbury, 1964d, p. 523). In other words, as we shall see, the directors were not mere managers accountable to outsiders for their capital, but fellow adventurers, fellow feudal merchants. Smethwike, however, was unconvinced. He “remonstrate[d] that the burden of this work [the East India Trade] cannot be supported on the shoulders of a few...; represented that to set up a new stock when so many ships are abroad would prove dangerous or at least suspicious of unequal dealing between the two stocks... [and] moved that a valuation be made yearly, which would give great content and allure men to supply, because by that means every year’s adventure will be as a particular voyage, and men will know whether they be gainers or losers, and because the state of the Company being perfectly known it will strengthen their credit” (Sainsbury, 1964d, pp. 534–535). In other words, that the necessary overheads to support the trade had been, and could only be, provided by a socialised capital. Cherry-picking by the few, undoubtedly strongly represented by the wealthy merchants,33 was inequitable to those who had provided the capital to finance the overheads, and dangerous to the cohesion of the totality. Annual ‘valuations’ of the whole capital would, however, he appears to suggest, nurture a social capital by allowing each individual to treat ‘every year’s adventure as a particular voyage’. Smethwike had “tossed through the books” and made his own valuation from his “collections”. To defend themselves, “A collection made by Mr. Mun of the state of the Company’s shipping and stock abroad read, and Mr. Sambrooke [the Company’s accountant] directed to compare it with Mr. Smethwike’s note, and draw out a counter note contradicting what in Mr. Smethwike’s may really be gainsaid” (Sainsbury, p. 534). In October 1628 Smethwie gave the court his “Estimate of the stock as it now stands”, and brazenly stated the suspicions of the generality.

The Governor and Committees... pretend the trade cannot be maintained on the present

32 Brenner says that Smethwicke’s attacks “were not particularly representative of either popular or pro-parliamentary forces in the company” (Brenner, 1993, p. 346). However, we will see that they were highly representative of the views of the generality on the management of their capital.

33 Subscriptions for the Persian voyages of not less than £500 were sought from 50 to 100 persons to raise £100,000 (Sainsbury, 1964d, p. 531).
stock which hath neither money nor credit, yet they have an the proceeds of the 500,000 l. employed in the Indies these last four years, and daily expectation of returns for 400,000 l. and as much next year. ... They would have a new stock undertaken, and it is not more than time another 500,000 l. were put into their hands to be so managed, and they take the Company’s goods among themselves at their own prices. ... [T]he Governors and Committees (as it seems) have some private ends and desire not the good of the present adventurers, for if they would truly show the state of the business, and the great necessity to continue it one year longer at least, it may well be wondered at that the continuance of the trade so hopeful should be so difficult as it is made (Sainsbury, 1964d, pp. 558–559, emphasis added).

Smethwike’s “writing... [was] found to be very scandalous, laying unjust imputations upon the Court for their ill-government, and upon their bookkeepers for ignorance in their accounts” (Sainsbury, 1964d, p. 530). But although the Governor denied the charge that the directorate were attempting to “engross the whole trade and stock into the hands of a few,” he could not dismiss Smethwike’s estimate because he had admitted that “Mr. Smethwike... is perfecter in the books than the Governor himself” (Sainsbury, p. 523).

In March 1629 the Governor and Committees pushed the generality to agree to wind up the Second Joint Stock.34 It had large quantities of unsold commodities in the Indies and in England, many ships still not home, and large debts. In the directorate’s view, with little additional money forthcoming, it was impossible to continue. Some of its smaller investors, eager to retrieve their capital, also wanted to abandon the trade and, against the advice of the directorate, the generality had voted for two divisions to go some way towards meeting their demands. However, many of the more substantial of the generality made it clear they thought letting the Second Joint Stock die while raising capital for separate ventures was deeply inequitable, as Smethwike had said. To discuss the Company’s future, on the 2nd March gathered at the General Court were “Sir Morris Abbott, Governor, Alderman Clitheroe, Deputy, Earls of Warwick and Thanet, Lords Say and Sele, and Lovelace, Mr. Treasurer Bateman with divers of the Committees, and a great assembly of the Generality” (Sainsbury, 1964d, p. 635). Sir Edwin Sandys had arranged a “meeting of the old Adventurers to consult how the old stock might pursue the whole trade,” and “delivered the opinion of the old adventurers he had met” that, on the one hand, it was “unjust” for the Second Joint Stock to incur the costs of developing the Persian trade, and to hand over the benefits to others.35

On the other hand, separate ventures were an inefficient way of continuing the trade because the scale was too small; the risks not adequately diversified, and the potential for internal conflicts too great (Sainsbury, pp. 635–636). In Sir Edwin’s view, the need to end the Second Joint Stock did not exist. £400,000 worth of commodities had returned, and the balance needed could be obtained by forgoing the two divisions declared (Sainsbury, p. 636). However, as the Treasurer pointed out, it would take time to realise these commodities, and there was the question of responsibility for the “company’s great debt, at interest amounting to at least 300,000 l.”, and the Governor ruled out further borrowing (Sainsbury, pp. 637–638). In Lord Say’s view, this ruling was plainly partisan. He “answered that as the Company was [only] overruled to proceed with the trade on interest when there is not sufficient in the kingdom to pay their debts, and now there is sufficient, if others should reap the harvest of the old stock’s labours, it must needs be a great cause of jealousy”. The minutes note “The Lords showed

34 In 1629 a Second Persian Voyage had a capital of £150,000, and a third started in the following year.

35 Sir Edwin Sandys MP was a well-known advocate of free-trade who had supported a Bill for its introduction with a paper containing some “curiously modern expressions” concerning natural liberties to industry and trade (Scott, 1951, vol. 1, p. 120). He was one of those parliamentary leaders who strenuously resisted the Crown’s arbitrary policies and, although an investor in the EIC, he was a “steadfast opponent of the companies’ chartered rights” (Brenner, 1993, p. 681).
some discontent at ‘this inclination of the Court’” (Sainsbury, p. 638). As we shall see, this jealousy and discontent, and the ‘confusions’ in the accounts that arose with the reversion to separate voyages, appeared to provide the spur to recombine the capitals in the Third Joint Stock. It also coincides with the apparent introduction of DEB in 1633 so that the generality could have an exact balance whenever they wanted.

3.7. Resolving ‘confusions’ in the accounts

The Third Joint Stock started in 1631–1632. The Persian trade was becoming less profitable. To revive the Southern trade (trading Coromandel cloth for cloves instead of Indian piece goods for pepper) and avoid conflict with the Dutch required another joint-stock. Thus, in 1633 there were five separate undertakings in existence, the three Persian Voyages and the Second and Third Joint Stocks. “Now that the outlook was favourable [for the Southern trade] many of the adventurers were desirous of reducing all these to one joint stock” (Scott, 1951, vol. 2, pp. 110–111). By this time the Second Joint Stock had paid back its capital, and its remains, judged to be 12.5% of its capital, transferred to the Third Joint Stock. However, as Scott says, “The arrangement with the Persian Voyages presented greater difficulties” (Scott, vol. 2, p. 111). According to the abstract given by the auditors on 20 June 1634 of “the state of their affairs”, the first had few goods left, whilst the third had many not yet sold. On 3 October 1634 the Company agreed that the Third Joint Stock should buy the remains and profits of the Persian Voyages at 30%, 20%, and 40% of the par value of their capitals respectively (Sainsbury, 1964e, p. 572). As Scott says, “The amalgamation… had been accomplished just in time. For on arrival of ships from India bringing in goods consigned to all three Voyages, the confusion of accounts was such that it would have been impossible to make a fair division” (Scott, vol. 2, p. 111).

Confusion arose in the accounts either because of errors, or because the attempt to keep apart the various capitals employed ignored the reality that the capital of the Company was an increasingly intertwined totality. This inevitably required arbitrary allocations of large amounts of non-productive overhead expenditure to nominally separate capitals. Certainly, one problem was the high mortality amongst factors and accountants working in the Indies, and possibly the neglect of adequate bookkeeping. However, the major problem was that as the scale and complexity of the Company’s operations increased, the capital itself became increasingly confused. As William Methwold, President of Bantam, wrote to the Court on 29 December 1634, the several voyages and Joint-Stock were “all in agitation at once” (Sainsbury, 1964e, p. 615). There were many activities in common. The ventures often used the same ships, the same dockyards and stations, the same warehouses, the same directorate, the same factors, the same accountants and the same auditors. They all sailed under the same Royal patronage, and bribed the same overseas officials and potentates, one of the Company’s biggest overheads. While it was possible to trace the direct expenses of each capital and their fixed capital costs to commodities bought with separate capitals, tracing the non-trading overheads to particular commodities and hence to particular capitals was impossible. For example, which capital would have paid for the expenses of effecting in 1635 that great improvement in “the prospects of trade in India… by a convention which President Methwold had negotiated in person with the Portuguese Viceroy at Goa” (Sainsbury, 1907, p. xii)? To which capital should the cost of forts and their maintenance be charged? To which capital should the cost of maintaining fleets of ships under sail in the Indies for protection against the Portuguese be charged, recognised in 1619 as “dead stock”, non-trading

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36 Note, however, that the Company took great care in selecting their ‘prime factors’. It generally inquired into the applicant’s character, and their ‘suﬃciency’, their ability to provide a good behaviour bond, and their commercial experience, including their ability in accounts (Chaudhuri, 1965, pp. 82–83).

37 For example, the first Persian voyage could “freight their goods in ships belonging to the old stock” (Sainsbury, 1964d, p. 532), that is, pay a freight charge presumably recovering the cost of fixed capital. Later, in 1633, “The Auditors required as formerly, to make up the accounts of the three voyages, and set down what they severally owe at interest for freight, wages, &c.” (Sainsbury, 1964e, p. 384).
Also, of course, it was necessary to allocate significant overheads at home. Ethel Sainsbury says that after a cost-cutting exercise at Blackwall, in November 1635 “home charges now amounted to... 5,226 l. 13s. 4d...” (Sainsbury, p. xiii), annually, presumably. A large part of this would have been the costs of running the dockyards and warehouses. In addition, the Governor and 24 committee members received a ‘gratification’ of between £50 and £250 a year. Paid officials were employed to conduct its routine business, and one of the home charges then would have been for the “palatial premises at Crosby House” which cost 200 l. a year to lease (Sainsbury, p. xxvi). Insofar as the Company used its debt to finance overheads, including loans to the Crown, the interest burden was also a joint responsibility. Allocating interest to separate capitals was inevitably arbitrary, as the Court minutes admitted on 3 October 1634. As it noted, while “Their great debt in India [was] 100,000 l., but which of these voyages owes it no man can tell”.

With large non-productive overheads, the valuation of the remains and profit of the three Persian Voyages in the ratio 30:20:40 was inevitably arbitrary. For example, upon what principles did Mr. Thomas Hanson (or Handson), the auditor, find for the second voyage that “there will be, according to the valuation set upon the commodities, sufficient debts and charges deducted, to divide to the adventurers with the 30 l. per cent” (Sainsbury, 1964e, p. 456, emphasis added)? The only instruction to the auditors was “to proportion the charge on the particular voyages and Joint Stock as formerly in other the like accounts” (Sainsbury, p. 415). To the extent to which these debts and charges represented an allocation of the Company’s overheads and circulation costs, no amount of checking or perfecting the accounts would eliminate the confusion. On 21 November one of the generality complained that “the joint stock was never valued, and therefore desired that the Auditors be appointed to examine the accounts as well of the particular voyages as the Joint Stock”. In reply the Governor retorted, in effect, that, as the confusion in the accounts had social origins, this problem was not resolvable by ‘exquisite’ or ‘perfect’ accounting, but could only be solved, and had been solved, by social agreement.

