

The Professional Obligations of Accountants Involved in Strategic Planning

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Abstract

This study is an ethical analysis, focusing on professional ethics. Given accountants' involvement in the strategic-planning decisions of organisations, the study examines whether that involvement extends accountants' public interest responsibilities, as members of a full profession, beyond issues of a financial nature to issues of death and injury. It is management accounting, as opposed to financial accounting or audit, that is of particular importance for the study because one part of management accounting is strategic planning.

Three real-world disasters are at the core of the study: the chemical explosion in Bhopal, Nestlé's marketing of infant milk formula to the developing world, and the Ford Pinto car (referred to as 'Bhopal', 'Nestlé' and 'Pinto' respectively). Estimates differ as to the number of victims from each case; authors tend to refer to the victims of Pinto as being in the hundreds to thousands, the victims of Bhopal as being in the thousands to tens or hundreds of thousands, and the victims of Nestlé as being in the millions.

When discussed in the business ethics literature, Bhopal, Nestlé, and Pinto tend to be looked at in terms of the roles and responsibilities of corporations in society, using the concept of Corporate Social Responsibility or other similar term. This study takes a different approach, using the cases instead to examine the *professional* responsibilities of accountants when involved in such tragedies. The difference between the two approaches is that corporate social responsibilities are typically seen as normative responsibilities (that is, how corporations *should* behave), whereas professional responsibilities are not merely normative, they are obligatory.

Overall, the study seeks to determine the professional obligations of accountants involved in strategic planning in cases such as Bhopal, Nestlé,

and Pinto; the extent to which accountants and their profession have been fulfilling the obligations; and why there has been so much silence on these matters to date. To answer those questions the literatures on professions, economics, and accountancy are examined.

The study argues that accountants have an overriding obligation to act in the public interest, taking into account the requirements of ordinary reflective morality and any applicable special morality. By examining a potential special morality based on Adam Smith's and Milton Friedman's works on the free market, as well as ordinary reflective morality and the social value for which accountancy received professional status, the study concludes that accountants have an obligation to protect the public from powerful business interests. For strategic-planning accountants, that obligation cannot legitimately be limited to financial loss. Strategic-planning accountants involved in cases such as Bhopal, Nestlé, and Pinto could, accordingly, be held ethically responsible for the death and injury suffered by the victims of those tragedies.

The accounting profession has not in general been protecting the public from powerful business interests, or recognising that its obligations are not necessarily limited to financial loss.

The study argues that the silence on these matters to date has arisen from how uninformed the public and academics are on the issues.

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PART ONE INTRODUCTION

1. Introduction

The problem

This study examines an ethical issue that arises from accountants' involvement in the strategic-planning decisions of organisations. Three real-world disasters, resulting in much death and injury, are at the core of the study: the chemical explosion in Bhopal India, Nestlé's marketing of infant milk formula to the developing world, and the Ford Pinto car. For the remainder of the study these cases will be referred to as 'Bhopal', 'Nestlé' and 'Pinto' respectively, and will also be referred to collectively as 'the three cases'. Estimates differ as to the number of victims from each case; but generally speaking authors tend to refer to the victims of Pinto as being in the hundreds to thousands, the victims of Bhopal as being in the thousands to tens or hundreds of thousands, and the victims of Nestlé as being in the millions.

Whilst Bhopal, Nestlé, and Pinto are widely discussed in the business ethics literature, as illustrations of unethical behaviour on the part of corporations, one thing that is missed out of those discussions is the potential involvement of accountants in the strategic planning that leads to such disasters. By 'business ethics literature' I mean the literature that concentrates primarily on examining whether business organisations, particularly corporations, have ethical responsibilities. When discussed in the business ethics literature, then, Bhopal, Nestlé, and Pinto tend to be looked at in terms of the roles and responsibilities of corporations in society, using the concept of Corporate Social Responsibility (CSR), or similar term. This study takes a different approach. It uses the cases instead to examine the responsibilities of accountants, as members of a full profession, if involved in such tragedies.

In other words, the study focuses on the field of professional ethics, not business ethics.

The difference between professional ethics and business ethics is significant. Members of full professions, and their professional bodies, have moral obligations. A difference between business ethics (Corporate Social Responsibility) and professional ethics is that corporate responsibilities are typically seen as normative responsibilities (that is, how corporations *should* behave), whereas professional responsibilities are not merely normative, they are obligatory (Bayles, 1988, p. 29; Freckelton, 1996, p. 130).

Being a full profession makes accountancy different from other business-related fields; economics, management, and marketing, for example, are not fully professionalised occupations. Accountants therefore, because of their full professional status, have obligations that other involved parties do not have. Authors who write on business ethics tend not to acknowledge the difference between accountants and other business-related occupations. By combining accountancy with other business-related occupations, authors miss the mandatory aspect of accountants' obligations.

The structure of this introduction is as follows. The three cases are summarised first, with an explanation as to why I chose particular accounts of the cases. Information on the extent to which accountants were involved in those cases is not available to the public. This being so, in terms of accountants being involved, the cases must be used as hypothetical examples. It is management accounting that is of particular importance for the study because one focus of management accounting is strategic planning. I illustrate the potential connection between management accounting and the Bhopal, Nestlé and Pinto tragedies, and set out the specific questions this study seeks to answer. How it will go about answering those questions is then outlined, with an explanation as to why

the literatures on professions, economics, and accountancy all need to be examined. Last, the contribution of the study is discussed.

Bhopal, Nestlé, and Pinto

Considering how widely Bhopal, Nestlé, and Pinto are referred to in the business ethics literature, it might seem a relatively easy task to summarise their essential facts. But the more extensively one researches these cases, the more elusive the 'facts' become. Pinto is to a degree less controversial because it eventually went through the legal system of the United States of America (USA), making information more available to the public. The same opportunity does not apply to Bhopal or Nestlé. My summaries below of the three cases are the result of much consideration of the information available, and I indicate to the reader why I chose certain authors and 'facts' out of the many choices available.

Bhopal

For the following summary of Bhopal, I have primarily relied on Shrivastava (1987) and Cassels (1993). Both authors went to Bhopal to conduct their intensive investigations of the crisis: Shrivastava, as an engineering and management academic based in the USA, also as a native of Bhopal; Cassels, as a law academic based in Canada.

The USA-based corporation, Union Carbide, ran a pesticide manufacturing plant in Bhopal, India, in the 1980s. The local government had objected to a plant with such 'hazardous materials' being located in that particular area, but the objection was overruled by the state and central governments (Shrivastava, 1987, pp. 25 and 41). Union Carbide started to face rising competition in the pesticide market as well as a general fall in demand for pesticides (Shrivastava, 1987, p. 41). Accordingly, the plant turned out to be not as profitable as initially forecasted. 'Early predictions of massive profits from pesticide production turned into gloomy projections of financial losses

in the millions' (Cassels, 1993, p. 22, referring to Everest, 1985). Profitability issues had arisen early on in the project: 'Even as it was being constructed, Union Carbide executives debated its economic viability. They evaluated several alternatives, including calling the project off during construction, but decided to proceed because it was too far along to abandon' (Shrivastava, 1987, p. 52).

Union Carbide decided to focus more on its other operations, leaving the Bhopal plant 'under constant pressure to cut its costs and reduce its losses' (Shrivastava, 1987, p. 3). Costs were cut in staffing and maintenance areas. Many of the expert staff left and 'the company itself was aware of the dangers resulting' from the high staff turnover (Cassels, 1993, p. 21). Although safety regulations were in place in India at the time, government agencies were not sufficiently funded to ensure these regulations were being followed (Shrivastava, 1987, p. 61). The safety mechanisms and training at Bhopal were inadequate given the toxicity and volatility of the chemicals used. 'According to the plant's 1982 operational safety survey, basic rules were being ignored. For example, maintenance workers were signing permits they could not read ...' (Shrivastava, 1987, p. 49); '... the operating manuals at Bhopal were printed only in English ...' (Cassels, 1993, p. 21).

Shrivastava summarises:

The plant was operated by a company under pressure to make profits and/or cut losses; it was sanctioned by a government under pressure to industrialize, even though the appropriate industrial infrastructure and support systems were missing; and it was located in a city completely unprepared to cope with any major accident. (Shrivastava, 1987, p. 4)

Warnings came from within government (Shrivastava, 1987) and via the media (Cassels, 1993, p. 20) that the plant was dangerous, but the warnings were ignored.

In December 1984 'there was a massive leak of toxic gas' from the plant. 'The lethal white vapour poured out of the tank for over two hours, blanketing the city for miles with a deadly fog. Thousands of people were killed in their sleep or as they fled in terror ...' (Cassels, 1993, p. 3). There was no evacuation plan or functional warning system for the public. Even relatively simple instructions would have helped to save lives and reduce injury: '... instead of being told to lie on the ground with their faces covered with wet cloths, people were urged to run. 200,000 residents fled in panic into the night' (Shrivastava, 1987, p. 2). The residents also did not realise they would have been safer to run against the wind, instead masses ran with the wind (Cassels, 1993, p. 16).

India's *Sunday Magazine* describes the scene:

Children vomited blood. Pregnant women stumbled and fell on the ground crying in pain and bleeding profusely ... Relatives did not wait to pick up the bodies of those they loved and were alive only moments ago ... Many were trampled to death. The resourceful and the affluent had already fled in whatever transport they could manage to secure. Only the poor were left behind. (Cassels, 1993, p. 4, quoting Sunday Magazine, Calcutta, 16-22 Dec. 1984)

'At the time of the accident, the Bhopal plant was for sale' and was in a 'physically rundown condition' (Shrivastava, 1987, pp. 52 and 53). Cassels adds, 'Warren Anderson, the president and chair of Union Carbide at that time, later admitted that the Bhopal facility operated at a level below standards that would have been acceptable in the United States' (1993, p. 20, referring to Diamond, 1985).

Many commentaries coming through years after the disaster, for instance from voluntary organisations or medical researchers dealing with the Bhopal victims, refer to continuing health effects and second

generation effects (Cullinan, Acquilla, & Ramana Dhara, 1997; Srinivasan, 2001).

Nestlé

For the following summary of Nestlé I have primarily relied upon Beauchamp (1993, pp. 153-165), Sethi (1994), and Phillipp, Merewood, and O'Brien (2001). Beauchamp's account of the case is included in a United Nations publication; Sethi spent almost 10 years researching the case. Beauchamp and Sethi write as academics with backgrounds in philosophy and economics/management respectively. Phillipp et al.'s article, on the other hand, gives the experiences and views of health practitioners/researchers.

The Swiss-based corporation, Nestlé, was in the 1960s-1970s facing a decline in sales of its infant milk formula (a breast milk substitute, used for bottle feeding babies) in Western countries. In response, Nestlé started a major marketing campaign to sell its product to Third World countries. Although breast feeding is generally seen by experts as being healthier than bottle feeding, the marketing campaign was successful and millions of mothers in the developing countries switched to bottle feeding their babies. Nestlé was not the only manufacturer involved, but was seen as the dominant marketer/supplier to the Third World.

Much criticism arose about the particularly aggressive marketing used. In addition to the usual mass media advertising techniques, more persuasive techniques were put in place. For example, free samples were given out. After using those samples over a period of time, a mother's breast milk dries up. Families then become committed to buying the milk formula, and the cost of the formula takes up a significant portion of the poorer families' income. To add

to the persuasiveness, Nestlé's employees promoting the product were dressed up to look like medical experts.

For several reasons, millions of babies became ill and died.

Prominent amongst the reasons are the following: The consumers did not understand Nestlé's instructions (because of illiteracy, or instructions being written in a foreign language); the product requires sterile conditions (for bottles and teats) and a clean water supply, neither of which is readily available in developing countries; in an attempt to save money, the parents would dilute the formula. As a result, babies died from malnutrition or disease.

Criticism, from concerned groups aware of the situation, rose to the point of a global consumer boycott of Nestlé's products. The United Nations World Health Organization (WHO) and International Children's Emergency Fund (UNICEF) responded to the rising criticism of the situation by passing a resolution. The resolution urged member countries to review the marketing approaches being used, and in 1981 a code of practice, for the advertising and promotion of breast milk substitutes, was produced (Beauchamp, 1993, p. 153; Phillipp et al., 2001, p. 2; Sethi, 1994, pp. 181-196). The code neither halted the marketing practices completely, nor the criticisms that continued to arise in response to the ongoing situation. The boycott was called off in 1984, but was started up again just four years later because Nestlé was seen to be not complying with the code.

In addition to reports that the code is still being violated in developing countries, concerns have been raised that because the code only applies to developing countries, Nestlé and others refocused their attention on Western countries: The USA 'has become an intense battleground for competitive marketing in the infant formula industry ...' (Sethi, 1994, p. 342). An initiative to help mothers breast feed that

was launched by WHO and UNICEF in the 1990s (the 'Baby-Friendly' initiative) has been far less successful in the USA than elsewhere: 'A major obstacle to the ... initiative ... has been the reliance on free formula and other formula company products and gifts that are accepted by many hospitals' (Phillipp et al., 2001, p. 3).

Ford Pinto

For the following summary of Pinto, I have primarily relied on Hoffman (2004, pp. 465-472), Gioia (1992, pp. 379-389), and Schwartz (1991, pp. 1013-1068). Hoffman, an academic in philosophy, writes an account of the case that is along the lines of many other authors' versions. But he refers more extensively both to the initial *Mother Jones* article that sparked public concern, and to the various ethical issues that arise from Pinto. Gioia writes from a more personal position; he was an engineer employed by Ford during the Pinto era. He subsequently became an academic in management, and uses the Pinto experience in his teachings and research. Schwartz, a law academic, explains the misconceptions about the case more thoroughly than most articles.

The USA motor vehicle manufacturer, Ford, was in the 1960s facing rising competition in the market for small cars. In response to the competition, in the 1970s Ford produced in record time, and under tight design/budget constraints, its Pinto car. The Pinto was

required to adhere to the production "limits of 2000" ... it was not to exceed either \$2000 in cost or 2000 pounds in weight. Any decisions that threatened these targets or the time of the car's introduction were discouraged. Under normal conditions design, styling, product planning, engineering, etc., were completed prior to production tooling. Because of the foreshortened time frame, however, some of these usually sequential processes were executed in parallel. (Gioia, 1992, p. 381)

But Ford's pre-production tests showed the Pinto would catch fire when rear-ended at relatively low speeds. Design issues relating to the gas tank were the problem, estimated to cost between \$5.08 and \$11 per car to fix (Gioia, 1992, p. 381; Hoffman, 2004, p. 468; Schwartz, 1991, p. 1034). Ford decided not to fix the defects. Production went ahead, and the Pinto sold well. The design defects were subsequently blamed for passengers being burned to death or disfigured for life in some of the accidents involving the Pinto. The Pinto did not at the time violate any safety standards. Ford and other car manufacturers had 'strenuously opposed' (Gioia, 1992, p. 381) the introduction of the Federal Motor Vehicle Safety Standard which the Pinto would have violated.

There are less damning accounts of the three cases than those presented above. For example, on Bhopal see Union Carbide's web site (<http://www.Bhopal.com/>), on Nestlé see Dobbing (1988), and on Pinto see differing views described in Birsch (1994) and Schwartz (1991). The more damning versions have been used for the summaries above not with the intention of outright dismissing the less damning versions but for the following reasons. First, given how difficult it is for the public to verify the facts it is inappropriate to overlook the extensively researched more damning versions. Shrivastava, Cassels, and Sethi each comment on the difficulties they faced when trying to verify versions put forward by different interest groups (see Shrivastava, 1987, and Cassels, 1993, for criticisms of the Union Carbide report; and see Sethi, 1994, for criticisms of Dobbing's book). Second, given the business environment accountants work in (an issue discussed further on in the study), the summarised versions have real-world plausibility. As such, they provide us, at least, with possible real-world cases upon which to scrutinise the strategic-planning obligations of accountants.

The role of accountants in Bhopal, Nestlé, and Pinto

It is unlikely that the public will ever be in a more informed position in terms of the truth behind these three, or other similar, real-world disasters. Information on any roles played by accountants in Bhopal, Nestlé, and Pinto is also not publicly available. But, based on the roles that accountants do have in business, it is highly likely they could be involved in such situations. The three cases allow us to examine then, at least hypothetically, the obligations of accountants if involved in such situations. If we do not make the most of cases such as Bhopal, Nestlé, and Pinto to assess the strategic-planning obligations of accountants, those obligations will remain as they generally are today. That is to say, they will remain unscrutinised.

The use of cases to illustrate problems in accounting fits in with current teaching practices. For some years now accounting text books have had cases positioned throughout to illustrate how accounting techniques can help solve real-world problems, the emphasis being on how the accountant can add value to the decision-making process. In addition, not only are case discussions used widely in ethics courses generally (moral philosophy), case discussions are also recommended for ethics courses for accountants (Loeb, 1988, p. 323). Cases such as Bhopal, Nestlé, and Pinto are at present as close as we are likely to get to real cases for assessing the strategic-planning obligations of accountants.

Accountants could be involved in the three cases via their role in financial accounting or management accounting. It is the possible management accounting involvement that this study is particularly interested in, so it is important to look first at the difference between those two fields of accounting and the way in which management accounting could be involved. Financial accounting focuses on the recording and summarising of financial information to show how successful, or otherwise, business activities have been. It is financial accounting that reaches the outside world in the form of annual reports, and it is these reports that are audited (by accountants)

when required by regulations. Management accounting is involved earlier in the business process, at the strategic-planning stage. For that aspect of management accounting, the emphasis is not so much on reporting to outsiders the activities that happened in a previous period, but more on which activities to go ahead with in the first place, and whether to continue, adjust, or discontinue those activities as time goes on.

The strategic-planning side of management accounting concentrates, for example, on how costs behave within certain ranges of production. Costs are sorted into variable, semi-variable, and fixed costs to help determine in what way profit will change if production is increased, decreased or stopped altogether. A firm's staff remuneration costs serves as an illustration. Those costs could be variable (if paid per piece produced), semi-variable (if paid as a mixture of a fixed basic wage plus a bonus for additional production) or fixed (if paid as a set salary per annum). It is the separation of those behaviour patterns, together with additional techniques, that makes management accounting useful for strategic planning. Audited annual reports typically show no such behavioural patterns. That is why such reports are seldom used, or at least not recommended to be used, for internal strategic-planning purposes. They are, instead, used primarily for reporting the results of past events to those external to the firm.

Even though the shareholders of publicly listed corporations are the owners of those businesses, typically they would not have access to the management accounting information that is used for strategic decision-making. Generally speaking, management accounting information is for internal users (those working within the firm), not for external users (those not working within the firm). It could be said that it is the strategic-planning side of accounting which has the most impact on shareholders; it is that side of accounting which drives the business decisions that lead to future profits or losses. But it is also that side of accounting which is usually invisible to shareholders. The invisibility is an issue I raise again further on in the study.

The accounting profession has standards for financial reporting and auditing, set by its international professional body (the International Federation of Accountants - IFAC). Management accounting information that is used for strategic-planning decisions may eventually be used as a basis for financial accounting activities; the information would then become subject to the financial reporting standards. For example, carrying on from the illustration of staff remuneration above, management accounting information may be used to determine how much of the remuneration costs should be included in inventory (an asset), or in cost of goods sold (an expense), in the financial reports.

No accounting standards apply to the strategic-planning side of management accounting. This study will not be examining how Bhopal, Nestlé, and Pinto incidents might be reported in the financial reports. Instead, it will be examining the possible involvement of accountants much earlier on, at the strategic-planning stage when the decisions were made to proceed with certain actions that eventually led to the tragedies. Whereas investigations into ethical issues involving accountants typically focus on accountants causing financial loss, this study is different in that it focuses on accountants causing human loss – death and injury. More particularly, the focus in this study is on a full profession's obligation to act in the public interest, and whether for strategic-planning accountants that obligation can legitimately be limited to financial loss or whether the obligation includes death and injury.

Accountants practise in the real world in a variety of sectors, and in a variety of roles within those sectors. Accountants may work as partners (or employees) in a firm of public accountants; such public accountants offer their services to the general public, and to large businesses and government departments as consultants. Another option for accountants is to work as employees within businesses, government departments or not-for-profit

organisations. Accountants could have been involved in Bhopal, Nestlé, or Pinto either as employees or consultants, and at any level from data gathering to being a more prominent part of the decision-making team – as chief executive officer or director for instance.

According to Jamal and Bowie's research (1995), accountancy is one of the three largest professions, the other two being law and engineering. To become a professional accountant the individual accountant must become a member of a national professional accounting organisation. Those national organisations in turn become members of IFAC. Some countries have just one national professional organisation and others have several. The United Kingdom (UK) and the USA, for example, have several professional accounting organisations; some cover both financial and management accounting, others focus on more specific fields such as management accounting. In addition, management accounting is as much an integral part of the teaching of accountants as financial accounting is, and students must study management accounting to become professional accountants.

It is often not possible to tell from an accountant's title or position whether they will be using, or advising on, management accounting techniques. Accountants these days work under a variety of titles; from the more specific titles like management accountant or financial accountant, to the less accounting-sounding titles such as chief executive officer, consultant, or director. In addition, management accounting techniques also come under a variety of terms; for example, as well as being included in terms such as strategic planning, or strategic decision-making, they could also be included in terms such as management consulting, management advisory services (MAS), business advisory services (BAS), or management consultancy services (MCS).

One way to illustrate how the Bhopal, Nestlé, and Pinto tragedies potentially tie in with management accounting is to consider a possible management accounting question for an exam, test or assignment.

Possible management accounting question for exam, test, or assignment

Depending on the complexity of the information given and calculations required, the question could apply from the introductory level of management accounting onwards. The question might read something like this:

The XYZ Company has asked for your advice. It is facing increased competition for its products and is considering the following options:

- (a) Cutting back on the resources put into its least profitable product, and possibly closing down the factory.
- (b) Expanding sales into new regions.
- (c) Producing a new product to compete with the competition.

Please advise the company which option (or combination of options) you recommend, with calculations and explanations to support the recommendation.

Let us consider how the answers would be marked. A quantitative answer would be relatively easy to mark. The students would be given enough information to determine the resources available and the behaviour of the expected costs and revenues, at varying levels of operation, to calculate which option(s) would produce the most profit. For example, for option (a) the behaviour of the costs may indicate that fixed costs would still be incurred for some time even if production was stopped altogether. As such, the most financially advantageous approach may be to maintain at least a level of production, but to cut back on some of the costs. Depending on how

the students had been taught, they may be expected to include a discussion on qualitative aspects as well in their recommendations. Many accounting textbooks these days stress the need for accounting students also to consider qualitative issues in their decision-making. To what extent qualitative issues are to be included is up to individual teachers. If only profit-affecting issues are required, then the students might be expected to discuss some basic marketing issues – such as the potential impact on customer loyalty if one product in a range of products is dropped, or whether a product could be used as a loss-leader (whereby the product makes a loss itself, but leads the customers to buying other far more profitable products from the company).

Now let us consider how ethical issues could be included in the question – the next question for the students could ask something like this:

Please consider the following additional information for options (a) (b) and (c) above, and explain why this new information would or would not make any difference to your recommendations.

For option (a): The factory manufactures a highly volatile product and requires a certain level of resources to keep the site safe for employees and the general public within a certain radius of the site.

For option (b): The new markets that the XYZ Company is thinking of are in the poorer regions of the world. The potential customers the company will target in those regions have up until now been using an alternative free natural product, which experts say is actually healthier than the company's product. Marketing plans are expected to overcome any resistance though: Free samples will be given out to encourage the natural product to dry up (from lack of on-going use), thereby ensuring the customers' ongoing loyalty to the company's product; and the sales staff will be dressed in outfits that give the impression they are medical experts.

The company's product must use uncontaminated water and be prepared in hygienic conditions otherwise it may cause death – neither uncontaminated water nor hygienic conditions are readily available to the potential customers. The product will be very expensive for the customers as a proportion of their incomes and any dilution of the product, in an attempt to save money, is also likely to cause death. Considering the number of different languages used in these regions, and the high level of illiteracy, it will be difficult to communicate these potential dangers to the customers.

For option (c): In-house tests have shown that the new product, a car, catches fire at a relatively low speed if hit from behind by another vehicle. However, estimates indicate the cost to the company for customer deaths or injuries would be less than the cost of fixing the cars. The cost of fixing the car is estimated to be \$11 (or less) per car.

We now have a problem for the markers. What would be an excellent answer, what would just manage to pass, and what would fail? More specifically, where would answers 1 and 2 below fit within that marking regime?

ANSWER 1

Any member of a full profession could not recommend options (a), (b) or (c) because of their professional obligation to act in the public interest. The additional information for options (a), (b), and (c) could not be ignored.

ANSWER 2

Additional information for options (a), (b), and (c) should be ignored because accountants' public interest obligation is limited to financial loss, and does not extend to death and injury.

The problem faced by the markers is that the current guidance for accountants on the matter is unclear. The guidance in the profession's code of ethics is not specific, but it seems to imply that answer 2 is the correct answer. The rest of the present study seeks in effect to determine which of answers 1 and 2 is correct, or in other words, to determine the professional obligations of accountants when involved in strategic planning in cases such as Bhopal, Nestlé, and Pinto. In addition, the study seeks to determine the extent to which accountants and their profession have been fulfilling the obligations, and why there has been so much silence on these matters to date.

Method, motivation, and structure of this study

Bhopal, Nestlé, and Pinto are mentioned again at relevant points throughout the rest of the study; and the business, economic, and political issues raised in the summaries of the three cases guide the overall direction of the study.

In terms of method, I use ethical analysis to determine the professional obligations of accountants involved in strategic planning (question one). To support my argument, I use analysis of the literature, particularly historical analysis. For the purpose of determining the extent to which accountants and their profession have been fulfilling the obligations, and why there has been so much silence on these matters to date (questions two and three), I once again use analysis of the literature, particularly historical analysis, as the basis for my argument.

My argument in relation to all three questions relies upon my pulling together of the literature in an original way. As a part of that process, where there is broad consensus by authorities on an issue (expert consensus) and where that viewpoint seems plausible, all things considered, I use that viewpoint to support my argument. Also as part of that process I pull together wherever

possible empirical research, published in the literature, to support my argument.

Because the study draws on the literature of several academic fields (professional ethics, economics, and accountancy), it has been written as if for a general reader, instead of for a specialist in any one of those fields. Below is an outline of the sections into which this study has been separated, and the reasoning behind those sections. But first, because I include a substantial portion of history in my examination of the issues, I explain my approach to the writing of history.

As Medema and Samuels (2003) comment, ‘There are many ways of doing history ...’ (p. x). This study follows Tosh and Lang’s view that ‘history is more than a collection of snapshots of the past’, it involves ‘the recognition of historical *process* – the relationship between events over time which endows them with more significance than if they were viewed in isolation. ... the much bigger question [is] how we got from ‘then’ to ‘now’. This is the ‘big story’ ...’ (Tosh & Lang, 2006, p. 11). By drawing on the history of economics and accountancy, this study attempts to unfold the ‘big story’ on the strategic-planning obligations of accountants; the extent to which accountants have been fulfilling the obligations; and why there has been so much silence on these matters to date.

I also agree with Previts and Merino:

Some would argue that history is less valuable today because the character of future expectations and institutions is unparalleled in the past. We would respond that historical study can provide the thoughtful reader evidence that there are parallels between the past and the present, between what *was*, what *is*, and what *ought to be*. (Previts & Merino, 1997, p. 423)

In line with that quotation, I write this study as an academic accountant who previously worked as an accountant (in audit, BAS, commerce, and both sides of tax – consulting and government). My motivation comes from

wanting to understand more fully the reason (the ‘big story’) for the gaps in accountancy – the gaps between what is practised and what is taught, and the even larger gap between those two and what ought to be. Not all aspects of the histories of economics and accountancy are, or could be, covered in the following pages. I have chosen developments, and criticisms of those developments, that are most relevant for this study. To unfold and tell the story, I rely in the thesis on quotations and viewpoints from many authors.

Although historical analysis is not a common form of research within accountancy, the importance of its contribution to the discipline is recognised. See for example the discussion by Zeff (2009) in *The Accounting Review* journal. Historical analysis is necessary for the thesis in several respects:

- to clarify the different viewpoints that developed on professional obligations and to establish a plausible framework upon which to establish strategic-planning accountants’ professional obligations.
- to clarify how the concept of the free market developed.
- to clarify how accountancy gained professional status.

The sections the study is divided into (Parts One to Six) differ considerably in length, some containing only one chapter, others containing many. The sections, and my lines of reasoning for each one, are as follows:

Introduction – Part One

Amongst other things, this section sets out the problem, how Bhopal, Nestlé, and Pinto illustrate that problem, and what the study seeks to determine.

Professions – Part Two

The literature on professions is examined to establish what a full profession is, why an occupation would want to become a full profession, and what the obligations of a full profession are. From this literature I establish that accountants, as members of a full profession, have an overriding obligation to act in the public interest, taking into account the requirements of ordinary reflective morality and any special morality that may be applicable to that profession. (Special morality is also commonly referred to by terms such as ‘special professional morality’, ‘professional morality’, ‘role-differentiated morality’, ‘role-related morality’, and ‘role morality’. ‘Special morality’ is the term I shall use throughout the thesis to cover the whole range of terms.) For the special morality aspect I investigate a widely-held notion within the business sector – the notion that maximising profit in the self-interest of business is in the public interest. That investigation leads to an examination of the literature on economics, particularly the literature on free market economies. The potential for conflict between ordinary reflective morality and special morality is also acknowledged.

What needs to be noted is that for my examination of professional ethics, I do not appeal to any specific theory of ethics as such. I appeal, instead, to the more widely shared *ordinary* ethical beliefs. Appealing to a specific theory of ethics would restrict the force of my argument only to those who already accept that particular theory of ethics, whereas an appeal to widely shared and firmly held *ordinary* ethical beliefs retains force for all of the much larger group of people – including most advocates of most ethical theories.

Economics – Parts Three and Four

(Adam Smith, Milton Friedman, and The Development and Teaching of Economics)

The notion that maximising profit in the self-interest of business is in the public interest typically comes from a few quotations from Adam Smith’s and

Milton Friedman's works on what is referred to as the free market. (The free market is also known as free trade, the market economy, market liberalism, the deregulated economy, and suchlike.) A special morality based on that notion would tend to indicate that accountants fulfil their public interest obligation by simply focusing on profit maximisation and business self-interest. I take issue, however, with how Adam Smith's and Milton Friedman's works have been interpreted on these matters. A fuller reading of their works, I argue, shows that their views have been misinterpreted and mis-used.

The literature on economics is covered over two sections. The first section examines Adam Smith's and Milton Friedman's works on the free market, and the misinterpretation of their works that has arisen. The second section examines the development and teaching of economics after Smith. Both sections are required to help us understand how a misinterpreted version of the free market not only developed, but has been maintained. We are also able to see, from the two sections, what a special morality would look like when based on an accurate interpretation of Smith's and Friedman's works on the free market. We can then compare what the two different versions (accurate and misinterpreted) would mean in terms of a special morality for accountants involved in cases such as Bhopal, Nestlé, and Pinto. The two versions of the free market become an integral part of the discussion in this study through to the end.

The end of the section on economics emphasises the difference between accountancy and economics, accountancy being a full profession whereas economics is not. Before starting an extensive examination of the accounting profession, I include a small section called 'Defences'.

Defences – Part Five

This section returns to the literature on professions. Even though professionals have an obligation to take into account the requirements of

both ordinary reflective morality and any applicable special morality, at times the behaviour of professionals, or the outcome from their behaviour, seems to be anything but moral. This section examines several defences that are often put forward for such behaviour or outcomes. In particular, this section focuses on assessing in what ways those defences are problematic for members of full professions and their professional bodies. By examining the defences some of the conflicts that professions face between ordinary reflective morality and special morality, and also within special morality itself, become more evident.

Accountancy – Part Six

(The Professionalisation of Accountancy, Subsequent Development, and the Matter of Professional Obligations)

Up until this point in the study I primarily concentrate on the literature on professions and the literature on economics. This last section concentrates, instead, primarily on the literature on accountancy. Combined with the findings in the other sections, this last section is able finally to determine the public interest obligation of accountants involved in strategic planning in cases such as Bhopal, Nestlé, and Pinto; the extent to which accountants have been fulfilling the obligations; and why there has been so much silence on these matters to date.

It is not until the end of the study that I analyse IFAC's code of ethics. Although it may seem more logical to look at IFAC's guidance earlier in the study, there are two reasons why I leave it until last. First, just how unclear IFAC's code is becomes more obvious after the literatures on professions, economics, and accountancy are examined. Second, IFAC has changed its code several times since I started this study. By leaving the analysis until last, I am more easily able to incorporate into the analysis my appraisal of the most recent changes.

IFAC's code of ethics is what its members, and the public, would look to for guidance on what its professional body expects from accountants if they are involved in strategic planning in cases such as Bhopal, Nestlé, and Pinto. I argue in this section that although the broader roles of accountants these days are acknowledged in IFAC's code of ethics, there is a lack of clarity from IFAC on the issue of any responsibility for the broader impact of those roles. That is, the death and injury that can result seem to be ignored, the overall impression being that IFAC appears to limit the responsibility of accountants to financial loss.

The contribution of this study

The study differs from others in that it examines accountants' professional obligations when involved in strategic planning (instead of corporates' social responsibilities), and it examines those professional obligations in terms of death and injury (instead of just financial loss). It is also different in another respect. Excellent books are already available that raise concerns about national and international economic, business, and political practices (see Sen, 1999, for example). The study goes into further areas, bringing in an examination of the role that accountants play at those national and international levels, and the degree to which accountants have been fulfilling their professional obligations to the public whilst in such roles. Within that examination there is another difference, and that difference relates to how the economic term 'the free market' is interpreted. I argue that what is often referred to in the literature as the free market, is a misinterpreted version of the free market.

More specifically and in terms of the separate sections on professions, economics and accountancy, the original contribution of this study, to the best of my knowledge, is as follows:

Professions

Researchers who write on ethical issues facing professions tend to say, or implicitly take the view, that there is no agreed-upon definition of

professions. Such researchers will then typically proceed to examine the ethical issues by way of one or another ethical theory (virtue ethics, utilitarianism, and so forth). Whilst such studies are of value in themselves, I argue, instead, that for the issues that are relevant to this study there is sufficient agreement within the literature on professions to guide us on what is reasonable to expect from professions. My focus on ordinary reflective morality and special morality considerations is new for the accounting profession, as is my analysis in the Defences chapter (chapter 11) of four commonly raised defences, and as is my focus on the micro/macro aspects of special morality obligations.

Economics – Adam Smith

Others have written on how Smith's *An Inquiry into the Nature and Causes of the Wealth of Nations* (commonly referred to as the *Wealth of Nations*) has been misinterpreted, but my analysis of the misinterpretation brings out different aspects of Smith's concept of the free market that many other authors have missed. I argue that what has not been emphasised sufficiently to date in relation to the misinterpretation of Smith's *Wealth of Nations* is the fact that throughout the book Smith implicitly relies upon the public being sufficiently informed and empowered.

Whereas other authors have used Smith's earlier book *The Theory of Moral Sentiments* to help analyse the *Wealth of Nations*, I analyse the *Wealth of Nations* on a stand-alone basis. One reason for focusing solely on the *Wealth of Nations* is that any connection between the two books is disputed. See, for example, the different viewpoints discussed in Haakonssen (2006). The other reason is that in my view Smith's *Wealth of Nations* is sufficiently clear on the points that bear on the issues of this thesis to be treated on a stand-alone basis.

Economics – Milton Friedman

My analysis of Friedman's works is different from other authors' analyses of his works. Whereas some authors have written on aspects of how Smith's work has been misinterpreted, the fact that Friedman's works too have been misinterpreted (and as I point out, in the same way as Smith's) has largely been ignored. By analysing Smith's work first and then analysing Friedman's work, I bring out the similarities between their works which other authors have on the whole overlooked.

Economics – The Development and Teaching of Economics

My analysis of the development of economics from Smith to Friedman focuses primarily on the development of the concept of the free market over that period. It does not, for instance, cover the development of Marx's work. Whereas many authors within accountancy have focused on Marx's work and have applied aspects of Marx's work to accounting issues, my focus on the development of the concept of the free market is new to accountancy. As I illustrate at the end of chapter 8, high-profile authors within accountancy and business ethics have missed out the distortion of the concept of the free market that arose during the classical period of economics. My inclusion of the significant change that occurred in the classical period after Smith, when David Ricardo's approach became dominant, rectifies that omission.

Accountancy

My analysis of the literature on accountancy makes several original contributions. It shows that

- the accounting profession is following what I refer to as a misinterpreted version of the free market, and that by its actions and guidance to its members the accounting profession is in fact holding back the free market.

- the education and guidance that accountants receive from their professional body ill-prepares strategic-planning accountants for their public interest obligation.

The combined contribution of the above original analyses is that this study allows academics and practitioners from all disciplines, as well as the public, to know what standard ought to be expected from accountants involved in strategic planning. Once that standard is known, it can then be demanded. After all, there is nothing merely normative about the obligations of a full profession.

PART TWO PROFESSIONS

2. Professions

This section begins the investigation into determining the professional obligations of accountants if involved in strategic planning in cases such as Bhopal, Nestlé, and Pinto. The literature on professions is examined here to gain an understanding of full professions – what a full profession is, why an occupation would want to become a full profession, and what the obligations of a full profession are.

As I explain below further, different viewpoints have been put forward on some aspects of professions. Many authors claim that variation in expert opinion means there is an insufficiently clear framework upon which to clarify what the obligations of professions actually are. I argue, instead, that for the issues that are relevant to this study there is sufficient agreement within the literature on professions to guide us on what is expected from professions. My approach is to highlight the variation of opinion, but also to pull together the areas of consensus. As such, my approach is to argue via expert consensus. That is, where there is broad consensus by authorities on an issue (expert consensus) and where that viewpoint seems plausible, all things considered, I use that viewpoint to support my argument. The purpose of this approach is to create a plausible framework upon which to determine the professional obligations of strategic-planning accountants if involved in cases such as Bhopal, Nestlé, and Pinto.

The word ‘profession’

Early on in its code of ethics, IFAC states: ‘A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest’ (IFAC, 2009, para. 100.1). That requirement to act in the

public interest is examined later on in this section, but first, when IFAC refers to the profession of accountancy what does *profession* in that sense mean? Sex workers, after all, are also referred to as a profession (Hollander, 2007, p. 1). The word 'profession' is used in a variety of ways these days. What IFAC is referring to is that accountancy is a full profession (also known as a true or traditional profession), which means it is an occupation that has obtained full professional status from the state.

Occupations that have not achieved full professional status, but still refer to themselves as professions, are referred to as 'semi-, quasi-, para-professions' (Waddington, 1985, p. 651); 'emerging professions' (Barber, 1988, p. 35); or 'newer, marginal, or would-be professions' (Wilensky, 1964, p. 155). Economics, for example, has not achieved full professional status (as is discussed more fully further on, in chapter 10). It is the obligations and benefits of full professions that are the focus of the current chapter, and unless otherwise mentioned the word 'profession' will refer to a full profession throughout this study. Also for the purpose of this thesis, I shall use the word 'profession' to mean the professional bodies as well as the individual professionals, unless mentioned otherwise.

As a starting point, let us consider what the alternative would have been if accountants had not opted to form a full profession. The alternative, as Gaa (1990) explains, is 'that accountants would act and be treated in the same way as members of other business occupations' (p. 161). Gaa's comment raises the issue that not all business occupations have full professional status (for example, management, marketing, and economics are not fully professionalised occupations) and that accountants, because of their full professional status, are expected to act differently and be treated differently from those in business occupations which have not received full professional status. In what way, then, are accountants expected to act differently and be treated differently from those in non-professional business occupations? In an attempt to answer that question, let us examine why an occupation would

want to become a profession and what is expected from that occupation when it becomes a profession.

Why become a profession?

Accountants did not have to form a profession. And why would an occupation want to become a profession, particularly when, according to Wilensky (1964), '[m]any occupations engage in heroic struggles for professional identification; few make the grade' (p. 137)? One reason is self-governance (as opposed to being controlled by the state):

... the professions themselves retain significant independence within society, controlling to a considerable extent the training and admission of new members and substantially regulating appropriate practice by internally rather than externally imposed rules. (Fullinwider, 1996, pp. 76-7)

Self-governance is not the only advantage gained from professionalisation. Authors refer to additional benefits: '... professionals in our society are at the top in prestige, wealth and power ...' (Bivins, 1993, p. 119, referring to Bayles, 1981); 'Professions were means by which the middle class exercised cultural control and established its social status' (Lee, 1995, p. 2, referring to Bledstein, 1976).

What is a profession?

There is no universally agreed-upon definition of a profession (Barber, 1988, p. 35; Bayles, 1989, p. 7; Shiner, 1994, p. 9). When discussing what a profession is, the literature covers a range of approaches, primarily the trait, functionalist and critical approaches – the trait and functionalist approaches being the conventional approaches up until the late 1960s (Robson & Cooper, 1990; Saks, 1983).

For the trait approach, a set of traits (also referred to as characteristics, elements, or features) is the defining feature of a profession; whereas for the functionalist approach it is the function that the profession performs in society that is the defining feature.

Trait approach

Many characteristics are discussed as being possible determining traits of professions, but the authors differ in their selection of, and emphasis on, those characteristics. Some authors see certain characteristics as essential, whereas others see those same characteristics as just common to professions, not essential. Even though the views vary, there are some common threads (Webb, 2000, p. 3), and generally agreed-upon minimum requirements (Bayles, 1988, p. 28). There is enough agreement on those basic requirements to guide us on what would be expected from the accounting profession.

Carr-Saunders and Wilson's study in 1933 is an early study on professions that is frequently referred to. It argues that certain characteristics distinguish professional occupations from non-professional occupations: 'High amongst the traits ascribed to professional occupations is the view that the members of a profession are altruistic, unselfishly promote the public interest and adhere to a professional code of conduct' (Mitchell, Puxty, Sikka, & Willmott, 1994, p. 40, referring to Carr-Saunders & Wilson, 1933).

Since Carr-Saunders and Wilson's study, there have been numerous attempts to come up with a definitive list of the characteristics of a profession, but no absolute agreement has been reached. Millerson's 1964 study, looking at more than 20 authors on professions, is often used in the literature to illustrate this lack of total agreement on the traits. The most widely accepted traits however from that study were 'theoretical knowledge, provision of training, testing of competence of members, adherence to a professional code of conduct, and altruistic service' (Robson & Cooper, 1990, p. 368).

To illustrate the general sense of agreement on the main traits, the following quotations are variations on the same theme from other authors:

... specialized training and expertise of a significantly intellectual rather than physical kind; the provision of a socially valued service; a degree of formal institutionalization, usually involving a license to practice and autonomous practicing. (Shiner, 1994, p. 11)

... a coherent body of theoretical knowledge, altruistic motives, ethical codes and arrangements for disciplining fellow professionals who abuse their authority. (Mitchell et al., 1994, p. 39, referring to Haskell, 1984)

... extensive training ... [with a] significant intellectual component ... [and] service in society. (Bayles, 1988, p. 28)

Generally speaking, then, the traits attributed to professions tend to include intensive intellectual training, an organisational structure (that controls the admission, regulation, and discipline of members), a code of conduct/ethics, and a responsibility for the public interest. The public interest obligation is referred to throughout the literature in a variety of ways. Some authors use the specific term 'the public interest', whereas other authors refer to 'social justice' (Coady, 1996, p. 49), 'performance for public good' (Fullinwider, 1996, p. 73), 'socially valued service' (Shiner, 1994, p. 11), 'community interest' (Barber, 1988, p. 36) or 'social responsibility' (Bivins, 1993, p. 117). Whichever term is used, responsibility for the public interest is the overall moral component of a profession; it is a 'moral concept' (Velayuthan, 2003, p. 500).

The emphasis on intellectual training is one thing that distinguishes a profession from a trade, the emphasis of a trade being manual expertise (the professions supply 'services', the trades supply 'commodities' (Marshall, 1939, p. 327)). But also it is the moral component that is additional for professionals (Wilensky, 1964, p. 140). On the requirement for a code of ethics, Velayuthan explains:

The initial rationale for a code of ethics for professions can be traced to what Greenwood (1957) refers to as "a non-professional occupation has customers; a professional occupation has clients" (pp. 47-48). It is pointed out that a customer determines what services and/or product that s/he wants, and shops around until s/he finds them; while a client is

held to be unable to diagnose his/her own needs, nor discriminate among the range of possibilities for meeting them. (Velayuthan, 2003, p. 498)

Functionalist approach

The moral component is also present in the functionalist approach. Saks describes the functionalist approach in terms of

... the notion that some kind of functional relationship existed between professions and the wider community; in exchange for ethical and non-exploitative control of highly esoteric and complex bodies of knowledge of great importance to society, professions were said to be granted a privileged social and economic position which included the right to self-regulation. (Saks, 1983, p. 2)

The trait and functionalist approaches are often combined in the literature (with varying terminology). Willmott (1986, p. 557) for example, includes the trait approach as being part of the functionalist approach. Saks on the other hand uses the term *taxonomic* for the combination of both approaches. Combining the trait and functionalist approaches gives a meaning that 'professions both possess some unique characteristics which set them apart from other occupations and play a positive and important role in the division of labour in society' (Saks, 1983, p. 2).

The trait and functionalist approaches 'were extremely influential in Britain and the United States up until the late 1960s in macro-sociological work on the nature and role of professions in society' (Saks, 1983, p. 2), but were 'seriously flawed' (Robson & Cooper, 1990, p. 370). From about that time, critical approaches developed within the sociology of professions – first the interpretists, followed by the even more critical Weberian and Marxist based approaches (see Willmott, 1986, and Saks, 1983, for example).

Critical approaches

The critical approaches see the traits of professions as mainly just rhetoric (used by the professions to gain status and self-regulation). Accordingly, the critical authors started looking at professionalisation more in terms of the

politics, power, and control involved in establishing and maintaining self-regulation and status.

The functionalist approach to professions is criticised by some for being ahistorical and asocial (Robson & Cooper, 1990, p. 368; Saks, 1983, p. 2), ignoring the conflict of needs within society and accepting the definition of needs of society as put forward by the most powerful groups in society (Robson & Cooper, 1990, p. 371). Robson and Cooper (1990, p. 369) suggest the functionalist approach developed as an attempt to 'provide a theoretical basis for the trait approach'. Jones' description of Functionalist Theory in sociology (and its shortcomings) helps to explain why a functionalist approach to professions has failed to gain full acceptance:

This theory states that each "part" of a social system can be understood in terms of its "function" (that is, the needs it satisfies) in relation to the "whole" of society ... a major difficulty with the "theory" is that it requires that society be viewed as a highly unified structure so that 'needs' can be identified unproblematically. Where different "parts" of society have different, perhaps conflicting "needs", the theory offers no explanation of the way in which some needs come to be dominant. (Jones, 1990, p. 275, referring to Cohen, 1968, and Lee & Newby, 1983)

The conclusions of both the trait theorists and the functionalists are criticised for being 'more from assumption than rigorous analysis', for 'taking professional ideologies on trust without systematically examining their validity' and for 'legitimizing professional privileges in advance of careful appraisals of the function and behaviour of professions in society' (Saks, 1983, p. 3). The 'glib trait and functionalist assumptions about the professions' (Saks, 1983, p. 4) are seen as 'merely providing an elaborate justification for the status quo' (Robson & Cooper, 1990, p. 371). Saks adds, 'Roth ... went so far as to state that sociologists adhering to the taxonomic school of thought had "become the dupe of established professions ... helping them justify their dominant position and its pay off"' (Saks, 1983, p. 3, referring to Roth, 1974). Despite the criticisms raised, Saks comments, some sociologists 'continue to work within this outmoded framework' (Saks,

1983, p. 3).

Saks (1983) however is not impressed by the lack of 'empirical rigour' and 'supporting evidence' in the critical approaches: They rely too much on 'relatively vague, speculative and often quite vacuous analyses ...' (pp. 10-16). Even so, Saks is more understanding of the attacks the critical researchers make on the trait and functionalist approaches, given the latter groups' 'lengthy domination ... stressing the virtuous aspects of professionalism' (p. 16).

The trait and functionalist thinkers could be excused too, Saks believes, if their intention was to identify what professions were *expected* to be, but that would only make sense, he adds, if they did some empirical work to gauge how well it was working in practice (p. 18, note 12). So, it is not so much how the trait and functionalist authors define a profession that is the criticism, it is that such authors do not check the real-world evidence to see if the traits and functional relationships are working as specified.

Having now outlined the trait, functionalist, and critical approaches to professions, and criticisms of them, my focus from here is not on their differences, but on what they have in common. What they have in common is that they are all criticised for their lack of real-world supporting evidence, and they all expect, as I outline below, a win-win arrangement between professions and society. This study from here examines what is meant by that win-win arrangement, and applies it to accountants in terms of the real-world tragedies of Bhopal, Nestlé and Pinto.

The expected win-win arrangement between professions and society

What the trait, functionalist and critical approaches all indicate is that there is supposed to be a win-win arrangement between the professions and society. That arrangement is summarised in various ways by Bivins, Gaa, and Buchholz:

Bivins

... in exchange for the acceptance of certain obligations, professionals usually expect, and receive, certain privileges associated with their position in society: the privilege of acting autonomously in the decision-making process, free from outside pressure; the privilege of prestige and power associated with being a member of a recognized profession; the privilege of exemption from competition due to the specialized nature of professionalism, etc.

In exchange for these privileges, so avidly sought after by professions and near professions, professionals incur certain obligations – among the most common is the charge to use their specialized skills on behalf of society for the good of society, or in the public interest. (Bivins, 1993, p. 119)

Gaa

The basic agreement between a profession and society concerns the degree to which the profession is allowed by society to govern its own affairs, in exchange for a commitment to act in “the public interest”. (Gaa, 1990, p. 159)

Professions are granted autonomy by society, to regulate their own affairs ... In return for the economic benefits autonomy grants to professions, society expects professions to act in a socially responsible manner. (Gaa, 1990, pp. 159-60)

Buchholz

What does society get in return for conferring this occupational autonomy? Society is promised explicitly that members of the profession will behave responsibly and ethically to all humankind. (Buchholz, 1989, p. 2)

In return for these promises ... professionals are rewarded with high social status, political and economic power, educational superiority, and all the special privileges that accrue to an elite, entry-controlled class. (Buchholz, 1989, p. 3)

Although those authors use different descriptions, the public interest obligation remains the overriding focus of what is owed to society by professions in return for the privileges the professions receive. Although serving the public interest is included as *one* of the traits of a profession, it is ‘what many consider to be, the premier obligation of a profession ... the most often cited of the values of professionalism’ (Bivins, 1993, p. 117). Lee (1995), discussing the history of professions, comments, ‘The professional

was perceived as an independent and knowledgeable practitioner with an explicit obligation to act in the public interest' (p. 2). IFAC rightly acknowledges that obligation (as per quotation early on in this chapter), but what constitutes the public interest?

What does 'the public interest' actually mean?

As mentioned earlier, the public interest requirement is the basis of the moral responsibilities of a profession, and as Callahan (1988, p. 13) describes, 'moral matters tend to involve the rights and interests of others ...'. But what rights and interests, and of whom, does the public interest refer to?

What is the public?

Do professionals serve the public by just serving their clients or does that public include third parties who are outside of that professional/client relationship? And if so, which third parties and to what extent? Within the literature on professions there is much discussion on the responsibility of professionals towards their clients – whether the relationship is paternalistic or fiduciary and so forth (see Bayles, 1988, Ellin, 1988, and Callahan, 1988, p. 127, for example). Whilst those discussions are helpful for determining professional/client responsibilities, they are not helpful for determining whether strategic-planning accountants have public interest responsibilities to third parties such as the victims of Bhopal, Nestlé and Pinto.

Bayles (1989) has strong views on the matter; he considers that professional obligations do extend to third parties, not just to clients. One of his specific concerns about professional conduct is the impact on others when the professional is acting on behalf of a client (p. 3): '... professionals have obligations to third persons that limit the extent to which they may act in behalf of client interest' and those obligations, according to Bayles, would be the same whether the client was an individual, a large corporation or a government agency (p. 71). He explains, 'The general argument for professional obligations to third parties stems from the role of professions in

society ... the license and privilege' given to professions 'creates a trust for professionals to ensure that [professional] activities are performed in a manner that preserves and promotes values in society' (p. 112). Bayles' viewpoint is reasonable considering the prestige and power that is given to professions, and also considering that if it were otherwise, that is, if the professions' public was just their clients, professional occupations would be little different from many non-professional occupations. The prestige and power of professional status would then hardly be justified.

The potential for conflict, because of the obligations to different parties, is also raised by Bayles: '... all professionals face conflicts between the interests of their clients and those of others' (p. 117) and these conflicts arise from 'conflicts between the role-related responsibilities to clients and the universal obligations to third parties' (p. 129). The 'general public' is a third party, as Bayles specifies, and its 'interests and values' must be taken into account when considering the conflicts (p. 19).

One way of looking at conflicts between role-related responsibilities and universal obligations is to consider whether ordinary morality applies to professionals or whether, because of the special occupational role, a special morality applies. (As mentioned in the introduction, special morality is also commonly referred to by terms such as 'special professional morality', 'professional morality', 'role-differentiated morality', 'role-related morality', and 'role morality'. 'Special morality' is the term I shall use throughout the thesis to cover the whole range of terms.)

In essence, when determining the obligations of professionals we need to take into account the requirements of ordinary morality as well as any special morality that may apply to the profession. We also need to take into account that at times conflicts will arise between ordinary morality and the perceived special morality. Whether ordinary morality or the perceived special morality has priority at such times is a matter of much debate within

the professional ethics literature.

Before any issue of conflict between ordinary and special morality can be examined in relation to accountants involved in strategic planning what must first be determined is the sort of special morality that would apply to those accountants. To the best of my knowledge, such a question has not previously been fully explored in either the professional ethics literature or the accountancy literature. The next section outlines what is meant by ordinary morality and special morality, and begins my examination of a special morality for strategic-planning accountants.

Ordinary morality and special morality

Let us first look at what is meant by ordinary morality (also referred to as ordinary reflective morality, reflective morality, or critical morality), and special morality:

By ordinary morality ... we do not mean man-in-the-street morality, but rather the morality which governs us simply in virtue of the fact that we are moral agents. Ordinary morality is reflective or critical morality, that is, the views ordinary people should or would hold, were they properly reflective. Special morality on the other hand governs only those who have special status or engage in special relationships. (Ellin, 1988, p. 137, note 2)

Ordinary reflective morality (as I shall most often refer to it for the remainder of this study) is the base-line moral requirement for professionals (Ellin, 1988). Ellin's description of ordinary reflective morality indicates that persons who would choose to ignore the Bhopal, Nestlé, and Pinto ethical issues (as outlined in the introductory chapter) would fail to satisfy the requirements of ordinary reflective morality. So, what now needs to be considered is the notion of a special morality for professionals, and the potential conflict for professionals between ordinary morality and special morality. The importance of the ordinary morality versus special morality issue should not be under-estimated. As Goldman states, 'the ethics of professionals strongly affect others in society' (Goldman, 1980, p. 15); and

he describes the question of whether a special morality applies to professionals as the

... most fundamental question for professional ethics ... It is also the most crucial for professionals themselves and for those who attempt to evaluate their conduct, since many decisions and evaluations in this area will differ according to whether special norms are required. (Goldman, 1980, pp. 1-2)

In terms of how such a special morality would be expected to fit in with the overall morality required from professions in relation to society, Bayles, Goldman, and Ellin comment as follows:

Bayles

... the issue is generally that role-related responsibilities to clients must be limited by universal responsibilities to others. These responsibilities must be weighed against one another ... In weighing these responsibilities, one must produce a balance that best preserves and promotes social values. (Bayles, 1989, p. 111)

Goldman

I am assuming that special institutional obligations exist when their recognition has better moral consequences than would refusing to recognize them. (Included among moral consequences are not only effects on social welfare or utility, but the satisfaction of moral rights.) (Goldman, 1980, p. 22)

Ellin

Of course it is not enough to point out that professions exist for certain ends ... as if this disposed of the question whether professionals are thereby obligated to pursue those ends even in violation of usual moral standards. (Ellin, 1988, p. 131)

Those three authors' comments seem plausible, at least at a general level, given the outline of professions in this chapter so far. What seems apparent from their comments and the outline so far is that the purpose of any special morality is to contribute to the overall morality. In other words, special morality considerations must be assessed based on their contribution to the overall morality of a situation. It is that contribution to overall morality that is the justification for a special morality.

To determine strategic-planning accountants' responsibility for death and injury caused to third parties in cases such as Bhopal, Nestlé, and Pinto, then, we need to examine what sort of special morality would apply to accountants involved in strategic planning. There is however a dearth of discussion in the literature on this matter. (There is no such shortage of discussion on special morality considerations for other full professions such as medicine and law. I refer to some of that literature in the chapter on Defences, chapter 11. Matters of potential conflict between ordinary morality and special morality, and also within special morality itself, are also considered further in that chapter.)

Why there is such a lack of discussion of accountants' public interest responsibilities when involved in the strategic planning side of accounting is, in itself, an important issue. I argue that this lack of discussion results from how accountancy obtained its professional status, how it has developed since then, and how uninformed the public is on issues relating to accountancy and economics. All of those topics are examined later on in the study. But it is not just the public that is uninformed about issues relating to accountancy and economics. Academics are also uninformed.

A special morality for strategic-planning accountants

Goldman's (1980) work at least provides a good starting point from which to examine the possibility of a special morality for strategic-planning accountants. Goldman (1980) sets out to analyse whether a special morality applies to certain occupations. He does not limit his focus to full professions. Instead he takes a broader focus so as to include the occupations of 'business management and politics' in his analysis (p. 32). It is Goldman's analysis regarding business management that is particularly helpful in relation to strategic-planning accountants. Even though business management is not in itself a full profession, business managers do take part in strategic planning (that is, strategic planning is not the exclusive domain of accountants, it is a component of other business-related occupations too).

Hence, Goldman's discussion is useful for determining what sort of special morality would apply to strategic-planning accountants in cases such as Bhopal, Nestlé, and Pinto. Goldman assesses whether business managers could reasonably claim the applicability of a special morality that is based on what he calls the 'principle of maximizing profits' (p. 232). A special morality based on that principle, he adds, 'must show that exclusive pursuit of the interests, in this case material interests ... is morally optimal for all society' (p. 232). Another term for the principle of maximising profits is, as Goldman notes (p. 235), the 'free market'. (I will use 'maximising' instead of 'maximizing' in the general text to be consistent with the spelling style used throughout the thesis.) It is the free market which purportedly justifies the notion that maximising profit in the self-interest of business is in the public interest. (The concept of the free market is set out in Adam Smith's book *An Inquiry into the Nature and Causes of the Wealth of Nations*, commonly referred to as the *Wealth of Nations*.)

Goldman's assessment begins with the following comment:

The principle of maximizing profits is clearly not moral in itself. In fact it appears to be an expression of self-interest often opposed to the moral point of view. Nevertheless, it has been argued by some contemporary economists, descendants of Adam Smith, that pursuit of profits most effectively promotes general welfare while honoring moral rights. Therefore it accords with our most fundamental and general moral criteria, even when pursuit or protection of profits appears to ignore otherwise obtaining moral or social responsibilities. (Goldman, 1980, p. 232)

Goldman concludes that, given the harm that can arise from it, the principle of maximising profits is not sufficient for a special morality.

Goldman's work illustrates the lack of understanding amongst academics about accountancy. By that I mean he does not seem to realise that accountancy is a full profession and that accountants play an extensive role in business management (as chief executive officers, directors, consultants, and so forth – a matter that is more fully explained later on in this study). If

he had realised this, he could have focused on analysing the *actual* special morality obligations of a full profession involved in management, instead of focusing on an occupation that does not have that obligation. To be fair to Goldman, his approach should not be singled out, as the approach he takes is that which is most commonly taken by authors in the literature on professions and the literature on business ethics, an approach that ignores the professional obligations of accountants involved in strategic planning. Also to be fair to Goldman, he goes into more depth about the free market than many others do.

Goldman's analysis nevertheless falls short in two significant respects. First, he does not take into account the macro aspect of professional obligations – I discuss the macro aspect of professional obligations in chapter 11. Second, although he goes further than many others do in his analysis of the free market, he does not go far enough. By that I mean he does not emphasise the protective elements for the public that are integral parts of the concept of the free market. My argument is that it is not the free market that is causing the harm to the public, rather, it is what is put across as being the free market, but is anything but the free market, that is causing the harm.

From here, I too will examine the concept of the free market for its potential as a special morality. That is, I will examine whether a special morality based on the notion that maximising profit in the self-interest of business is in the public interest could be applied to strategic-planning accountants. For ease of dialogue, throughout the rest of the thesis I will at times refer to it as a special morality based on profit maximisation and business self-interest. Such a special morality would suggest that strategic-planning accountants fulfil their public interest obligation by helping the profit maximisation and self-interest of business.

My approach will be different from Goldman's. For a start my examination is in relation to members of an actual full profession – strategic-planning

accountants. And as well as bringing the macro aspect of professional obligations into the discussion, in chapter 11, I focus up until then on explaining how Smith's concept of the free market has largely been misinterpreted.

The misinterpretation is to such a degree that what is assessed as being the free market by many is more in line with what Adam Smith and his concept of the free market aimed to eliminate. It is the oppressive power of business that Smith aimed to eliminate through the operation of the free market. Smith's concept of a free market does have a connection with profit maximisation and business self-interest. But much more must be understood about his concept of the free market to understand what a special morality based on the notion that maximising profit in the self-interest of business is in the public interest would look like, and what it would mean for accountants involved in cases such as Bhopal, Nestlé, and Pinto.

There are several reasons for my choosing to investigate a special morality based on profit maximisation and business self-interest as a potential special morality for strategic-planning accountants. First, it is the most plausible candidate for a special morality for strategic-planning accountants given that their training primarily focuses on profit maximisation and business self-interest (the education of accountants is discussed further in chapter 16).

Second, it is not clear from either IFAC's mission statement or its code of ethics what, if any, other special morality might apply to strategic-planning accountants. IFAC does, however, include a line in its mission statement (in the preface to its code of ethics) that it will 'contribute to the development of strong international economies' (IFAC, 2009, Preface, p. 4). What IFAC actually means by 'strong international economies' is not specified. But a free market economy is regularly put forward in the business, economics, and accountancy literatures as being the basis of a strong economy, and is similarly put forward by organisations such as the International Monetary

Fund and the World Bank. (IFAC's code of ethics and mission statement are returned to and more fully examined in the last section of the thesis – chapter 18.)

Third, in the business sector, profit maximisation and business self-interest are commonly considered to be the accepted 'morality' of business – often referred to by the phrase 'business is business' or suchlike. Strategic-planning accountants typically work in that sector, being hired because of their training/experience in profit maximisation and business self-interest (the work environment of accountants is discussed further in chapter 17).

To understand why there is such a widely held belief that profit maximisation and business self-interest are moral we need to look at Adam Smith's and Milton Friedman's works, and how those works have been interpreted. Friedman is, to use Goldman's wording above, a 'descendant' of Smith. Smith's and Friedman's views are regularly used to justify this 'morality', but such justification tends to be based on only a few regularly selected quotations from their works. A fuller reading of their works, as I illustrate in the next section, shows their views have been misinterpreted and mis-used.

This section on Professions began the investigation into determining the professional obligations of accountants if involved in strategic planning in cases such as Bhopal, Nestlé, and Pinto. What has been established here is that members of full professions have many obligations, but the overriding obligation is to act in the public interest; and 'to act in the public interest' means that professionals must take into account the requirements of ordinary reflective morality and any special morality applicable to that profession. Accountancy is a full profession (how that status was obtained is examined later on in this study). So, to determine what acting in the public interest would mean for strategic-planning accountants if involved in cases such as Bhopal, Nestlé, and Pinto, we need to know what sort of special morality would apply to those accountants. The next section, on Adam

Smith and Milton Friedman, examines that special morality aspect by looking at the reasonableness of a special morality being based on the notion that maximising profit in the self-interest of business is in the public interest.

PART THREE

ECONOMICS – ADAM SMITH AND MILTON FRIEDMAN

An accurate understanding of the requirements of, and obstacles to, what is referred to as the free market are crucial to answering the questions this study seeks to answer because the notion that maximising profit in the self-interest of business is in the public interest comes from the writings on the free market. I am examining that notion to see if it is a reasonable basis for a special morality for strategic-planning accountants. That is, I am examining whether strategic-planning accountants could reasonably claim such a special morality.

Overall, this study seeks to determine the professional obligations of accountants involved in strategic planning in cases such as Bhopal, Nestlé, and Pinto; the extent to which accountants and their profession have been fulfilling the obligations; and why there has been so much silence on these matters to date. To help answer the first of those questions, it is necessary to understand what sort of special morality would apply to strategic-planning accountants.

The chapters in this section examine Adam Smith's and Milton Friedman's works on the free market. From the regularly-quoted lines from those works comes the commonly asserted notion that maximising profit in the self-interest of business is in the public interest. A special morality based on that notion, at least on the surface, would suggest that strategic-planning accountants fulfil their public interest obligation by helping the profit maximisation and self-interest of business. On that basis it might well seem that accountants would not be responsible for the death and injury in cases such as Bhopal, Nestlé, and Pinto. I argue instead, over the next two chapters, that such an interpretation of Smith's and Friedman's works is a misinterpretation. The regularly quoted lines have been taken out of context. That context is examined over the next two chapters to arrive at an accurate

interpretation of the free market. Smith's work, dating back to the late 1700s, is examined first. His free market concept initially received much support. Over time it went out of favour, but was resurrected by Friedman in the mid-late 1900s.

3. Adam Smith (1723 – 1790)

Adam Smith is commonly referred to as the father of economics (see for example, Landreth and Colander, 2002, p. 78), or 'the father of modern economics' (see for example Sen, 1993, p. 24). In the business world, Smith's most well-known publication is *An Inquiry into the Nature and Causes of the Wealth of Nations* (*Wealth of Nations*). It was first published in 1776 which, to put it in an historical perspective, is 'the year in which the first steam engine was installed ...' (Keen, 2002, p. 274).

Prior to the *Wealth of Nations*, Smith wrote *The Theory of Moral Sentiments* (1759). There is much discussion of whether Smith's views in *The Theory of Moral Sentiments* remain the same in his *Wealth of Nations*, or whether his views changed during the period between the two books. See, for example, the different views discussed in Haakonssen (2006). Considering that any connection between the two books is disputed, I will treat the *Wealth of Nations* as a stand-alone book for the purpose of this thesis.

Smith's *Wealth of Nations* has been simplified, at least by the business world, to something along the lines that if businesses are free to go about their affairs without restrictions, the public will benefit, and such outcomes will arrive as if by an 'invisible hand' (the 'invisible hand' generally taken to mean that the system will self-adjust without interference from government). In other words, the public will benefit from businesses operating in a self-interested way. So, Smith's work is used to justify a free market approach to the economy (as opposed to a regulated, controlled or protected market) and a self-interested business approach (as opposed to a socially

responsible business approach or a public interest approach). Lubasz (1995) goes as far as to say that followers of the free market approach, 'talk about the *Wealth of Nations* as though it were a sort of Bible' (p. 47). (The free market approach is also referred to as free trade, the market economy, market liberalism, the deregulated economy, and suchlike. I will most often use the term 'the free market' in the thesis.)

