

THE AURA OF ACCOUNTING IN THE CONTEXT OF A CRISIS: GERMANY AND THE FIRST WORLD WAR*

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Abstract

Accounting reports have been depicted in the literature as ideological, conflict-resolving practices in capitalistic society. Employing insights from critical theory, this theme is developed in the present analysis through a theorizing of the conflict-enhancing potential of accounting, particularly in a crisis situation. Accounting is understood to possess an aura in the context of the hegemony of capitalist society which, on its transformation, can engender consequences disturbing rather than stabilizing for a prevalent capitalistic order. An illustration is provided through an analysis of developments in Germany up to the aftermath of the First World War. The awareness created by the theoretical analysis hopefully serves to enhance the social analysis of accounting.

There is now an awareness in the accounting literature that accounting is a mutable phenomenon which interrelates with the broader socio-political and economic context of which it is part (see, for example, Hopwood, 1983, 1987, Burchell *et al.*, 1985, Lehman & Tinker, 1987). Yet there has still been little research concerned with elaborating upon the implications of this mutability and the potentialities it suggests. Moreover, few studies have explored it through a theorizing of substantive empirics. It is arguably at least partly for such reasons that a shallowness has faced those researchers concerned with theorizing accounting change (Hopwood, 1987).

It is appreciated in the literature that, as well

as being reflective of their politico-economic context, accounting representations have political and economic consequences (Tinker, 1980; Burchell *et al.*, 1980, 1985, Cooper, 1980; Cooper & Sherer, 1984; Berry *et al.*, 1985, Hopwood, 1985, 1987; Loft, 1986; Hoskin & Macve, 1986; Miller & O'Leary, 1986; Lehman & Tinker, 1987; Tinker & Neimark, 1987). Many research contributions adopting such a stance place a stress on the significance, role and position of accounting in helping to sustain the basic features of capitalist society. Accounting is treated in this regard as effectively serving its underlying political hegemony. Underlying tensions in the capitalistic socio-political context are perceived, under a broadly hegemonic perspective

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(Richardson, 1987), to be partly resolved through accounting's operations either through the displacing of certain perceptions of business activity (e.g. perceptions of relations of exploitation and alienation) or through positively legitimating capitalist institutions (c.f. Cooper, 1980, Cooper & Sherer, 1984, Berry *et al.*, 1985; Tinker, 1980, 1985, Tinker & Neimark, 1986, 1988, Lehman & Tinker, 1987, Richardson, 1987; Tinker *et al.*, 1988). Tinker & Neimark (1987) have, for example, sought to demonstrate

the active part that reports may play in social conflict, by showing how the documents may downplay, re-interpret and re-construct a history of social and economic events. Most important, the terrain of social scrutiny and reflection that existing reports displace — the agendas they preclude — constitutes their most effective censoring function

The institution of accountancy practice in capitalist society has come to be viewed as an ideological state apparatus, helping the hegemony of the capitalist State to reproduce the political structure (c.f. Hall, 1982, for the employment of the theoretical construct of ideological state apparatus and of the concept of hegemony in sociology, Tinker *et al.* (1988) for an application in the social analysis of accounting; and Gramsci (1971) for a theoretical elaboration). Prevalent accounting is understood as helping the state resolve conflicts on behalf of capital by displacing alternative accountings (such as strictly regulated forms of social ac-

counting), underplaying social tensions and legitimizing underlying capitalistic property rights (c.f. Cooper & Sherer, 1984, Tinker, 1985, Lehman & Tinker, 1987)

In contrast to such a theoretical stance, the view that accounting can potentially disturb the capitalist system has scarcely been touched upon in the literature to date. Here, while supporting the theoretical view that accounting has ideological consequences, we wish to refine this perspective in arguing that accounting can also come to be conflict-enhancing for capitalist society

In the literature, it has already been noted that accounting's ideological consequences are influenced by the way accounting is perceived. For example, it has been suggested that the ideology of accounting can be made more productive and effective through accounting's apparent neutrality and independence (Lehman & Tinker, 1987, Tinker *et al.*, 1988). In seeking to demonstrate the conflict-enhancing potential of accounting in society, we elaborate in greater depth upon those properties of accounting — including accounting's perceived neutrality and independence — which influence the nature and effectiveness of accounting's functioning as ideology. For these purposes we term such properties the *auratic* properties of accounting. And we introduce into the literature a substantive theoretical elaboration of the concept of the *aura* of accounting as the summary concept of such auratic properties.¹ We reinterpret aspects of the Critical Theory of the Frankfurt School so as to

¹ Thus, in general terms, we could define the aura of a social phenomenon (such as accounting) as the "picture" or "image" that is created in the mind of a person (or in society) by the phenomenon, or, as the way in which the phenomenon is perceived (received by) or is understood by a person (or society) — its historically constituted perception. Given the epistemological and ontological perspective of the Frankfurt School, evidenced by their analysis of phenomena in terms of the irreducibility of subject and object and their view that social phenomena are neither subject nor object but object-subject (c.f. Adorno, 1967, Marcuse, 1968), these two definitions are consistent with each other. For our purposes, the definition of aura can be collapsed into the way in which a phenomenon is perceived or understood in society for ease of exposition.