What hath been done was by the Generality, after long and serious dispute, and was so well approved, as it gave not only present contentment, but for many days after, the adventurers were so well pleased as divers on the Exchange gave it out, that doubtless it was the finger of God that directed the Court to fall on this way, for otherwise it was impossible so to order the equal distribution of the goods brought home in the Exchange and Mary to the right proprietors, and therefore now to question that which hath been so fairly acted by unanimous consent... And therefore seeing that the turning over of said voyages was done at a General Court, where was as great an assembly as had been known these many years, and that accordingly the goods are divided and the accounts posted over, for any man to call it in question and to think it can be revoked or altered is both vain and ridiculous (Sainsbury, 1964e, p. 595).

There was demand for a committee, “violently pressed by Sir John Watts” and seconded by others, “to look into the accounts, it being reported there is a discovery made of a very great sum belonging to the Joint Stock which had been negligently or ignorantly concealed”. The Governor “refused to admit these propositions... yet if any two or three would go up to the Auditors and

capital (Chaudhuri, 1965, p. 93)38 Also, of course, it was necessary to allocate significant overheads at home. Ethel Sainsbury says that after a cost-cutting exercise at Blackwall, in November 1635 “home charges now amounted to... 5,226 l. 13s. 4d...” (Sainsbury, p. xiii), annually, presumably. A large part of this would have been the costs of running the dockyards and warehouses. In addition, the Governor and 24 committee members received a ‘gratification’ of between £50 and £250 a year. Paid officials were employed to conduct its routine business, and one of the home charges then would have been for the “palatial premises at Crosby House” which cost 200 l. a year to lease (Sainsbury, p. xxvi). Insofar as the Company used its debt to finance overheads, including loans to the Crown, the interest burden was also a joint responsibility. Allocating interest to separate capitals was inevitably arbitrary, as the Court minutes admitted on 3 October 1634. As it noted, while “Their great debt in India [was] 100,000 l., but which of these voyages owes it no man can tell”.

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Accountants they might look into the books and spare not, but to do it by order he utterly denied” (Sainsbury, 1964, p. 595). He had come well prepared. As the minutes of 1–3 of October 1634 noted, having agreed the valuations for the Persian Voyages, a “Committee intreated to assist the Auditors in examining the accounts now returned, also the Company’s whole estate, so that they may be prepared to answer all objections and demands at the next General Court” (Sainsbury, p. 571, emphasis added). In November 1634, to head off the “ravelling and diving” of Thomas Smethwike and his friends into the Company’s books, the Auditors were said by the Governor to be within two weeks of “making up a general account of the Joint Stock... a general account since 1628” (Sainsbury, p. 601). Such confidence that these accounts would satisfy the generality suggests more than just that the accounts were not confused. Now, perhaps, the Governor felt able call on something more predictable than the ‘finger of God’ to secure the generality’s agreement. Perhaps the auditors were using DEB to produce these accounts? If so, the Governor may now have felt able to rely on the bourgeois ethic of an equal return for equal capital inscribed into them to persuade the generality that the directorate accepted its primacy.

3.8. The introduction of double-entry bookkeeping?

Knowledge of DEB had existed in the Company from the early days. As Scott says, there was a “connection between some of the East India adventurers and Italy, so that it is probable that several of its officials of the company had learnt their bookkeeping in the Mediterranean and... [i]n this manner the transplantation of the term capital can be explained” (Scott, 1951, vol. 1, pp. 158–159). From the mid-1630s it becomes standard terminology in the Company to refer to the final accounts as the ‘balance of the estate’. In the long-standing vernacular of English DEB, estate also meant capital. As early as 1569 James Peele, who taught the “art of Italian merchant’s accounts”, used it in his work on DEB, The Pathway to Perfectness, in th’ Accompte of Debitour and Creaditour: in manner of a Dialouge, very pleasaunte and profitable for MERCHANTES. As he put it, “a mans estate doth consist of ii kinds: the one whereof, is that a man hathe or ought to have in possession, to saye in readie monie, debtes and goods: and thother kinde, is that which he oweth to other men being his creaditours, and by comparinge of the totall somme of the creaditours, the estate of that accompte is presently perceyved (that is to saye) so much as monye debtes and goodes sormounte the creaditours, so much appereyneth to thowner of that accompte for his proper stocke or capitall in trafique” (quoted in Scott, vol. 1, p. 60). From the 1630s the Court of Committees and the generality often ask the Accountant to prepare the balance of the Company’s estate. The second of the Company’s financial statements to have survived from its early history, shown as Fig. 2, provides an insight into what this might have meant.40

Is this Balance of the Estate a balance sheet — a summary of balances produced by DEB? One reason for believing it may be is that it describes the assets as ‘Creditor’ balances and the liabilities as ‘Debit[or]’ balances. This type of ‘balance account’, incorporating the assets and liabilities on their reverse sides from their positions in the ledger, had been typical of DEB systems since at least the middle of the sixteenth century (Yamey, 1970, p. 72). To close the ledger (for assets) debit the closing balance account and credit the ledger. Then, either the existing ledger was re-opened, or, if it was full, a new one started, by debiting the ledger and crediting the opening balance account. This opening balance account is what today we would call a balance sheet, a statement of the sources and uses of an entity’s capital. Alternatively, the bookkeeper opened a ‘capital account’ (Yamey, pp. 73–74). With an entry for the opening capital balance, the opening capital account is again a balance sheet produced by DEB.

The Balance of the Estate shown in Fig. 2 appears to be “the balance of the estate as it now stands, drawn up by Sambrooke” presented to a Court of Committees on 7 July that year (1641),

40 From Baladouni (1986, p. 27).
just two months before the Third Joint Stock was due to close” (Sainsbury, 1909, p. 178). This probably explains why, although this statement is clearly a summary of the balances of assets and liabilities, there is no balance for ships or any other deadstock, or any remains from their sale or transfer. This may be because, as we shall see, at this time the directorate were attempting to persuade the generality to continue the Third Joint Stock. When this attempt finally failed in October 1641 the directorate ‘valued the remains of the Third Joint Stock at 25 per cent [including] the hulls of the three ships valued at 1,000 l. but thought to be worth 2,000 l.” (Sainsbury, 1909, p. 279). Although there is no balance for capital at this time the Company was still operating the feudal practice of returning capital as well as the surplus. Thus, the difference of £72,185 13s. 4d., the ‘Rest at present towards a fourth division’, is the estimated net capital remaining in the Joint Stock that would become available for distribution assuming continuation.

Evidence that the Company was showing a keen interest in DEB in the early 1630s is that in 1632 John Carpenter, a clerk in its employ (Yamey, 1957, p. 300) happens to publish a work on the subject. Carpenter hurriedly and mercilessly plagiarised his book from contemporary leading authorities; he dedicated it to the Company; and he designed it for training its accountants (Carpenter, 1632). It appears to be no coincidence that in 1633 Ralph Handson published the third edition of his work on DEB. Ralph Handson, presumably a relative [brother?] of Thomas Handson the Company’s Auditor, had been an
appropriately taking Ralph’s place in 1625. Ralph was again a part-time auditor for the Company in 1635 after Thomas retired in 1634. The “accident” whereby Carpenter claimed to have come upon the collection from a “well experienced practitioner” was later “angrily unmasked by [Ralph] Handson in the preface he wrote for Da/corne’s book [on DEB of 1635]. He explains that a large part of Carpenter’s book was taken from notes which he (Handson) had at one time collected... which notes ‘were surreptitiously gotten from me, and with them, and other examples, a Book of Accompts is patch’t up, and printed for an Exact one, without my privity’” (Yamey et al., 1963, p. 167). We seem to have here unbridled competition for a new and lucrative market for book sales that had just appeared. In fact, Richard Da/corne won the competition and received a gratuity of 22s. for “dedicat[ing] a book on ‘Debitor and Creditor’ to the Company.” Da/corne published The Merchants Mirror, or Directions for the Perfect Ordering and Keeping of his Accounts, in 1635 with a “commendatory note prefixed by Valentine Markham, who was Auditor to the East India Company” (Sainsbury, 1907, p. 103).

We may never know for certain whether the directorate introduced DEB in the 1630s to assuage the demands of the generality for an equal return for equal capital. Nevertheless, consistent with this hypothesis is the generality’s reaction to the discovery that, despite having an exact balance when they wanted, the directorate remained uncommitted to their demand for accountability. At this critical moment, when the ineffectiveness of accounts alone to resolve the conflict becomes manifest, the generality attempt to change the social relations themselves. They now demand that the directorate be accountable to them as ‘managers’, implying the abolition of the directorate’s feudal privileges. When the revolution comes it is signed by the introduction of the capital maintenance idea that is at the heart of modern capitalist accounting. This required the recovery of capital before distributable profits arose. As capital remained in the Company, the directors could no longer trade on their own account, and they became wage workers accountable for their direction of a social capital.

3.9. Establishing managerial accountability

The accepted view, as Chaudhuri puts it, is that “the managerial control of the company’s affairs remained firmly in the hands of the City merchants” (Chaudhuri, 1965, p. 21). However, this judgment takes insufficient account of the power of the generality. As Chaudhuri himself points out, “all policy decisions regarding the number of ships sent out to the Indies, their destination, and the sales of the Company’s imports had to be submitted for discussion to the General Court, which also elected the Governor, the Deputy, and the members of the Court of Committees”. That the generality usually accepted the advice of the directors is different. The point is, relying on the feudal principle of one vote for one member regardless of his or her capital, the generality “had the power to overrule a particular recommendation of the Court of Committees” (Chaudhuri, pp. 32–33). We return to this issue later. Up to 24 December 1634 the Company operated an open book policy, and “the Generality... assumed to themselves [the liberty] to come into the accountants and auditors’ offices to peruse the Company’s letters and accounts” (Sainsbury, 1964e, p. 613). In the Court Committee’s view, this “had not only been the occasion of many disputes in the General Courts and Courts of Committees, but tended to the great prejudice of the Company by divulging passages which ought to have been kept secret, or at least not so soon revealed, and casting unjust aspersions on the Court of Committees, purposely, as may be feared, to dishearten the adventurers and overthrow and ruin the trade”. So the Court of Committees decided to limit access to those gaining its agreement, but “assuring the Generality that nothing will be concealed from them that is fit for them to know” (Sainsbury, pp. 613–614). Thus began a series of conflicts and arguments about the accountability relationship between the Governor and Committees and the generality as investors. However, the generality only get the accountability they want when they abolish the directorate’s feudal privileges in 1657.
On 12 June 1635 the Governor attempted to withhold the Company’s indebtedness from the investigating committee and the accounts from the generality. However, his arguments “were brushed aside, and it was ordered that the accountant’s figures for the stock abroad should be delivered to the Special Committee, and that a second balance, for the Company’s estate at home, should be prepared within ten days, and handed to the same Committee. The members of the latter were then to go through these accounts, and present them to the generality at a special meeting” (Sainsbury, 1907, p. xi). The Governor and Committees faced a similar rebuff when “On 6 February 1635, the Committees went so far as to determine to put down the Quarterly General Courts, on the ground that they only begat troublesome debate”. Again, when “they faced their dissatisfied constituents, their courage seemed to have rapidly ebbed away, and we hear no more of this valiant intention” (Sainsbury, p. ix). The origin of this conflict was the further “exceptions made by some against the turning over the particular Voyages to the Joint Stock, they declaring this ‘was not only unwarran-tably done but withall that the Company were sur-prised by the act’” (Sainsbury, p. 15). The Governor reverted to his previous argument that the decision of how to “sett the saddle upon the right horse” was a social act “confirmed by three or four hundred” of the generality. However, the Deputy Governor’s remarks raise both the temperature and the stakes. He brings to the surface the underlying conflict of interest between the feudal claims of the Governor and Committees to trade as individuals, and the demands of the generality that the Company be operated in their interests, and that the directorate be accountable to them. In the Deputy’s view,

This was answered at the last General Court and was a poor and childish objection, as though the power of Governor, Deputy and Committees were limited by the General Quarter Courts and they could determine no business of consequence except at these Courts, whereas experience proved the contrary. It is true that at the request of some noblemen and other adventurers three things were agreed upon, namely: to have four Quarter Courts every year; to use the ballot-box for the election of Governor, Deputy, Treasurer and Committees; and to present the balance of the Company’s estate every year; but by these the generality did not mean to restrict the power of the Court of the Committees, or other General Courts, which would not further, but ruin the Company; therefore the turning over of the goods was warrantable and not to be further questioned (Sainsbury, 1907, p. 15).