'Economic motivation for Smith' does centre 'on the role of self-interest' (Galbraith, 1987, p. 64). But, a closer look at Smith's *Wealth of Nations* shows that those who refer to his work along the simplified lines mentioned above have left out so much of his views that the result is a misinterpretation. What is more, the misinterpretation tends to be used to justify business behaviour that is quite at odds with Smith's intent. The difference between a full reading of the *Wealth of Nations* and the simplified version does not result in just a slight variation of an otherwise agreed-upon theme, the difference is extreme. Lubasz (1995) refers to the 'immense gulf that separates Adam Smith's ... *Wealth of Nations*, from the 'free-market' doctrines ... attributed to Smith' (p. 46). The 'central doctrines have been largely ignored ...', and 'Smith's concept of a structured commercial society ... is radically different from the present-day concept of the market consisting simply of so many gain-seeking individuals and firms' (pp. 47 and 51). Generally speaking, it is the moral dimension that has been left out of the simplified version. 'Commentators in the nineteenth and earlier twentieth centuries ... excluded large parts of his argument, and in doing so effectively realigned and reshaped what remained'; they adopted 'some of its procedures and conclusions ... but excluded many of its concerns' (Copley, 1995, p. 4). For Smith, 'Economic thought was interconnected with ... legal, philosophical, and moral reflection' (Rothschild & Sen, 2006, p. 319).

Landreth and Colander comment on the general change in history from primarily relying on religion for guidance to relying on science – the reliance on science and the natural workings of the world were to be the basis of

Smith's free market approach and the development of economics from then on:

Before Smith much analysis of the economy and society had been based on the preconception that society was ordered by supernatural forces so as to obtain desirable results. Later the appeal to supernatural forces or God was replaced with the idea that natural laws existed in the economy and society, just as in the physical sciences ... (Landreth & Colander, 2002, p. 329)

Smith 'was born in Kirkcaldy, a somber Scottish seaport town of 1500 people, in 1723, one year after the Scots burned their last witch' (Finkelstein & Thimm, 1973, p. 37). After studying at Oxford he returned to the University of Glasgow 'at that time one of the best universities in Europe', becoming Professor of Moral Philosophy there (Gide & Rist, 1917, p. 51, note 4). It was in France that Smith 'began his *Wealth of Nations*' (Gide & Rist, 1917, p. 51). (For more discussion on the influence of the French on Smith see for example Gide and Rist, 1917). He 'was a leading figure in the flourishing intellectual culture that we now call the Scottish Enlightenment' (Haakonssen, 2006, introduction, p. 1). As Tribe (1995) describes, the Scottish Enlightenment is connected with 'arguments on the relation of commerce, virtue and civilisation' (pp. 23 and 24). In Smith's day economics was called political economy: 'Political economy being a theory of the origin, nature and effects of conduct and policy in a class of human affairs ...' (Shackle, 1972, preface). To simplify Smith's *Wealth of Nations*, to something like the idea that profit maximisation in the self-interest of business is good for the public, is to leave out his extensive discussion on these broader aspects of civilisation and human affairs.

Smith was aiming, in his *Wealth of Nations*, to describe a 'natural society', meaning a society freed from the 'unnatural shackles' of government and powerful business interests (Heimann, 1945, pp. 72-73). He was concerned about the plight of the working class in society. At the time he wrote the *Wealth of Nations* the working class was, in his opinion, poorly treated and hindered by regulations. An example from his discussion of the work

involved in the manufacture of linen cloth illustrates those concerns: ‘... but our spinners are poor people, women commonly, scattered about in all different parts of the country, without support or protection’ (Smith, 1994/1776, p. 696, Bk IV Ch. VIII). He was extremely critical of the mercantile system, as he calls it, which was operating in his day – in his view, the regulations supported the merchants and manufacturers to the detriment of others in society. Further on in his discussion on linen cloth manufacturing he adds:

It is the industry which is carried on for the benefit of the rich and the powerful, that is principally encouraged by our mercantile system. That which is carried on for the benefit of the poor and the indigent, is too often, either neglected, or oppressed. (Smith, 1994/1776, p. 697, Bk IV Ch. VIII)

Smith was critical of systems that ‘promoted the private interests of one section of society at the expense of the rest’ (Lubasz, 1995, p. 50).

Galbraith describes mercantilism:

It is the era of the merchants, the time of what is variously called merchant capitalism or mercantilism. It is thought of as extending for three hundred years, from very roughly the middle of the fifteenth century to the middle of the eighteenth, with the end vividly marked by the beginning of the Industrial Revolution, the American Revolution and the publication of *Wealth of Nations* by Adam Smith. Smith’s great work appeared in 1776, the year of the American Declaration of Independence. The two events were not unrelated; both were in stern reaction to the economic policies and practices of the mercantilist era. (Galbraith, 1987, p. 31)

The mercantilist era is seen as different from eras that came before and after it, in that, as Galbraith continues, over those ‘three centuries economics did not have an acknowledged spokesman’ (Galbraith, 1987, p. 31). Along those lines, whether mercantilism could even be considered to be a system is debated amongst authors. Alexander Gray, for instance, comments that ‘[m]ercantilism was anything but a “system”; it was primarily the product of the minds of statesmen, civil servants, and of the financial and business leaders of the day’ (Galbraith, 1987, p. 31, quoting Gray, 1948, p. 74).

Although there were spokespeople throughout Europe for the 'general principles' of mercantilism, Galbraith comments that 'all are given more to assertion than to argument. One senses that the views are, without exception, not theirs but those of the merchants for whom they speak' (Galbraith, 1987, p. 43).

For the purpose of this study, so as to understand what Smith's approach was in response to, there are several points that need to be noted about mercantilism:

In terms of competition, state intervention, and influence of the merchants,

... there was, first, the merchants' negative attitude toward competition. Because they didn't relish it, monopoly or monopolistic control of prices and product was approved. Next, the merchants being influential in the state, there was a strong belief in the benignity of the state and in state intervention in the economy. (Galbraith, 1987, p. 39)

The waverings of state policy during the long period in which mercantilism held sway cannot be understood without realizing the extent to which the state was a creature of warring commercial interests whose only common aim was to have a strong state, provided they could manipulate it to their exclusive advantage. (Galbraith, 1987, pp. 36-37, quoting Roll, 1942)

In terms of international trade, the mercantilists followed the view that 'the gain of one party is the loss of the other', instead of as an exchange to be 'advantageous to both parties' (Dumont, 1977, p. 35). Thus, they advocated 'a shortsighted policy of economic exploitation of foreign or colonial countries ...' (Heimann, 1945, p. 35).

In terms of the extent of economic controls developed by mercantilism,

... mercantilism developed literally an enormous body of minute and intricate economic controls over both internal domestic and external foreign trade as a means to build state power. It utilized every device of control – coercion, regulation of guilds, grants of monopoly power,

administration of tolls, tariffs and taxes, subsidies and prohibitions. (Finkelstein & Thimm, 1973, p. 17, referring to Heckscher, 1935)

In terms of the mercantilists' approach to workers' wages,

The mercantilists advocated low wages in order to give the domestic economy competitive advantages in international trade. Also they believed that wages above a subsistence level would result in a reduced labor effort: higher wages would cause laborers to work fewer hours per year, and national output would fall. Thus ... poverty for the individual benefits the nation. (Landreth & Colander, 2002, p. 45)

Heimann explains the difference between Smith's view on workers' wages, and that of the mercantilists:

A high wage would be cheaper to the employer – i.e. would cost him less per unit of product – if it increased the workers' strength and stimulated their effort at least proportionately. The contention that this is actually the effect of high wages is first found in the writings of Adam Smith and became the basic proposition in the program of nineteenth-century social reform. The mercantilists, however, stated the contrary: wages should be low in order to force the people to work more ... (Heimann, 1945, p. 36)

The mercantilists and Smith both 'assumed the same things about human nature ...': That 'human beings are rational and calculating and largely driven by economic self-interest' (Landreth & Colander, 2002, p. 81). But the important difference between them, on that issue, is that Smith also believed no matter how selfish humans seem to be, they are also driven by the need to see happiness in others (Duska & Duska, 2003, p. 51). Smith was eager to free up trade because the mercantilist 'policies were protectionist and restrictive' (Tribe, 1995, p. 26). In his view the business people were too powerful, being able to satisfy their self-interest by influencing government regulatory bodies (Smith, 1994/1776).

On the power difference between employers and employees, and his concern for the working class, Smith writes:

The masters, being fewer in number, can combine much more easily; and the law, besides, authorises, or at least does not prohibit their combinations, while it prohibits those of the workmen. We have no acts of parliament against combining to lower the price of work; but many against combining to raise it. In all such disputes the masters can hold out much longer. A landlord, a farmer, a master manufacturer, or merchant, though they did not employ a single workman, could generally live a year or two upon the stocks which they have already acquired. Many workmen could not subsist a week, few could subsist a month, and scarce any a year without employment. In the long-run the workman may be as necessary to his master as his master is to him, but the necessity is not so immediate. (Smith, 1994/1776, pp. 75-76, Bk I Ch VIII)

On the subject of rewarding the 'lower ranks of the people' Smith states, 'Servants, labourers and workmen of different kinds, make up the far greater part of every great political society ... No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable' (Smith, 1994/1776, p. 90, Bk I Ch. VIII). Smith shows concern not just for the workers in his own country, but for the poor in other countries as well. For example, he shows concern for the situation in China at the time:

The poverty of the lower ranks of people in China far surpasses that of the most beggarly nations in Europe. ... it is commonly said, many thousand families have no habitation on the land, but live constantly in little fishing boats upon the river and canals. The subsistence which they find there is so scanty that they are eager to fish up the nastiest garbage thrown overboard from any European ship. Any carrion, the carcase of a dead dog or cat, for example, though half putrid and stinking, is as welcome to them as the most wholesome food to the people of other countries. (Smith, 1994/1776, p. 82, Bk I Ch. VIII)

He was against one nation taking advantage of another nation, commenting that 'Commerce, which ought naturally to be, among nations, as among individuals, a bond of union and friendship, has become the most fertile source of discord and animosity' (Smith, 1994/1776, p. 526, Bk IV Ch. III); and was critical of 'the mercantile company which oppresses and domineers in the East Indies ...' (Smith, 1994/1776, p. 84, Bk I Ch. VIII).

For Smith it is really important to reward workers liberally. He was in favour of workers earning on a piece work basis (paid per piece produced) as that is encouraging for the worker. But he warns of the potential danger of overwork from that payment basis (and by his discussion it would seem that he considers excessive work may arise after a period of days, not just after weeks, months, or more); and that nature requires a period of 'relaxation' after a period of excessive work, otherwise it can lead to ill health or even death. So he suggests that if piece work payment basis is used, the total sum being earned should be capped so as to avoid dangerous consequences. He even relies on the research of an Italian physician to form his opinion on that and suggests that a more moderate approach to work leads to better health and higher productivity in the end (Smith, 1994/1776, pp. 84-94, Bk I Ch. VIII).

Smith entwines humanity with commerce throughout his book. For example:

If masters would always listen to dictates of reason and humanity, they have frequently occasion rather to moderate, than to animate the application of many of their workmen. It will be found, I believe, in every sort of trade, that the man who works so moderately, as to be able to work constantly, not only preserves his health the longest, but, in the course of the year, executes the greatest quantity of work. (Smith, 1994/1776, p. 94, Bk I Ch. VIII)

Smith compares the self-employed with those employed by others, an advantage of self-employment being that the worker 'enjoys the whole produce of his own industry; the other shares it with his master.' And Smith warns of the 'temptations of bad company, which in large manufactories so frequently ruin the morals of the others' (Smith, 1994/1776, pp. 95-6, Bk I Ch. VIII).

Left out of the simplified version of Smith's free market is the importance Smith puts on a liberated work force – for workers to be able to freely move to more advantageous working situations, to follow a natural desire and need for better working conditions (Smith, 1994/1776, p. 114, Bk I Ch. X). In

today's world, corporations have far more freedom to move between countries and to seek out more advantageous situations than workers have – such an imbalance of freedom goes against the concept of a free market as Smith describes it. (This aspect of corporations in today's world is explained more, further on in the study.)

Smith separates society into three groups (orders) in a discussion focusing on self-interest versus public interest: The first group is proprietors of land (country gentlemen), the second group is those who live by wages, and the third group is those who live by profit (merchants and master manufacturers). He believed that the interests of the first and second groups were 'connected with the general interest of the society' (Smith, 1994/1776, p. 286, Bk I Ch. XI), but about the third group he wrote as follows:

The interest of this third order ... has not the same connexion with the general interest of the society as that of the other two ... The interest of the dealers [the third group] ... in any particular branch of trade or manufactures, is always in some respects different from, and even opposite to, that of the public. To widen the market and to narrow the competition, is always the interest of the dealers. To widen the market may frequently be agreeable enough to the interest of the public; but to narrow the competition must always be against it, and can serve only to enable the dealers, by raising their profits above what they naturally would be, to levy, for their own benefit, an absurd tax upon the rest of their fellow-citizens. (Smith, 1994/1776, pp. 287-8, Bk I Ch. XI)

He also warns about laws and regulations that come from this third group (I shall refer to them as the business people):

The proposal of any new law or regulation of commerce which comes from this order, ought always to be listened to with great precaution, and ought never to be adopted till after having been long and carefully examined, not only with the most scrupulous, but with the most suspicious attention. It comes from an order of men, whose interest is never exactly the same with that of the public, who have generally an interest to deceive and even to oppress the public, and who accordingly have, upon many occasions, both deceived and oppressed it. (Smith, 1994/1776, p. 288, Bk I Ch. XI)

According to Smith, then, business self-interest is not the same as the public interest and may be opposite to the public interest. Smith's public interest includes all the public, and in terms somewhat broader than just financial wellbeing. He was critical of a system that allowed the public to be oppressed, and he does not isolate the commercial system from the broader concept of society. For instance, he includes a discussion on the superiority of poorer women when it comes to breeding, and the difficulty of rearing children in conditions of poverty:

A half-starved Highland woman frequently bears more than twenty children, while a pampered fine lady is often incapable of bearing any, and is generally exhausted by two or three. Barrenness, so frequent among women of fashion, is very rare among those of inferior station. Luxury in the fair sex, while it inflames perhaps the passion for enjoyment, seems always to weaken, and frequently to destroy altogether, the powers of generation. But poverty, though it does not prevent the generation, is extremely unfavourable to the rearing of children. The tender plant is produced, but in so cold a soil, and so severe a climate, soon withers and dies. (Smith, 1994/1776, p. 90. Bk I Ch. VIII)

Smith's concern for those who suffer as a result of oppressive business interests is evident from his views on slavery. He was critical of slavery, writing at a time when Americans were still making large profits from trading rum in Africa in return for negro slaves (Smith, 1994/1776, p. 624, Bk IV Ch. VII). For Smith, there is a natural incentive for humans to want to improve their lot, learn and be interested in things. But this natural incentive can be destroyed by oppression if opportunity, hope, and academic/mental and physical opportunities are taken away. He discusses the impact on slaves of not being able to acquire property of their own:

A person who can acquire no property, can have no other interest but to eat as much, and to labour as little as possible. Whatever work he does beyond what is sufficient to purchase his own maintenance, can be squeezed out of him by violence only, and not by any interest of his own. (Smith, 1994/1776, p. 418, Bk III Ch. II)

He also refers to how unnatural and soul-destroying it is for slaves not to have the opportunity to earn in excess of their basic needs in good seasons so they can put aside some savings for later difficult times - they are always just living on a subsistence basis (Smith, 1994/1776, p. 85, Bk I Ch. VIII). Slavery, was for Smith, an example of where the 'freedom of some enhanced the oppression of others' (Mehta, 2006, p. 256).

Smith saw the impact of the commercial operations introduced to America by Great Britain as 'only impertinent badges of slavery imposed upon them, without any sufficient reason, by the groundless jealousy of the merchants and manufacturers of the mother country' (Smith, 1994/1776, p. 629, Bk IV Ch. VII). On Europe's role in the establishment and management of the American colony, Smith comments, 'the injustice of coveting the possession of a country whose harmless natives, far from having ever injured the people of Europe, had received the first adventurers with every mark of kindness and hospitality' (Smith, 1994/1776, p. 636, Bk IV Ch. VII). And of merchants involved in colony trade (who Smith saw as the advisors on colony trade regulations), he said, 'the interest of the colonies was sacrificed to the interest of those merchants' (Smith, 1994/1776, pp. 630-1, Bk IV Ch. VII).

A central intention of Smith's work was to put a stop to the oppression and damage caused by business self-interest, to change the system so that the self-interest of business would benefit the public. For Smith, the best way to achieve this was by giving the public more freedom to choose, whereby the public would follow a natural instinct (in their own self-interest) to choose to support as workers and consumers those businesses and institutions that provided the best employment opportunities and the best products or services. By more freedom Smith meant less regulation that restricted the freedom of choice. This does not mean a society absent of controls though. As Nathan Rosenberg points out, Smith's 'central preoccupation was to prevent businessmen from pursuing their own interests in antisocial ways'. Smith was 'concerned with the need for erecting an institutional order where

the businessman pursuing his self-interest will be compelled to advance the public's welfare. This is not something that happens naturally; it has to be carefully arranged and contrived because businessmen tend naturally to work in opposition to the public welfare' (Copley, 1995, p.10, quoting Rosenberg, 1976, pp. 24-5). The benefit of self regulation 'is repeatedly qualified in the text of the *Wealth of Nations* with the insistence that these benefits will appear only "in a well-governed society" ...' (Copley, 1995, p. 15).

The merchants and manufacturers, according to Smith, were not passive in the set-up of the mercantile system which had restricted the freedom of the public. At the end of Book IV, Chapter VIII, he concludes, 'It cannot be very difficult to determine who have been the contrivers of this whole mercantile system; not the consumers, we may believe, whose interest has been entirely neglected; but the producers whose interest has been so carefully attended to...' and within the category of producers, Smith clarifies that it was the merchants and manufacturers who were 'by far the principal architects.' As Lubasz (1995) explains, Smith regarded the legislators as being part of the problem but not the 'principal villains', being not so much the 'instigators of the system' but 'either naïve or corrupt enough to allow the great entrepreneurs to persuade or bully them into inscribing the mercantile system into the law of the land' (p. 54).

Smith was not impressed with the lobbying tactics used by business people to change the regulations that were not in their favour. He discusses their lobbying for example on the restricted use of gold and silver; he saw their argument – using the potential benefits to the public to sway the decision makers – as clever and misleading. In Smith's view the business people were only interested in lobbying for something for the benefit of the public as a whole if they were personally going to be better off, otherwise they would take no interest in the needs of the rest of society. Their lobbying for something to benefit the public, he thought therefore, was only a façade for

getting something for themselves, as they showed no interest in the needs of the public at other times (Smith, 1994/1776, pp. 461-2, Bk IV, Ch. 1).

Smith's criticism of monopolies tends also not to be included in the simplified version of his *Wealth of Nations*. He refers to 'the wretched spirit of monopoly' (Smith, 1994/1776, pp. 490-1, Bk IV Ch. II), concerned not only about monopolies in his home country but in the colonies as well. 'His opposition' was 'to every kind of monopoly granted either to an individual or to a company' (Gide & Rist, 1917, p. 96). Gide and Rist continue: 'A whole chapter is devoted to an attack upon the great trading companies of the seventeenth and eighteenth centuries, which were created with a view to the development of colonial trade, and of which the East India Company was the most famous' (p. 96). The underlying theme to Smith's concern was the power imbalance and restrictions that resulted – how one sector of a community benefited at the expense of another, resulting in profits being 'exorbitant and oppressive' (Smith, 1994/1776, p. 621, Bk IV Ch. VII).

As Heimann (1945) says, 'Smith must not be regarded as simply a champion of capitalism. He did not believe that self-interest necessarily coincides with the common good' (p. 65). Heimann continues, describing Smith's view:

If self-interest, left uncontrolled, asserts itself in monopoly, it has to be controlled by competition and directed into channels that serve the public interest ... Smith's entire book is a plea for the enforcement of competition as the ... "natural," institution for the reconciliation of private and public interests. (Heimann, 1945, p. 65)

Chatfield explains the difference between the views of the mercantilists and Smith on monopolies:

... the mercantilist trader aspired to monopoly ... Mercantilist doctrine held that the state should encourage trade and industry by granting monopoly patents to inventors and by chartering companies with exclusive franchises to perform certain services or to exploit particular overseas areas. (Chatfield, 1977, p. 78)

Just how difficult it is to oppose powerful business interests is also acknowledged by Smith. In his view, those who make business easy for the business people are praised, but those who try to stand up to them are abused:

... like an overgrown standing army, they [monopolists] have become formidable to the government, and upon many occasions intimidate the legislature. The member of parliament who supports every proposal for strengthening this monopoly, is sure to acquire not only the reputation of understanding trade, but great popularity and influence with an order of men whose numbers and wealth rend them of great importance. If he opposes them, on the contrary, and still more if he has authority enough to be able to thwart them, neither the most acknowledged probity, nor the highest rank, nor the greatest public services, can protect him from the most infamous abuse and detraction, from personal insults, nor sometimes from real danger, arising from the insolent outrage of furious and disappointed monopolists. (Smith, 1994/1776, p. 501-2, Bk IV Ch. II)

The freeing up of trade was expected to reduce profits to what Smith considered was a 'proper' level (Smith, 1994/1776, p. 679, Bk IV Ch. VII); he believed 'high profits' caused 'bad effects to the country in general', and he was aiming for a profit level that was 'most agreeable to the interest of the whole society' (Smith, 1994/1776, p. 663, Bk IV Ch. VII). He was critical of business people complaining about high workers' wages but being 'silent about' their own 'high profits ... They complain of the extravagant gain of other people; but they say nothing of their own' (Smith, 1994/1776, p. 648, Bk IV Ch. VII).

So far in this examination of how Smith has been misinterpreted I have talked in general terms about the concepts raised in his *Wealth of Nations*. Let us now look at the actual wording from the *Wealth of Nations* that has been used to arrive at the simplified version. (The words I have bolded below are those that are of particular relevance.) It is generally only two passages from the *Wealth of Nations* that form the basis of this simplified version; they are the 'butcher-brewer-baker' (Rothschild & Sen, 2006, p. 358) passage, and the invisible hand passage:

The butcher-brewer-baker passage

It is not from the benevolence of the **butcher, the brewer, or the baker**, that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages. Nobody but a beggar chuses to depend chiefly upon the benevolence of his fellow-citizens. (Smith, 1994/1776, p. 15, Bk I Ch. II)

The invisible hand passage

[The business person] intends only his own gain, and he is in this, as in many other cases, led by an **invisible hand** to promote an end which was no part of his intention. Nor is it always the worse for the society that it was no part of it. By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it. I have never known much good done by those who affected to trade for the public good. It is an affectation, indeed, not very common among merchants, and very few words need be employed in dissuading them from it. (Smith, 1994/1776, p. 485, Bk IV Ch. II)

Galbraith (1987) refers to the butcher-brewer-baker passage as ‘Smith’s most famous passage’ (p. 64). As Rothschild and Sen point out, Smith uses it just to describe the usual mutual ‘benefits of exchange’ (Rothschild & Sen, 2006, p. 358). Sen summarises:

The butcher, the brewer and the baker want to earn money from us, and we – the consumers – want the meat, the beer and the bread they have to sell. The exchange benefits us all. (Sen, 1993, p. 23)

Mehta (2006) says, the butcher-brewer-baker passage is merely a comment ‘about the kind of motives one appeals to in a specific kind of transaction’. He continues: ‘As Fleischaker has argued, in transactions between us and the butcher what else are we supposed to appeal to but *their* self-love?’ (p. 250, referring to Fleischaker, 1999). ‘What would be more appropriate than to address the butcher and the baker by offering them something in return for what they might have to give?’ For Mehta, what is also often ignored is that the passage ‘focuses at least as much on the way in which these commercial exchanges prompt us to focus on *other* people’s interests and the *mutuality* involved in doing so’ (p. 250).

Those who use the butcher-brewer-baker to justify all manner of business behaviour miss the point that the passage 'is concerned (1) directly with exchange only (not production or distribution), and (2) only with the motivational aspect of exchange (not its organizational and behavioural aspects)' (Sen, 1993, p. 32). Sen adds, 'There is [an] oddity in seeing Adam Smith as the great champion of "self-love", and in viewing that tireless Professor of Moral Philosophy as the no-nonsense scoffer at the importance of moral codes' (p. 24). Self-interest is used by Smith in the butcher-brewer-baker passage to explain 'the desire to exchange commodities to satisfy simple wants' (Rothschild & Sen, 2006, p. 357); it does not illustrate Smith's view of how a free market would operate. To concentrate only on the motivation of self-interest, and to exclude all other motivations that Smith refers to (which are essential to his complete picture for how the free market would operate), is to ignore how he writes of motivations in 'their appropriateness to specific occasions ... Self-interest is just one among a whole range of motives, and it varies in its applications' (Mehta, 2006, pp. 248-9).

As for the invisible hand passage, Galbraith says, 'the invisible hand, the most famous metaphor in economics, was just that, a metaphor' (Galbraith, 1987, p. 64). The term 'invisible hand' is only used once in the entire *Wealth of Nations*, a 'single, fleeting use' (Rothschild & Sen, 2006, p. 346), and is in the middle of Smith's discussion on 'restrictions on imports', 'monopoly', 'partial interests' and so forth (Rothschild & Sen, 2006, p. 346), where he 'argues strongly against' restrictions on imports that are for the benefit of the merchants and manufacturers only, not for the benefit of the public (Rothschild, 2001, p. 117). He believes freeing up international trade will benefit the public and his discussion centres around how he sees domestic and foreign trade developing under such freedom: If the profit were 'equal or nearly equal' (Smith, 1994/1776, p. 483, Bk IV Ch. II), business people would naturally prefer domestic industry rather than foreign industry and by

doing so they unintentionally, by following their self-interest, would be increasing the revenue of their local society. Smith's lead-up to the 'invisible hand' wording is part of that discussion and I have bolded the words that have typically been taken out of context from that passage:

As every individual, therefore, endeavours as much as he can both to employ his capital in the support of domestic industry, and so to direct that industry that its produce may be of the greatest value; every individual necessarily labours to render the annual revenue of the society as great as he can. He generally, indeed, neither intends to promote the **public interest**, nor knows how much he is promoting it. By preferring the support of domestic to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an **invisible hand** to promote an end which was not part of his intention. (Smith, 1994/1776, pp. 484-5, Bk IV Ch. II)

Much is missed out by taking the words out of context; to understand the invisible hand in context we need to look at Smith's views on foreign versus domestic trade. Smith gives his reasons for believing that domestic trade would be preferred over foreign trade by a business person (if potential profits are similar):

In the home-trade his capital is never so long out of his sight as it frequently is in the foreign trade of consumption. He can know better the character and situation of the persons whom he trusts, and if he should happen to be deceived, he knows better the laws of the country from which he must seek redress. (Smith, 1994/1776, p. 483, Bk IV Ch. II)

In situations where the profit would be far greater from foreign trade Smith says, 'If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the produce of our own industry, employed in a way in which we have some advantage' (Smith, 1994/1776, p. 486, Bk IV Ch. II). Smith uses the example of making wine in Scotland:

By means of glasses, hotbeds, and hotwalls, very good grapes can be raised in Scotland, and very good wine too can be made of them at

about thirty times the expence for which at least equally good can be brought from foreign countries. (Smith, 1994/1776, p. 487, Bk IV Ch. II)

Instead of having a law prohibiting the importation of foreign wine into Scotland, it would be a far better use of resources for each country to make the most of the 'natural advantages which one country has over another in producing particular commodities ...' (Smith, 1994/1776, p. 487, Bk IV Ch. II). But those thoughts must also be combined with his views on monopolies, freedom, and so forth (as outlined throughout this chapter) to give a complete picture of how he saw the free market functioning in the real world. As Gide and Rist (1917) comment about the *Wealth of Nations*, 'the structure loses stability if some of the corner-stones are removed' (p. 102).

What is at the heart of Smith's views on foreign trade is that the natural result would be a win-win situation for each country involved. A 'win' requires his condemnation of monopolies, the poor treatment of workers, and the poor treatment of local inhabitants in overseas countries to be taken into account. What is more, Smith believes monopolies would generally find it very difficult to establish in overseas countries:

Merchants and manufacturers are not contented with the monopoly of the home market, but desire likewise the most extensive foreign sale for their goods. Their country has no jurisdiction in foreign nations, and therefore can seldom procure them any monopoly there. (Smith, 1994/1776, p. 533, Bk IV Ch. IV)

Sometimes Smith's comment about the public interest (included in the fuller invisible hand quotation above) is also used as part of the simplified version of Smith's work: 'He [the business person] generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it'. By isolating that reference to the public interest, the impression is that no special effort needs to be put into the public interest; the public will benefit automatically without any special thought or action. Based only on the selection of such wording on public interest and self-interest then, accountants (as well as others) would seem to be excused from considering

broader social or moral issues. But, as Rothschild and Sen (2006) point out, self-interest is only one of the motives Smith refers to. He relies also on 'prudence, sympathy, generosity, and public spiritedness' to be motivating factors in human behaviour (p. 357).

What is more, Rothschild (2001) points out that even though Smith only used the term 'the invisible hand' once in the *Wealth of Nations*, he used it in two other works. Rothschild suggests that Smith 'did not especially esteem the invisible hand. The image of the invisible hand is best interpreted as a mildly ironic joke' (p. 116).

The last section of the reduced version of the invisible hand quotation, as I quoted above, also deserves further examination:

I have never known much good done by those who affected to trade for the public good. It is an affectation, indeed, not very common among merchants, and very few words need be employed in dissuading them from it. (Smith, 1994/1776, p. 485, Bk IV Ch. II)

What is excluded here is Smith's view on those who 'affected' (that is, pretended) to act for the public good; as discussed earlier, he had no tolerance for those who lobbied for regulations on the pretence that such regulations were for the benefit of the public, when they were in fact for the benefit of others. Mehta discusses:

... when someone claims to act on behalf of others, there are usually competing interests at stake. *The Wealth of Nations* has an uncanny eye for the ways in which "systems of preference and restraint," whether advocated by legislators, merchants, mercantilists, or employers, usually privilege the interests of some over others and in reality mask the interests of the powerful about whom Smith rarely has anything good to say. (Mehta, 2006, pp. 251 and 252)

He sought to replace the interests of those who exercise power over others with the interests of those over whom such power is exercised. (Mehta, 2006, pp. 250-1)

Of the invisible hand, Lubasz says it is the

... best known ingredient of the *Wealth of Nations*, as well as being the one most beloved of the free marketeers; but it is also the least well understood, and in the course of time it has become the most crassly distorted. (Lubasz, 1995, p. 62)

And Rothschild (2001) suggests: 'Smith himself does not seem to have attached great importance to the invisible hand ...' (p. 116).

Galbraith refers to how Smith's often-quoted words have been used to give the impression that self-interest has gained 'supernatural support' (support from God), a change from previous understandings:

The person concerned with self-enrichment had ... been an object of doubt, suspicion and mistrust, feelings that went back through the Middle Ages to biblical times and the Holy Scripture itself. Now, because of his self-interest, he had become a public benefactor. (Galbraith, 1987, p. 64)

Galbraith adds, 'Smith would not have approved' (Galbraith, 1987, p. 64) and,

Corporate executives and their spokesmen who cite Smith today as the source of all sanction and truth without the inconvenience of having read him would be astonished and depressed to know that he would not have allowed their companies to exist. (Galbraith, 1987, p. 43, note 16)

The narrowing down of Smith's concerns, by others, began during his lifetime argues Rothschild (2001) – Smith being interpreted in ways that obscured his 'real political sentiments' (pp. 66-7). Along similar lines, Tribe (1995) comments: 'Within the context of the early nineteenth century, and stripped of its wider implications for an understanding of civil society and economy, the *Wealth of Nations* came to be regarded as the oracle of growth based upon free trade ...' (p. 25). Rothschild (2001) uses the phrase 'Smith and the different "Smiths"' to refer to the different levels of accuracy of interpretation that developed (p. 66).

Smith's 'complex interplay of ethics, economics, commerce, government and civilisation' tends to be noticed more by historians than by economists, according to Tribe (1995, p. 28). Economists 'obscured the original intent of the work' (Tribe, 1995, p. 28), a matter which is examined more fully further on in this study. Tribe shows that Smith's views have also been misused in the opposite way from the more usual narrow pro-business interpretations mentioned so far. Alexander Hamilton, the USA's first Secretary of the Treasury, in 1791 recommended a 'protectionist' approach and used the *Wealth of Nations* to support his argument. This would seem to be a strange combination, considering Smith's strong views against protective tariffs, but apparently Hamilton selectively used Smith's encouraging words about the potential of manufacturing, in comparison to agriculture, to support the case for protective regulation (pp. 36-37). Heimann (1945) describes Hamilton as 'a mercantilist' (p. 35).

It is generally assumed that Smith's views are opposite to those of Karl Marx. I argue that such a viewpoint ignores the similarity between them. On the economic policy spectrum, Adam Smith is typically seen to be on the right (that side referred to by terms such as individualism, capitalism, and liberalism), and Karl Marx on the left (referred to by such terms as socialism and communism). What tends to be ignored is that they were both concerned about, and aiming to help, the same people – the poorer members of society, the workers. Both Smith and Marx wanted to stop the exploitation by powerful business people of the less powerful in society. They differed in how to fix the situation.

Smith believed individuals in society are the best to understand their own needs. On that basis he advocated reducing the role of government to only enough laws to enable the self-interest of individuals and business to operate for the benefit of society as a whole. The combination of those laws and individuals having the freedom to choose for themselves what is in their best interests, would prevent any members of society from becoming

powerful enough to exploit others. Marx, on the other hand, did not believe those already powerful in society would voluntarily give up their power, and instead advocated increasing the role of government (once the workers had risen up and gained control of government). The increased role of government in choosing on behalf of individuals what is best for the individuals would prevent any members of society from becoming powerful enough to exploit others. The two thus advocated two different versions of freedom: Smith's freedom from oppression to come from freedom of choice, Marx's freedom from oppression to come from protection by the state.

While some may have 'used – and misinterpreted – Adam Smith for their own purposes' (Copley, 1995, p. 9, quoting Rosenberg, 1976), others may have misinterpreted Smith because they did not actually read the *Wealth of Nations*, simply relying on snippets quoted in isolation from the rest of Smith's comments (Copley, 1995, p. 12). Lubasz explains:

One reason these twentieth-century notions are so wide of the mark is that most of the people who talk so much about Adam Smith have never read the *Wealth of Nations*. What they have read is at most two, by now extremely famous, passages from that exceedingly long and in part pretty boring book. Indeed, the nuggets of "Smithian" wisdom they are familiar with come to people nowadays not from reading even those passages in their brief entirety, but from the doctored versions and isolated phrases presented in economics texts ... in popular articles and political speeches, in conversation. Selected sound-bites such as "market", "invisible hand", "self-interest" and the like are circulating ... Wrenched as they have been from the context of the book's rich data and complex reasoning, these few terms and phrases ... are then treated as gospel truth. (Lubasz, 1995, p. 48)

There may be a high chance of misinterpretation also if only selected parts of the *Wealth of Nations* are read. Smith's discussion of the division of labour is a good example. If you start reading the *Wealth of Nations* from the beginning, in the first chapter Smith explains the advantages of dividing the manufacturing process up into many simple tasks. Instead of each craftsperson taking the manufacture of each item from the beginning of the

process through to the final product, time would be saved (from improved dexterity) if the process was divided up so that each person repetitively did just the one task. He discusses this over many pages, and his description of pin-making to illustrate the advantage is now widely referred to. However, his immense concern about the psychological impact of these repetitive tasks on the minds of the workers is not clear until later on in the book (Copley, 1995, pp. 18-19). Heimann describes that concern of Smith's:

... he deplored the crippling physical and intellectual effects of that same division of labor which he had praised so lavishly for its productivity. He demanded universal education to restore to the workers the fullness of understanding and development of which their specialized work deprived them. (Heimann, 1945, p. 72)

Smith's use of vocabulary may also be confusing. For example, Smith refers to 'liberty' as in liberty of trade and also as in political liberty (Copley, 1995, p. 15). But what is clear right throughout the *Wealth of Nations* is Smith's 'thorough abhorrence of traders and manufacturers ... all his criticism [is] levelled at them' and this is evident 'even to the most superficial reader ...' (Gide & Rist, 1917, p. 66). In other respects there is a complexity to Smith's book:

In part, this complexity results from the characteristic mode in which Enlightenment historical studies such as Smith's are written, as they move between newly "scientific" forms of descriptive analysis and older forms of exemplary history or moral commentary aimed at offering implicit or explicit prescription and endorsement of social conduct. (Copley, 1995, p. 14)

In Galbraith's view the *Wealth of Nations* is 'with the Bible and Marx's *Capital*, one of the three books that the questionably literate feel they are allowed to cite without having read' (Galbraith, 1987, p. 62).

Problems have also arisen from translations of the *Wealth of Nations* into French and German. For example, according to Marx, Smith's concern about the impact of the division of labour on workers was not brought out in Garnier's 1802 French translation (Copley, 1995, p. 18); it was 'stripped of

the original conceptions of the civilising process and the function of commerce ...' (Tribe, 1995, p. 42). However, 'Garnier's translation became canonical: J.B. Say deemed it "excellent", and Napoleon ... took a copy with him into exile on St Helena' (Ross, 1998, p. xxxiii). As for the German translation, Tribe (1995, pp. 29-36) refers to some of Smith's messages being lost or distorted in the German translations by Sartorius in 1796 and Weber in 1804 and in the German textbook versions.

I should explain at this point why I do not use the term *laissez-faire* in the thesis when referring to the free market. The reason is that the term *laissez-faire* is a part of the ongoing misinterpretation of the concept of the free market. The term is often used by authors to mean the free market, or any of the other terms that generally refer to Smith's concept of the free market, but its source is unclear. It is not a term that Smith himself used, and it is a term that has been misused over time (Copley, 1995, p. 9; Gide & Rist, 1917, p. 10, note 2). Tribe gives his explanation:

... it is important to recognise that free trade and *laissez faire* are not synonymous. Strictly speaking, they are related but distinct ideas: *laissez faire* refers to freedom to produce what one will, and it is *laissez passer* that denotes freedom of trade, the first dating from the 1680s but elaborated in the 1750s, and the second from the 1760s. (Tribe, 1995, pp. 41-42)

Laissez-faire, as commonly used, 'sums up none of the breadth and wisdom of the policies Smith was advocating' (Finkelstein & Thimm, 1973, p. 41). Just as Smith's work has been given a changed meaning over time, the term *laissez-faire* too has been given a changed meaning over time. Rothschild takes *laissez-faire* back to the early French use of the terms '*laissez-nous faire*' and '*laissez-les faire*'. Those terms reflect the concept of individuals knowing better their own needs, skills, opportunities and preferences than others, and knowing better therefore what would be most advantageous for them (Rothschild, 2001, p. 20). The expression is about choosing for ourselves what is best for us, given that we are well informed of our situation. Such a concept is at the core of the freedom Smith pushes for in

his *Wealth of Nations*, but that freedom is not the same as, and not a licence for, a society whereby individuals or businesses simply do what they like, wherever and however they like, to whom they like.

Gide and Rist (Gide & Rist, 1917) emphasise that '*laissez-faire* does not of necessity mean that nothing will be done. It is not a doctrine of passivity or fatalism ... it simply means leaving an open field and securing fair play for everyone ...' (p. 11). For Smith, the non-interference approach required 'endow[ing] the sovereign with duties' such as 'protecting every member of the society from injustice and oppression ... and required considerable interference with the interests of merchants' (Rothschild & Sen, 2006, pp. 363-4).

Throughout this chapter I have quoted the views of many authors who have acknowledged in some way or other that Smith's concept of the free market has been misinterpreted. Each of those authors sees, and emphasises, the misinterpretation from a different perspective. The perspective I will argue is also different. I will argue that what has not been emphasised sufficiently to date in relation to the misinterpretation of Smith's *Wealth of Nations* is the fact that throughout the book Smith implicitly relies upon the public being sufficiently informed and empowered. Such reliance is not unreasonable or unfounded – it logically arises from the fact that the free market system removes the previous system's impediments to the public.

As I have pointed out so far in the chapter, a full reading of the *Wealth of Nations* shows that a central intention of Smith's concept of the free market is to protect the public from powerful business interests – to put a stop to the oppression and damage caused by business self-interest by changing the system in such a way that the self-interest of business would benefit the public. An informed and empowered public is an essential element for Smith's concept of the free market, if that market is to function as he intends. The public, as such, has a pivotal role to play in Smith's free market concept and that role is outlined throughout his *Wealth of Nations*. That is, the

concept relies on the public being able to support the suppliers of goods, services, employment, and so forth that best suit its (the public's) needs. The public can only perform that role as intended if the public has the opportunity to make an informed decision. The mechanism of the informed/empowered public is what Smith uses to ensure that it will be in the self-interest of business to operate in the public interest.

In terms of Bhopal, Nestlé, and Pinto, the fuller reading of Smith's concept of the free market, as outlined in this chapter, does not lend support to the business, economic, or political decisions that led to the tragedies. In none of those cases was the public sufficiently informed or empowered, as required by Smith, to be adequately protected from the self-interest of business.

An accurate interpretation of the free market, from the fuller reading, gives us a somewhat different-looking special morality than the simplified version, which is based on only a few regularly quoted lines, would give. The simplified version is represented by the commonly asserted notion that maximising profit in the self-interest of business is in the public interest, and it leaves out such essential elements of Smith's work (as outlined throughout this chapter) that it becomes a misinterpretation of his work. It would only be a misinterpretation of Smith's concept of the free market that would ignore the potential harm to the public caused by powerful business interests. Because a basic tenet of the free market is protection of the public from powerful business interests, a special morality based on an accurate interpretation of the free market would not offer any excuse to ignore that potential harm. A special morality based on an accurate interpretation of Smith's concept of the free market would not excuse strategic-planning accountants of responsibility for potential death and injury in cases such as Bhopal, Nestlé, and Pinto. A special morality based on the simplified version, according to which maximising profit in the self-interest of business is in the public interest, on the other hand, might well excuse accountants of any such responsibility.

Self-interest of business, on its own, is what Smith so vehemently attacks in the *Wealth of Nations*. Self-interest is at the core of Smith's system, but an essential ingredient of that system is that the public must have sufficient information and power to function in its own self-interest; sufficient information and power to be able to make informed decisions and to counteract, limit, or dilute, the power of business as the needs of the public require. Throughout the *Wealth of Nations* it is clear that one of his central intentions is to protect the vulnerable from powerful business interests. Instead, Smith's reference to business self-interest has been misinterpreted as accepting a dehumanising approach to the unseen faces of those affected by the actions of business.

Copley (1995) describes just how much Smith's work (or more commonly, the misinterpretation of his work) has been relied upon: 'Few works of economic and political analysis have exerted a more profound influence on European, American and latterly world economic and social policy than Adam Smith's *Wealth of Nations*' (p. 1). The *Wealth of Nations* 'overshadowed Smith's name as a moral philosopher', he became instead 'a household name as an economist' (Haakonssen, 2006, pp. 3 and 1). But even though '[i]t is quite clear from more than one passage that Smith's sympathy was wholly with the workers', to the extent that he could 'be regarded as the father of socialism' (Gide & Rist, 1917, pp. 66 and 79), his views were instead 'transformed' into an 'Employer's Gospel' (Rothschild, 2001, p. 89, quoting from Beatrice Webb's unpublished "History of English Economics", 1885).

Beatrice Webb is associated with the setting up of the London School of Economics (see Dahrendorf, 1995, and Gide and Rist, 1917, for example), and Rothschild comments:

Beatrice Webb wrote in her unpublished "History of English Economics" that subsequent critics "have forgotten that Adam Smith lived in an age

of class oppression and that the 'Wealth of Nations' is a history book of social abuses." There was a profound change in his reputation, she said, which took place between 1776 and 1817, or between the publication of the *Wealth of Nations* and the publication of Ricardo's *Principles of Political Economy*. (Rothschild, 2001, p. 89)

Haakonssen and Winch (2006) comment: 'While there can be no doubt ... The *Wealth of Nations* was the single most important starting point' for economists such as David Ricardo (and Malthus and Say) who followed Smith, 'they adopted only part of Smith's legacy and transformed it into something different in the process of abridgement.' The 'homogenized' version 'proved most attractive to economists ...' (p. 372). The change after Smith is important for this study and is examined more fully later on in this study. But first, I examine Milton Friedman's resurrection of Smith's concept of the free market and how Friedman's views have been interpreted.

In their book on Smith, Copley and Sutherland (1995, p. xiii) include a 'Chronology of contexts for, and developments of, the *Wealth of Nations*'. Milton Friedman is the third to last entry in that chronology, followed by the 'Foundation of the Adam Smith Institute' in 1977, and the 'Economic programmes of the "New Right" adopted by governments in Britain and USA' in 1979 (Copley & Sutherland, 1995, p. xiii). The chronology shows how Smith's free market policies became less popular over time, as economic problems developed, being replaced by more protectionist economic policies – government intervention by way of tariffs, quotas, subsidies and so forth. After problems arose with the increasing levels of protectionism, Smith's free market policies were put forward once again as being the solution; put forward this time by Milton Friedman. Friedman's revival of Adam Smith's *Wealth of Nations* is associated with the adoption of free market policies (from the late 1970s - early 1980s) by Margaret Thatcher's government in the UK and Ronald Reagan's government in the USA (commonly referred to as New Right governments).

As an indication of how much Smith rose to prominence with these politicians, Copley (1995) refers to 'the shape of a china figurine of this period ... which shows Margaret Thatcher, dressed in blue, carrying a copy of the *Wealth of Nations*' (p. 2). And in 'Ronald Reagan's White House, where in the 1980s the "free market" was all the rage: the President's aides literally sported ties bearing silhouettes of Adam Smith - probably the first time in history an economic theorist has been turned into a pin-up boy' (Lubasz, 1995, p. 45, referring to Galbraith, 1993). New Right commentators presented themselves as adopting Smith's views, but even though the figurines and ties mentioned above would imply that the politicians involved had read the *Wealth of Nations*, it seems that Thatcher and Reagan either did not actually read it or if they did, they totally missed his message.

Ironically, the Adam Smith Institute (founded in 1977), is also considered to have misinterpreted Smith's book. See Copley's discussion on the matter, for example (Copley, 1995, p. 10).

Carson explains the connection between Friedman and Smith: Friedman

... argues that the market itself is the best mechanism by which to promote the public good. Here, Friedman's views closely parallel those of Adam Smith. He thinks that economic agents best promote the general welfare, not by aiming at it directly, but by pursuing their own individual interests. (Carson, 1993, p. 15)

The next chapter examines Milton Friedman's works on the free market. From the regularly quoted lines of Smith's and Friedman's works on the free market comes the notion that maximising profit in the self-interest of business is in the public interest. It is that notion that I am investigating to see if it provides a reasonable basis for a special morality for strategic-planning accountants. Just as I have argued above that Smith's work has been misinterpreted, in the next chapter I argue that Friedman's works too have been misinterpreted.

4. Milton Friedman (1912 - 2006)

As Chatfield (1977) comments, by the 1930s in America, 'The competitive "trading market" described by Adam Smith had given way to an "administered market" dominated by a few large corporations' (p. 274). This situation led Milton Friedman to respond, just as Smith had done more than 150 years earlier, by calling for a reduction in the power of business and more freedom for individuals to choose for themselves which products, services and employers best fulfil their needs.

Friedman's works on the free market that I examine in this chapter are his books *Capitalism and Freedom* (1962) and *Free to Choose: A Personal Statement* (1990, co-authored with his wife Rose Friedman), and his article in *The New York Times Magazine* (1970). As with Smith's book, a few lines have been quoted from Friedman's works over and over again, out of context, and used to justify the commonly asserted notion that maximising profit in the self-interest of business is in the public interest. I am examining that notion to see if it is a reasonable basis for a special morality for strategic-planning accountants.

To reiterate, the study seeks to determine the professional obligations of accountants if involved in cases such as Bhopal, Nestlé, and Pinto; the extent to which accountants and their profession have been fulfilling the obligations; and why there has been so much silence on these matters to date. That a special morality may apply to strategic-planning accountants needs to be investigated to help answer the first of those questions. The purpose of the current chapter, then, is to gain an accurate understanding of the regularly quoted lines from Friedman's works on the free market, and thereby to gain an accurate understanding of what a special morality, based on his works, would require.

Carson (1993) indicates the level of attention Friedman's work has received: 'Milton Friedman's theory about the social responsibilities of business is an extremely important and influential position. Almost everyone who writes on the topic writes at least partly in reaction to Friedman' (p. 3). The 'that's just business' approach of 'justifying inhuman behaviour' (Duska & Duska, 2003, p. 184) is often associated with, and justified by, Friedman's writings.

I argue that Friedman's work has been misinterpreted, and in a similar way to Smith's work. As with Smith's work, several parts of Friedman's work do not receive attention, and those parts are essential to understanding what is required for the free market to function as both Smith and Friedman intended.

Whilst many authors focus on the difference between Smith's and Friedman's works, I focus instead on the similarities between their works, similarities that to date have largely been overlooked. I argue that what other authors have missed is Friedman's adoption of the essential elements of Smith's concept of the free market:

- that a central intention of Smith's concept of the free market is to protect the public from powerful business interests; to put a stop to the oppression and damage caused by business self-interest by changing the system so that the self-interest of business would benefit the public.
- that Smith's concept of the free market implicitly relies upon the public being sufficiently informed and empowered so that it can play the pivotal role it has in the free market.

Lewis summarises how the business world has interpreted one of the passages from Friedman's *Capitalism and Freedom*:

Many businesses do not consider social responsibility to be their concern. Some justify this by citing Milton Friedman's oft-quoted conclusion that "few trends could so thoroughly undermine the very

foundations of our free society as the acceptance by corporate officers of a social responsibility other than to make as much money for their stockholders as possible". (Lewis & Wårneryd, 1994, p. 24, quoting Friedman, 1962)

We also need to look at Friedman's paragraph just before those words quoted by Lewis (the words I have bolded below are those that are particularly relevant):

The view has been gaining widespread acceptance that corporate officials and labor leaders have a "social responsibility" that goes beyond serving the interest of their stockholders or their members. This view shows a fundamental misconception of the character and nature of a **free** economy. In such an economy, there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the **rules of the game**, which is to say, engages in open and free competition, **without deception or fraud**. Similarly, the "social responsibility" of labor leaders is to serve the interests of the members of their unions. **It is the responsibility of the rest of us to establish a framework of law** such that an individual in pursuing his own interest is, to quote Adam Smith ... "led by an invisible hand ..." (Friedman, 1962, p. 133)

(Friedman then quotes the invisible hand passage from Smith's *Wealth of Nations* - as I have quoted already in the chapter on Smith, chapter 3.)

Selected parts of that paragraph are also often quoted. Besides Friedman's acknowledgement of the role of unions, what is also often not emphasised in the simplified version of Friedman's work is the part where he says: 'It is the responsibility of the rest of us to establish a framework of law ...'. By adding that, Friedman is emphasising what Smith had said was necessary for the invisible hand (via self-interest) to work for society: There must be a reliable legal system in place that allows the self-interest of individuals and business to operate for the benefit of society as a whole. Smith's and Friedman's approaches rely absolutely on power being spread throughout society at the individual level as much as possible, not concentrated in the hands of particular people or groups of people whose power can be used to aid special interest groups instead of the public as a whole.

It is both economic freedom and political freedom that Friedman (1962) concentrates on, and on the point that economic freedom is 'a necessary condition for political freedom' (p. 4). Or put another way, for Friedman 'economic arrangements are important because of their effect on the concentration or dispersion of power', and hence the importance he puts on separating 'economic power from political power ...' (p. 9). Friedman comments: 'It is widely believed that politics and economics are separate and largely unconnected ...', and further on he adds, 'such a view is a delusion ...' (pp. 7 and 8). 'History suggests only that capitalism is a necessary condition for political freedom. Clearly it is not a sufficient condition' (p. 10). Friedman explains the role of government in a free market, and how giving more freedom to the public lessens the potential power of special interest groups who may have political connections:

The existence of a free market does not of course eliminate the need for government. On the contrary, government is essential both as a forum for determining the "rules of the game" and as an umpire to interpret and enforce the rules decided on. What the market does is to reduce greatly the range of issues that must be decided through political means, and thereby to minimize the extent to which government need participate directly in the game. (Friedman, 1962, p. 15)

Even though 'Every act of government intervention limits the area of individual freedom ...', Friedman (1962) acknowledges that there are areas that are 'widely regarded as sufficiently important to justify government intervention ...' (pp. 32 and 34). The Government is needed as an 'umpire', because we are 'in a world of imperfect men' (p. 25). Friedman was writing his *Capitalism and Freedom* when, as he put it, government had 'become so overgrown' (p. 32). He gives examples of the lack of economic freedom for American citizens at the time: '... the man who would like to exchange some of his goods with, say, a Swiss for a watch ... is prevented from doing so by a quota.' And, 'the Californian who was thrown into jail for selling Alka

Seltzer at a price below that set by the manufacturer under so-called “fair trade” laws’ (p. 9).

The words ‘liberal’ or ‘liberalism’ are often used to describe free market followers or policy, however these words have come to be used in confusing ways. Friedman (1962) comments on the ‘corruption of the term liberalism’: ‘The nineteenth-century liberal regarded an extension of freedom as the most effective way to promote welfare and equality; the twentieth-century liberal’ (p. 5) was instead, in effect, ‘turning the clock back to seventeenth-century mercantilism ...’ (p. 6). Friedman continues further on:

The nineteenth-century liberal was a radical ... So too must be his modern heir. We do not wish to conserve the state interventions that have interfered so greatly with our freedom, though of course, we do wish to conserve those that have promoted it. (Friedman, 1962, p. 6)

He adds that he will continue to use ‘the word liberalism in its original sense – as the doctrines pertaining to a free man’ (Friedman, 1962, p. 6). And reiterating the point: ‘A liberal is fundamentally fearful of concentrated power’ (Friedman, 1962, pp. 6 and 39).

Friedman (1962) is just as critical of power being concentrated in business as he is of power being concentrated in government, if that power is to the disadvantage of the public’s freedom. The public’s freedom means for Friedman that ‘individuals are effectively free to enter or not to enter into any particular exchange, so that every transaction is strictly voluntary’ (p. 14). It could be said that in the cases of Bhopal, Nestlé, and Pinto the transactions were voluntary – the workers did not have to work at the factory (nor create slum living conditions close to the factory which made escape from the gas difficult), and the customers of Nestlé and Pinto did not have to purchase the milk powder or cars. But, ‘Friedman says that the mutual benefit afforded by voluntary market transactions is contingent on all parties being informed’ (Carson, 1993, p. 18), and as quoted earlier, there must be an absence of ‘deception’ (Friedman, 1962, p. 133).

Carson (1993) points out that 'Friedman never explains exactly what he means by "deception"' (p. 19). Ellin (1988), however, in his discussion on deception, comments: 'Deception can be inadvertent, but where it is deliberate, the agent must want someone to draw a false conclusion'. He also adds, 'it could be said that to deceive someone is to show that you do not respect that person, for you claim for yourself the right to give him false beliefs and thus to manipulate him: Hence deception is a form of contempt for others.' And, '[t]hus deception, no less than lying, harms a person's interest in having true beliefs, in having the information necessary to make intelligent decisions, in not being manipulated, and in being regarded with respect' (p. 132).

Developing countries (as illustrated by the Bhopal and Nestlé cases) do not typically have the level of public protection (Maynard, 2001) that Friedman states is necessary for the functioning of a free economy. Not all countries, for example, have the 'very strict tort laws and legal systems sympathetic to the claims of people pressing law suits' that the USA has (Carson, 1993, p. 20). Even though the Pinto was not illegal in terms of statutory law (as mentioned in the Introduction the USA auto safety standard had been 'strenuously opposed by the auto industry' (Gioia, 1992, p. 3)), Ford was able to be punished via negligence (tort) law in the USA (Schwartz, 1991, p. 1017). Ford ended up 'paying millions of dollars in Pinto jury trials and out-of-court settlements, especially the latter' (Hoffman, 2004, p. 468).

Monopolies are seen as just as much of a problem by Friedman (1962) as they were by Smith (and tend to be left out of the simplified versions of both authors). In *Capitalism and Freedom* he says 'The first and most urgent necessity in the area of government policy is the elimination of those measures which directly support monopoly ...' (p. 132). And by monopoly Friedman is referring to business monopolies and trade union monopolies,

and includes professional monopolies in with trade union monopolies (pp. 137-160).

Professional organisations often claim they are better able to protect the public if they are given monopoly control over the occupation they represent (see Bayles, 1988, p. 30, for example). That monopoly control, Friedman (1962) believes, does not benefit the public as the professional organisations claim.

Friedman's view is that professional organisations develop a power that benefits their members instead of the public; professional organisations tend to exclude those who do not follow the orthodox beliefs of the profession, which restricts the breadth and depth of research and restricts options that would otherwise be available for the public (the extent to which this happens in economics and accountancy becomes clearer in later sections of this study). The example he gives includes that of people with suspected communist connections being excluded from some professional organisations (p. 141). He adds: 'Advances in any science or field often result from the work of one out of a large number of crackpots and quacks and people who have no standing in the profession' (p. 157). Friedman is also critical of members of a profession not testifying against other members of their profession (pp. 157-8).

Friedman (1962) puts forward an alternative which he believes offers more protection for the public. He is critical of the licensing system that gives professional organisations power over who can practice what and where. That power has the direct or indirect impact of raising the prices charged to the public, Friedman believes, as well as limiting the choice of services available to the public. He suggests voluntary government certification instead and by that he means, 'The governmental agency may certify that an individual has certain skills but may not prevent, in any way, the practice of any occupation using these skills by people who do not have such a

certificate' (p. 144). In his discussion on this he specifically criticises the accounting profession in the USA for the limitations it applies:

One example is accountancy. In most states, anybody can be an accountant, whether he is a certified public accountant or not, but only those people who have passed a particular test can put the title CPA after their names or can put a sign in their offices saying they are certified public accountants ... In many states, there has been a tendency to restrict an increasing range of activities to certified public accountants. With respect to such activities there is licensure, not certification. (Friedman, 1962, p. 144)

Note that accountants tend not to know about, or at least not to acknowledge, this view of Friedman's. The alternative that Friedman proposes, outlined below, illustrates how he envisages the free market functioning – that is, how an informed and empowered public provides a better option for the public than a more regulated economy. How Friedman explains this protection of the public is important, and particularly relevant to discussions later on in this chapter, because his explanation can be applied generally to how the public would be protected in all aspects of the free market (relating to all services, products, and so forth). These protective mechanisms are essential elements of the free market – to ignore them is to misinterpret, and mis-use, the concept of the free market.

Friedman explains his recommendation for certification:

... certification without licensure is a half-way house that maintains a good deal of protection against monopolization ... If the argument is that we are too ignorant to judge good practitioners, all that is needed is to make the relevant information available. If, in full knowledge, we still want to go to someone who is not certified, that is our business; we cannot complain that we did not have the information. (Friedman, 1962, p. 149)

Friedman's thought is that if the certified practitioners raise their prices beyond what the public thinks is fair or of value, the public then has the choice of using uncertified practitioners instead (thereby empowering the public to keep a check on the prices charged by professionals). And to

protect the public from incompetent practitioners, practitioners would be given 'legal and financial responsibility for any harm done to others through fraud and negligence' (Friedman, 1962, p. 158). Friedman's suggestion there for how the public would be protected is very much in line with how he sees the public being protected from any other faulty service or product in the free market. Friedman's free market views are also discussed in his book *Free to Choose: A Personal Statement* (co-authored with his wife, Rose Friedman). In that book he ties together the self-interest basis of the free market with the protection of the public:

Perfection is not of this world. There will always be shoddy products, quacks, con artists. But on the whole, market competition, when it is permitted to work, protects the consumer better than do the alternative government mechanisms that have been increasingly superimposed on the market. As Adam Smith said ... competition does not protect the consumer because businessmen are more soft-hearted than the bureaucrats or because they are more altruistic or generous, or even because they are more competent, but only because it is in the self-interest of the businessman to serve the consumer. (Friedman & Friedman, 1990, p. 222)

The Friedmans (1990) are here referring to Smith's butcher-brewer-baker passage (as quoted earlier in the chapter on Smith, chapter 3). The emphasis in their interpretation is on the businessperson satisfying the needs of the public or else the public will not support the business. The free market relies on the public having the choice, and therefore the power, to withdraw support as consumers (and also as employees). Ignoring the safety of the public then becomes 'a very expensive thing to do ... It is very poor business practice – not a way to develop a loyal and faithful clientele' (p. 223). The difference between the free market protecting the public, and the government protecting the public, is that 'a private firm that makes a serious blunder may go out of business. A government agency is likely to get a bigger budget' (p. 223). The Friedmans differentiate between foreseeable injury to the public and unforeseeable injury. For foreseeable injury it is the potential cost to a business of losing its reputation (or going

out of business altogether) that will protect the public, and on unforeseeable injury they say:

Cases will arise where adverse effects develop that could not have been foreseen – but government has no better means of predicting such developments than private enterprise. The only way to prevent all such developments would be to stop progress, which would also eliminate the possibility of unforeseen favorable developments. (Friedman & Friedman, 1990, p. 223)

They also suggest that ‘another device’ to protect the public from defective products ‘is the private testing organisations. Such testing laboratories are common in industry and serve an extremely important role in certifying the quality of a vast array of products’ (Friedman & Friedman, 1990, p. 224).

The Friedmans have views on advertising, however, that come to grief when considering Nestlé. They are confident that the public cannot ‘be led by the nose by advertising’, and add:

Is it not more sensible to try to appeal to the real wants or desires of consumers than to try to manufacture artificial wants or desires? Surely it will generally be cheaper to sell them something that meets wants they already have than to create an artificial want. (Friedman & Friedman, 1990, p. 224)

Whereas some may say that the Nestlé case is an example of the failure of the free market, I would say it is not an example of the free market at all; to be an example of the free market, the public would need to be far more informed about the disadvantages of bottle feeding, thereby enabling it to identify, and resist, misleading advertising techniques.

Friedman’s views are often seen as very specific. What is missed is his emphasis on the need for judgment. For example, on the amount of government protection of the public he says:

Our principles offer no hard and fast line how far it is appropriate to use government to accomplish jointly what it is difficult or impossible for us

to accomplish separately through strictly voluntary exchange. In any particular case of proposed intervention, we must make up a balance sheet, listing separately the advantages and disadvantages. Our principles tell us what items to put on the one side and what items on the other and they give us some basis for attaching importance to the different items. In particular, we shall always want to enter on the liability side of any proposed government intervention, its neighbourhood effect in threatening freedom, and give this effect considerable weight. Just how much weight to give to it, as to other items, depends upon the circumstances. (Friedman, 1962, p. 32)

What is more, Milton and Rose Friedman (at the beginning of their book *Free to Choose*) emphasise the importance of reflecting on matters rather than just following others' views (including their own) when it comes to understanding and assessing the attributes of a free market. As part of the process of deciding they suggest, '[y]ou must turn the issues over in your mind at leisure, consider the many arguments, let them simmer ...' (Friedman & Friedman, 1990, p. xvi).

The other often-quoted words from Friedman come from his article in *The New York Times Magazine*, (September 13, 1970) entitled 'The Social Responsibility of Business is to Increase its Profits'. Much of what Friedman says in the article comes from his *Capitalism and Freedom* book. At the end of his article, he repeats the comment in *Capitalism and Freedom*, as quoted earlier, beginning with 'there is one and only one social responsibility of business' and ending with, 'without deception or fraud' (Friedman, 1970, p. 126). The article (or at least the simplified version of the article) is more often than not interpreted to mean that businesses have no social responsibility; that their only responsibility is to make as much money as possible. Several points are missed by such an interpretation.

Friedman is not against social responsibility as such. He is against individuals not being able to make their own decisions as to which social causes to support or contribute to (basically the same theme as in his *Capitalism and Freedom* and in Smith's *Wealth of Nations*). The article is about individuals being free to choose what social causes they want to

support, instead of others deciding on their behalf (as would be the case when business executives use shareholders' funds to support social causes the executives prefer). Friedman is saying that the executives do not have the right to make social spending decisions on behalf of their shareholders, they only have the right to make business-related spending decisions on behalf of the shareholders; and those business-related decisions are usually to make as much profit as possible. (Friedman adds that the profit motive may not always be applicable, for example when running a hospital or school.) Friedman is pointing out that in a free market it is up to the corporate executives to increase the shareholders' money as much as possible (but within the limitations he sets, as outlined in this chapter) and then leave it up to the shareholders to choose for themselves whatever social causes they want to support with the gains from their investments in the business.

The words often quoted from the article come from the following passage:

In a free-enterprise, private-property system, a corporate executive is an employee of the owners of the business. He has direct responsibility to his employers. That responsibility is to conduct the business in accordance with their desires, which **generally will be** to make as much money as possible while conforming to the basic rules of the society, both those embodied in law and those embodied in **ethical custom**. (Friedman, 1970, p. 33)

What is usually ignored from the passage, or 'conceptually amputated', as Collins-Chobanian (2004, p. 201) puts it, is the last part: '... those embodied in ethical custom'. Even though Friedman specifically mentions 'ethical custom' there, his passage is more often than not interpreted to simply mean that for business the saying 'as long as it is legal it is ok' applies. In the article, Friedman does not specify what he means by ethical custom. Some might think that by 'ethical custom' Friedman is referring to the business custom of profit maximisation and business self-interest. Such a custom may be a business custom, but it is not, in itself, an ethical custom. Based on the works of Smith and Friedman, profit maximisation and business self-

interest are part of the mechanism of a free market, but only applicable if other parts of that mechanism are in place, including a sufficiently informed and empowered public. After all, the free market was put forward by Smith and Friedman to stop the oppression and damage caused by the self-interest of business; to change the system so that the self-interest of business would benefit the public.