It is also helpful to clarify somewhat the relationship between the two concepts of aura and ideology. Ideology is a concept which has been interpreted in several ways in the "social science" literature (see Therborn, 1980, Abercrombie *et al.*, 1983, Williams, 1981, pp. 26–30, Thompson, 1984). This is reflected in the accounting literature, where ideology has been understood in the more orthodox Marxist sense of false consciousness and as a "fetishism" (Haslam, 1986) and in the Althusserian sense of ideology as commonsense understandings (c.f. Althusser, 1971) (see, for example, Tinker *et al.*, 1988). Some writers might even argue that accounting has an "ideology" of neutrality and objectivity which in turn makes more effective its "ideology" (its ideological consequences) and impacts upon a broader "ideology" (macro-ideology) which also forms a significant element in its broader context. This can be confused and confusing in social analysis.

better theorize the concept of aura in the case of accounting, i.e. to elaborate upon the nature of the accounting aura, how such an aura is constituted and what consequences it has in society. We employ the School's analysis to demonstrate that accounting, through the transformation of its aura, can come to engender ideological consequences which are conflict-enhancing rather than conflict-resolving for capitalism. We illustrate the theoretical perspective through an analysis of some substantive empirics: the case of accounting in Germany up to the immediate aftermath of the First World War.

INSIGHTS FROM CRITICAL THEORY

We share the view (Laughlin, 1987; Laughlin & Lowe, 1988) that drawing from the insights of the Frankfurt School of Critical Theory can enrich the social analysis of accounting. The Frankfurt School explored the ways in which social phenomena interact with their broader context and in the course of their interdisciplinary research members of the School conducted analyses of a wide range of social phenomena. Theorization of any particular social phenomenon can be informed by and arguably continues the critical theoretical project (c.f. Held, 1980, p. 78; Jay, 1973).

In our particular concern to gain further insights into the auratic properties of accounting, we were drawn to the School's writings about the representational social phenomenon of art. Therein a related concept of aura is also elaborated—in terms of socio-political analysis of the type we seek to employ here for the case of ac-

counting (c.f. Benjamin, 1973; Marcuse, 1968, 1972, 1979; Löwenthal, 1944; Horkheimer, 1941; Horkheimer & Adorno, 1972; Adorno, 1945, 1967, 1974). The theory of art developed by the School provides a good basis for elaborating a theory of accounting, itself a social phenomenon. Accounting and art have much in common with each other (and with other social phenomena). For example, Löwenthal (1944) has pointed out that art can be understood as a code language for social processes, as can be argued for accounting (c.f. Burchell *et al.*, 1980). And both accounting and art take a representational form. Further, through their interaction with their social contexts, art and accounting come to be perceived in particular ways so that both possess related auratic properties and engender related ideological consequences. Despite the complexity of the theoretical writings of the critical theorists on art (c.f. Habermas, 1983a, b) it is hence worthwhile attempting to unravel how the School has theorized the nature of art's aura, the way it is constituted, the consequences it engenders, how it might transform and what is at stake in its transformation.²

The School's writings suggest that prevalent art representations are understood to be "authentic" and to reflect a "reality" worked out through the highest of cultural principles. Such perceptions of art in society are art's auratic properties according to the School's understanding. The School concentrates on the constitution of such properties and the modification thereof in the specific historical period of capitalism.

Critical Theory maintains that the auratic properties of art are socially constituted and

(c.f. Williams, 1981, p. 207) (see the rationale for the distinction between "artistic forms" and "belief systems" as two separable if interrelated concepts in Williams (1981, pp. 26–30)). We are focusing upon a particular aspect of the process through which accounting comes to have ideological consequences. We treat the concepts of aura and ideology separately in this regard, as does Eagleton (1976, 1981). The focus upon the concept of aura should help the reader appreciate the sense in which it can also be seen as a separable concept in terms of the particular nature of the insights which it reveals. Our approach is a reinterpretation of the theoretical position of the Frankfurt School, particularly Benjamin. For a very rich and modern analysis of Benjamin and his concept of aura, as applicable in literary theory and criticism, see Eagleton (1981, especially p. 28).