After complaints by some of the generality that the Select Committee, agreed to in June to examine the accounts, had been stopped by the directorate, An honourable lord observes that though the business of the Company is to be guided and managed by the Governor, Deputy, and the twenty-four Committees, he questions their power to deny the appointing of a Select Committee for examination of their accounts... [and] [a]nother honourable lord reminds the Court of the order for the Auditor to bring before the General Court every year a balance and account of the Company’s estate, so that the condition of adventures and affairs both at home and abroad may be known and asks why some of the body of the Company, who are willing to take the trouble for nothing, should not be admitted to examine said accounts (Sainsbury, 1907, p. 17).

To the answer that four of the Committees, “most able accountants and all sworn persons”, had undertaken this work,

Great exception taken by some of the generality to the late order made by the Court of Committees which forbids them to see the

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44 This outcome stands in stark contrast to Brenner’s claim that “at several points during the early 1630s, when it was being challenged by the membership, the company’s directorate seriously considered the total abolition of the general court. Because of their elite social position, as well as their enormous investments in the company, the board members could get away with this sort of highhandedness” (Brenner, 1993, p. 78, emphasis added).
Company’s accounts or letters... whereupon an honourable lord observes that he thought the Secretary, Auditors, and Accountants were the Company’s officers, but he now finds that they are servants of the Court of Committees, though paid by the Company; also the Governor and Committees have salaries from the generality and ought not to bind them by their particular orders, a course which is not authorized by the Charter of the Company; neither, because some have offended, should all be exclude (Sainsbury, 1907, pp. 17–18).

While the Governor claimed that “the Committees assume no such power over them [the Auditors and Accountants], but look upon them as the Company’s officers,” he immediately contradicts this by claiming the right to be ‘big brother’. He continued:

while the Committees desire to be looked upon by the generality as fellow members with them of the same body [all members are equal], but privileged above them by virtue of the power given them by His Majesty’s Charter [on the other hand, some are more equal than others]; also they do not admit of the gratification given them for their services being called a salary (Sainsbury, 1907, p. 18).

The generality’s reaction was scathing:

a gratification being made certain becomes a salary, and the Committees, not being commanders over the generality but directors, have only power to make this order with the allowance and approbation of the General Court. It is desired that this be put to the question, which after more argument is done, when it is decided by erection of hands that the Committees have no power to make any such order without the allowance and approbation of the General Court (Sainsbury, 1907, pp. 18–19).

45 As one of the generality commented, they were “often influenced by the Governor as ‘father of the Company’, and so passing many things which upon deliberation they regret” (Sainsbury, 1907, p. 15).

The Governor and the Committees saw themselves primarily in business on their own account. However, “Many of the stockholders maintained that the Governor and Committees were merely delegates, who ought to keep their constituents fully acquainted with the state of affairs, and refer all matters of importance to them for decision” (Sainsbury, 1907, p. viii).

The generality agreed to reconsider a rephrased and restyled order restricting access. However, at the next Quarter Court on 8 May 1635, the Governor sought to interpret the “newly drawn and amended” order as not debarring “any from seeing their own private accounts (which may be done at any time), but for the general accounts, which according to the former order are to be balanced yearly” (Sainsbury, 1907, p. 53). The generality were not prepared to accept this. On a motion from Sir John Watts and a long discussion for the “satisfaction of the generality” they voted for the appointment of six of them to go through the accounts when these had been ‘perfected’ by the Auditors, and report to the General Court. On the morning of 12 June 1635 in a final power-play by the directorate, although the general accounts were ready, the Court of Committees resolved to withhold them from the generality until they had been ‘revised’ to conceal the ‘great debt’. That afternoon in the General Court the proposal to withhold the accounts until “some more fitting opportunity” caused “Much dispute... between Mr. Deputy, some Committees, and some of the generality, as to the said balance being revised by the Committees on leaving the Auditors’ hands”. The plea by the directorate — conveniently ignoring the generality’s demands for accountability — that the accounts were of little value because “the balance cannot be an exact account but only a ‘roving estimate’, and... can afford no certain ground to buy or sell [their shares] by”, was brushed aside.

After these and many other disputes and arguments, it is resolved by an erection of hands that the balances of the Company’s stock abroad, as it is estimated by the Auditors and Accountants, be delivered Monday next to the Select Committees appointed by the generality, to be by them examined, and
that the Auditors and Accountants be required to perfect the estimate of the Company's estate at home within ten days' time and deliver the same to the aforesaid Select Committees, who are to deliver the two balances with their opinions thereon to the next General Court on Wednesday 'come fortnight' (Sainsbury, 1907, pp. 63–64).

Although the generality's Committees had to agree to be sworn to secrecy, "they seem to have had full access to the accounts, and to have been satisfied with the results... [and] [t]hey agreed... that the statements submitted to the accountants were full and accurate", as did the generality who declined to pass any order that their access to the general accounts be limited (Sainsbury, 1907, pp. xi–xii). For example, in 1637, although a Court of Committees complained that "referees are not proceeding in an orderly manner, taking each article as it comes, but 'ravel' in their examination of the Company's estate, ...however, there is no desire to conceal anything, the Auditor and Accountant are directed to be ready at any time to show the referees the books of accounts, letters or anything else; also the last balance made up" (Sainsbury, p. 218). And in 1642, attempting to persuade the generality to continue the Third Joint Stock, the governor "acquaints [i.e. reminds] the generality that they may appoint three or four among themselves to examine the said accounts and valuation, with liberty to see any of the Company's books, letters, or accounts" (Sainsbury, 1909, p. 277). These accounts appear to be a special update "the better to allow the generality to judge, the accounts in India, Italy, and at home have been examined and the remains of the Third Joint Stock valued" (Sainsbury, p. 276).

Paradoxically, the generality had this power because votes at General Court were not allocated according to the principle of an equal vote for equal capital.46 As Foster puts it, looking back from the viewpoint of modern capitalism, "It was, in fact, a weakness in the constitution of the Company that the members all voted on a footing of equality, irrespective of the amount of their holdings; so that the man with 10,000 l. at stake had no more voice in a decision of the General Court — the ultimate authority on all great issues — than one with 100 l." (Sainsbury, 1907, p. viii). Not surprisingly, the Directors deeply "resented the imputation that they were salaried officials", particularly, as they pointed out several times during the debates, "they, personally, held more stock than four hundred of the generality" (Sainsbury, p. viii). Removing this anomaly took until 1650 when outsiders with large capitals wanted an equal vote for equal capital. The fundamental anomaly, of paying divisions in kind to merchants trading on their own accounts, remained until 1657. Thus, from the mid 1630s the accountability conceded by the directorate only ameliorated the conflict. Only after its feudal monopoly has been discarded, and after a period of experimentation with free-trade, was the dominance of a social capital in the East India trade firmly installed and the contradiction between its social relations and its mechanisms of accountability finally removed.

3.10. Feudal disintegration and capitalist infiltration

After the absorption of the previous capitals by the Third Joint Stock, investors subscribed for only a relatively small part of its nominal capital of £420,700. Large loans were necessary, and in 1635 £400,000 was owed. In the same year the Crown reneged on the Company's charter, backing the privateering Courten (or Courteen) Association, a rich and influential body of interlopers, in which the King and others, including Sir William Courten, were feudal investors. For example, the King received stock of £10,000 without payment for which he was to receive 'interest' and 'insurance' before dividing any remaining surplus in predetermined proportions. Only the vessel commanders received their share of any surplus in proportion to the capital they冒险ered (Scott, 1951, vol. 2, p. 113). By 1637, blamed for the predations of Courten's fleet, and with the imports

46 Neither were the places on the Committees, "for by a rule established in 1628 no one was eligible for election to... [the Court of Committees] unless he possessed stock to the value of 2000 l." (Sainsbury, 1907, p. viii). By 1632 the qualification was 2000 l. in the Second Joint Stock and 400 l. in the Persian Voyages (Sainsbury, 1892, p. 268).
of the Third Joint Stock burdened with a large increase in customs duty, the Company could not even raise £770 for payment of a long overdue dividend on the Persian Voyages. Furthermore, it still had debts of £100,000 with no immediate prospect of repayment. By the end of the 1630s “its investors experienced a major crisis of confidence” (Brenner, 1993, pp. 288–289). In 1638 the majority wanted to wind up the Third Joint Stock. Again, this required more capital. However, in 1639 the outlook began to appear more favourable as the first Courten voyage failed. The King promised a new charter outlawing Courten and his kind. He promised the Company more privileges, and said he would try to get reparations from the Dutch. The directorate agreed a new subscription for a Fourth Joint Stock in principle. Royal approval came in February 1640. However, regardless of strong pleading by the Governor, who claimed the trade “certain and prosperous”, and the promises by the King to support the Company, the public remained steadfastly unimpressed, and only 22,500 l. was paid (Sainsbury, 1909, p. 32). Given his parlous financial situation, many probably feared forced loans to the King with little probability of repayment.47 The Company withdrew the issue.

In August 1641 the directorate decided to revert to a Particular Voyage for one year only on a separate subscription and administration, later known as the First General Voyage. Their aim was to adopt “the form more in favour with those who wished to avoid heavy or prolonged commitments” (Sainsbury, 1909, p. 200), including themselves.48 In October 1642 the generality rejected a proposal by the Governor to unite the Third Joint Stock with the Particular Voyage, and he wound it up. However, the failure of Courten’s second voyage encouraged the issue of the Fourth Joint Stock, which by 1643 had a capital of some 105,000 l. By 1644 an explosion of private trading undermined the validity of the EIC’s Royal charter. The Company desperately needed renewal of its privileges by Parliament. It presented a petition but, although it reached its second reading, there was no further progress. By 1645 the stock of the First General Voyage was “much lessened by disaster”, but the directorate decided “to endeavour to continue the trade” by opening a subscription for a Second General Voyage.49 A major motivation was the determination of a group of merchants who had acted with Courten to disregard the Company’s monopoly. Foremost amongst them was Maurice Thomson (or Thompson). He was an intimate of Oliver Cromwell and the colonising Puritan lords, and was future Governor of the EIC. He was a successful trader to Virginia, the West Indies, and Guinea, who twice before had violated Royal Charters, and, along with his associates, wanted to establish English colonies in the East.50 Towards the end of 1645 Thomson and his interloping new merchant friends were fitting out two vessels for a voyage to India. As the Company was unable to prevent them sailing it agreed to buy these ships for the Fourth Joint Stock (Sainsbury, 1912, pp. xi–xii).

In early 1647, having successfully passed through the Commons, a House of Lords sitting with only 11 members refused to renew the Company’s Charter and accepted the new merchants’ demand that the trade be thrown open to all (Sainsbury, 1912, p. xiii). This decision dismayed even the usually eternally optimistic directorate, who now firmly recommended abandonment of the trade without reconsideration of the petition. However, when it looked as though the end for the

47 The King confirmed these fears in the summer of 1641. Desperate for cash, he forced the Company, with the help of the directorate, to lend him the whole of their pepper stock for £50,000 or so. He made no repayments.