In his article, Friedman takes issue with the term the ‘social responsibilities of business’, and says, ‘What does it mean to say that “business” has responsibilities? Only people can have responsibilities’ (Friedman, 1970, p. 33). What is missed in the simplified version of the article is the clear distinction he makes between corporations and owner operated businesses. He points out that his article is primarily focused on corporations (where corporate executives make the corporate’s decisions) not owner-operated businesses (where the owner would make the decisions). The distinction between those two different business forms is essential to understanding where Friedman’s approach is coming from. (The first two lines of the quoted passage above focusing on the corporate executive are often not included when he is quoted.) The following passage explains further his views on corporate executives and social causes:

Of course, the corporate executive is also a person in his own right. As a person, he may have many other responsibilities that he recognizes or assumes voluntarily – to his family, his conscience, his feelings of charity, his church, his clubs, his city, his country. He may feel impelled by these responsibilities to devote part of his income to causes he regards as worthy, to refuse to work for particular corporations, even to leave his job, for example, to join his country’s armed forces. If we wish, we may refer to some of these responsibilities as “social responsibilities.” But in these respects he is acting as a principal, not an agent; he is spending his own money or time or energy, not the money of his employers or the time or energy he has contracted to devote to their purposes. If these are “social responsibilities,” they are the social responsibilities of individuals, not of business. (Friedman, 1970, p. 33)

Here, on the other hand, is what Friedman says about owner-operated businesses (individual proprietors):

The situation of the individual proprietor is somewhat different. If he acts to reduce the returns of his enterprise in order to exercise his “social responsibility,” he is spending his own money, not someone else’s. If he wishes to spend his money on such purposes, that is his right, and I cannot see that there is any objection to his doing so. (Friedman, 1970, p. 124)

Friedman’s views on social responsibility in the article were also mentioned in his *Capitalism and Freedom* and he adds that tax law which allows corporations a tax deduction ‘for contributions to charitable and educational institutions’ should be abolished. ‘Such contributions should be made by the individuals who are the ultimate owners of property in our society’ (Friedman, 1962, p. 135). By corporate executives deciding which social causes to contribute to (with others’ money) they are, in Friedman’s view, ‘in effect imposing taxes, on the one hand, and deciding how the tax proceeds shall be spent, on the other’ (Friedman, 1970, pp. 33 and 122). Taxation in a free market, Friedman believes, is totally the responsibility of a democratically elected government: ‘We have established elaborate constitutional, parliamentary and judicial provisions to control these functions’ and to ensure the spending is ‘in accordance with the preferences and desires of the public – after all, “taxation without representation” was one of the battle cries of the American Revolution’ (Friedman, 1970, p. 122). As for corporate executives deciding which causes to contribute to he says:

Here the businessman – self-selected or appointed directly or indirectly by stockholders – is to be simultaneously legislator, executive and jurist. He is to decide whom to tax by how much and for what purpose, and he is to spend the proceeds ... (Friedman, 1970, p. 122)

Such an approach is ‘by undemocratic procedures’ (Friedman, 1970, p. 124). If corporate executives are to act as if they are government representatives,

... then they must be selected through a political process. If they are to impose taxes and make expenditures to foster “social” objectives, then political machinery must be set up to make the assessment of taxes and to determine through a political process the objectives to be served. (Friedman, 1970, p. 122)

The article also criticises businesses for using social responsibility as a ‘cloak’, when they are actually acting in their own self-interest; even though such apparent social responsibility may impress the public, he describes it as ‘hypocritical window-dressing’. For Friedman, self-interest of business (within the limitations he sets, as outlined in this chapter) is justifiable on its own as the basis for the operation of the free market, whereas ‘the use of the cloak of social responsibility and the nonsense spoken in its name by influential and prestigious businessmen, does clearly harm the foundations of a free society.’ He admires business people or investors who ‘disdain such tactics as approaching fraud’ (Friedman, 1970, p. 124). Although Friedman is critical of this ‘cloak’ approach, he suggests the public encourages such an approach by its ‘wide spread aversion to “capitalism,” “profits,” the “soulless corporation” and so on ...’ (Friedman, 1970, p. 124). It is that suggestion that I take issue with.

The public may indeed encourage such an approach and unwittingly be at a disadvantage by holding back the free market, but the free market requires a free public which means a sufficiently informed and empowered public. Considering the role the public must play for the free market to function (as described by both Smith and Friedman), the public must at the very least be accurately informed about how a free market is to function. If the misinterpretations of Smith’s and Friedman’s works are the most common interpretations of the free market that the public receives, the public is very much uninformed and ill-informed on the subject.

Bhopal, Nestlé, and Pinto

In the previous chapter, examining Smith’s work, I stated that in terms of Bhopal, Nestlé, and Pinto, the fuller reading of Smith’s concept of the free

market does not lend support to the business, economic, or political decisions that led to those tragedies. The same applies to the fuller reading, as outlined in this chapter, of Friedman's works. I explain below, in more detail, what I mean by that. Although I more specifically refer to Friedman's views in the following explanation, Smith's work is included implicitly throughout, because Smith's work is the basis of Friedman's views:

Bhopal

Friedman is supportive of decentralising government power, decentralisation giving citizens more freedom of choice and therefore more protection. Speaking of the situation in America, he comments:

... government power must be dispersed. If government is to exercise power, **better in the county than in the state, better in the state than in Washington.** If I do not like what my local community does, be it in sewage disposal, or zoning, or schools, I can move to another local community, and though few may take this step, the mere possibility acts as a check ... If I do not like what Washington imposes, I have few alternatives in this world ... (Friedman, 1962, p. 3)

Friedman (1962) emphasises the importance of keeping political power separate from economic power: '... if economic power is kept in separate hands from political power, it can serve as a check and a counter to political power' (p. 16). Bhopal is therefore a situation of the kind that Friedman is not in favour of, and warns against. Bhopal's local government decided not to allow the plant to be built because of safety risks, but was over-ruled by central government. Cassels refers to the lack of separation of political and economic power at the time:

Economic power in India is concentrated in the hands of a very few individuals and organizations. Powerful business lobbies have the ear of government and constantly emphasize the cost and inconvenience of industrial regulation. (Cassels, 1993, p. 24)

Not only could the lack of resources to monitor and enforce the safety requirements be seen as 'deception', such a situation is also counter to Friedman's 'rules of the game':

... just as a good game requires acceptance by the players both of the rules and of the umpire to interpret and enforce them, so a good society requires that its members agree on the general conditions that will govern relations among them, on some means of arbitrating different interpretations of these conditions, and on some device for enforcing compliance with the generally accepted rules. As in games, so also in society, most of the general conditions are the unintended outcome of custom, accepted unthinkingly ... In both games and society also, no set of rules can prevail unless most participants most of the time conform to them without external sanctions ... But ... we need an umpire. These then are the basic roles of government in a free society: to provide a means whereby we can modify the rules, to mediate differences among us on the meaning of the rules, and to enforce compliance with the rules on the part of those few who would otherwise not play the game. (Friedman, 1962, p. 25)

By the Indian government not 'enforcing' responsibility, and by Union Carbide not conforming to the rules 'without external sanctions', they both failed to play the game, so to speak, by Friedman's rules. In the Bhopal case, the public did not have the freedom to choose as required by Friedman; the public had neither the information nor the democratic power 'to establish a framework of law' (Friedman, 1962, p. 133) to protect itself.

Nestlé

On coercion, Friedman (1962) says: 'The fundamental threat to freedom is power to coerce ...' (p. 15). Coercion and deception, as discussed by Friedman, are particularly relevant in the Nestlé case. The techniques used in the marketing campaign run by Nestlé in developing countries, that implied babies are better off bottle fed than breast fed, is an example of deception. And the handing out of free samples, which would lead to the mothers' milk drying up, could in

effect be coercive because it would deny the mothers the breastfeeding option.

In addition, Friedman's criticism of the idea that 'the means justifies the end' indicates that Friedman would expect a higher standard of openness and honesty than the Nestlé situation illustrated; for Friedman 'the ultimate end is itself the use of the proper means ... any end that can be attained only by the use of bad means must give way to the more basic end of the use of acceptable means' (p. 22) and,

To the liberal, the appropriate means are free discussion and voluntary co-operation, which implies that any form of coercion is inappropriate. The ideal is unanimity among responsible individuals achieved on the basis of free and full discussion. (Friedman, 1962, pp. 22-3)

A responsible person, as described by Welch, is a person who 'has an obligation to respond in light of her critical interpretation of what's going on in the world, accepting accountability for anticipated responses to her choices' (Welch, 1994, p. 85). To be able to take a 'critical interpretation', however, the public would need to be sufficiently informed.

Even though the United Nations attempted to halt the marketing of infant milk formula to developing countries, its code is only voluntary. The boycotts were attempts by the public, once informed of the tragedy, to set the rules of the game. The United Nations would seem to be fulfilling the requirement of 'umpire', but the poor monitoring of the code reduces the possibility of Friedman's 'free and full discussion'. Although WHO and also the American Public Health Association (APHA) do receive reports from governments on how the code is being adhered to, Sethi is highly critical of the standard of data collected:

... neither APHA nor WHO make any attempt at verifying the information provided by individual country governments, create

uniformity in the system of reporting, or seek independent monitoring and evaluation of this information. Thus the best that can be said for the information generated by WHO and APHA is that it is simply a tally sheet or a report card indicating the extent of efforts reportedly being made by individual governments in implementing the WHO Code and not the actual outcome of these efforts. (Sethi, 1994, p. 325)

Sethi also refers to the reluctance at United Nations level to accept more responsibility for the code:

There are no objective, neutral, international monitoring mechanisms to evaluate the nature and extent of industry compliance with the code. ... WHO has steadfastly declined to assume this responsibility arguing that it lacked specific legislative authority from the World Health Assembly, and it did not have resources to undertake such a task. And yet, it has also strongly lobbied ... against the WHA granting it such an authority. (Sethi, 1994, pp. 335-336)

As already mentioned above, in Friedman's view, a lack of external sanctions is an insufficient reason for breaking rules that have been democratically agreed upon.

Even though there is much about the Nestlé case that does not fulfil the requirements of the free market, the free market was given by the USA as its reason for voting against the United Nations' code:

In 1981 ... WHO proposed an international restriction on the marketing of infant formula. The final vote was 118 to 1, with only the United States voting against it. The principle invoked was free trade and, more dubiously, free speech. (The code would have restricted advertising.) The American officials of WHO resigned. (Solomon & Martin, 2004, pp. 269-270).

The two officials who resigned, Dr. Stephen C. Joseph and Eugene N. Babb, were from the Agency for International Development in Washington, and The New York Times' articles on the matter included the following comments:

Both Dr. Joseph, a paediatrician who was the highest-ranking health professional at the agency, and Mr. Babb, who was deputy assistant administrator for food and nutrition, had worked hard in support of the proposal, contending that they had seen babies die from being fed formula mixed with polluted water. (Hunter, 1981, p. 1)

Dr Joseph said ... "The vote was unconscionable. Misuse of infant formula is directly detrimental to the health of children in the third world and contributes to deaths there." (Brozan, 1981, p. 2)

Joseph and Babb 'accused the Reagan Administration of being "swayed by the self-interest arguments of the infant formula lobby." (Reinhold, 1981, p. 2)

Philip et al. also discuss the USA's vote:

The sole "no" vote was cast by the United States on an order from the Reagan Administration that overrode the objections of the Department of State and the Department of Health and Human Services. The official US government statement was that the Code infringed on free speech and restrained trade ... In the weeks that followed, the White House received thousands of letters in protest. (Phillipp, Merewood, & O'Brien, 2001, p. 2)

In 1994, President Clinton reversed the US vote on the Code when he signed a follow-up amendment that included an endorsement of the original Code. ... Unfortunately, it has proved to be a token reversal at best. (Phillipp et al., 2001, p. 3)

One of the criticisms made by corporations against the code was that 'it should be the national governments' responsibility to monitor local marketing practices' (Sethi, 1994, p. 339). Sethi responds:

And yet, this explanation flies in the face of the very basis of the infant formula controversy and the WHO Code, namely, that international regulation of corporate practices and their monitoring was necessary because, for a variety of reasons that have been debated ad nauseum over the years, Third World country governments were found to be unable to initiate and enforce local standards regulating such marketing practices. (Sethi, 1994, p. 339)

Those who gave the free market as the reason for voting against the United Nations' code illustrate a complete mis-understanding, and misuse, of the free market. The public would have to be both sufficiently informed and sufficiently empowered for their free market argument to hold up, which in the Nestlé case, from the consumer level up to the United Nations level, was not the situation. The vote against the code is an illustration of how Smith's and Friedman's works on the free market are used to support practices of a kind that Smith's and Friedman's works vehemently oppose.

Pinto

The Pinto case also conflicts with Friedman's view of a free market; the public was, once again, neither sufficiently informed, nor sufficiently empowered, compared with the lobbying power of the auto industry.

One issue that needs to be considered when discussing the Pinto case is whether there is such a thing as a completely safe car:

Everyone recognizes that there are trade-offs between safety and costs. Ford could have built a "tank" instead of a Pinto, thereby considerably reducing risks, but it would have been relatively unaffordable for most and probably unattractive to all potential consumers. (Hoffman, 2004, p. 470)

Considering, also, that a tank might somewhat increase the danger to the passengers of any non-tanks it collides with, a completely safe vehicle, then, is unlikely; and that is the basis on which I now compare Friedman's views with the situation that arose in the Pinto case.

The Pinto case illustrates how the auto regulations in place at the time, as a result of strong lobbying by the auto industry, ended up protecting the public far less than if the regulations had not been in place. After all, 'the Pinto conformed to all current applicable safety standards and with common industry practice' (Hoffman, 2004, p. 470). If Friedman's

concept of the free market had been in place instead, the decision on how safe a car should be would be left up to the public. But of course, as Friedman stipulates, the public would have to be both sufficiently informed (by, for example, the manufacturers, the media, and as mentioned earlier private testing organisations) and sufficiently empowered. It would then be up to the public, based on the safety information available to them, to select the risks and benefits preferred. There would also have to be sufficient competition in the car market for the public to be able to change which auto-manufacturer to support. The manufacturer which offered the best option would get consumer support. General legal remedies, as opposed to specific auto regulations subject to the lobbying influence of powerful business interests, would be in place to protect the public from harms such as fraud and negligence.

The Pinto case, in fact, illustrates the advantage of this more general legal remedy. The auto industry had 'strenuously opposed' (Gioia, 1992, p. 381) the introduction of a safety standard which the Pinto would have violated; and the fact that the Pinto had not violated any NHTSA safety standard was used by Ford as a defence against being held responsible for the harm caused by the Pinto. However, a court action was brought against Ford based on negligence, *Grimshaw v. Ford Motor Company*. Schwartz outlines the details of that case:

In May 1972, Lily Gray began a trip in her 1972 Pinto with her ... neighbour, 13-year-old Richard Grimshaw ... The Pinto was ... struck by a car ... The impact resulted in a rear-end fire that killed Mrs. Gray and left Richard Grimshaw with disastrous injuries. (Schwartz, 1991, pp. 1016-17)

... the testimony of Richard Grimshaw himself and that of his family and doctors ... narrates the sixty-eight instances of surgery that the boy had undergone prior to trial and describes the deformities he will carry with him for the rest of his life, including a face so badly scarred as to resemble a patchwork quilt. (Schwartz, 1991, p. 1043)

This court case was eventually successful, and Ford was ordered by the Court to pay millions of dollars in compensation (Schwartz, 1991). Ford faced other lawsuits, some of which it settled out of court (Schwartz, 1991, p. 1030). The out-of-court settlements themselves cost Ford 'millions of dollars' (Hoffman, 2004, p. 468). In Friedman's concept of the free market, legal action is only a last resort. The free market relies on an informed and empowered public being able to potentially cause much more damage than any legal system. The threat of losing customers is what both Friedman and Smith appeal to when they claim that the private interest of business is good for the public interest.

Schwartz, in his analysis of the Pinto case from a legal perspective, puts forward a practical suggestion for the protection of the public which is similar to that which Friedman generally proposes; Schwartz proposes a mechanism for increasing the availability of information to the public:

Currently, federal regulations require that auto manufacturers place stickers on new cars offered for sale that convey information about the particular model's expected energy consumption. It might well be a wise reform to similarly require car dealers to post stickers setting forth basic data as to the safety performance of the car model. (Schwartz, 1991, p. 1055)

Schwarz (1991) added that the information on car safety was already available via a number of agencies (pp. 1055-6) and that 'Such a sticker can present its information in a simple, straightforward way; there would be no problem of information overload' (p. 1056). 'Moreover, any instances of dealer noncompliance with the regulatory requirement would be quite conspicuous; hence something close to full compliance should be achievable even with a low-cost enforcement effort' (p. 1057).

In the Pinto case the risk-benefit decision was left up to the auto-manufacturers and NHTSA, not the public; the extent to which the decision was not left up to the public is illustrated by the cost-benefit analysis completed by Ford. This cost-benefit analysis estimated that fixing fuel tank problems at an estimated \$11 per vehicle was not 'cost-effective for society' (Hoffman, 2004, p. 467). The cost-benefit analysis is considered to have influenced Ford's decision not to fix the fuel tank problem (Gioia, 1992, p. 381). What does need to be acknowledged about Ford's cost-benefit analysis is that it did not specifically relate to the Pinto, or to the rear-end-impact problem (Schwartz, 1991). It was prepared by Ford as a submission to NHTSA, and 'referred not to Pintos, but rather to all cars (as well as light trucks) sold by manufacturers in America in a typical year ...' (Schwartz, 1991, p. 1022):

When the document was prepared, NHTSA was considering a combination of regulations that related to the problem of fuel-system fires. One of these proposed regulations concerned the rear-end-impact problem; another such regulation related to lateral collisions; yet another proposal concerned the problem of fuel leakage in the event of a vehicle rollover. It was the rollover situation, and not the rear-end-impact situation, that was the subject of the Ford document. (Schwartz, 1991, p. 1020)

What also needs to be noted is that the NHTSA 'had approved the use of cost-benefit analysis as an appropriate means for establishing automotive safety design standards' (Gioia, 1992, p. 381). In addition, the figure Ford used in the analysis as the value of a human life, \$200,000, was the figure the NHTSA itself 'had developed in a 1972 study calculating the social cost of motor-vehicle accidents' (Schwartz, 1991, p. 1022, referring to Greider, 1972). The point I wish to make here is not that cost-benefit analyses in themselves are always inappropriate, but that in this situation the decision as to risk and benefit could, relatively easily, have been left up to the public to make. But Ford did not give the consumers the choice of paying an estimated extra \$11 to make the car safer. As Hoffman (2004, p. 470)

comments, 'Giving the consumer such a choice, of course, would have made the Pinto gas tank problem known and therefore probably would have been bad for sales' (p. 470). It is exactly that situation, an uninformed and unempowered public, which Friedman sets out to eliminate.

The purpose of this chapter and the previous chapter has been to gain an accurate understanding of Smith's and Friedman's works on the free market, as the notion that maximising profit in the self-interest of business is in the public interest comes from those works. It is that notion that I am examining as a potential special morality for strategic-planning accountants. As explained in the Professions chapter, when determining the obligations of professionals (the first question at the core of the study) we need to take into account the requirements of ordinary reflective morality as well as any special morality that may apply to the profession. From the description of ordinary reflective morality given in the Professions chapter, persons who would choose to ignore the Bhopal, Nestlé, and Pinto ethical issues (as outlined in the introductory chapter) would fail to satisfy the requirements of ordinary reflective morality. Hence, the possibility that a special morality applies to strategic-planning accountants needs to be investigated to help answer the first question of the study.

Over the two chapters I have demonstrated how a fuller reading of the works of Smith and of Friedman leads to quite a different understanding of the free market than that which is commonly asserted. The common account of the free market is that maximising profit in the self-interest of business is in the public interest. This account is based on only a few regularly quoted lines from their works, and leaves out essential elements of their works. The regularly quoted lines ignore a central intention of their works, which is to change the system so that the self-interest of business would benefit the public. To ignore the changes required by Smith and Friedman, is to misinterpret and mis-use their works.

Neither Smith's nor Friedman's works can reasonably be used to support the business, economic, or political decisions that led to the deaths and injuries in Bhopal, Nestlé, and Pinto. In none of those cases was the public sufficiently informed or empowered, as required by Smith and Friedman, to be adequately protected from the self-interest of business.

A special morality based on an accurately interpreted free market, to make sense, would have to require those who claim such a special morality to ensure that the public is sufficiently informed and empowered to be able to protect itself from the self-interest of business. Without the public being sufficiently informed and empowered, a free market could not be said to be operating. Unless a free market is operating, it would be nonsensical to claim the applicability of a special morality which only applies when a free market is operating. The few regularly quoted lines from Smith's and Friedman's works on the free market, as a fuller reading of their works makes clear, only apply if a free market is operating. To summarise, a special morality based on an accurate interpretation of the free market would not excuse accountants of responsibility for death and injury in cases such as Bhopal, Nestlé, and Pinto. A special morality based on the simplified version of the free market, according to which maximising profit in the self-interest of business is in the public interest, on the other hand, might well excuse accountants of any such responsibility.

Over the last two chapters I have referred to the simplified version of Smith's and Friedman's works and have argued that the simplified version is a misinterpretation of the concept of the free market. From here on, unless mentioned otherwise, I shall refer to the simplified version as the 'misinterpreted version'. As I have explained over those two chapters, the simplified version is a misinterpretation in various ways, and the misinterpretation arises because essential elements of the free market have been ignored. For the purpose of this thesis, I will be using the term

‘misinterpreted version’ to refer to when the free market is interpreted in a way that ignores the following:

- that a central intention of Smith’s concept of the free market is to protect the public from powerful business interests; to put a stop to the oppression and damage caused by business self-interest by changing the system so that the self-interest of business would benefit the public.
- that Smith’s concept of the free market implicitly relies upon the public being sufficiently informed and empowered so that it can play the pivotal role it has in the free market.

Similarly, I shall use the term ‘accurate version’ from here on, unless mentioned otherwise, to refer to when the free market is interpreted in a way that does not ignore those factors.

These last two chapters began my examination of a potential special morality for strategic-planning accountants by focusing on Smith’s and Friedman’s works on the free market. The focus on the literature on economics continues in the next section. This time I look at how economics developed after Adam Smith, and how economics is taught, to, amongst other things, clarify not only how a misinterpretation of the concept of the free market developed, but also how it has been possible for a misinterpreted version to remain dominant in the literature.

PART FOUR THE DEVELOPMENT AND TEACHING OF ECONOMICS

This section continues my examination of the literature on economics. It examines how economics developed after Smith, and how economics is taught. An understanding of those two aspects of economics helps in several ways, as outlined below, to answer the questions raised in the study. The study seeks to determine the professional obligations of accountants involved in strategic planning in cases such as Bhopal, Nestlé, and Pinto (question one); the extent to which accountants and their profession have been fulfilling the obligations (question two); and why there has been so much silence on these matters to date (question three). How the section takes us closer to answering such questions is as follows:

Special morality for strategic-planning accountants

This section helps to answer the first question above by further clarifying issues around a special morality for strategic-planning accountants. As explained in the section on Professions, the public interest obligations (the overriding obligations) of accountants, as members of a full profession, require accountants to take into account the requirements of ordinary reflective morality and any applicable special morality. The subsequent section, on Adam Smith and Milton Friedman, looked further into the special morality aspect by examining the notion that maximising profit in the self-interest of business is in the public interest. The notion comes from their writings on the free market and I am examining it to see if it is a reasonable basis for a special morality for strategic-planning accountants. That section showed that the notion leaves out so much of the essential elements of Smith's and Friedman's works that it is a misinterpretation of their works.

The current section, by examining how economics developed after Smith and how it is taught, clarifies not only how the misinterpretation developed, but also how it has been possible for the misinterpreted version to remain dominant in the literature. Clarity on these issues is important because of the significant difference between the accurate version and the misinterpreted version in terms of Bhopal, Nestlé, and Pinto. As explained in the previous section, a special morality based on the accurate version of the free market would not excuse strategic-planning accountants of responsibility for death and injury in such cases. A special morality based on the misinterpreted version, on the other hand, might well excuse accountants of any such responsibility. Clarity is also important because of how bold the statement – that the commonly asserted version is a misinterpretation – may seem to many.

How Smith's concept of the free market was put into practice

The examination in this section of how economics developed after Smith shows what happened to Smith's concept of the free market at a theoretical level. It also shows what happened to his concept when it was put into practice. Smith's account of the free market was initially received very well, but eventually went out of favour. What is important for this study is why the free market, once put into practice, went out of favour. By examining how economics developed after Smith we are able to see why it went out of favour. From that examination we gain an understanding of the real-world requirements of, and obstacles to, the free market. The more we understand about the requirements of, and obstacles to, the free market, the more we understand what a special morality based on Smith's and Friedman's writings on the free market would look like. That helps towards answering the first question of the study.

What accountants learn from studying economics

As I stated at the end of the chapter on Friedman, chapter 4, unless a free market is operating, it is nonsensical to claim the applicability of a special morality which only applies if a free market is operating. If the accounting profession is to claim a special morality which is based on the free market, its members would need to understand the requirements of, and obstacles to, the free market to be able to ensure those requirements are met and obstacles removed. That brings us to the matter of the teaching of economics. At tertiary level, accountants are not required to study professional ethics, but they are required to study economics. Such requirements are set out, for instance, in the principles of the Global Accounting Alliance (GAA), a body comprised of leading professional accounting bodies from around the world (Keats, S., personal communication, February 12, 2013). By examining how economics is taught, and the criticisms of how it is taught, we gain an understanding of the extent to which that part of accountants' education informs them of their obligations, and prepares them to fulfil their obligations. That helps towards answering the second question of the study.

How uninformed academics and the public are on matters relating to economics

How uninformed the public and academics are on matters relating to accountancy and economics, I argue, explains why there has been so much silence on these matters to date (the third question of the study). By examining the development of economics since Smith, and the teaching of economics, we are able to see the extent to which, and why, the public and academics are uninformed, or ill-informed, on matters relating to economics.

Although the above outline of how the section helps to answer the questions raised in this study indicates a separateness to the issues, the issues are to

a degree intertwined and the connectedness becomes more apparent as the study progresses.

Note that this study continues with an Anglo-American focus only because of the influence Anglo-American developments have had worldwide, not because other viewpoints or developments are less worthy of recognition.

My examination of how economics developed after Smith follows. I start with the classical school, continue over several chapters (and more than a century in time) covering a selection of economists and schools of thought, and end with the rise of Friedman. From there I examine current criticisms of economics, including an examination of the teaching of economics. That brings us to the final chapter in the section which looks at why economics is not a full profession. The purpose of the final chapter is to highlight the difference between the approach economists took to professionalisation and the approach accountants took. The implications of the difference, in terms of accountants and their public interest obligations, are also highlighted.

5. Economics after Adam Smith – the Classical School

Heimann commented in 1945:

The most conspicuous fact to strike the student of the history of economic theory is the recency of its origin. Economics is one of the youngest of the social sciences. Indeed, its history as a formalized body of economic knowledge begins only two hundred years ago. (Heimann, 1945, p. 3)

The ‘formalized body of economic knowledge’ that Heimann refers to is the knowledge pulled together by Smith in his *Wealth of Nations*. Heimann, and Gide and Rist explain where Adam Smith fits in: ‘... Smith was by no means a pioneer’ (Heimann, 1945, p. 63). He was ‘successful in borrowing from his predecessors all their more important ideas and welding them into a more general system. ... a true social and economic philosophy was substituted

for their fragmentary studies ...' (Gide & Rist, 1917, p. 51). 'The appearance of his great work on the *Wealth of Nations* in 1776 instantly eclipsed the tentative efforts of his predecessors' (Gide & Rist, 1917, p. 50).

... Smith's achievement represents the crowning peak of the early development of economic theory. Through him economics reached maturity. One has only to compare his bulky treatise with the booklets of the much older Cantillon and of Smith's contemporary Turgot to be impressed by the way in which Smith provided a round picture of economic reality, rich in detail, full of life ... (Heimann, 1945, pp. 63-4)

In Smith's day economics (then referred to as political economy) included the broader liberal studies of philosophy, sociology, and history. Later on, economics separated from those areas, becoming more quantitative/scientific: '... the forces that Smith examined were broader than those studied in modern economics, and he filled in his economic model with political, sociological, and historical material' (Landreth & Colander, 2002, p. 38). It is the narrowing down of economics after Smith that has received much criticism. 'By the middle of the nineteenth century the doctrine of Adam Smith had conquered the whole of Europe ... But during the course of its triumphant march it had undergone many changes and had been subjected to much criticism' (Gide & Rist, 1917, p. 264).

Smith's *Wealth of Nations* is generally considered to be the start of the 'classical period of economics' (Landreth & Colander, 2002, p. 71), the two laws of the classical school being the law of self-interest and the law of free competition (Gide & Rist, 1917, pp. 355-6). The classical school became the orthodox (also often referred to as mainstream, conventional or dominant) school of economic thought for some time; Gide and Rist (1917) write that although the 'pioneers' of economic thought are from earlier times, 'the great currents of economic thought known as the "schools" only began with the appearance of those two typical doctrines, individualism and socialism, in the earlier half of the nineteenth century' (p. x).

The term 'school' is used, as Heimann (1945) points out, 'in the sense of a group of scholars of common training and continual intercourse' (p. 112). And for the classical school, as with other schools of economic thought, Coats' description applies: '... it is difficult to draw the boundaries of a "school", a phenomenon which includes "zones of influence" and "fringe ends" as well as a central core of disciples' (Coats, 1993, p. 125). Along similar lines, Heimann says, 'even among its members considerable criticism of Smith and wide differences of opinion can be found' (Heimann, 1945, p. 81). In addition to the fact that the views within the school varied widely, according to Gide and Rist some classical economists 'strongly objected to the term "school," believing that they themselves were the sole guardians of the sacred truth' (Gide & Rist, 1917, p. 366).

The classical school became 'the dominant school of economics from the late eighteenth century until the last quarter of the nineteenth century. Its major figures were Adam Smith, David Ricardo, Thomas Robert Malthus, James Mill, Jeremy Bentham and John Stuart Mill' (Medema & Samuels, 2003, p. 131). Malthus and Ricardo in Britain (and Jean Baptiste Say in France) 'emerged to refine and extend' Smith's work in 'the years following Smith's death' (Galbraith, 1987, p. 74). Ricardo is considered to have overshadowed Malthus: 'Malthus's younger friend, David Ricardo, eclipsed him for a hundred years. Indeed, as late as the twenties of the present century, Ricardo appeared to many as the greatest of all economists ...' (Heimann, 1945, p. 92). It is to Ricardo's influence on economics that we now turn.

6. David Ricardo (1772-1823)

Ricardo's influence on the development of economics after Smith helps us to see how the misinterpreted version of the free market developed – it helps us to see which aspects of Smith's work on the free market were left behind as economics developed.

'Until the appearance of Ricardo's *Principles of Political Economy and Taxation* in 1817, Adam Smith's *Wealth of Nations*, published in 1776, dominated English economic thought' (Landreth & Colander, 2002, p. 109). Ricardo's 'interest in economics was stimulated by his reading of Smith's *Wealth of Nations*' (Medema & Samuels, 2003, p. 233). He 'drew upon and developed Adam Smith's ideas' (Coats, 1993, p. 402). Several authors comment on how important Ricardo is within the history of economics. Finkelstein and Thimm (1973), state: 'In Ricardo we meet another giant in the history of economic thought. For over one hundred years his was the pre-eminent voice in Anglo-American economics' (p. 62). Writing in 1917, Gide and Rist comment: 'Next to Smith, Ricardo is the greatest name in economics ...' (Gide & Rist, 1917, p. 138). And writing in 1945, Heimann says: '... no single theorist has left such a deep mark on any special field of knowledge and has so decisively influenced the training and methods of many generations of scholars as Ricardo has' (Heimann, 1945, p. 102).

Ricardo has been praised for his method: 'It has been held that Ricardo's great contribution ... was that of method ...' (Hutchison, 1978, p. 53). But Hutchison is only one of many who point out the shortcomings of Ricardo's method and the long-term influence of those shortcomings. As Gide and Rist (1917) put it, Ricardo 'is charged with being the first to lead the science into the fruitless paths of abstraction' (p. 138). Ricardo's approach was quite different from Smith's. Whereas Smith's work is rich in breadth and depth, words such as 'sterile' (Finkelstein & Thimm, 1973, p. 87) are used by many to describe Ricardo's work. Ricardo's approach was abstract and

ahistorical, and became the dominant approach of classical economics from then on. Ricardo's 'methodology, even more than his theories, left its mark on English-speaking economists, and has been responsible for the overly static, deductive, and abstract nature of the discipline' (Finkelstein & Thimm, 1973, p. 62). Landreth and Colander explain:

Adam Smith's *Wealth of Nations* was a blend of historical and descriptive material tied together with a loose theoretical structure. Ricardo represented a major shift in the methodology of economics towards the building of abstract deductive models that were almost completely devoid of any historical or institutional content. (Landreth & Colander, 2002, p. 326)

Hutchison also compares Ricardo with Smith:

... by Adam Smith the model was not carried to extremes of unrealistic abstraction, and was based on historical and psychological evidence and analysis, including a view of man. (Hutchison, 1978, p. 200)

... the comprehensiveness and balance of methods deployed in *The Wealth of Nations* has hardly ever been regained in a general work on the subject of major stature ... there is certainly a most striking contrast with the Ricardian methods which later obtained such prestige. (Hutchison, 1978, p. 8)

... The integration of history with analysis and theory so superbly, and uniquely, achieved in Adam Smith's work was shattered ... Economic history was left largely to rebels and outsiders. (Hutchison, 1978, pp. 54-5)

Hutchison warns against generalising about the classical school economists:

The tendency to generalise about the English 'classical' economists has fostered the erasing of vital distinctions, notably, for example, of this important methodological contrast between *The Wealth of Nations* and Ricardo's *Principles*. The fruitful combination of history and empirically significant theory in *The Wealth of Nations* was broken. History was largely extruded from the orthodox conception of the subject for decades to come. The legacy of the Mill-Ricardo methodological revolution was one of insufficiently controlled abstraction and over-simplification on the one hand, and of over-confident pretensions on the other hand. Traces of this legacy were still discernible in economics a century and a half after Ricardo's death. In other words, in respect of the Ricardian methodological revolution there were very serious intellectual losses. (Hutchison, 1978, pp. 56-7)

Ricardo's approach is referred to as the Mill-Ricardo approach because of the influence of James Mill (father of John Stuart Mill) on Ricardo. James Mill is referred to as both a 'mentor' (Hutchison, 1978, p. 53) and 'disciple' (Coats, 1993, p. 85) of Ricardo. James Mill was totally convinced by the new approach and its 'standard doctrines', and rejected criticism of it: 'James Mill presents ... the standard self-sealing mechanism: Anyone who seriously criticises "the standard doctrines" automatically disqualifies himself' (Hutchison, 1978, pp. 52-3).

Whereas Smith was a moral philosopher, Ricardo was a stock broker. Ricardo became wealthy from stock broking – gaining 'a sufficient fortune in around five years to enable him to acquire and retire to Gatcombe Park, a landed estate that was purchased in the 1970s by Queen Elizabeth II to be the country seat of Princess Anne and her husband' (Galbraith, 1987, p. 82). Following his financial success he retired early and went into politics, devoting a large part of his life to 'intellectual pursuits, mainly the study of economics' (Finkelstein & Thimm, 1973, p. 63).

Ricardo is associated with the attempt to make economics more science-like, a 'new Science' (Hutchison, 1978, p. 26):

Ricardo was the first pure theorist. He lacked the historical insight of Smith, and he did not comprehend the impact of sociological and institutional forces upon economics ... Very much in the manner of the physical scientist, Ricardo attempted to keep his models manageable by holding all variables but one or two constant ... *Unlike* physical scientists, however, Ricardo neglected actual physical observations ...' (Finkelstein & Thimm, 1973, pp. 63-4)

The first group of British economists to regard themselves and to be regarded by important sections of the public as qualified scientific experts were the Ricardians, and it was during the second and third decades of the nineteenth century that the problem of authority in political economy first became a matter of serious interest to its practitioners. Before that date, economic writing was normally either subordinate to some other literary or scholarly pursuit (such as moral

philosophy), or the work of political pamphleteers or journalistic hacks. (Coats, 1993, p. 84)

Gide and Rist (1917) add that Ricardo's 'constant appeal to imaginary conditions' makes reading his work 'a task of some difficulty' (p. 138). Even so, Ricardo's writings led to him becoming

... the leading and most popular economist of his day. Moreover, strange as it might seem ... he managed to glamorize the entire field of economics. Ricardian economics became the fashionable subject in the best salons, and ladies, in hiring a governess, inquired about her competence to teach "political economy". (Finkelstein & Thimm, 1973, p. 63)

Ricardo started off defending free trade, but eventually became known as one of the 'pessimists' as his concerns grew (this pessimism is discussed further in the next section). He came to the conclusion that instead of machinery being an advantage for both workers and consumers, it may not be an advantage for workers, only consumers. This realisation has been left behind, Heimann explains. Heimann gives an example of Ricardo's growing concern, and the response it received:

... from the chapter "On Machinery" which Ricardo inserted in the third edition of his *Principles*, the last published during his lifetime. This chapter dismayed his admirers to such an extent that it has remained almost unknown in the vast Ricardo literature. Its purpose is to prove the possibility of technological unemployment in contradiction to his emphatic assurances in preceding editions that technical progress must benefit all classes by making the products of industry cheaper. But, Ricardo now added, though the workers will benefit as consumers, they may lose their jobs and be displaced by machines. (Heimann, 1945, p. 106)

Real-world evidence that problems were arising from Ricardo's policies was ignored. Gide and Rist (1917) refer to 'the superb indifference with which economists of the Ricardian school affirm their belief in their doctrines without taking any account of the consequences ...' (p. 35). Along similar lines, Landreth and Colander comment (2002): 'One of the most interesting and amazing aspects of the post-Ricardian period is the tenacity with which

economists clung to the predictions of the Ricardian model in the face of conflicting empirical evidence (p. 183). Coats explains the methods used to maintain its popularity. Even though

... the theoretical foundations of Ricardian economics had been seriously undermined, if not completely destroyed, by the early 1830s, the influence of Ricardian policy recommendations remained powerful until the mid-century. This was largely the result of successful propaganda conducted by James Mill and J.R. McCulloch, Ricardo's two most ardent disciples, who disseminated Ricardo's ideas in such influential publications as the *Encyclopedia Britannica*, the *Edinburgh Quarterly*, and the *Westminster Review*, thereby creating a façade of unity among the leading economic writers. (Coats, 1993, p. 85)

On the inappropriateness of Ricardo's abstract approach for 'responsible, real world policy-making' (Hutchison, 1978, p. 45), Hutchison says that if Ricardo's abstract methods were expected to remain simply as abstract theories that would not have been so bad but,

In fact, Ricardo's economics were of the most dangerous type: on the one hand extremely abstract, based on highly restrictive assumptions used largely for deductive facility, but also, on the other hand, intended to supply, *and regarded as supplying*, direct and trenchant implications, of immediate policy relevance, for the real world. (Hutchison, 1978, p. 46)

Even though Ricardo's method was attacked by many for being ahistorical, '... in England history and analysis went their separate ways' (Hutchison, 1978, p. 79), and real-world problems were thereafter treated by economists via the abstract approach:

The transformation in method and epistemology as between *the Wealth of Nations* and Ricardo's *Principles* is profoundly significant because it altered the mood in which the 'problems' of political economy were treated and in which 'theories', and policy-recommendations were put forward. (Hutchison, 1978, p. 26)

It was a method that, in the future, would greatly appeal to economists, for it is economical of information and can, as necessary, be divorced from harsh or inconvenient reality. It served Ricardo well. (Galbraith, 1987, p. 81)

Hutchison (1978) concludes: Ricardo ‘is the patron saint of the devotees of – an often misleading and largely irrelevant – “rigour”, and of those who like to assume an air of intense intellectual strenuousness and “profundity”’ (p. 57).

The change that Ricardo brought about to the study of economics has had a significant impact on how Smith’s concept of the free market has been interpreted (or, misinterpreted) and taught over time. By gaining an appreciation of the change from Smith to Ricardo and onwards we are able to see what present-day accountants learn from their studies of economics, and the implications in terms of how accountants typically interpret their professional obligations. In other words, we gain insight into how well prepared, or not, accountants are to understand and fulfil their professional obligations.

7. The fall of the Classical School

This chapter continues my investigation into the development of economics after Smith. It helps to illustrate further how the misinterpreted version of the free market developed – by showing how much of Adam Smith's work on the free market was left behind as economics developed in theory and practice.

The Classical School after Ricardo

According to Gide and Rist (1917), 'The thirty years which separate the publication of Ricardo's *Principles of Political Economy* (1817)' from John Stuart Mill's 'book bearing the same title are occupied by economists of the second rank, who apply themselves, not to the discovery of new principles, but to the development and co-ordination of those already formulated' (p. 349). As Gide and Rist add though Nassau Senior's impact on economics during that period deserves mention.

Nassau Senior 1790-1864

Senior carried on Ricardo's approach and became 'Professor of Political Economy at Oxford. The Oxford chair, created in 1825, was the first chair of economics to be established in England ...' (Gide & Rist, 1917, p. 349, note 5).

He removed from political economy every trace of system, every suggestion of social reform, every connection with a moral or conscious order, reducing it to a small number of essential, unchangeable principles. ... Senior's ambition was to make an exact science of it, and he deserves to be remembered as one of the founders of pure economics. (Gide & Rist, 1917, p. 349)

The fall of classical economics

Hutchison explains that classical economics appeared to be functioning well in the real world at times:

The framework of the free-market, free-trade economy had been established in the 1830s and 1840s. This seemed to have been followed in the 1850s and early 1860s by a convincing measure of

fairly widespread prosperity, and so the conclusion seemed plausible – at any rate, for the wider public – that the major policy problems of political economy had been solved, if not for all time, at any rate, for the foreseeable future. (Hutchison, 1978, p. 60)

But, Coats adds, the ‘period of economic prosperity ... was often falsely regarded as affording proof of the beneficial effects and hence the validity of the reigning creed’ (Coats, 1993, p. 90). Some members of the public were seen to be left behind, not benefiting from the economic prosperity. Effectively, a time lag applied to some sectors, but not to others. Boisvert, in his book on John Dewey, discusses the concerns raised by Dewey about the lack of preparedness of some sectors of the public:

The bourgeoisie, literate and able in commerce, required only the removal of artificial restrictions for it to take an active place in the social hierarchy. Their situation was akin to those who, already speaking Spanish, live in a society where the use of the language is forbidden. Eliminating the restriction is all they require for putting the activity into practice. But the mere lifting of the ban would not make those previously incapable of speaking the language automatically fluent. To say that these latter are as “free” as the former is to abuse the concrete, full meaning of the term. (Boisvert, 1998, p. 62)

The requirement that the public be sufficiently informed and empowered was not the only aspect of Smith’s work that was left behind in practice. His concern about the potential damage caused to workers by the division of labour was also ignored. What was supposed to happen during this period of classical economics was that ‘Freedom of trade would put an end’ to the restrictions on trade, produce, and employment. ‘Competition would everywhere secure cheap production and just distribution’ (Gide & Rist, 1917, p. 325). It was the lack of this achievement that critics challenged. Other schools of thought were developing as a result of ‘the pressure of social problems’ (Gide & Rist, 1917, p. 377). Criticism came from several directions, but what the critics all had in common was ‘the protest against the thesis of a natural economic harmony’, or more accurately, what that thesis had been ‘later hardened into ...’ (Heimann, 1945, p. 127). More specifically, the protest was against ‘the growing class division in the laissez-

faire system, on the one hand, and the economic crises which periodically shook it, on the other' (Heimann, 1945, p. 127). Keen explains that

... rather than the promised equilibrium, 19th century capitalism was wracked by cycles and enormous disparities of wealth. A major depression occurred roughly every 20 years, workers' conditions would improve and then rapidly deteriorate, prices rise and then fall, banks expand and then collapse. (Keen, 2002, p. 162)

Heimann (1945) believes the social problem of a 'growing class division' was accentuated by the industrial revolution: 'Self-interest and individual initiative took full advantage of the vast new technical possibilities' (p. 82) and

... it is doubtful whether a social crisis would have arisen at all if it had not been for the intervention of the industrial revolution. For the small plant did enjoy an advantage in competition by virtue of the fact that all who worked there had a personal interest in its success. The actual competitive superiority of the large plant is due solely to its technological advantage, which only the command over large amounts of capital can secure ... The consequence was an accentuation of class divisions instead of the gradual levelling down which had been anticipated by Smith. (Heimann, 1945, p. 82)

Gide and Rist's discussion of the amount of capital required to compete in industry during the 1800s, and up until they were writing in 1917, gives an idea of the challenges the smaller manufacturers were facing:

The manufacturer with a capital of £1000 was the first to disappear. Soon those who worked with £10,000 were considered small – too small. They were reduced to ruin and their places taken by larger employers. To-day those who trade with a capital of £100,000 are considered of an average size ... (Gide & Rist, 1917, p. 187)

It follows that workers would find it increasingly difficult to work independently and maintain ownership of their workmanship, to have the 'freedom' in trade that Smith had envisaged.

Gide and Rist describe the series of economic crises that had at times shaken the confidence in classical economics:

In 1815 a first crisis shook the English market ... throwing a number of workmen on the street and resulting in riots and machine-breaking ... in 1818 a new commercial panic, followed by fresh riots, again paralysed the English market. In 1825 a third and more serious crisis, begot probably of the extensive credit given to the newly opened markets of South America, caused the failure of about seventy English provincial banks, bringing much ruin in its train, as well as a shock to several neighbouring countries. During the whole of the nineteenth century similar phenomena have recurred with striking regularity ... (Gide & Rist, 1917, p. 172)

Heimann (1945) also points to the economic crises in Britain, 'which, from 1817 on, became a periodically recurrent feature of capitalism', and adds that 'For a hundred years the crises were grave enough to harrow the minds of economists but not grave enough to disrupt generally the upward trend of production and living standards' (pp. 82-3). Symes (professor at University College, Nottingham, in 1881, teaching History and Political Economy) 'was shocked by the widespread poverty of the 1880s' (Coats, 1993, p. 300), and spoke out about the low wages and working conditions suffered by some in the lower classes:

As the government-appointed factory inspectors were overworked, and some employees were reluctant to report offences for fear of reprisals, he proposed that an unofficial Vigilance Committee should be established to maintain decent minimum working conditions. (Coats, 1993, p. 302)

Coats (1993) adds, Symes' speaking out 'can hardly have enhanced the reputation of the college among local businessmen' (p. 302), and suggests the much needed donations to the university may have decreased as a result of the negative local reception arising from that topic and other topics Symes spoke out on.

In America, 'The late nineteenth century was a time of disturbing economic, social, and political tensions ... Laissez-faire and conservative social Darwinism were still the ruling beliefs among members of the social and business élites'

(Coats, 1993, pp. 439-40, referring to Fine, 1964, and Hofstadter, 1955). It was that 'uninhibited individualism and unfettered competition' that was seen by some as 'the cause of many, if not most, current economic and social evils', and 'tensions mounted within the academic community as businessmen increasingly replaced clergymen on college and university boards of trustees' (p. 440). Galbraith also refers to social Darwinism:

As the classical ideas came to the United States, so and even more spectacularly did ... the ... Social Darwinism of Herbert Spencer. It came and was accepted and urged as, in some degree, a biblical revelation, with which its advocacy was regularly associated. (Galbraith, 1987, p. 164)

Galbraith discusses the 'peculiarly American form' of Social Darwinism:

By showing that the rich were the naturally selected products of the Darwinian process, Herbert Spencer ... had relieved those so endowed of all sense of guilt and made them understand that they were, instead, the incarnation of their own biological excellence. And he had removed all feelings of obligation and concern as regards the poor. However cruel their euthanasia, it served the higher purpose of human improvement as a whole. Among the influential American voices that spread his message was that of Henry Ward Beecher (1813-1887), a member of one of the most talented of American families in the last century and pastor in Brooklyn of one of the most affluent congregations in the Republic. Beecher, in a not uncharacteristic American union of economics, sociology and theology, bridged the seemingly unbridgeable chasm between Darwin, Spencer and evolution on the one hand and biblical orthodoxy as to man's origins on the other. This he accomplished by urging a distinction between theology and religion, the first being evolutionary by nature, the second, God's word in Genesis, being immutable. It is not a distinction that anyone has since claimed to understand, but it allowed Darwin and therewith Spencer to enter American churchly precincts. And on one vital point Beecher was wholly clear: Spencer was simply giving a form of expression to divine will – "God intended the great to be great and the little to be little." (Galbraith, 1987, pp. 164-5)

Galbraith explains, 'It was Herbert Spencer, not Darwin, who gave the world the deathless phrase "the survival of the fittest." It was his further service to insist that nothing should stop or hamper this benign process' (Galbraith, 1987, pp. 121-2).

As to how the classical economists responded to the continuing economic crises, Heimann (1945) says, 'The early crises were limited in extent, and economists tried to deal with them casually, without giving up the fundamental propositions of their system ...' (p. 83). Gide and Rist (1917) add, 'Classical writers ... so struck were they with the profound harmony which they thought they had discovered that they renounced all attempts at amelioration' (p. 230). But concern was growing amongst some of the classical economists: '... that this indifference was not characteristic of the entire classical school can be seen in the growing concern with which Malthus and Ricardo ... studied the problem of the economic crisis' (Heimann, 1945, p. 83). The pessimism that developed caused economics to be referred to as 'the dismal science'. Galbraith explains that it was after Malthus and Ricardo that

Economics would hereafter be associated with an atmosphere of unrelieved pessimism and gloom, and economists would be given the name and reputation (by way of Carlyle) that survives to this day, that of the "Respectable Professors of the Dismal Science". (Galbraith, 1987, p. 81, referring to Thomas Carlyle, 1899)

For some it was not to their benefit to accept the new pessimism of Ricardo and others. Heimann (1945) refers to classical economics being 'popularized and vulgarized' by those with an interest in maintaining an optimistic view of the free market system. The British free-traders were much embarrassed by the dismal parts of the dismal science (pp. 123-4):

A theory as sophisticated, on the one hand, and as deeply involved with practical aspirations, on the other, as is classical economics could not fail to be popularized and vulgarized ... In order to restore the original optimism of classical teachings, vulgarization was needed. It would not be necessary to mention this development if public discussion ever since had not constantly mistaken the vulgarized version for the classical doctrines themselves when, as is done every day, their authority is invoked. (Heimann, 1945, p. 123)

Heimann adds, 'This vulgarized theory is known to its opponents as the Manchester doctrine, after the British city from which an important current in it, the free-trade movement, took its start' (Heimann, 1945, p. 123).

Coats describes the fall of the classical school:

... there was a serious methodological assault on doctrinal orthodoxy by supporters of the German Historical School; the untimely decease of several of the leading exponents of the old orthodoxy brought new leadership to the profession; and a severe depression shook the complacency of the majority of British economic and social thinkers. (Coats, 1993, p. 90)

Hutchison adds:

In fact, in the space of a few years in the late 1860s and early 1870s the classical structure of 'theory' underwent a remarkably sudden and rapid collapse of credibility and confidence, considering how long and authoritative had been its dominance in Britain. (Hutchison, 1978, p. 58)

Orthodox Versus Heterodox

Just as classical economists are referred to within the economics literature as 'orthodox', those who developed in opposition are referred to as 'heterodox' (meaning, not orthodox). Those in opposition come from varying viewpoints. As Landreth and Colander (2002) point out, 'Heterodox economists have little in common besides an objection to orthodoxy' (p. 497). Note, however, that the terms 'orthodox', 'mainstream', and 'heterodox' are not used with absolute precision or uniformity in economics. Colander, Hold and Rosser (2004) explain their interpretation of the terms (but other authors do not necessarily follow the same interpretation; some for example, including Landreth and Colander discussed further below, use the combined term 'orthodox mainstream'):

In some sense *mainstream economics* is the easiest of the ... terms to define, although it may be the hardest to identify in practice. It is in large part a sociologically defined category. Mainstream consists of the ideas that are held by those individuals who are dominant in the leading academic institutions, organizations, and journals at any given time,

especially the leading graduate research institutions. Mainstream economics consists of the ideas that the elite in the profession finds acceptable, where by *elite* we mean the leading economists in the top graduate schools. (Colander et al., 2004, pp. 6-7)

In our view *orthodox* is primarily an intellectual category. It is a backward-looking term ... Orthodoxy generally refers to what historians of economic thought have classified as the most recently dominant "school of thought," ... (Colander et al., 2004, p. 7)

... *heterodox* ... is defined in terms of what it is not, rather than what it is. An economist who sees him- or herself as heterodox does not subscribe to the current orthodox school of thought, as defined by the historian's classifications and has also defined him- or herself outside of the mainstream. (Colander et al., 2004, pp. 8-9).

As illustrated by Colander et al.'s interviews of current economists, some economists may be described by others as heterodox but they do not consider themselves to be such, seeing themselves more as being within the mainstream but being critical of aspects of it.

The attacks from the heterodox economists were on the theories/policies of the classical school and the abstract methods that had developed within that school. Some of those critics (including the German Historical School, as already mentioned above) are now discussed.

Sismondi (1773-1842)

Sismondi was one of the early critics of the classical school. Heimann (1945) describes him as an 'outstanding' historian (p. 128) who was concerned about 'the social ramifications of the economic system ...'. Although 'he was not the first to discuss this aspect of economics' (p. 129), he was, according to Gide and Rist (1917), the first critic the classical school faced and it was Sismondi who was first to come up with the term 'Orthodox' school (pp. 175 and 195).

Coming from the Classical School himself, he persisted in claiming loyalty to Adam Smith and maintained that it was Smith's successors who, by their abstract reasoning and their disregard of the human factor

in the economic world, had arrived at absurd conclusions. He held that the adequacy of an economic theory can be judged only in the frame of the total historical situation from which it takes its data. He thus became one of the pioneers of the humanitarian social reform and of the historical school. (Heimann, 1945, p. 128)

Even though Sismondi was a supporter of the classical school's economic liberalism (Gide & Rist, 1917, p. 173), he was critical of its lack of notice of what was happening in practice: for example, the time lag needed for changing manufacturing and jobs, and the suffering along the way. He questioned whether cheap products were worth reducing people to such poor working conditions – the craftspeople who used to maintain ownership of their products were now because of industrialization reduced to poor wages, long hours and had no ownership of their product (Gide & Rist, 1917). Problems raised by Sismondi have been 'so lightly glossed over by his adversaries' (Heimann, 1945, p. 129). 'Political economy, he thought, was best treated as a "moral science where all facts are interwoven and where a false step is taken whenever one single fact is isolated and attention is concentrated upon it alone."' (Gide & Rist, 1917, p. 175, quoting from Sismondi's *Nouveaux Principes*, second edition, 1827).

Sismondi's criticism of the real-world problems of the abstract approach is illustrated by

... his treatment of the probable effects of a complete abolition of the English Corn Laws. The question, he remarks, could not be decided by theoretical arguments alone without taking some account of the various methods of cultivating the soil. A country of tenant farms such as England would find it difficult to meet the competition of feudal countries such as Poland or Russia, where corn only costs the proprietor "a few hundred lashes judiciously bestowed upon the peasants." (Gide & Rist, 1917, p. 175, quoting from *Nouveaux Principes*)

Sismondi concludes that 'A certain kind of equilibrium, it is true, is re-established in the long run, but it is only after a frightful amount of suffering' (Gide & Rist, 1917, p. 179, quoting from *Nouveaux Principes*). Sismondi was critical of the 'indifference of the Classical school in the face of the evils

of these periods of transition' (Gide & Rist, 1917, p. 181). Gide and Rist maintain that because Sismondi's criticism was 'directed against machinery' he was 'regarded as a reactionary and treated as an ignoramus, and for half a century was refused a place among the economists' (p. 180). Accordingly, he was better known by some for his works on history than economics (p. 173, note 1). 'None the less he was the first writer to raise his voice against certain principles which were rapidly crystallising into dogmas. He was the earliest economist who dared resist the conclusions of the dominant school' (p.196). Gide and Rist describe him as someone 'who, without being socialist on the one hand or totally blind to the vices of laissez-faire on the other, sought that happy mean which permits of the correction of the abuses of liberty while retaining the principle' (p. 173). Heimann (1945) concludes: 'Sismondi's lasting claim to glory is that he aroused the consciences of men' (p. 130).

The Saint-Simonians

Gide and Rist (1917) explain that the Saint-Simonians elaborated on the work of Saint-Simon but took it a lot further (p. 224). They liked Smith's approach, but did not think the change would be a smooth transition. They believed there would be a great deal of potential damage to the poorer people on the way. Also, the Saint-Simonians saw inheritance of property as holding back the potential for the distribution of wealth – a lack of equal opportunity to those who wanted to work hard but did not start off on the same basis and so were at a disadvantage from the beginning. They called for 'equality of opportunity – an equal chance and the same starting-point for every one' (p.110), and demanded 'the abolition of all privileges of birth ... together with the complete extinction of the right of inheritance ...' (p. 221, quoting from *Doctrine de Saint-Simon*, 1829). They 'relied upon moral persuasion' and 'believed that ideas and doctrines were sufficiently powerful agents of social transformation', whereas the Marxians 'relied on revolution...' (p. 225).

German Historical School

'The influence of this school began in Germany during the 1840s and extended into the twentieth century (Landreth & Colander, 2002, p. 323).

Heimann (1945) explains: 'The one thing that can be said of this school with certainty is that it represents a reaction against classical theory' (p. 177), and 'Ricardo was the main target of their criticism' (p. 178). They rejected 'the possibility of ever founding a science upon a chain of general propositions ...' (Gide & Rist, 1917, p. 517).

The members of the Historical School criticized the classical theorists for their narrow approach to economic life, based upon a crude hedonistic psychology, and especially for their contention that this approach leads to strict laws. The method of the classical economists is deductive: by reasoning from a limited number of premises, they claim validity for their logical conclusions. They take as the premise of their reasoning the basic human motive of self-interest, but in its narrow, pecuniary form ... However, according to the Historical School, the experience of history provides abundant evidence of the great richness and diversity of human motives, traditions, and forms of economic organization and confutes the argument of the classical economists that there is a natural law of economic life. The Historical School called the classical method "mechanical" ... (Heimann, 1945, p. 177)

Gide and Rist add that the

Historical School refused to recognise the boundaries of the science as laid down by the English and French economists. The atmosphere of abstractions and generalisations to which they had confined it was altogether too stifling. It demanded new contact with life – with the life of the past no less than that of the present. ... It was a thirst for facts and the exercise of powers of observation. (Gide & Rist, 1917, p. 377)

Just as other schools of thought have a spectrum of opinions within them, the Historical School is no different (Gide & Rist, 1917, p. 381). The school is divided into 'the so-called Older Historical School' and the 'Younger Historical School' (Heimann, 1945, p. 178). Among the younger school were Max Weber and Werner Sombart (Heimann, 1945, p. 178). Heimann comments that the 'Older' members

... remained on the plane of theory in their own scholarly work. All they did towards putting their declared principles into practice was to intersperse their theoretical studies with historical material for illustration much in the manner of Adam Smith before them and Karl Marx after them ... It was only the Younger Historical School that turned its back on economic theory and launched those monumental studies in economic history which opened new horizons of knowledge and understanding and need no methodological justification. (Heimann, 1945, p. 178)

Gide and Rist, writing in 1917, describe the situation:

The newer Historical school, not content merely with advocating the use of the Historical method, hastened to put theory into practice. Since about 1860 German economists have shown a disposition to turn away from economic theory and to devote their entire energy to practical problems, sociological studies and historical or realistic research. (Gide & Rist, 1917, p. 386)

The movement soon left Germany, and it was speedily realised that conditions abroad were equally favourable for its work. (Gide & Rist, 1917, p. 386)

The influence of the German Historical School on America – Institutionalism

Authors refer to the influence of the German Historical School on America, and the subsequent development of a distinctly American version – Institutionalism. Coats (1993) refers to the 'remarkable exodus of thousands of American students to Europe, especially to Germany, for advanced study' in the last quarter of the 1800s (p. 146):

The intellectual (and financial) poverty of most American colleges had forced many able students to seek their advanced training abroad – in Germany rather than in England, not only because German academic life was flourishing, but also because religious influence was still strong in the best-known English colleges ... German historical ideas had already met with a favourable reception in the USA in the 1870s, well before the flood of returning graduates had reached its peak. (Coats, 1993, pp. 209-10, referring to Dorfman, 1955)

Heimann (1945) comments that in America ‘the counterpart of European Historicism is Institutionalism – it differs from Historicism in its philosophy and political conclusions, but not in its methodological objections to classical economic theory’ (p. 182). Along similar lines, Medema and Samuels (2003) write: ‘Institutional economics, akin to and somewhat influenced by the German Historical Schools, is nonetheless a distinctively US phenomenon, though it has ... numerous followers in Europe’ (p. 609). Coats adds that ‘During the ... 1880s ... the conflict between the established Ricardian laissez-faire orthodoxy and the newly imported German historical ideas reached its climax ...’ (Coats, 1993, p. 225).

The American environment was very different from England or Germany, as Coats explains:

Study in Germany at an impressionable age had sensitized the new school economists to the need for a body of ideas, techniques, data, and policy proposals relevant to the rapidly changing American situation. Neither purely German ideas nor a watered down version of English classical economics would suffice. For example, they regarded the Malthusian theory of population and the Ricardian concern with land shortages as irrelevant to American circumstances, emphasized the lack of adequate empirical and statistical studies of contemporary economic problems, and sought a middle way in policy matters between German state intervention and English laissez-fair doctrine. (Coats, 1993, p. 439)

One of the ‘facets’ of Institutionalism, as described by Medema and Samuels (2003), is its criticism of ‘mainstream economics for its myopic treatment of important factors and forces’ (p. 609). Institutionalism is seen as being ‘multi-disciplinary’ and ‘[i]ts leading early figures included Richard T. Ely, Thorstein B. Veblen, Walton Hamilton, John R. Commons, Wesley C. Mitchell, and John Maurice Clark’ (p. 609).

Marx (1818–1883)

Karl Marx is referred to as ‘the final member of the classical school’ (Keen, 2002, p. 157), and is also included under heterodox discussions (Landreth &

Colander, 2002, p. 364). It was Marx who 'coined the term classical economics, even though the classical school is seen as starting back in the late 1700s. Before Marx's general classification there was no name for the classical orthodox' (Colander et al., 2004, p. 8).

Steve Keen (2002) explains that as a result of capitalism bringing about what seemed to be more like 'unbalanced chaos' than the promised natural equilibrium, a 'new political challenge arose: that of socialism' (p. 162). Although there were socialist thinkers before Marx, he took socialism to a completely new level. Writing in 1917 (the year of the Russian Revolution), Gide and Rist comment: 'The success of Marx's ideas after 1867 cast all previous social systems into the shade' (Gide & Rist, 1917, pp. 320-321). 'Marx's *Kapital*, published in 1867, is the completest and most powerful exposition of socialism that we have' (Gide & Rist, 1917, p. 377). Landreth and Colander point out:

Because Marx is popularly associated with the economic systems of socialism and communism, people often assume that he wrote about these systems. Nothing could be further from the truth. Marx studied what he called capitalism – his major work is titled *Das Kapital*, or Capital. In all the vast literature produced by Marx and his collaborator, Friedrich Engels (1820-1895), there is little reference to how a socialist or communist economy is to be organized, other than a short list of items characterizing the nature of communism that appeared in *the Communist Manifesto* (1848). (Landreth & Colander, 2002, pp. 187-188)

Just as Smith has been misused in the name of the free market, Marx has been misused in the name of socialism (and communism). Hutchison (1978) refers to 'the economic regimes of Eastern Europe, claiming somewhat questionably to be following out the economic theories of Marx ...' (p. 77). And just as Copley refers to how Smith has been misinterpreted by the Adam Smith Institute (Copley, 1995, p. 10), Keen refers to how Marx has been misinterpreted by 'friend and foe alike' and 'the impressive contribution "Marxists" themselves have made to the misinterpretation of Marx' (Keen, 2002, p. 297).

The response by 'orthodox mainstream' economists 'to Marx was mostly silence, as if the topic were beneath them' (Landreth & Colander, 2002, p. 357). Landreth and Colander add that 'One difficulty in evaluating the merits' of capitalism and socialism is that 'Advocates of a particular system are prone to comparing the faultless, purely theoretical system they prefer with the wart-marked actual system they reject' (pp. 376-7). Also to be noted is that some of the critics of the status quo were writing at a time when their disagreement resulted in imprisonment (Gide & Rist, 1917). It might be assumed that criticisms of the classical school were only coming from socialists, but as Gide and Rist emphasise, criticisms were also coming from 'individualists' who 'had no quarrel with the institution of private property as such, nor were they hostile to the existence of capital or to the personal advantage which may accrue from the possession of exceptional talent or ability' (p. 579).

How the Classical School responded to the criticism

The Classical school 'survived' the attacks, 'although these attacks had contributed to the uncertainty and upheaval of the 1870s' (Hutchison, 1978, p. 76). Henry Sidgwick 'attributed the supreme authority of and confidence in the orthodox theories in the 1850s and 1860s' to the amount of prosperity being experienced and how well regarded John Stuart Mill's work was at the time (Hutchison, 1978, p. 60, referring to Sidgwick, 1883).

John Stuart Mill (1806-1873)

John Stuart Mill was a child prodigy. Educated under the strict direction of his father, James Mill, John Stuart Mill was studying Greek at age 3 and had progressed through Latin, mathematics, literature, history, the natural science, logic, and political economy by his early teen years. (Medema & Samuels, 2003, p. 333)

J. S. Mill, '[n]ot surprisingly, given his father's strong Benthamite leanings' was in his earlier years influenced by Jeremy Bentham (Medema &

Samuels, 2003, p. 333). As Keen (2002) describes, Bentham is known for his philosophy of 'utilitarianism' which is based on the human drive 'to seek pleasure and avoid pain' (p. 25). Bentham believed, '[t]he community is a fictitious body' (p. 26, quoting Bentham, 1780) and so for Bentham, '[t]he interests of the community are simply the sum of the interests of the individuals who comprise it ...' (p. 25). Galbraith explains the thinking that some took to follow from utilitarianism:

It followed that the maximization of pleasure or happiness could and indeed did come from the maximization of the production of goods, the unchallenged achievement ... of the new industrialism ... What encouraged production was useful or beneficial whether it resulted in incidental suffering for the lesser number or not; the basic rule, which would be endlessly reiterated, was the provision of "the greatest happiness for the greatest number." The unhappiness, even if acute, of the lesser number must, in consequence, be accepted. And, as a matter of practical policy, the Utilitarians and Bentham in particular never doubted, first, that mankind's prime motivation was the pursuit of happiness by the individual and the goods that served that end, and, second, that this pursuit was best served when least hampered by governmental or other social guidance, intervention, inhibition or regulation. Let one steel oneself against compassion for the few – or action on their behalf – lest one damage the greater well-being of the many. (Galbraith, 1987, p. 117)

But for J. S. Mill,

a nervous breakdown and subsequent period of severe depression, followed by an encounter with the poetry of Wordsworth and Coleridge in his early twenties, resulted in his adoption of a more critical approach to the Benthamite position. He came to believe that the cool calculus of utilitarianism needed to be tempered by moral and spiritual concerns ... (Medema & Samuels, 2003, p. 333)

During his time as leader of the classical school, 'John Stuart Mill ... lent a sympathetic ear to the vigorous criticism now rampant everywhere, which claimed that the older theories ought to yield place to the new ...' (Gide & Rist, 1917, p. 322).

With him Classical economics may be said in some way to have attained its perfection, and with him begins its decay. The middle of the

nineteenth century marks the crest of the wave. ... During the first half of his life he was a stern individualist; but the second found him inclined to socialism, though he still retained his faith in liberty. (Gide & Rist, 1917, p. 352, note 3)

... trained at an early age in the Ricardian tradition but with strong and deep feelings about the injustices of the capitalist economy. He attempted to combine the hardheadedness of classical liberalism with the humanism of social reform ... (Landreth & Colander, 2002, pp. 183-4)

Mill's thinking was along the lines of socialism, but with free trade being the way to achieve it (Gide & Rist, 1917, p. 367). Gide and Rist comment that Mill was influenced by Sismondi and the Saint-Simonians and that his autobiography describes 'his gradual conversion to socialistic views' (p. 353, note 3). He recognised a need for government intervention whenever the general interest was endangered, acknowledging the problems arising from uninformed consumers and a lack of factory safety standards (p. 411). On the question of 'how far sanitary precautions, or arrangements to protect workpeople employed in dangerous occupations, should be enforced on employers', he replies, 'But that they [people] may be legitimately controlled for these ends is in principle undeniable' (p. 411, note 2, quoting Mill, 1859). Mill maintained his belief in the 'superiority of self-interest as an economic motive' (p. 411). But, as Gide and Rist continue:

... he is quick to recognise its shortcomings and the exceptions to its universal operation – in the natural incapacity of children and the weak-minded, the ignorance of consumers, the difficulty in achieving it, even when clearly perceived, without the help of society as a whole ... (Gide & Rist, 1917, p. 411)

For Mill, inheritance caused problems for the free market. Inheritance

appeared to be not merely antagonistic to individual liberty, but a source of danger to free competition, because it placed competitors in positions of unequal advantage. In this matter Mill was under the influence of the Saint-Simonians, and he made no attempt to hide his contempt for the "accident of birth". (Gide & Rist, 1917, p. 372)

In addition, private ownership of land was not something he was in favour of. Gide and Rist refer to Mill's comments on the topic:

"The land is the original heritage of the whole human race," says Mill in his *Dissertations and Discussions*. In the *Principles* ... he expresses his views thus: "The essential principle of property being to assure to all persons what they have produced by their labour and accumulated by their abstinence, this principle cannot apply to what is not the produce of labour, the raw material of the earth." (Gide & Rist, 1917, p. 561, note 1)

Inheritance had been raised as a problem by other supporters of the free market. For example, Senior's view was that 'in the case of death, capital passes from the hands of those who have earned it into the possession of others ... The inheritor ... has no title to his fortune except just good luck' (Gide & Rist, 1917, p. 351).