² Of the critical theorists only Benjamin employed the term "aura" in theorizing art in society. Horkheimer & Adorno, however, used the terms "form" and "style" in elaborating upon the same concept. And while Marcuse does not appear to have used any particular term he does set out a theoretical position upon the concept (c.f. Benjamin, 1973; Horkheimer & Adorno, 1972; Marcuse, 1972).

constructed (c.f. Horkheimer & Adorno, 1972, Marcuse, 1972; Benjamin, 1973) Benjamin (1973) argued that these properties, for prevalent art representations, are constituted through rituals and traditions embedded in society and through practices associated with the specific historical context of capitalism. He argued that the aura was partly constituted through its "distance" from people — i.e. that people accepted prevailing art's authenticity because aspects of it (e.g. the mode of its construction, the meaning of the artist, all the particularities of its content) were generally dimly understood and thus art was in this sense distant from its audience (Held, 1980, p. 87; Benjamin, 1973) Adorno, Horkheimer and Marcuse suggest (as we expand upon later) that the aura of art can be further constituted and enhanced by conscious intervention e.g. by the state (Marcuse, 1968, Horkheimer & Adorno, 1972).

The argument that emerges from the School's analysis is that the auratic properties of art in the historical period of capitalism generally engender ideological consequences which help to reproduce the capitalistic system of power relations Adorno & Horkheimer argue that art which possesses authenticity under capitalism conveys a "harmonising illusion" which enhances the stability and reproducibility of the broader political system through the ideological control of the masses (Adorno, 1945, Horkheimer & Adorno, 1972) Similarly, Marcuse placed strong emphasis on the prevailing conflict-resolving power of art — art as "negation" — in capitalist society He maintained that there was a "repressive familiarity" with a given world of objects in the public realm, which effectively served to reduce social critique (Marcuse, 1972, pp. 103–104; Habermas, 1983b, p. 166). This "repressive familiarity" was held together by "harmonising illusions". He attacked the "affirmative character of the beautiful illusion" as the "ideological element" in bourgeois art (Habermas, 1983a, b, pp. 166–169) Benjamin stressed that art acted as an ("almost magical") authority in the public realm and thus had ideological consequences (Benjamin, 1973). Its auratic properties left it accepted (i.e. unchallenged) in the

public realm. Thus, although the phenomenon is "distant" from the public it is "close" in having effects upon the public, i.e. art possesses a "unique phenomenon of a distance however close it may be" (Held, 1980, p. 87; Benjamin, 1973).

A crucial feature of the School's analysis is that the auratic properties of art are not immutable. The aura of art can transform and engender differing ideological consequences Horkheimer & Adorno (1972) maintain, for example, that art representations embody the potential to suggest "reality" as a contested field, possibly stimulating critical faculties and creating an awareness and theorizing of social contradictions and antinomies (Adorno, 1945, p. 678) Art could thus come to pose a "non-identity" of "alternative realities" to a prevalent materialistic society, i.e. a "negation of negation" (Held, 1980, p. 81, Adorno, 1967, p. 23, 1945, 1974; Horkheimer, 1941; Horkheimer & Adorno, 1972) On the "negation of negation" art might play its part — intendedly or otherwise — as a radical praxis, ultimately threatening extant socio-political structures and institutions Marcuse, similarly, understood bourgeois art to include a dialectical property whereby the "beautiful illusion" also tended to enhance historical demands for emancipation The portrayal of liberal ideals preserved such demands in bourgeois culture Marcuse also argued that the conflict-resolving power of art could be dissolved by socio-political action Art might then play a role in revolutionizing the stunted sensuality and repressive structuring of the drives and instincts which had been engendered by capitalism (Marcuse, 1968)

Benjamin (1973) perceived the aura of art to be conflict-resolving so long as it was preserved in a particular historical set of conditions. Adorno, Horkheimer, Lowenthal and Marcuse maintained that the conflict-resolving role of art had been enhanced in the context of the dynamic socio-political changes reflected in the transition to the age of mass culture. They held that the new products of mass culture served to enhance political control and to cement mass audiences to the status quo (Horkheimer, 1941; Lowenthal, 1967, Adorno, 1967; pp. 147–172; Marcuse, 1966, 1968, 1972; Habermas, 1983a, p.

139; Held, 1980, pp. 89–109). Adorno (see especially Adorno, 1938) also felt that the more severe became the difficulties of reproducing contemporary society, the stronger became the general tendency to sustain the existent through mass culture and all other means. Benjamin, in contrast, argued that these dynamics held out a greater possibility of radical change (Benjamin, 1973). Thus, Benjamin's theory might be particularly distinguishable in a crisis context. For Benjamin, the age of mechanical reproduction, associated with the development of mass culture, "shattered" the aura of authenticity, since art became regarded as transitory and reproducible (Benjamin, 1973). Reified notions of historical taken-for-granted continuities were thus "shattered", as art shifted from harmonizing consequences to a more explicit politicization in the public realm, engendering radical consequences, which Benjamin put dramatically

The instant the criterion of authenticity ceases to be applicable to artistic production, the total function of art is reversed. Instead of being based on ritual, it begins to be based on another practice — politics (1973, p. 224, quoted in Held, 1980, p. 87).