48 Clearly, with the First General Voyage and the Third Joint Stock running together, the same problem of ‘confusion’ arose in accounting for their separate capitals. Not surprisingly, this time there was explicit, but inevitably arbitrary, advance agreement on the allocation of charges and expenses. “As it was not desirable for the [First General Voyage] to set up special machinery for so limited a period, an arrangement was come to by which use was to be made of the Joint Stock’s staff, warehouses and &c., at a commission of one per cent for home and six per cent in the East. The Hopewell, belonging to the Joint Stock, was chartered by the new body” (Sainsbury, 1909, p. xx).

49 During the conflict between Parliament and the Crown, John Mucknell handed over the John and its cargo to the King; the Discovery was lost; the Dolphin almost wrecked, and the Hopewell badly damaged. In addition, there were large charges for interest.

50 He is Brenner’s archetypal leading new merchant (Brenner, 1993, p. 115).
Company had come, in early September 1647 with the encouragement and approval of the House of Commons, from whom subscriptions were specifically invited, sufficient capital for a Second General Voyage was raised from the “new men of the interloping syndicate... willing to provide substantial support, in terms of finance and leadership, to this separate and independent venture, while naturally refusing to back the old joint stock” (Brenner, 1993, p. 179) and inherit its problems. Prominent amongst these new men was Thomson and his associates, who provided some £80,000 out of a total of £141,200 (Sainsbury, pp. xv–xvi).

In January 1649, following the outbreak of the second civil war, the issue of a fresh seven-year joint stock failed because of the “distraction of the tymes” (Sainsbury, 1912, p. xix). However, in July 1649 a record seven ships arrived back in England almost simultaneously, and in August the Company proposed raising a new four or five-year joint stock of £300,000. In the meantime, Thomson and his colleagues had obtained Parliamentary sanction for a plantation company in Assada (Madagascar) which would also allow trade with India. Prominent amongst the promoters was the Lord General Sir Thomas Fairfax. The Company petitioned Parliament to have it stopped, but was told that to get Parliament’s encouragement it must come to terms with the interlopers (called the Assada merchants). To do this the directorate had to agree to a programme of colonisation and defence, both studiously avoided so far. The new merchants “were inclined, in general, toward a ‘free, well-regulated trade’ rather than a joint stock monopoly”. However, the agreement with the Company’s directorate conceded most of their programme; retained the joint stock organization, and left the new merchants demand for a change in the “government of the Stocke” to the decision of future shareholders. The Company explained its case for retaining its monopoly to Parliament in February 1647. This was in response to “the new objection against pursuing the trade by means of a Joint Stock, [to which] the Company adduces the following arguments, ‘collected from long and deare experience’”. The Company argued it was necessary to provide the scale of resources to compete with the Dutch and Portuguese; to minimize internal conflict; and to share and minimise the many risks involved in long sea voyages. “All methods have been tried and the Company has found that ‘one Joint Stocke is the best and only way to carry on the worke with honour and profitt to this nation’” (Sainsbury, p. 371).

On the question of the ‘government of the Stocke’, considering the previous decades of intense conflict, the directorate now felt obliged to stress what the generality had long demanded, that they accepted their role was to be professional managers accountable to the generality. “[T]hey beseech the [Parliamentary] Committee to believe that they are not ‘so prodigal of their reputations, nor so treacherous to their owne or other mens estates, as to propose the mannaging of them in a knowne way of prejudice; nor have they such interest in the present government as may insure them the least private advantage, for they will all be out of office next July, unless re-elected by the generality” (Sainsbury, 1912, pp. 187–189). As potential major investors, the directorate readily accepted what the previous small investors of generality presumably would not. Namely, that its “government” was to “be settled by the major part of the adventurers”, and proposed that “none shall have a voice in this matter unless he has 500 l. stock; but if five men have underwritten for 100 l. each, they may choose one to have a vote for them, ‘and so of other summes amounting to 500 l.’” (Sainsbury, p. 378). The Assada merchants, also large potential investors, proposed that “None with an adventure under 500 l. to have a voice in election, but those who have adventured so much to have ‘a ball in the balatering box’ in the event of any question, that ‘soe the Stocke may governe the Stocke’” (Sainsbury, pp. 371). Neither wording is clear, but the intention of the Assada merchants was. The only way in which the ‘Stocke could govern the Stocke’ — that *capitalis*, a social capital, could reign — was if every £500 of capital had one vote. It is possible to read this into the Company’s formulation — ‘a vote for all summes of 500 l.’. However, on this critical issue, the final agreement made clear “that every 500 l. adventure should have a ball in the ballatting-box” (Sainsbury, pp.
381–382). This was a revolutionary advance towards modern capitalism. However, it did not remove the fundamental cause of the conflict between the generality and the directorate because the capital remained terminable. The new merchants in particular make clear they remain unconvinced that the directorate will run a monopoly joint stock in their interests. In the final debate between the Company and the free-traders led by Maurice Thomson, this is the new merchants greatest concern. Their distrust only goes when they abolish the feudal directorate with the declaration that cash dividends are to be paid only from profit.

3.11. The revolutionary transition to a ‘permanent’ capital

In 1650 Parliament resolved that the trade to the East Indies should be carried on “by one Company and with one Joint Stock” (Sainsbury, 1913, p. iv). It required implementation of the agreement with the Assada merchants. The Company invited subscriptions for £300,000 for the United Joint Stock. “The flotation of the stock of 1650 was not a success”, initially raising only £30,200, and ultimately only around £125,000 (Scott, 1951 vol. 2, p. 120). In 1651, “Some of those who traded under license to the Assada merchants had not joined the United Stock and were proposing to fit out ships for India”. Cromwell’s reply to the Company’s petition to stop them was that he was too busy for private matters. Heartily discouraged, from 1651 the “governor and committees had adopted an attitude of great caution, and they had reduced the trade to very small dimensions” (Scott, vol. 2, p. 121). The Company sent no ships in 1651. By the summer of 1652 the Navigation Act led to war with the Dutch and severe losses to Dutch privateers and the Dutch Company. Applications to the Council of State for licenses for single voyages began, and the Company granted permission to its own members. The treasurer died in 1653 but no-one replaced him as the “stock had no trade”. During this period to the end of the war in 1654 the Company’s activities were at their lowest ebb. However, with the war over the time appeared “ripe for a revival of the operation of the United Stock on a large scale”. Revoking the order authorising free trading by its members caused “considerable dissatisfaction amongst a group of the adventurers, and a rapid increase in state licenses” (Scott, vol. 2, pp. 121–122). Then began a period of intense debate about the “best means of carrying on the trade” — whether it should be thrown open to free competition to all those with capital to associate as they will, or should the Company retain its monopoly. The May 1654 meeting appoints a Committee to “draw up some form or model of the most advantageous way in which to carry out the trade, whether by joint stock, or ‘in a regliment according to the Turkey Company, or in some other way’” (Sainsbury, 1913, p. 314). On 8 June the governor at General Court summarised the case from each side.

The Governor reports that the Committees appointed to consider concerning the carrying on of the trade have met several times and debated the question, and have finally by eleven votes to five decided that the trade would be most advantageously and securely continued by a joint stock. Some gentlemen present declare that the first thing to be done is to have a regulation drawn up, showing how to continue the trade and relieve it from the abuses formerly suffered when it was carried on by a joint stock, and to obtain power from those in authority for the remedy of these abuses, and for these purposes a committee should be chosen (Sainsbury, 1913, p. 324).

The case for a joint stock was its ‘advantage’ (more profitable) and ‘security’ (less risky). The case against, elaborated by Maurice Thomson, was that joint stock was synonymous with ‘abuse’ of power by the directorate. In his Reasons Why the East India Trade Should Not be Confined to a Joint Stock, Thomson claimed the particular voyages were more profitable. The main reason was that in these voyages merchants operated their own capital. These merchants had every incentive to speed the turnover of the capital and keep the overheads to a minimum. No-one should trust another with their capital. As Thomson put it, “It is against the rule of merchants to commit the
disposal of their stock to the will of a few men... [and, therefore] a general stock managed only by a few, in which those who adventure largely can give no assistance, is very discouraging to personal endeavours and contrary to the custom of those companies who trade by particular stocks". This, in his view, was why "A general stock is slow in motion and attended by great charges, which devour much of the stock, whereas the government of a company like the Merchant Adventurers, the Muscovia and Turkey merchants is far less chargeable, though their respective stocks much exceed the joint stock of the East India adventurers" (Sainsbury, 1913, p. 354). To answer Thomson’s claim, Jeremy Sambrooke, the Company’s accountant, produced an Account of the East India Trade (shown as Fig. 3 below). This gave the complete financial history of the Company to the Fourth Joint Stock, showing for each voyage and joint stock its rate of return on the initial capital invested (Sainsbury, pp. 360–363; Chaudhuri, 1965, p. 209). Although these figures appeared to make Thomson’s case, the Company argued in its Answer, focusing on the low returns from the Second Joint Stock, “it is more to be wondered at that this Stock returned the adventurers their money with 12 l. 10s. per cent profit than that it produced no more, especially as it was ‘hacked and maimed in its infancy before it had got any strength’.

They warned Thomson and his friends that, in the Company’s experience, “Any trade to the Indies is liable to these causalities, one-half of which would have ruined any particular adventurers and wholly lost to this nation this trade”. The Governor reminded Thomson that the issue was not whether a joint stock would be more profitable to individual merchants. A more important question was would it be more or less profitable for the ‘publique’, for a social capital? As the Governor put it, “In free trade every merchant makes his own rules, but the Company is not guided by the example of merchants alone, for the foundation of the East India trade was laid at the charge not only of merchants but of the nobility, gentry and others, who have borne its great burden; therefore it belongs to them and their successors as well as to the merchants” (Sainsbury, 1913, p. 358).

Thomson did not question the Company’s figures or their explanations, simply their relevance from his perspective. His Answer starts by imagining a brave new world where the need for large overheads for defence has passed. “The hostility between the English, Dutch and Portuguese being at an end, there is now no necessity to send out a fleet of ships for mutual defence, for this nation having, through God’s blessing upon the present government, gained so great a reputation amongst its neighbours, may well hope to be free from the assaults and injuries formerly offered to it by the Dutch and others” (Sainsbury, 1913, p. 365). He accepts that because of the need to catch the monsoon all traders would arrive to buy at the same time, and would be forced to sell cheap. For this problem he suggests some initial regulation and foresees the rapid appearance of many “great merchants”, as in Turkey. He imagines these merchants competing with each other to smooth out the supply and keep average prices in

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</tr>
<tr>
<td>1629</td>
<td>2nd Persian Voyage</td>
<td>£150,000</td>
<td>80%</td>
</tr>
<tr>
<td>1630</td>
<td>3rd Persian Voyage</td>
<td>£100,000</td>
<td>40%</td>
</tr>
<tr>
<td>1631</td>
<td>3rd Joint Stock</td>
<td>£420,700</td>
<td>33%</td>
</tr>
</tbody>
</table>

Fig. 3. Sambrooke’s ‘account of the East India trade’.