For Mill, there were 'worthier objects' than 'the thirst for wealth'; he was interested 'in a real moral advance' instead. The classical school 'failed to follow his socialist lead' (Gide & Rist, 1917, pp. 373 and 374), and by the end of 1870 the classical approach had no solution to the problems that were arising. At the beginning of the 1800s the call was for more liberalization, by the end of the 1800s the call was for more intervention (Gide & Rist, 1917, p. 407). Gide and Rist describe the soaring land prices in the USA and Europe that were contributing factors to the downfall of the classical school:

... what is perhaps the most striking phenomenon in nineteenth-century history, namely, the fabulous prices paid for land in the neighbourhood of large cities. The last century was pre-eminently the century of big towns. No other epoch in history can point to such growth of urban centres. England, America, Germany, and to a lesser degree France, have all had a share in this development. One result of this rapid agglomeration of population in restricted areas has been a wonderful growth of rents, or unearned increment. A quarter of an acre of land in the city of Chicago which was bought in 1830 for \$20, at a time when the population was only fifty, and which in 1836 was sold for \$25,000, was valued at \$1,250,000 at the time of the International Exhibition in 1894. It has been calculated that the increase in ground-rents in

London between 1870 and 1895 is represented by no less a sum than £7,000,000. Hyde Park, bought by the City of London in 1652 for £17,000, is to-day valued at about £8,000,000. (Gide & Rist, 1917, p. 546) (Similar examples were also given for property rises in Paris.)

In the 1870s 'political economy, or economics as it was increasingly coming to be called, exhibited something of an identity crisis' (Medema & Samuels, 2003, p. 409). Medema and Samuels explain that a response to the problem eventually came from within the Classical school itself. It was 'actually a response to both Classical Political Economy and Socialism', and it was 'the so-called revolution of the 1870s' (p. 409). The 'so-called revolution' is what is referred to by some as the marginal revolution, and it signifies a change from the classical school to the neoclassical school. The neoclassical school eventually became the new orthodoxy in economic thought. Note that authors differ as to when this revolution actually occurred – for example some put it at the early 1870s and some at the late 1870s – and differ as to whether it was actually a 'revolution' in terms of scientific revolutions. See, for example, the discussion in Hutchison's book (1978). I shall use 'marginal revolution' in this study, simply on the basis that it is how the change to neoclassical economics is commonly referred to in the economics literature.

8. The Rise of the Neoclassical School (the ‘marginal revolution’)

My investigation into the development of economics after Smith continues in this chapter. It is the final link between how Adam Smith’s work on the free market was actually put into practice, how it lost popularity, and how it was eventually resurrected by Milton Friedman. We see here the further narrowing down of economics as a subject, in theory and in practice. Combined with the other chapters in the section it helps us to understand how it has been possible for the misinterpreted version of the free market to develop and be maintained.

The neoclassical school

The last chapter ended with the fall of the classical school and the rise of the neoclassical school (commonly referred to as the marginal revolution). The current chapter examines developments from that point onwards, until we reach the rise of Milton Friedman.

Instead of responding to the call for economics to go back to a broader approach, the marginal revolution led to a narrower, more mathematical, approach to economics. The marginal revolution is associated with several economists from different countries:

The marginal revolution had multiple sources ... including: the English economist ... Jevons; the Austrian School economist Carl Menger ...; the French economist Leon Walras; and the English economist Alfred Marshall – and others, such as ... Edgeworth and ... Pigou. (Medema & Samuels, 2003, pp. 410-11)

Heimann (1945) comments that acknowledgement for the development of neoclassical thought should also be given to ‘a completely forgotten German theorist who had died in despair over his utter failure to find any response to his fully elaborated system: Hermann Heinrich Gossen.’ Some of the neoclassical ‘fundamental laws are now often quoted as the first and second laws of Gossen’ (p. 185).

The term 'marginal revolution' refers to marginal utility (though not all used that term at the time), as opposed to general utility (Galbraith, 1987, p. 108), becoming the focus of economic theory. Galbraith explains the marginal utility concept:

No one should think marginal utility a difficult concept. It is not the total satisfaction from the possession and use of a product (or service) that gives it value; it is the satisfaction or enjoyment – the utility – from the last ... addition to one's consumption that so serves. The last available scrap of food in a famine is exceedingly valuable and would command a worthy price; in conditions of abundance it has no value at all and goes out with the garbage. Under ordinary circumstances, water, unlike diamonds, is unduly available; the last cup or quart has little or no utility, and its absence of exchange value sets the value for all the rest. (Galbraith, 1987, p. 108)

But, as Galbraith continues, in times of scarce water, it would demand a high price: '... it is the utility of the last ... the utility of the marginal unit – that sets the value of all' (p. 108). Galbraith adds, 'In fact, the marginality of utility was merely the first step to a further and final formulation. Marginality had relevance not only for utility and demand but also for supply', meaning the concept was also applied to production to give a marginal cost of production for suppliers. The point of intersection (the equilibrium) between the supply and demand curves, when the information is graphed, gives the 'supreme achievement, the price' (p. 109). 'There was something wonderfully neat and logical about the concept of marginal utility; for a time it seemed to solve the whole problem of value or price' (p. 108). But, Galbraith points out, 'supply and demand' took away a sense of responsibility:

Born further was the most celebrated of economic clichés, one that even now rarely escapes from everyday conversation for as much as a week, providing as it does the great relief from responsibility: "It *is*, after all, the law of supply and demand." (Galbraith, 1987, p. 109)

Coats too connects a lessening of responsibility with the marginal approach: Critics of the marginal approach

... have argued that ... neoclassical doctrine explicitly or implicitly involves an acceptance of the socio-economic status quo. For example, marginal analysis focuses attention on small-scale incremental adjustments of present discontents, thereby discouraging more fundamental questioning of the existing order, and it is certainly true that when marginalism was gaining acceptance among academic economists around the turn of the century there was a concomitant narrowing of the discipline's scope (symbolized by the terminological shift from 'political economy' to 'economics'), a move that enabled economists to delegate to other social science specialists such troublesome issues as the distribution of income and wealth, the power structure and social justice. (Coats, 1993, p. 396)

Keen (2002) discusses how Bentham's 'quaint' approach to utility was developed further by the neoclassical school (p. 26). According to Bentham: 'The interests of the community are simply the sum of the interests of the individuals who comprise it' (Keen, 2002, p. 26, paraphrasing Bentham, 1780). But Keen points out that Bentham's comment was

... no more than an assertion. To turn this into a theory, economists had to achieve two tasks: to express Bentham's analysis mathematically, and to establish mathematically that it was possible to derive social utility by aggregating individual utility. One century after Bentham, the founders of neoclassical economics accomplished the first task with relative ease. Over time, the representation of these concepts matured from simple but flawed notions to arcane but watertight models of individual behaviour. (Keen, 2002, p. 28)

Those who had criticised the classical school saw the new school as more of the same, a continuation of that which they had criticised in the classical school, just under a different name: 'in the name of some imaginary entity which they call marginal utility' (Gide & Rist, 1917, p. 539). According to Stigler (1982), 'the marginal utility revolution of the 1870s replaced the individual economic agent as a sociological or historical datum' with 'the utility-maximizing individual. The essential elements of the classical theory were affected in no respect' (p. 114).

Neoclassical economics swept through England and France, but not Germany. In the United States, too, it was met with resistance. Around the turn of the century it was still commonplace, therefore, for American graduate students in economics to study for their Ph.D.s in Germany.

Many of these scholars returned home with a full knowledge and sympathetic view of the position of the German historical school. (Landreth & Colander, 2002, p. 323)

The term 'neoclassical' came from Veblen, one of the Institutionalists:

The term "neoclassical economics" was coined by Thorstein Veblen to provide a target upon which to make his dissent ... Mainstream economists of Veblen's time did not call themselves neoclassical; heterodox economists called them this, and the term quickly became a negative caricature of the beliefs of the mainstream economists, rather than a characterization of what they actually believed. (Landreth & Colander, 2002, p. 469)

Hutchison (1978) refers to the 'gradual turn towards a narrower and more specific focus on 'micro' theorising and analysis ...' that came with 'the Marginal Revolution' (p. 86); and he refers to the 'frequently heard' criticism that the marginal revolution 'led to an impoverishing contraction and narrowing of the subject, as represented by the change in title from Political Economy to Economics'. Hutchison argues however that the narrowing was 'unintentional' and that Jevons, Menger, Walras and Marshall never completed what they had intended. If they had 'carried out their original plans as intended, "neoclassical economics" would have emerged with a substantially broader framework than it did' (p. 91). The mathematisation was a secondary development, Hutchison believes, it was not the main part, or intention (p. 86):

... in the last third of the nineteenth century, economics became *much* more an academic discipline, and ... the cultivation of marginal utility analysis was calculated to cater for an academic taste for precision, mathematical elegance, and for a proto-, or would-be, "professional" technical display. (Hutchison, 1978, note 44, p. 92)

Gide and Rist comment on this change towards mathematics:

Mathematical political economy ... claims to be able to embrace the whole field within its comprehensive formulæ. Everything seems to be in a state of equilibrium, and any attempt to upset it is immediately corrected by a tendency to re-establish it. To determine the conditions

of equilibrium is the one object of pure economics. (Gide & Rist, 1917, p. 533)

To write down a problem in the form of a mathematical equation is to show that the problem can be solved and to give the conditions under which solution is alone possible. (Gide & Rist, 1917, p. 539)

Landreth and Colander (2002) add: 'An interesting aspect of neoclassical economics is that, in part, technique had driven the questions it had addressed and the answers it found' (p. 489). As for the Institutionalist approach in America, 'the importance of the historical-institutional approach in American universities decreased during the first half of the twentieth century, and neoclassical economics (first Marshallian and finally Walrasian) emerged as the American mainstream' (p. 7).

The attitude towards mathematics differed within the neoclassical school. 'Mathematics was certainly vigorously championed by Jevons, though it was totally rejected by Menger' (Hutchison, 1978, p. 86). Walras and Marshall also had strong mathematical backgrounds. Just as some of Smith's views were left behind in the development of the classical school, some of Jevons', Walras' and Marshall's broader views have been left behind in the development of the neoclassical school.

William Stanley Jevons (1835-1882)

Jevons initially had 'the strictest individualist principles' about the 'role of government', but 'as the 1870s wore on, more cases occurred to him which ... were no longer to be disposed of by a sweeping application of *laissez-faire* principles'. To make the free market work for society, Jevons believed more empirical research and more legislation was needed to protect the public from the damage caused from increased industrial development and population (Hutchison, 1978, pp. 97-99). For example: Jevons 'advocated ... public intervention for the preservation of irreplaceable raw materials if free exchange threatens to exhaust the supply; moreover, he was friendly to labor laws' (Heimann, 1945, p. 205). He was critical of pollution, referring to

‘the sewage of great towns, the foul or poisoned water from mines, dye-works, etc. ...’ (Hutchison, 1978, p. 99, note 6, quoting Jevons, 1879). He also called for more regulation on housing and town planning issues, commenting on the problems that arise otherwise:

I am quite convinced, for instance, that the great mass of the people will not have healthy houses by the ordinary action of self-interest. The only chance of securing good sanitary arrangements is to pull down the houses which are hopelessly bad, as provided by an Act of the present ministry, and *most carefully to superintend under legislative regulations all new houses that are built.* (Hutchison, 1978, p. 99, quoting Jevons, 1883, italics added by Hutchison)

And:

Our idea of happiness in this country at present seems to consist in buying a piece of land if possible, and building a high wall round it. If a man can only secure, for instance, a beautiful view from his own garden and windows, he cares not how many thousands of other persons he cuts off from the daily enjoyment of that view. *The rights of private property and private action are pushed so far that the general interests of the public are made of no account whatever.* (Hutchison, 1978, p. 99, quoting Jevons, 1905, italics added by Hutchison)

Jevons suggested ‘increased public expenditure over a wide range of ... public goods and services’ including ‘libraries, museums, parks, municipal orchestras and meteorological services, claiming that these were “unsanctified by the *laissez-faire* principle” (Hutchison, 1978, p. 99). (Note that Nassau Senior, briefly referred to in the previous chapter, had also raised some of these issues.) On how much, or where, the state should be involved Jevons comments: ‘My own strong opinion is that no abstract principle, and no absolute rule, can guide us in determining what kinds of industrial enterprise ... the State should undertake and what not’ (Hutchison, 1978, pp. 99-100, quoting Jevons, 1883).

Léon Walras (1834-1910)

Walras ‘spent his productive years at the University of Lausanne ...’ (Finkelstein & Thimm, 1973, p. 193), favoured more mathematics in

economics (Hutchison, 1978, p. 84), but also 'sought a reconciliation of individualism and socialism ...' (Gide & Rist, 1917, p. 573). For Walras,

no real opposition existed between the State and the individual ... the only real man is the social man – man living in society. This man, as we know, has two kinds of interests – the one personal or individual, and as such opposed to the interests of other beings; the other social or collective, common both to himself and his fellows – and unless these are secured the existence of the race is immediately jeopardised. The two groups of interests are equally important, for they are both equally necessary for the life of the social being. (Gide & Rist, 1917, pp. 573-4)

Walras, just like J. S. Mill, was not in favour of individual ownership of the land, and advocated the nationalisation of land (Heimann, 1945, p. 205). The 'private control of land', as Heimann explains, was seen by Walras (and Gossen) to hold back 'free exchange and the optimum social satisfaction to be achieved' from that free exchange (p. 205). Walras 'was rebelling ... as a "socialist", against the particular kind of extreme *laissez-faire* policy dogmas prevailing in France ...' (Hutchison, 1978, p. 84).

Alfred Marshall (1842-1924)

Gide and Rist (1917) describe Marshall as 'the greatest of modern theorists' (p. 386). Landreth and Colander (2002) write that whereas Smith 'has often been called the father of economics' (p. 78), Marshall 'is considered one of two contenders for the title of father of neoclassical microeconomic theory (the other being Leon Walras)' (p. 272).

Marshall came to economics with an undergraduate training in mathematics and with strong humanitarian feelings about improving the quality of life of the poor. His early education and home environment disposed him toward ordination in the Anglican church, but his undergraduate study at Cambridge revealed a strong preference and aptitude for mathematics. He therefore remained at Cambridge after graduation to teach mathematics. Soon, however, he was caught up in reading metaphysics, ethics, and economics. (Landreth & Colander, 2002, p. 272)

Marshall's religiously based humanitarian concerns led him to regard the elimination of poverty as the chief task of economics. He maintained that the key to solving these problems lay in the facts and theories of the economists ... he castigated the classical theorists, particularly Ricardo, for not recognizing that poverty breeds poverty, because the poor do not have sufficient income to attain the health and training that would enable them to earn more. (Landreth & Colander, 2002, pp. 276-7)

Marshall favoured a broader approach to economics 'in spite of his strong mathematical background' (Medema & Samuels, 2003, p. 502). He was influenced by the German and English 'advocates of the historical method' (Landreth & Colander, 2002), and 'on more than one occasion paid' the historical writers 'a glowing tribute' (Gide & Rist, 1917, p. 386). But, Hutchison (1978) comments, 'this important aspect of his work was largely neglected and abandoned by his successors' (p. 79). Landreth and Colander explain, comparing Marshall with Smith, Ricardo and J. S. Mill:

Criticism of orthodox classical theory and advocacy of the so-called historical method also appeared in England in the 1870s independently of the German historical school. These English advocates of the historical method, however, formed no cohesive group, so it would be improper to speak of an English historical school. These German and English writers deserve our attention because of the influence they had on certain neoclassical economists, particularly Alfred Marshall. (Landreth & Colander, 2002, p. 324)

Smith was not a pure theorist. Rather, he was a political economist who was able to supplement a grand vision of the interrelatedness of the sectors of a market economy with descriptive and historical material and to influence economic policy for at least two hundred years. The pure theorist Ricardo was followed by J. S. Mill, and Mill by Alfred Marshall; both tried to return economics to Adam Smith's contextual analysis and policy. With few exceptions, the methodological position of orthodox economists since Marshall was one of almost exclusive focus on pure abstract theory, with little attention to historical and institutional material. In that focus, modern mainstream orthodox theory has rejected the Smithian methodology. (Landreth & Colander, 2002, pp. 104-5)

Although Marshall is associated with the elasticity of demand and indifference curves in economics (Gide & Rist, 1917, p. 531; Heimann, 1945,

pp. 188-9) he advocated 'employing diagrams and curves as little as possible' (Gide & Rist, 1917, p. 544, note 1). From Marshall's letter in 1899 (to W.A.S. Hewins) we gain an idea of his approach to using mathematics in economics: Marshall would require the students to familiarise themselves with a subject

till they had attained enough ... instinct ... then I would ... tell them to put into mathematical phrase (if they happened to like mathematics) but anyhow into precise quantitative phrases, such parts of their reasoning as were capable of it; not throwing away the rest, but keeping it formulated by side of the mathematics ... they should try to interpret that general proposition into English, and not lightly take a denial: that should be their main effort to ... [which] ... they should give most weeks and months of work; and when they had done it they might throw away their mathematics; unless indeed they cared to keep a few specimens of such work in an old curiosity shop. ... I repeat I regard the use of mathematics on the way as a gain when convenient, but not as of the essence of the work. (Coats, 1993, pp. 363-4)

Similarly, he explains his rules on the use of mathematics in a letter to A. L. Bowley in 1906:

... I went more and more on the rules – (1) Use mathematics as a shorthand language, rather than an engine of inquiry. (2) Keep to them until you have done. (3) Translate into English. (4) Then illustrate by examples that are important in real life. (5) Burn the mathematics. (6) If you can't succeed in (4) burn (3). This last I did often. (Landreth & Colander, 2002, p. 278, quoting from Pigou, 1956).

Marshall describes further the limitation of precise formulae to solve real-world economic problems: '... the greater the appearance of lucidity which is given to' solving economic problems 'by skillful exposition, the more mischievous it is. A man is likely to be a better economist if he trusts to his common sense, and practical instincts ...' (Landreth & Colander, 2002, p. 279, quoting Marshall, 1961). Landreth and Colander add that 'Marshall's attempt to reconcile the methodological controversies of his time made him vulnerable from all sides. The historically oriented economists of Germany and England found his economic methodology too abstract and rigid' and the 'advocates of an abstract mathematical methodology were irritated by his

praise of the historical method and his pointed remarks concerning the limitations of theory and mathematics' (p. 277).

Marshall's broader concerns and visions (and how similar they are to Smith's) are seen in the following quotations of Marshall:

Our thoughts from youth upwards are dominated by a Pagan belief ... that it is an ordinance of Nature that multitudes of men must toil a weary toil, which may give to others the means of refinement and luxury, but which can afford to themselves scarce any opportunity of mental growth. (Hutchison, 1978, pp. 105-6, quoting from Marshall, 1925)

The notion that the investment of funds in the education of the workers, in sanitation, in providing open air play for all children etc. tends to diminish "capital" is abhorrent to me. (Hutchison, 1978, p. 109, note 15, quoting Marshall from letter to Lord Reay, 1909)

Being without the means of livelihood must be treated not as a crime, but as a cause for uncompromising inspection and inquiry. (Hutchison, 1978, p. 108, note 13, referring to José Harris, 1972)

Marshall 'referred to unemployment as the symptom of a disease' (Hutchison, 1978, p. 112, note 17):

No doubt we ourselves, society at large, are responsible for the existence of this disease more than the victims of it are. And we ought not to be afraid of very large expenditure of public and private funds in removing or lessening the causes of the disease. (Hutchison, 1978, p. 112, note 17, quoting from Marshall, 1925)

His vision was that

No one is to do in the day so much manual work as will leave him little time or little aptitude for intellectual or artistic enjoyment in the evening. Since there will be nothing tending to render the individual coarse and unrefined, there will be nothing tending to render society coarse and unrefined. (Hutchison, 1978, p. 106, quoting from Marshall, 1925)

Marshall's recommendations included, 'countering excessive secrecy in traders by publishing income-tax returns in local newspapers ...' (Hutchison,

1978, p. 111, paraphrasing Marshall, 1885). But, he also warned against British trade unions being 'tempted to use' their 'strength for the promotion of the interests of particular groups of workers, at the expense of wider interests, as the landowning classes did when they had the power' (Hutchison, 1978, p. 114, quoting from Marshall, 1925).

Lord Annan comments that 'Alfred Marshall did not abandon the moral sciences for economics by accident; economics became for him the study which bore most obviously on moral problems' (Hutchison, 1978, p. 115, quoting Lord Annan, 1951). Landreth and Colander (2002) comment that 'Friedman's approach to economics was Marshallian'; Friedman, 'saw economics as an engine of analysis for addressing real problems and as something that should not be allowed to become an abstract mathematical consideration devoid of institutional context and direct relation to real world problems' (p. 400).

Neoclassical economics and the real world

Despite the broader concerns raised by those involved in developing neoclassical economics, Hutchison (1978) summarises what became the neoclassical approach: 'The "classical" or Ricardian (not Smithian) method of deduction from abstract models and assumptions ... survived unscathed in the new models: (hence the, to this extent, justifiable descriptive term, "neoclassical")' (p. 79).

Monopolies were still being ignored. Even though theoretically not compatible with the competitive market model, monopolies continued in real life to be very much a part of the economy. Galbraith (1987) refers to the monopolies in the USA, 'in the American language' known as trusts (p. 160), saying that 'in the 1870s and 1880s in the United States ... monopoly, not competition, seemed almost the norm' (p. 161):

The spectacular case was Standard Oil. Not only did the company bring about a major consolidation of previous competitors in 1879, but it

did not hesitate to lower kerosene prices and take local losses to eliminate local unaffiliated firms. These gone, it then raised prices to recover its earlier losses. And it negotiated transportation terms exceptionally favourable to itself ... (Galbraith, 1987, p. 161)

Attempts were made to curb the formation and power of monopolies, for example through antitrust legislation. According to Galbraith:

The antitrust laws ... became a major source of income to lawyers, and a modest revenue flowed through to economists when they testified from allegedly expert knowledge as to whether there was or was not, had or had not been, an exercise of monopoly power. (Galbraith, 1987, p. 162)

What is more, Galbraith believes that having the legislation there meant 'economists often felt themselves relieved of any further responsibility' in regard to the problem of monopolies (p. 163). The antitrust laws 'were set aside' with the coming of the Great Depression of the 1930s because the problem at that time was falling prices, (deflation), so higher prices from monopolistic practices were no longer seen to be harmful: 'Market competition to reduce prices was proclaimed ... to be bad – against the public interest – and monopoly ... was proclaimed acceptable ...' (p. 205).

Cyclical economic problems had continued in the 1900s, leading up to the Great Depression:

... as the nineteenth century passed and more frequently in the early decades of the twentieth – in 1907, 1921 and, needless to say, in 1930-40 – there appeared on the scene the phenomenon variously denoted as a panic, crisis, depression or recession, with its associated unemployment and general despair, a phenomenon that was horrifying and theoretically incompatible with the classical system. (Galbraith, 1987, p. 115)

An adjustment to neoclassical economics

It was as a result of the Great Depression that neoclassical economics did receive an adjustment of sorts: 'With the onset of the Depression, attitudes began to change. Many people felt that if the free market could lead to such

economic distress as existed during the Depression, it was time to start considering alternatives' (Landreth & Colander, 2002, p. 422). At this point John Maynard Keynes makes his impact: 'Mass unemployment and the breakdown of neoclassical economics set the stage for Keynes' General Theory and the Keynesian revolution in economic theory and policy' (Finkelstein & Thimm, 1973, p. xiii). As with the 'marginal revolution' and other 'revolutions' in the history of economics, whether it was actually a scientific revolution or not is debated within the literature by various authors.

John Maynard Keynes (1883-1946)

Keynes's

... father, J. N. Keynes, was an important economist in his own right. The son's accomplishments quickly eclipsed his father's, however. In this and in several other ways J. M. Keynes's life is like that of J. S. Mill. Both had fathers who were contemporaries and friends of brilliant economists: James Mill was a friend of David Ricardo, and J. N. Keynes was a friend of Alfred Marshall. (Landreth & Colander, 2002, p. 418)

In addition, both sons 'rejected the policy implications of their fathers' economics and proceeded in new directions' (Landreth & Colander, 2002, p. 418).

Keynes does not fit the stereotype of the intellectually narrow twentieth century economist. He was criticized, in fact, for devoting too little of his time to economic theory and spreading his interests too broadly. Even as a student at Eton and Cambridge he displayed this proclivity to pursue a wide range of interests; hence he came to be known as a dilettante.' (Landreth & Colander, 2002, p. 419)

He was

an active member of the artistic and literary circle known as the Bloomsbury Group (which also included, for example ... Bertrand Russell ...) ... and was the leading figure in economics at Cambridge at a time when Cambridge emerged as the center of the economics universe He also contributed regularly to the popular press By the time of the Great Depression, Keynes had become one of the

world's great economists ... Yet, even in the 1920s he held many then-unorthodox views ... (Medema & Samuels, 2003, p. 588)

Keynes' approach was not new, but the timing was right – he proposed (as others had done previously, but had been ignored) government intervention in times of hardship, to fix the defects of capitalism:

What abuses do come from individualism, he believed, could be corrected without destroying capitalism. The chief defects or faults of capitalism, he said, "are its failure to provide for full employment and its arbitrary and inequitable distribution of wealth and incomes." (Landreth & Colander, 2002, p. 424, quoting Keynes, 1936)

Instead of being seen as socialism, Keynes' interventionist approach is seen by him to be an adjustment to capitalism, an adjustment to the neoclassical approach:

... individualism, if it can be purged of its defects and its abuses, is the best safeguard of personal liberty in the sense that, compared with any other system, it greatly widens the field for the exercise of personal choice. (Landreth & Colander, 2002, p. 424, quoting Keynes, 1936)

But not all were receptive to his views. Galbraith (1987) refers to the 'division' his approach caused between 'the younger and the older generations at Harvard ...' (p. 238). Galbraith explains: 'It was to younger economists everywhere that Keynes appealed; his views were a welcome alternative to the unemployment and misery that could no longer be defended ...' (p. 238). But '... as knowledge of the Keynesian heresy penetrated ... there was a minor witch hunt, an effort to extrude from academic and public positions the sources of this sorcery.' A national attempt was also made to try to prevent the spread via textbooks of Keynes's approach (p. 240).

Increasing the wealth of the public, explains Skidelsky (1993), made sense to Keynes in terms of it increasing the 'time available for cultivating good states of mind (contemplation)', not in terms of a 'money-motive' in itself (p. 96). As for the 'money-motive' itself, he saw that as 'a somewhat disgusting

morbidity, one of those semi-criminal, semi-pathological propensities which one hands over with a shudder to the specialists in mental disease' (p. 95, quoting from Keynes, 1930). Skidelsky comments that for Keynes, 'The best results possible in an uncertain world are achieved when people behave morally'; such a belief 'came to Keynes late. He was not a believer in moral codes earlier in life, having too great a belief in the power of human reason' (p. 89). The development of a broader view can be seen in his statement: 'We destroy the beauty of the countryside because the unappropriated splendours of nature have no economic value. We are capable of shutting off the sun and the stars because they do not pay a dividend' (p. 96, quoting Keynes, 1933).

Keynes was also critical of 'stock market speculation', believing the 'relationship between an investor and his share should be like that between husband and wife ...' (p. 89). On the issue of inheritance, 'Keynes took the standard liberal view that the main distortion of long-run equity in distribution was the inheritance of wealth. So he favoured inheritance taxes' (p. 98). (Note that for Friedman the inheritance issue was far too complex to be solved by inheritance taxes, as such an approach takes away the incentive for parents to save for their children, and the natural human instinct, as Adam Smith raised, to strive to better one's condition (Friedman, 1962, p. 164; Friedman & Friedman, 1990, p. 144).

Keynes commented on the problem of relying on self-interest as a basis for the public interest:

It is *not* correct deduction ... that enlightened self-interest always operates in the public interest. Nor is it true that self-interest generally *is* enlightened; more often individuals acting separately to promote their own ends are too ignorant or too weak to attain even these. (Medema & Samuels, 2003, p. 592, quoting Keynes, 1926)

Just as with other economists, Keynes's work has also been misinterpreted and misused; what became 'Keynesian economics' is 'a travesty of Keynes's

original vision' (Keen, 2002, p. 199). Keen explains, 'Rather like the bible is for many Christians, the *General Theory* is the essential economics reference which few economists have ever read' (p. 199).

The 'welfare state', Galbraith explains (1987), developed as a result of Keynes's approach: 'One of the most significant responses to the Great Depression in the United States was the creation of what, in time, would be called, partly in approval, frequently in condemnation, the welfare state' (p. 210). Government intervention was already being practised in some countries in Europe. Sweden, for example, had already developed a 'Middle Way' between socialism and communism with 'its well developed social welfare system' (Galbraith explains that the term 'Middle Way' came from Marquis W. Childs's book *Sweden: The Middle Way*, 1936') (p. 225). Over time Swedish developments 'were, indeed, seeping through to Britain and the United States'. Galbraith adds that besides 'the language barrier', another factor contributing to the delay in recognising such developments was that 'great economic ideas were not expected to come from small countries' (Galbraith, 1987, p. 225). Eventually, 'the victory of Keynesian economics in the universities was translated into a "new orthodoxy" in Western economic policy ...' (Finkelstein & Thimm, 1973, p. 313).

Eventually, also, classical economists believed they had found the cause of the Depression and 'continuing stagnation', and the cause was found to be sitting all the time within classical theory itself: 'The cause was the decline of competition' and the resulting monopolies (Galbraith, 1987, p. 242).

Galbraith explains their viewpoint:

Monopolies had restricted production and therewith employment. There was seeming proof in the high incidence of unemployment in highly concentrated heavy industry, the low or nonexistent incidence in classically competitive agriculture. So if monopoly were extirpated and the tendency to corporate concentration reversed, the economy would function in accordance with the classical model. Employment would extend out to embrace all or nearly all workers. (Galbraith, 1987, p. 242)

This led to a 'considerably revived commitment to antitrust enforcement' towards the end of the 1930s, Galbraith (1987) continues, and more antitrust legislation was proposed (p. 243). However, this time World War II put a halt to the 'enforcement of the antitrust legislation ... along with the free markets it was assumed to protect' (p. 243). The war brought about more government intervention altogether – the government ceased to be passive in the economy, becoming 'active and interventionist on an unprecedented and previously unimagined scale' (p. 248).

The interventionist approach of Keynesian economics was seen to have contributed to

... the high employment and high growth rate of the west European and Anglo-American economies during the 1950s and early 1960s. By the early 1960s, full employment had become the "normal" state of affairs, and increasing attention was paid to the inflationary forces that accompanied the growing wealth of the democratic, Keynesian West. (Finkelstein & Thimm, 1973, p. 313)

It was this change from the deflationary period of the Depression to a subsequent inflationary period that caused problems however for the Keynesian approach. Keynes's cure for the deflation and unemployment of the depression was 'higher public expenditure and lower taxes' which was 'politically very agreeable. Price inflation, on the other hand, called for lower government expenditure and higher taxes, which were far from politically agreeable' (Galbraith, 1987, p. 266).

Finkelstein adds that the 'politically unpopular' lower government expenditure and higher taxes were

... especially difficult to apply in American circumstances, where Congress has to face the voters every two years. The United States experienced, especially during the years 1967-1971, largely because of the war in Vietnam, grave difficulties in restraining inflation. First the unwillingness, and then the delay in applying the classical Keynesian prescriptions of tax increases and expenditure cuts strengthened the inflationary forces to such an extent that even a combination of severe

fiscal *and* monetary measures could not halt price inflation, although they did increase unemployment. (Finkelstein & Thimm, 1973, p. 313)

Galbraith (1987) describes the accelerating rate of inflation in the USA: ‘... it went up more than 6 percentage points between 1969 and 1970, nearly 8 between 1972 and 1973 and nearly 14 percentage points from 1974-75 ...’ (p. 267). According to Galbraith, monopolies played a role in accelerating the inflation – both the monopoly power of business organisations and the monopoly power of the trade unions:

... corporations had achieved a very substantial measure of control over their prices ... And trade unions had achieved substantial authority over the wages and associated benefits accorded their members. From the interaction of these entities had come a new and powerful inflationary force: The upward pressure of wage settlements on prices, the upward pull of prices and living costs on wages. This was the interacting dynamic that came to be called the wage-price spiral. (Galbraith, 1987, p. 267)

Monopolies, by holding back the free market from functioning, have therefore been seen as contributing to both the deflationary period of the depression and the inflationary period that followed. It was ‘the failure of Keynesian economics to predict the inflation of the 1970s’ that helped cause another ‘revolution’, a return to less intervention (Landreth & Colander, 2002, p. 385):

Waiting his time in the 1960s and early 1970s was ... perhaps the most influential economic figure of the second half of the twentieth century. This was Milton Friedman ... advocate of the policy that was to fill the post-Keynesian void, especially in the English-speaking countries. (Galbraith, 1987, p. 271)

In the late 1970s, ‘the age of John Maynard Keynes gave way to the age of Milton Friedman’. Just as Keynes’s approach had initially been resisted, so too was Friedman’s. By then the ‘Keynesian system had captured both the economic mind and the textbooks. Accordingly, Friedman’s approach ‘was not, on the whole, well received by economists’ (Galbraith, 1987, p. 274). Friedman was at the University of Chicago, and as McCloskey (from his own

experience) puts it, ‘... in the early 1970s it was not a good idea to be a Chicago economist ...’ (Colander, Holt, & Rosser, 2004, p. 32, interview of McCloskey).

Friedman (1962) was critical of just how ‘far-reaching’ the government intervention had become. He also argued that those with special connections with politicians or government administrators were benefiting more than the public (as discussed earlier in the chapter on Friedman), and he criticised the lack of empirical research to back up the Keynesian policies (pp. 66 and 84).

Others refer to the distortion and exaggeration used by Keynes: ‘As is well known, Keynes rebelled against the intellectual constraints imposed by the Ricardian, or “classical” orthodoxy, and wilfully distorted the past as a method of emphasizing the novelty of his own contributions’ (Coats, 1993, p. 139, referring to *The Collected Writings of J. M. Keynes*, 1973). Landreth and Colander, along similar lines, add that

... Keynes lumped together the neoclassical disequilibrium monetary approach and the earlier classical approach, exaggerated their beliefs, and called them collectively “classical theory.” In so doing he created a caricature of classical thought that emphasized its differences from his new approach but concealed many of its subtleties. (Landreth & Colander, 2002, p. 421)

Keynes and Friedman had similar views on econometrics (the mathematical/statistical side of economics); econometrics ‘evoked serious criticism from both John Maynard Keynes and Milton Friedman ... Their views represented the conviction that econometrics cannot replace educated common sense’ (Landreth & Colander, 2002, p. 457). Both of them, however, according to Finkelstein (1973), were ‘politically naive’ - underestimating the political obstacles that would arise when trying to put economic policies in place in the real world (p. 316). Reder explains Keynes’ experience at Versailles: Keynes had been

... a key advisor to Prime Minister Lloyd George at the Versailles peace conference. Disgusted with the political intrigues he there observed, and greatly disturbed by their anticipated economic consequences, he resigned to write a trenchant critique that created a political sensation. (Reder, 1999, p. 313)

The capitalist and socialist systems, as Landreth and Colander (2002) comment, have changed over time; capitalist systems moving more towards socialism and socialist systems moving more towards capitalism (p. 358).

‘On the one hand, we have a theoretical idea of what capitalism and socialism are; on the other hand, we have existing systems that contain elements of both theoretical capitalism and theoretical socialism’ (p. 357):

From the 1930s through the 1960s, it was capitalism that was changing – theoretically and in practice. The definition of capitalism became more and more compatible with positions of government control ... In the 1980s through the early 2000s, it has been socialism that has been changing; markets and private ownership in theory and in practice are now seen as consistent with socialism. (Landreth & Colander, 2002, p. 358)

As Dahrendorf (1959) raises in his discussion on the use of the word ‘capitalism’ and the varying components included in definitions of it, ‘What happens – we must ask – if one of these factors changes, but all others remain unchanged? ... Are we then still dealing with a capitalist system or not?’ And in terms of capitalism being ‘a social structure that can change and be replaced by new patterns’, he asks, ‘What must change for a capitalist system to cease being capitalist?’ (p. 38).

As for changes in economic orthodoxy, Colander et al. (2004), based on their view that orthodoxy is a ‘backward-looking term’, believe future historians will, on looking back over this period, perceive a change in orthodoxy developing. The current orthodoxy is still considered to be neoclassical economics, it being ‘the most recently dominant “school of thought”’ (p. 7), but not all mainstream economists these days would be described as neoclassical (Landreth & Colander, 2002, p. 382). Landreth and Colander explain what they see as the current situation: ‘The essence

of modern economics is its eclectic formal modelling approach.’ And, ‘Because modern formalistic model-building economics is so eclectic and so amorphous in its assumptions and core values, it is difficult to attack’ (p. 469).

Before proceeding to the next chapter, I will give a brief indication of how little the history of the free market has to date been understood or acknowledged even by well respected authors in the accountancy and business ethics fields. The lack of recognition of the difference between Smith’s and Ricardo’s free market concepts is indicated by Walker’s comment. Walker, writing in *Accounting, Organizations and Society* (1995) says:

The idea of maximizing national wealth through the removal of obstacles to trade and the creation of the most favourable conditions for the free play of market forces is rooted in the classical economics of Adam Smith and Ricardo. The extent to which free trade became the prevailing economic doctrine in Britain during the mid-nineteenth century has been well documented ... (Walker, 1995, p. 294)

Walker then proceeds to discuss briefly the free trade reforms that took place in Britain during the 1800s. What is missed out, though, is the difference between Smith’s concept of the free market and what was put in place as being the free market under Ricardo and others (which was anything but the free market). What was put in place in the real world as economic policy was the free market in name only – it lacked the essential protective elements for the public that play significant roles throughout Smith’s *Wealth of Nations*.

Werhane, writing in the *Journal of Business Ethics*, comments that in her view Smith’s *Wealth of Nations* has been misread and says:

How did what I take to be a misreading of the *WN* occur? It may have been, in part, a confusion of Smith with his predecessor ... But such an interpretation may also have arisen from reading Smith through a

certain understanding of the writings of Herbert Spencer. (Werhane, 2000, p. 186)

As indicated in the earlier chapter on the fall of the classical school, Spencer did play a role in the misinterpretation of Smith's work. But, there is much more to the misinterpretation than Spencer's input (as the discussion so far in the chapters on economics illustrates, and as the next chapter continues to illustrate). It is only from examining the development of economics from Smith onwards, and how economics is taught, that we gain a full appreciation of how the misinterpretation arose and how the misinterpretation has remained in place.

In addition, Werhane refers to Smith as being 'the first neo-classical political economist ...' (Werhane, 2000, p. 185). As can be seen from the chapters on economics so far in this study, Smith was *not* a neo-classical political economist. The neo-classical school did not eventuate until well after his death. Werhane is by no means alone in her misunderstanding. Many authors relate the free market to the neo-classical school of economics, missing the distortion of the concept of the free market that arose during the classical period (distortion in terms of a change to an abstract approach, and distortion in terms of how it was actually implemented as real-world economic policy). As the present thesis shows, to truly understand the free market, one must understand the development of, and subsequent fall of, the classical school of economics.

Tosh and Lang's comment on the general focus of economic historians helps to explain why there is so much misunderstanding around the history of economics:

... more and more economic historians since the 1960s have been becoming essentially quantitative historians, for whom both questions and methods of research are increasingly set by economic theory rather than by history. (Tosh & Lang, 2006, p. 131)

The next chapter also helps to explain the lack of knowledge of the history of economics. That chapter examines current criticisms of the practice and teaching of economics. Such criticisms are particularly important given that at tertiary level it is compulsory for accountants to study economics, but not compulsory for them to study professional ethics.

9. Current Criticisms of Economics

Here the focus continues on clarifying how it has been possible for a misinterpreted version of the free market to not only develop, but to remain dominant in the literature. An understanding of developments within economics is important for the thesis because of the influence of economics, via being taught to accounting students, on how accountancy interprets its professional obligations. Current criticisms of the practice and teaching of economics still revolve around the narrowing down of economics (the separation of economics from the other social sciences, as well as the mathematisation/scientification of economics), and also the concern that the history of economics is seldom taught.

The narrowing down of economics

On the separation of economics from the other social sciences, Shackle (1972) comments: 'The practice of treating economics as a self-subsistent science would be astounding to a Renaissance scholar' (p. 344). He adds, 'it is not obvious why some of the principles of men's dealings with each other should be abstracted from the general stream of life and made into a separate discipline. There are dangers in this separatism' (p. 39). Gintis has similar views on the separation of the social sciences:

What's surprising is in the social sciences it appears to be acceptable for different disciplines and different branches of disciplines to have totally different ideas and not be bothered by it. Sociology has one way of teaching the theory of the firm, and economics has another, and psychology has another. They all have different theories about the individual, and they seem perfectly happy with that. Well that's totally scandalous, absolutely unacceptable. (Colander, Holt, & Rosser, 2004, p. 93, interviewing Gintis)

Many critics point to the problem of economics trying to be a science like the physical sciences: 'Economic science has been assumed to resemble the basic sciences of Nature ... Economics, however, is not like this. It is concerned with the thoughts and deeds, not with the ultimate chemistry of

man' (Shackle, 1972, p. 4). In particular, economics is often referred to as being like physics. Heimman explains why such a comparison is inappropriate:

... physics proceeds by isolating the crucial factors in the experiment so that whatever result is observed is attributable to the operation of a known change introduced into an otherwise unchanged context; whereas in the social world nothing can be isolated or held invariant, and any result is the product of many simultaneously conspiring factors ... (Heimann, 1945, p. 20)

Landreth and Colander agree:

... many of the statistical techniques that economists use have been borrowed from fields of study in which controlled experiments are the usual method of establishing knowledge. Unfortunately, because controlled experiments are very difficult to perform in economics, major problems have arisen ... leaving modern economics with some serious critics. (Landreth & Colander, 2002, pp. 386-387)

Hutchison adds:

Though the economist should test and scrutinise results or predictions with the utmost feasible strictness, he cannot dismiss in advance *any* method which may yield some fragment of insight – and certainly not just because such a method is not employed in what are called the most 'mature' natural sciences such as physics. (Hutchison, 1978, p. 10)

Shackle continues with his criticism:

Economics is the science which, of all scholarly disciplines, most recklessly oversteps the gulf between the humanities and the physical sciences ... Economics has veritably turned imprecision itself into a science: economics, the science of the quantification of the unquantifiable and the aggregation of the incompatible. It has followed this road at so violent a gallop, that much which is of significance and influence has been trampled on, much territory has been claimed which cannot be held. (Shackle, 1972, p. 360)

Scalar quantification, mechanism, description of the structure and life of economic society in terms of stable mathematical functions and a closed system of accounts have seemed easy and tempting. The

methods of physical science, ready to hand in the eighteenth century, were adopted and have taken over the field. (Shackle, 1972, p. 361)

As Beber and Ornaghi (1993) suggest, it is the use of mathematics in economics that gives the impression economics is 'scientific' (p. 108). And the use of mathematics, Reder (1999) believes, comes down to prestige. He refers to the 'excessive concern with mathematical refinements, both in textbooks and journal articles' and expresses his view that 'this conflict is as much about ... prestige within the culture as it is about the use of mathematics itself' (p. 320).

Galbraith also comments on the prestige aspect:

Mathematical economics ... gave to economics a professionally rewarding aspect of scientific certainty and precision, adding usefully to the prestige of academic economists in their university association with the other social sciences and the so-called hard sciences. One of the costs of these several services was, however, the removal of the subject several steps further from reality. (Galbraith, 1987, p. 259)

Stigler was one economist who had initially been looking forward to more quantification in economics because he thought it would lead to more empiricism (Stigler, 1982b, p. 135). But subsequently he became a strong critic when the anticipated increase in empirical testing failed to eventuate. He gives examples in his book of where theory has been relied upon without empirical testing when it could have been tested, and non-recognition of empirical testing when it has refuted a theory (Stigler, 1982d, pp. 223-243). Stigler was a colleague of Friedman's at Chicago and although 'the Marshallian approach' was no longer being followed in some of the other economic schools, it 'could still be found in the Chicago school through the 1970s ...' (Landreth & Colander, 2002, p. 405). Landreth and Colander add, 'The Chicago approach was characterized, first, by a belief that markets work better than the alternatives as a means of organizing society and, second, by its connection to the Marshallian informal approach to modelling' (p. 400). This was a reference to the aspect of Marshall's approach that 'downplayed the use of mathematics and stressed judgment' (p. 390).

However, after ‘the retirement of Milton Friedman and the impending retirement of Gary Becker, and the death of George Stigler, Chicago economics melded into modern economics, becoming more mathematical and less intuitive’ (p. 405). McCloskey, similarly, refers to the change at Chicago (Colander et al., 2004, p. 31).

Coats (1993) believes the ‘overemphasis on quantitative methods’ can be ... intellectually debilitating, for the solutions to complex policy problems can rarely be reduced to quantitative terms’ (p. 400). It is not the modelling itself that is new to economics, as Landreth and Colander point out:

Economists have always modelled, but what distinguishes the modern approach is its rigid and almost exclusive focus on approaching problems through formal mathematical models, rather than through heuristic models ... modern economics often seems to take the position that we must discard the idea if it can’t be translated into a mathematical model. (Landreth & Colander, 2002, pp. 382-3)

Such an approach is the reverse of the rules which Marshall followed in his use of mathematics in economics. Landreth and Colander (2002) explain that ‘Even as Friedman was becoming well known, his Marshallian approach was dying’ (p. 401). Reder comments on the change:

By the 1970s, the presumption that a theoretical argument was primarily verbal, with mathematical proofs added as a rhetorical flourish to persuade a few purists who needed reassurance that the logic was tight, had been completely reversed ... Quite literally, readers and editors trained in the tradition that a theory is an expression of mathematical relationships do not trust arguments expressed in other terms. (Reder, 1999, pp. 332-3)

The increasing insistence on mathematical formulation as a prerequisite for publication in professional journals may have the effect of excluding valuable articles formulated solely in words – the reverse of the situation existing prior to about 1940 ... (Reder, 1999, p. 334)

However, what also needs to be remembered is that Smith’s and Friedman’s misinterpreted works were ‘in words’. So it is not only the mathematisation of economics that is a problem; when economic issues are expressed in

words there is also a problem with how those words are interpreted.

McCloskey states: 'Economists don't read very much, and they're not too curious, which, I think is our main failing as a science, in the way that the best anthropologists or historians are curious and want to know more about things' (Colander et al., 2004, p. 33, interviewing McCloskey).

Coats comments on how seeking to be seen alongside the natural sciences with an emphasis on mathematics and quantification has altered the questions being asked by economists:

At least since the marginal revolution of the 1870s, mainstream economists have sought to enhance their intellectual authority and autonomy by excluding certain questions which were either sensitive (such as the distribution of income and wealth, and the role of economic power in society) or incapable of being handled by their preferred methods and techniques, or both. These are precisely the questions which are emphasized by their professional and lay critics and, more recently, by many economists who cannot be dismissed by their professional colleagues as either ignorant or incompetent. (Coats, 1993, p. 27)

Further on, Coats (1993) re-emphasises the point: Criticism of economics should not 'be dismissed ... as the work of cranks, dissidents and incompetents; some of it emanates from acknowledged leaders of the profession' (p. 407).

One of the other criticisms raised about economics is that the history of economics is seldom taught. That issue is examined next, along with other concerns which have been raised about teaching (and research) in economics.

The teaching of economics

At tertiary level it is not compulsory for accountants to study professional ethics, but it is compulsory for accountants to study economics. By examining how economics is taught, and the criticisms of how it is taught, we see the extent to which that part of accountants' education helps them to

understand their public interest obligations, and prepares them to fulfil the obligations. We are also able to see the extent to which the public and academics, in general, are informed on matters relating to economics. As Reder comments,

... it is in the teaching of their subject to undergraduates that economists exert most [of their] influence ... on the formation of public opinion. (Reder, 1999, p. 320)

Students of economics, on the whole, are not taught the history of economics. Coats describes how economic history became a separate subject area:

... the preoccupation with marginal utility and marginal productivity analysis in the 1890s did not merely reflect the dissatisfaction with the unfruitful methodological and doctrinal controversies of the previous decade; it also reflected the economists' yearning for scientific status and prestige. This they sought to attain by dissociating themselves from the past, and by establishing economics as an independent scholarly discipline, free from theological, ethical, historical and sociological connotations ... One of the by-products ... was the emergence of sociology and economic history as separate disciplines both in the USA and Europe ... (Coats, 1993, p. 213)

Reder comments that '[a]lthough there is a continuing low level of interest in' economic history,

sufficient to keep it in most graduate curricula, the topic is rarely considered to be of sufficient importance as to make it a degree requirement, and courses in it are never considered to be a major addition to the CV of a newly minted PhD. (Reder, 1999, p. 315)

The problem of economists not learning the history of their subject is raised by several authors. Gide and Rist write:

One cannot ... be said to possess a knowledge of any doctrine or to understand it until one knows something of its history, and of the pitfalls that lay in the path of those who first formulated it. A truth received as if it has fallen from the sky, without any knowledge of the efforts whereby it has been acquired, is ... of little profit. (Gide & Rist, 1917, p. xiii)

And Galbraith (1987) states, 'There can be no understanding of economics without an awareness of its history ...' (p. 1):

... the present ... is profoundly a product of the past. ... what we now believe in economics has deep roots in history. ... only as we view the past ... can the present, and therewith, in some slight measure, the prospect, be understood in any appreciable way. (Galbraith, 1987, p. 5)

On the topic of economics students not being required to study the history of economics, Stigler says:

The young theorist, working with an increasingly formal, abstract, and systematic corpus of knowledge, will seldom find it necessary to consult even a late-nineteenth-century economist. He will assume, just as the mathematician or chemist assumes, that all that is useful and valid in earlier work is present – in purer and more elegant form – in the modern theory. Indeed, the young economist will increasingly share the view of the more advanced formal sciences that the history of the discipline is best left to those underendowed for fully professional work at the modern level. (Stigler, 1982a, p. 107)

Further on, Stigler emphasises, 'The history of economics does have something valuable to teach the young economist ...' (p. 108): Besides increasing the understanding of alternative viewpoints (p. 110),

... time identifies the economists who were worth reading properly. Most of the articles, and probably all of them, in the next issue of the professional journal are not worth a careful and costly reading. ... the study of the history of economics ... can also teach us how to react to what we read ... New ideas are sold very much the way new automobiles are sold: by exaggerating their superiority over the older models ... (Stigler, 1982a, p. 111)

In his book (*The Economist as Preacher*), Stigler (1982c) comments that he uses 'the history of economics as an important vehicle in the exploration' of ethical issues in economics. He adds, 'Economists seldom address ethical questions as they impinge on economic theory or economic behaviour. They (and I) find this subject complex and elusive in comparison with the relative precision and objectivity of economic analysis' (p. 3).

On the teaching of economics generally, Keen (2002) believes that the 'vast majority' of economics students 'study a minimum of economics in a business degree and graduate unaware of any flaws ...' (p. 28).

Accountants typically study economics that way. According to Keen, a 'grossly distorted sense of logic is acquired in the course of a standard education in economics' (p. 27). And on the type of student attracted to economics generally, Reder writes:

As presently constituted, economics has a great attraction for students with a taste and aptitude for mathematics, and much less appeal to those whose interest lies in art, literature, or history ... This biases the kind of curriculum, and style of presentation, that will be well-received by students. Students are sought who like formal, structured, and logically tight expositions ... The effect of such biases on the interests and characteristics desired of faculty recruits can be readily imagined. (Reder, 1999, p. 330)

Students who are interested in more than 'formal theory' in economics may face difficulties, Reder (1999, p. 330) believes, because of the emphasis on, and recognition given to, theoretical expertise; they will be 'exposed to the full pressure of a cultural environment in which there is a hierarchy of talents with theoretical capability occupying the highest rank' (p. 331). Those economics students who go on to do Masters or PhD programs, according to Keen, graduate

with an effectively vacuous understanding of economics, no appreciation of the intellectual history of their discipline, and an approach to mathematics which hobbles both their critical understanding of economics, and their ability to appreciate the latest advances in mathematics and other sciences. (Keen, 2002, p. 6)

Keen continues that some of the Masters and PhD students then 'themselves go on to be academic economists, and then repeat the process. Ignorance is perpetuated' (p. 6). McCloskey's and Stigler's remarks help explain the perpetuation further: McCloskey states, 'It's scandalous in some parts of economics to admit that you change your opinions ...' (Colander et

al., 2004, p. 32, interviewing McCloskey). Stigler and Friedland (1982), following their research into aspects of academia, refer to 'the penchant of doctorates in citing their own faculty' (p. 207), and that there is a 'marked penchant of the schools to hire their own doctorates' (p. 197). The situation is similar higher up the promotion scale: '... it is also true that an assistant professor at any school has 10 or 20 times as large a probability of promotion at that school as a comparable scholar elsewhere' (p. 197).

Several authors comment on how slowly (still) new ideas are spread within economics generally, particularly to the undergraduate level. On that topic, Gintis writes: 'Undergraduate economics is a joke ...' (Colander et al., 2004, p. 92, interviewing Gintis). In 'physics or astronomy, when they get new ideas at the forefront, they immediately teach them, but in economics they teach the stuff that even thirty years ago people didn't believe ...' (Colander et al., 2004, p. 93 interviewing Gintis). Colander et al. (2004) themselves believe new ideas are held back. They add that the 'narrow-mindedness' and 'heterodox suppression' within economic academia is 'not carried out by the elite but instead by economists whose professional credentials are mediocre ...' (p. 11). They explain: '... how ideas are disseminated ... is a long and drawn out' process which 'can take up to ten years' for the information to reach graduate textbooks. 'Intermediate- and upper-level undergraduate textbooks usually take another five to ten years to include the idea, although it may show up as a supplemental box or an added paragraph earlier than this' (pp. 11-12). Books on the principles of economics 'take another five to ten years to actually incorporate the idea as a central element, although, like their undergraduate upper-level counterparts, they may add them as addenda so that they look modern' (p. 12).

Colander et al. explain why they think there is such an 'enormous lag':

The reason is that the professors who actually teach the majority of the courses are most comfortable teaching what they have studied, and the [textbook] publishing industry writes for that majority. Since the average undergraduate professor has been out of graduate school for a long period of time, this professor ... will generally be most comfortable

teaching older material as the core of the course, with new material scattered throughout. The material shows up in higher-level courses first because the higher the level of the course, the more likely a specialist in the area is teaching the course and that specialist is more likely to feel comfortable including new developments. (Colander et al., 2004, p. 12)

Research in economics

As with other academic careers these days, an academic economist's research success (by way of published articles in academic journals in particular) is more likely to influence whether he or she receives a promotion than their teaching success. In addition, for economists in 'the appointment-promotion process, breadth of interest ... is given less weight ... thus sending a message of specialization to students in training' (Reder, 1999, p. 341). Such issues are not new, as the following paragraph on the setting up of the London School of Economics and Political Science (LSE) illustrates.

The LSE was set up from 'funds which had been donated for the propagation of Fabian socialism' (Coats, 1993, p. 116). The intention was to raise awareness of alternative viewpoints to the Ricardo/Mill approach, 'to encourage a type of economic instruction distinct from that provided elsewhere, though something other than a diet of socialist economics' (Coats, 1993, p. 116) – the thought being that a 'well-run society' would come from 'the hegemony of well-trained benevolent experts rather than entrepreneurs' (Dahrendorf, 1995, p. 7). (Members of the Fabian Society included 'persons of great literary distinction, such as Mr. Bernard Shaw, the dramatist and critic, Mr. and Mrs. Webb, the historians of *Industrial Democracy*, and Mr. H. G. Wells, the novelist' (Gide & Rist, 1917, p. 580).) Hewins, 'a non-socialist Oxford graduate and an outspoken critic of economic orthodoxy' (Coats, 1993, p. 116), was chosen to be the first Director and he recalls advice he received from 'the Oxford economic historian, J.E. Thorold Rogers' (Coats, 1993, p. 361):

Thorold Rogers discouraged me and told his experience at Oxford. He said it was impossible for me to make any headway against the

economic views which were clearly established, and that if I tried to do so I should simply ruin my career. (Coats, 1993, p. 116, quoting Hewins, 1929)

As for research into the history of economics, it 'is esteemed, but not considered the sort of work which one would recommend to her most promising graduate student' (Reder, 1999, p. 316). Reder refers to the recognition given to mathematically skilled research as being out of proportion to the contribution it actually makes:

Display of mathematical virtuosity in proving or in making "minor" amendments to generally accepted theorems generates professional esteem that many consider disproportionate to the contribution either to theory or to policy ... it is generally conceded that a substantial number of its contributors are not much concerned about the bearing of their work upon applied economics. (Reder, 1999, pp. 334-5)

Dowd (2004), calling himself 'a frustrated historian ... who went on to become an academic economist' (p. 509), suggests that a lot of economic research 'serves little real social purpose' (p. 510, note 4) and he 'suspect[s] that the real purpose of much of it is, in reality, merely to bolster academic CVs' (p. 510). He gives his impression of the outcome from the pressure to research:

In the US, the supply of research has traditionally been driven by academic tenure issues, but we in the UK were largely free of pressures to produce worthless research until the last fifteen years or so. Unfortunately, the government then invented the Research Assessment Exercise (RAE) process, an absurd monstrosity that has presided over a huge but utterly pointless expansion of UK research output. In my experience, the good quality research would have been done anyway, and the extra research 'stimulated' by the RAE ... is not worth the paper it is written on. (Dowd, 2004, note 4, p. 510)

Similarly, Brock comments:

What I hate is this modern tendency to evaluate economics departments by how many pages they publish in journals, which are ranked based on impact factors. To me, this is just tree cutting; it has nothing to do with science. To me the use of such methods by a department to rank prospective hires is a sign that the department is

not able to read. (Colander et al., 2004, p. 165, interviewing (“Buz”) Brock)

Dowd (2004) continues, ‘An article can look very intimidating, with lots of heavy-duty jargon and statistics that hardly anyone can understand, and yet be built on feet of clay that render it pretty much worthless ...’ (p. 510). By way of example he describes his reaction to one paper which was ‘written by two very prominent economists and purported to apply a new statistical method ...’:

I read the paper repeatedly, but could not understand any of it ... either the statistical approach was valid and the economic application was not, or vice versa, but there were no conceivable circumstances in which the statistical method as applied to this economic problem could possibly make sense. The paper was therefore nonsense, although this did not stop it coming out later ... in a top economics journal. (Dowd, 2004, note 3, p. 510)

It is the ‘pointlessness and faddishness’ of research that Dowd protests against:

There are ... dangers – which might not worry some academic purists, but should – of pointlessness and faddishness. Many of the ‘best’ (or, more accurately, most highly rated) journals produce issue after issue of research that might be ‘correct’ – and might even be ‘interesting’, at least to 1.5 other specialists working in the same arcane area – but is completely pointless and has no discernable social value ... Then there is faddishness. Again and again, someone comes along with a new approach that wakes us all up and is initially very refreshing; unfortunately it is subsequently replicated *ad nauseam* until everyone becomes sick of it – with the result that we are then all too ready to jump on the next bandwagon when it comes along. This faddishness is very apparent in academic economics, and is what gives rise to the old joke that economists recycle the same old exam questions year after year, safe in the knowledge that it is the answers, not the questions, that change over time. (Dowd, 2004, p. 510)

He gives the example of ‘fad’ changes in economics between the 1960s and 1980s whereby an economist in the late 1980s ‘who “switched off” in the mid 1960s would have been doing better empirical research than the one who kept up – although he would have got little published, as he was not using

the currently correct methods' (Dowd, 2004, pp. 510-511). McCloskey, on the topic of the constant search for alternative statistical tests within economics, adds that there is 'no mechanical alternative' to thinking. 'Thinking is thinking; thinking is not the application of formulas' (Colander et al., 2004, p. 38, interviewing McCloskey).

Most economic research 'is done locally, with individuals working in their small area, with little concern about the global changes taking place' (Colander et al., 2004, p. 2). On the difference between satisfying individual needs and satisfying collective needs in terms of the degree of formal modelling chosen, Robert Frank comments:

In general, it's not that formal modeling doesn't yield incredibly useful insights; it obviously does. We have a collective action problem: the individual assistant professor's interest in choosing a level of formalism is different from the profession's collective interests. If you were one of two assistant professor candidates vying for a tenure slot, and you could choose whether to be slightly more formal or slightly less formal in your modeling approach than the other candidate, it's been a hands-down winner to be slightly more formal, at least during the last thirty years. Because that's true, you've seen an escalation in the level of formalism, and that creates one of these arms races that we see in so many other areas. So the equilibrium level of formalism has been like the antlers on the elk: they're the right width for the individual animal, but they're maladapted from the point of view of the group as a whole. (Colander et al., 2004, p. 133, interviewing Frank)

Rabin is critical of methodology being used by economists as an excuse for avoiding important issues:

Methodology should not be used as a reason to not talk about what you really believe. I believe in statistical testing, I believe in formal modelling, and so forth. But I am frustrated by people claiming they have a methodological right not to even think about an obvious assertion, or declaring for some methodological reason that they're not supposed to think about something that seems to be important. (Colander et al., 2004, p. 144, interviewing Rabin)

And further on: 'I just want to see formal models and statistical tests as tools to learn what is true about the world, not as pretexts for avoiding that task' (Colander et al., 2004, p. 144, interviewing Rabin).

Economists are not only academics though:

... economists have occupied prominent positions as heads of state, cabinet ministers, principal official advisers to government, chief executives of large corporations and so on. ... and they played a major part in the construction and operation of ... international economic organizations ... (Coats, 1993, p. 397)

Coats adds, 'All this makes it difficult to maintain that economics is an essentially technocratic and apolitical subject' (Coats, 1993, p. 397).

Economists are not 'harmless' (Keen, 2002, p. 310). As Keen puts it, '... economic theory has led to outcomes which, had they been inflicted by weapons rather than by policy, would have led their perpetrators to the International Court of Justice' (p. 311).

Galbraith comments that when people suffer from economic policies, one of the defences often raised is that it is not a problem for economists.

Things may be less than good, less than fair, even less than tolerable; that is not the business of the economist as an economist. Because of the claim of economics that it should be considered a science, it must separate itself from the justice or injustice, the pain and hardship, of the system. The economist's task is to stand apart, analyze, describe and where possible reduce to mathematical formulae, but not to pass moral judgment or be otherwise involved. (Galbraith, 1987, p. 124)

As Galbraith points out, such an approach is opposite to Adam Smith's view and intent (Galbraith, 1987, p. 125). But also, from the section on Professions, we see that such an approach would not satisfy the requirements of a full profession in terms of ordinary reflective morality. The extent to which economics is a profession is discussed next, and this completes the section on economics.

10. Economics as a Profession

Economists chose not to become a full profession. The British Economic Association (BEA) went as far as to gain a Royal Charter in 1902, 'changing its name to the Royal Economic Society, by which it is now known throughout the world' (Coats, 1993, p. 328). However, Coats comments, the 'effect ... on the organization's character, rules and functions was so slight that one is prompted to inquire why the whole venture was considered worth while' given the 'considerable investment of time, energy and funds' required to obtain a Royal Charter (p. 328). Coats adds that the economists did not follow through to establish themselves as a full profession; they 'displayed no interest in the possibility of extending the range of their activities – for example, by establishing a code of professional ethics, adopting measures designed to protect the profession or the public ...' (p. 328). And, 'the prevailing disagreements about the nature and scope of economics precluded any attempt to establish a uniform scheme of qualifying examinations or a professional code ...' (p. 329).

Full professional status did not eventuate in the USA either. 'By the end of the 1880s' the American Economic Association (AEA) 'was already beginning to assume the role of leadership among American economists which it has occupied ever since' (Coats, 1993, p. 233). At times, 'concern with certain professional issues ... surfaced', including 'concern about professional standards; proposals favouring the establishment of a code of professional ethics; and an increasingly general recognition of the Association's responsibilities to the profession and to the general public' (Coats, 1993, p. 444).

Bell, the Association's secretary, mentions his concerns (in correspondence to Douglas, 22 February, 1947): 'The Association cannot keep aloof from public issues. We are gradually working our way into a pattern of keeping the Association's skirts clean while enabling its members to be more active

in matters of public policy' (Coats, 1993, p. 462). The concerns remained unresolved though. The AEA had an open membership policy and

... from its inception aimed to recruit as many fee-paying members as possible, whether scholarly or not ... At first the Association's membership was small and many of its adherents were clergymen and reformers notable for their moral enthusiasm rather than for their scholarship. (Coats, 1993, p. 234)

There were different views on just how broad the AEA membership should be. From Coats' (1993) research of available documentation, one correspondent 'objected to ... "going into the far-flung highways for mere neophytes"' (p. 242). On the other hand, one circular 'called upon members to solicit subscriptions from local organizations and suggested that they might "take out membership for some friend as a Christmas present"...' (pp. 242-3). Not all were invited to join: '... the correspondent who described the economists as equivalent to "intellectual prostitutes" apparently had not been invited to join the AEA' (p. 258, note 8).

Economics is therefore categorised as one of the 'newer professions' (Coats, 1993, p. 358), not a full profession, and therefore does not have the public interest obligations that full professions such as accountancy have. According to Coats, 'Most economists see themselves, and wish to be seen by others, as professionals, although if pressed many would find it difficult to say precisely what that designation means' (p. 395).

Even though economics is not a full profession, Coats comments that critics have accused it of

... some of the familiar negative features of professionalism, such as rigidity, conformity, resistance to innovations (other than those of an approved species), the maintenance of tight disciplinary boundaries, the exclusion and/or denigration of dissenters, and excessively centralized control over access to resources, training and employment opportunities. (Coats, 1993, p. 407)

In terms of Bhopal, Nestlé, and Pinto, considering that economics is not a full profession, any economists involved in policy making at an international, national, or corporate level that contributed to such disasters would not have the professional obligations that accountants would have. This does not necessarily mean that economists would not have moral obligations as citizens, it is just that this study concentrates instead specifically on the moral obligations of full professions. Because accountancy is a full profession, accountants would have a public interest obligation and, as discussed in the section on Professions, that means taking into account the requirements of ordinary reflective morality and any applicable special morality. How, then, do accountants reconcile this requirement for moral reflection, or special morality, with what they learn from economics, especially considering accountancy's close relationship with business? As Sen comments:

Good performance in business is supposed to depend on hardnosed cultivation of self-interest. Indeed, the so-called 'economic method' that many economists have attempted to impose not just on economics, but also on other social disciplines, asks that analysts see behaviour in terms of preference fulfilment and the intelligent pursuit of self-interest, steering clear of the deontic demands of morals and values. (Sen, 1993, p. 23)

Similarly, Duska and Duska state:

When economists ... assume that all humans are selfish, it affects their view of what is acceptable and not acceptable in life ... So economists and some philosophers and social scientists assume everyone is self-interested, and develop economic and business models based on that assumption. The self-interested rational maximizer is even given a name: *homo economicus*, economic man. The consequence, as Kenneth Lux points out, is that, "Economics is fundamentally different from every other discipline in the academic world, including the other social sciences. No other academic field, unless influenced by economics, teaches and promotes self-interest. All other fields essentially teach knowledge and truth". (Duska & Duska, 2003, p. 50, quoting Lux, 1991)

To determine how accountancy reconciles its public interest obligation (taking into account of the requirements of ordinary reflective morality and any applicable special morality) with the self-interest notion as adopted by economics and business, we need to examine several aspects of accountancy – academic and real-world. Those aspects are covered later on in this study.