In this context we might cite Habermas' interpretation of Benjamin:

Benjamin is acquainted with a continuity that, in its linear progress, breaks through the cycle of natural history and thereby menaces the lastingness of tradition. This is the continuity of demystification, whose final stage Benjamin diagnoses as the loss of Aura (1983a, p. 139).

In the demystification process, the aura is transformed, engendering radical developments:

In a succession of discrete shocks, the art work deprived of its aura releases experiences that used to be enclosed within an esoteric style (1983a, p. 133).

Benjamin (1973) interpreted the auratic threat through art broadly, as part of a larger threat to the political structure. The following quote from Benjamin underlines this

what is really jeopardized when the historical testimony is affected is the authority of the object (1973, p. 223).

And, further, Benjamin (1973) held that the development of a mass culture enhanced the potential consequences of the "shattering" of the aura in engendering radical change. The potential for shifting the consciousness of the masses was clearly enhanced. Instead of being "fooled" into accepting a hierarchical power structure "imposed" in the social realm, the shattering of art's aura might lead to people developing a consciousness of a much more "universal equality" in the social realm. This could lead to political action (Benjamin, 1973).

THE AURA OF ACCOUNTING

Having elaborated briefly upon the Frankfurt School's theorizing of the auratic properties of art, we can proceed to delineate a theory of the accounting aura.³ What is the general nature of the aura of accounting in capitalist society? How is such an aura constituted? What consequences emanate from this aura? Might such an aura transform (or be transformed)? What is at stake in its transformation? In the following we attempt to address such issues in elaborating a theory of the aura of accounting in capitalist society.

Arguably, the accounting representation is perceived in the public realm of capitalism to be neutral, objective ("true") and independent. And it seems that it is also understood to have been arrived at in accordance with learned principles which have been fairly applied (c.f. Knights & Collinson, 1987, Lehman & Tinker, 1987, Tinker *et al.*, 1988). Drawing upon the analysis of the Frankfurt School, we maintain here that these aspects of accounting are its major auratic properties under capitalism.⁴

³ At this stage we elaborate upon the accounting aura in relatively general terms. We offer a more specific analysis in theorizing the substantive empirics of the paper.

⁴ It is interesting to note that the current wording of the audit report in the U.K. actually highlights some of these auratic properties. For example, an unqualified report refers to the accounts giving a "true and fair view" and all reports for limited companies are signed by a "qualified" auditor who audits in accordance with "approved auditing standards". Lehman & Tinker (1987) point out that, in the modern context, professionalism, public interest, independence and objectivity are vital weapons used by the accountancy profession to promote its own distributional advantage. Such terms also have a wider significance as treated in this study here.

A critical theoretical analysis suggests that the aura of accounting is constituted by a range of factors, some of which stem from deeply embedded cultural traditions and values, others of which are much more clearly influenced by specific features of the historical context of capitalism (c.f. Benjamin, 1973). Conceivably for example, the presentation of accounts as "T" form balancing statements made up of "facts and figures" (suggesting objective and "hard" counting) has contributed to the significance of accounting representations in society (c.f. Aho, 1985, who suggests that double-entry book-keeping helped to legitimate business activity). The balanced "T-form" statement could even be taken to parallel the "scales of justice" as a symbolic form. Further, statements in which the "facts and figures" are set out in money form may be given added significance in capitalist society, a society where money is important and has to be carefully controlled.⁵ The production or authorization of accounts by people regarded as "experts" also would seem to add to the weight given to the accounting representation in society. And, the notion that experts are "professionals" arguably further bolsters the authority of the accounting representation in the public realm. Where such professional experts are understood additionally to draw upon a "knowledge base" this conceivably contributes even more to the constitution of the accounting aura.

Moreover, of particular significance in constituting the aura of accounting is arguably the support given to the accounting representation by the state and the law. This would be the case where the capitalist state, its legislation and the law generally are themselves understood as legitimate, which they must generally be to some degree in the public realm of many forms of capitalist society. The state can create accounting legislation. The law courts can legitimize accountings by, for example, deeming

particular accounting principles to be fair or appropriate and by relying on accounts as legal evidence. Law or the quasi-law decisions of a body governed by a group from among the ranks of "accounting professionals" can serve to legitimize accountings. All these factors conceivably contribute to the constitution of the accounting aura.