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51 How Sambrooke presented this information is unknown. Chaudhuri arranges into columns what the calendar of Court Minutes presents in narrative form. That Sambrooke reworked all the voyages and joint stocks back to the first voyage to give the feudal rate of return on their capital is striking evidence of its importance in the calculative mentality of the merchant world of the 1650s.
check. So far this is pure fantasy. But the key point for Thomson is that “Even if the necessity for the English ships to leave at a certain time somewhat prejudices the sale of their goods, yet the gain will be much more and the accounts less tedious than when the trade was under the management of a joint stock” (Sainsbury, pp. 365–366). One reason the ‘gain will be more’ was the capital would circulate more quickly — “at the end of eighteen months at the most, they may expect to see their money returned with great profit” (Sainsbury, p. 368).52 However, for Thomson the ‘great profit’ would mainly come from the elimination of the feudal middlemen.

[Free trade]... will give an advantage to men of small means to engage in the trade, which before could only be done by those who had ‘a superfluity of estate’, for it is not to the interest of a young man to leave his stock to the management of others and sit in expectation of a tedious and slender gain. ... It will probably greatly enrich many men, as is seen in members of the Turkey Company..., whereas it is impossible to name one man who has gained a great estate by adventuring in the Joint Stock.... It will prevent the engrossing of pepper and other goods, which by this means are kept at such high prices and mostly by members of the Company, who knowing when a supply of any commodity is likely to come, are able to judge whether it is best to sell or not. Only those who have such designs in view will subscribe any more to a joint stock, and the profit made by it cannot be encouraging” (Sainsbury, 1913, p. 369).

Although Thomson had not satisfied the Company, he had satisfied himself and his friends who immediately prepared 14 ships for despatch to the Indies. In 1655 “anyone who pleased was sending ships to the Indies”, and the formation of a large syndicate of interlopers spurred the Company to a fresh attempt to get the Protector to confirm its privileges. The Company submitted its arguments to a committee of the Council of State. Significantly, after rehearsing all the well-known arguments in favour of a joint stock, the directorate now offered their first serious concession to the question of ‘abuse’ by guaranteeing that, in future, the managers would be strictly professional. “If any failure is attributed to the managers... it may for the future be managed by those who have lived and are well versed in those parts, with the help of others of known ability and integrity, and be chosen by the adventurers themselves, their posts not being perpetual or hereditary” (Sainsbury, 1913, p. 128). The Company also repeated their most powerful argument: “If it is settled in a joint stock, it is open to all who adventure in it, but if in an open trade, all who are not merchants will be excluded” (Sainsbury, p. 128). In other words, a joint stock would be a convenient vehicle for investment by those with capital who did not wish to directly engage in trade, for a social capital. In December 1656 the Committee of the Council of State concluded that “the said trade will be managed with most advantage to the Commonwealth and to the security of itselfe by a united joint stocke under regulacion”. Early the following year the Council of State granted a charter requiring the separate capitals be wound up (Scott, 1951, vol. 2, p. 122). At the end of 1657 the Company issued the New General Stock raising £739,782. 10s. even though trade was bad. Maurice Thomson became Governor, and with “his supporters [he] exercised a very powerful influence in the directorate” for the next 10 years or so (Sainsbury, 1912, p. xi). What had persuaded Thomson and his friends that a monopoly joint stock was necessary? First, “The experiment of leaving the trade open had now had a fair trial, with the results that its disadvantages were patent” (Sainsbury, 1913, p. xii). Second, apparently, the establishment of a ‘permanent’ capital.

In early October 1657, expecting the grant of the charter, the Company appointed a Committee to draw up a preamble for a new subscription. Again, each £500 of stock had one vote. The key innovation was that this “Stock was not to be wound up like its predecessors, but at the end of the first seven years (and every third year after) a

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52 By less ‘tedious’ accounts Thomson appears to mean less ‘confusing’, less prone to generating interminable debates about the allocation of non-productive overheads, which presumes continuation as terminal stocks.
valuation was to be made, and any adventurer wishing to withdraw was to be paid out on the basis thereof, and others admitted in his place” (Sainsbury, 1916, p. xix). In December 1657, in the first Court that elects Thomson, they implement the corollary that “divisions [sic] were for the future to be made in money only” (Sainsbury, p. xxii). In April 1661 Charles II renews the Company’s charter, and “For the first time the voting qualification, announced in the preambles of 1650 and 1657, was incorporated in the charter,” that each £500 of stock had one vote (Scott, 1951, vol. 2, p. 131). The new charter also gave members limited liability (Littleton, 1933, p. 250), another essential precondition for a social capital (Bryer, 1997). In declaring the first dividend on the New General Stock of 1661–1662, the Governor and Committees outlined the other corollary of money dividends — the merchants could no longer withdraw their capital as commodities. As this abolished the merchant elite, there was no need to return capital. It was this that underlay the simultaneous appearance of “the principle that in future these distributions would consist of profits earned, not ‘divisions’ (without distinction between capital and income) as had been the case in the past” (Scott, vol. 2, pp. 131–132). As the Governor said, with his tongue still firmly in the past, “a division [sic] of twenty per cent. in money may be made without touching the capital” (Sainsbury, 1922, p. 131).

In the conventional wisdom, in making this declaration the EIC was “transformed from a collection of adventurers, making temporary investments, into a modern joint stock enterprise with a permanently invested capital” (Edwards, 1989, p. 94). Calling the capital ‘permanent’ is misleading. The Company demonstrated how permanent this dividend policy made the capital. Between 1664 and 1667 it returned two thirds of its capital of £500,000 to its shareholders (Scott, 1951, vol. 2, p. 133)! Permanent clearly did not mean that the capital would not return to the shareholders, or that it would be invested in fixed assets. The transition from terminable capital meant that management was now accountable to a social capital for the value of the capital advanced (even if this meant returning it to the investors). This was the social meaning of the EIC’s declaration — the abolition of its feudal merchants. They could no longer withdraw their capital and their share of the surplus as commodities, and function as merchants. They changed into the modern managers the Company’s generality had long demanded. This involved a transition from personal accountability for property and consumable surplus to individuals, to economic accountability for capital. To meet this objective “it was then possible — even necessary — to distinguish carefully between ‘capital’ and ‘income’” (Littleton, 1933, p. 211). As Edwards puts it, “The company began to show some interest in what we now call the separation of capital from revenue for the purpose of identifying distributable profit” (Edwards, 1989, p. 94). I leave the question of exactly how much interest the EIC took in separating its capital from its revenue for future work. Nevertheless, as Littleton concludes, “another great forward step was taken in arranging the conditions under which modern corporations operate and modern accounting assumes some of its greatest responsibilities” (Littleton, p. 211). From our perspective, the greatest of accounting’s responsibilities is to hold management accountable for the rate of return on capital employed.

Evidence of capital-revenue accounting within the EIC is not available from published sources.54

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53 That is, whether the EIC used cost-based accrual accounting, the accounting signature for the real subsumption of capital.

54 For example, virtually all we get from Chaudhuri is that the Company used DEB from 1657. He also says that from the 1660s “The regular dividends were paid out of the current or retained profits and were in no sense repayments of the original subscribed capital” (Chaudhuri, 1978, p. 413). While he notes criticism of the Company’s use of “only approximate methods in calculating profits during the last quarter of the seventeenth century”, what this means is not clear. The criticism comes from the claim of a Committee of the House of Commons in 1698 that the Company paid dividends without referring to “any Stated Accounts or Valuation” (Chaudhuri, p. 413). As “the original historical paid-up capital of the Company… was the basis for the dividend declarations… up to… 1702”, the statement of its accountant to the MPs that he did not “know of any Books or Accompts wherein the Company’s Stock was at any time valued or computed before any Dividend made” (Chaudhuri, pp. 414–415) appears to mean that it used historical cost accounting. Chaudhuri does not discuss the Company’s definitions of profit and capital (see: chapter 18 and Appendix 1).
However, it is available for the large and rapidly growing English shipping industry where socialised and social capital was common. Davis (1957) provides evidence of the capitalist mentality at work in this industry. He analyses “More than sixty ships’ account books [that] survive in the Court of Admiralty records of the period [1670–1730]” (Davis, p. 417).

These accounts “present the picture as it would have been recognized by a seventeenth century shipowner”, from whose perspective, he surmises, “because the assets... were expensive and long-lived units... it was natural to relate earnings to an annual rate of return on the capital invested in those units” (Davis, pp. 411, 409). It was natural that “depreciation is, therefore, calculated” (Davis, p. 411). Davis shows that the English shipping companies calculated the rate of return on capital employed. However, this was not a natural consequence of using long-lived assets. During the first half of the seventeenth century the EIC also had many expensive and long-lived assets, but it did not charge depreciation. Instead, it revalued its ships at the end of each voyage. However, from our perspective, charging depreciation was natural following the bourgeois revolution. This provided the socio-economic context for real subsumption to appear wherever the rate of return mentality captured production. Naturally, it appeared early in shipping. According to Marx’s theory it also appeared when profits from socialised and social capital in trade flowed into agriculture and began to spread. As we shall see in the final section, the limited accounting evidence available is consistent with this prediction.

3.12. Summary

It is true that in 1657 the EIC “cast its medieval skin” (Hunter, 1912, p. 135), the independence and power of the Governors. However, the generality had been stretching and straining at this since the word capital was first used in 1614, and throughout the conflicts from the 1620s to the 1640s. By then developments in its system of bookkeeping and accountability had so attenuated its skin that it was barely adequate to preserve the Company’s life in its feudal form. Terminal degeneration began in the late 1640s with the infusion of new merchants demanding equal rights for their capital. In the period of free trade, merchant capital rushed forward only to find it had no protective skin of its own; to discover its vulnerability to natural disasters and excessive competition. Thus, in 1657 the English EIC did not merely cast its medieval skin, but remade its feudal armour to suit its developed capitalistic form. A monopoly of trade for a social capital replaced a feudal monopoly for privileged individuals. Emerging in this form, as a State-protected island of social capital, the charter of the EIC granted in 1657 was a harbinger and model for the eventual creation of total social capital.

4. Accounting for the real agrarian revolution

Agricultural historians have proposed five different agrarian revolutions between 1560 and 1880 (Overton, 1996, p. 1). Which one is ‘real’? There is no consensus about which changes — output, productivity, new crops and techniques, enclosures, etc. — are most significant, or when ‘the revolution’ occurred. Nevertheless, most modern agricultural historians agree that some type of agricultural revolution occurred from around the mid-seventeenth century (Thirsk, 1985). As Jones puts it, in Britain there was “a primitive state of farming until the middle of the seventeenth century”.

55 Financing the shipping industry “were many people for whom shipowning was a means of investing surplus funds... offering a degree of security not usual in that period. Shares in ships, unlike those in ordinary commercial partnerships, were freely transferable; there was an extensive market in them, with specialist brokers to bring buyers and sellers together [and]... [i]n practice [gave] limited liability” (Davis, 1957, p. 424). As such investors could further reduce risk by diversification, they not surprisingly accepted a lower average rate of return than generally available elsewhere.

56 Davis does not present any accounts but apparently with their blessing assumes “a simple annual charge of 4 per cent” on the historical cost of the hull (Davis, 1957, p. 411). Davis believes that this is “depreciation in its simplest form, without the sophisticated procedures of modern accountancy”. In fact he deduces that the standard method was the modern declining charge method, presumably chosen to allow for the fact that “an old ship, like an old car, needed a greater annual repair than a new one” (Davis, pp. 411, 409). See Bryer (1993b) for a discussion of the centrality of this idea of depreciation in late nineteenth century capitalist accountancy.
Consistent with Marx’s theory that real subsumption began in this period, for the first time labour productivity began to increase,

when in the late seventeenth century England was the special beneficiary of a ‘commercial’ revolution. Much wealth was generated by the rapid expansion of the export and re-export trades and much of it was invested in land by the successful merchant class, so great has the social magnetism of a country estate always been to an Englishman. ...Agriculture could not but be the gainer from this transfusion of trading capital, allied as it was to new farming practices spreading among a more progress-minded rural community. Several strands thus wove into one in raising the productivity of agriculture (Marx, 1974, p. 88).