Now, though, before leaving this section, and the literature on economics, I will summarise what has been determined so far in this study, and in particular how this last section on economics helps to answer the questions this study seeks to answer.

Summary of what has been determined so far in this study

Overall, the study seeks to determine the professional obligations of accountants involved in strategic planning in cases such as Bhopal, Nestlé, and Pinto; the extent to which accountants and their profession have been fulfilling the obligations; and why there has been so much silence on these matters to date.

The Professions section determined that accountants, as members of a full profession, have an obligation to act in the public interest, taking into account the requirements of ordinary reflective morality and any applicable special morality. Accountants who would choose to ignore the Bhopal, Nestlé, and Pinto ethical issues (as outlined in the introductory chapter) would fail to satisfy the requirements of ordinary reflective morality. For the special morality component, I have been examining the notion that maximising profit in the self-interest of business is in the public interest. That notion comes from a few regularly quoted lines from Adam Smith's and Milton Friedman's works on the free market. The section on Smith and Friedman established that the notion is effectively a misinterpretation of their works. A special morality based on the misinterpreted version, as I call it, might well excuse accountants of responsibility for death and injury in cases

such as Bhopal, Nestlé, and Pinto. The accountants would merely need to show that the strategic-planning decisions were in the interest of the businesses in question. A special morality based on the accurate version, as I call it, would not excuse accountants of any such responsibility.

From the examination of Smith's and Friedman's works, neither Smith's nor Friedman's works can reasonably be used to support the business, economic, or political decisions that led to the deaths and injuries in Bhopal, Nestlé, and Pinto. In none of those cases was the public sufficiently informed and empowered, as required by Smith and Friedman, to be adequately protected from the self-interest of business. A special morality based on an accurate interpretation of the free market, to make sense, would have to require those who claim such a special morality to ensure that the public is sufficiently informed and empowered to be able to protect itself from the self-interest of business. Without the public being sufficiently informed and empowered, a free market could not be said to be operating. Unless a free market is operating, it would be nonsensical to claim the applicability of a special morality which only applies when a free market is operating. The few regularly quoted lines from Smith's and Friedman's works on the free market, as a fuller reading of their works makes clear, would only apply if a free market is operating.

The last two sections on economics have shown how the misinterpreted version of the free market not only arose but has remained in force:

- Economists not actually reading Adam Smith's or Milton Friedman's works.
- Translation problems when the *Wealth of Nations* was translated into French and German.
- The development of economics after Smith (the narrowing down of economics – economics seeking to become more scientific/quantitative, and its separation from subjects like sociology, history, and moral philosophy).

- The teaching of economics (the history of economics is not generally taught, the emphasis instead being on theory and quantification).
- The type of research encouraged – greater recognition given to narrower, more quantifiable, research.

The current section on economics shows what happened when the free market was (purportedly) put into practice following Smith's *Wealth of Nations*. We see the real-world harm suffered by those members of the public not sufficiently informed and empowered. To be more precise, we see the harm suffered when only certain sectors of the public are well-informed, empowered (and financed), and others are not. The requirement that the public be sufficiently informed and empowered was not the only aspect of Smith's work that was left behind in practice. His concern about the potential damage caused to workers by the division of labour was also ignored. The actual intent of Smith's concept of the free market – which included as a central component the protection of the vulnerable from powerful business interests – was left behind, in practice. The purpose of Smith's work included putting a stop to the oppression and damage caused by business self-interest, to change the system so that the self-interest of business would benefit the public.

An economic system whereby mechanisms are not in place for the public to protect itself from powerful business interests is not a free market. The lack of mechanisms for the public to protect itself from the self-interest of business, when the free market was purportedly put in place after Smith's *Wealth of Nations*, caused much harm to the public and is the reason why the free market went out of favour and was replaced by a more protectionist approach.

When problems developed with the more protectionist approach and Friedman consequently resurrected Smith's concept of the free market, it

would seem reasonable to expect that the mistakes made, and the suffering caused, in the 1800s would be avoided the second time around. After all, there is neither shortage of evidence of the suffering, nor shortage of debate on the issues at the time. But because of how economics has developed as an academic discipline, and how it is taught, much of that evidence has been ignored and the same mistakes have been repeated. The 2008 global financial crisis illustrates that cycle (the 2008 crisis is discussed more, later on in this study). What we also see from the development of economics since Smith, and in the 2008 global financial crisis, is that when concerns are raised about powerful business interests – no matter whether the economic regime operating is (purportedly) the free market or a more protectionist approach – those concerns are typically able to be ignored by the mainstream of economics at the time. It is only after much benefit to some sectors of society, and much harm to others, that the mainstream of economics seems to change.

As for accountants, based on the criticisms of the teaching of economics as discussed in this section, accountants' education in economics typically conflicts with the knowledge they need to fulfil their public interest obligations. It conflicts with ordinary reflective morality requirements, and with special morality requirements based on an accurate interpretation of Smith's and Friedman's works. Considering how economics is taught, it is more likely that students in economics, including accounting students, learn the misinterpreted version of the free market, not the accurate version of the free market.

If accountants are to claim, then, the applicability to their professional activities of a special morality based on the free market, they are poorly prepared to fulfil their obligations under any such special morality. They would at least have to have an accurate understanding of the free market to be able to fulfil the obligations, and such an understanding is unlikely given their education in economics.

As for the public, considering that 'it is in the teaching of their subject to undergraduates that economists exert most [of their] influence ... on the formation of public opinion' (Reder, 1999, p. 320), the public is also likely to only receive the misinterpreted version. This is ironic. The free market requires a free public which means a sufficiently informed and empowered public. Considering the role the public must play for the free market to function (as described by both Smith and Friedman), the public must at the very least be accurately informed about how a free market is to function. If the misinterpretation of Smith's and Friedman's works is the most common interpretation of the free market that the public receives, as has been argued above, then the public is very much uninformed and ill-informed on the subject.

As I stated in the section on Professions, academics generally also lack an accurate understanding of the free market. How uninformed the public and academics are on matters relating to economics (and accountancy) explains why there has been so much silence to date on the obligations of accountants involved in cases such as Bhopal, Nestlé, and Pinto. If it is the misinterpreted version of the free market that the public and academics get to know of, then they will assume that accountants have no responsibility for deaths and injury in cases such as Bhopal, Nestlé, and Pinto. The public and academics would not be aware that an accurate interpretation of the free market would not excuse accountants of that responsibility. How economics has developed, and how it is taught, allows the misinterpreted version to carry on.

The focus of the last two sections has been to gain an understanding of potential special morality obligations for strategic-planning accountants. To further illustrate the scope of professional obligations, the next section examines defences that are often put forward when the behaviour of professionals, or the outcome from their behaviour, seems to be anything

but moral. In particular the section focuses on assessing the ways in which those defences are problematic for professionals.

PART FIVE DEFENCES

11. Which ‘defences’ are acceptable for members of a full profession?

As established in the section on Professions, accountants, as members of a full profession, have an obligation to act in the public interest taking into account the requirements of ordinary reflective morality and any applicable special morality. That was the first step towards determining the professional obligations of accountants involved in strategic planning in cases such as Bhopal, Nestlé, and Pinto (question one at the core of the study). Ordinary reflective morality was briefly outlined in the section on Professions. And in the two sections on economics that followed, I began my examination of the special morality obligation by looking at the notion that maximising profit in the self-interest of business is in the public interest (with reference to Adam Smith’s concept of the free market).

Even though professionals have an obligation to take into account the requirements of both ordinary reflective morality and any applicable special morality, at times the behaviour of professionals, or the outcome from their behaviour, seems to be anything but moral. The current section examines several defences that are often put forward for such behaviour or outcomes. In particular, the section focuses on assessing the ways in which those defences are problematic for members of full professions and their professional bodies. By examining the defences, some of the conflicts that professions face between ordinary reflective morality and special morality, and also within special morality itself, become more evident.

In the Professions section (Part Two), the potential for conflict between ordinary reflective morality and special morality was briefly discussed. That conflict is usually discussed in terms of a conflict between the obligation to a

professional's client/employer and the obligation to others. What is not so often discussed, or acknowledged, is that there is also potential for conflict to occur *within* a profession's special morality obligations. That is, within a profession's special morality obligations, there are obligations at the micro level and the macro level, and sometimes the two conflict.

Generally speaking, the micro aspect has to do with the professional/client or professional/employer relationship; the macro aspect has to do with the systems in society that the profession operates in conjunction with.

Whereas some might consider the macro obligations to be the responsibility of a profession's professional body and the micro obligations the responsibility of the individual professional, I argue otherwise. Given the knowledge and opportunities that the professional bodies and the individual professionals have, and the rewards they receive in return, I argue that the macro obligations are the responsibility of a profession's professional body as well as its individual professionals – as are the micro obligations. That is, both parties have a part to play in ensuring that the obligations are met. In essence, then, for special morality obligations, the 'roles' of professionals and their professional bodies are at two levels. (As noted in chapters 1 and 2, special morality is also referred as 'special professional morality', 'professional morality', 'role-differentiated morality', 'role-related morality', and 'role morality'). One level is centred on service to a particular client or employer. The other level is centred on ensuring that the system the professional works in conjunction with will enable the profession's social purpose, or social value, to be achieved. (The words 'social purpose' and 'social value' will be used interchangeably throughout the chapter.)

In terms of the potential conflict between ordinary reflective morality and special morality, the justification for any special morality is its contribution to overall morality (as outlined in the Professions section). Logically speaking, the same must apply to the potential conflict *within* special morality. That is,

the contribution to overall morality must be the basis for any offsetting between the micro and macro aspects.

Before beginning my examination of the commonly raised defences, what first needs to be emphasised is the decision-making and advisory role of professionals – the ‘profess’-ing role of professionals.

Professions Profess

Hughes, Bayles, and Fullinwider all emphasise the decision-making and advisory role of professionals. As Hughes writes,

Professionals *profess*. They profess to know better than others the nature of certain matters, and to know better than their clients ... This is the essence of the professional idea and the professional claim. From it flow many consequences. (Hughes, 1988, p. 31)

Bayles (1988) states that professionals advise ‘others about matters the average person does not know about or understand. Thus, providing advice rather than things is a characteristic feature of the professions’ (p. 28).

Hughes (1988) explains further: ‘The professional is expected to think ... inquiringly about matters’ with ‘intellectual exploration’ (p. 31). The specialised knowledge of professionals

is not simply technical expertise. Indeed, much of the routinised and mechanical application of technique associated with professional practice ... can be turned over to technical assistants. The special knowledge of professionals lies in their ability to deal with problems for which no routine or mechanical solutions exist ... In light of their special knowledge, professionals expect to make recommendations and have them acted upon. They do not simply offer a menu of options for a client to choose ... Thus, professional practitioners demand and exercise a greater independence of action than other providers of services. (Fullinwider, 1996, p. 76)

Given what Hughes, Bayles, and Fullinwider say about the role of professionals, I now discuss some of the defences that are often put forward by professionals when involved in seemingly immoral behaviour or immoral outcomes.

Commonly raised defences

Listed below are four defences often discussed in the professions literature:

If it is legal it is ok
 They were only following instructions
 They were just following the 'rules'
 It is not within their role

Although listed separately, there is some degree of overlap between the four defences. These defences are often taken for granted by professions as being appropriate and sufficient for them to rely upon. I will argue instead that there are additional issues that need to be considered and those issues mean that the defences are not necessarily appropriate or sufficient for professions to rely upon.

The general functioning of society does rely on laws, instructions, and rules being followed. It is the quality of those laws, instructions, and rules, though, that is important. I argue that one of the roles of professions is to take part in ensuring that the quality of the laws, instructions, and rules that they are involved with are of the highest possible quality – including highest possible quality in ethical terms. Note also that by assessing the four defences specifically in relation to professionals, I am not necessarily implying that the defences would be appropriate and sufficient for non-professionals.

Of the four defences, I focus by far the most attention on 'if it is legal it is ok'. Some of the points raised regarding 'if it is legal it is ok' have a corresponding relevance to the other three defences. For that reason, briefer discussion is required for the other three.

If it is legal it is ok

I mentioned in the section on Professions that one of the distinguishing features of a profession is 'the moral component' (Wilensky, 1964, p. 140). On that basis, 'if it is legal it is ok' is problematic as a defence for

professionals because, quite simply, 'legality does not establish morality' (Gillespie, 1988, p. 73). As Callahan explains:

We are all aware that morality is not reducible to law. This is just to say that finding out what the law permits or requires is not necessarily to find out what is morally right. We know, for example, that the law permits many immoralities ... In short, the law permits many actions that will not bear moral scrutiny. (Callahan, 1988, p. 11)

How slavery has been dealt with in the legal systems of different countries over the years illustrates one of the reasons why the defence of 'if it is legal it is ok' may not be an appropriate or sufficient defence for professionals. By that I mean such a defence ignores how laws are made and used. For one thing, laws can be influenced by those with powerful interests. In relation to the topic of slavery, for example, Weinberg (2007) explains the influence of powerful political and business interests on the law-making process during the period leading up to the American Civil War. There are two aspects that need to be considered in relation to that period. In addition to the seemingly immoral basis to the particular laws that allowed slavery in that period, what also needs to be recognised is that the drive for anti-slavery laws was not based as much on morality as many believe. The Civil War is most commonly seen to have had a moral anti-slavery basis to it, but that viewpoint leaves out the political and business driving forces 'rather than slavery itself' that 'drew the nation into civil war' (Weinberg, 2007, p. 98).

Bhopal, Nestlé, and Pinto also demonstrate the influence of powerful interests on law-making. In Bhopal, the local government was not powerful enough to influence the laws and thereby protect the local population (Shrivastava, 1987, pp. 25 and 41). As Cassels (1993) comments on the Bhopal case, 'Powerful business lobbies have the ear of government and constantly emphasize the cost and inconvenience of industrial regulation' (p. 24). He summarises: '... in the end, the Bhopal story is about the limitations of law ...' (p. xi). The Nestlé case illustrates the influence of powerful business interests, at national and international level, when attempts have

been made to modify the promotion of infant milk formula (Phillipp, Merewood, & O'Brien, 2001; Sethi, 1994). In the Pinto case, one of the issues raised is the influence of the auto-industry in the setting of automobile safety regulations (Gioia, 1992).

What needs to be considered when differentiating between what is legal and what is moral, is that even in so-called democratic countries, the holding of elections and the legality of freedom of speech are not sufficient to ensure that laws are made in the interests of the public (Dewey, 1976, citing Dewey, 1927). Duska and Duska (2003) comment on how powerful the lobbying by business can be in the USA, and 'how moneyed interests, with armies of well-connected lobbyists and wads of campaign contributions to both parties' have in the past managed to defeat the USA Treasury's attempts to bring about change (p. 158). Similarly, Buckley refers to Stigler's view that USA regulatory agencies have been 'created for the benefit of (and subsequently have been "captured" by) the industries they were ostensibly designed to regulate' (Buckley & O'Sullivan, 1980, p. 16, referring to Stigler, 1971). Buckley and O'Sullivan explain:

The state's basic resource is its power to coerce ... The state will supply its power in exchange for votes and contributions. Stigler (1971: 3) concludes that "... as a rule, regulation is acquired by the industry and is designed and operated primarily for its benefit". (Buckley & O'Sullivan, 1980, p. 16)

The possible influence of powerful interests in the making of laws is not where the imbalance of power problem ends for 'if it is legal it is ok'. There is also a power imbalance problem in the upholding of laws, even, as Carson explains, in societies that have laws which would appear to protect the public well:

... the government or legal system might be controlled by people who are concerned with advancing the interests of multi-national corporations. No matter what kinds of laws are on the books, it might be nearly impossible to win law suits against corporations in those societies. (Carson, 1993, p. 20).

The imbalance of power in lawsuits is mentioned by Milton Friedman. In his discussion of the pollution of streams he refers to how difficult it would be for the public to resolve the situation, as individuals, when up against those who 'have a strong interest in spending resources, not to achieve the desired objectives [of reducing pollution], but to get favorable rulings, to influence the bureaucrats' (Friedman & Friedman, 1990, p. 216).

There is also the problem of out-of-court settlements when considering 'if it is legal it is ok' as a defence. Large organisations sometimes find it more beneficial to avoid the court system and to settle out of court. Out-of-court settlements mean that actions that are not legal are not officially found to be so by the court system. Technically speaking then, those actions could still be said to fit within the 'if it is legal it is ok' criterion because they have not been proved to be otherwise by a court of law. In addition, those not directly involved in the out-of-court settlement are left uninformed of illegal actions – transparency of the legal process is lost.

Moreover, opportunities that arise from globalisation show how 'if it is legal it is ok' may at times be too weak a standard for the moral requirements of professionals: '...the globalisation of business means it can escape the efforts of any nation state to regulate it' (Franklin, 1998, p. 29). As Maynard (2001) explains, 'Presently there is no international government' (p. 22), and 'there exists no official global enforcement agency to enforce the conduct of transnationals' (p. 22). Because transnationals have a mobility that nations do not have, the transnationals can threaten to uproot and move to another country if ever the local government wants to increase the labour, environmental or social regulations. (Note that for the purpose of this study, the words multinational, transnational, or meganational – referring to large worldwide businesses – are used interchangeably. The power of large businesses is raised again, later on in the study, when the work environment of accountants is examined.)

There is another aspect to globalisation that demonstrates that 'if it is legal it is ok' is problematic for professionals as a defence: 'In the third World ... a large number of governments' that make the laws, 'possess little or no claim to legitimacy' (Luban, 1980, p. 172). What is more, some of these political regimes are given additional support by powerful countries such as USA and China in efforts by those countries to protect, for instance, their own oil industries. (That issue is also raised again, later on in the study, when the work environment of accountants is examined.)

Bayles acknowledges some of these issues. He states: 'A common professional position is that so long as conduct is legally permissible, responsibilities to clients take precedence over responsibilities to others' (Bayles, 1989, p. 116). Bayles' reasoning is as follows:

... it mistakenly assumes that because conduct is not legally prohibited, one has a right to pursue it. This confuses legal and ethical rights. ... sometimes conduct is not made illegal because legal enforcement would be difficult, unduly punitive, or otherwise cumbersome. Some such conduct may be grossly unethical. (Bayles, 1989, p. 57)

It is important to clarify that the defence 'if it is legal it is ok' is problematic for both the professional-client situation and the employee-employer situation: 'The employee-employer relationship is quite similar to the professional-client relationship' (Bayles, 1989, p. 136); and '[a]s with loyalty to clients', Bayles states, '[I]oyalty does not require faithfulness to employers no matter what' (p. 138). The professional in both situations

... must be left some room for professional judgment ... The obligation to obey is limited to legally and ethically permissible conduct. The values and interests of potential victims outweigh those of employers ... Just as people have no good reason to permit professionals to act illegally or unethically in behalf of clients, they have no good reason to allow them to do so in behalf of employers. (Bayles, 1989, p. 140)

Bayles stresses that if a professional, as an employee, is asked to act unethically (even if it is legal),

... the employee has no ethical obligation to obey and an ethical obligation not to so act ... Law and ethics have never coincided ... so as long as employers order legal but unethical conduct, employees will face this unpleasant choice. Ethical conduct can require personal sacrifices. (Bayles, 1989, p. 140)

Whilst Bayles' viewpoints are plausible from a general perspective, given the overall moral justification for professions, complexities arise that require further examination. A professional, for example, if faced with a legal-but-unethical request could make the personal sacrifice of declining to take on a project and face possible dismissal, or could resign outright. Whilst either step may remove the individual professional from the specific unethical activity in question, it does not in itself necessarily protect the public. In other words, neither step necessarily stops that one unethical activity nor future similar unethical activities.

At this point then we need to consider that professional obligations are at the micro and macro level. Although there is a dearth of discussion on the matter in relation to the strategic-planning side of accounting, the micro/macro aspects have been raised within the legal and medical ethics literature. Wendel, for example, when discussing William Simon's work on legal ethics, congratulates Simon for moving from the 'micro-evaluation of the ethics of individual lawyers into the macro level of institutional analysis and questions of regulatory regime design' (Wendel, 2003, p. 659). That is not to say that Wendel actually agrees with Simon's views on the matter, but I leave that discussion to a little further below. Dickens and Cook, when writing on some of the law-versus-ethics conflicts facing the medical profession, also refer to micro and macro responsibilities:

The question is not simply of personal ethics, or microethics, that govern the relationship between a physician and a patient. It raises wider macroethical concerns ... [including] professional representations to governments and legislatures that medical professional authorities should make on behalf of their members' ethical integrity. (Dickens & Cook, 2000, p. 388)

For professions to take their obligation to act in the public interest seriously, then, both micro and macro aspects must be taken into account. One without the other can lead to much harm. I turn now to discussions on the matter of macro obligations that have arisen within law and medicine, which are in turn helpful for understanding and determining the corresponding obligations of strategic-planning accountants. Note however that although the legal ethics field is where the micro and macro issues have most fully been explored to date, care needs to be taken when drawing out themes from legal ethics and carrying them across to other professions. The illustrations I use below from the legal profession were chosen because of their general comparability with other professions. Later in the discussion I highlight where there is a lack of comparability with accountancy.

Macro issues within the legal and medical professions

Criticism has arisen in relation to lawyers' and doctors' lack of acknowledgement of their macro obligations. The criticism I focus on is not criticism of the doctors' and lawyers' technical skills. It is criticism of the use of those skills without adequate assessment by the profession as to whether the particular system those skills are being used in conjunction with will enable the profession's social purpose to be achieved.

For lawyers, the matter of macro responsibilities has arisen in relation to lawyers supporting, actively or by lack of opposition, legislation that is inherently unjust (justice being the social purpose, or social value, of the legal profession). In other words, the matter arises when the legal profession fails to give sufficient consideration to whether the system within which it is operating is just. The role played by lawyers in Nazi Germany is an example, and The Association of the Bar of the City of New York held a symposium on the topic in 1995. The following comments by Greene, Stern, Teitel, Weinstein, Weisberg, and Luban are from the symposium. As Greene explains, the purpose of the symposium was 'to consider the problem of judges and lawyers who are complicit with evil law' (The

Association of the Bar of the City of New York, 1995, Greene on p. 1122).

Greene quotes from Dubber:

How could these judges year after year interpret laws that to us seem so patently inhumane and unjust? How could those law professors who were not fanatic Nazis continue to teach and develop inhumane and unjust legal doctrines that fueled the legal murder machine of Nazi Germany? (The Association of the Bar of the City of New York, 1995, Greene on p. 1122, note 3, quoting Dubber, 1993)

Luban and Weinstein also comment:

... one of the most troubling episodes of this horrible era was the willingness or even eagerness of the German legal profession and judiciary to advance the Nazi program by enforcing monstrous law. (The Association of the Bar of the City of New York, 1995, Luban on p. 1140)

German judges under the Nazis assisted in widespread murder. They lacked the individual and institutional, and perhaps jurisprudential, will to insist on justice. (The Association of the Bar of the City of New York, 1995, Weinstein on p. 1154)

Nazi Germany provides us with an example, then, of the legal profession implementing an unjust system of laws. The use of technical legal skills in conjunction with such a system could not reasonably be expected to achieve the profession's social purpose. Opinions differ as to what options were available. Luban, for example, takes the view that

... if all of the German judges had refused to enforce monstrous Nazi law, and resigned ... [t]hey would have been replaced by Nazis, and if judges kept on refusing to enforce the law the Party would have done what it was doing anyway, which was simply shooting people regardless of the law. (The Association of the Bar of the City of New York, 1995, Luban on pp. 1161-2)

Stern disagrees: '... I powerfully disagree with the notion that if all German judges had collectively resigned it would have made no difference. It would have made a huge difference, and we probably would not even have had a Second World War' (The Association of the Bar of the City of New York,

1995, Stern on p. 1163). Weisberg concurs with Stern that collective action would have made a difference, as it did elsewhere in Europe:

... we even have examples from elsewhere in Europe of organized protest at high levels having important results on the elaboration of systems that had identical statutory structures, it isn't the black ink of the statute that determines how a legal system runs. It is the way that the legal community understands and implements, or refuses to implement, the dictates of the dead page that they see in front of them. You have to give life to anything to make it forceful within a community' (The Association of the Bar of the City of New York, 1995, Weisberg on pp. 1163-4).

The potential impact of a legal community's interpretation and implementation of the laws is illustrated by the approach taken by the legal community operating under the Vichy regime in France during the early 1940s. That legal community adopted an anti-Jewish approach that was even beyond that required of it (The Association of the Bar of the City of New York, 1995, Weisberg on p. 1136). The legal community in Belgium and Italy, on the other hand, either rejected or ignored anti-Jewish directives (The Association of the Bar of the City of New York, 1995, Weisberg on p. 1135).

Luban's point about the potential 'shooting' of protestors, as quoted earlier, cannot simply be dismissed though. Any individual who speaks out against what others appear to be accepting, potentially puts him/herself in a vulnerable position. (The issue is raised again further on, in chapter 18, where whistleblowing is discussed.) The professional body has a crucial role to play in such circumstances – the stance the professional body takes has an impact upon just how vulnerable its members will be. It is the timing of any potential protest by the legal profession against the Nazi regime that is an important point: 'During the weeks when the Nazi regime was establishing itself, there was a nearly total absence of protest against the revocation of what would be considered basic civil rights' (The Association of the Bar of the City of New York, 1995, Stern on p. 1132). The lack of opposition during that early stage encouraged the Nazi regime, 'which in the

beginning was still uncertain of how far it could go' (The Association of the Bar of the City of New York, 1995, Stern on p. 1132). Weinstein adds, '[h]ad the German judges, or any substantial portion of them, resisted, they might have brought the Holocaust to a halt before it started' (The Association of the Bar of the City of New York, 1995, Weinstein on p. 1155). As for the situation in Vichy, 'At every point, Vichy lawyers had the capacity and the skill to protest and even potentially render null and void the black ink of the statutes ...' (The Association of the Bar of the City of New York, 1995, Weisberg on p. 1135).

The situation in Vichy is particularly interesting because it was not from pro-Nazi sentiments that the Vichy lawyers took on a stronger anti-Jewish scope than the German precedents – it was for business reasons. As Weisberg explains, as a consequence of the particular approach taken by the Vichy lawyers, additional business opportunities arose for them (The Association of the Bar of the City of New York, 1995, Weisberg on p. 1136).

The Nazi Germany and Vichy cases may seem extreme and one-off, and not comparable to democracies like the USA, for instance. Several commentators at the symposium point out the inaccuracy of such a view. Judge Weinstein raises the issue of slavery laws (an issue I raised earlier in the chapter), along with other examples of where the American judiciary has in the past failed in regard to basic rights:

Our own legal system has sometimes failed to counter challenges to what we now consider basic rights. I remind you of the destruction of the Indians in colonial, revolutionary and subsequent times; the Alien and Sedition Acts; *Dred Scott* and other pro-slavery decisions; the sacrifice of former slaves' freedoms to the political compromises toward the end of the last century, culminating in the *Plessy*; the frustration of legislative attempts to protect workers and others against the excesses of unconstrained capitalism; and the Japanese internment camps. (The Association of the Bar of the City of New York, 1995, Weinstein on p. 1154)

Luban, similarly, gives examples of 'bad law' that has occurred in the USA, and adds: 'The question is whether the reasoning of the Nazi judges is simply unrecognizable by professional standards – and the answer is that it is all too recognizable' (The Association of the Bar of the City of New York, 1995, Luban on pp. 1146).

More recent criticisms of the action, as well as lack of action, of the legal profession have been raised in relation to the 'war on terror' (Annas, 2005, p. 2130). Teitel's outline of 'international legal norms' (The Association of the Bar of the City of New York, 1995, Teitel on p. 1151), along with the subsequent discussions by Annas (2005) and Yaroshefsky (2007, p. 563) on the war on terror, demonstrate how the approach taken by the USA administration to the war on terror is quite at odds, for instance, with the viewpoints and recommendations raised at the symposium.

The medical ethics literature also needs to be brought into the discussion at this point. Just as the legal profession has been criticised for the role it has played in relation to the Nazi regime and the war on terror, the medical profession too has received criticism for the role it has played in both situations. 'The historic role played by the [medical] profession in the Third Reich ... is indisputable: Had the profession taken a strong stand ... it is conceivable that the entire idea ... of genocide would not have taken place' (The Association of the Bar of the City of New York, 1995, Greene on p. 1122, note 2, quoting Ernst, 1995). And for criticisms of the role of the medical profession in the war on terror see, for example, Annas (2005), Bloche and Marks (2005), Koch (2006), Lifton (2004), and The New England Journal of Medicine (2004). Dickens and Cook (2000) raise additional areas of criticism of the medical profession – physicians involved in punitive amputations, for instance.

The examples of Nazi Germany, Vichy, and the war on terror demonstrate that laws can have an immoral basis to them, or that the interpretation and

implementation of laws can have an immoral basis to them. This fact undermines the 'if it is legal it is ok' argument. Understandably, one of the reasons put forward to support the view that the law should be followed, no matter what, is that otherwise there would be chaos. In other words, the law provides 'certainty' (The Association of the Bar of the City of New York, 1995, Teitel on p. 1151).

I return more fully to the debate over certainty versus justice when discussing, below, the difference between Wendel's and Simon's views. At this point, though, I stress that I am not suggesting that the legal or medical profession (or any other profession, organisation, or individual) be engaged in a chaotic choosing of which laws to follow and which not. What I am arguing is that 'if it is legal it is ok' is an insufficient standard for professions and that professions have a responsibility to take part in ensuring that the legal systems they are involved with are of the highest possible quality, including highest possible quality in ethical terms. In combination with that process, professions have a responsibility to ensure that the legal systems they are using their skills in conjunction with will enable the profession's social purpose to be achieved. The public relies upon professions to use their expertise at that macro level, not just at the micro level (the public's reliance on experts is discussed further, in the chapter on the Uninformed Public, chapter 15).

In effect, professions give an implicit seal of approval to the systems they work in conjunction with – including legal systems. Lifton's observation in relation to the medical profession is along those lines:

In studying various forms of medical abuse, I have found that the participation of doctors can confer an aura of legitimacy and can even create an illusion of therapy and healing. (Lifton, 2004, p. 3)

The 'illusion' and 'aura of legitimacy' that Lifton refers to applies to corresponding situations for all professionals. That is, the mere participation

by professionals can give an 'aura of legitimacy' to a situation, along with the 'illusion' that the profession's social purpose is being achieved.

Moreover, without the macro aspect of professional obligations being actioned, some of the client/employer-centred, micro, practices that are often taken for granted by professionals to be valid become invalid. I once again use the legal profession as an illustration – the debates within the legal profession on the matter being so much more advanced at this stage than debates within the accounting profession. The client/employer-centred practices of the legal profession that I focus on below offer guidance in relation to the practices of strategic-planning accountants which, to date, have been largely taken for granted as being appropriate and legitimate.

In terms of the legal profession, the validity of the whole adversarial approach falls apart if the legal system overall does not have the attributes required to make that approach just. That there is a moral basis for such client-centred unqualified advocacy may be plausible in some areas of the law, but the moral basis is not apparent for all areas of the law. Criminal defence in a court system, for instance, that is based on the 'clash of opposing advocates' (Rhode, 2006, p. 642) may require unqualified advocacy for justice to be served. But an open clash of opposing advocates, presided over by a judge, is somewhat different from the arena in which other legal services are performed. As Luban and Millemann explain 'the overwhelming preponderance of legally significant decisions are made by lawyers, not judges, legislators or theorists; and the overwhelming preponderance of lawyer decisions will never be reviewed or even perceived by any other official' (Schiltz, 1998, p. 770, quoting Luban & Millemann, 1995).

In addition, for unqualified advocacy on behalf of a client to be valid there must be equitable representation in the court system. However, if we take

the USA as an example, equitable representation is not the reality (Rhode, 2009).

Another issue that arises in relation to the legal profession's emphasis on client/employer, micro, loyalty is the matter of formalism (accountants are probably more familiar with the terminology 'letter versus spirit' of the law). In other words, lawyers use their skills for the 'exploitation' of black holes or grey areas in the law (Whelan, 2007, p. 1135), producing 'outcomes ... not intended' (Sunstein, 1999, p. 653) by the regulators. (The letter-versus-spirit topic is discussed again later on in the study, chapter 14, more specifically in relation to tax accountants). Simon and Whelan each describe the approach taken by lawyers in this respect:

Lawyers market themselves to their clients as champions committed to minimizing the interference of government with their pursuit of their private goals. They justify themselves to the public as an essential institution of government restraint. (Simon, 2006, p. 1459)

To meet client needs and objectives and to make their services competitive, large law firms ... embrace innovation, precedent-setting, and creativity ... Law is treated as the "raw material to be worked upon" to further the client's objectives including creative compliance: using the law to escape or to manage unwelcome regulation. (Whelan, 2007, p. 1126, quoting McBarnet, 1984)

The problem with this widespread practice is that, as Whelan asserts, '[c]reative compliance advances the interests of the client but, if it results in legal policy failing, then it is, on the face of it, against the public interest' (Whelan, 2007, pp. 1131-2).

Formalism is a hotly debated topic within the legal profession. As both Schauer (1988) and Sunstein (1999) point out, formalism sits upon a continuum and it is the extreme end of the continuum that I am referring to here. Schauer describes that extreme as 'like the relation of fanaticism to enthusiasm, or bullheadedness to integrity, merely the extreme and

therefore unfortunate manifestation of a fundamentally desirable characteristic' (Schauer, 1988, p. 548).

As with all continuums, there are extremes at both ends, and if we return briefly to the situation of the Nazi regime we see illustrations of that. The extremes of formalism and nonformalism were used to justify the behaviour of the legal profession in relation to the Nazi regime. Whereas the Vichy lawyers relied upon 'legal formalisms to justify' their anti-Jewish approach (Yaroshefsky, 2007, p. 583), it was nonformalism that was relied upon in Nazi Germany (Sunstein, 1999, p. 636, quoting translation included in Müller, 1991).

An emphasis by a profession on the micro, client/employer-centred, level without attention to the macro level, I argue, raises issues as to how the profession could validly claim to be worthy of professional status. Such a client/employer-centred emphasis would make a profession little different from any non-professional occupation. On that basis there would seem to be no validity to the 'prestige, wealth and power' and 'social status' (as quoted in the Professions chapter) that goes with being a profession.

The indication from the literature on the legal profession is that there is much focus by the legal profession on the micro, client/employee-centred, aspect of its obligations, without a corresponding focus on the macro aspect. Distelhorst is one author who is concerned that the focus is such that 'the practice of law is becoming just another business' (Distelhorst, 1990, p. 1140), and he is not the only one. Schiltz presents many additional examples:

... the practice of law "has become less like a profession and more like a business ... in which money is the only measure of success, and justice, fairness, and order rarely count." (Schiltz, 1998, p. 730, note 76, quoting Alex Johnson, Jr, 1991)

“Too many in my profession have taken a calling that sought the good society and twisted it into an occupation that seems intent primarily on seeking a good income.” (Schiltz, 1998, p. 730, note 76, quoting Linowitz, 1994)

“The law is edging ever closer to being a business rather than a profession, a development which emphasizes the bottom line above all other concerns.” (Schiltz, 1998, p. 730, note 76, quoting Curtin, 1991)

“[T]he misguided view of money as the sole goal of practice, sole measure of success and sole measure of self-worth is directly and indirectly responsible for many of the problems in practice today.” (Schiltz, 1999, p. 903, quoting The North Carolina Bar Association)

Whelan, similarly, adds his concern that the growing ‘libertarian, client-centered ideology threatens to undermine professionalism by denying any public obligation other than to serve the client’ (Whelan, 2007, p. 1069).

I return now to the certainty versus justice debate that I raised earlier in the chapter. The concern held by some that uncertainty and chaos, or anarchy, would result from lawyers not showing complete ‘fidelity’ to the law, as Wendel (2012, p. 741) puts it, is not unreasonable. But neither is it unreasonable for others, given the situations outlined above, to be concerned about the involvement of lawyers in unjust laws, or about lawyers’ unjust use of laws. Debate on the matter of certainty versus justice has increased over recent years (Woolley, 2010), the result being that to a degree two ‘camps’ (camps one and two, as I shall refer to them) have formed. Wendel and Simon, mentioned above, fit within camp one and two respectively. As with most camps that form within academia, the viewpoints within each camp vary to a degree, but at first glance and in very broad terms, the differences between the camps could be outlined as follows:

Camp one (often referred to as being a positivist approach)

- A lawyer’s role is not so much about justice, as it is about ‘exhibiting respect for the law’ (Wendel, 2012, p. 731), irrespective of whether the laws are themselves just or produce justice.

- There is a clear cut between ordinary morality and the role of the lawyer.
- Critics of the legal profession are taking too abstract a view, rather than concentrating on what is actually happening in practice (Wendel, 2012); on the whole, the legal profession is functioning well.

Camp two

- The social value of law is justice, and if the justice system is producing outcomes that are unjust that is an issue the legal profession cannot simply accept or ignore. More judgement, reflection, and action is required from the legal profession to prevent unjust outcomes.
- There needs to be a closer connectedness between ordinary morality and the role of the lawyer than currently displayed by the legal profession.
- Those who believe that the legal profession is functioning well are ignoring what is actually happening in practice.

Considering that in the thesis I have referred to the social value of law as being justice, have concluded that professions have obligations at both the macro and micro levels, have quoted the critical views of lawyers who have been practising, and have quoted the views of some prominent within camp two (Simon, Luban, and Rhode, for instance), my thesis would seem to fit more obviously within camp two. But that would be too simplistic a conclusion as the dividing line between the two groups is less clear than I have portrayed above.

Dare, for instance, a prominent member of camp one, uses what he refers to as the Rawlsian model to argue for a “clean break” between role-morality and broad-based [ordinary] morality’ (Dare, 2009, p. 149), but he also acknowledges the macro aspect. That is, he acknowledges that lawyers have an obligation towards ensuring the development of a just legal system as a whole:

The Rawlsian model makes very clear how and why we might conceive of lawyers as subject to an obligation to work to improve the fit between role and ordinary morality where, in some respect, the institution, built with reference to the resources of ordinary morality, has come apart from ordinary morality. Qua advocate, the lawyer confronted with such a case will normally have to stick with his client, helping the client

secure their rights under the law. When the client's case is complete, however, the lawyer may well bear a responsibility to take on the role of law reformer arguing for reform, the need for and nature of which their legal expertise and familiarity with the particular case may have made especially clear. (Dare, 2009, p. 149)

Note that in the first part of the paragraph Dare refers to lawyers having an 'obligation' to improve the connectedness with ordinary morality, but towards the end of the paragraph that obligation seems to have weakened to a 'may well bear a responsibility'. On the next page, Dare returns to 'obligation' when summarising the model he puts forward:

... it [the model] shows that lawyers have a professional moral obligation to engage in a constant process of law reform, aimed at promoting fit between the lawyer's role morality and broad based morality. (Dare, 2009, p. 150)

Even with those areas of confusion (Dare's weaker version is discussed again below), Dare's comments start to blur the dividing line between the two camps, showing that the difference between the camps might be more one of timing. That is, Dare is agreeing to a macro-level of responsibility, but only after the lawyer has acted on behalf of the client. The potential timing difference, then, is that perhaps some in camp two may prefer the legal profession to take an earlier stand than those in camp one would prefer. Simon, from camp two, for example promotes the more proactive and preventative idea of 'ethical competition', which attempts to solve the problem of unjust practices or unjust outcomes far earlier than Dare's approach would (Simon, 2003, p. 658).

Some of Wendel's comments blur the line too. He 'share[s] Simon's admiration of courageous men and women who participated' in sits-ins and marches to protest against injustice (Wendel, 2012, p. 734) and adds:

He [Simon] is correct that sit-ins and the like were illegal at the time, but there is nothing wrong with a lawyer participating in civil disobedience, defending clients after the fact against charges of trespassing or disorderly conduct, or even advising clients to engage in civil

disobedience, as long as the lawyer clearly states that the justice of the client's cause does not make the activity lawful. Conversely, the availability of some strategies of resistance based on legality, political legitimacy, and legal rights does not preclude the use of nonlegal strategies to accomplish the end of social justice. The only inference I am concerned with blocking is the one drawn from the justice of some outcome to its legality. (Wendel, 2012, pp. 734-5, footnote in original not included)

The dividing line becomes even blurrier when we consider Wendel's following comment about Simon's views – made by Wendel during his discussion about the marches and sit-ins:

I am gratified to see Simon concede that 'lawyers are not routinely privileged or obliged to act on their own views on the ultimate merits of the controversies in which they are involved.' ... Perhaps I have been misreading him for years, but I have always understood Simon as arguing for precisely the contrary ... (Wendel, 2012, p. 734, note 31)

Wendel's comment there suggests that viewpoints within each camp and the understanding of the opposing camp's viewpoints are still evolving. And the dividing line between the two camps seems to even disappear when we consider the matter of formalism. Although those in camp two would more clearly seem to be against formalism, Dare and Wendel also have strong views against the practice. The model Dare puts forward 'does not require or allow lawyers to pursue every advantage available to clients through the law' and that there are 'limits to the things lawyers may justifiably do within their professional roles' (Dare, 2009, p. 148). Wendel believes 'lawyers have failed to take seriously their responsibility as professionals while representing wealthy corporate clients' (Wendel, 2005b, pp. 1167-8). He is, for instance, scathing of the interpretation of the law by 'lawyers and other professionals' involved in Enron, WorldCom, and other firms, which resulted in distorted financial statements in the early years of this century (Wendel, 2005b, p. 1167, accountants are the obvious other professionals to be included there). He clarifies:

... in carrying out her client's lawful instructions, a lawyer has an obligation to apply the law to her client's situation with due regard to the

meaning of legal norms, not merely their formal expression. (Wendel, 2005b, p. 1168, footnote in original not included)

And a little further on:

It is the job of lawyers to maintain the institution in good working order, instead of subverting it. (Wendel, 2005b, p. 1169)

Wendel is equally scathing of the interpretation of the law by USA government lawyers in their attempt to avoid 'legal restrictions on torture' (Wendel, 2005b, p. 1174) at Guantánamo Bay and Abu Ghraib in aid of the war on terror (Wendel, 2005a). An international law scholar and former military lawyer he quotes describes the interpretation as follows: 'Not Since the Nazi era have so many lawyers been so clearly involved in international crimes concerning the treatment and interrogation of persons detained during war' (Wendel, 2005a, p. 69, quoting Jordan J. Paust, 2005).

What camp one and two also have in common is what they fear. Although it may be clearer that those in camp two fear the abuse of power, Wendel explains that his fear 'is not really of anarchy ... but the abuse of power' (Wendel, 2012, p. 740). Both camps fear the legal system being abused by those with the power and opportunity to do so – camp one being mainly concerned about the abuse that could come from lawyers deciding for themselves what was moral and what was not, and camp two being mainly concerned about the abuse that can come from lawyers ignoring the overall moral purpose of the legal profession.

All in all, the commonalities between the two camps are more significant to this study than their differences. But their differences are also important and require some comment. Confusion arises though when we try to clearly understand the differences. When Wendel emphasises respect for the law, it is not entirely clear whether he thinks that justice is nonetheless the overall social value. For example, from his following statement it could be that justice, not merely legality, is in his view the overall social value of the legal

profession: ‘Critics like Luban ... are conflating my argument about the lawyer’s role with a more general argument about the social value of the law’ (Wendel, 2012). A social value of mere legality fails to be convincing as a basis for a profession – an occupation yes, but not a profession. The logical place to look to for clarity on that point would be Wendel’s views on the macro obligations of lawyers. But they are equally unclear:

Within a moderately decent society, the ethics of lawyers *acting as lawyers* has to be oriented toward the law, not morality or justice. If lawyers wish to be activists or dissidents, they can be, but it is essential that they not confuse these very different social roles. I am not blind to the injustices that remain in the United States, but the *legal* response to these injustices should not be individual acts of sabotage or nullification. Lawyers can and should advocate for change, but as always, it should be zealous advocacy within the bounds of the law. (Wendel, 2012, p. 740)

Wendel’s concerns about sabotage or nullification are not unreasonable, but his ‘can and should advocate for change’ seems too weak in terms of a lawyer’s macro obligation, as I have explained it to be, to justify professional status. Additionally, his reference to ‘zealous advocacy’ in that context is somewhat confusing. Wendel is referring there to the description in the Model Code that ‘A lawyer should represent a client zealously within the bounds of the law’ (Wendel, 2012, p. 740, referring to Model Code of Prof’l Responsibility Canon 7, 1980). A lawyer taking steps towards law reform on behalf of a client would fit within the macro obligations as I have outlined them. (I am assuming here that the law reform Wendel is referring to is to bring about a closer fit between the law and justice.) But if Wendel means for lawyers to engage in law reform only if their clients would benefit from it, that would once again be too weak to justify professional status.

Dare’s conclusion, as noted above, ‘that lawyers have a professional moral obligation to engage in a constant process of law reform’ (Dare, 2009, p. 150) more clearly fits within the requirements of a profession as I have outlined them. That the social value of law is justice also fits within the model he uses, his model taking ‘the indirect route’ (Dare, 2009, p. 44). But

his reference at times to a less strong commitment to law reform, as also mentioned above, deserves more discussion. Earlier in his book Dare elaborates with a particular example:

A lawyer noticing that the statute of limitations has produced a result regrettable from the perspective of ordinary morality cannot act, qua advocate, other than the existing rules of the practice recognise. They must see the case through, helping their client secure their rights under the statute law. With the client's case complete, however, they might leave the role of advocate and take on that of reformer, perhaps writing to their local Law Commissioner, arguing the need for reform, which their legal expertise and familiarity with the particular case may have made especially clear. There are very obvious dangers here – the role of advocate and the role of reformer – might conflict: a current client may have organised their affairs in reliance on the unjust laws, and expect to maintain a professional relationship with the practitioner. (Dare, 2009, pp. 53-54)

The situation that Dare describes shows little indication as to why lawyers would be justified in claiming professional status, and the benefits that go with it. The role the lawyer plays in that situation uses all four of the defences outlined in this chapter: If it is legal it is ok, they were only following instructions, they were just following the 'rules', it is not within their role. In that sense, as my examination of those defences throughout the chapter shows, lawyers acting in that capacity would more clearly fit within a technical occupation, not a professional occupation. I am not saying that lawyers should or could act in another way. It is difficult to imagine many lawyers acting differently in the real world. What I am saying is that the role, as outlined there by Dare, does not fit clearly within that of a profession. There is too weak a connection between that role and the social value of justice to warrant professional status. That is not to say that all fields of legal practice would be outside the scope of a profession. Those involved in the fields of practice that clearly promote and engage in law reform (for the purpose of a closer fit with justice), would have reason to be considered as a profession. (Note, for the purpose of this study, I continue to refer to the social value of law as being justice – the reason being that I fail to see its justification as a profession if it were otherwise).

At this point, the difference between lawyers and accountants needs to be highlighted. In the quotations from Dare above he is referring to lawyers *qua* advocates, and the quotations are I think helpful for the issues I discuss at those stages. But accountants *qua* accountants (and doctors *qua* doctors) have quite a different relationship with the law than lawyers do.

Accountants, for instance, can advise clients/employers on matters to do with accounting in terms of legal implications, and can be expert witnesses in legal disputes, but they do not 'defend' clients in a court of law. In that sense, the timing difference for lawyers that Dare refers to above would have little applicability to accountants. What I mean is although it may be thought that there are significant implications for accountants arising from the camp one versus camp two literature, that is not the case. Strategic-planning accountants sitting in the offices or boardrooms of the firms involved in Bhopal, Nestlé, and Pinto, for instance, would not have the *qua* advocate timing responsibilities that Dare gives to lawyers.

The contrast between lawyers and accountants does not end there. The strategic-planning accountants' obligations would not be limited to just staying within the bounds of the law (as lawyers, particularly according to those in camp one, might be limited to). The strategic-planning accountants' obligations – given my outline of professions so far – would extend to assessing whether the strategic plans appropriately take into account how informed and empowered the public is. In other words, the accountants would need to ensure that the public would be able to play its pivotal role in choosing which firms, products, or services to support. Just as lawyers from both camp one and two fear the abuse of power, accountants ought too to fear, and be on the lookout for, the abuse of power. But not just abuse of power in terms of the legal system as it relates to their particular area of expertise, abuse of power in terms of financial and economic systems.

As discussed in chapter two, profit maximisation is not moral in itself, it is only when attached to mechanisms to protect the public from the harm that can be caused by business self-interest that a moral basis starts to appear. Similarly, a legal system is not moral in itself, it is only when attached to mechanisms to protect the public from injustice that a moral basis starts to appear.

Although the contrast between lawyers and accountants means that care must be taken when transferring themes from legal ethics to accountancy, the foregoing discussions relating to the legal (and medical) professions serve as general guidance for the accounting profession.

I have raised in this section many issues that illustrate the point that 'if it is legal it is ok' is not necessarily an appropriate, or sufficient, defence for professions. All professions, I have argued, have an obligation to ensure the legal systems they work in conjunction with will enable the profession's social purpose to be achieved. The micro obligations of all professions rely upon that macro obligation being actioned, and actioned both at the individual and institutional level. For individual professionals to be able to take part in the macro process, though, they require support and guidance from the professional body.

Just how much guidance and support accountants receive when facing potentially unethical situations (whether 'legal' situations or not) is examined later on in the study. Examining that guidance and support is especially important because accountants will typically know of unethical behaviour (even if legal), sooner than others – sooner than law makers and the public for example. 'Businesses are often the first to know about dangers which they create' (Carson, 1993, p. 19). Carson refers to Christopher Stone's book, *Where the Law Ends*: 'Stone argues that there is a "lag" between the time when corporations become aware of dangers or hazards and the time when government enacts laws to protect the public' (p. 30, note 31, quoting

Stone, 1975). The time lag between hazards arising and the enactment of law is, in itself, another reason why 'if it is legal it is ok' is problematic as a means of satisfying the moral requirements of professionals. (Bhopal, Nestlé, and Pinto are cases that illustrate the time lag problem.)

If the accounting profession chose to merely accept the inevitability of time lags instead of developing mechanisms to protect the public during time lags (by speaking out on the pertinent issues, for example), such an approach would be at odds with a special morality derived from the writings on the free market. This is so because the free market specifically relies on both laws and the public being sufficiently informed/empowered.

An 'if it is legal it is ok' approach, overall, is at odds with the free market given the free market's aim to reduce the amount of laws to a minimum, with protection of the public to come instead from an informed/empowered public. If a profession only recognised legal requirements, and ignored the need for the public to be informed/empowered or inhibited the public from being informed/empowered, the profession would effectively hold back the functioning of the free market.

They were only following instructions

Another defence sometimes put forward so that individuals are not held 'responsible or accountable for untoward results of their activities' (Bayles, 1989, p. 141) is that 'they were only following instructions'. As Bayles points out, the division of labour can particularly lead to such a situation: 'With the division of labor and professionals often working on only a small aspect of a problem, responsibility and accountability are diffused' (p. 141). But, whether the professional is in an employee-employer situation or professional-client situation, the obligation to third parties overrides any obligation of the professional to obey the employer or client (p. 143). Once again, for members of a full profession, the 'obligation of obedience is to promote the employer's [or client's] best interests within the bounds of law

and ethics' (p. 142), and just as ethics has nothing to do with just following laws, it has nothing to do with just following instructions. Callahan discusses the issue in terms of professionals being moral agents and that moral agents do not just follow orders. A moral agent

... acts on the basis of principles which are not merely imposed from without (e.g., by peer pressure, or by some authority) or which have been internalized as a matter of mere habit, but rather when those principles have been consciously evaluated and accepted by the individual as the correct principles to direct his or her behavior. The autonomous moral agent has a clear sense of why he or she acts as he or she does and deliberately accepts acting that way on the basis of a reasoned, reflective conviction that such action is morally right. (Callahan, 1988, p. 10)

Callahan stresses:

Moral agents always retain not only the right, but the obligation to evaluate the moral appropriateness of any order they might be given as well as the right and duty to resist if, after *careful* reflection, they are convinced that they are being instructed to do something that will not bear moral scrutiny. (Callahan, 1988, p. 13)

(Note that by emphasising the requirement of professionals to act as moral agents, I am not necessarily implying that ordinary citizens are not expected to act as moral agents.)

Another point that needs to be raised to illustrate how the defence 'they were only following instructions' does not necessarily meet the moral requirements of a full profession is that 'in moral matters not to decide is equivalent to deciding. To blindly obey orders is itself to make a decision in favor of what the orders require. And that is a decision for which one is morally accountable' (Callahan, 1988, p. 13).

As Bayles (1989) mentions, what is considered ethical or unethical may differ between professional and client or employer, but that in itself is no

reason to just follow instructions. 'A moral agent always retains the right to question commands if there is *any* reason to believe that those commands involve an unjustifiable infringement of rights or will lead to harm to persons ...' (Callahan, 1988, p. 13). Callahan's emphasis of '*any*' in that sentence is particularly important. After all, professionals could simply claim that they did not know of the potential infringement of rights, or potential harm, from an action or lack of action. But as Dewey (1976, citing Dewey, 1934) emphasises, imagination is essential for considering what is moral: '... a person's ideas and treatment of his fellows are dependent upon his power to put himself imaginatively in their place' (pp. 228-9).

Just as with 'if it is legal it is ok', it is the quality of the instructions that is important. Professions have a responsibility to assess that quality, to take part in ensuring the quality is as high as possible and that the social purpose of the profession will be achieved by following those instructions.

The defence of 'they were only following instructions', then, would not necessarily excuse accountants, if involved in strategic planning in cases such as Bhopal, Nestlé, and Pinto, of responsibility for death and injury. As Marshall (1939) puts it, professional 'service depends on individual qualities and individual judgement, supported by individual responsibility which cannot be shifted on to the shoulders of others. This, I believe, is the essence of professionalism ...' (p. 331). And as Gide and Rist (1917) state, '[i]ndividual responsibility ... is the very basis of morality' (p. 611).

They were just following the rules

The 'they were just following rules' defence is similar to the other defences above of just following laws or instructions, but relates more specifically to the following of codes of ethics or other 'rules'. As Davis (2000) explains, the defence is used 'in defense of conduct', no matter how 'bad the outcome and however foolish the rule' (p. 72). To act ethically, though, is quite different from simply following rules (Coady, 1996, p. 50). To act ethically

requires reflection and judgement. Reflection and judgement require far more ownership, by professionals, of the decision-making and advice expected from professionals than just following rules does. Professions have a responsibility to ensure that the rules are in the public interest. That means the rules would need to take into account the macro level of the profession's responsibilities, not just the micro level, and that the profession was able to achieve its overall social purpose by use of the rules. (IFAC's code of ethics does require accountants to exercise professional judgment, but the scope of what strategic-planning accountants are to apply their judgment to is not clear. The lack of clarity is discussed more in chapter 18.)

To use the legal profession as an illustration again, the validity of some of the rules around confidentiality, for instance, has been questioned. Generally speaking, the approach the legal profession has taken to client confidentiality accentuates loyalty to the client. That approach is subject to criticism, including the seemingly self-serving nature of some of the exceptions allowed. Rhode, referring to ABA's 1969 Model Code and subsequent 1983 Model Rules, sets out how the USA legal profession had taken 'a highly protective view of client confidences, even in the face of substantial third party injuries', with few exceptions being allowed. Interestingly, as Rhode points out, the legal profession has made an exception when it comes to protecting its own interests: the exception enables 'lawyers to establish their own claims in a controversy with a client, including efforts to collect a fee' (Rhode, 2006, p. 645). Rhode highlights the self-interest of such an approach to client loyalty: 'From the profession's perspective, these rules held obvious appeal. They gave lawyers maximum scope to protect their own interests and those of paying clients. From a societal perspective, however, the norms made little sense' (Rhode, 2006, p. 646). She adds:

If a less self-interested decision maker than the bar had been responsible for adopting confidentiality rules, it seems inconceivable that the ABA's formulations would have been the result ... Would anyone outside the bar have permitted disclosures to help lawyers

collect a modest fee but not to prevent a massive health or financial disaster? (Rhode, 2006, p. 646)

Given the ‘evidence of lawyers’ complicity in major health, safety, and financial scandals’ over the last two decades (Rhode, 2006, p. 646), the confidentiality rules faced pressure. ‘By the turn of the twenty-first century, most states had adopted exceptions to confidentiality protections beyond those codified in the ABA’s Model Rules’ (Rhode, 2006, p. 647). Whilst more ‘discretion to disclose’ has been granted, though, ‘the ABA, and the vast majority of state bars, have declined to impose any mandatory disclosure obligations’ (Rhode, 2006, p. 647). And even where disclosure has become mandatory, indications are ‘that such obligations are rarely invoked or enforced in any publicly visible way’ (Rhode, 2006, p. 648). For a more detailed discussion on the 1969 Model Code, the 1983 Model Rules, and subsequent adjustments that Rhode is referring to, see Zalesky (2002) for example. Confidentiality rules not only vary within the USA, they vary internationally; see Whitaker (2006) for a discussion on the problems arising from that variability.

Based on my outline of professions to this point, it is hard to see how an occupation could be considered worthy of professional status if it grants an overriding power to client confidentiality with no allowance for the safety of others. The issue of confidentiality is raised again in the chapter on The Accounting Profession, chapter 18. I argue there that the accounting profession needs to adjust its rules on confidentiality if it is to have a legitimate right to professional status. Given that strategic-planning accountants could feasibly be involved in cases like Bhopal, Nestlé, and Pinto, the accounting profession needs to clarify when confidentiality is to be overridden because of potential harm to the public.

Davis categorises ‘rule-following’ approaches into strict obedience, malicious obedience, negligent or accidental obedience, and stupid obedience:

In strict obedience, the interpretation is largely left to others (“higher authority”). In malicious obedience, interpretation is deliberately abused; in negligent or accidental obedience, interpretation is not given the attention it deserves; and, in stupid obedience, interpretation is not done skillfully enough, whether from lack of wit or learning. (Davis, 2000, p. 79)

No matter what the reason or motivation, the defence ‘they were just following the rules’ is not necessarily appropriate, or sufficient, for members of a full profession to use. As Davis (2000) adds, ‘many of us might prefer to be thought malicious or negligent rather than stupid. In any case, for a professional, stupidity is as objectionable as malice’ (p. 79).

It is not within their role

‘It is not within their role’ is the last in the list of defences (at least as I have listed them), and this defence, as with the other three defences, is not necessarily an appropriate or sufficient defence for professionals. The discussions so far in this chapter highlight the potential shortcomings of the defence in that, as I have argued throughout the chapter, professionals have roles at both the micro and macro level.

When using the ‘it is not within their role’ defence, professionals tend to underestimate their ‘role’. They see their role in much narrower terms than it actually is, believing that a focus just on loyalty to clients or employers (the micro level), for example, is satisfying their role. As I argued earlier in the chapter, a failure to acknowledge the macro role means the profession, effectively, becomes little different from any non-professional occupation.

I have argued in the chapter that, at the macro level, professions have an obligation to ensure that the system the professional works in conjunction with will enable the profession’s social purpose to be achieved. To argue that case, I used the literature on the legal and medical professions. For law and medicine their social purpose is relatively clear – justice and health respectively. But when it comes to accountancy, a difficulty arises in that the

social purpose of accountancy as a whole, let alone for the strategic-planning side of accountancy, is not entirely clear. The lack of clarity is significant because a profession's claim to professional status, including its claim to special morality, relies on the profession having a social value. Bayles explains the connection between a profession's social value, other social value(s), and role-related/universal norms in his following comment:

... role-related ethical norms might require conduct contrary to that required by universal norms. The social value predominantly served by a professional role is important in justifying role-related norms ... Nevertheless, role-related norms cannot be justified by appeal to the predominant value alone. Consideration must be taken of other social values. Thus, role-related norms are justified in the same way universal ones are – by their promoting and preserving justifiable social values and being acceptable to reasonable persons living in a society in which they operate. When role-related norms permit or require conduct that is wrong by universal norms, they can be viewed as exceptions to the universal norms. As such, they must be justified in the same ways other exceptions should be justified – by appeal to justifiable social values and acceptability to reasonable persons. (Bayles, 1989, p. 24)

To fully understand what would be within the role of accountants, then, we need to understand not only role-related and universal norms, we need to understand also 'the social value predominantly served by' accountancy. Role-related norms and universal norms have been discussed in the study so far, under the topics of ordinary reflective morality and special morality. But what has not yet been examined in the study is the social value predominantly served by accountancy.

For further clarity on what the social value of the strategic-planning side of accountancy is (or possibly could be), we need to examine how accountancy actually obtained its professional status. In other words, we need to understand what social value, or social purpose, accountancy put forward to justify it in receiving professional status. How accountancy obtained full professional status and how it has developed since then is explained more extensively in the next section, but a brief mention below of findings from

that section is helpful at this point in the examination of the 'it is not within their role' defence.

For the defence of 'it is not within their role' to be appropriate, or sufficient, for strategic-planning accountants involved in Bhopal, Nestlé, and Pinto, a focus on mere profit maximisation and business self-interest, irrespective of the impact on the public, would need to fit in with the social value of accountancy, as well as satisfy the requirements of ordinary reflective morality and special morality. The next section illustrates, however, that such a practice would be at odds with the basis upon which accountancy received professional status. As already discussed throughout the thesis, such a practice would also be at odds with a special morality based on Smith's concept of the free market (the accurate version, that is), and at odds with ordinary reflective morality. In all, given the activities that strategic-planning accountants are involved with (as outlined in the introductory chapter), and the underlying causes of the Bhopal, Nestlé, and Pinto tragedies (as outlined in the introductory chapter), the 'it is not within their role' defence would not be appropriate, or sufficient, to excuse strategic-planning accountants of responsibility for death and injury in cases such as Bhopal, Nestlé, and Pinto.

None of the three other defences discussed in the present chapter necessarily offers an appropriate or sufficient defence. As I have argued throughout the chapter, professionals have an obligation to ensure that the system(s) they work in conjunction with will enable the profession's social purpose to be achieved. That includes the laws, instructions, and rules that strategic-planning accountants work in conjunction with. To action these obligations, individual professionals require their professional bodies to speak out on such issues generally, and to provide guidance and support to their members when specific cases arise. The extent to which the accounting profession has been fulfilling that obligation is examined as part of the next section.

PART SIX

THE PROFESSIONALISATION OF ACCOUNTING, SUBSEQUENT DEVELOPMENT, AND THE MATTER OF PROFESSIONAL OBLIGATIONS

Up until now in the study I have primarily concentrated on the professions and economics literatures. This last section concentrates primarily on the accountancy literature, and helps to answer the three core questions in various ways. The following is an outline of how the section will do this:

What are the professional obligations of accountants involved in strategic planning in cases such as Bhopal, Nestlé, and Pinto?

Towards the end of the last section (on Defences), I stated that a focus on mere profit maximisation and business self-interest, irrespective of the impact on the public, would be at odds with the basis upon which accountancy received professional status. Considering how surprising that statement might seem to some – in light of the real-world roles accountants are involved in these days – the current section explains, in the first two chapters, how accountants gained full professional status initially for audit and bankruptcy and then later on for management accounting specifically. An understanding of the basis upon which accountancy became a full profession is the final step in determining the professional obligations of accountants involved in strategic planning in cases such as Bhopal, Nestlé, and Pinto. The remainder of this section focuses on completing the answers for the other two questions at the heart of this study.

To what extent have accountants and their profession been fulfilling the obligations?

To understand, in a complete and accurate way, the extent to which accountants and their profession have been fulfilling their professional obligations, we need to examine several issues relating to the whole of

accountancy, not just management accounting. The broader approach allows us to see, as Tosh and Lang (2006) put it, the 'big story', and how we got from 'then' to 'now' (p. 11); it allows us to see the patterns that have developed, and have become fully entrenched, in accountancy. Such patterns affect all sectors of accountancy, including management accounting, and can only be readily understood by examining the profession as a whole.

The development of accountancy since it was granted full professional status is examined, in chapter 14, to show how a profession that is granted full professional status based on a certain role, or social value, has been able to change direction. That chapter also highlights how uninformed the public is on matters relating to accountancy. It leads into a separate chapter on the uninformed public. After examining more fully the issues relating to the uninformed public, we move on to examine accountants' education, work environment, and professional organisations as the final stage towards answering the two remaining questions in this study.

Why there has been so much silence on these matters to date?

As I have argued at various times throughout this study, how uninformed the public and academics, in general, are on matters relating to accountancy and economics explains why there has been so much silence to date. In the section on economics, we were able to see the extent to which, and why, the public and academics are uninformed, or ill-informed, on matters relating to economics. Similarly, by way of the various topics covered in this section, we are able to see the extent to which the public and academics are uninformed on matters relating to accountancy.

Although the above outline indicates a separateness to the questions and corresponding answers, the issues are discussed in a more intertwined manner throughout the section.

12. The Professionalisation of Accounting

Several authors comment on how, historically, the professions were distinguished from business. Mount Jr (1990) explains that the professions were, 'distinguished from business ... because of differences in educational requirements, standards of entry, and obligation to public service' (p. 39). Marshall (1939) goes further: 'The professions ... did not ... corrupt the soul, like commerce' (p. 325). None of what is known as the traditional or ancient professions (being medicine, law, and so forth) was a business occupation. (See Elliott, 1972, and Reader, 1966, for example, for a discussion on the traditional professions.) Reader claims that 'Victorian professional men' seemed to be 'perfectly sincere in their devotion to a standard of behaviour which was certainly higher than the standards accepted in ordinary business' (p. 161); and the traditional professions were 'anti-commercial' (p. 204). Such negativity and disdain towards business, however, is not in conflict with how accountancy initially became a profession; accountancy became a profession, as I will show over these next two chapters, to protect the public from business.

Although, to an extent, from 'pre-professional days, accountants' work included ... book-keeping, the installation of accounting systems, management accounting, insolvency, management consultancy, tax advice, auditing, and fraud detection' (Matthews, Anderson, & Edwards, 1998, p. 10), it was via audit and bankruptcy (in the UK) and audit (in the USA) that accountants gained full professional status (see Chatfield, 1977, Matthews et al., 1998, Moore & Gaffikin, 2005, Previts & Merino, 1997, and Stacey, 1980/1954, for example). Having a profession in control of audit and bankruptcy procedures was seen as a way to help protect the public from unreliable business practices.

Whilst in more recent years unreliable practices associated with firms such as Enron and WorldCom have become well known to the public, along with

unreliable practices leading up to the 2008 global financial crisis, such corporate failings are not new. The collapse of the South Sea Company in the UK in 1720 is often referred to by authors as an early example of the public being lured into investing in a business that turned out to be not as prosperous, or well run, as portrayed (see Chatfield, 1977, Previts & Merino, 1997, and Stacey, 1980/1954, for example). The potential wealth to be gained by any who invested in the South Sea Company was perceived to be so great that the enthusiastic public response to the investment opportunity has been described as 'wild speculation' (Moore & Gaffikin, 2005, p. 73), a 'speculative frenzy' (Chatfield, 1977, p. 81), and 'the nation was so intoxicated with the spirit of adventure that people became prey to the grossest delusion' (Previts & Merino, 1997, p. 23, quoting Hasson, 1932).