In agreement with some contributors to the accounting literature, and with the Frankfurt School in their perspective upon social phenomena in capitalist society, we understand that the authority given to accounting through its constituted aura generally helps to reproduce the capitalist system (Tinker & Neimark, 1986; Lehman & Tinker, 1987). This is partly because the aura of prevalent accountings under capitalism enhances conservative ideological forces. For example, this aura engenders an unquestioning acceptance of prevalent accounting numbers as conveyors of an unproblematic, concrete and "valid" message. And where such technical expertise is associated with "professionals", who hold themselves out as being independent and honest in conduct, accounting arguably gains the broad trust of many people. The technical and expert language in which accounting is couched allows a boundary to be drawn around it preventing broader access to its comprehension. Thus prevalent accountings displace alternative accountings which might transform the consciousness of many social actors and perhaps contribute to a challenging of the capitalist system of power relations (c.f. Lehman & Tinker, 1987). They also help to legitimize capitalist property relations, for example, by allowing for flexible representations of "profit" and by reinforcing notions of labour as a "cost". They can steer the perception of what is and is not deemed important in society.

Thus accounting, like art, can be "distant" from the public in that only a very limited understanding of its particular nature (as a "product of

⁵ The attachment of a perceived sound and authentic representation to accounting in this sense has been seen to be directly of significance as a prescriptive characteristic of information in a capital markets context by writers in accounting and finance (c.f. Graham *et al.*, 1962, p. 28, Solomons, 1986, Foster, 1986). These writers refer to the aura of accounting without elaborating upon what they mean in using this term. Accounting's representation as sound and authentic is indirectly invoked as effectively engendering ideological conflict-resolving and legitimating consequences in terms of socio-political stability in such diverse contributions as Solomons (1978) and Tinker *et al.* (1988).

technical expertise") might prevail in the public realm (where it might be mystifying to some extent, c.f. Haslam, 1986). Yet at the same time it might be "close" to the public in that the politico-economic consequences of accounting can bear directly upon them (c.f. Benjamin, 1973). The aura of accounting thus arguably contributes to the power of accounting in the broader public realm as well as within particular organizations (c.f. Knights & Collinson, 1987). Accounting is thus respected and has greater influence in mediating social action. It can help to better legitimate and drive decisions with politico-economic consequences which in themselves are controversial in nature (c.f. Berry *et al.*, 1985).

Accounting's aura (like that of art) can arguably be transformed in society. In the context of a crisis situation in particular the auratic properties of accounting might come to be more fragile and be "shattered", i.e. transformed. Accounting practices could be demystified and the "harmonizing illusion" unmasked (c.f. Horkheimer, 1941, pp. 292–295; Habermas, 1983a, b). Accounting could conceivably come to be seen, for example, as a gross, crude and deceitful representation. Accounting might then no longer be taken-for-granted. The transforming of the aura would arguably bring about a broader public awareness of accounting as a political phenomenon with an effective role in, for example, legitimizing a particular pattern of wealth distribution or helping resolve distributional conflicts in favour of capital (Tinker, 1980, Cooper & Sherer, 1984, Lehman & Tinker, 1987). And we suggest that there is also the possibility of the aura of accounting being enhanced or transformed through conscious intervention e.g. by the state, by preparers of accounts and by other political groups in society.

Where the aura of prevalent accounting under capitalism is transformed, we maintain that ideological consequences disturbing to the capitalist system could be engendered. The mistrust created by the shattering of an aura of neutrality or fairness, for example, might lead to a broad challenge to the legitimacy of other institutions, including the state itself (c.f. the

employment of Benjamin's ideas by Arato, 1977; Paetzoldt, 1977 in this context). What was previously conflict-resolving becomes conflict-enhancing for capitalist society. A phenomenon which is significant in conflict-resolving because of the great trust invested in it could become just as significant in conflict-enhancing where that great trust is lost. And as Benjamin noted for the case of art, the effect of such consequences might be more significant where accounting had previously come to be a widely communicated and received phenomenon in society (e.g. where accounting is disclosed through mass media such as the newspapers) (Benjamin, 1973).

Having set out a theoretical perspective upon the accounting aura, we now proceed with an empirical illustration, a social analysis of accounting's aura in Germany up to the aftermath of the First World War. The illustrated analysis offered is of a transformation in the accounting aura in a crisis context, based in the environment of Germany towards the end of the First World War and its immediate aftermath. Clearly, a study of the accounting aura in a crisis context should enhance our understanding of accounting in the critical theoretical terms we have so far elaborated. After setting out the nature of the crisis context, this empirical illustration is then elaborated through historical analysis of the social location of accounting at the outset of the War. Next, we concentrate upon interpreting subsequent developments, particularly around the end of the First World War, the period of crisis in which the capitalistic pattern of power relations was threatened. The study goes on to suggest that the insights gained from the analysis are relevant to understanding and acting upon accounting today.