In Marx’s theory this “transfusion” interwove the rate of return on capital and the exploitation of labour in production. Their product, the real subsumption of labour, defines the more “progress-minded”. Jones surmises that “What may have inspired this... improvement of farming practice... was a probable swing in the ratio of cereal to livestock prices from approximately 1650 to 1750 in favour of expanding livestock production” (Marx, 1974, p. 89). This, he suggests, encouraged the growth of fodder crops and mixed farming producing higher corn yields. Other agricultural historians have found this explanation unconvincing. Farmers had known for many years that corn yields would increase with livestock and fodder crops. Furthermore, the relationship between prices and innovation is vague as both increasing and falling prices could ‘stimulate’ attempts to increase labour productivity (Overton, 1996a,b, p. 202). Prices do not explain why “when there was renewed pressure on cereal production, there was no danger of recession of forage crops” (Jones, 1974, p. 90), or the adoption of other output enhancing innovations. In particular, they do not explain why turnips, that first appeared in England in the sixteenth century, only become common in certain parts of the country in the late seventeenth and early eighteenth century. They also do not explain the marked substitution of animal for human labour. For example, the amount of horsepower available per worker rose 63% between 1700 and 1850 (Overton, 1996 pp. 9–15).

English farmers did not just respond to price movements or opportunities for diversification, they began in large numbers to “think”, as John Houghton emphasised in his Husbandry and Trade Improv’d (1727). In his view, “the great improvements made of our lands since our inhuman civil wars, when our gentry, who hardly knew what it was to think, then fell to such industry and caused such an improvement, as England never knew before” (quoted in Jones, 1974, p. 89). By the mid-eighteenth century this kind of thinking was causing “One substantial Hampshire chalkland farmer [to] repeatedly intersperse... his accounts with the eager phrase ‘Land for money and money for Land’”. A farmer at Didmarton made “calculations of the cost of almost every task on the farm”. Down on Romney Marsh the graziers go “casting up the Debtor and Creditor’s side [so] they know to a farthing the profit or loss of every year” (Jones, p. 95). As Jones says, from the mid-seventeenth century “On all sides there is evidence of a constant advance in farm business methods”, particularly “The keeping of farm records [which] was not confined to an exceptional few” (Jones, pp. 95, 122).

Many farmers’ accounts survive from the seventeenth and eighteenth centuries (Collins, 1965; Jones & Collins, 1965; Turner, Beckett & Afton, 1996). Their relevance to historians of accounting is clear. As Collins said many years ago, not least of the many “Subjects which can be usefully investigated through farm accounts... [a] word might also be said about changes in accounting methods which may be significant as they often reflect a new capitalistic spirit” (Collins, p. 145) Collins, unfortunately, says nothing on this subject. Of particular interest to Marxian historians of accounting in tracing the spread of the capitalist mentality are the accounts of the larger land-owners and lesser gentry. These were men “who were not strictly working farmers and they often had non-agricultural sources of capital...
[and whose] records are customarily methodical, . . . doubtless reflecting especially intelligent and technically progressive farming methods”. Also of interest are the accounts of “tenants (and less often owner-occupiers) who largely relied on the profits of their holdings for their income” (Jones & Collins, p. 86), and bailiff’s accounts. The latter are “usually methodically kept, and even during the eighteenth century displayed a remarkable similarity in presentation, in that annual profit and loss columns and stock valuations were drawn up and farming matters were clearly separated from other estate interests” (Jones & Collins, p. 87). The analysis of this wealth of materials must await archival research. However, some seventeenth century farmers’ accounts are in print, and an agricultural literature exists, particularly from the mid-seventeenth century, which also provides evidence of changes in the agrarian calculative mentality.

The accounts for Robert Loder (1610–1620), Nicholas Toke (1616–1704), Henry Best (1642) and the Reverend John Crakanthorpe (1682–1710) are in print. These reveal calculative mentalities in various stages of transition. While the earliest, Robert Loder, is the most advanced, and the latest, Crakanthorpe, appears the least advanced, this is not inconsistent with Marx’s theory of the transition. Real subsumption begins to spread towards the end of the seventeenth century, but must be expected to appear sporadically before then wherever the rate of return mentality and capitalistic agriculture fuse. Opportunities for this multiply rapidly from the end of the sixteenth century. Just as some seventeenth century merchants began to take a keen interest in the return on capital, so did some farmers.58 Robert Loder was almost certainly one of the first. As Fussell says, Loder was not in his outlook a subsistence farmer. He wanted a large financial return for his expenditure of capital, managerial work and manual work as he could get, and he did his utmost to obtain it. His constant preoccupation with the comparative profits of growing wheat and barley, and his sudden interest in new enterprises... is complete evidence of his objective (Fussell, 1936, p. xxiii).59

As we have seen, accounting evidence suggests sixteenth century farmers who employed wage labour still wanted to maximize their feudal surpluses. By contrast, Robert Loder wanted the maximum return on his capital employed in production. Whether Loder or his family had mercantile connections is unknown. He inherited the farm in 1610, and sometime in 1611 he calculated his total capital (Fussell, 1936, pp. 17–18), shown in Fig. 4.60

Although its exact date is unknown, Loder drew up this statement “[t]owards the close of his first year’s farming” (Hall, 1931, p. 125), probably just after the harvest of 1611. Loder began to manage the estate at Michaelmas (29 September) 1610, anticipating his inheritance on 1 November that year, and had held some land belonging to his mother from Lady Day (25 March) 1610.61 However, in 1610 and 1611 Loder let his lands “to halfe”, whereby he received as rent half the crops grown. Loder only began to take control of the farming of his lands during 1611 (probably from Lady Day 1611), when “he was also preparing by his own work for the 1612 crop” (Fussell, 1936, p. xxiv). During 1611 he bought the iron work for his plough and cart harnesses for his four horses. Loder bought his carts in 1612.

58 Explaining cross-sectional and chronological variation in the calculative mentalities of individual farmers will require research into the sources of their capital and their business and social milieu.

59 Even this statement makes nonsense of Tribe’s view that “the accounts of Robert Loder for the years 1610–20... simply describe his farming practice without reference to financial transactions” (Tribe, 1981, p. 83)! As we shall see, although Tribe is for agricultural historians the authority on the calculative mentality of seventeenth and eighteenth century farmers, he knows nothing of accounting and therefore makes serious errors.

60 Robert Loder largely kept his accounts in Roman numerals. I have aligned the numbers to ease comprehension, and underlined the intermediate sums to make the arithmetic clearer. Otherwise, with the omission of some details on the value of the crop, I have presented the statement as published. Note that Loder’s accounts contain minor arithmetic errors.

61 Until Loder’s inheritance his uncles ran the farm (Freear, 1970, p. 26).
Loder starts his statement of his ‘worth’ with his debts, the debts owed to him, and his fixed assets (but note, there are no buildings or land) at 8 January 1611. To this is added ‘What I had now layd out upon tilling of my lande’. This is his investment of capital in the coming harvest of 1612, from ‘the Lady day before unto this time above sayd’, that is, from 25 March 1611 to the time he prepared his statement. These expenditures included wages, horse feed, repairs to equipment, interest charges (‘vse of money to this purpose’) and a charge for the depreciation of his horses, what his ‘horses were the worse by’, discussed further below. Loder then calculates and adds the capital tied up in his inventories of wheat, barely and pulses, ‘The value of my crope [which]... remaines’, the value of his stocks of wool, sheep and hay, and this gives him his total assets of £527 13s. 0d.62 Deducting the £186 9s. 6d. he owes leaves the ‘Residue’, the ‘remaines that I am worth’, his capital, of £342 4s. 6d.

Besides Loder’s obvious interest in his capital, in 1611 and every subsequent year he produces a detailed account of income and ‘expenditure’ by commodity and in total (see Freear, 1970, Table I, for an example). From 1612, in a striking early illustration of the beginnings of the modern capitalist’s calculative mentality, he deducts a charge for depreciation on his horses and their equipment, for the cost of their “wearing”. For 1612 he reckons the following expenses (Fussell, 1936, p. 22):

Item I judge, that the wear of other things, as forehorse halter, ring’d halters, collar halters, skipe, chafe seve, shovell, cripers, fetters, basten ropes, my plowe, harrowes, etc. cost me xvs. iiijd.

The cost of the ‘worsening’ of the horses, “the wearing out of the sayd horse”, the charge for “the wearing of him out some in the time I mow” (Fussen, 1936, pp. 54, 56), is depreciation expenses in the modern sense — the cost of the use-values consumed in the production of commodities (Bryer, 1993b, 1994b). Depreciation of the initial cost appears to be straight-line on an estimated useful life of some nine-years per horse [£28/£3 = 9.3 years].63 For example,

Item for my other horse aforsayd for xix wekes, I judge, that... in wearing out of the sayd horse which comes to I judge vs.64

62 The figures given for Loder’s crops in the statement of his wealth are those he earlier records for his share of the harvest for 1611, slightly revised, and the statement was, therefore, produced after the harvest of 1611.

63 The estimated residual value is unknown.

64 This rate of depreciation implies an annual charge per horse of 13s, and an annual charge for four horses of £2.6. However, Loder says the charge in 1612 was for 57 weeks (Fussell, 1936, p. 21), which at this rate gives a charge of £2.85. Perhaps his new horse was below the average cost of the others? In later accounts he makes no specific mention of the charges for wearing out his horses. These charges may be in Loder’s “Notes”. In 1614 and 1615, for example he produces only the total “charges in tillinge my lande” including what his “horses spent me” after “having viewed over my Notes” (Fussell, 1936, pp. 79, 99).
Loder has been unequivocally dubbed a “substantial capitalist farmer, working for the market” (Habakkuk, 1938, p. 89), and a “Jacobean Management Accountant” because his “rigid demarcation between fixed and variable costs...” and sophistication in this respect is clearly illustrated by the ease with which the current Ministry of Agriculture... Gross Margin Analysis form can be completed using Loder’s figures almost entirely without need to adjust them” (Freear, 1970).

However, a detailed analysis of his accounts reveals that in several respects he remained feudal in his calculative outlook. He fails to account for all his fixed capital in his one and only statement of his capital. He does not make regular, detailed accounting calculations of his stock and dealings in cattle, sheep and pigs; his method of accounting for internal transfers at the weighted average market price (Freear, 1970, pp. 31, 32) is feudal. Also feudal is Loder’s capitalisation of interest on money borrowed as a cost of production. This is consistent with the scholastics’ emphasis on cash flow and economic value, ideas that long pre-date capitalism. For example, John Duns Scotus “put forward cost of production as the determinant of price, and allowed for a normal profit and compensation for risk” (Kirshner, 1974, pp. 25–26, 29), and would certainly allow interest paid. Also included in Loder’s cost of production for 1612 are charges for “The tieths of Orchards”, “payments to the Kinges maestie”, “payments to the poore of our towne”, “thatching my hovses”, and “my Respect of homage and Amearcementes” (Fussell, 1936, pp. 42–43). All are non-productive expenditures in modern accounting, but are legitimate in the feudal mentality in which the objective of production is consumable surplus.