Previts and Merino (1997) add: 'It was not only South Sea stock that was purchased in the blind, but stock for hundreds of other new ventures. Poor and rich alike talked of little else; the paper profits they were making were used in turn to purchase other new stock' (p. 23). The objective of the South Sea Company had been 'to organize a corporation to monopolize foreign trade with the islands of the South Seas and South America' (p. 23). But the 'South Sea "Bubble" ... burst when, over the course of a single month ... in 1720, ... the stock value of the South Sea Company ... fell from 900 to 190' (p. 23). When the South Sea Company collapsed, it 'caused a financial panic in the British Empire and its colonies that touched almost every investor or consumer ... Businesses and individual ventures failed at alarming rates' (p. 24). As Previts and Merino explain, 'In reaction to the South Sea Bubble, as subsequent business undertakings became more conservative, a role for modern public accounting in the English-speaking world was born' (p. 24).

Although broader accounting services were being offered, especially in the provinces, insolvency 'formed the backbone of many eighteenth- and nineteenth-century accountancy practices' in Britain. Accounting firms were

dealing with insolvencies of companies that owed millions of pounds (Matthews et al., 1998, pp. 32-35). The 'elite accountancy firms located in the City of London' particularly benefited from the bankruptcy work that arose:

Their City location reflected the long-established need for accountants to be close to the country's largest bankruptcy court ... The close connection between City accountancy firms and insolvency work is clearly reflected in the ... contemporary gibe: "if an accountant were required, he would be found at the bar of the nearest tavern to the Bankruptcy Court ..." (Matthews et al., 1998, p. 30, quoting Cooper, 1921)

Not all were impressed that accountants were allowed such a role in bankruptcy work:

... in 1875, Justice Quain remarked about the operation of the Bankruptcy Act, an enactment second only in importance to the Companies Acts to accountants and to the development of the profession, to the effect that "the whole affairs in bankruptcy had been handed over to an ignorant set of men called accountants, which was one of the greatest abuses introduced into law." (Stacey, 1980/1954, p. 24, citing Worthington, 1895)

As for audit, Matthews et al. (1998) point out that '[i]nitially, audits were usually the responsibility of two shareholders', but eventually 'this work became the preserve of the trained accountant' (p. 35), and '[i]t was auditing ... that was to form the basis for the accountancy profession's future growth' (p. 35). Some accountants were keen to eventually replace bankruptcy work with audit because of the 'general complaint that association with the sordid circumstances of bankruptcy proceedings tended to lower a firm's standing in the estimation of the public' (p. 32). (See also Reader, 1966, p. 161.)

Matthews et al. explain that audit rose in importance

... after the successful application of steam technology to transport. Construction of the railways demanded huge investments of capital which, in Britain, were provided by the formation of joint-stock companies and the sale of shares to a wide range of investors, shares which were eventually bought and sold on a rapidly growing stock

market. These 'blind' investors needed to monitor the operations and performance of their investments, particularly as they became more aware of the risks associated with the possibility of inefficient and fraudulent management. This divorce between ownership and control called for the expert services of the accountant ... an increasing number of new industries in turn gave rise to increased demands for capital and therefore for accountants. (Matthews et al., 1998, pp. 13-14)

Without 'an organized accounting profession however there was little agreement as to what an audit investigation should consist of or who should make it' (Chatfield, 1977, p. 113). Accounting eventually became fully professionalised from the mid 1800s in the UK – 1850s in Scotland, 1870s in England, and 1880s in Ireland (see Chatfield, 1977; Matthews et al., 1998; Stacey, 1980/1954; and Walker, 1995; and for a discussion of why Scotland was able to professionalise first, see Walker, 1995).

Britain was 'the first country in the world to industrialize, starting in the eighteenth century, and by 1870 it had the world's largest industrial output and the highest per capita income of any nation' (Matthews et al., 1998, p. 89, referring to Matthews et al., 1982). (See also Chatfield, 1977, and Moore & Gaffikin, 2005.) The 'vast' amount of investment required for this industrial expansion was no longer able to be supplied by just the wealthy (Stacey, 1980/1954, p. 5). In previous periods, 'Investors were close enough to their investments to effect decisions which would increase their profits and power' (Moore & Gaffikin, 2005, p. 72); prior to the separation of ownership from management, businesses had been run primarily via 'family firms spanning several generations' (Matthews et al., 1998, p. 90). It was not only domestic investment that was increasing at that time. British investment was also increasing in overseas opportunities – North America, South America, India and the African continent (Stacey, 1980/1954, p. 57).

'When British capital went abroad, British accountants followed' (Matthews et al., 1998, p. 15). As Previts and Merino (1997) explain, 'increased British investments, which required close scrutiny given the wild, freewheeling

business environment in the United States in the 1880s, brought English professional accountants to the United States' (p. 187). Initially the British accountants were 'frequent visitors to the United States, where they investigated the accounts of railroads, breweries and other properties in which their clients had investments' (Chatfield, 1977, pp. 150-1). But they started to 'reside in America as London firms found it less expensive to provide services on an extended basis by establishing resident offices in major U.S. cities' (Previts & Merino, 1997, pp. 137-8).

The 'Big' accounting firms of today can be traced back to those early firms being set up in the USA by emigrating UK accountants (Matthews et al., 1998, pp. 32-3). Previts and Merino explain where the use of the term 'Big' came from:

The largest eight public accounting firms in the United States were "dubbed" the "Big Eight" in a 1960s article in *Fortune*. Alphabetically, they were Arthur Andersen; Arthur Young; Ernst & Ernst; Haskins and Sells; Lybrand, Ross Bros., & Montgomery; Peat, Marwick, Mitchell; Price Waterhouse; and Touche Ross. (Previts & Merino, 1997, p. 469, note 40)

The Big Eight gradually became the Big (Six, Five) Four (Turley, 2004, p. 462) as a result of mergers between them and the eventual collapse of Arthur Andersen following its involvement with Enron. The Big Four now are PricewaterhouseCoopers (PwC), KPMG, Ernst & Young and Deloitte (Deloitte Touche Tomatsu).

The late 1800s in the USA saw increasingly large businesses develop from mergers with a focus (as in the UK) on external financing instead of the previous internal financing (Previts & Merino, 1997, p. 133). As Miller and O'Leary point out,

The large-scale multiunit corporation was not, however, uncritically welcomed into American society, and neither was the authority of those who managed this new economic form. To many, hierarchies and the

managerial authority deployed within them clashed with American ideals of individual liberty and initiative. (Miller & O'Leary, 1989, p. 250)

Previts and Merino (1997) describe the opposing predictions that arose in the USA on the separation of ownership from management: Some advocated that having ownership more widespread would help equalise the distribution of wealth in society – ownership of shares/stocks would be spread across society more than ever before (p. 183, and p. 439 note 52). Others feared that the priority of the increasingly large businesses 'was to create monopolies, not to produce the goods and services society desired' (p. 183); democracy would be eroded as power would not be spread more evenly, but would be concentrated in only a few and the rest of society would not benefit (p.183, and p. 439 notes 52-8). What did happen was that the 'small individual shareholders found themselves comparatively powerless to influence their investment. Because of the relative size of portfolio investment, they were nearly as powerless as earlier unpropertied classes' (p. 10).

The Progressive Era in the USA (running from the late 1800s for about two decades) 'entailed no single political program' as such (Miller & O'Leary, 1989, p. 253), but it 'was a time of popular outrage against the depredations of big business ...' (Adams, 1993, p. 121). Criticism of big business during this period

... was not limited to radical reformers. President McKinley, a Republican conservative, lambasted the trusts for trying "to control the conditions of trade among our citizens, to stifle competition, limit production and determine the prices of products used and consumed by our people". (Previts & Merino, 1997, p. 440, note 59, quoting Business, December, 1899)

Some of the trusts were also failing:

The failure of one trust after another in the 1890s renewed the outcry for more direct government supervision of corporations. When the effort to restore competition by passing antitrust legislation proved futile, demands for greater corporate accountability accelerated. Accountants joined in the criticism. (Previts & Merino, 1997, p. 184)

Those involved in the progressive movement called for more use of independent, objective, experts (Previts & Merino, 1997) to protect the public from the 'displacement of the public interest in favour of various class (or partisan) interests' (Miller & O'Leary, 1989, p. 253). The progressives argued 'that the power of executive heads in giant corporations subverted economic and political processes from fulfilling the public interest' (Miller & O'Leary, 1989, p. 253). This demand for more use of 'the expert as a disinterested person who could divest himself of narrow class or parochial interests' (Previts & Merino, 1997, p. 177, quoting Grantham, 1964), 'created the opportunity' for the 'independent public accountant, the disinterested expert', and as a result helped accountants 'gain professional recognition in the United States' (Previts & Merino, 1997, p. 177). The aim of the progressives was to 'restore the public interest' by 'dispelling autocratic authority in corporate hierarchies' (Miller & O'Leary, 1989, p. 253).

Accountants professionalised in the USA from the late 1800s (Chatfield, 1977, p. 151; Previts & Merino, 1997, pp. 187 and 131). The titles Chartered Accountant (CA) in the UK, and Certified Public Accountant (CPA) in the USA, became the main titles within accountancy for professional accountants (see Parker, 2005, for a discussion of the use of these brands around the world). In both the UK and the USA, the accounting organisations – in their quest for professional status – put themselves forward as having a 'public interest focus' (Lee, 1995, pp. 3 and 5).

Not only were accountants professionalised to protect the public from financial loss, audits were also seen as a way to protect the public from businesses making excessive profits: An Industrial Commission was formed by Congress in 1898 to determine whether the 'large industrial combinations' being created were 'to the detriment of the nation's economic well-being'. Evidence during the investigation revealed 'overt abuses' which 'severely

eroded confidence in the business sector' (Previts & Merino, 1997, p. 184).

In 1902 the Industrial Commission recommended that

... the larger corporations, the so-called trusts should be required to publish annually a properly audited report, showing in reasonable detail their assets and liabilities, with profit or loss; such report and audit under oath to be subject to Government inspection. The purpose of such publicity is to encourage competition when profit becomes excessive, thus protecting consumers against too high prices and to guard the interests of employees by a knowledge of the financial condition of the business in which they are employed. (Previts & Merino, 1997, pp. 440-1, note 63, quoting U.S. Congress, House, 1902)

The power of big business remained a problem; Woodrow Wilson, 'during his 1912 Presidential campaign', warned of 'the "vicious systems" of favouritism shown by government toward big business and claimed that big business had grown to become the "dominating danger in this land"' (Miller & O'Leary, 1989, p. 253, citing Woodrow Wilson, 1912/1961).

However, a newfound trust in business arose in America during World War I: 'The war effort, enormously successful, showed that government, labor, and business, working together, could increase the nation's productivity significantly. Cooperation, not competition ...' was seen to work well (Previts & Merino, 1997, p. 237). Consequently, business was seen in a new light – as a moral member of the society. Thus, '... the hostility toward business, evident in the Progressive Era, dissipated as businessmen received credit for winning the war' (Previts & Merino, 1997, p. 238).

Protecting the public from the power of American big business no longer seemed so necessary, which led to changes for accountants:

The decade of the twenties presented an interesting challenge to accountants ... The belief that business had reached a new plateau and would operate to preserve "social justice" significantly reduced the importance of external monitoring devices, such as independent audits. Accountants had based their claim to professional status on their independence and obligation to third parties, but in the 1920s, the political sector asked CPAs to serve as advisers to, not monitors of,

corporate clients. The rapid increase in work in the tax and cost areas, combined with the growth of advisory services, forced the profession to walk a fine line in maintaining its claim to professional status. (Previts & Merino, 1997, p. 236)

However, not all agreed in the 1920s that the public no longer needed to be protected from big business. Politicians and businessmen were seen by some to encourage selective protective measures for their own benefit not for the benefit of the public (Previts & Merino, 1997, pp. 237-9). Louis Brandeis, on the Supreme Court at the time, argued that 'the proposition that mere bigness cannot be an offense is false, because ... our society, which rests upon democracy cannot endure under such conditions. Something approaching equality is essential (Previts & Merino, 1997, p. 241, quote from Dorfman, 1959). Previts and Merino add that Brandeis' view was uncommon in the legal world during this period.

Concerns were also being raised about the quality of the audit certificates that were being issued, and how they were being mis-used by business: In 1920 there was much discussion in the *Journal of Accountancy* of the 'worthless' and 'misleading' audit certificates (being referred to as "weasel worded" qualifications) and the profession agreed (Previts & Merino, 1997, p. 250 and p. 451, note 45).

Previts and Merino (1997) comment that the newfound 'cooperation between labor, business, and government did not survive long after the war ...' (p. 238). The stock market 'crash of 1929 resulted in a public outcry against the business sector for violation of the public trust ...' (p. 236). The 'relative optimism of the 1920s' was replaced by 'the catastrophe of depression in the 1930s' (Miller & O'Leary, 1989, p. 252).

In the meantime, developments were also happening in management accounting. Before we examine those developments, it should be noted that what has been left out so far in this discussion of the professionalisation of accountancy is the rivalry that arose, and to an extent still exists, amongst

the various accounting organisations that formed (see Moore & Cooper, 2005; Parker, 2005; Previts & Merino, 1997; Walker, 1995; and Willmott, 1986, for example). Rivalry was present in the UK and the USA (including, in the USA, rivalry between the British-born and the American-born practitioners). As an illustration, in the USA the National Association of Certified Public Accountants (NACPA) was

accused of “selling” CPA certificates ... William Dolge, in an attempt to discredit the NACPA, submitted an application in the name of I.A. Duarf. After paying \$25, he received a CPA certificate, with no questions asked. Dolge pointed out that Duarf was “fraud” spelled backwards. (Previts & Merino, 1997, p. 243, referring to Herrick, 1969)

However, when the competing American Institute of Accountants (AIA) ‘finally secured an injunction against the NACPA, in August 1922, its actions were too little and too late. In little more than a year of existence, the NACPA had sold more than two thousand bogus certificates ...’ (Previts & Merino, 1997, p. 243)

Even more rivalry arose during the development of management accounting – rivalry this time between the already established professional organisations (originating from audit and bankruptcy) and accountants who wanted more recognition of, and support for, management accounting. It is to the development of management accounting, and how it received full professional status in its own right, that I now turn.

13. The Professionalisation of Management Accounting

Management accounting used to be called cost accounting and is said to have grown, to a large degree, from economics and engineering (Previts & Merino, 1997, p. 165). The record keeping of costs and transactions had been around for centuries, and with varying degrees of punishment for mistakes – ‘gross irregularities being punishable even by mutilation or death’ in ancient Egypt (Chatfield, 1977, p. 7).

It was developments in engineering from the latter part of the 1800s that influenced many modern day management accounting techniques. From the latter part of the 1800s more accurate cost estimates, for projects and products, were evolving in engineering ‘as engineering firms grew and became more competitive’ (Chatfield, 1977, p. 159), and especially with the growing ‘substitution of machines for labor’ in factories (Previts & Merino, 1997, p. 165). Chatfield (1977) comments that ‘Before 1885 ... [m]anufacturers guarded their cost methods as industrial secrets. Bookkeeping texts generally ignored the subject ...’ (p. 159). Previts and Merino (1997) describe 1885 as ‘a turning point in the maturity of American literature in the field of cost accounting’ (p. 162), and Chatfield says that although from 1885 ‘hundreds of accountants and engineers made contributions’ to the development of costing procedures, a handful of men were the ‘pioneers who introduced radically new cost concepts’. One of those men was Henry Metcalfe who produced the ‘first modern book on cost accounting’ (Chatfield, 1977, p. 161):

Metcalfe was an American Army ordinance officer, and his experience with arsenal production and discussions with commercial foremen convinced him that a better method was needed for assigning material and labor costs to jobs. (Chatfield, 1977, p. 161)

Whereas today’s management accounting overlaps with financial accounting in that the costings calculated via management accounting may end up being used as a base for financial accounting, it took some time for this to be

the case. In Metcalfe's day, his 'attempt to tie cost accounts into the financial accounting system was an unredeemed and admitted failure' (Chatfield, 1977, p. 161).

It was via public practice (audit and bankruptcy) that professional status was first obtained for accountants, and élitism developed. Those cost accountants working within business as employees (internal accountants) became looked down upon by accountants in public practice (those who were external to, and independent of, the business itself). Previts and Merino explain the development in the USA:

Throughout the Progressive Era, engineers and accountants made substantive advances in the area of cost accounting, and the United States became the clear leader in the field. However, the independent public accountants viewed cost accountants as employees and technicians, not as professionals, and the cost-accounting area remained tangential to the movement for professional status throughout the Progressive Era. (Previts & Merino, 1997, p. 180)

Engineers and accountants differed as to which costs should be allocated to individual products (accountants preferring not to allocate general and administrative costs to products) (Chatfield, 1977, p. 180). Also, accountants were so used to only dealing with historical data that

... it truly required a conceptual leap of faith for accountants trained in the preparation of historical summaries to begin estimating the cost of a product *before* it was produced ... Engineers and efficiency experts had no such inhibitions. In their efforts to increase output and reduce expense they found information before the event far more valuable than historical data. (Chatfield, 1977, p. 169)

As Chatfield has noted, 'the production standards and work routines developed by Frederick Taylor and his followers' became a major influence on cost accounting (p. 169). Taylor, an engineer, is referred to as 'the father of scientific management' ('scientific management' being the term coined by Louis Brandeis to refer to Taylor's system (Previts & Merino, 1997, p. 180)), and in 1895 he 'suggested a revolutionary approach to labor costing' using a 'piece-rate system. This was the start of what was to be scientific labor time

and motion efficiency in manufacturing' and this 'scientific management of industrial operations created a need for cost accountants ...' (Previts & Merino, 1997, p. 165). Scientific management 'broke down every task in minute detail'; in Taylor's 1911 publication he gives 'examples of how tasks such as shovelling, bricklaying, and bicycle manufacturing had been reduced to the number of movements required' (Previts & Merino, 1997, p. 436, note 28).

The progressives 'appealed to science and professionalism' (Miller & O'Leary, 1989, p. 254) and so for them, scientific management's

... insistence on facts and techniques provided an articulation of the progressive concern to re-establish the public interest in the conduct of large scale enterprise. Claims by corporate executives for favors from the political system or attempts at price-fixing could be subjected to a neutral arbiter. (Miller & O'Leary, 1989, p. 255)

However, accountants managed to turn the intention of scientific management away from being for the benefit of everyone, to being just for the benefit of business (see for example Miller, 1989, p. 251). Previts and Merino compare the difference in perspectives:

When one compares the articles written by scientific management theorists with cost-accounting articles in the Journal [of Accountancy], it becomes clear that the two groups differed with respect to the benefits that could be obtained by the introduction of scientific management procedures. Accountants and engineers clearly focused on different objectives. (Previts & Merino, 1997, p. 180)

The cost accountants saw scientific management as a way of 'saving the client money', whereas Taylor had intended 'that increased productivity should benefit all and rejected the focus on money, writing that "money is in no sense wealth"' (Previts & Merino, 1997, p. 181, quoting Taylor, 1911B). Concerns were raised by critics that 'scientific management would benefit only a select few' and would be used 'to harass the worker' (Previts & Merino, 1997, p. 438, note 42). 'Labor leaders clearly felt accountants would prevail and that cost accounts would be used to squeeze more work out of

workers to benefit the property owners' (Previts & Merino, 1997, p. 181). From Previts and Merino's research: 'The accounting literature suggests that this perception was true; accountants rarely mentioned labor except in terms of reduction of cost' (Previts & Merino, 1997, p. 181). Scientific management, then, just like Adam Smith's concept of the free market, was not used as intended and was used only for the benefit of a select few.

Scientific management was intended to benefit everyone, not just business, in terms of increased productivity and in terms of increased transparency. It was supposed to benefit employees and consumers because all would be reliably informed as to the cost of the products. Scientific management could, in effect, aid the operation of a free market: Consumers would complain if excess profits were being made, competition would arise for the businesses making excess profits, and employees would be able either to move to the more profitable industries, or have a reasonable basis for asking for a greater share of the profits as reward for their services.

But, as Previts and Merino (1997) comment, a series of accounting articles at the time by Wildman 'implied that all the benefits of "scientific" methods should accrue to the company; he rejected "piece rates" because the benefits accrue "primarily [to] the workman"' (p. 438, note 41). This is in contrast to Adam Smith's view. As mentioned earlier, in chapter 3, Smith had been in favour of liberally rewarding the worker, and in favour of workers earning on a piece work basis as long as it did not lead to them overworking (Smith, 1994/1776, pp. 84-94, Bk I Ch. VIII).

Not all accountants thought the sole focus on business needs, by accountants, was appropriate: 'Stuart Chase, a third-generation CPA' was

... a direct challenge to accountants ... Chase had technical expertise viewed as "very dangerous" by members of the profession. Chase led a minority group ... that adopted a pragmatic perspective, objecting to depiction of any data as "neutral." He warned that traditional accounting data was not neutral; it faced in one direction – toward the

owner. Chase (1921A: 284-85) also warned that if left to accountants, waste would be defined narrowly, only in terms of financial profitability. He argued that technocrats must develop broader measurements to “include the greater waste of undesirable goods, unemployment, and even war, when evaluating corporate performance.” Most accountants had little sympathy with Chase’s message and simply ignored such criticism since the legal system continued to support traditional accounting profit measurement. (Previts & Merino, 1997, pp. 240-1, referring to Chase, 1921)

Chase also ‘made the point that the question of “what constitutes a reasonable profit” would not be of concern if free competition existed, but it did not ...’ (Previts & Merino, 1997, p. 448, note 16, quoting Chase, 1920).

As for the UK, developments in cost accounting were slower but also became ‘scientific’. Loft (1986) comments that ‘a discourse was developing around’ cost accounting in the UK ‘which claimed for it the status of “science” and that it gave “the facts”’ (pp. 161 and 159). Loft adds, ‘The political realm of rights and justice was not to be part of the discourse of cost accounting – a discourse in which only the technical was legitimate’ (p. 160). Although the term ‘scientific costing’ tended to be used in the UK instead of ‘scientific management’, Loft suspects the choice of the word ‘scientific’ was influenced by scientific management (p. 161). Just as in the USA, the standardisation of costing procedures was put forward in the UK as a benefit for all members of the community; not only would it add efficiency to business, it would add transparency so that each sector of the community could see the costs incurred (and any excess profits made), thereby allowing ‘adjustments between sections of the community to be made in equity’ (p. 162, citing *The Cost Accountant*, March, 1922). By helping all sides, including business and the community, standardisation of costing procedures would also help reduce the friction and distrust that had grown between the different sectors (Loft, 1986, p. 163).

World War I helped to bring the need for standardised costing into prominence (see Stacey, 1980/1954, for example). Standardised costing

was seen as a way to protect the government and the public from excess profiteering by business during, and from, the war (Loft, 1986, pp. 141-144). Profits can be varied, or manipulated, significantly by using different costing approaches, particularly in the allocation of overhead and fixed costs to individual product items, hence an increased demand for standardising the costing approaches.

Profiteering from war has also been frowned upon in the USA. In their comments on the Vietnam War, Previts and Merino (1997) state: 'As had been the case in World War II, any suggestion that corporations might be engaged in "profiteering" while young people died, ignited the media and the public' (p. 326). As a result, cost accountants faced the threat of government regulation of costing standards; managerial accountants 'did not appreciate the government intrusion' (p. 327).

Similar to the USA, rivalry arose in the UK between the already established professional accounting organisations and those who wanted to establish a specific cost accounting body. The objection from the established bodies

... seems to have been that those involved with operating cost accounting systems in organisations were of a "technician" status and should not be considered "professionals". If a manufacturer required advice on the installation of a cost accounting system then the qualified accountant operating from his professional office was equipped to do the job. (Loft, 1986, p. 166)

On this topic Stacey says that as a result of the increased use and recognition of costing in the war, cost accountants

... decided to band together to further the aims and techniques of their specialized art. Many cost accountants were members of one of the established societies of accountants most of which made no provision for the acquisition of special skills in costing or took an interest in its exploration. Hence it was decided to start a professional body whose aim was to encourage the development of scientific costing ... The obdurate neglect by existing bodies of the nascent new art of costing has thus resulted in a further, if justified, fragmentation of the profession. (Stacey, 1980/1954, pp. 98-9)

In the UK, it was via a Royal Charter that accountancy obtained its initial professional status. But, when the UK costing organisation tried to obtain a Royal Charter, one of the already established accountancy bodies (The Institute of Chartered Accountants in England and Wales - ICAEW) 'successfully prevented' the new costing organisation 'from obtaining the prestige of a Royal Charter arguing that "such persons are not employed in professional work but in the service of traders"' (Loft, 1986, p. 164, quoting from *The Accountant*, 5 May 1923, which is also quoted in Stacey, 1980/1954, p. 99).

The cost accountants continued in their attempt to obtain full professional status. 'Ironically', Loft adds, given the resistance from the established professional bodies, 'it was these professional bodies' that the costing organisation 'desired to imitate – even to the extent of attempting to find out how they arranged the tables at their Annual Dinners in order to do the right thing themselves' (p. 165). Rivalry still exists today. There are six accountancy bodies in the UK, ICAEW being the 'largest', and its 'failure to merge with another of the bodies is something that the ICAEW does on average once a decade' (Bruce, 2005, p. 1).

The separate costing organisations did eventually obtain full professional status in the UK (the Chartered Institute of Management Accountants - CIMA) and the USA (the Institute of Management Accountants - IMA). Previts and Merino (1997) write about the change of name in the 1950s from cost accounting to management accounting (also referred to as managerial accounting): 'The change in name was more than cosmetic; it reflected the impact of a growing body of work in organizational theory and economics' (p. 325). They also comment, 'it should be noted that the focus remained on techniques that would reward managers who maximized production by minimization of labor costs. The central theme was to motivate workers to work harder' (p. 325).

Even when accountants borrowed from psychologists, like Abraham Maslow (1965), who was highly critical of the profit motive, they ignored the criticism of accounting data and focused on the hierarchy of needs that could be reconciled with traditional accounting measurements. (Previts & Merino, 1997, p. 470, note 59)

By the late 1960s, managerial accounting had assumed a clear and separate identity from financial accounting. By the early seventies, American cost accountants had won a world reputation as having a dynamic aggressive approach to the subject. (Previts & Merino, 1997, p. 325)

Stacey gives his version of what management accounting is, and how it has led to management accountants holding powerful positions:

... an increasing number of accountants, since the early 1930s, have found their way to the highest positions of the industrial ladder. The fortuitous combination of a knowledge of scientific method ... and acquired administrative skill are thus a formidable combination which can ensure the highest grade leadership in the realm of industry. But accountancy is one thing and administration or management is another; some possess talent for both but it cannot be denied that except in the case of the unusually adept, training is imperative for anyone to learn the art of management. This is how the new skill of management accountancy was born – due to the demand of the times. (Stacey, 1980/1954, p. 101)

Stacey's description is not sufficient, however, to justify management accounting being a full profession. The occupation of management in itself is not a full profession, and as Marshall points out, 'scientific methods' are more in line with semi-professions, not full professions:

These techniques are not, by older standards, professional. They do not call for creative originality ... nor must they be linked with sound human judgment and the power to inspire trust in one's character and personality ... They demand accuracy and efficiency along established lines. They are, in fact, the mental equivalent of the manual craftsmanship of the Middle Ages, and they lend themselves in the same way to the establishment of semi-professional associations. (Marshall, 1939, p. 338)

Marshall adds, 'many of these new semi-professions are really sub-ordinate grades placed in the middle of the hierarchy of modern business organization' (p. 339). More would be expected from management accountants than Stacey's description, then, if management accountants were to justify their full professional status. To be other than 'the mental equivalent of the manual craftsmanship of the Middle Ages', as Marshall puts it, they would have to satisfy the moral requirements of a full profession, and they would not have available to them the defences often used by others (as discussed in the previous section) to avoid responsibility for harm.

The specific management accounting bodies which obtained full professional status, such as CIMA and IMA, have the obligation, as do all full professions, to act in the public interest. CIMA and IMA both belong to IFAC. IFAC's code of ethics (and other guidance), which I analyse at the end of this study, applies therefore just as much to management accountants as it does to financial accountants and auditors.

The final step has now been reached in determining the professional obligations of accountants involved in strategic planning in cases such as Bhopal, Nestlé, and Pinto (the first of the three questions this study seeks to answer).

From the research so far in the study we know that to determine a profession's public interest obligations we need to take into account the requirements of ordinary reflective morality and any applicable special morality, as well as the social value for which the profession gained professional status (not to the exclusion of other social values though).

In terms of the social value of accountancy, the current chapter showed that accountants obtained full professional status, initially in relation to audit and bankruptcy, and later on in relation to management accounting specifically, on the basis of protecting the public from business. By saying that

accountants were given professional status to protect the public from business, I am not implying that business per se is bad for society. The point I am raising is that it was accountants' recognition that business practices and procedures can be harmful to the public, and that the public needs protection from such, which gained accountants full professional status. In other words, it was recognition by accountants that business could not necessarily be relied upon to operate for the benefit of the public that gained them full professional status. Accountants were effectively given full professional status to use their skills to protect the public from untrustworthy business practices and procedures, and to increase the benefit to society from business.

Such a social value would tie in well with the concept of a special morality based on Adam Smith's concept of the free market (the accurate version, that is), because, as I have argued throughout, protecting the public from powerful business interests is at the heart of that concept. Much of what accountants gained professional status for, in fact, is specifically related to protecting the public from powerful business interests. Correspondingly, such a social value would not tie in with the misinterpreted version of the free market and its narrow focus on profit maximisation and business self-interest. We know too that a focus on profit maximisation and business self-interest (without appropriate protective mechanisms for the public), would not satisfy the requirements of ordinary reflective morality. As quoted in chapter 2, '[t]he principle of maximizing profits is clearly not moral in itself' (Goldman, 1980, p. 232). The important issue for question one is that profit maximisation, typically, is the focus of strategic-planning accountants.

That an occupation was given professional status to protect the public from business is plausible given the power imbalance that had developed between the public and big business, and the financial loss suffered by the public over time as a result of being misled by business. The granting of professional status on the basis of a protective role towards the public is

consistent with the general outline of professions as per chapter 2, and is consistent with other professions – the professions of law and medicine having professional status to protect the public from injustice and ill health, respectively, for instance.

What is not plausible is for the accounting profession to extend the occupation of accountancy to strategic planning and at the same time expect the protective role they received professional status for to be ignored or to still be limited to financial loss. The accounting profession has traditionally interpreted its public interest responsibility to be limited to financial loss (the financial loss incurred by clients, employers, shareholders and other investors, for instance), not human loss in terms of death and injury. As Bhopal, Nestlé, and Pinto illustrate there is far more impact on the public from strategic-planning skills than just financial loss.

Strategic-planning accountants do have skills in profit maximisation and I am not arguing that those skills are of no use to society. What I am arguing is that if accountants are to use those skills, irrespective of the impact on the public from those skills, such a practice is at odds with the basis upon which the profession received full professional status, at odds with ordinary reflective morality, and at odds with a special morality based on the accurate version of Smith's concept of the free market.

If the strategic-planning role is, alternatively, to be seen as one of technical proficiency only, that in itself, as explained in the chapter on Defences (chapter 11) would negate its justification and status as a profession.

Question one at the core of this study (determining the professional obligations of accountants involved in strategic planning in cases such as Bhopal, Nestlé, and Pinto) arose from the following discussion in the introductory chapter. A possible management accounting exam, test, or assignment question based on Bhopal, Nestlé, and Pinto was set out in the

introductory chapter, and two quite different answers were put forward for consideration. Options (a), (b) and (c) referred to in the answers below were basically the strategic-planning decisions that led to the tragedies, and the 'additional information' is the summary of ethical issues relating to each of the cases:

ANSWER 1

Any member of a full profession could not recommend options (a), (b) or (c) because of their professional obligation to act in the public interest. The additional information for options (a), (b), and (c) could not be ignored.

ANSWER 2

Additional information for options (a), (b), and (c) should be ignored because accountants' public interest obligation is limited to financial loss, and does not extend to death and injury.

I commented that there was a problem with marking the answers and stated:

The problem faced by the markers is that the current guidance for accountants on the matter is unclear. The guidance in the profession's code of ethics is not specific, but it seems to imply that answer 2 is the correct answer. The rest of the study seeks in effect to determine which of answers 1 and 2 is correct, or in other words, to determine the professional obligations of accountants when involved in strategic planning in cases such as Bhopal, Nestlé, and Pinto.

The research completed in the study shows that answer 1 is correct, and answer 2 is incorrect. Answer 2 is effectively saying that a mere focus on profit maximisation and business self-interest is acceptable for strategic-planning accountants, irrespective of the impact on the public. Neither ordinary reflective morality, nor a special morality based on the accurate version of the free market, offers support to answer 2. Similarly, the social value for which accountancy received professional status (the protective role as outlined above) does not offer support to answer 2. All of those factors do however support answer 1. From the examination in this study of ordinary reflective morality, special morality, and the social value of accountancy, we see that strategic-planning accountants' public interest responsibility in cases such as Bhopal, Nestlé, and Pinto could not

legitimately be limited to financial loss. In other words, accountants involved in strategic planning in cases such as Bhopal, Nestlé, and Pinto could be held responsible for the death and injury caused.

Now that the first of the three questions has been answered, the rest of this section focuses on completing answers for the remaining two questions: the extent to which accountants and their profession have been fulfilling the obligations, and why there has been so much silence on these matters to date.

Question two relates to the obligations determined in question one. For question two, my approach will be to assess the extent to which the accounting profession has been maintaining a protective role towards the public, as opposed to a role based on mere profit maximisation and business self-interest.

The next chapter starts the exploration into answering the two questions by examining the development of accountancy after it became a full profession. Accountants' professional obligations apply to all aspects of accountancy. In the following chapters, several sectors of accountancy are covered rather than just management accounting. The broader approach allows us to gain a more complete and accurate picture in terms of answering the remaining two questions in the study. From the broader approach we are able to see the patterns that have developed, and have become fully entrenched, in accountancy. These patterns affect all sectors of accountancy, including management accounting, and can only be readily understood by examining the profession as a whole. We can also see, from the broader examination in the next chapter, how a profession that was granted full professional status based on a certain social value has been able to change direction.

14. The Development of Accounting after Professionalisation

A change of direction for accountancy

Ian Siggins (1996) points out that it is not unheard of for professions to change direction from their original purpose, and even to go in a direction opposite from their original purpose, whilst still maintaining the original rules or code. He gives the example of the Knights Hospitallers, a religious profession, sworn to poverty, celibacy and religious observance, who were supposed to 'provide shelter for pilgrims ... and tend sick pilgrims ... Within 100 years the Knights Hospitallers became a formidable military and naval power ... Inevitably, many of them were seduced by the glory and amorality of war ...' (p. 60).

This chapter outlines just how much the accounting profession has changed since it became a full profession. 'Accounting's role has changed and expanded quite significantly' (P. F. Williams, 2002, p. 15) and the public, as Robert Bruce describes, may not have been fully aware of those changes, or the implications of those changes:

Outsiders ... see accountants as stolid folk with limited imagination, but an ability to make money. Accountants are invariably characterized as the dullest of people ... Yet ... their profession has consistently reinvented itself. Once they were simply auditors and advisers. Now they are in the van of e-everything. They are consultants. They are tax advisers. They are advisers to the world on the transforming of economies. (Duska & Duska, 2003, p. 194, quoting Bruce, 2000)

These broader advisory roles are not new to accountants in either the UK or the USA:

A nineteenth-century insolvency engagement could, in common with audit work, result in accountants providing more general managerial assistance. The engagement might require the accountant to manage a company in receivership for a considerable time-period, and it sometimes involved an attempt to reconstruct and rehabilitate the financially embarrassed concern. (Matthews, Anderson, & Edwards, 1998, p. 110)

Previts and Merino (1997) add that, 'American public accountants have been offering advisory services since the inception of the profession before the turn of the century' (p. 403, quoting Previts, 1985A). And Stacey (1980/1954), writing about the 20th century changes to the accounting profession up until 1954, states that 'bankruptcies, liquidations and auditing ... did not cease; they were supplanted and as time went on, in many cases, eclipsed by more specialized work both within the ranks of public practitioners and among accountants in employ who, in ever increasing numbers, were infiltrating into trade, commerce and industry' (Stacey, 1980/1954, p. 55). Matthews et al. (1998) emphasise: 'Accountants have been highly successful in terms of ... their ability to rise to positions of prominence within business' (p. 78). As the authors explain, there are various routes by which accountants get involved in companies. One is via directorships, another is to be directly employed by the business in a management position, and the third is via consulting (pp. 203-235).

Accountants as Directors of Companies

Accountants have been directors of companies from the early days of professionalisation: '... the start of a trend which today sees accountants as comfortably the dominant professional grouping in the corporate boardroom' (Matthews et al., 1998, p. 140). As an example, Matthews et al. mention that George Touche and Andrew Wilson Tait 'at first earned most of their income from directors' fees, receiverships, and reconstructions' (p. 111, referring to Richards, 1981). (Touche and Tait formed a partnership in 1899 which eventually became one of the Big accounting firms, Touche Ross & Co.)

Accountants as employees

Matthews et al. (1998) also give examples of accountants being employed initially as finance directors or company secretaries and then rising to more senior management positions such as managing director, chief executive officer (as the authors point out the title of managing director has these days

generally been replaced by the term chief executive officer), or chairperson (pp. 203-235). As an indication of the growth in that area, in 1951, the proportion of accountants as managing directors (or chief executive officers) was 'less than one in 20 ... and by 1991 it was one in five' (Matthews et al., 1998, pp. 235-7).

Matthews et al. (1998) discuss the position of finance director further, the title being created 'in the 1950s and 1960s' (p. 215), and how finance directors have become more involved in strategic planning. Whereas 'the production of the annual report' at board meetings used to be 'the pinnacle of his duties' (p. 216, quoting Coyle, 1989), several finance directors surveyed responded that strategic planning was either their most important role, or at least as important as their other duties (p. 235). Coyle quotes one chief executive (Sir Geoffrey Mulcahy) as saying that finance directors were 'in a good position to take a broad strategic view', and were expected 'to act more and more as strategic thinkers' rather than just 'bean counter[s]' (p. 215, quoting Coyle, 1989). The role of finance director at Ford is specifically mentioned: 'At Ford, Stanley Thomson (who left c.1990) considered his biggest task as finance director as simply "to continue to look at ways of reducing our costs"' (p.216, citing Mitchell, 1985b).

Stacey refers specifically to members of the UK cost accountants' professional organisation being executives and directors back in the 1950s:

The Institute has now been in existence for some 30 years; its membership is widely diffused in the different branches of production and among them are found executives superimposing administrative or directorial duties upon their primary function as cost accountants. The granting of new responsibilities upon the cost accountant – and upon accountants generally – means added status and responsibility. The trend indicates a shift in the type of qualification needed by top industrial executives ... (Stacey, 1980/1954 pp. 100-1)

Previts and Merino warn against a simplistic view being taken of the changing role of cost accountants:

The expanding role of professional accountants in the financial operations, management, reporting, and analysis of publicly held and privately owned business has been, since the early 1970s, a substantial and notable area of practice growth. An uncritical and simplistic view of this area, lumped together under the old rubric of “cost accounting,” is a commonplace misreading of this development. In fact, the practice of corporate accountants has become increasingly substantial, more complex and sophisticated. (Previts & Merino, 1997, p. 413)

For instance, accountants have at times become involved in managing companies to the extent that ‘they took all the managerial decisions including the detail of the company’s product range’ (Matthews et al., 1998, p. 127, referring to Wilson, 1988).

The magnitude of change over more recent decades has raised concern: ‘The accountancy profession developed over relatively few decades into a powerful sector of the modern economy’ (Lee, 1995, p. 11). Much criticism has arisen about that increased power, how the power has been obtained, and what has been jeopardised in the process. Robson and Cooper (1990) comment that the ‘larger auditing’ firms were ‘beginning to change their orientation. The payoff from auditing is becoming a less significant proportion of the Big Eight firms’ revenue ... the larger firms have moved increasingly into the new areas, such as management consultancy, taxation and financial services’ (p. 385). It is particularly the change from audit to ‘significant amounts of management advisory and income tax services’ (Gaa, 1990, p. 168) that the next sections focus on.

Accountants as Management Consultants

As mentioned earlier, in the introductory chapter, management consulting services (MCS) are also referred to as management advisory services (MAS), business advisory services (BAS), or suchlike. ‘Consulting is the newest growth area for accounting firms’ (Duska & Duska, 2003, p. 6). Similarly, Matthews et al. (1998), commenting on post World War II developments in accountancy, state: ‘The most significant development in the work of accountancy firms ... has been the growth in management

consultancy ...' (p. 196). Neimark (1996) describes this change as a 'reconfiguration of the accounting profession ...' (p. 2). In their discussion, Matthews et al. give examples of management consultancy including such areas as 'production management' and 'business strategy and planning' (Matthews et al., 1998, p 198, quoting Burt, 1988).

One of the issues raised in the literature is that the accounting profession has a legislated monopoly over audit services (Hendrickson, 2001, p. 160; Mitchell, Puxty, Sikka, & Willmott, 1994, p. 39) and audit has been 'commonly used to introduce clients to other, more lucrative, services provided by the accounting firm' (Canning & O'Hogartaigh, 2002, p. 17). Because audits are compulsory for public corporations (Puxty, 1990, p. 340), and some other entities, this means accounting firms have an advantage over any competitors also offering MAS. The audit monopoly 'remains a valuable franchise; it is the one thing that differentiates them from their competitors in management consulting and related fields' (Neimark, 1996, p. 3).

Canning and O'Hogartaigh describe the decreasing proportion of audit revenue for the Big accounting firms:

... by the end of the 1990s audit income accounted for less than half of the revenues of the largest accounting firms in the UK. Similarly in the U.S., audit income was as low as 30% for such firms by the year 2000, down from 70% in 1977. (Canning & O'Hogartaigh, 2002, p. 17)

Statistics mentioned by other authors differ slightly in detail, but all show a similar trend (see for example Previts & Merino, 1997, p. 398; and Duska & Duska, 2003, p. 188).

Based on ICAEW's records, it does not seem to have been difficult to get these broader roles included in the official 'responsibilities' of the profession. Its Members' Handbook (Supplement No. 64, Issued 8 January 1985) mentions changes made to the Royal Charter:

ICAEW gained its Royal Charter on the 11 May 1880. The Royal Charter remained unaltered for sixty-eight years until 21st December 1948 when the Institute was granted a Supplemental Charter by His Majesty King George VI, following the presentation of a petition on terms approved by a special meeting of members on 21st April 1948. (ICAEW, 1985, p. 1)

A little further on is the following statement:

No fundamental change, either in the nature and objects of the Institute or in the method of attaining membership, was involved in the 1948 petition. The general purpose was to redraft the clauses of the Original Charter and the bye-laws in such a way as to give the members greater control of the affairs of the Institute and so facilitate administration and management, whilst furthering the objects of the Institute and preserving its historic continuity. (ICAEW, 1985, p. 1, emphasis added)

That 'no fundamental change' comment seems to be a considerable understatement in terms of what was changed in the Supplemental Charter in relation to the roles of accountants. The original charter outlined the roles of accountants in quite specific terms:

That the Profession of Public Accountants in England and Wales is a numerous one and their functions are of great and increasing importance in respect of their employment in the capacities of Liquidators acting in the winding-up of companies and of Receivers under decrees and of Trustees in bankruptcies or arrangements with creditors and in various positions of trust under Courts of Justice as also in the auditing of the accounts of public companies and of partnerships and otherwise. (ICAEW, 1985, p. 3)

The Supplemental Charter contained a significant broadening of those roles:

That since the grant of the Original Charter the duties and responsibilities of members of the Institute have been extended and widened as a result of the growth and development of industry and commerce and the increasing diversity and complexity of all forms of social and economic activity. That it is the belief of the Institute that by reason of the foregoing the furtherance of the objects for which the Institute was originally constituted and incorporated has become increasingly desirable in the public interest and the responsibilities of

the Institute have become of greater importance than at the date of the grant of the Original Charter. (ICAEW, 1985, p. 7)

And still further on, in the Supplemental Charter, it becomes clear that the Institute is requesting that there be no limit to the roles of accountants:

The principal objects of the Institute are:

(i) To advance the theory and practice of accountancy **in all its aspects**, including in particular auditing, financial management and taxation ... (ICAEW, 1985, p. 8, emphasis added)

But, one of the 'principal objects of the Institute' (stated in the same document), is 'to preserve at all times the professional independence of accountants in whatever capacities they may be serving' (ICAEW, 1985, p. 8). Just how independent accountants are is an issue that is examined at times throughout the rest of this study.

In 1999 the Securities and Exchange Commission (SEC) in the USA estimated the amount of revenue the Big accounting firms were earning from consulting services: 'U.S. revenues for management advisory and similar services for the five largest public accounting firms (the "Big Five") amounted to more than \$15 billion in 1999' (Duska & Duska, 2003, p. 188. quoting Securities and Exchange Commission: Revision of the Commission's Auditor Independence requirements, 17 CFR, Parts 210 and 240).

The Enron crisis, as Duska and Duska explain, brought far more attention to the situation:

To increase profit, accounting firms add consulting services, quite often for the same companies that they are simultaneously auditing ... This kind of practice has been going on for years, but until recently has remained under the radar. With the eruption of the Enron case, accounting firms have come under new scrutiny. (Duska & Duska, 2003, p. 108)

Tax consulting is another consulting service accountants offer. In addition to providing tax compliance services, their involvement in 'tax consulting also expanded', as the Big firms 'aggressively broadened the scale and scope of their consulting practices' (Zeff, 2003b, pp. 271 and 270).

Accountants as Tax Consultants

Accountants are associated with devising tax avoidance schemes that find loopholes in tax laws – the loopholes, as Duska and Duska (2003) describe, go 'against the spirit of the laws that are behind the tax structure of the market economy' (p. 158). As critics of these schemes point out, the result is that tax law which charges a higher proportion of tax to those who earn more (progressive tax) becomes 'symbolic' only (Previts & Merino, 1997, p. 438, note 45, referring to Edelman, 1964), in that the law may give the impression that the wealthier are paying more, but in reality they may not be because of these schemes. The illusion 'stills public outrage' (Previts & Merino, 1997, p. 438, note 45), the public being generally unaware of the loopholes available to some. What is more, 'The financial accounting standards' disguised the 'relatively low tax rate that many of the nation's largest corporations paid throughout the decade of the sixties ... Neither politicians nor accountants seemed eager to address such questions ...' (Previts & Merino, 1997, p. 330).

Scott and Erin Henderson explain the "loophole hunting" that accountants are involved in:

... accountants scour legislation and accounting standards to uncover ways to avoid their requirements for the benefit of clients or employers. Loophole hunting is most common in the taxation legislation but it also occurs in other legislation and accounting standards. Loophole hunting in taxation accounting involves searching the letter of the taxation legislation for flaws, omissions, inconsistencies or a lack of clarity which if exploited can reduce the taxable income of clients or employers. These activities are "legal" in the sense that the resultant tax returns comply with the letter of the law. Successful taxation loophole hunters are well rewarded by grateful clients and employers ... In commercial circles, a "good" accountant is one who can legally circumvent the requirements of the taxation legislation to the benefit of clients or employers. (Henderson & Henderson, 2001, p. 70)

The Hendersons question how loophole hunting satisfies the public interest responsibilities of accountants, and describe the typical view within accountancy and business:

The requirement to comply only with the letter of the law is generally accepted by the business community and the accounting profession. This makes compliance simpler and more objective. The assumption is that if compliance with the letter of the law is not consistent with the spirit of the law, then that is the fault of those who drafted the law. (Henderson & Henderson, 2001, p. 70)

Justice Burger, in a 1984 case taken by the USA government against Arthur Young (one of the Big accounting firms at the time) summarises the problem of loopholes and schemes that go against the spirit of the tax law: 'Our self-assessment tax system can only function effectively if taxpayers report their income on a tax return that is true, correct, and complete ... Without such disclosure ... our national tax burden would not be fairly and equitably distributed' (Duska & Duska, 2003, p. 161). Bayles specifically refers to accountants in relation to tax in his discussion of the responsibilities of professions: For accountants 'the responsibilities of truthfulness and fairness predominate because most of the injury they cause others results from a lack of truthfulness or fairness.' He gives as an example, '... lack of fairness in preparing income tax information and forms can injure the government, and thus society' (p. 114).

As critics of accountants' involvement in tax avoidance schemes raise, if accountants do not think the government's tax laws are fair, they should go through the appropriate democratic channels to have them changed – thereby representing all of the public rather than helping select members of the public to pay less than the law intended towards government services such as health, education, roading, crime prevention, defence and so forth. (Such a viewpoint is consistent with the issue I raised in the Defences chapter, chapter 11, that accountants have obligations at the macro level, not just the micro level.) Those who use the tax loopholes and tax havens,

typically the wealthier members of society, still use those services (they still actually reside in the local countries) but they just contribute less to the services than both the law intended and the public assumes. Such an approach whereby the rich end up paying less in tax than others in society goes against Adam Smith's views on tax and what he attempted to achieve:

The subjects of every State ought to contribute towards the support of the Government, as nearly as possible, in proportion to their respective abilities; that is in proportion to the revenue which they respectively enjoy under the protection of the State. (Gide & Rist, 1917, pp. 61-2, quoting Wealth of Nations Book V, chap. 2, part ii)

Roberts (2001) refers to Novak and Saunders' 1998 *Forbes* article on tax schemes/shelters, and writes that at one of the Big accounting firms the staff had been 'warned ... not to speak with *Forbes* magazine about their tax shelter practice'; whereas at another of the Big firms approached, a representative said they sell 'very complicated, unique tax strategies ... to a select group of companies that ... can use the strategy to save tens of millions to hundreds of millions of dollars in tax' (p. 601). He explains that the accounting firms 'generally sell these tax schemes on a contingency fee basis.' As an example, one of the Big accounting firms 'sometimes charged a contingency fee equal to 30% of the tax savings plus associated costs' (p. 601). Roberts adds that the 'profession appears to be relying on the complexity of the schemes and the lack of enforcement power by the IRS [the Inland Revenue Service in the USA] ... It is estimated that the IRS misses nine out of 10 of these schemes' (p. 601). Duska and Duska (2003) add: 'Not only is it difficult for the IRS to detect a shelter ... penalties are modest and not always imposed' (p. 167) and when the IRS does manage to get on top of one scheme, more are created: 'It's like a hydra ... You cut off its head in one place and it just grows another someplace else' (p. 167, quoting Acting Assistant Treasury Secretary Jonathan Talisman).

Galbraith connects World War II with the increase in taxation of the wealthy:

With the war, and in justification of these taxes, had come the notion of an approach to equality of sacrifice: the poor would pay with their lives

or anyhow with their military service or their toil; the affluent, especially the nonserving rich, would pay with their taxes. (Galbraith, 1987, p. 249)

Conflict of interest from new roles

As quoted earlier in this chapter, when requesting that their Royal Charter be changed to include the broader roles for accountants, ICAEW also said they would 'preserve at all times the professional independence of accountants in whatever capacities they may be serving' (ICAEW, 1985, p. 8). Just how accountants consider themselves to be independent in these new roles is not clear. Canning and O'Hogartaigh (2002) explain the potential impact of the conflict of interest on auditors: 'One has ... to be mindful that the pressures on auditors to consent to inappropriate client accounting procedures are inevitably greater when the audit firm benefits substantially from non-audit income' (p. 17). Duska and Duska (2003) raise the same issue, commenting that 'it seems less likely that one will be able to keep a client on the consulting side if the client is given an unfavourable audit' (p. 108). Similarly, Willmott (1990) refers to the possibility raised by Lord Benson that 'the auditor ... may lose repeat business or lucrative consultancy work if too exacting a scrutiny is imposed upon his client' (p. 316).

As for the monopoly that accountants have over audit, Gaa (1990) points out: 'The profession claimed that restrictions on competition were actually in the public interest, since it helped to prevent substandard audit work caused by excessive cost-cutting' (p. 168). And yet it is excessive cost-cutting and substandard audit work that has prompted much criticism and is associated with the Enron, and other, audit crises.

From his own experience as a former Big 5 partner in Australia, John Shanahan (interviewed by Alan Deans) recalls: 'Auditors undercut each other in the hope that once they have a foot in the door, they can offer more lucrative advice' on other matters. 'Each of the Big Five has extensive

consulting divisions ...'. Shanahan gives an example of the extent of the fee-cutting: 'In one tender I was involved with ... we estimated the annual cost would be \$600,000 a year ... We put in a bid for \$400,000, but we were beaten by [another Big Five firm] who offered \$240,000' (Deans, 2002, p. 44).

A loss being made from audit so as to get a foot in the door (called a loss leader, or low balling) is also commented on by Matthews et al:

... Price Waterhouse offered the Prudential Corporation a 40% discount on the £2.4 million audit when it went out to tender in the summer of 1990. This revelation provoked a major controversy in the profession over the 'big six' firms using audit as a loss leader to secure major clients with the objective of winning more lucrative consultancy work. Concerns re-emerged when the Prudential's 1993 accounts showed that Price Waterhouse's non-audit fees had leapt a massive 925% ... in the period since they took over the audit. (Matthews et al., 1998, p. 200, referring to Accountancy Age, 12 May 1994)

It gets worse; the Big firms have gone as far as offering audits for zero dollars (Zeff, 2003a).

Management positions are also arising from the audit contacts:

... audit clients are increasingly hiring firm partners, professional staff, and their spouses for high-level management positions ... accounting firms have expanded significantly the menu of services offered to their audit clients, and the list continues to grow. Companies are turning to their auditors to perform their internal audit, pension, financial, administrative, sales, data processing, and marketing functions, among many others. (Duska & Duska, 2003, p. 188, quoting from the preface to the SEC Independence Regulations – Securities and Exchange Commission: Revision of the Commission's Auditor Independence requirements, 17 CFR, Parts 210 and 240)

When an audit firm employee (or partner) becomes an employee of the audit client it is commonly referred to as 'the revolving door' between audit firm and client. Even though revolving door arrangements between audit firms and their clients are said to benefit the clients, the criticism is that the

auditors lose independence from such an arrangement (see for example Geiger, Lennox, & North, 2008; Grimsley, 2002; Menon & Williams, 2004; and Wright & Booker, 2005):

- Before the auditor joins the client, the auditor's work may be compromised if he or she has been (or might be, or hopes to be) offered subsequent employment by the client.

And after the auditor joins the client,

- his/her knowledge of the testing procedures may make the audit less effective than when the client is unaware of such information.
- his/her relationship with the current auditors may mean the current auditors are more likely to accept his/her assurances and less likely to challenge him/her.

The USA accounting profession (American Institute of Certified Public Accountants - AICPA), however, put forward a somewhat different viewpoint in support of revolving door practices:

E. Copeland, representing the AICPA in a March 14, 2002, speech before the U.S. Senate Committee on Banking, Housing, and Urban Affairs, indicated that any restriction on the revolving-door phenomenon "would impose unwarranted costs on the public, the client, and the profession. Indeed, limiting the career opportunities of accountants would make the profession less attractive and make it more difficult for CPA firms to hire qualified people." (Wright & Booker, 2005, p. 3)

Another issue that has been raised about accountants is how the power of accountants geographically has increased significantly 'due to advances in telecommunications ...' (Duska & Duska, 2003, p. 188), described as 'action at a distance' (Munro, 1998, p. 202, quoting Robson, 1992).

The advances in telecommunications have also led to the basic accounting duties being outsourced (commodified). A conversation that Thomas Friedman had in India illustrates the outsourcing of USA accounting work (to avoid confusion between Thomas Friedman and Milton Friedman, the initials

of the 'T' or 'M' will be used respectively in the referencing when both authors are referred to in the same chapter):

Jaithirth "Jerry" Rao was one of the first people I met in Bangalore and I hadn't been with him for more than a few minutes ... before he told me that he could handle my tax returns and any other accounting needs I had – from Bangalore. No thanks, I demurred, I already have an accountant in Chicago. Jerry just smiled. He was too polite to say it – that he may already be my accountant, or rather my accountant's accountant, thanks to the explosion in the outsourcing of tax preparation. (T. Friedman, 2005, p. 11)

"This is happening as we speak," said Rai, ... whose Indian firm, MphasiS, has a team of Indian accountants able to do outsourced accounting work from any state in America ..." (T. Friedman, 2005, p. 12)

"We are doing several thousand returns," said Rao. What's more, "Your CPA" in America need not even be in their office. They can be sitting on a beach in California and e-mail us ..." (T. Friedman, 2005, p. 12)

"The accountant who wants to stay in business in America will be the one who focuses on designing creative complex strategies, like tax avoidance or tax sheltering, managing customer relationships," he said. (T. Friedman, 2005, p. 13)

Thomas Friedman finds further evidence of the situation in the *Accounting Today* journal:

L. Gary Boomer, a CPA and CEO of Boomer consulting in Manhattan, Kansas, wrote, "This past [tax] season produced over 100,000 [outsourced] returns and has now expanded beyond individual returns to trusts, partnerships and corporations ..." There are about seventy thousand accounting grads in India each year, he added, many of whom go to work for local Indian firms starting at \$100 a month ... Concluded Boomer, "The accounting profession is currently in transformation. Those who get caught in the past and resist change will be forced deeper into commoditization. Those who can create value through leadership, relationships and creativity will transform the industry, as well as strengthen relationships with their existing clients." (T. Friedman, 2005, p. 14, quoting *Accounting Today*, 2004)

Note, though, the freedom is not two-way. The accounting firms in the USA are able to profit from the low waged accountants in India, but those same

Indian accountants, even though they obviously have the skills to do the tax work for USA clients, are not able to actually work in the USA, not able to openly compete with the American accountants. Neither is the USA public sufficiently informed to be able to access directly the Indian accountants' skills at the lower rate. The AICPA expects its members to disclose to clients 'preferably in writing' if 'outside providers' may be used, but as Bandyopadhyay and Hall point out, there are problems with the suggested wording from AICPA for the disclosure. Included in AICPA's suggested wording is the following statement:

The firm may from time to time, and depending on the circumstances, use third-party service providers in serving your account. We may share confidential information about you with these service providers, but remain committed to maintaining the confidentiality and security of your information. (Bandyopadhyay & Hall, 2008, p. 414, quoting AICPA, 2005)

The problems with the above wording are 'that it does not specifically inform the client that their account is being off-shored, only that it may be', and 'it does not include the specific nature of the professional services to be outsourced, or the location of the third-party service provider'; also there is 'No mention of the reasons for the use of outside services ...' (Bandyopadhyay & Hall, 2008, p. 414-5).

Bandyopadhyay and Hall add that in their attempt to research this topic 'considerable resistance was met in obtaining information once the topic (off-shoring) was revealed' even though it was a 'confidential study' (Bandyopadhyay & Hall, 2008, pp. 416 and 422). (Sikka also comments on the lack of information available when trying to research some of the activities of the Big accounting firms (Sikka, 2008).)

The one-way freedom discussed above goes against Adam Smith's and Milton Friedman's concept of a free market. Considering that Milton Friedman is critical of 'citizenship be[ing] made a requirement for the practice of medicine' in the USA (M. Friedman, 1962, p. 154), he would presumably

oppose a similar restriction on accountants. He sees the restrictions as not being in the public's interest (even though the restrictions are put forward as such by those who benefit from them), and as being instead for the purpose of increasing the existing practitioners' incomes. (Any harm caused to the public by freeing up such jobs would be covered, as raised earlier in the discussion on Friedman's views in chapter 4, by the legal remedies already available in the USA – remedies for fraud or negligence for example).

Accountants also earn a substantial amount of money from advising government departments. Matthews et al. describe the situation in the UK:

Ironically, one valuable source of public sector-based consultancy work has been the investigations undertaken for the Department of Trade into companies where the auditors were in some cases under fire for failure to discover irregularities. It was reported in July 1994 that top accountancy firms had received more than £20 million for Department of Trade and Industry investigations and, in the same month, it was disclosed that the 'big six' had received nearly £12 million from the Department of Transport 1989-92 for rail privatization and other work (*Accountancy Age*, 14 July 1994: 1,11). (Matthews et al., 1998, p. 202)

Robson and Cooper (1990) also comment on accountants being involved in the deconstruction of the public sector and give examples of research that looks at accountants being involved in local government and central government (including the health service and so forth). 'Management in the public sector, including the possibility of its deconstruction, now involves accounting knowledge and knowledges that are coming to be seen as accounting' (p. 386). (See also Broadbent, 1998, p. 293, for the involvement of accounting in the education and health sectors.) As Matthews et al. (1998) comment, '[w]hatever the state of the economy or the political outlook of successive governments, the accountancy profession has generally flourished' (p. 240).

Matthews et al. researched the number of accountants involved as directors on the boards of government and privatised organisations:

By 1991, of course, most of the previous nationalized industries had been privatized, but we looked at nine organizations, some privatized and some still under public ownership, and found that seven had accountants on the board ... British Rail, then still publicly owned, had three accountants on their board. National Power had four accountants including the chairman ... and the chief executive ... The Port of London Authority had five accountant-directors ... British Steel had two, including its chief executive ... [and an accountant] was the chairman of British Coal. (Matthews et al., 1998, p. 239)

Accountants have been involved with government organisations for a long time, but their involvement in more recent times is different. As Munro (1998) says, 'McSweeney (1996) captures the difference, the general shift is one of public organizations moving from managers using "management accounting" (as a support service) to a new hegemony of "management *by* accounting"' (p. 202).

The extent of the change to broader consulting services is such, 'that the Big 5 accounting firms are no longer accounting firms, but management consulting firms' (P. F. Williams, 2002, p. 15). 'In their advertisements and on the home pages of their websites, international accounting firms typically do not refer to themselves as chartered accountants or CPAs' (Parker, 2005, p. 39). Abraham J. Briloff's early warnings from the 1960s (Hendrickson, 2001, p. 161) of the negative impact of consulting services on audit are often referred to in the literature. The published responses 'from partners at three major New England CPA firms' claimed that 'management advisory services do not compromise audit independence' and 'challenged Briloff's claims regarding the growth of management advisory services ...' (Neimark, 1996, p. 2). Neimark adds, '[t]en years later, *The Wall Street Journal* (21 September 1995) commented that the Big Six "accounting firms may soon have to be renamed the Big Six Management Consulting firms"' (Neimark, 1996, p. 2).

Zeff (2003b) refers to the pressure on partners to cross-sell the firm's services to clients and observes that the 'consequences of not meeting

“income targets,” where such existed, were various, including, at the extreme, dismissal from the firm’ (p. 271). Wyatt’s (2004) experience in accountancy confirms this pressure to cross-sell: ‘Those with a facility to sell new work advanced more rapidly. Cross-selling a range of consulting services to audit clients became one of the important criteria in the evaluation of audit partners’ (p. 50).

Even though audit gives the Big firms an opportunity to get a foot in the door for the consulting services, from Walters’ additional comments it is clear that the audit connection in other respects is seen as a constraint as the Big firms try to expand:

The aggregate effect of these diversifications is to change the balance of the professional mindset – moving farther from an audit mentality and toward a consulting mentality. The diversified service draws the firms increasingly into competition with other disciplines that have few or no professional/competitive constraints, and our traditional professional standards of conduct are a competitive handicap. (Zeff, 2003b, p. 272, quoting Walters, 1984)

In Molloy’s criticism of approaches taken by some members of the law profession, he raises concerns about the expansion of accounting firms. The accounting profession

... does not seem to be producing many icons of trust these days. Now the accountants’ mega firms want to establish law firms. This is fantasy. If mega firms in law or in accountancy want to be one-stop shops, why stop short of offering pedicures, vasectomies, and haircuts? (Molloy, 1999, p. 3) (See also Roberts, 2001, p. 598, for further discussion on accounting firms acquiring law firms)

Molloy (1999) adds, ‘[h]ardly surprising that The Economist once called the Big Six the foxes that guard the chicken coop’ (p. 4, quoting Strange, 1996).

This expansion into new services by accountants is a commercialisation of accounting and goes against the original separation of professions from business. Whereas the accounting profession gained professional status

(via audit/bankruptcy and management accounting) to protect the public from business, these new roles take on instead the completely different role of serving business; and, as Hermanson (2009) states: 'The once-noble accounting profession had become a business' (p. 8). Duska and Duska explain:

What seems to be going on, at least from the point of view of those critical of the direction the accounting profession is taking today, is that the profession has ceased to be a profession and succumbed to the pressures endemic to being a business driven by the profit motive. Some ... claim that the accounting profession ... has gotten involved in the enterprise of business ... Such critics would maintain that ... profit motivated business interests conflict with the accountant's professional responsibilities and corrupt the behaviour of the professional. This tension between the demands of professionalism and the demands of business has created an identity crisis in the industry today. (Duska & Duska, 2003, p. 174)

The 'growth and change ... in combination ... raise the question of whether contemporary accountants are professionals or business executives' (Lee, 1995, p. 62, referring to Dyckman, 1974, and Zeff, 1987). The SEC also indicated concern about the closeness between accountants and business organisations: '... the Chief Accountant of the Securities Exchange Commission has accused professional accountancy firms of being cheer-leaders for their clients' managements' (Lee, 1995, p. 10, quoting Schuetze, 1994).

AICPA 'opposed restriction on advisory services' when first raised by Briloff and others, as well as later on when raised by the SEC (Hendrickson, 2001, p. 161). Oliverio adds:

... the lobbying of the public accounting profession for its preferred position seems to have been intense and ... successful in Levitt's backing down re some of the most challenged changes, especially those related to non-audit services provided to audit clients. (Oliverio, 2004, p. 458, Arthur Levitt being a former SEC Chairman)

Enron was an example of both the revolving door practice and the combining of audit with consulting services. Even though the accounting profession had resisted changing either of these practices, the Enron crisis finally brought about change: The Sarbanes-Oxley Act of 2002 (often referred to as SOX or SOA) restricted both practices in the USA. As Geiger et al. (2008) state: 'The revolving door hiring practice was eventually restricted only following several sizable accounting scandals in which financial reporting officers had previously been employed at their companies' external audit firms' (pp. 59-60). The same can be said for the eventual restriction of non-audit consulting services to audit clients. Kliegman (himself a practising accountant, but outside of the Big Four) comments:

When Congress enacted the Sarbanes-Oxley legislation, it was for the purpose of preventing abuses that were ignored by the AICPA and widely engaged in by the Big Four ... (Kliegman, 2005, p. 26)

The AICPA and members of Congress willingly conspired to ignore and defeat recommendations of the then-SEC chairman, Arthur Levitt, which might have averted the Enron-type situations. When the material hit the fan, the very same people and organizations and Congress that refused to try to correct the problem jumped on the bandwagon to severely regulate the accounting profession ... (Kliegman, 2005, p. 27)

Similarly, Wyatt states that prior to Sarbanes-Oxley 'the accounting firms and the AICPA stonewalled all efforts by the Commission to limit consulting activities to certain types of services' (Wyatt, 2004, p. 49); and even though some separation of consulting services has now been demanded by Sarbanes-Oxley, 'these divestitures have been undertaken under duress rather than because firm leaders acknowledged the necessity of such divestitures ...' (Wyatt, 2004, p. 51).

Ironically, even though Sarbanes-Oxley came about because of the 'greed' of auditors (Kliegman, 2005, p. 26), it is auditors who have benefited financially from the Act – they became the specialists in the new requirements and have been able to charge a great deal of money for this new knowledge:

It has been nothing but fee income rocketing upwards on the back of all the issues the regulators have been toughening up on. The US Sarbanes-Oxley legislation, with its mass of interconnecting measures to ensure that the integrity of internal controls and the resulting information within companies were working correctly ... brought an army of auditors crawling all over the corporate systems. (Bruce, 2005, p. 2)

Ironically, too, those in society who cause extra regulations and extra costs to corporations in terms of increased bureaucracy are typically criticised as holding back the free market. And yet it is accountants who have in effect caused, and in the end benefited from, the extensive regulations and costs (from Sarbanes-Oxley and so forth) to be imposed on corporations.