GERMANY: THE CRISIS CONTEXT

Most commentators agree that the occurrences in Germany in and around 1918 reflected a crisis context (as argued in the varied sources of Bartel, 1958; Emmerich, 1975; Ryder, 1967; Baudis & Nussbaum, 1978; Har-

dach, 1980, Harman, 1982; Hortzschansky, 1978, *Internationaler Arbeiter*, 1929; Rosenberg, 1936, Vincent, 1985). During this period, Germany passed through a revolutionary situation characterized by mass strikes, demonstrations and the eventual overthrow of the monarchy (Ryder, 1967, Harman, 1982, *Internationaler Arbeiter*, 1929; Hortzschansky, 1978) The consequences of these historical developments were crucial for the subsequent history of the twentieth century (Harman, 1982, Ryder, 1967), and they provide a particularly appropriate context for the study of the operation of the accounting phenomenon within a society under crisis. In order to appreciate the chosen setting, it is helpful, after further elaborating upon the nature of the crisis context, to briefly underline its significance in terms of a broader historical perspective before then locating accounting and its auratic dimension in the previously relatively stable environment up to the outset of the war.

As the First World War drew to its close, many people in Germany were experiencing poverty as well as, in many cases, personal loss (Bankhaus Gebr. Arnhold, 1917; Ryder, 1967, Hardach, 1980, Hortzschansky, 1978, *Internationaler Arbeiter*, 1929, pp. 123–126, Vincent, 1985). Conditions had worsened significantly in 1916, especially in the winter, although mass demonstrations against hunger had already taken place in the summer. The demonstrations of the winter of 1916 were against the war policy and were led by revolutionary forces in the German workers' movement (Baudis, 1978, pp. 283–298, Bartel, 1958, p. 331).

The latter period of the First World War in Germany was also witness to mass political strikes (Kuczynski, 1982, pp. 447–464, Hortzschansky, 1978, pp. 28–34). The first anti-war strike had been promoted in 1915 by the Spartacists, a radical socialist movement (Bartel, 1958, pp. 430–450). There were subsequently many strikes around June, 1916 and there developed a mood for revolutionary change (Baudis & Nussbaum, 1978; Bartel, 1958, p. 313; Emmerich, 1975, p. 157). The first mass strike of workers from the war factories — sig-

nificantly heightening tensions — occurred in April 1917. The demonstrations and strikes were particularly threatening to the political system given the close relationship between the state and major industries (Blaich, 1979). The Russian revolution of 1917 was a further spur to revolutionary activity in Germany and this was most evident in the mass strikes of January, 1918 (Baudis, 1978, p. 330). It is thus generally agreed in the literature that there was a significant threat of revolution at this time (cf. Harman, 1982, Ryder, 1967).

Workers' and soldiers' councils, inspired by the Russian revolution and the emergence of the Soviet Union, were established after the war and many hoped to see the coming of a socialist republic as advocated by Rosa Luxemburg and Karl Liebknecht, leaders of the Spartacists (cf. Ryder, 1967; Rosenberg, 1936). The "majority" Social Democrats gained power, however, over the more radical revolutionary movements. This led to the establishment of a liberal democracy which, while representing a significant change from the previous political system, was still capitalist. Parliamentary democracy restored a broadly conservative realignment in Parliament. The attempts at socialist revolution had failed as such, although some relatively dramatic changes had occurred (including the extension of certain labour rights (cf. Grebing, 1985)).

That the events in and around 1918 constituted a crisis context can be further illustrated by noting that prior to the war, Germany had emerged as one of the most powerful and stable capitalist nation states in the world (Mommsen, 1986; Baudis & Nussbaum, 1978, Fischer, 1984; Harris, 1975). The rapid development from an early capitalist and, compared to Great Britain, industrially backward, state, to a capitalist system of a highly organized form had been a major economic development (Anderson, 1979; Mommsen, 1986; Fischer, 1984; Winkler, 1979). Moreover, Germany was subsequently exemplary for other industrializing nations. Japan, for example, previously much influenced by Great Britain, had become much more strongly influenced by the advantages offered by the "German model" of industrialization towards the end of the nine-

teenth century (Ikeda *et al.*, 1970). The Japanese also followed Germany in their commercial law. The German drive to industrialize was fostered by the state, especially subsequent to German unification in 1870. The mid 1870s saw the growth of the modern welfare state with taxation being raised for welfare projects. By the end of the nineteenth century Germany dominated many world export markets (Mommsen, 1986; Fischer, 1984; Baudis & Nussbaum, 1978; Ryder, 1967). The outcome of the First World War came as a threatening disturbance to these trends.