Freear considers Loder’s fixed and variable costing distinctively modern, and says his accounting for internal transfers at market price is “superior” to the modern method of accounting at cost (Freear, 1970, p. 28). However, just because Loder’s decision-making objective was clear and quantifiable, and he considered alternative courses of action and their opportunity costs, does not make him modern, as Freear implies. This type of decision-making was just as much a part of the feudal mentality (Bryer, 1994a). What makes him modern is his objective to “maximize the return on his investment of time, money and effort” (Freear, p. 27) rather than to maximize feudal rent. Loder did not only charge and capitalise the interest on money he borrowed. He also charged 10% per annum on the capital tied up in growing his crops for the harvest of 1612, not as a cost of production but a deduction from his surplus. This, as Freear says, was the “opportunity cost... of tying up his money in growing crops when there existed an alternative course of action” (Freear, p. 28), share-cropping or renting out. In 1612 Loder charges for “The use of money borrowed; and of my stocke which lay dead vntil I had my crope”, “vntil I had threshed my corne, and put the sayd stocke in my purse” (Fussell, 1936, p. 22). Here Loder’s ‘opportunity cost’ is not a notional cost of production allowable under scholastic accounting, but the benchmark rate of return on capital he thought he could earn from its employment elsewhere. “All this yf I had let my lande to halfes, or at a Rent, I had saved” (Fussell, p. 22). Capitalising interest as a cost of production is evidence of the feudal mentality. Charging notional interest on total capital employed to divide the surplus between the required return on capital and the residual income is evidence of the modern capitalist mentality.

65 Loder otherwise kept household expenses separate from his farm costs.

66 Loder included these non-productive overheads in his “whole summe of all manner of my layings out in this yeare 1611 (which wilbe ordinarye layd forth for the bringing in of the commodities aforsayd)” (Fussell, 1936, p. 16). However, he did not capitalise them in his statement as he might have done according to the scholastics’ notion of the just price. This was the notion that the artisan worker should get the normal price for his labour and his ‘outlays’ (see: Kirshner, 1974, pp. 24–25).

67 In 1612 Loder charged £41 1s. 9d. interest for the use “for halfe a yeare” of £90 17s 4d. of “stocke which lay dead, from the time I made an end of sowing vntill I had it in my barne” (Fussell, 1936, p. 22). On this basis Loder appears to charge just over a year’s interest on £44 10s of stocke, implying that he drew up his statement of wealth in April or May 1612. Consistent with this, in his preamble to his accounts, Loder says he begins “all my yeares at our Lady day”, and that his “book was made in Anno 1612” (Fussell, p. 1). That is, he began then to write up his ‘Notes’ into his ‘book’, and the financial statement was the product of this first flourish of accounting.
Thus, while traces of feudalism are evident, Robert Loder’s calculative mentality had a capitalist core. His idea of capital and use of a benchmark rate of return is capitalist. His conception of product cost including depreciation and, therefore, the distinction between fixed capital and capital of circulation, is capitalist (Bryer, 1994b). Just like the modern capitalist, Loder has a conception of commodities as ‘assets’, as the accumulated value of recoverable capital. This, for Marx, provides the calculative foundation for the real subsumption of labour under capital, the paradoxical view to the feudal mentality that expenditures should be productive of profit. That, as Loder put it, “The whole sume of my charges and layinges out in Anno 1612 [was] for and towards the gettinge of the profittes aforsayed” (Fussell, 1936, p. 42). Predictably, labour productivity was Loder’s obsession. He would contemplate radical restructuring of his business to reduce labour costs.68 Contemplating his statement of capital in 1611 “seems to have led him to a review of the possibility of making grass once more the paramount interest of farming, with sheep and wool, cattle and hay taking the place of cereal crops, whereby the labour bill might be cut out” (Hall, 1931, p. 126). In 1612 he considers whether he can get the same result by letting his plough land and keeping no horses. After a calculation of their costs, Loder concludes, “Thus much then I should have gotten yf I had soe put forth my lande as aforsayd, and kept no team at all...then I need not nether to be troubled with unruly servants” (Fussell, pp. 35–36). Precisely this motivation, a “singular...vexation, verging on neurosis, that he felt towards his expensive and unreliable labourers”, underlay the inventiveness of Jethro Tull and others in the early eighteenth century (Thirsk, 1985, p. 585). Consistent with their outlook, “Loder was often exercised in his mind” by the “method by which the work was paid for”. He preferred piece work (Fussell, 1936, p. xxvi), presumably because of the difficulties he faced in supervising his labour (Thompson, 1967, p. 78), although he appears to have been unable to fully implement his ideal.69

While Loder’s accounts reveal a calculative mentality with a clear modern core, those of Nicholas Toke’s of Goddington in Kent, who kept accounts from 1616 to 1680, only allow us to call him capitalistic. His main business was pasture farming, “and the accounts are full of the record of expenses for the purchases of cattle and sheep, and for the driving and shepherdng of the flocks” (Lodge, 1927, p. xxiv). Toke’s calculative mentality certainly included capital and profit. This is particularly clear when he is accountable for both to his father. “It is only in the early days of his account-keeping that Toke gives us the benefit of a detailed list of his stock, his crops, and his profits. Evidently as long as his father lived this was necessary in order that he might give an account of his stewardship” (Lodge, 1927, p. xxix). These detailed lists suggest a capitalistic mentality focusing on the feudal rate of return. For example, the calculation of “Stocke this St. Michell Anno 1618”, which Toke summarises thus (Lodge, p. 23):

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>The whole sume of all my stocke this St. Michell is</td>
<td>£2137 3 0</td>
</tr>
<tr>
<td>Out of which £2137 3s. I owe in all</td>
<td>£682 3 0</td>
</tr>
<tr>
<td>Soe that I have in all cleare to my selfe all men payd</td>
<td>£1455 0 0</td>
</tr>
</tbody>
</table>

The following Michaelmas, Toke repeats this calculation (Lodge, 1926, p. 33):

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Soe the whole sum of my stocke this St. Michell is</td>
<td>2199 34</td>
</tr>
<tr>
<td>Out of which £2199 3s 4d I owe in all</td>
<td>£659 00</td>
</tr>
<tr>
<td>Soe there remayneth cleere to my selfe all men discharged the some of</td>
<td>1540 34</td>
</tr>
</tbody>
</table>

68 “In the decade there is no very wide variation in wages paid nor in the piece-work prices [and...with the exception of the carter the rates were low”, and there was little scope for reducing wage rates, although naturally “Loder made the best bargain he could with his workers” (Fussell, 1936, p. xxviii).

69 Here the feudal nature of his ‘wage’ labour — either living in servants paid in kind or peasants with other means of livelihood — appears to have imposed a limit to Loder’s real subsumption. This implies the purchase of ‘labour power’, i.e. payment by time, coupled with detailed management of labour. As Thompson says, “it would seem to be not until the second half of the eighteenth century that ‘normal’ capitalist wage incentives begin to become widely effective” (Thompson, 1967, p. 81), when there is a rapid growth of a landless class of wage labourers.
From a capitalistic viewpoint, from St. Michell 1618 to St. Michell 1619 the ‘profit’ was the increment to Toke’s capital, that is, £15403s. 4d. minus £14550s. 0d. = £85 3s. 4d., and the rate of return on the opening capital would be £85/£1455 = 5.8%. The surplus is feudal — there is no sign in his accounts of any attempt to calculate the cost of production, and the entries mix all types of receipts and expenditures. Nevertheless, Nicholas Toke could have calculated the feudal rate of return on capital. By contrast, the book of Henry Best of Yorkshire merely contains “Frequent references to receipts for sales and rents, but they were not entered systematically and it is never possible to give an estimate of annual income” (Woodward, 1984, p. xxxiii). If Best kept a separate ‘profit and loss’ account it has been lost (Woodward, p. xvii). While it is possible to calculate a figure of income for the Reverend Crakanthorpe of Fowlmere, Cambridgeshire, he only produced an account of “all his monetary transactions from April 1705 to March 1710. He made no distinction between receipts or payments for household and farm purposes” (Brassley, Lambert & Saunders, 1988, p. 32). Thus, while the earliest example (Loder) gives clearest evidence of the capitalist mentality, Crakanthorpe provides evidence that the feudal mentality still holds sway in the beginning of the eighteenth century. Although Toke supports Fussell’s claim that “Loder is not an isolated example” (Fussell, 1936, p. xxxi), as only a few seventeenth and early eighteenth century farmers’ accounts are in print, how widespread their rate of return mentality still remains an open question. However, another source of evidence to trace shifts in the calculative mentality of farmers is the numerous ‘husbandry tracts’ or ‘farm books’ that began to be published from the mid-seventeenth century (Campbell & Overton, 1991, p. 26). Tribe is the leading authority on these tracts and the mentalities they reveal (1978). He argues that this literature promoted “good husbandry”. In his view, only in the mid eighteenth century had the emphasis started to shift to “good management and an emphasis on accounting profit” (Campbell & Overton, p. 26). Tribe’s analysis has been persuasive to some leading agricultural historians (e.g. Campbell & Overton, 1991, p. 26). However, the evidence Tribe provides actually supports Marx’s theory that the modern capitalist mentality began to spread from the mid-seventeenth century and was well-established in agriculture by the mid-eighteenth century.

In Tribe’s view, from the mid-eighteenth century the agricultural treaties’ focus on “the organisation of the farm as a productive unit, displac[es] the seventeenth-century principle of the ‘husbandman on his lands’” (Tribe, 1978, p. 54). In this new calculative mentality, in contrast to the old, “‘Profit’. results not from diligence, but rather from the good management of a farming process” (Tribe, pp. 66–67). From Marx’s perspective this interpretation implies a sudden switch from formal subsumption to real subsumption in the middle of the eighteenth century.70 Certainly, Tribe’s two early examples — Estienne’s *Maison rustique, or the Courtreyn Farne* (1606), and the earlier *Book of Husbandry* by Fitzherbert — appear oblivious to the political economy of farming. This is also true of Blagrave’s *Epitome of the Whole Art of Husbandry* (1675). However, it is not true of texts such as Worlidge’s *Systema Agriculture: the Mystery of Husbandry Discovered* (1675). This book, Tribe admits, “appears to run against... [his characterisation]” of seventeenth century literature as one where “The husbandman is not conceived as an agent implicated in a set of social relations, but as a solitary human figure” (Tribe, p. 61). Worlidge’s *Systema* is precisely about the management of an “estate” as a system. Tribe, however, concludes this is not contrary to his interpretation. In his view, “The estate is not conceived as a unity of relations, but rather as an aggregate of technical elements notable only from the point of view of the products made possible” (Tribe, p. 61). However, the following quotation shows that the political economy of farming did concern Worlidge.

The Judicious and Understanding Husbandman must first consider the Subject whereon

70 Tribe’s notion of profit from ‘diligence’ is consistent with Marx’s absolute surplus value, the profit from more labour than necessary for subsistence, and profit from ‘good management’ is consistent with profit from relative surplus value, from increasing labour productivity.
to spend his Time, Cost, and Labour, viz... whether it be more Commodious or Profitable for Meadow, for Pasture, or for Woods...; or with what particular Species of Grain, Pulse, Trees, Fruits, or Vegetables, it is best to sow or plant the same to his greatest benefit; and with what Beasts, Fowl, or other Animals, to stock his Farm or other Lands. Also his is to consider the best or most commodious way of Tilling, Improving, Propagating, Planting, and Manuring all such Meadows, Arable and Pasture-Lands, Woods, Orchards, and Gardens. and the Reasons and Causes of such Improvement (1675, p. 1, quoted by Tribe, 1978, pp. 56–57).

The judicious expenditure of time, cost and labour in pursuit of the most profitable course of action is the hallmark of the modern mentality. Certainly Worlidge reiterates the traditional view that “any increase in... resources through the activity of the husbandman is his gain or profit, a reward for personal diligence rather than the outcome of a specified and discrete process of production” (Tribe, 1978, p. 56). But this is consistent with formal subsumption. According to Marx’s theory this calculative mentality was still common, and a market for books catering to it would remain in the late seventeenth century. Even so, those seventeenth century texts that viewed profit as the reward for diligence in labour are not devoid of an interest in the political economy of farming, even though not fully modern.