Management and tax consulting services are still carried on by accountants following Sarbanes-Oxley. Audit is once again being charged out at a profit, instead of being used as a loss leader (Kliegman, 2005). And for management consulting services, the focus is now on gaining as many clients from amongst other firms' audit clients as possible:

It was thought that the passage of the Sarbanes-Oxley Act in the United States would prevent the "Big Four" of the accounting world from doing any management or related consultancy. Indeed KPMG spun off its management consulting, and it became Bearing Point. PWC sold its division to IBM. Ernst & Young spun off some operations to Cap Gemini. Deloitte Touche Tomatsu has a firewall between itself and Deloitte Consulting. But now they have returned to the sector: they do consultancy in "non-audit mode," ... and their consulting income is in the billions of dollars. (Gross & Poor, 2008, p. 64)

Hermanson adds:

Recent media coverage ... indicates that the large auditing firms are aggressively rebuilding their consulting practices, just a few short years after the major accounting scandals ... I fear that, even with the provisions of the Sarbanes-Oxley Act ... the re-emergence of consulting poses a significant threat to long-term audit quality and to perceptions of audit firms' commitment to protecting the public interest. In fact, I would go so far as to say that consulting services might cause the public company auditing profession to cease to exist in the private

sector, leaving us with government-run audits. (Hermanson, 2009, p. 6)

Even though the management consulting services are being offered to non-audit clients, Hermanson believes the 'impact on firm culture and incentives' will once again compromise auditors' independence – for example, pressure within the firm to sell the most lucrative services (and typically that would be from consulting services), and those being able to bring in the most profits being promoted over those with the technical knowledge needed for a high quality audit (Hermanson, 2009, pp. 8-9). Wyatt (2004) also acknowledges that problem. His concern is how 'the emphasis on increasingly conflicting services' in accounting firms has affected the 'internal culture' of those firms (p. 49) and that '[n]o piece of legislation is likely to solve the behavioural changes that have evolved within the firms over the past 30 years' (p. 51).

Tax consulting, according to Roberts (2001), was already being targeted to non-audit clients to a degree: 'That way, the firm's auditing practice will not have to address the need to establish a reserve on the balance sheet in case the scheme is detected and disallowed by the IRS (p. 601). Sarbanes-Oxley did not put restrictions on auditors providing tax consulting services to their audit clients and Barrett warns,

... the failure of the Sarbanes-Oxley Act ... to prohibit auditors for public companies from also providing tax services to audit clients or their executives and selling tax shelters to anyone remains a Trojan horse that threatens both the investing public and the auditing profession. (Barrett, 2004, p. 1)

Tax havens (also known as tax shelters, and offshore financial centres - OFCs) 'enact laws with the sole purpose of getting around the laws of other countries [and] sell their sovereignty and their law to the highest bidder' (Sikka, 2008, p. 399, quoting The Guardian, 2000). Not only does such an arrangement hold back the free market because of the lack of transparency involved, it also holds back the free market because it means the public in non-tax havens is disempowered by not being able to set effective rules of

the game (as Friedman puts it) for their own citizens. As Sikka comments, 'Major [accountancy] firms ... have considerable links with OFCs and expertise to craft positions that enable their clients to escape rules and regulations' (p. 399). OFCs are used by accountants for more than just tax havens though; Sikka's article looks at how the Big accounting firms influenced the legislation in Jersey, a tax haven, to gain for themselves 'considerable protection from negligence lawsuits' (p. 399).

Sikka's description of Jersey indicates the type of regimes that accountants are supporting: Jersey is,

... considered to be in the "top division" of offshore financial centres (UK Home Office, 1998), a "harmful" tax haven (OECD, 1998), a place with an "ugly reputation as an offshore home for controversial cash" (*The Guardian*, 2002) and "a pariah state" (*Jersey Evening Post*, 1998a) flying the "flag of piracy" (*The Times*, 2000). Jersey, part of the islands collectively known as the Channel Islands ... measures just 118km square, or 45 square miles (9 miles x 5 miles) and is located 14 miles (20km) from the coast of France and 100 miles (160 km) south of mainland Britain. The island, with a population of 89,000, is home to some £400 billion of financial deposits, more than 40,000 registered companies and numerous unregistered trusts and other businesses, the large majority of which are tax-exempt or subject to special non-resident tax regimes (UK Home Office, 1998). (Sikka, 2008, pp. 402-3)

For a considerable time, agriculture and tourism dominated the Jersey economy, but since the 1960s it took active steps to become an offshore financial centre and entice capital by offering secrecy, low corporate tax rates, weak consumer/employment protection laws and freedom from the need to publish company accounts (Hampton, 1996). (Sikka, 2008, p. 404)

Sikka adds: 'Jersey is neither part of the UK nor a member of the European Union (EU) and is therefore not subject to any British and/or EU laws' (Sikka, 2008, p. 403). The involvement of accountants in OFCs fits into the pattern that emerges of accountants being involved in the reduction of transparency in the economy, even though it was the increase in transparency they received professional status for and it is transparency that is essential for the operation of the free market.

The pattern of economic crises from inadequate transparency

Throughout the history of accountancy we see a pattern of economic crises arising from inadequate transparency for the public. For example, for discussion on the crises from the 19th century through to the 1929 crash and to the 1960s see Canning & O'Hogartaigh (2002, p. 17); for more on the 1960s see Williams (1980, p. 123) and Puxty (1990, pp. 353-4); for the 1980s see Franklin (1998, p. 25); for the 1990s see Chambers (1991, p. 21); and early on in the current century we have Duska and Duska (2003) quoting *Business Week* as saying, 'As shocking as Enron is, it's only the latest in a dizzying succession of accounting meltdowns ...' (p. 174, quoting Byrnes et al. 2002).

That brings us to the present global financial crisis which the public generally heard about, and started to feel, in 2008. If we look at the 'complex financial instruments' (Woods, Humphrey, Dowd, & Liu, 2009, p. 116) at the heart of this latest crisis, we see again reduced transparency within the economy. Accountants are typically involved, in various ways, with such instruments – from giving advice on them, to recording and valuing them. Because the instruments allow organisations 'to "slice and dice" their credit risk exposures' (Woods et al., 2009, p. 116) transparency to the public is lost. The public is not able to see clearly if lending institutions are holding enough assets to cover the risks of their lending; that is, the public is not able to see if the institutions are over-lending.

The debts mixed together (sliced and diced) in these complex financial instruments varied considerably in risk, 'ranging from AAA rated through to the lowest grade known as "toxic waste"' (Woods et al., 2009, pp. 130-1). The complexity is such that transparency is virtually non-existent. From that complexity, issues arise as to how much these sliced and diced packages are worth; how much they should be bought and sold for, and how to value them in the financial reports of those who hold them.

It is auditors who verify the values used in the financial reports, and on the topic of valuing those complex financial instruments Woods et al. (2009) write: 'When preparers and auditors have access to liquid markets that serve as a reference point for a valuation, reaching agreement on security values may be relatively simple but when market liquidity dissolves, problems begin to surface' (p. 118). A problem certainly arose once the market dissolved, but something is missed in their statement. Whilst in some situations market value may be a helpful indicator, what is missed in their statement is that when relying on market value what needs to be assessed is what is driving that market in the first place. Is the market being driven by a well-informed and empowered public (as required by Adam Smith and Milton Friedman), or is it not a properly functioning free market?

Woods et al. (2009) describe the market mechanisms for these packages: 'The lower the assumed risk, the higher the value ... and vice versa, and so issuers may be tempted to overprice ... whilst investors lack the full information required to make an independent judgement of the risk' (p. 116). As such, then, it is not a free market, and hardly a reliable market on which to value anything. The market was in effect driven by the sellers (and those who by their connection with the sellers, and lack of comment otherwise, indicate support for the sellers). Any accountants involved, then, would have been holding back transparency, and therefore holding back the free market. The eventual, and inevitable (given the 'toxic waste' involved), collapse of these financial instruments has meant they are now worth billions of USA dollars and UK pounds less than was previously perceived (resulting in bankruptcies, and extensive buy-outs by governments to try to prevent the further deterioration of the economy).

As for the role of accountants in this crisis, if history is to repeat itself the reliability (or lack of reliability) of the audited financial reports will be the focus, leaving sheltered from public scrutiny those accountants in non-audit

roles who were involved in creating and supporting the use of the financial instruments in the first place. Accountants are involved a long way before the auditing stage, to the extent that the instruments could not have proceeded without the approval and support of accountants. And yet their involvement from the beginning will typically not be assessed in terms of public interest responsibilities. In addition, what will happen, if history is to repeat itself, is that there will be more internal and external committees and reviews (in relation to the audit side of accounting only); and a lack of satisfaction with the outcomes of those committees and reviews (see for example Chambers, 1991, p. 22; and Oliverio, 2001, p. 16).

But perhaps the response to the 2008 global financial crisis will be different. Sikka (2009) and Woods et al. (2009) comment on how, compared to previous crises, auditors this time have not received much attention. Sikka lists the 'millions' (p. 3) paid out in the first quarter of 2008 to the auditors of banks which 'collapsed within a short period after receiving unqualified audit reports' (p. 1) (unqualified audit reports are supposed to signal to the public that the auditors are satisfied with the financial reports). For example, the auditors of Fannie Mae (Deloitte) received \$49.3million, and the auditors of Freddie Mac (PwC) received \$73.4million (pp. 2-3).

Fannie Mae and Freddie Mac subsequently became two of those requiring 'government support for their survival' (Woods et al., 2009, p. 115). Such government bailouts would not be necessary if the public was able to play its role (as explained by Adam Smith and Milton Friedman) in the free market. If the public had enough information it would then be able to decide for itself the level of risk it wanted to be involved in (as depositors in banks or purchasers of financial instruments, and also as employees and shareholders). When the risk is not transparent, the public has no hope of fulfilling its free market role. Although auditors so far have received little attention in this latest crisis, relative to previous crises, their role has not been completely overlooked. Sikka refers to several comments:

A former minister in Ireland has described auditors as a “joke and a waste of time. They are lick-arses for the management of companies, because corporate governance doesn’t work in our society ... the banks are in difficulty because of their auditing”. [Auditors] “are not independent but they are bloody-well paid” (Irish Times, 18 October, 2008). One commentator asked “What’s the point of having armies of number crunchers on fancy fees if they cannot spot the difference between a shack in Alabama and a triple-A security?” (The Daily Telegraph, 22 October, 2008). Another commentator wondered, “... did the so-called Big Four accountancy firms get paid by the banking industry to make all those sub-prime assets seem like they had value? Who was kicking the tyres and checking the inventories? Surely someone, somewhere with a degree in Adding-Up must have peered into the loan book and questioned its contents?” (The Daily Telegraph, 17 September, 2008). (Sikka, 2009, p. 4)

The reason for the relative lack of attention to auditors in this crisis is unclear. Woods et al. (2009) suggest perhaps the reason is that ‘the auditors confirmed values at the balance sheet date, and so cannot be blamed if they have subsequently changed.’ But as the authors then add, even though that may be ‘technically true’, it leaves ‘the profession vulnerable to questions as to the point of paying substantial audit fees for opinions that almost immediately become out-of-date’ (p. 128).

The UK did not restrict the sale of non-audit services to audit clients to the extent the Sarbanes-Oxley Act did in the USA. Sikka (2009) quotes a response by the Auditing Practices Board (APB), UK’s auditing standard setter: “After Enron we consulted on this question of auditor conflicts of interest and there was no appetite for a blanket ban on non-audit services” (Accountancy Age, 7 February, 2008). Sikka adds: ‘The APB is dominated by the auditing industry’ (p. 5). In Sikka’s list of banks mentioned above, he includes UK institutions. For example: From Barclays, PwC received £29million for the audit plus £15million for non-audit services, and from the Royal Bank of Scotland, Deloitte received £17million for the audit plus £14.4million for non-audit services (p.3).

The 2008 global financial crisis is just the latest in a pattern of economic crises arising from inadequate transparency for the public. In terms of the cyclical nature of the economic crises and the involvement of accountants, the matter of how well, or not, accountants are educated in economics needs to be revisited. As Sikka (2009) points out, auditors are expected to be able to gauge if their audit client is going to be able to continue operating in the foreseeable future, continue as a going concern that is (p. 2).

Typically, however, accountants are not well prepared for such a task because of their lack of education in the history of economics. Without an education in the history of economics, accountants are ill-equipped to recognise what drives the booms and busts.

The economic crises tend to be just far enough apart to enable each new generation of accountants, if not taught the history of economics, to go through their education totally unaware of the familiar pattern to the booms and busts. This problem not only applies to auditors, it applies to all of those accountants involved in creating and supporting the variety of schemes and policies that eventually, and inevitably, lead to the booms and busts. What is more, by the public remaining uninformed of the history of economics, and the familiar pattern to the booms and busts from the South Seas crisis to the 2008 global financial crisis, the public is neither able to protect itself nor demand change early enough.

Whilst the economic crises are regular enough to maintain some degree of focus on the public interest responsibilities of auditors, the public interest responsibilities of accountants who are involved a long way before the auditing stage – in roles that create, influence, and support organisations' strategies from the very beginning – are largely ignored. It is those other roles, which are now significant parts of accountancy, that are intricately tied in with the shift from accountancy serving the public, to accountancy serving business, and accountancy becoming a business. One question that arises,

then, is how could such a change in direction of a profession happen? That topic is discussed next.

How could such a change in direction of a profession happen?

The answer to this question is, at least on the surface, relatively simple: Once professional status is granted there is no follow up as such by the authority who granted the professional status. Mitchell et al. explain:

Having granted royal charters, the state pays little attention to the conduct of the accountancy bodies. The Privy Council Office informed us that “After the grant of a Charter of Incorporation, The Privy Council does not monitor the proceedings of the body of institution so incorporate in any way. This is partly because Charters are granted only to institutions which have already over a considerable period, demonstrated their responsible approach” (letter dated 24th July 1992). (Mitchell et al., 1994, p. 48)

The uncritical acceptance ... helps the profession to legitimize and maintain its monopoly of the external audit function and secure privileges, status and rewards for its members whose activities have expanded to encompass a diverse range of activities (Willmott, 1986). (Mitchell et al., 1994, p. 40)

Effectively then, the system of granting professional status relies on professional behaviour being monitored by others, not those who originally granted the privilege. The government, the public, and the professions themselves become the monitors of professions. The government and professions may respond to pressure from the public (if that pressure is strong enough), but the public needs to be both sufficiently informed and to have actual power (not just theoretical or legal power) to be able to put pressure on those institutions. Once the information is available, the public is in a position to examine the situation, to comment or complain, and potentially to bring about change. The basic requirements for the functioning of professions within society, then, are the same as the requirements for the functioning of a free market – the public must be sufficiently informed and empowered.

In terms of answering the core questions of the study, the progress made so far, then, is as follows. At the end of the previous chapter (The Professionalisation of Management Accounting) the answer to the first question was completed by determining that a focus on mere profit maximisation and business self-interest, irrespective of the impact on the public, would not fulfil accountants' professional obligations. Strategic-planning accountants' public interest responsibility could not legitimately be limited to financial loss. Accordingly, in cases such as Bhopal, Nestlé, and Pinto the strategic-planning accountants involved could be held responsible for the death and injury caused.

The current chapter focused on helping to answer the remaining two questions: the extent to which accountants and their profession have been fulfilling the obligations determined in question one, and why there has been so much silence on these matters to date. From this chapter we gain an understanding of patterns that have developed within accountancy, patterns that contribute towards answering those two questions. Whereas accountancy received full professional status to protect the public from business, the pattern that emerges since then demonstrates not protection of the public, but protection of business, and protection of the profession itself, unless forced to do otherwise. A pattern also emerges of accountants being involved in the reduction of transparency in the economy.

The lack of transparency means that the public is not sufficiently informed to be able to play its role in a free market or to be able to monitor the profession. As I argued in the chapter, it is important for the public to be able to monitor professions because once professional status is granted there is no specific follow-up by the authority who granted that status. The public is typically only informed of the audit related aspects of accountancy, leaving the public woefully uninformed of the non-audit involvement of accountants. That invisibility of certain aspects of accountancy has protected accountants in the non-audit roles from public scrutiny to date.

The next chapter examines the varying degrees of invisibility in accountancy, and other issues relating to the public being uninformed. I then examine accountants' education, work environment, and professional organisations – the two remaining questions in this study can then be fully answered.

15. The Uninformed Public

As determined so far in this study, an informed public is essential for the operation of the free market (and correspondingly for a special morality based on the free market), and is also essential for the monitoring of professions. This chapter examines the concept of an informed public further – in terms of accountancy and the development of Corporate Social Responsibility (CSR), and in terms of what is really meant by an informed public.

Audits provide the most publicly available information about accountants – auditing is the most publicly visible side of accounting. When a business collapses and it appears that a substandard audit has misled the public as to the health of the business, the name of the audit firm responsible is available from the annual report. The names of individual accountants involved are generally not included there, but individual names (at least at top management/partner level) may eventually become known to the public if investigations proceed and resulting court cases are reported on. Those who suffer financial loss from a substandard audit are thus able to know to some degree who to hold accountable for that loss. Financial losses are experienced at different levels of involvement with a failed business; for example, the money put into the business by the public (via say shares, investments, loans, debentures or pension plans) loses value, possibly becoming worthless, or employees lose their jobs, or a combination of these. Such loss is felt and quantifiable at a personal level. That is, those who have suffered the loss know how much money they have lost.

Tax schemes (aimed at finding loopholes to reduce the tax on wealthier members of society) are less visible to the public in that the loss suffered by individual members of the public is not so obvious. Members of the public do not receive a calculation showing how much more tax they need to pay to

compensate for those who choose to register in tax havens for example, nor a list of public health and education services they are missing out on because of the tax havens or other schemes. The public generally has to rely on the government to notice and investigate tax schemes. If the government decides to challenge a tax scheme in court or to change a law to tighten up a tax loophole, then the information about the scheme may to a degree become publicly visible via the media. On the whole, though, the names of individuals who devise or benefit from tax schemes are not available to the public.

Accountants involved in other non-audit areas also tend to remain invisible. For example, as mentioned in the previous chapter, accountants involved in the decisions that led to financial crises such as the 2008 global financial crisis will typically remain invisible. The same applies to accountants involved in the decisions that lead to cases such as Bhopal, Nestlé, and Pinto – cases that result in more than financial loss, cases that result in death and injury. Even if some of the organisations connected with that financial loss or death and injury end up in court, the names of individual accountants involved in the decisions that led to the harm will not usually become known to the public. As Peter French (1988) explains, the individuals within organisations are typically protected by the organisations from being identified.

Prior to the corporation becoming the popular form of business ownership, businesses were mainly individually or family owned (often passed on through generations), so if firms caused harm or damage the public would generally know who was responsible, and the name of the individual or family responsible would be tarnished. Large corporations, on the other hand (with their separation of management from capital), offer no such identification of individuals to the public. As Diggins (1978) comments, 'while the traditional notion of morality rested heavily on personal responsibility, the anonymity of corporate organization served to obscure individual obligation and indeed to

depersonalize the entire sphere of human relations' (p. 7). Miller (1989) too writes of the change that came about: 'Whereas wrongs were perpetrated by individual executives in corporations, it was the corporation itself that bore the responsibility, if blame could be extracted at all (p. 254). The concept of Corporate Social Responsibility evolved because of the protection of individuals within corporations.

Corporate Social Responsibility

Corporate Social Responsibility is the term commonly used to put the responsibility for harm or damage caused by organisations onto the organisations. The term is sometimes used in praise of corporations and is voluntarily adopted by some corporations to indicate that they are taking a socially responsible approach to their business activities. The term is also used in criticism of organisations. As Beauchamp (1993) explains: 'Problems of corporate responsibility are usually raised if a corporation has a myopic focus on profit making while excluding consideration of the other effects of its actions' (p. 123).

A criticism of the Corporate Social Responsibility approach is that it does not take into account that it is people who make decisions, not organisations – humans within the corporations make the decisions, not the organisation itself. There are different views on the issue. French (1988), during his discussion of processes that led to the DC10 tragedy (the 1973 crash) supports the CSR approach, not, as he explains, because it is the best approach to take, but because if individuals cannot be identified it is at least an attempt to hold the corporation accountable for the damage caused. This approach puts the responsibility to act as moral agents onto the corporate body, not the individuals involved (p. 281).

John Danley is one who does not support the CSR idea of corporate moral agency:

The corporation is more like a machine than an organism. Like machines they are human inventions, designed by humans, modified by humans, operated by humans. Like many machines they are controlled by the few for the benefit of the few ... It takes years of training to learn how to operate and direct one ... If a complicated machine got out of hand and ravaged a community, there seems something perverse about expressing our moral outrage and indignation to the machine. More appropriately, our fervor should be addressed to the operators and to the designers of the machine. They, not the machines, are morally responsible. To ascribe responsibility to such machines, no matter how complicated, is tantamount to mistaking the created for the creator. (Danley, 1988, p. 274)

The problem with the idea of corporate moral agency as Danley explains is that 'corporations have no pants to kick, no soul to damn' (p. 272). French agrees with these criticisms but still believes that putting the responsibility onto the corporations is better than nothing, because we will never know who the individuals are who should be held responsible. At least if there is corporate moral agency, it would mean some body of people, even if not the individuals themselves, could be held responsible (French, 1988). CSR is seen as a compromise then by both authors, too much of a compromise according to Danley, and the only choice according to French. Whilst the compromise CSR offers may bring about some benefit, by way of offering a basis for criticism of bad corporate behaviour and a basis for encouragement of good corporate behaviour, it is, I argue, an inadequate concept in terms of accountants' professional obligations.

What needs to be remembered about CSR is that it is a normative concept only, meaning that it is based on beliefs of what *should* happen or be done. Its normative nature makes CSR an insufficient standard for a full profession. As already explained in this study, there is nothing merely normative about professional responsibilities, they are obligatory. Accountants, because of their

full professional status, have obligations that other involved parties do not have. CSR ignores the roles of individual accountants in the decision-making process and their individual responsibility to act in the public interest. In Dewey's words, '[e]very act, every deed is individual' (Dewey, 1922, p. 240).

In essence, CSR protects accountants from their individual responsibility; it ignores the moral requirement of a full profession. As explained in the Defences chapter, chapter 11, professionals have a decision-making and advisory role. That role requires far more ownership, by professionals, of their decision-making and advice than CSR requires. As quoted in the chapter on Defences, professional 'service depends on individual qualities and individual judgement, supported by individual responsibility which cannot be shifted on to the shoulders of others' (Marshall, 1939, p. 331); 'Individual responsibility ... is the very basis of morality' (Gide & Rist, 1917, p. 611). By not being able to identify accountants involved, the public is unable to assess the extent to which accountants are fulfilling their public interest obligations.

Some within accountancy have taken up the concept of CSR, focusing on the reporting (and potential audit) of the social and environmental impact of organisations. Movements under such names as Corporate Social Accounting (CSA) (Jones, 1990, p. 272), and Social and Environmental Accounting and Auditing (SEAA) emerged in the 1970s (Owen, 2004, p. 24). As Owen stresses, these accounting approaches are 'normative' (Owen, 2004, p. 24). They evolved as a result of the dissatisfaction with corporate behaviour and the limited information in annual reports – the reporting only of the financial results from corporate actions, not the social and environmental results from those actions. The intention of these accounting movements is to make organisations more accountable for their overall impact on society, not just their financial impact, by including information in annual reports on the social and environmental impacts. (The term 'triple bottom line' arose to refer to the three

areas of a firm's result - financial, social, and environmental - whereas the term 'bottom line' only refers to the financial result.)

Owen describes SEAA:

It is largely predicated on the notion that conventional accounting practice, with its overriding focus on the interests of wealthy capital providers in (predominantly) western nations, is fundamentally flawed and pernicious in its influence. In simple terms, conventional accounting's pre-occupation with financial performance as the sole yardstick of organisational success leads inevitably to its implication in the environmental destruction, social dislocation and exploitation of the weakest members of society consequent upon such a narrow interpretation of 'success'. (Owen, 2004, p. 24)

Although the intention of these movements was to make organisations more accountable, the concept has been used instead as a public relations opportunity by the '[m]ore perceptive managements, particularly those of prominent corporations in environmentally or socially sensitive sectors ...' (Owen, 2004, p. 24).

Just as in other academic areas, within accountancy there is a range of thought with the less critical at one end of the spectrum and the more critical at the other end. Some of the movements within accountancy to make organisations more accountable for their actions were seen by the more critical accounting academics as focussing on 'simply the symptoms, rather than the causes' (Owen, 2004, p. 25). Puxty for example, as Owen recalls, described social and environmental accounting as merely 'rearranging the deck chairs on the Titanic' (Owen, 2004, p. 25, quoting Puxty, 1991). (Owen acknowledges the helpfulness of this more critical input to the debate.) Whilst the 'causes' now receive more attention than they used to, the focus is often by way of looking at accounting issues via a specific social or ethical theory or theorist. Although of worth in themselves, such approaches still tend to have a normative element to them.

In the real world, and within much of the literature on business ethics and accountancy, harm to the public from business is typically dealt with in one of two ways:

- If the harm is financial loss, the accounting profession is looked at. Typically the focus will be on audit, and the name of the audit firm involved is available from the annual report.
- If the harm is social or environmental loss, the business body as a whole is looked at via CSR. Typically, individuals involved in the decision-making process are protected by the corporations (hidden behind the corporate infrastructure).

If no individuals can be identified by the public, then no individuals can be held accountable by the public for their actions or lack of actions. If the business as a whole is the only body being held responsible then individual professional responsibilities are not examined. The public remains uninformed of the roles accountants are playing in the decision-making process and remains ignorant of the connection between the outcomes and the accountants involved. On that basis, the profession cannot be monitored by the public.

As mentioned in the previous chapter, the requirements for the monitoring of professions are similar to the requirements for the free market to operate. The monitoring of professions requires an informed public, just as the free market does. Because professions are not monitored by the institutions which initially granted them professional status, the public (along with the government and the professions themselves) has an important role in monitoring the professions. Only from being sufficiently informed about the behaviour of the profession can the public do that monitoring.

As I have described it so far, an informed public is required for the monitoring of professions and also for the free market to operate. But in fact they are more

interconnected than that; the public needs to be informed about the professions for the free market to operate in relation to those professions. The free market was designed to operate on the power of individuals, not the power of 'massive organizations' (Dewey, 1976, p. 230, citing Dewey, 1927). Only from being sufficiently informed can the public make the choices (such as what to buy, where to work, and what laws are required to protect it) as Smith and Friedman intended. The 'what to buy' includes services, not just products, and as such it includes professional services. In effect, then, when a public is uninformed about the behaviour of a profession the free market cannot operate in relation to that profession. Only from being sufficiently informed about the behaviour of the professionals, and the profession itself, can the public know who it can trust to act on its behalf.

At this point, we need to consider what is actually required for a public to be informed; an 'informed' public has more than just information available to it.

What is needed for an 'informed' public?

The public may be uninformed because it is not able to gain access to the information, but also it may be uninformed because of the language used by specialists:

... when mastery of the language of specialists becomes the admission ticket to participate in public debate, moral argument gets submerged ... All such discourses denude public life of ethical consideration, turning moral-political concerns into policy issues to be considered only by experts. (Williams, 2002, p. 14, quoting Brown, 1987)

In relation to the language of accountancy, in particular, Williams continues: 'Imposing a particular morality on the public under the guise of technical reasoning raises serious questions about the legitimacy of those who would presume to do so' (p. 14). It tends to be only the more critical researchers who consider the specialty language of accounting, and how that language can lead

to, or support, 'domination', 'repression', and 'social power' (Chua, 1986, p. 621). As Gaffikin (2005) comments, that research is ignored by many within accountancy (p. x).

Dewey (1976) refers to the need for communities to be 'equitably' informed and how important the 'perception and communication of consequences' within that community are; action within society will differ depending on whether the 'knowledge of consequences is equitably distributed' (p. 238, citing Dewey, 1927). As he points out, both 'communication and enlightenment' are required as part of being informed (p. 238, citing Dewey, 1927). For the free market, each individual is expected to be 'competent to know in all situations demanding political action what is for his own good, and competent to enforce his idea of good and the will to effect it against contrary forces' (p. 239, citing Dewey, 1927). But, as Dewey continues,

... knowledge is a function of association and communication; it depends upon tradition, upon tools and methods socially transmitted, developed and sanctioned. Faculties of effectual observation, reflection and desire are habits acquired under the influence of the culture and institutions of society, not ready-made inherent powers. (Dewey, 1976, p. 239, citing Dewey, 1927)

Sen (1999) argues along similar lines in his book *Development as Freedom*; it is the actual 'capabilities' of people that must be taken into account when assessing their 'real freedom' (pp. 53 and 36).

For Dewey, one of the problems is the lack of a genuine scientific approach in our society. The scientific revolution (whereby science replaced religion as the authority of knowledge) theoretically should have given the public more knowledge and power than it previously had under religious domination, but it has not, as he explains:

The scientific revolution of the seventeenth century was the precursor of the industrial revolution of the eighteenth and nineteenth. In consequence, man has suffered the impact of an enormously enlarged control of physical energies without any corresponding ability to control himself and his own affairs. (Dewey, 1976, p. 242, citing Dewey, 1927)

This mismatch (science developing faster than the knowledge and power the public requires to keep pace with the changes) has, according to Dewey, resulted in 'grinding poverty and luxurious wealth, brutal exploitation of nature and man in times of peace and high explosives and noxious gases in times of war' (Dewey, 1976, p. 243, citing Dewey, 1927). The use of science in a way that is disconnected from concern for its impact is 'a shirking of responsibility' and an 'adulteration of knowledge ... due ... to vested bias and prejudice, to one-sidedness of outlook, to vanity, to conceit of possession and authority, to contempt or disregard of human concern in its use' (Dewey, 1976, p. 243, citing Dewey, 1927). For Dewey, knowledge 'is wholly a moral matter, an affair of honesty, impartiality and generous breadth of intent in search and communication' (Dewey, 1976, p. 243, citing Dewey, 1927).

The strength of science is that it is based on observations, as opposed to just beliefs or untested theories, or, as Dewey (1976) puts it, 'general forces'. 'Natural science began to progress steadily only when general forces were banished and inquiry was directed instead to ascertaining correlations that exist between observed changes' (p. 205, citing Dewey, 1939). But science has only been used selectively in our society, what has been ignored is the need for the public to be able to use a scientific approach, to be able to 'employ certain methods of observation, reflection, and test rather than' (p. 222, citing Dewey 1939) having to rely just on 'general forces' to inform them on matters that affect them. The free market cannot function if the public has to rely just on 'general forces'; '... a thing is fully known only when it is published, shared, socially accessible ... for only by distribution can such knowledge be either obtained or

tested' (p. 243, citing Dewey 1927). Stigler raises the same issue in his discussion of the public being uninformed about economic matters:

The first and the purest demand of society is for scientific knowledge: knowledge of how the economic system works. Knowledge of the consequences of economic actions. Knowledge of the causes of unemployment, of the effects of various taxes, of the sources of income inequality. Whether one is a conservative or a radical, a protectionist or a free trader, a cosmopolitan or a nationalist, a churchman or a heathen, it is useful to know the causes and consequences of economic phenomena. (Stigler, 1982, p. 61)

A little further on, he continues:

I conjecture that a society – all of the society – eventually accepts the demonstrably valid discoveries of the relationships between actions and events. Indeed it would be a truly anti-rational society which refused to accommodate its policies to known characteristics of the world in which it lived. Even if one believes in witches he should take account of the difficulty women have in riding a broom. (Stigler, 1982, pp. 61-2)

What could be, and often is, put forward as an argument against the public being informed of matters relating to the behaviour of professionals, and their professions, is that each member of the public has neither the time nor the specialist knowledge to oversee every decision made in society that will affect them. But as Dewey explains, the public does not need to have all the specialist skills or knowledge if certain elements are in place:

The essential need ... is the improvement of the methods and conditions of debate, discussion and persuasion. That is *the* problem of the public ... this improvement depends essentially upon freeing and perfecting the processes of inquiry and of dissemination of their conclusions. Inquiry, indeed, is a work which devolves upon experts. But their expertness is not shown in framing and executing policies, but in discovering and making known the facts upon which the former depend ... It is not necessary that the many should have the knowledge and skill to carry on the needed investigations ... (Dewey, 1976, pp. 245-6, citing Dewey, 1927)

When the average person is not in a position to know or understand what is happening on the inside of organisations (be it from lack of access, time, knowledge, training, and so forth) the public has to rely on those on the inside to act on their behalf (Boisvert, 1998, p. 172, referring to Lippmann, 1965). Accountants *are* on the inside, and that brings us back to the question: To what extent have accountants been fulfilling their obligations to the public? When considering that question, as I do over the next three chapters, a more complete picture is obtained if we include accountants' education, their work environment and their professional bodies – all three areas are parts of accountants being on the inside. Mount refers to the impact of those areas on professionals:

People's perceptions of themselves and the situations they encounter are profoundly shaped by the preparation they receive to pursue a particular occupation. And we practice our professions within the expectations and standards of our peers as well as within the structures of organizations. (Mount Jr, 1990, p. 39)

Before proceeding on to the next chapter I will summarise the current chapter's contribution to the study. Issues arising from the public being uninformed are important to understand for this study for several reasons: The public must be informed for the free market to operate, the free market being the basis of the special morality that I am investigating; and the public must be informed to be able to monitor professions, because professions are not specifically monitored by the authorities which actually grant the privilege of professional status. By clarifying issues relating to the public being uninformed we are better able to answer the last two questions in this study. The clarification helps us to more precisely understand what is required of accountants for them to fulfil their public interest obligations; we are then able to determine the extent to which they have been fulfilling the obligations (the second question). It also helps our understanding of why there has, to date, been so much silence on the matters of the professional obligations of strategic-planning accountants when involved

in cases such as Bhopal, Nestlé, and Pinto, and the extent to which they have been fulfilling the obligations (the third question). That silence is explained, I have argued, by how uninformed the public, and academics, are on matters to do with economics and accountancy.

The current chapter highlights several issues relating to an uninformed public. Whereas the public gains some information about accountants involved in audit, non-audit accountants typically remain invisible to the public even if much harm or damage is caused as a result of decisions those accountants have been involved in. Accountants involved in decisions that lead to cases such as Bhopal, Nestlé, and Pinto typically remain invisible.

The concept of Corporate Social Responsibility evolved because of the protection (lack of identification by the public) of individuals involved in the decision-making within organisations when those decisions have resulted in harm or damage to the public. However, the normative nature of CSR, I have argued, makes it an insufficient standard for members of a full profession. CSR ignores the moral requirement of a full profession. It also ignores the roles of individual accountants in the decision-making process and their individual responsibility to act in the public interest.

When the public remains uninformed of the roles accountants are playing in the decision-making process, it remains ignorant of the connection between the outcomes and the accountants involved. On that basis, the profession holds back the monitoring of itself by the public, and by so doing it also holds back the operation of a free market in relation to the services that the profession provides.

This chapter also explained that there is far more to the public being informed than just having information available to it. The public does not need all of the

knowledge and skill of the specialist, but it does need to be able to effectively take part in the debate; it needs information, processes, and conditions of the type that enable such participation. The role of the expert is to make known to the public the facts the public depends upon.

The next three chapters continue the focus on answering the last two questions in this study – concentrating on accountants' education, their work environment, and their professional bodies.

16. The Education of Accountants

By examining the education of accountants we are able to see how well accountants are equipped, via their education, to fulfil their professional obligations. We know already, from the sections on economics, that accountants typically learn the misinterpreted version of the free market. This chapter extends the investigation into accountants' education further, by looking at what else they learn, or do not learn.

How accountants are educated

In 1963 Robert Trueblood 'noted that accounting curricula had not changed since the 1930s and that most accounting educators continued to focus on the technical aspects of the discipline' (Previts & Merino, 1997, p. 342). Some changes have come about. A push for change to accounting education came in response to competition from other business related courses and the perceived changing needs of business; such change aimed to give more opportunities for accountants and to better satisfy the needs of business (Previts & Merino, 1997, pp. 342-345). Recommendations put forward by the American Accounting Association (AAA) are examples of the response to competition and the perceived changing needs of business. (The AAA is an American organisation representing academic accountants, having changed its name in 1936 from the American Association of University Instructors in Accounting.) The AAA set up an Accounting Education Change Commission in 1989 to look into the education of accounting students. The Big accounting firms worked with the commission on this project and the accounting firms' input is contained in the monograph *The Big 8 White Paper – Perspectives on Education: Capabilities for Success in the Accounting Profession*, dated April 1989. Below is a sample of their comments:

Declining enrollments in accounting programs indicate that the profession is becoming less attractive to students.

Successful practitioners must develop and apply a wide range of professional capabilities to serve the business community.

... we are prepared to make a five-year commitment of up to \$4 million to support the development of stimulating and relevant curricula. (American Accounting Association (AAA), 1989, no page numbers indicated in the monograph)

As such, then, the funding would seem to be for education that serves the business community (and is attractive to students).

A push for change to accounting education has also come from those who do not accept that accounting is 'neutral'. This push is for recognition that 'accounting practice cannot be isolated from broader social practices; rather it is shaped by, but also helps sustain, wider social, economic and political developments' (Lovell, 1995, p. 60). Loft (1986) goes further and sees accounting 'not as merely a technical process, nor as a technical process with social and political consequences, but as an activity which is both social and political *in itself*' (p. 138). Loft's statement summarises the spectrum of opinion within accountancy on the neutrality issue: Those at one end (the mainstream) see accounting as a technical process and as such totally neutral, those towards the middle see it as having social and political consequences, and those at the more critical end see it as being social and political in itself.

Whether the neutral view is taught in accounting or not is completely up to the individual teacher (or the department employing that teacher). It is possible for accounting students to complete their entire accounting education without being aware of this debate, accepting instead the implicit assumption that accounting is neutral. Challenging the status quo, or even giving it scrutiny, is not compulsory for teachers or students in accounting education.

Even though accountants are now very much involved in the decision-making process and strategic planning of business, accounting is still portrayed, taught, and perceived as being neutral. As Funnell (2005) points out, what is 'most frequently portrayed' is that accounting is 'a value-free and neutral function' and 'practices carried out by accountants carry no sinister overtones or implications' (p. 25).

When accounting is taught explicitly or implicitly as being neutral, several issues are ignored. As Munro (1998) explains, businesses have used the illusion of neutrality to convince external parties to agree to certain action (or non-action) when the information presented has actually been far from neutral. 'The various practices by which financial data are collected, collated and considered are presented as concerned only with 'matters of fact'. Accountancy re-presents itself, variously, as "technical", "neutral", and "value-free", but this view ignores 'the large number of ways in which accountants are able to bias and manipulate the numbers' (pp. 200-201). Munro gives as an example the 'closure of UK coal pits' (p. 201), and McSweeney (2004) gives as an example the information used for union negotiations at Waterford Crystal Ltd (p. 208). Munro believes it is the flexibility of accounting in these matters that makes it so popular with business – accounting is able to be used selectively by organisations to justify decisions made. McSweeney adds that the use of accounting information has the impact of silencing others who are not familiar with, or trained in, that language (McSweeney, 2004, p. 216). Those 'silenced' by the language of accounting information are unlikely to question the neutrality, or otherwise, of the information.

Franklin's (1998) criticism is that accountants do not look at anything that is not quantified (p. 22), and only increase the inclusion of wider issues when legally required to (p. 24). The problem of what is quantified and what is not quantified is also referred to by Macintosh (1990): 'In organisations and in society alike, what is accounted for shapes participants' views of what is

important, sets the agenda, and determines how institutions function' (p. 153). Similarly Chua (1986) comments:

Accounting numbers give visibility to particular definitions of "effectiveness," "efficiency," and that which is "desirable" and "feasible." In this way, accounting numbers may be used to actively mobilize bias, to define the parameters permissible in organizational debates, and to legitimize particular sectional interests. (Chua, 1986, p. 617)

Chua continues: Accounting numbers are 'particularly useful for legitimization activities because they appear to possess a neutral, technical rationality. Numbers are often perceived as being more precise and "scientific" than qualitative evidence' (Chua, 1986, p. 617).

What accounting leaves out from its calculations gives it a power to exclude consideration of issues such as the social impact of its calculations. Keynes was criticising accounting back in the 1930s along these lines: 'Under the peculiar logic of accountancy, the men of the nine-teenth century built slums rather than model cities because slums paid' (Macintosh, 1990, p. 153, quoting Keynes, 1933). In conventional accounting, 'social costs ... and benefits are generally ignored because they are assumed to be immaterial, thought to be unmeasurable, or deemed to be non-quantifiable' (Freedman & Stagliano, 1990, p. 260). The problem of what is included or excluded is significant because as Freedman & Stagliano stress, 'the features which are excluded are among the most important human values, and also the requirements for survival' (p. 260). Similarly, Booth and Cocks (1990) criticise the narrowness of problem recognition within accountancy: '... an accountant's perception of what constitutes a problem becomes restricted ... Accountants are conditioned by a technical reductionism to exclude social and political factors from consideration, and to define as problems only those things that are not technically correct or elegant' (p. 399).

In his 2004 article 'On the Parallel Between Mathematics and Morals', Franklin sees equality as being 'central' to both, but the difference between

them is that empathy is needed for moral development, and not for mathematics. He points out: '... there are no child prodigies in moral philosophy ... Mathematics is different, naturally. It deals with a more impersonal subject matter, and there can be prodigies in mathematics as there are in chess ...' (Franklin, 2004, pp. 97, 116, 118). For moral development, Franklin adds, 'A person must come to base his judgments on his own understanding, not on the dictates of external authority' (p. 117). But as McPhail (2005) says, the accounting education system, at all levels (including when the students become practising professionals) is still 'producing students with sound technical skills but little critical or ethical' skills' (p. 214). Accounting discourse helps to obscure the moral dimension of accounting: 'The current dominant discourse of accounting is one of a technical, economic expertise ... [which] often leads to obscuring the essentially moral nature of most accounting problems' (Williams, 2002, p. 19).

Referring specifically to cost and management accounting systems, Loft comments:

The knowledge which such systems produce may appear, at first sight, to be an inanimate one – of prices, costs, profits etc. – but this is a misleading impression. The knowledge only has meaning in its relationship to the activities and actions of human individuals. It is intimately related to power. (Loft, 1986, pp. 138-9)

Just as in other areas of accounting, 'writers of management accounting textbooks ... have traditionally presented accounting as a set of neutral, objective techniques available to managers ...' (Roberts & Scapens, 1990, p. 107).

On the one hand there seems to be an acceptance within mainstream accounting that accounting is neutral and yet, as Macintosh (1990) points out, 'accounting authorities have long since argued that accounting is critical to decisions involving economic planning, industrial regulation, wage and

price determination, taxation, and international flow of money' (p. 153) which are anything but neutral. In essence, accountants cannot be neutral when they are involved in the decision-making process whereby alternatives are considered. Whenever there are alternatives to be considered, and decisions to be made as to what to include in (or exclude from) calculations, there is no neutrality.

The two different pushes for change in accounting education come from two different interpretations of the public interest responsibilities of accountants. The push responding to competition from other business related courses, and the perceived changing needs of business, interprets the 'business public' as being the accountants' public. Whereas, the other push (from those who do not accept that accounting is 'neutral') does not narrow the public down to a specific sector, it interprets the wider general public as being the accountants' public.

As Willmott (1986) points out, the 'business public' viewpoint ignores potential conflicts of interest between the business public and the general public (p. 574); it assumes 'that accounting serves the public interest simply by facilitating the smooth operating' of business (p. 317); it assumes the mere depth of the involvement of accountants in business means it is serving the public interest (p. 320). In other words, it assumes that the public interest is served by just maintaining the status quo. That is, if accountants have been able (and encouraged) to function on that basis up to now, then it must be the legitimate interpretation of their professional responsibilities. For the wider interpretation, acceptance of the status quo is not an adequate standard of reasoning, critical analysis is required. But, even though the wider interpretation is taken up by some in accountancy, the situations demonstrated by Bhopal, Nestlé, and Pinto have not yet been noticed or addressed in terms of accountants' public interest responsibilities. Such disasters still tend only to be looked at in terms of Corporate Social

Responsibility, not in terms of individual accountants involved in the decision-making process.

As Willmott (1990) states, to avoid 'blindness or insensitivity towards the construction and colouring of the reality of the public interest' critical analysis is required; '... it relies upon the capacity of human beings to reflect upon their situation, and thereby to recognise that the world-taken-for-granted is not "given" but, rather, a tapestry of conventions unstably bound together by relations of power'. These conventions are 'not objective, but highly partial' (p. 319). Similarly, Day (2005) writes: '... if we are not engaged in critique then we are just merely reproducing the status quo' (p. 117).

Criticism of the rote (or shallow) learning and lack of development of critical thinking skills in accounting education has been the subject of discussion and research for many years. Gray and Collison (2002) point out the problem is the 'unquestioned acceptance' by accounting students of what is, without considering the underlying 'moral and social choices' being made in the process of that acceptance (p. 17). Guthrie, Parker and Gray (2004) are, in addition, critical of the 'many' who teach accounting without challenging it (p. 411).

What seems not to be acknowledged by those who view accounting as neutral, and who consider they teach a neutral accounting, is that 'no education is politically neutral' (Mount Jr, 1990, p. 41, referring to Paulo Freire's work). Dewey agrees, as Boisvert (1998) explains: '... for Dewey, ... whether recognized or not, the pedagogical techniques, the subject-matter selected, the choice of texts' means 'education cannot hide behind the illusory ideal of neutrality' (p. 110).

What sort of education, then, are accountants expected to receive and to what extent is the accounting profession meeting those expectations? Such issues will be looked at next, and the discussion that follows, on teaching

and research in accounting, will clarify to what extent (and from which push) accounting education has changed.

What sort of education is appropriate for a profession?

Previts and Merino comment on the type of education considered appropriate for members of a profession:

The most widely accepted definition of a profession at the end of the nineteenth century was “an occupation that involves a liberal education or its equivalent and mental rather than physical labor” (quoted from Joplin 1914A). The concept of “liberal education: incorporated the Aristotelean concept of “spiritual condition” and was in its essence ethical. Education imparted not only academic skills but imbued the young person with such values as righteousness, wisdom, and a sense of justice. (Previts & Merino, 1997, p. 197)

For a profession, then, an education in the liberal arts, including ethics, was seen as appropriate. Even though liberal arts papers are now required for accounting qualifications (and for business schools that seek membership of the AACSB (Previts & Merino, 1997, p. 345)), many of the economics papers are considered to be liberal arts papers – including the highly mathematical/statistically based econometrics papers – as well as quantitative research methods papers, and mathematics papers.

Neimark comments on the lack of education in liberal arts in higher education in the USA:

The great mass of college students today are tracked out of the liberal arts (which are, at best, reduced to a “foundation”, a smorgasbord of introductory courses given in mega-sized classes, some of whose classification as liberal arts is itself questionable) and into vocational majors. (Neimark, 1996, p. 6)

She refers to the ‘virtual termination of access for the vast majority of young people to the liberal arts in any but the most superficial sense ...’ (Neimark, 1996, p. 6).

For the ethics requirement of the education, as discussed earlier, ordinary reflective morality is expected from members of a full profession. Questions that arise include these: How do we develop ordinary reflective morality? Can we learn ordinary reflective morality? What role does/can education play in developing ordinary reflective morality? Researchers have for years been looking into these matters. Several authors believe education can help to develop reflective morality, but not just any education. Dewey is one such author. Dewey's work on education has similarities with Adam Smith's and Milton Friedman's works in that at its very core is the importance of a free, and informed, public. 'For Dewey morality is to be found in and through education ...' (Lovell, 1995, p. 76); but education on morality must be such that it influences conduct, and that 'does not take place by means of sermons and exhortations' (Boisvert, 1998, p. 111, referring to Dewey's works). Mount (1990) also refers to the role education can play in developing moral judgment, and adds that research shows '[o]ne-shot efforts' even in the early stages of development of 'higher levels of perspective-taking' do not work (p. 143). Gorovitz (1988), on the teaching of ethics to medical students, states that moral reflection 'cannot be taught as if it were a body of information ... For new problems arise to humble old conclusions, and only an appropriately reflective individual can confront them insightfully' (p. 433). To what extent then is the accounting profession ensuring accountants are adequately educated for their professional responsibilities?

The teaching of ethics within accountancy

More ethics education for accountants has been requested via a variety of reviews of accounting education for many years. The Treadway Commission's report in 1987 (Cohen & Pant, 1989, p. 70), for example, was a trigger for much discussion on teaching ethics to accountants. However, that report and others have been in response to issues arising in financial reporting and audit, not issues that arise for accountants in cases such as Bhopal, Nestlé, and Pinto.

Even in audit there was still considered to be a lack of education in ethics. In his article in the early 1990s on ethical issues relating to financial reporting and auditing, Chambers (1991) describes the education of accountants as 'a massive exercise in brainwashing' (p. 22). He continues, further on: 'Brainwashed, but ignorant of the fact, they go out into the world of practice and propagate these fallacious doctrines' (p. 22). The cycle then continues as these students/novices later become members of the accounting committees that are 'empowered to set the tone of professional performance ...' (p. 22). Chambers is particularly scathing of accounting committees, the 'scores' of 'contemplative committees' that have been set up 'for decades' (he includes the Treadway Commission as one of them) (pp. 21-2). The result is a system 'devoted ardently and assiduously to masking the facts and suppressing the truth' (p. 22). Chambers recalls his own experience:

Some years ago I expressed an interest in the work of one such committee, at a distance. Quite unprompted by anything I had said, the communication in reply said: "We are anxious to avoid getting involved with any question of morality". (Chambers, 1991, p. 22)

He adds: 'Piecemeal patching will not make a worm-eaten craft seaworthy ...' (Chambers, 1991, p. 23). Some might argue that changes made since Chambers' article rectified the situation, but the Enron crisis (and others) showed otherwise. 'The Enron crisis could be seen as an indication that there was still a lack of ethical training/education of accountants by then' (McPhail, 2005, p. 214). The Enron crisis became yet another trigger for more discussion on ethics education in accounting. Just as before, the discussion on ethics education stays primarily limited to financial accounting and auditing (financial loss). The discussion has yet to extend to accountants involved in human loss as suffered in cases such as Bhopal, Nestlé, and Pinto.

What needs to be emphasised here, though, is that accounting students may actually learn about Bhopal, Nestlé, and Pinto (or other business tragedies) by either choosing to take a special business ethics course, or when, as is the case in some business schools, a component of business ethics is made compulsory for all business students. But such courses are not sufficient for members of a full profession. What tends not to be highlighted is the difference between *business* ethics and *professional* ethics. Business ethics courses are often mentioned as if they are appropriate for accounting students, without acknowledging the essential difference between accounting students and students of other business-related subjects. Accountants, being members of a fully professionalised occupation, have a specific responsibility to the public interest that other business-related occupations do not have. Business ethics courses may cover the normative concept of corporate social responsibility, but for accountants there is no merely normative aspect to their public interest responsibility. When accountancy is seen as no different from, and is grouped in with, other business-related occupations, such an approach ignores the history of how accountancy obtained professional status and ignores the professional contract between professions and society.

The teachings within business schools have the potential to confuse accounting students as to their responsibilities. As well as issues arising from the teaching of economics to accounting students (as discussed earlier), the teaching of management also has the potential to conflict with accountancy's obligation to serve the public interest. Waddock (2004) refers to 'the supposedly value-neutral economic theory that currently dominates management thinking' (p. 24), and argues that 'most management theory ... fails to educate managers about the consequences of their decisions' (p. 26). As with the education of economics, the problem is how convincing that management education is: 'A key problem', Waddock states, 'is that management education works. It really does convince students that a

certain system of thinking about business is the right one. ... to hell with the ecological, individual, community, or societal consequences' (p. 27).

Interestingly, when business ethics courses have been available to accounting students, but not compulsory, research shows that there has been little uptake by accounting students: 'Among schools offering ethics as an elective, only 19 percent of the accounting majors chose to take the course' (Cohen & Pant, 1989, p. 73). There is little chance that the accounting students rejected the business ethics course on the basis that they had taken a more appropriate professional ethics course instead. Professional ethics is typically not taught at university (or other tertiary institution) level to accounting students. A module on professional ethics is taught as part of the additional qualifying/certifying process run by the profession itself. However, such modules are not open to scrutiny from the outside, and are not subject to the checks and balances that are expected to operate within the university system for teachers and researchers. This brings us to the question of who should be teaching accounting students (and practising accountants) professional ethics.

Who are appropriate teachers of professional ethics to university accounting students (and accountants)?

Teachers of ethics to professionals typically have either primarily ethics training plus some training in the specific profession, or training in the specific profession plus some competence in teaching ethics (Loeb, 1988, p. 324, referring to May, 1980). Research on the teaching of medical ethics found that ethics taught by medical academics was more effective than when taught by 'theologians/clergymen, philosophers/ethicists, or other types of teachers.' (Loeb, 1988, p. 325, referring to Pellegrino et al., 1985). Loeb points out that Grimstad has doubts however about accounting academics being able to fulfil such a role:

To teach ethics it is necessary to have an historical perspective, a broad understanding of societal forces and a philosophical orientation.

The accounting teacher, who in his own educational background and professional training may not have acquired these outlooks, is not likely to explore the “whys” of ethical standards or to question their validity. (Loeb, 1988, p. 325, quoting Grimstad, 1964)

Suitably knowledgeable accounting teachers are likely to be rare, then. For a start, the history of accountancy is not a compulsory subject for accountants and more often than not only surface level, complimentary, coverage is given. (See for example Willmott, 1990, and Booth, 1990, for critical perspectives on what is left out). Left out are the power struggles, conflict, elitism, and the original agreement of the profession to protect the public from business. It is the clean-cut version of accounting history that gives the impression that the mere depth of the involvement of accountants in business means it is serving the public interest (Willmott, 1990, p. 320). Writing about the typical approach of accounting textbooks, Napier (2006) says, ‘by presenting accounting in a technical and ahistorical manner, they promote a specific image of accounting as a collection of “well tried and tested” techniques’ (p. 449, quoting Weetman, 1999).

The spectrum of thought within accountancy on the matter of the history of accountancy can be seen by Chua's (1986) comparison between the orthodox/mainstream view at one end of the spectrum, and the critical/radical view at the other end. As Chua points out, for critical researchers, ‘[t]he emphasis on long-term historical studies is especially important given the prior belief that the identity of an object/event can only be grasped through an analysis of its history – what it has been, what it is becoming, and what it is not (pp. 620-1). Chua’s comparison of two historical studies (one mainstream, one critical) on ‘the development of accounting theory and practice’ demonstrates how different the versions can be: The mainstream approach concentrates on market efficiency and how accounting fits in and advises that ‘for the firm to continue to maintain ... [a] comparative advantage, it has to continually develop cost-efficient accounting controls that provide the information required to meet the demands of a changing environment ...’. The focus is on ‘economic

advantage' being maintained. 'In addition, the concepts of allocation, monitoring, hierarchy, and efficiency are seen as non-problematic' (pp. 622-3). The critical perspective on the other hand brings out 'accounting discourse as being actively involved in social control and in conflicts between different classes of people' and how specific 'concepts of value became dominant because they benefited the interests of dominant groups in society during a particular period'. Accordingly, accounting is not 'seen as a technically rational, service activity which is divorced from wider societal relationships' (p. 623).

Similarly, Miller and O'Leary (1989) outline two different versions given of the history of the corporation, the socially functional and the critical. The first brings out the 'greater economic efficiency' of the corporate structure, the second brings out 'the exploitative nature of the modern corporation' (p. 251).

Because the critical perspective is often seen 'as marginal and eccentric' within accountancy 'by conventional accounting scholars, brought up in the traditions of positivism and economic understandings of accounting' (Cooper & Hopper, 1990, p. 2), the first of the two options in each of the examples above is more likely to be presented in a history of accountancy.

Obtaining funding for historical accounting research can be difficult as it has to compete with the 'more technically oriented' research projects (Napier, 2006, p. 468). Of the two, historical accounting research is less likely to be supported given the 'increasing pressures for non-government funding' in many universities today (Day, 2005, p. 113). Day also comments that those universities that have received funding have not necessarily been the most deserving, but have tended to be those that put more effort into looking the most deserving.

The second reason suitably knowledgeable accounting ethics teachers are likely to be rare is that choosing accounting ethics has not been considered a wise academic career move (Cohen & Pant, 1989, pp. 71-80; Loeb, 1988, p. 326-7). Obtaining research funding for accounting ethics research faces the same problem mentioned above in relation to funding for historical studies in accounting.

The Enron collapse has encouraged more work on ethics: '... the collapse of Enron and the subsequent further disclosures of accounting irregularities at a number of other US based companies have focused attention on what is wrong with all aspects of accounting ...' (Oliverio, 2004, p. 453). Ironically, Arthur Andersen (the accounting firm involved in the collapse of Enron) was involved in developing ethics courses for accountants. Some years before the collapse of Enron (and the accounting firm itself), Loeb (1991) wrote: '... Arthur Andersen & Co. has developed educational materials relating to accounting ethics and is holding conferences that include matters relating to accounting ethics education' (p. 77). McPhail (2005), after the collapse, wrote that the lack of ethics training of Andersen's staff seems to have been one of the major problems leading to the Enron collapse (p. 214).

University professional schools, according to Barber (1988), have the responsibility and power to teach, and impress upon students, the moral issues and requirements because academics are in a better position (less restrained by outside influences and more independent) than practising professionals. Those actually practising in the real world are under outside pressures that the academics are shielded from; the academics are therefore more free to criticise behaviour that may be happening in the real world (p. 37). However, freedom within universities to criticise behaviour in the outside world may not be as easy these days as Barber suggests (or a wise career move), considering that receiving funding from outside sources, particularly from business and professional organisations, is seen as being important to ensuring continued promotion, or even employment. The

funding offered by the Big accounting firms in the Big 8 White Paper, as mentioned earlier in the chapter, is an example of the problem given that they see the profession's role as serving the business community. In addition, in terms of Barber's comment, accountancy (unlike the medical and legal professions for instance) does not typically function as a completely separate professional school within universities. Instead, accountancy is more simply seen as a business-related subject and therefore combined with other business-related subjects within the business schools of universities.

Another issue raised about academia by both Mount (1990, pp. 40-41) and Podolny (2006, p. 2) is the problem of having distinct departments within universities – academics become specialists of only narrowly defined areas, for example 'the philosophy department' becomes solely responsible 'for morality' (Mount Jr, 1990, p. 41). As a result, issues are perceived only in isolated, narrow contexts within each subject area. The big picture is excluded from contemplation, and moral philosophy becomes isolated (quite different from Adam Smith's day, as discussed earlier).

Teaching versus research for accounting academics

University accounting academics are no different from other academics in that, typically, their research is recognised in career terms more than teaching. Neimark explains from her own experience the priority given to research, and publication of that research, over teaching:

In 1979, I attended the American Accounting Association's doctoral consortium in Honolulu, Hawaii and, at one of the roundtable meetings with a distinguished accounting faculty member, I had the temerity to ask a question about teaching. After the laughter subsided, the distinguished faculty member explained that what mattered for tenure and promotion was publications; he had nothing further to say about [sic] teaching. I don't remember the subject coming up again at the consortium. (Neimark, 1996, p. 1)

From the choice of 'publishing, teaching, administration and community service' the majority of interviewees chose publications as by far 'the most important performance area for positions, tenure or promotion' in Parker,

Guthrie, and Gray's research (Parker, Guthrie, & Gray, 1998, p. 381). The interviewees also indicated there was a difference between 'the official policy line' and the 'practical' recognition of the various performance areas assessed (Parker et al., 1998, p. 381). As is the case in other academic fields these days, the more often an accounting academic's work is published in the 'top' academic journals, the more likely that academic will be promoted – creating what is commonly referred to as the 'publish or perish' culture within academia. Because textbooks are low on the list of publications recognised for promotion (Parker et al., 1998, p. 386), writing textbooks that comprehensively cover historical or ethical issues is also not a particularly good career move.

Developments within accounting research, discussed next, give an indication as to why accountants' involvement in cases such as Bhopal, Nestlé, and Pinto have not to date been addressed by accounting research (or teaching).

Accounting research

A 'dramatic shift in the research methods employed in accounting ... took place around 1970' with the increased use of computers and 'statistical research techniques', Gaffikin explains (2005, p. 9). Previously,

... research was concerned primarily with normative prescriptions to improve the quality of accounting and auditing practices. Different forms of accounting practice and audit technique were offered, explained, discussed, and criticized. Research projects arose from problems identified in practice. Research careers and reputations were made and broken by normative research. However, the "publish or perish" culture and the emergence of computerized economic and financial databases changed this world. Research, particularly in the U.S. where there was sufficient funding, was quickly dominated by empirical research projects based on economic or finance theories and the use of economic or financial data. Doctoral students in economics and finance gravitated to accounting because they were using accounting data in their projects, and job opportunities and compensation in accounting were more accessible than in economics or finance. The use of accounting data by these researchers, however, did not mean that they comprehended its nature or limitations. Major research journals focused largely on issues concerning capital markets and economic agency. (Lee, 2004, p. 63)

For more detailed discussion of the changes see Laughlin (1995, p. 64). According to Lee (2004), '[w]ith the exception of critical research, normative projects in accounting and auditing disappeared completely in the 1990s ...' (pp. 63-4). Normative research was dismissed by Watts and Zimmerman, and others, for being subjective and non-scientific (p. 64); to them an economics-based approach was needed. The concerns that arose from Ricardo onwards about the shortcomings of economic research (as discussed earlier, in the section on Economics) have been largely ignored in accounting. Instead, the much-criticised mainstream approach developing in economic research was encouraged in accounting to the extent that the AICPA and the AAA gave awards to Watts and Zimmerman for works that emphasised an economics-based approach (Gaffikin, 2005, p. 13). Gaffikin quotes Christenson on the awards: 'That these articles are considered "top of the heap" is a sad commentary on the standards used in evaluating contemporary accounting research' (p. 13, quoting Christenson, 1983). Lee is similarly critical: 'Researchers such as Watts & Zimmerman (1986) believe that to offer solutions to problems is unscientific and therefore unacceptable as research. This attitude beggars belief' (p. 64, note 21). Instead of the mainstream 'empirical calculative' research increasing our understanding and knowledge, it 'dominates and limits our capacity to think and imagine' (Neimark, 1996, p. 9). The economics-based statistical research techniques would not, for example, pick up issues that arise for accountants involved in cases such as Bhopal, Nestlé, and Pinto.

Lee (2004) describes the emphasis put on quantitative research for PhD study in the USA: '... American doctoral research is almost always based on quantitative models in which a limited number of variables are defined and statistically manipulated ...' (p. 59). Lee continues:

It is also unsurprising that research in the U.S. is dominated by a design built on the statistical manipulation of economic and financial databases. Most American researchers of the last thirty years have been trained in it because it is compatible with the need to maximize

the number of journal 'hits' in a short period of time. It can be completed conveniently in the summer semester. (Lee, 2004, p. 63)

He adds:

... non-U.S. researchers are better able to deal with qualitative research because American researchers rarely see it or, indeed, know of its existence. But this limits the publication opportunities for non-U.S. researchers. It is a matter of fact that few researchers not trained in American universities publish in American research journals. (Lee, 2004, p. 62)

If American research journals were not ranked as being 'top' journals, there would not be so much of a problem. But they are. For example, one of the 'top' journals, if not *the* top journal in terms of career recognition, is the *Accounting Review*. As Lee (2004) points out, 'Historical, organizational, and sociological research studies are rarely published' in the *Accounting Review*, which is the 'flagship journal of the American Accounting Association' (p. 68). He adds:

Of course it can be argued that there are specialist journals for these different research designs. But that in my view is not the point. The *Review* is intended as a general journal according to its published statement of purpose. (Lee, 2004, p. 68)

To carry that argument further, even if such articles can be published in other journals, if they are not recognised by the 'top' journals as being worthy, then as a career move it would be a disadvantage to concentrate on those other areas. And because academics only tend to read the journals they wish to be published in, the historical, organisational, and sociological research articles (including articles on ethics) will not generally be read by those concentrating on the economics-based approach. Lee describes the limited reading by researchers in the USA:

Few American researchers appear to me to be aware of research undertaken outside the U.S. This is partly due to a national insularity but has mainly resulted from training in doctoral programmes. American students read previous research only to the extent they need to use it in a particular project. American researchers – and probably

other researchers – do not read widely and only study in their narrow speciality. Buried within this problem of a lack of general knowledge is a specific bias towards American journals because these are regarded in the U.S. as the ‘top’ outlets for research. Few if any, non-American journals are ranked as highly as American journals ... The editorial requirement in journals such as *The Accounting Review*, *Journal of Accounting Research*, and *Journal of Accounting and Economics* is that contributors demonstrate a comprehensive awareness of previous research in these journals. (Lee, 2004, pp. 65-66)

From the acceptance and non-acceptance of particular research approaches (and corresponding journals), we now have within accounting academia ‘hermetically sealed academic camps with their own journals’ (Berry & Otley, 2004, p. 250). Laughlin (1995) comments similarly: The ‘increased tension between different proponents of various approaches’ has led to ‘battle lines’ being formed (p. 64). In Berry and Otley’s words, ‘An excessive pre-occupation with rigour in research methods has led to signs of ‘rigor mortis’ in the development of the discipline of accounting’ (p. 249).

Jean Bédard and Yves Gendron also write on the situation, and how the pressure to publish in the ‘top’ journals leads to pressure to concentrate on quantitative research:

Academics in several parts of the world are subject to institutional pressures to publish. For accounting researchers in North America, institutional pressures to publish in accounting journals that are viewed generally as top-quality journals (i.e. *Accounting Review*, *Journal of Accounting Research*, *Journal of Accounting & Economics*, *Contemporary Accounting Research* and, to some extent, *Accounting, Organizations and Society*) are significant. (Bédard & Gendron, 2004, p. 192)

Thus, to maximize their wage increases and/or avoid being laid off ... it is to the advantage of a large number of North American accounting academics to publish in top journals. ... However, publications in such journals are a significant challenge for qualitative researchers. (Bédard & Gendron, 2004, p. 192)

What needs to be emphasised at this point is that Lee (2004) is not saying that qualitative research is more important than quantitative research – he

dismisses the idea that that either qualitative or quantitative research is better than the other, both are important. He warns that 'neither group should regard the other as either stronger or weaker. Both have significant contributions to make to knowledge generally and the work of the accountancy profession particularly' (p. 69). Dowd (2004) agrees, 'quantitative and qualitative approaches are each valid within their respective (but not mutually exclusive!) domains ...' (p. 517). Those who assert that quantitative research is superior because of its lack of subjectivity, seem to be ignoring the subjectivity that is involved in all research: 'The relevance and interest of a particular research approach is itself a matter of subjective judgement' (Berry & Otley, 2004 , p. 249). As Laughlin (1995) comments, '*all* empirical research will be partial, despite any truth claims to the contrary, and thus it would be better to be clear about the biases and exclusions before launching into the empirical detail' (p. 65). Laughlin adds: '... choices are inevitably made whether appreciated or not' (p. 65).

All of the issues I have raised above help to indicate why accountants' involvement in Bhopal, Nestlé, and Pinto has generally not been picked up by accounting research to date. There is also the problem of how difficult it can be to gain access to organisations for research (see for example Bédard & Gendron, 2004). An additional barrier to researching accountants' involvement in cases such as Bhopal, Nestlé, and Pinto, is that access after anything significantly bad occurs is 'almost impossible' (Berry & Otley, 2004 , p. 243).