THE HISTORY OF ACCOUNTING IN GERMANY PRIOR TO THE WAR: THE CONSTITUTION OF THE AURATIC DIMENSION

It is crucial to gain an understanding of the constitution of the aura of accounting prior to the crisis engendered in the war years. This allows us to more clearly appreciate any transformations of the aura in crisis. In what follows, some key developments in the history of accounting in Germany are interpreted as constituting its aura, i.e. its perception as a neutral, objective, independent and fair representation. It becomes clear that such an aura was in place by the start of the war. Accounting was supported by the state and had legal authority. Moreover, in this context, a concept of secrecy was given legitimation as a worthy principle rather than as a malpractice. And the form of accounts presented in the newspapers and at general meetings of shareholders typically enhanced their aura. Additionally, accounting had become associated with a body of knowledge and expertise which also helped to bolster the accounting aura.

*Accounting as state-supported legal authority*⁶

Until late into the nineteenth century, there

was no unified German state in the legal sense but rather a collection of smaller German speaking states. While vying with each other for political supremacy, however, these states were increasingly drawn together through a fear of Austria-Hungary, through the leading role played by the military power of Prussia and through the growth of commerce and trade. Further, in 1834, the Customs Union developed to facilitate this process through the harmonization of commercial practice (c.f. Anderson, 1979; Forrester, 1984; Vermeil, 1969; Barth, 1953).

A French influence upon accounting throughout what was to become the unified Germany is evident before the nineteenth century, and this played a crucial role in the establishment of a state-supported legal basis to accounting. In bookkeeping practice, French writings, dating back to the late seventeenth century, were influential in the development of commercial codes governing accounting records. Such developments superseded the traditional commercial bookkeeping practices of, for example, the Hanseatic merchants (Forrester, 1984; Barth, 1953). Napoleonic power over German states, including Prussia, reinforced these developments and the Prussian code introduced in 1794 was clearly influenced by the French *Code Savary* and the 1673 *Ordonnance de Commerce* (Barth, 1953, pp 65–66). The French developments were motivated by state concerns over taxation and credit and the latter concern had already suggested conservatism as a principle in accounting. In 1807 a variant of the French *Code de Commerce* was adapted in most German states. This regulated public companies by requiring state permission for their foundation (Burchard, 1931). Subsequently, the 1861 Prussian commercial code (the *Allgemeines Deutsches Handelsgesetzbuch*) became the model for the harmonization of accountancy practice by companies throughout the German Customs Union. Such developments were consistent with French law in that they were not

⁶ Althusser (1971) in a well-known definition, treats the state as including all practices with the authority to obtain the consent of the people through their appearing neutral and independent. Accounting is integral to such practices but is clearly focused upon in relation to broader practices in this study.

concerned to require accounting disclosure in the broader public realm (i.e. to an audience beyond the state and private interests), in support of a principle of privacy (c.f. Miller, 1987). This French influence represents a key development in the formation of the accounting aura in Germany, however, since a relationship between the state, legislation and accounting practice was effectively established.

On the unification of Germany in 1871, economic policy became the central feature of political debate, the concern to industrialize being paramount. Liberals and conservatives constituted the two major political forces — though in the context of a growing labour movement. The liberal years from 1869 to 1873 became known as the *Grunderzeit* — many large banks and companies were founded by share issue during this period (Hardach, 1980; Winkler, 1979). As a result of liberalist pressure, a law (the *Bundesgesetz über die Kommanditgesellschaften auf Aktien und die Aktiengesellschaften*) — the forerunner of the *Aktiennovelle* (the subsequent public company law) — had been introduced in 1870, to revise the 1861 code with respect specifically to the public companies (Barth, 1953, pp. 71–75). The 1807 rules requiring state approval of company foundation were thereby relaxed (Burchard, 1931). In this period of capitalist expansion, members of the nobility lent support to several company formations. Scandals ensued, however, as it became apparent that many issues were excessively overvalued. This was in the advent of a crash in share prices accompanied by an international recession (with harsh consequences for working people — see Grebing, 1985, pp. 52–53). It was in this context that a German tradition of accounting evolved which was effectively a further enhancement of the French approach — since the state extended its regulation of accounting practice. The 1870 code had not rigorously specified valuation rules such as requiring historical cost or forbidding the statement of investments and stocks at a sum higher

than the lower of cost and market value (the *Niederstwertprinzip*). These valuation frameworks were subsequently introduced in response to the scandals, in articles 239b and 185a, 1 and 2 of the 1884 *Aktiennovelle* (Barth, 1953, p. 156; Passow, 1919, pp. 29–30 and p. 59).