No direct accounting evidence is available in print from the middle of the seventeenth to trace the spread of the capitalist mentality. However, there is evidence that Loder’s single-entry system of capital accounting with depreciation was relatively common by the middle of the eighteenth century. There is no reason to believe this form of accounting suddenly became common. Hence, it is reasonable to suppose that the capitalist mentality it reveals spread relatively slowly at first until, by the middle of the eighteenth century, it was relatively common. With this critical mass, the mentality rapidly became general. Plotting and explaining its spread will require detailed historical and archival research, discussed briefly in the concluding remarks.

The clearest evidence that the capitalist mentality was becoming common is Tribe’s finding that agricultural writings from the mid-eighteenth century “stress repeatedly the importance of keeping records in ledgers, and demonstrates the alleged superiority of this or that system of calculating expenses or profit” (Tribe, 1978, p. 70). Marx’s theory predicts that whatever the system of bookkeeping, the preoccupation with the rate of return on capital employed will be the same. However, in complete contrast, in Tribe’s view, “While the farm is an independent capitalist enterprise, the notion of ‘profit’ is associated with the revenue to the capitalist farmer and is not a rate of return on capital invested” (Tribe, p. 78, emphases added). In Marx’s terms, this means that Tribe’s capitalist farmers supposedly pursued feudal surplus. Dismissing this idea is easy. Tribe’s evidence contradicts it. To support his case that the capitalist farmer’s “notion of ‘profit’ is not a rate of return on capital”, Tribe refers to the views of Arthur Young on bookkeeping. Although Young thought DEB was unsuitable for farmers because it was “too complicated”, this does not mean that “The keeping of records rather than accounts is therefore recommended” (Tribe, p. 70). Tribe gives us two pages of Young’s article in the Annals of Agriculture ‘On the Profit of a Farm’ in 1788 in which Young publishes the accounts of a “friend”. Contrary to Tribe, these accounts are a single-entry system for calculating the return on capital employed with a clear affinity with the accounts of Robert Loder in 1611, and authorities still recommend the system in the twentieth century.

71 The results of an examination of 10 sets of early farm records at the University of Reading Library (University of Reading, 1973) also contradict Tribes’s view. One, an audited account book kept by tenants of the owner of Coton Hall farm in Bridgnorth (SAL/5/1) from 1744 uses Loder’s single entry rate of return on capital system and charges depreciation. The other, the account book of a Kent Grazier on Romney Marsh (KEN/19/1) for the 1760s, calculates residual income. I am grateful to Dr. Bethany Afton (University of Hull) for bringing these accounts to my attention.

72 Tribe publishes only the first two pages of accounts that run over five pages of Young’s article, thus arbitrarily eliminating the calculation of the “Four years of profit” that only begins on page two!
In Young’s accounts, summarised in Fig. 5, the objective is to calculate the rate of return on the ‘Total stock of the farm, or capital employed’ (Young, 1788, p. 236). The accounts commence with an ‘appraisement’ of the capital invested in ‘live and deadstock’, plus the working capital invested in ‘Labour, rent, rates, taxes, &c. [for] the second half year to Michaelmas, 1784’. This gives the total capital invested in the farm of £646 18s. 7d. Young’s accounts then calculate the average annual profit over a four-year period of £205 4s. 2d. He concludes: “£646 capital yielding the interest of £205, is in the proportion of 31 per cent” (Young, p. 238), directly contradicting Tribe’s view that that return on capital was irrelevant. While Young calls the profit of £205 “interest” this is modern capitalist profit, calculated as follows. “Total receipts to Dec. 31, 1887 £2,103 13s. 9‰d.” plus the closing stock of commodities, the “Products of the year 1787, by estimate in hand”, gives the total value of output of £2,763 19s. 9d. From this figure he deducts ‘expenses for the same period’, that is, total expenditures (Young, pp. 237–238). Total expenditures plus the fall in the value of the stock equals the total cost of production of £2,040 0s. 11‰d. The value of output minus the total cost of production equals profit. “Interest of capital paid” in this context, as with Robert Loder, is Young’s benchmark return. As soon as Young has the figure for capital employed, he calculates “Interest of which, at 5 per cent. 32 6 0” (Young, p. 236). As this is a purely hypothetical calculation, he gives the profit before and after “interest”. Profit after “interest” is residual income. That this profit is authentically capitalist is signatured by including in the ‘expenses’ the decrease in value of the capital assets estimated “are no more” by £398 4s. 1d. Buried in this charge is depreciation of the livestock (write-downs and write-offs), deadstock and ‘manure &c. in the land’. Young makes the basis of this charge clear when he calculates the profit from the long-run product mix. Prominent in the “Expenses” is an item for annual “Wear and tear,... 30 0 0” (Young, p. 238). Thus, pace Tribe, in these calculations the real subsumption of labour under capital is clearly signatured.

Coleman advocates Loder and Young’s system seventy years after Young when, in Marx’s theory, real subsumption in farming was the norm. For him, the importance of accounts in calculating the rate of return on capital employed was obvious.

The real meaning and purpose of farm accounts... is to give... trustworthy information as the state of the profits or loss upon a farm. That this is really the case will be seen at once, when we consider that the condition of the soil and the stock form the farmer’s real capital, and the balance at the bank may be flourishing, whilst the stock, &c., are yearly depreciating. The balance of cash furnishes a criterion as to the healthy state of a business, only when we view it in connexion with the state of the capital account at the commencement and end of each year (Coleman, 1858, p. 122).

Viewing the change in the cash balance in connexion with the opening and closing value of capital after depreciation of various sorts produces, first, the accrued profit and, second, allows the calculation of the rate of return on capital. In capitalist terms this provides the basis for judging whether the farm is in a financially “healthy state”. The continued advocacy in the early twentieth century of Loder, Young and Coleman’s system of accounts is further evidence that it signatured the real subsumption of labour. As Orwin put it, “The
principle is simple. It is that when a farmer begins to produce anything, he traces the cost right through the process of production until he realises the value of the product by sale. It is no new principle; the application of it was advocated by Arthur Young and by subsequent writers in the first half of the nineteenth century” (Orwin, 1914, p. 7). Naturally, the most important conclusion drawn by Orwin from his example set of accounts is the relation between the capital invested and the profit earned. “Taking the Capital Account... it is apparent that the farmer had the sum of £4793. 3 s. 11d. invested in his farm; at the end of the year this sum is still there, and there is a further amount of £1564. 17s. 8d. which represents the profit on the year belonging to the farmer” (Orwin, p. 195).

In the latest authoritative review of the agricultural revolution literature, Overton accepts the critical importance of ‘Identifying changing attitudes... as a corrective to the view that agricultural development automatically follows from changes in prices and costs, in whatever period or historical context’ (Overton, 1996 p. 206). As he rightly says, “Mentalities and attitudes change, and while the pressures of commercialisation and the market provided the essential stimulus to agrarian change, farmers’ attitudes and expectations also had to change” (Overton, p. 206). He accepts it is critical to any explanation of mentalities as a force in the agricultural revolution for changes to occur before the revolution. As he says, “Farming had to become a business, a money-making enterprise, before farmers would take advantage of market opportunities and produce more” (Overton, p. 206). Overton relies on Tribe’s dating of the change from the husbandman to the entrepreneur in the middle of the eighteenth century. We have seen this is debatable. However, although he thinks the real revolution in agriculture occurred from the middle of the eighteenth century, Overton acknowledges that “the rate of change in output is remarkably close to the rate at which capitalist production relations were being established” (Overton, pp. 206–207). Nevertheless, in his view, the key to the change in attitudes “lay more with commercialisation and the market than with the social relations of production” (Overton, p. 207). In short, in his view the origin of this “new willingness of farmers to exploit commercial opportunities [that] provided the impetus for innovation and enterprise which led to the agricultural revolution” (Overton, p. 207), was commerce. Like Weber, Overton conjures up a calculative mentality to make sense of socioeconomic change, for him the spontaneous emergence of the mentality of the market. By contrast, according to Marx’s theory, this new willingness to exploit commercial opportunity was the result of the revolution in the social relations of production that had been underway since the sixteenth century.

5. Concluding remarks

The evidence analysed in this paper is consistent with the accounting translation of Marx’s theory of the transition outlined in Part one. While I certainly interpret this evidence, and it may be subject to reinterpretation, I have selected none of it to support my case. It is, to my knowledge, the only published evidence available. There is a clear need for extensive archival research by historians of accounting to thoroughly test Marx’s theory. My purpose has been, in Part one, to formulate this theory as a history of accounting, and in Part two, to test its plausibility by a survey of published materials. While the pioneers of accounting history (Littleton, de Roover, Yamey, etc.) in various ways attempted to explain accounting as a historical phenomenon of the last 1000 years, the aspirations of most modern scholars are much more modest. The rich understanding of accounting in its historical contexts implicitly promised in this early work has not happened. I would lay much of the blame for this on the stultifying effect of the early dominance of the neo-classical framework, and the tenacity with which its modern adherents ignore the criticisms of the ‘new history’ of accounting (see, for example, Miller et al., 1991). However, the excessive modesty of accounting scholars must take some of the blame. They are reluctant to accord their subject the importance it deserves — as, perhaps, a foundation stone in the construction of an objective and systematic history of modern society. Modesty comes at a price.
The price to historians of accounting has been to overlook the importance of the major theorists of social change for understanding and developing their chosen subject. It is not possible to ignore Marx. This is not just the view of Marxists. A significant number of historians continue to recognise the importance of Marx, even when they disagree with him. For example, as Rigby concludes,

An encounter with Marx’s diverse and contradictory claims sharpens the historian’s questions, concepts and awareness of the forms of explanation implicit in all historical writing. We may emerge from this encounter perched on Marx’s shoulders, or standing in the ruins of his system. Either vantage point allows us to see further and more clearly. It is an encounter which many historians have yet to undertake (Rigby, 1998, p. 301).

This is an encounter that very few historians of accounting have had. I have attempted to reveal some of the jewels of social history in Marx’s treasure chest. We need more theoretical and empirical research, however, before a plausible theory becomes convincing history.

One thing is clear. We must base the social history of accounting on a thorough study of the large amount of archival material that lies untouched by historians of accounting. In staking its claim to scientific status, this should be the history of accounting’s greatest strength. In Marx’s theory, there are three cumulative and overlapping revolutions in the transition to capitalism: the agricultural, the commercial and the industrial. Thousands of medieval manorial accounts survive, as do thousands of unpublished farmers’ and merchants’ accounts from the seventeenth and eighteenth centuries (see, for example: Collins, 1965; Jones & Collins, 1965; Grassby, 1969; Turner et al., 1996). For the industrial revolution there is also plentiful evidence from which to construct a social history of cost and financial accounting from the sixteenth century. In the many libraries and archives scattered around England there is a huge database with which to explore Marx’s and other theories of social change.73 If the new history of accounting is to come of age it must engage with these theories in a way that no other discipline is able. If it does, the future of accounting history is bright. It may become the foundation of an objective and systematic understanding of the social reality of accounting in the society that produced it, and which it helps to either reproduce or change.

References

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73 For example, for the seventeenth century Jones and Collins produced a list of twenty account books (Collins, 1965, p. 88), and for the period 1700–1835 Turner, Beckett and Afton identify “a possible 136 ‘archives’...which may be used to a greater or lesser degree in the... study of... profitability” (Turner et al., 1996, p. 26).


University of Reading Library (1973). *Historical farm records: A summary guide to manuscripts and other material in the University Library collected by the Institute of Agricultural History and the Museum of English Rural Life*. The Library: University of Reading.