If accountants were involved as consultants, Turley's (2004) experience indicates that it would be difficult to gain access to 'real data' on their involvement, 'on the grounds of confidentiality'. Access has been denied on the basis of confidentiality 'despite the fact that no specific identification of clients was needed ...' (p. 455). Zeff (2003a) comments about similar difficulties when trying to research about changing values and attitudes within the Big accounting firms.

Within university systems, research is expected to inform the academic's teaching. So, if a teacher uses the mainstream research approach to accounting, it would seem to follow that their teaching would be influenced by that research. Similarly, it would seem to follow that for those involved in critical research, their teaching would be influenced by that research. However, Day's research indicates that does not necessarily happen. Some of the responses indicate why:

If I don't teach just what is in the textbook, the students will cause problems for me in my teaching evaluation scores and I won't get my contract renewed/tenure/promotion/salary supplementation.

If I encourage students into critical work, I am doing them a disservice because no one will employ them.

It's too hard. (Day, 2005, p. 115)

The discussion up until now in this chapter has assumed that accountants have been educated in accounting via majoring in the subject at tertiary level. The change in the Big accounting firms towards more consulting services, however, led to the invention of a different education option for their potential employees. Wyatt gives the example of what happened at the firm Arthur Andersen: Andersen wanted

... to attract new personnel with different skill sets from those embodied in the accounting majors Andersen had historically recruited. The firm decided to recruit good students, regardless of their major, from a fairly wide range of top-tier universities. This program began in the early 1960s with the requirement that all of these so-called 'oddball' hires would go through an intensive six-week accounting education course held in the summers at the University of Illinois. The object of this crash course was two-fold: to provide some financial accounting background to new hires who generally had little or no accounting or business education and to help the new hires get prepared eventually to take the CPA exam. The State of Illinois (and later many other states) agreed to give the new hires the equivalent of 10 or 11 semester hours of credit in accounting for purposes of qualifying to sit for the CPA examination. This development was extremely important as Andersen (as well as most, if not all, of the other firms) required new

managers and new partners to have passed the CPA exam, regardless of their area of practice. (Wyatt, 2004, p. 47)

The hiring program survived and prospered for about ten years and produced a disproportionately large number of eventual partners in the consulting practice as well as a few audit and tax partners ... Over this ten-year period, however, the consulting practice grew so rapidly that it could not attract a sufficient number of new hires. Eventually these pressures led to policy changes that eliminated the six-week accounting course for new hires and also eliminated the requirement that new managers in the consulting area had to pass the CPA examination. (Wyatt, 2004, p. 47)

The result is that these non-accounting graduates could end up as profit-sharing partners, with 'little or no understanding or appreciation' of the professional responsibilities of accountants (Wyatt, 2004, p. 47-8).

To be a healthy profession, according to Mount (1990), we need members who 'will question the established versions of professional roles ... and sound the alarm when professionals become uncritical of the economic and political status quo' (p. 70). The accounting profession has not, generally speaking, been encouraging such 'health'.

There is a similarity between what has been left behind in the teaching of Smith's and Friedman's works, and what has been left behind in the teaching of Luca Pacioli's work. Pacioli is commonly referred to as the 'father of accounting' or the 'father of the balance sheet' because in 1494 'he published the first description of the double-entry system' in his *Summa de Arithmetica, Geometrica, Proportioni et Proportionalita* (Fischer, 2000, p. 299). Note that Pacioli is not credited with actually inventing the system, but 'articulating' it (Fischer, 2000, p. 299). The term 'double entry' simply means that each transaction has two impacts, one requiring a debit entry and the other requiring a credit entry. By recording the two impacts in that way, financial reports always 'balance'. Double entry has remained the method of recording accounting information to this day. Just as Smith's and Friedman's social and ethical concerns have been left behind during the

continual use of their works, Pacioli's social and ethical concerns too have been left behind during the continual use of his work. Fischer explains:

It perhaps ... seems ironic that the method for the objective calculation of business profits ... was first broadly communicated by not only a Catholic clergyman, but by a follower of St. Francis of Assisi, who is so often linked with the ideal of "poverty". (Fischer, 2000, p. 300)

For Pacioli, the making of profits by business was appropriate as long as they were 'reasonable' profits, but he also saw businesses as having social and ethical responsibilities (Fischer, 2000, p. 305). Those views of his are typically excluded when accountants are taught, throughout their accounting education, what is commonly considered to be 'his' double entry system.

In summary, the education of accountants is ill-equipping accountants in terms of their obligations to the public. Because accountants are on the 'inside' of business, they are relied upon by the public to act on the public's behalf. But the education of accountants does not play its role in preparing accountants for the responsibility, and is falling short of what is appropriate education for members of a full profession. From the sections on economics, we know that accountants are most likely to learn the misinterpreted version of the free market. Such an approach is further evident from this chapter's examination of the education of accountants – the focus of their education generally being on satisfying the needs of business, or the profession itself, and not on the protection of the public from powerful business interests. Based on how accounting is taught, and researched, accountants are unlikely to *know*, accurately, their public interest obligations, let alone be equipped to fulfil them.

The next section examines the work environment of accountants, to explore the extent to which accountants, when out in the real world, have been fulfilling their obligations to the public.

17. The Work Environment of Accountants

This chapter concentrates primarily on helping to answer the second question in this study; that is, to help determine the extent to which accountants, and their profession, have been fulfilling their public interest obligations to the public. By examining the work environment of accountants we are able to see how well accountants, when out in the real world, have been fulfilling the obligations.

From earlier chapters we know that a focus by accountants on mere profit maximisation and business self-interest, irrespective of the impact on the public, would not fulfil accountants' professional obligations. Accountancy received full professional status to protect the public from business (as also explained in earlier chapters). Accordingly, this chapter examines the extent to which the accounting profession has been maintaining a protective role towards the public, as opposed to a role based on mere profit maximisation and business self-interest.

Accountants and their work environment

The work environment of accountants is primarily the business world and, as Fineman (1998) writes, '[t]he daily operations of businesses cannot be said to be saturated with talk of morality' (p. 241). 'No one denies that corporations are entitled to profits, but it seems equally undeniable that some means of obtaining a profit are unacceptable ... corporate activities can cause various kinds of social harm' (Beauchamp, 1993, p. 123). The problem is, as Ramanathan explains, how

... to provide a high level of motivation for private enterprise while ensuring that its aggregate impact upon society is consistent with social goals and aspirations ... Traditional performance criteria for private enterprise have emphasized results which may be in conflict with societal priorities ... (Ramanathan, 1981, p. 434)

Two common responses tend to arise when the words 'ethics' and 'business' are raised at the same time: 'There's no such thing as business ethics' and '[b]usiness ethics, that's an oxymoron, a contradiction in terms ...' (Duska & Duska, 2003, p. 175).

The public image of business does not always inspire public confidence, since it is often assumed that talk of ethics in business is only talk, not something that makes a difference in practice. Business executives are pragmatic individuals, accustomed to dealing with their environment as they find it and not inclined to question how things ought to be. (Gillespie, 1988, p. 72)

Added to those comments, Schaupp and Lane (1992) state that there is general agreement that 'the public perception of ethical behavior in business is negative' (p. 225). This, then, is the environment in which accountants are expected to use ordinary reflective morality in their judgement and decision-making. Given those requirements of accountants, let us now look at what typically influences decision-making in business.

According to Ramanathan's studies, management takes notice of what has been been quantified:

A corporate management's attention, decisions and actions are focused more on those components of the firm's performance which are included in the firm's formal measurement system. To the extent that a firm's social impacts are not subjected to formal measurement process, these aspects are not likely to enter into the firm's planning decisions or performance evaluation. (Ramanathan, 1981, p. 434)

And according to Fineman's (1998) studies on business and the environment, management takes notice of those who 'press hardest' and those who could 'injure or embarrass' the company (p. 241). Fineman illustrates:

Managers were influenced by ... environmental campaigners and environmental regulators – because of their ability to injure or embarrass the reputation of the corporation ... The regulator was regarded as an unavoidable fact of business life, key to obtaining essential permits to operate. But the regulator was also personified as

an inspector, to be matched, if not excelled, in negotiating skills. In these terms the environment was reconstructed as a political/technical issue, not a moral one, the details of which were to be negotiated between the regulator and regulated in a quasi-legal process aimed at, for the manager, cost minimizations. (Fineman, 1998, p. 241)

Carr, who sees business like a poker game, says,

Most executives from time to time are almost compelled, in the interests of their companies or themselves, to practice some form of deception when negotiating with customers, dealers, labor unions, government officials, or even other departments of their companies. By conscious mis-statements, concealment of pertinent facts, or exaggeration – in short, by bluffing – they seek to persuade others to agree with them. (Carr, 1988, p. 69)

He adds that ‘the game is played at all levels of corporate life, from the highest to the lowest ...’ and that those in business who ‘feel obligated to tell the truth, the whole truth, and nothing but the truth’ are ‘at a heavy disadvantage ...’ (Carr, 1988, p. 69). The usual decision-making within the business environment, then, would seem to be at odds with the obligation of accountants to use ordinary reflective morality in their judgement and decision-making.

For both the monitoring of professions and the operation of the free market, as mentioned in earlier chapters, the public must be sufficiently informed and have the power to bring about change (and not just in the theoretical or legal sense for either of those). One of the problems the public faces is the power of business. The power of the large worldwide businesses (referred to as multinationals, transnationals, or meganationals) is mentioned by several authors:

... Lowe’s (1992) expose of the world’s 25 largest meganationals reveals ... a “brave new world of corporate might” in which many of these corporations are larger and more influential than most of the countries in which they operate. Moreover, according to Lowe, they all but rule the world. (Hopper & Macintosh, 1993, p. 214, quoting Lowe, 1992)

Transnationals operate in what may be called the margins of morality because the historical, cultural, and government mores of the world's nation-states are not uniform. There is a gray area of ethical judgment where the standards of the transnational's home country differ substantially from those of the host country. (Maynard, 2001, p. 17)

The 'asymmetry of power' effectively 'leads to' an 'undermining of democracy' and 'concerns have been expressed about transnationals' ... homogenising effects, their insensitivity to local needs, stifling of local initiatives, sovereignty and autonomy ...' (Bailey, Harte, & Sugden, 2000, pp. 198-9). The 'highly wired transnational has superseded the power of the nation-state' (Maynard, 2001, p. 18), and 'despite the increasing loss of sovereignty, states appear to have little information on the operations and impact of transnationals' (Bailey et al., 2000, p. 199). Gintis, an economist interviewed by Colander et al., says that he wants to put the dimension of 'power' (who has it and who does not have it) into economic models because it tends to be ignored by economists: '... talking about power is not something economists like to do' (Colander, Holt, & Rosser, 2004, p. 101).

As mentioned in the section on Defences, because they have a mobility that nations do not have, the transnationals can threaten to uproot and move to another country if ever the local government wants to increase the labour, environmental or social regulations. So the countries offering the least social, environmental, economic, health and safety protection for their people are the most favoured by the businesses (Bailey et al., 2000). Such a process is not the operation of a free market, in terms of either Adam Smith or Milton Friedman, because the public in these favoured countries is generally not sufficiently informed or empowered. That is, the public in such countries is typically denied the opportunity to make informed choices and to set the rules of the game via legal systems.

Adam Smith and Milton Friedman wanted to reduce the power of business in politics, separate business from politics. The public would not be sufficiently empowered, so as to enable the free market to operate, otherwise. Just how

little that separation has been achieved in today's business world is apparent from Thomas Friedman's comments: For example, the protection by the USA and Chinese governments of their oil industries via involvement with political regimes in the oil rich Middle East and Africa – such politics and protection extending to the use of voting tactics at the United Nations Security Council level. Oil economist Philip K. Verleger Jr. is quoted as saying that unless things change 'we will be strengthening the very worst political systems in the world' and 'the environment will be damaged more and more' (T. Friedman, 2005, pp. 409-412). On the topic of the United Nations, Luban comments that 'United Nations debates – mostly ineffectual in resolving conflicts – and discussions couched in terms of aggression and defense, have deteriorated into cynical and hypocritical rhetoric and are widely recognized as such' (Luban, 1980, p. 172). The influence of powerful business interests at United Nations level, and the support of 'the very worst' (as quoted above) political regimes for business purposes, is the opposite of Adam Smith's and Milton Friedman's concept of the free market.

At this point we need to consider where accountants fit in. Accountants are involved with these business organisations and arrangements (Matthews et al., 1988, specifically refer to accountants being involved in oil companies at top management level, for example). If the accounting profession is to claim that a special morality based on Smith's and Friedman's concept of the free market applies to accountants, then the profession would be expected to ensure that the public is protected from powerful business interests, and to push for the separation of business from politics. But the accounting profession is not ensuring such protection or ensuring such separation (an issue that is discussed more fully in the chapter that follows). The Big accounting firms themselves have become powerful business interests:

... the incessant drive in the 1970s and especially in the 1980s to widen the scope and scale of lucrative consulting services, coupled with the development of the firms' strategic plans, as businesses, to promote growth, greater profitability and global reach, launched them as emerging international behemoths. They formed integrated

international firms and became truly worldwide enterprises, ready to serve their multinational clients in services across the board and around the globe. (Zeff, 2003b, p. 271)

As for accountants' views on their work environment, Colwyn Jones (1990) recalls the responses he received when interviewing accountants on the concept of social responsibility accounting (SRA): 'There is conflict between your social conscience and profit – it is a tremendous struggle. It gets harder and harder all the time. We're getting tougher (Finance Director – Company E)' (p. 280). And from 'the Financial Director of a company which subsequently withdrew from the research': 'Look here, Mr Jones, I've read these business studies textbooks which talk about various priorities in business. I'll tell you our priorities. One is profit; two is profit; and three is profit' (p. 280).

Jones adds:

Accountants showed little interest in SRA with fewer than a third of them willing (and/or able) to make any comment about it ... Profitability was seen as the central managerial purpose, and it was not clear to these accountants how the question of social responsibility was related to this purpose. (Jones, 1990, p. 281)

He concludes that, 'In short, SRA was seen as having no managerial purpose' (Jones, 1990, p. 281). Similarly, Duska and Duska (2003) mention that accountants have a 'reluctance to engage in enterprises such as social audits' (p. 190).

In terms of the views of accountants in professional accounting firms, Roberts discusses the results of J. L. Craig's 1994 research where several partners were asked about the management approach within their firms. Comments from the partners include the following: '... we no longer think of ourselves as merely a profession. We are a business, we are entrepreneurs who react to change and make the most of it, even thrive on it.' And, 'I don't

think we are any different than any other business ... We have to operate as business people' (Roberts, 2001, p. 597, quoting Craig, 1994).

Pressure

Several research studies refer to the 'pressure' within the work environment. Management accountants interviewed as part of a research project published by the USA management accounting organisation said they felt pressured 'to perform unethical acts' (Merz & Groebner, 1981, p. 35). Watson (1998, p. 253) and Lovell (1995, p. 73) refer to the pressure within organisations to push ethics to one side.

Welch (1994) refers to the pressure to be loyal: 'We should not underestimate the pressure individuals face to be loyal to institutions and adhere to the corporate agenda' (p. 60). On the topic of loyalty, Mount points to problems that can arise from the

... temptation ... to devote total loyalty to an institution, especially when the institution ... becomes the chief or only definer of a person's identity. In such cases, loyalty to the institution quickly becomes idolatrous. The institution is vested with the god-like prerogative to define what is good and right. The institutional role consumes us. We lose ourselves in our work. When we become so committed to one institution, either voluntarily or involuntarily that it becomes the total definer of our personhood, we have become "institutionalized" ... when a person becomes institutionalized, it is a sign of illness. (Mount Jr, 1990, pp. 32-3)

There is also the pressure that comes from Wall Street: 'Many of the abuses that have come to light in the past few years are the result of CEOs reacting to the systemic pressures and performance expectations of Wall Street' (Waddock, 2004, p. 24). The pressure is felt not only by employees, but by auditors too:

... public companies have come under increasing pressure to meet earnings expectations. Observers suggest that this pressure has intensified in recent years ... The extent of the pressure becomes apparent each time a company loses a significant percentage of its market capitalization after failing to meet analysts' expectations. These

intense pressures on companies lead to enhanced pressure on auditors to enable their clients to meet expectations. (Duska & Duska, 2003, p. 189, quoting the Securities and Exchange Commission: Revision of the Commission's Auditor Independence Requirements)

Similarly, Roberts (2001) refers to studies that show intimidation of auditors by powerful clients (p. 594). But as Deans explains, the audit partners are not just under pressure from their clients not to give them a bad audit report, they are also under pressure from their fellow partners:

... individual auditors are not only under pressure from clients who want to twist accounting standards or even cook the books ... They are also frequently strong-armed, however, by their own senior colleagues keen not to endanger the fees that support their privileged lifestyles. (Deans, 2002, p. 42)

Shanahan (interviewed by Deans) recalls:

From my experience, other partners in the firm will tell you that it is your call if you query a client's preferred treatment. But then they point out the company has been with us for 20 years. If you take a hard line, they say you will upset the relationship. It is profitable business. Don't rock the boat. But you will be hung out to dry if the client leaves. You will lose partnership points, and that means money.

The companies will pull you aside and say their share price might suffer. They will say that they don't want to upset their banks, and that they are planning an offshore expansion. They will say your actions will imperil the company. (Deans, 2002, p. 43)

The incentives within the professional accounting firms, to gain and hold on to profitable clients, and the incentives within corporations, are described by Zeff as 'perverse':

At the same time as audit partners were given ... perverse incentives by their firm's top management, their clients were becoming ever more driven by their own set of perverse incentives: bonuses based on earnings, and stock options with values linked to the price of the company's stock (and therefore, it was believed, to earnings). To maximize their mounting compensation, CEOs began to take every advantage of the subjective judgments implicit in accounting choices, thus placing immense pressure on audit engagement partners - themselves under pressure to keep clients content - to accede to

accounting practices arguably beyond the realm of acceptability. (Zeff, 2003b, the Abstract)

The pressure has been to the extent that using 'deceptive accounting practices' has been suggested as being in the public interest by 'regulators in the banking and thrift industries' on the basis that it would "rescue" failing institutions' (Zeff, 2003b, p. 272). Zeff explains further how the USA accounting profession supported this approach:

... the AICPA joined with the regulators in lobbying the FASB to be responsive to the industry's problems. In a paraphrase, Kirk said that "the incident showed that the accountants' institute was too sympathetic to the industry, which was a big client for many accounting firms" (Zeff, 2003b, p. 272-3, quoting Gerth, 1990)

FASB stands for the 'Financial Accounting Standards Board'. It took over as standard setter from the USA accounting profession in the 1970s following dissatisfaction by many with the AICPA's own standard setting process (and following the rejection by the AICPA of the AAA's suggested combined review of the situation – the AICPA 'declining to share the standard-setting stage with the AAA' (Zeff, 2003a, p. 198)). The FASB 'was to be an independent body', but studies show 'the Big Eight firms, through their influence on the FASB, did the bidding of their corporate clients' (Zeff, 2003a, pp. 198 and 201).

Bhopal, Nestlé, and Pinto, show signs of organisational, and/or political, pressure. The difficulty faced at the United Nations level in relation to the Nestlé case has already been discussed in the section on Milton Friedman. The literature indicates that it was also difficult to raise issues of concern in relation to Bhopal and Pinto:

Bhopal

... M. N. Buch, the municipal-planning administrator, issued a notice to Union Carbide to relocate the plant. Instead, Buch himself was relocated. (Cassels, 1993, pp. 15-16).

Pinto

... the knowledge about the potential dangers was available, yet it could not be brought into play because some very powerful organizational assumptions and policies would have to be questioned. (Argyris, 1980, p. 207)

On the topic of how difficult it can be to raise issues of concern within organisations, Argyris (1980) gives as an example, '... at the heart of Watergate were layers of issues that were undiscussable, and their undiscussability was undiscussable' (p. 206).

Corporate codes of ethics

For some corporations, being seen as ethical is important and often they will have a code of ethics to demonstrate they have an ethical internal culture. However, 'research indicates that having or not having codes makes little difference in corporate behaviour' (Maynard, 2001, p. 19, referring to Cowton & Thompson, 2000). Even so, as Marino (2002) writes, a booming 'business of business ethics' industry has developed:

During the 1980s, public trust in the corporate establishment was shaken ... Businesses began hiring ethicists to help restore public confidence in their integrity. It was soon discovered that companies with ethics codes and programs received fewer punitive judgments in court than companies without ethicists. (Marino, 2002, pp. 1-2)

Marino asks, though, given that 'most major corporations have ethics officers' these days, why is there still so much unethical behaviour? He suggests it may be that the ethics officers are kept 'out of the loop' of what really is going on in the corporations or, as other authors he refers to have argued, it 'is simply a public relations ploy.' Marino adds: 'On last report, the business ethics industry was running at a ruddy \$2 billion a year' and that 'many consulting firms such as Arthur Andersen offer, or rather, offered, ethics consultations for a fee' (pp. 1-2).

The requirement for corporations to have a code of ethics has increased in the USA following the passing of Sarbanes-Oxley, but research conducted

since the Act indicates that those codes of ethics have not been sufficient to alter corporate behaviour:

Two recent research studies by prominent organizations show that just the existence of a formal ethics and compliance program ... is not enough to prevent wrongdoing. Both studies reiterate the existence of continuing problems of ethical misconduct in the workplace, with a third to a half of all workers witnessing illegal or unethical acts within the last year. Types of misconduct most observed by employees include abusive or intimidating behaviour towards employees and lying to employees, customers, vendors, or the public. (Verschoor, 2005, p. 1)

Whereas corporate codes of ethics may not influence behaviour, according to Welch (1994) corporate agendas do influence behaviour. Corporate agendas 'contain institutional expectations ... and a set of norms and values to which our behaviour is to conform.' They may be 'stated' or 'unstated' - for example, 'through institutional traditions and customs that pass down the lore as it has developed over time', or as 'an informal network of individuals who interact with one another and evolve a shared set of expectations' (p. 57). Institutional traditions and customs within corporations (and the Big accounting firms) have been covered to some extent already in earlier chapters in this study, but what do we know of individuals in the work environment? Writing in 1997 about 'the ethical values of the next generation of employers, coworkers, clients, and regulators' (Mintz, 1997, foreword by Michael Josephson p. xii), Josephson refers to a study in the previous year that showed

... 4 in 10 high schoolers admit to having stolen something from a store and two-thirds admit to having cheated on an exam – all within the previous 12 months. More than half also said they would lie to get or keep a job. (Mintz, 1997, foreword by Michael Josephson p. xiii)

Other surveys showed,

... in a typical company, at least one in five managers admits to having lied to or deceived a superior within the previous 12 months and about one in three managers says that there is a kill-the-messenger syndrome in their organization that "causes employees to conceal or distort negative information." The tendency to "tailor facts" to tell

management what it wants to hear is another factor that challenges the integrity of vital decision-making documents. (Mintz, 1997, foreword by Michael Josephson p. xii)

Psychiatrist Jay Rohrlich (from the Wall Street area) was interviewed by VerMeulen, and during the interview Rohrlich spoke of his concerns about the Wall Street personalities. VerMeulen describes the interview:

He reports that his younger patients, those in their twenties, have a greater tendency to think only day to day. "And when you are focused exclusively on short-term gain," Rohrlich says, "things like lying and cheating make sense. You can get away with it now and worry about it later." These patients' ethical decisions are complicated further by the fact that they make their decisions in a pressurized and faceless environment ... And they are glorified further in the popular lore as today's free-market heroes".

"There's a perversion today of the concept of success," Rohrlich says. "Success has become the main product instead of the byproduct. I ask some of my younger patients why they came to Wall Street and they usually answer, 'I came because I wanted to be successful.' Do they have an interest in finance, in economics, in what the real nature of the business is? Not particularly. Wall Street is perceived by them as a place to become powerful, to gain material wealth quickly. Yet that's too shallow to provide real satisfaction. When money for money's sake becomes the primary motivation for how an individual lives, it deprives the person of identity."

"... There are all sorts of addictions that people can fall into, and money can be just as addictive as a drug," Rohrlich says. "Money can be magical in its ability to transform reality, just like cocaine." The psychiatrist believes that getting millions of dollars for a few months' work can be corrupting and almost a hallucinogenic experience ... "you want the experience to continue ... In some ways, by playing to this addiction with huge fees and bonuses, Wall Street has acted a little like a pusher." (VerMeulen, 1986, p. 230)

Some authors are more optimistic of behaviour in the corporate world.

Thomas Friedman refers to the 2004 alliance between Hewlett-Packard, Dell, and IBM:

...these three giants joined forces in a collaborative effort with key members of their computer and printer supply chains to promote a unified code of socially responsible manufacturing practices across the

world. The new Electronics Industry Code of Conduct includes bans on bribes, child labor, embezzlement and extortion, and violations of intellectual property, rules governing usage of wastewater, hazardous materials, pollutants, and regulations on the reporting of occupational injuries. (T. Friedman, 2005, p. 299)

He recalls his discussion with Debra Dunn from Hewlett-Packard on the thinking behind the alliance:

“When you have the procurement dollars that HP and McDonald’s have,” said Dunn, “people really want to do business with you, so you have leverage and are in a position to set standards and [therefore] you have a responsibility to set standards.” The role of global corporations in setting standards in emerging markets is doubly important, because oftentimes local governments actually want to improve their environmental standards. They know it is important in the long run, but the pressure to create jobs and live within budget constraints is overwhelming and therefore the pressure to look the other way is overwhelming. Countries like China, noted Dunn, often actually want an outside force, like a global business coalition, to exert pressure to drive new values and standards at home that they are too weak to impose on themselves and their own bureaucrats. (T. Friedman, 2005, pp. 300-1)

Dunn continues:

“We used to say that as long as we complied with the local law, that was all we could be expected to do. But now the imbalance of power is so huge it is not practical to say that Wal-Mart or HP can do whatever they want as long as a state government or country does not stop them. The leverage HP would leave on the table would be immoral given its superior power ... We have the power to transmit global governance to our universe of suppliers and employees and consumers, which is a pretty broad universe.” (T. Friedman, 2005, p. 301)

Thomas Friedman adds, ‘it remains to be seen just how vigilant the corporations will be with their suppliers’ (T. Friedman, 2005, p. 300).

Writing about accountants in particular, Chambers (1991) refers to the ‘ethical cringe’: ‘Usually ... we tend to shy away from the words ethical and moral when dealing with business and corporate affairs. This is what I mean by “the ethical cringe”’ (p. 18).

The discussion in the current chapter on the work environment of accountants highlights that the values (or lack thereof) operating in the business environment are, generally speaking, in conflict with the professional obligations of accountants. Moreover, accountants are playing a role in supporting those values. The chapter also highlights the difficulty an individual accountant has in trying to meet her or his obligations to the public. When out in the real world, accountants have not been fulfilling their public interest obligations to the public – they have not been protecting the public from powerful business interests for instance.

The next chapter continues the investigation into determining the extent to which accountants, and their profession, have been fulfilling their public interest obligations to the public (the second question in this study). The focus in the next chapter is on the profession itself – the behaviour of the profession in the real world, including the guidance and support the profession gives to its members.

18. The Accounting Profession

The investigation into the extent to which accountants, and their profession, have been fulfilling their public interest obligations to the public (the second question in the study) continues here. The focus this time is more particularly on the real-world behaviour of accountants' professional bodies, and the guidance and support the professional bodies give to their members. I stated in chapter 2 that I would use the word 'profession' to mean the professional bodies as well as the individual professionals, unless mentioned otherwise. Within the context of the current chapter, the word 'profession' primarily refers to the professional bodies.

From earlier chapters we know that a focus by accountants on mere profit maximisation and business self-interest, irrespective of the impact on the public, would not fulfil accountants' professional obligations. The examination in this study of ordinary reflective morality, special morality (based on the accurate version of Smith's concept of the free market), and the social value of accountancy showed that strategic-planning accountants' public interest responsibility in cases such as Bhopal, Nestlé, and Pinto could not legitimately be limited to financial loss. This chapter continues the focus on examining the extent to which the accounting profession has been maintaining a protective role towards the public, as opposed to a role based on mere profit maximisation and business self-interest.

As mentioned in the Introduction to this study, to become a professional accountant an individual accountant must become a member of a national professional accounting organisation. Those national organisations in turn become members of IFAC (The International Federation of Accountants). Some countries have just one national professional organisation, others have several. As at the end of 2009, IFAC 'represents over 2.5 million accountants' (<http://www.ifac.org/>).

The real-world behaviour of the accounting profession

In the chapter on the Work Environment of Accountants, chapter 17, I reiterated that Adam Smith and Milton Friedman wanted to reduce the power of business in politics, to separate business from politics (otherwise, the public would not be sufficiently empowered, so as to enable the free market to operate); and I illustrated how little that separation has been achieved in today's business world. I also commented that if the accounting profession is to claim that a special morality based on Smith's and Friedman's concept of the free market applies to accountants, then the profession would be expected to ensure that the public is protected from powerful business interests, and to push for the separation of business from politics. The first part of this current chapter explains how the accounting profession has not been meeting such expectations.

I begin with comments from Harvey Hendrickson. After working in the field of accounting research and teaching 'for some thirty years' (and as an Assistant Director of Examinations at AICPA and an Academic Fellow in the Office of the Chief Accountant at the SEC during that period) Hendrickson writes:

... I have become increasingly disappointed that the public accounting profession and the AICPA appear to have regressed from having a primary commitment to the public interest and professionalism to having what seems to be a major concern for the private interests of its members and administrators (GREED?). (Hendrickson, 2001, p. 159)

My concern is not only with the attempts to control, but also with the failure of those who attempt to control to also perform exemplary services and then to cover up their failures by seeking outside assistance (e.g. from Congress), or by appointing committees composed largely of 'insiders' that issue reports that criticize others, that can't seem to find any failures, that ignore or fault constructive suggestions, and/or that suggest that all is well or will be after minor changes are attempted. (Hendrickson, 2001, p. 160)

Similarly, from an examination of several research studies on the topic of the accounting profession and the public interest, Lee (1995) concludes: 'Client

interests supersede the public interest, thus leading to concerns that the accountancy profession fails to make the powerful accountable, and itself remains unaccountable' (p. 9). Several authors are mentioned by Lee (for example, Humphrey et al., 1993; Sikka et al., 1992; Power, 1993a, and 1993b; Fogarty et al., 1991; Hines, 1989; Byington and Sutton, 1991) who consider the profession has a history of responding to pressure in a way that preserves its members' economic self interest rather than the public interest. (See also Willmott, Cooper, & Puxty, 1993, for more on this topic and a critical view of the clash in ICAEW between its obligation to the public interest and the self-interest of members.)

Willmott (1990) quotes Stamp: 'Selfishness, self-interest, and a lack of genuine professionalism, are the root causes of many of the things that are wrong with the profession today ...' (p. 321, quoting Stamp, 1979). And Fisher et al. (2001) refer to an article in which Parker 'identified the protection of the private interest as a primary rationale underlying much of what the profession says and does' (p. 193, referring to Parker, 1987).

The power of the Big accounting firms has been mentioned already in several parts of this study, but what needs to be realised for the purpose of this chapter is that the Big accounting firms are now 'bigger' than their national professional accounting organisations. As Loft, Humphrey and Turley (2006) point out, the Big firms now have direct representation at IFAC level. The direct representation is in addition to members of the Big firms being, as they commonly are, at IFAC as representatives of their national professional organisations.

When discussing the responses from the accounting profession to criticism, Lee writes:

Fogarty *et al.* (1991) describe the ... institutionalized responses as a complex strategy of doing "nothing" ... responding to concerns and maintaining the status quo so long as this is economically viable. Such

a strategy is a familiar feature of the history of the accountancy profession. (Lee, 1995, p. 9)

Willmott (1990) believes that it is the accountancy profession's support of the 'status quo which enables accounting to appear as an independent observer and monitor of the political economy in which it moves, and from which it draws its rationale and privileges' (p. 327). It is the silence of the profession on the negative impacts of business decisions on the broader community that Bailey comments on. During his discussion on the UK's 'prolonged coal dispute', Bailey (1990) refers to the 'remarkable silence of the majority of academic and non-academic leaders' (p. 214). The profession is not at all silent, however, when it comes to other issues; it is the lobbying by the accounting profession on other issues that receives much criticism.

Hendrickson (2001) refers to 'the AICPA and major accounting firms' having 'an indirect relationship with the Business Roundtable (the chief executives of some 200 of the largest US corporations) that in turn controls its financial executives who are leading members of the Financial Executives Institutes (FEI)' (p. 159), and argues that these groupings 'interfere' with the accounting standard setting process (p. 160). Hendrickson adds: 'As the AICPA becomes increasingly allied with and supportive of FEI the combination represents much of the private wealth in the US with potential to exert much control and influence on the economy and government' (p. 160). If 'standard setters' are concerned

... with the views of those members of the business community who by their actions can either stop a reform from being promulgated or alter the outcome in a way favourable to themselves ... [s]uch conduct by standard setters would hardly seem likely to improve overall societal welfare. (Bromwich, 1985, p. 88)

In his article on the ICAEW, Willmott (1993) argues that the accounting profession lobbies for favourable regulation from government and pushes for more work for its members by stressing the complexity of what is required, so that it is seen to be above the skills of all other than the accounting

profession. Chambers (1991), commenting about the power of the accounting profession, writes: 'Even legislatures, charged with the enactment of fair and just laws, have cowered under the influence of this baleful hegemony' (p. 22).

The accounting profession is anything but apolitical. Previts and Merino (1997) comment, 'Herbert Miller, long respected as a professor, text author, and practitioner, observed: "Recent developments suggest that accounting is a series of political decisions which we now call accounting principles"' (p. 388, citing Previts and Merino, 1970).

The issue of political donations by the accounting profession has been raised by researchers:

Summaries of Federal Election Commission data supplied by the Center for Responsive Politics report that between 1989 and 2001 the CPA profession contributed over \$38 million to candidates running for federal office; they further note that this data reflects [sic] a generally increasing trend over time. (Dwyer & Roberts, 2004, p. 867)

In 2000, 46 legislators wrote letters to the SEC opposing a proposal that would prohibit the firms from providing consulting services to audit clients. At least 36 of these legislators had received campaign contributions from Big 5 firms and/or the AICPA. (Dwyer & Roberts, 2004, p. 870) (see Dwyer and Roberts for lists of donations made, and to whom)

Dwyer and Roberts use quotations from both Briloff and Levitt to illustrate the power of the accounting profession: '... Briloff (1999), in his discussion of private securities litigation reform, refers to the public accounting profession as "a most powerful special interest group with unbounded aggression and avarice" (p. 267)' (Dwyer & Roberts, 2004, p. 867). And:

Arthur Levitt Jr., the SEC Commissioner ... is characterized as saying that the "aim of the Big 5 firms' political activities was to weaken federal oversight, block proposed reform, and overpower the federal regulators that got in their way." (See Mayer, 2002, p. 64). In Mayer's paper, Levitt describes it as follows: "They waged a war against us, a total

war.” (Mayer, 2002, p. 64). The tactics of the AICPA and Big 5 firms changed from one of dealing with regulators to one of directly influencing legislators to pressure the SEC. Levitt states “Now they bypass the regulators completely, and go right to Congress. It’s almost impossible to compete with the effect that money has on these congressmen.” (Dwyer & Roberts, 2004, p. 870, quoting Mayer, 2002).

Lobbying by the accounting profession did not stop during the creation of Sarbanes-Oxley. Thornburg and Roberts (2008) looked at ‘contributions paid to members of the US Congress by the US public accounting profession during the policy formulation period of the Sarbanes-Oxley Act of 2002’ (p. 229). The results of the study indicate that the profession’s ‘political strategies focus on the interests of business and its members more than the interests of the broader public’ (p. 245). The authors concluded that the accounting profession seems to be interpreting its public interest responsibility as ‘what is best for business and the profession is also best for the public at large’ (p. 246). Such an approach by the accounting profession would indicate it is following the misinterpreted version of the free market. As I explained in the chapters on Adam Smith and Milton Friedman, the idea that maximising profit in the self-interest of business is in the public interest (without appropriate protective mechanisms for the public) is a misinterpretation of their works on the free market. Only a misinterpretation of their works would suggest that accountants fulfil their public interest obligation by helping the self-interest of business. I now turn to examine the guidance and support the accounting profession gives to its members. For this topic the focus is most particularly on the guidance and support from IFAC, given that IFAC ‘is the worldwide organization for the accountancy profession’ (IESBA, 2008, p. 3).

Guidance and support from the accounting profession to its members

One of the expectations of a profession is that it will have a code of ethics: ‘A code of ethics has been the traditional means by which a profession assures the public and its clients of its responsibilities ...’ (Velayuthan, 2003, p. 483). A profession’s code of ethics (also often referred to as a code of

conduct) ‘serves as a starting point in the examination of ethical issues and dilemmas faced by members of the profession’ (Jakubowski, Chao, Huh, & Maheshwari, 2002, p. 112-3). Accordingly, IFAC’s Code of Ethics for Professional Accountants (referred to as the ‘Code’ from hereon) is where its members, and the public, would look for guidance on what the profession expects from accountants if they are involved in strategic planning in cases such as Bhopal, Nestlé, and Pinto. In July 2009 IFAC revised its Code, effective from the beginning of 2011, and that is the version I refer to in this study, unless stated otherwise.

The Code (2009) applies to ‘professional accountants’ worldwide, professional accountants being all those individuals who are members of an IFAC member body (Definitions, p. 126). In other words, it applies to the more than 2.5 million accountants mentioned above. IFAC’s Code acknowledges the broader roles that accountants have these days: It defines the professional services that it covers as ‘[s]ervices requiring accountancy or related skills performed by a professional accountant including accounting, auditing, taxation, management consulting and financial management services’ (Definitions, p. 126). The Code also states that the ethical responsibilities are the same no matter what the employment (or volunteer) situation of the accountant is (para. 300.3) – be it as a ‘professional accountant in public practice’ (meaning the individuals in the firm of accountants as well as the firm itself), ‘e.g., audit, tax or consulting’; or as a ‘professional accountant in business’ (meaning those ‘employed or engaged in an executive or non-executive capacity in such areas as commerce, industry, service, the public sector, education, the not for profit sector, regulatory bodies or professional bodies, or a professional accountant contracted by such entities’) (Definitions, p. 126). It clearly applies to accountants involved in strategic planning (in whatever role, including that of director, consultant, or employee) in cases such as Bhopal, Nestlé, and Pinto.

Although the Code, 130 pages long, now attempts to address some of the issues that have been raised in this study relating to the lack of independence of auditors (revolving door situations, for example), it still does not address the ethical issue that is demonstrated by Bhopal, Nestlé, and Pinto. In essence, the broader roles of accountants are acknowledged, but not the broader impact of those roles on the public. The death and injury that can result is ignored; the Code appears to limit the responsibility of accountants to financial loss. I say ‘appears to’ because of the Code’s lack of clarity, and that there is no explicit statement as such. Confusion arises right at the beginning, in one of the paragraphs in the Preface (I have bolded the words my discussion will focus on):

The mission of the International Federation of Accountants (IFAC), as set out in its constitution, is to **serve the public interest**, continue to strengthen the accountancy profession worldwide, contribute to the development of **strong international economies** by establishing and promoting adherence to **high-quality professional standards**, furthering the international convergence of such standards, and **speaking out on public interest issues** where the profession’s expertise is most relevant. In pursuing this mission, the IFAC Board has established the International Ethics Standards Board for Accountants to develop and issue, under its own authority, high quality ethical standards and other pronouncements for professional accountants for use around the world. (IFAC, 2009, Preface, p. 4)

What IFAC means by ‘serve the public interest’ in that paragraph is not clear. It seems to be saying that it will ‘serve the public interest’ by setting up standards for accountants to follow and by ‘speaking out on public interest issues where the profession’s expertise is most relevant.’ IFAC has not issued any standards that clearly extend the responsibility of accountants beyond financial loss. And as discussed earlier in this chapter, the profession is criticised for speaking out only on issues that benefit business and itself. That IFAC interprets its public interest obligation in terms of financial loss only, and what benefits business and the profession, becomes even clearer if we leave the Code for a moment now and examine how the profession has spoken out, so to speak, on environmental issues. IFAC has put out an Information Paper on environmental damage from business called

'Why Sustainability Counts for Professional Accountants in Business' (2006).

In that paper IFAC says:

... the professional accountant in business (PAIB) ... needs to recognize that individuals, societies and governments are increasingly interested in the environmental, social and economic impacts of enterprises and that PAIBs are likely to have an increasing role in meeting those concerns. (IFAC, 2006, p. 1)

However, the focus is not on professional ethical considerations of such impacts, the focus is on the potential risk to business profits of ignoring how important these issues might be for some governmental or non-governmental organisations which have the power (or influence) to regulate business activity – it is seen as a political matter not an ethical matter:

Sustainable development is an issue which is high on the political agenda of many governments. Political agendas beget regulatory regimes and fiscal instruments, both of which impact directly on the business community, whether large or small. Sustainable development, or rather some of the constituent aspects of sustainable development – such as avoiding environmental damage and ethical sourcing of products – are on the agendas of a wide range of consumer organizations and non-governmental organizations (NGOs). Failure to engage with the challenges of sustainable development therefore poses risks – strategic, business and reputational – which all organizations should consider. Some, by virtue of the industry sectors they operate in, are more exposed and responsive than others. Failure to address these risks could certainly increase the cost of capital and, at the extreme, could result in an enterprise losing its license to operate. (IFAC, 2006, p. 2)

And further on:

An increasing number of studies and reports provide evidence, largely anecdotal but some quantitative, that sustainability makes sound business sense. It follows, therefore, that accountability and transparency, governance and reporting, risk management, and finding sources of competitive advantage are the primary business drivers of sustainability. All of these activities are in the domain of the PAIB. (IFAC, 2006, p. 4)

If we return now to examining the Code we see that the commitment IFAC makes in the Preface to 'speaking out' is at odds with the section in the Code on Ethical Conflict Resolution.

Ethical Conflict Resolution

In the Ethical Conflict Resolution section IFAC states: 'If a significant conflict cannot be resolved, a professional accountant may consider obtaining professional advice from the relevant professional body or from legal advisors' (IFAC, 2009, para. 100.21). On the subject of accountants getting advice from lawyers, Brooks says,

An accountant could hire a lawyer for counsel because the lawyer could be expected to keep the corporation's affairs confidential, but few lawyers are well versed in accounting technicalities or professional codes of ethics, to say nothing of the cost. (Brooks, 1989, p. 328)

As for professional advice, Lovell explains that the ethical issue is left for the individual accountant to resolve, not the profession:

The professional accountancy bodies in the UK operate some of the most (if not the most) structured advisory services for members experiencing ethical dilemmas of all the UK professions ... Advice tends to be limited to emphasizing the issues of property rights and the confidentiality of information, with the troubled member left in no doubt at the end of the process that the dilemma is a personal one between the individual accountant and the employing organization. At no time is there any suggestion that in any case, no matter how wrong the malpractice or wronged the accountant, would the professional body associate itself with the ethical stand being taken by its member. (Lovell, 1995, p. 69)

The Code does not indicate there has been any change in approach, by the profession, since that article. Further on in the Ethical Conflict Resolution section, IFAC states:

If, after exhausting all relevant possibilities, the ethical conflict remains unresolved, a professional accountant shall, where possible, refuse to remain associated with the matter creating the conflict. The professional accountant shall determine whether, in the circumstances, it is appropriate to withdraw from the engagement team or specific

assignment, or to resign altogether from the engagement, the firm or the employing organization. (IFAC, 2009, para. 100.22, p. 10)

Besides the lack of clarity in that paragraph as to what 'where possible' means, and how the first sentence relates to the second sentence, the following question arises: How does allowing the unethical action to continue, by refusing to remain associated, withdrawing, or resigning, protect the public? An accountant disassociating, withdrawing, or resigning means that any other accountant taking up the position would be faced with the same unethical situation. The implication is that the least ethical accountants will remain employed and organisations will be able to continue with unethical practices without either the public, or other accountants, knowing of the situation.

The Code does not mention whistleblowing, and what advice if any the professional or legal advisors would give on whistleblowing is unknown. Given accountants' responsibility for the public interest, however, whistleblowing is presumably an option to be considered by accountants who have not been able to resolve ethical conflicts internally. As Bok (2004) explains, '[w]histleblowers sound an alarm from within the very organization in which they work, aiming to spotlight neglect or abuses that threaten the public interest' (p. 550). Collins-Chopanian (2004) adds: 'Whistleblowing is meant as a last resort, to sound an alarm of clear and present danger, to warn those at risk' (p. 544).

Whistleblowing

It is, however, no easy task being a whistleblower. For a start, whistleblowing goes against our early training and socialisation; we are raised to believe it is 'taboo' to tell on others (Duska & Duska, 2003, p. 152). As Duska and Duska mention, various pejorative terms such as 'tattling' and 'ratting' are used to describe people who tell on others (p. 151). Welch (1994) agrees: 'The lot of a whistle blower often is not a happy one. Groups demand solidarity, and the social disapproval of "tattling" survives childhood

in many quarters' (p. 103). The teamwork that accountants are involved in makes them especially exposed and susceptible to pressure:

In the business world, companies and fellow practitioners are seen as a team; loyalty is expected, and rewarded. Forsaking the team to function like a detached referee and blow the whistle is seen as disloyal and cause for punitive action. Because of that, whistle blowing requires a certain moral heroism. It will not be easy, and the consequences can be dire. (Duska & Duska, 2003, p. 154)

Maynard and Welch explain the risks of whistleblowing:

... whistle blowing, an act of dissent within any organization large or small, poses a serious danger to the whistle blower because it puts his job in jeopardy. Losing one's job may be the ultimate penalty, but the various retaliatory moves on the part of the firm can be quite painful. The cost to the whistle blower is so high, transgressions may be ignored just to preserve the security of having a job. (Maynard, 2001, pp. 19-20)

Among the weapons of retaliation available to an institution, weapons that can exact large career and emotional costs and devastate family life, are blacklisting, transfer, and personal harassment. These forms of retaliation are most directly associated with the workplace, but parallel strategies exist in other arenas. Blacklisting prevents a dismissed employee from finding comparable employment as institutional leaders agree to warn each other of potential troublemakers. Whistle blowers who resign in protest or who are fired following their public activities often find that their professional careers have been destroyed. In other cases, the dissenter is not fired but demoted or transferred, given positions far from home or with nothing to do. Assignment to tasks outside of one's area of expertise or well below one's level of competence may be the first step in a process leading to dismissal or forced resignation. (Welch, 1994, p. 103)

Even in situations where legal protection has been in place for whistleblowers the outcome has still not been encouraging:

The purpose of these laws is to prevent retaliation (usually firing) and to encourage people to come forward. Although their purposes are laudatory, their utility is questionable. The adoption of such a law for federal employees has not significantly increased their whistle-blowing. Complaints are often against superiors, who are not dismissed and can retaliate in various subtle ways (as in employee evaluations). (Bayles, 1989, p. 152)

In conjunction with ACCA (The Association of Chartered Certified Accountants - one of the UK professional accounting bodies), Lovell developed a practical guide for ACCA members working in industry and commerce. The booklet refers to the 'mounting body of evidence, both in the USA and the UK' that indicates whistleblowers suffer hardship, even when their actions 'have been vindicated by Courts of Law or subsequent public enquiries'. Research mentioned further on in the booklet indicates that attempts to resolve ethical conflicts internally first (as recommended by the Code) is not in itself risk-free: 'Neither does there appear to be a significant difference between the experiences of internal whistleblowers (those who reveal information to an internal grievance procedure or senior manager) and external whistleblowers' (ACCA, 1996, pp. 18-19). The discussion continues, quoting Fisher:

The protection offered to federal civil servants in America for internal whistleblowing is perhaps some of the most comprehensive available, yet a former official who was appointed to investigate whistleblowers' complaints was quoted as saying, "... unless you are in a position to retire or independently wealthy, don't do it. Don't put your head up because it will be blown off". (ACCA, 1996, p.19, quoting Fisher, 1991)

On the other hand, Sherron Watkins is referred to as 'a hero in the Enron debacle' following her whistleblowing on Enron (Duska & Duska, 2003, p. 154). Watkins' situation highlights the problem with the Code's guidance on Ethical Conflict Resolution, as Parr, responding to an article on Watkins in IMA's journal *Strategic Finance*, demonstrates:

Resigning her position would not have prevented the demise of Enron and would have limited her ability to avert disaster. The fact that no one responded to her letters is an indication of the poor ethical culture of Enron. Indeed, your article states that CFO Andrew Fastow reportedly tried to fire her (Fastow being a key perpetrator of the ... accounting practices used by Enron). If it's the professional community's desire to improve the ethical culture of organizations, it is important that those who promote that philosophy remain and those that do not should resign, not vice versa. (Parr, 2002, p. 20)

By the time the whistle was blown on Enron, however, it was too late to save it (Michaelson, 2005, p. 360). What needs to be remembered in Watkins' case is that, given the research on whistleblowing, if Watkins had blown the whistle early enough to prevent the collapse, then her career would most likely have been over (either if she had stayed at Enron or had tried to find work elsewhere).

In the period building up to the 2008 global financial crisis there was a distinct lack of whistleblowing by accountants, even though accountants would have been involved on the inside in many different roles. Alternatively perhaps some accountants were concerned and did resign (IFAC's recommendation to resign is in the Code applying to that period too) – a result that was of little help to the public or any ethical accountants taking their place. What we do not know is the legal or professional advice that would have been given to any accountant who had concerns, and at what point (if any) the profession would have spoken out about those concerns.

The profession gives no indication in the Code that it will step in, or speak out, on behalf of the accountant or the public whenever there is an ethical conflict. As Bayles (1989) points out, the profession itself has obligations that it cannot simply leave up to individual members to carry out. He adds that codes of ethics 'tend to ignore obligations of professions', focusing on the 'obligations of individual professionals' instead (p. 29). In Lovell's (1995) discussion of the problems accountants would face if standing up to their employers, he refers to the 'impotence and vulnerability of individual accountants ...', and to the fact that an 'ethical code of conduct becomes merely a drawbridge which can be pulled up to isolate a member whenever he or she behaves in a way which embarrasses the profession ...' (p. 73). What seems to be ignored by the accounting profession is that the professional body is the role model for its individual members; what the professional body reacts to or does not react to (or in other words speaks out on or does not speak out on) sets a perspective and standard of

behaviour for its members (see discussion in Gray & Collison, 2002, p. 23, for example).

As Brooks (1989) comments there is a need for healthy consultation and support for ethical matters without accountants having to go to the extent of obtaining legal advice and possibly whistleblowing. Unless the profession can offer appropriate support to its members, 'unscrupulous corporation executives' can 'take advantage of both members of the profession and the unsuspecting public' (p. 333). By refusing to become involved in the ethical issues accountants face, the accounting profession, as Lovell (1995) points out, manages to avoid getting offside with business (p. 73).

General issues relating to confidentiality were raised earlier in the Defences chapter, chapter 11. I argue here that how IFAC deals with confidentiality in its Code is inadequate for accountants involved in strategic planning. The Code states:

Para 140.1

The principle of confidentiality imposes an obligation on all professional accountants to refrain from:

(a) disclosing outside the firm or employing organization confidential information acquired as a result of professional and business relationships without proper and specific authority or unless there is a legal or professional right or duty to disclose ...

What constitutes a 'professional right or duty' would differ considerably depending on which version of the free market was being followed. As explained at the end of the chapter on Milton Friedman, chapter 4, a special morality based on an accurate interpretation of the free market would not excuse accountants of responsibility for death and injury in cases such as Bhopal, Nestlé, and Pinto. A special morality based on the simplified version (the misinterpreted version, as I have argued) of the free market, on the other hand, might well excuse accountants of any such responsibility. IFAC must make clear, then, which version it is following.

William Simon's discussion on the confidentiality of lawyers in corporate situations relates also to the environment in which many accountants work. The issues he raises apply equally to the accounting profession. Simon (2006) is critical of the American Bar Association's (ABA) stand on confidentiality. He outlines the rationale that the American Bar Association puts forward:

Loyalty to clients is consistent with the public interest because client trust enables professionals to induce socially desirable behaviour. In the case of lawyers, the social payoff is compliance with law. Thus, the bar's rationale for corporate confidentiality is that it induces more consultation with lawyers, which in turn enhances both the client's ability to pursue its own interests and compliance with law. (Simon, 2006, p. 1454)

Simon then questions how conformity to the letter of the law, as opposed to the spirit of the law, satisfies the social payoff: 'If the "compliance" that lawyers induce means no more than conformity to the law's literal terms, we have little reason to consider it of social value' (p. 1455). Besides the fact that Simon's comments would relate just as much to accountants going against the spirit of the law, his comments also raise the essential issue that IFAC has not addressed in relation to the confidentiality of accountants involved in strategic planning: IFAC has not made clear what 'socially desirable behaviour' those accountants would induce by their confidentiality. If accountants support the misinterpreted version of the free market, their confidentiality does not produce 'social value'. Instead, it leads to the public being insufficiently informed or empowered to be protected from powerful business interests. What needs to be noted is that 'client autonomy does not have intrinsic value' and if a client's objective would result in 'great cost to third parties, then unqualified loyalty lacks moral justification' (Rhode, 2006, p. 643). As emphasised in the Defences chapter, professions have obligations at the macro level, not just the micro level. That is, at the macro level professions have obligations in relation to the systems in society that the professions operate in conjunction with.

Given that an informed public is a requirement of the free market, there is potentially a major clash between the principle of confidentiality and accountants fulfilling their public interest obligations. For accountants involved in cases such as Bhopal, Nestlé, and Pinto, the IFAC Code would fail to satisfy the profession's public interest obligations unless the Code included an exception to confidentiality when confidentiality could reasonably be predicted to cause death or injury. A similar exception was proposed for lawyers by the ABA's Ethics 2000 Commission (Zalesky, 2002, p. 963). The medical profession also has its exceptions:

There is considerable legal and ethical endorsement of a widely publicized ruling on patients' confidentiality of the Supreme Court of California that "the protective privilege (of confidentiality) ends where the public peril begins". The case concerned the danger of deliberate violence to a specific person, but Supreme Courts have applied the principle to risk of transmission of HIV infection in India and to the danger of violence done to unidentified persons in Canada. (Dickens & Cook, 2000, p. 389)

Just as the professions of law and medicine have reconsidered their confidentiality obligations, if accountancy is to have a legitimate right to professional status it too must revisit the confidentiality issue – to better clarify the situations where confidentiality needs to be overridden because of potential harm to the public.

IFAC's approach of standing back and leaving ethical issues to the individual accountants to resolve (or resign) also seems to be at odds with that part of its Mission statement, as quoted in the Preface above, that says it will 'contribute to the development of strong international economies'.

Strong international economies

The need for clarity on what interpretation of the free market IFAC follows, or endorses, also arises in relation to its comment that it will 'contribute to the development of strong international economies'. What IFAC actually means

by 'strong international economies' is unclear. The free market, based on the works of Adam Smith and Milton Friedman, is regularly put forward as being the basis of strong economies. But IFAC's approach to resolving ethical conflicts holds back, rather than develops, market economies. As discussed in the chapter on the Uninformed Public, for the free market to function the public needs to be sufficiently informed and where that is not possible the public needs to be able to rely on those on the inside to act on its behalf. IFAC's suggestion that accountants resign, and its own lack of speaking out, fails to satisfy those requirements.

The profession is also holding back the free market, as illustrated earlier in this chapter, by not protecting the public from powerful business interests and by not pushing for the separation of business from politics. In addition, tax schemes that go against the spirit of the law are criticised heavily in the literature for weakening economies and yet, as discussed earlier in the study (chapter 14), accountants are very much involved in such tax schemes. Both the profession's behaviour and its Code indicate that the profession is interpreting 'strong economies' as per the misinterpreted version of the free market.

In summary, this chapter shows that the accounting profession (as represented by its professional bodies) has not been fulfilling its public interest obligations, nor is it accurately guiding, or supporting, its members to do so. The profession appears to be limiting accountants' obligations to financial loss, and is not protecting the public from powerful business interests. It seems to be following the idea that maximising profit in the self-interest of business is in the public interest, which is the misinterpreted version of Smith's and Friedman's works on the free market. By its behaviour and its code of ethics, the accounting profession is not enabling the public to be sufficiently informed or empowered. Accordingly, the accounting profession is holding back the free market and the monitoring of itself by the public.

19. Conclusion

The study set out to determine the professional obligations of accountants involved in strategic planning in cases such as Bhopal, Nestlé, and Pinto; the extent to which accountants and their profession have been fulfilling the obligations; and why there has been so much silence on these matters to date. From the examination of the literatures on professions, economics and accountancy in the study those questions have been answered, and the findings are as follows.

Accountancy is a full profession, and members of full professions have many obligations. But the overriding obligation is to act in the public interest; and to act in the public interest means that professionals must take into account the requirements of ordinary reflective morality and any special morality applicable to that profession. In terms of Bhopal, Nestlé, and Pinto what needs to be known is whether the public interest obligation of accountants can be limited to financial loss, or whether it extends also to death and injury. Based on the requirements of ordinary reflective morality, accountants involved in strategic planning in cases such as Bhopal, Nestlé, and Pinto would not be excused of responsibility for death and injury. What needs to be determined, then, is whether a special morality applies to accountancy that would excuse accountants of that responsibility. For a potential special morality for strategic-planning accountants, I examined the commonly asserted notion that maximising profit in the self-interest of business is in the public interest. That is, I examined the notion to see if it is a reasonable basis for a special morality for strategic-planning accountants.

A special morality based on the notion that maximising profit in the self-interest of business is in the public interest would suggest that accountants fulfil their public interest obligation by helping the profit maximisation and self-interest of business. Adam Smith's and Milton Friedman's views on the free market are regularly used to justify the notion, but such justification tends to be based on only a few regularly selected quotations from their

works. A fuller reading of their works shows that their views have been misinterpreted and mis-used.

The difference between the accurate interpretation and the misinterpretation of their works is significant for Bhopal, Nestlé, and Pinto. A special morality based on the accurate version of the free market would not excuse accountants of responsibility for death and injury in cases such as Bhopal, Nestlé, and Pinto. A special morality based on the misinterpreted version of the free market, on the other hand, might well excuse accountants of any such responsibility.

Neither Smith's nor Friedman's works can reasonably be used to support the business, economic, or political decisions that led to the deaths and injuries in Bhopal, Nestlé, and Pinto. Smith's concept of a free market does have a connection with profit maximisation and business self-interest. But a central intention of Smith's concept of the free market (upon which Friedman's work is based) is to put a stop to the oppression and damage caused by business self-interest, to change the system so that the self-interest of business would benefit the public. As Smith's and Friedman's works indicate, the free market can only function if the public is sufficiently informed and empowered. The reason is that once the public is sufficiently informed and empowered, a business, in its self-interest, would operate in the interest of the public. Any business that failed to do so would lose the support of the public (as customers, employees, and voters), and would go out of business. The public would naturally support the businesses which most operated in the public's interest. The public's voting power would be used to make sure that just enough laws were in place to enable the public to protect itself from the self-interest of business.

In addition, protecting the public from business is the basis on which accountants received full professional status – initially in terms of financial accounting and audit, but later on also in terms of management accounting

specifically. Strategic planning is a part of management accounting. The examination in this study of ordinary reflective morality, special morality (based on the accurate version of Smith's concept of the free market), and the basis upon which accountancy was granted professional status, shows that there is no legitimacy to limiting strategic-planning accountants' responsibility to financial loss. The answer to the first question outlined above, then, is that in terms of Bhopal, Nestlé, and Pinto, accountants' professional obligations would extend strategic-planning accountants' responsibilities beyond financial loss, to death and injury.

Estimates differ as to the number of victims from each case. But, generally speaking, authors tend to refer to the victims of Pinto as being in the hundreds to thousands, the victims of Bhopal as being in the thousands to tens or hundreds of thousands, and the victims of Nestlé as being in the millions. Although information on the roles accountants played in the Bhopal, Nestlé, and Pinto tragedies is not available to the public, those cases serve as important examples because the decisions that led to those tragedies are of the kind that is taught and practised in management accounting, from the very basic level onwards. This brings us to the second question, the extent to which accountants and their profession have been fulfilling their obligations.

To answer the second question in a complete and accurate way, the whole of accountancy was examined, not just management accounting. The broader approach shows the patterns that have developed, and have become fully entrenched, in accountancy. These patterns affect all sectors of accountancy, including management accounting, and can only be readily understood by examining the profession as a whole. The answer to the second question is that the accounting profession has not been fulfilling its professional obligations, nor is it accurately guiding, or supporting, its members to do so. In terms of a special morality based on the free market,

the profession's behaviour and its code of ethics indicate the profession is following the misinterpreted version of the free market.

If the accounting profession is to claim that a special morality based on Smith's and Friedman's concept of the free market applies to accountants, it would be expected to ensure that the public is protected from powerful business interests, and to push for the separation of business from politics (as required by Smith and Friedman to enable an empowered public). The accounting profession is not meeting that expectation. It appears instead to be focusing on profit maximisation and business self-interest. Only a misinterpretation of Smith's and Friedman's works would suggest that accountants fulfil their public interest obligation by merely helping the profit maximisation and self-interest of business.

In addition, the accounting profession's approach to ethical conflict resolution would fail the requirements of a special morality that is based on Smith's and Friedman's concept of the free market. The code of ethics of the International Federation of Accountants (IFAC) applies to all aspects of accountancy, and applies to professional accountants worldwide, in whatever position and under whatever title (as consultants, chief executive officers, directors, and so forth). For the free market to function the public needs to be sufficiently informed, as well as empowered, and where that is not possible then the public needs to be able to rely on those on the inside to act on its behalf. IFAC's recommendation in its code of ethics that accountants resign if they are not able to resolve ethical issues internally, and the profession's lack of speaking out on behalf of accountants facing ethical issues, fails to satisfy those requirements. The accounting profession, by its lack of support for a sufficiently informed and empowered public, holds back the free market.

Whereas accountancy received full professional status to protect the public from business, the pattern that emerges since then demonstrates not

protection of the public, but protection of business, and protection of the profession itself, unless forced to do otherwise. IFAC's code of ethics cannot be clearly interpreted, by its members or the public, in terms of the strategic-planning side of accounting. Confusion will remain until the profession explains, and justifies, its attitude to business – whether the profession has in terms of the strategic-planning side of accounting officially changed its role from protecting the public from business, to serving business. Strategic-planning accountants do have skills in profit maximisation and those skills can be of use to society. But if accountants are to use those skills, irrespective of the impact on the public from those skills, such a practice is at odds with the basis upon which the profession received full professional status, at odds with ordinary reflective morality, and at odds with a special morality based on the accurate version of Smith's concept of the free market. A focus by accountants on mere profit maximisation and business self-interest, irrespective of the impact on the public, would not fulfil accountants' professional obligations.

Accountants receive an education that is ill-preparing them for their public interest obligation. The misinterpreted version of Smith's and Friedman's concept of the free market is what accountants are most likely to be taught. The push from some sectors within accountancy for more recognition of the social impact of accounting remains largely ignored, even though concerns about the social impact of business are at the heart of the concept of the free market. Changes to the education of accountants only tend to come about in response to the needs of business, or the profession itself. The values (or lack thereof) operating in the business environment are, generally speaking, in conflict with the professional obligations of accountants, and accountants are playing a role in supporting those values. IFAC's approach to ethical conflict resolution allows such values to continue. Accordingly, individual accountants, on the whole, have not been fulfilling their professional obligations. Moreover, accountants who do want to fulfil their public interest obligations are likely to face great difficulties.

The roles of accountants have broadened considerably since the profession was granted full professional status, benefiting accountants and their profession considerably. With those broader roles come broader impacts, but responsibility for those broader impacts has not been acknowledged by accountants or their profession. Although accountants involved in strategic planning in cases such as Bhopal, Nestlé, and Pinto would have a responsibility for death and injury, the profession is ignoring the existence of such a responsibility. This leads us to the third question, why there has been so much silence on these matters to date.

There has been silence from both the public and academics on such matters to date. The silence from the public comes from how uninformed it is on issues relating to accountancy and economics. In terms of accountancy, an informed public is required for the operation of the free market and for the monitoring of the profession. There is a need for the public to be able to monitor the profession because once professional status is granted there is no specific follow-up by the authority who granted the professional status. The public is typically though only informed of the audit-related aspects of accountancy, leaving the public woefully uninformed of the non-audit involvement of accountants. The invisibility of certain aspects of accountancy has protected accountants in the non-audit roles from public scrutiny to date.

The invisibility of accountants in strategic-planning roles means that tragedies such as Bhopal, Nestlé, and Pinto are usually only examined using the concept of Corporate Social Responsibility, or similar term. Corporate Social Responsibility evolved because of the protection (lack of identification by the public) of individuals involved in the decision-making within organisations when the decisions have resulted in harm to the public. However, the merely normative nature of Corporate Social Responsibility makes it an insufficient standard for members of a full profession. Corporate

Social Responsibility ignores the moral requirement of a full profession. It ignores the roles of individual accountants in the decision-making process and their individual responsibility to act in the public interest.

When the public remains uninformed of the roles accountants are playing in the decision-making process, it remains ignorant of the connection between the outcomes and the accountants involved. The public is also uninformed of the professional obligations of accountants. By its behaviour and its code of ethics, the accounting profession is not enabling the public to be sufficiently informed or empowered – accordingly, the accounting profession is holding back the free market, and the monitoring of itself by the public.

In terms of the public being uninformed on issues relating to economics, the public tends only to be given the misinterpreted version of the free market. The misinterpreted version is spread via the comments and actions, or lack of actions, of those who are reasonably considered to be 'experts' on the topic (economists and accountants), giving the impression that the misinterpreted version is accurate and reliable. The irony is that a free market cannot operate without an informed public, and for the public to play its role in the free market (as prescribed by both Smith and Friedman), it must at the very least be accurately informed about the free market itself.

In addition, to be an informed public, the public requires more than just having information available to it. The public does not need all of the knowledge and skill of the specialist, but it does need to be able to effectively take part in the debate; it needs information, processes, and conditions of the type that enable such participation. The role of the expert is to make known to the public the facts the public depends upon. Given how uninformed the public is on issues relating to accountancy and economics, the matter of the professional obligations of accountants involved in strategic planning in cases such as Bhopal, Nestlé, and Pinto is

unlikely to be raised by the public. The matter is also unlikely to be investigated by academics. It is not just the public which is uninformed.

Academics in general, over many disciplines, tend to know only the misinterpreted version of the free market. A combination of how economics has developed as a discipline since Smith, and how it is taught, allows the misinterpreted version to continue.

For academics even to know of, let alone resolve, the ethical issue that arises from accountants' involvement in the strategic-planning decisions of organisations, knowledge is required of the public interest obligations of full professions, the development of economics from Smith onwards, and the development of accountancy since it became a full profession. Considering that academics are seldom taught those topics, and that research into more quantifiable topics would generally be a wiser career move for academics in economics or accountancy, the matter has understandably remained unresearched and unresolved to date. Unless cases such as Bhopal, Nestlé, and Pinto are used as hypothetical cases, the ethical issue will remain.

On the inside front cover of its code of ethics IFAC writes that it (via its International Ethics Standards Board for Accountants) 'fosters international debate on ethical issues faced by accountants'. It is my hope that this study will generate debate on the professional obligations of accountants involved in strategic planning. Once the standard that ought to be expected from accountants involved in strategic planning is known, it can be demanded. After all, there is nothing merely normative about the obligations of a full profession.

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