The revised *Aktiennovelle* also laid down the requirement for public companies to disclose accounting statements to the public (without the need to attach any written report). These statements consisted of a balance sheet and a profit and loss account, the latter being based on the French law of 1867 (Barth, 1953, pp. 71–75, Passow, 1919). Disclosure had to be made through newspapers, the major mass media of the time. The accounting statements also had to be sent to the Trade Registry (Klausing, 1931, p. 746). If shareholders wanted a copy of the report, they were entitled to one, two weeks before the general assembly of the company met. The commercial environment was effectively made less liberal — with extended publicity requirements, additional legal obligations on the part of the managing and supervisory boards and regulations giving greater protection to the small shareholder (Burchard, 1931, p. 685). The shareholders' rights (e.g. to challenge accounting numbers) at the general assembly were increased. Such rights from 1884 could be exercised with just 10% of the shareholders agreeing, which represented a reduction on the previous requirement. In addition, any shareholder could appeal against general assembly decisions (Barth, 1953, pp. 71–75). Thus, by 1884, the state-supported legal underpinning was firmly in place and accounting communicated to a public realm.

The fuller nature of the developing linkage between accounting, law and the state can be appreciated by focusing upon the relationship between taxation, dividends, and the accounting representation. Subsequent to the economic disturbances of the 1870s, a concern of the state was to ensure the accumulation of real capital.⁷ It seems reasonable to conclude that the ac-

⁷ Althusser (1971) is echoed here, since his analysis saw the state (in its broadest sense) as being concerned to enhance the process of capital accumulation.

counting report was used, in this context, with a view to preventing an excessive distribution of capital. This aim was to be achieved by linking the dividend to the same accounting numbers upon which taxation was based. Hence a distribution to shareholders implied a distribution to the state, thereby encouraging retentions for investment. Thus the tax legislation of 1874 reinforced a close linkage between tax and accounting. This linkage has broadly continued up to recent times (Beeny, 1975; Wysocki, 1983; Nobes & Parker, 1985).

The dividend was tied to reported profit by article 217 of the 1884 *Aktiennovelle* (Barth, 1953; Passow, 1919). Dividends had a greater weight attached to them relative to more modern times since shareholders preferred immediate cash returns to any uncertain future capital gains, given the relatively undeveloped nature of the stockmarket (Baehring, 1985). Thus the accounting representation was an important mechanism for mediating the distribution of wealth between the company and the state and between the company and its shareholders. There were comparatively few disputes over taxation and dividends relative to German business operations as a whole — certainly there was little at stake in company taxation and, as is expanded below, the state encouraged a conservative approach to distributable profit for all purposes. Disputes that did occur, however, led to a further enhancement of the legal dimension to the accounting aura. This was because the involvement of the courts and the contribution of case law was necessitated, given that there was little detailed prescriptive legislation on how the basic valuation frameworks were to be applied (Barth, 1953, p. 48). As case law decisions fed back into practice the depth of the legal basis to the accounting aura would be significantly enhanced.

The state and the law and their support of the secrecy principle governing corporate disclosure

The extension of regulation in 1884 had represented a divergence, to some extent, from the state's regulatory tradition of fostering secrecy

and "conservative flexibility" in respect to accounting. The 1884 code was modified, however, in 1897, where it was stated, for example, that appeals against decisions of the general assembly — concerning perhaps alleged excessive depreciation or transfers to reserves — would only be valid where 5% of shareholders were united in complaint (Barth, 1953, pp. 71–75). Similarly, the general requirement for 10% of shareholders to agree in certain procedures was increased to 20%. Thus underlying preference for secrecy (or confidentiality) was reinforced. This illustrates how much secrecy was encouraged and considered to be a matter of legitimate concern — accounting disclosure to the public being a restricted domain.

Thus, at the outset of the war, accounting representations were regarded as a basic check on credit worthiness rather than a basis for informed investment decisions (Abel, 1971). Indeed, a major reason behind many of the state's extensions of regulations in 1884 was to *protect* creditors in accordance with the philosophy whereby only overvaluation — as opposed to undervaluation — was to be prohibited (Merker *et al.*, 1965). The position of the banks, who had access to inside information due to their ownership interests in companies and representation on their supervisory boards, further encouraged the growth of secrecy and conservatism as the dominant principles governing disclosure in the public realm. By the turn of the century, banks had developed their own auditing firms, the *Treubandgesellschaften*, in this context (Abel, 1971, p. 33; van Dien, 1929, p. 414), reinforcing their access to inside information. This reflected their control over much of German industry.

Analysis of German interpretations of accounting debates suggests that such secrecy was positively supported as a means of protecting the enterprise from excessive distribution of capital to "outside parties" such as employees, shareholders (especially as a result of pressure from minority holdings) and (of less significance), the state. The German academic lawyer Dietzen (1937), in an historical review, stresses the role of the secret reserve in this respect. The crucial point to make here is that the state itself

supported secrecy While the Government committee revising the 1861 code had considered tightening the rules on the carrying of secret reserves by shareholder agreement — by requiring at least 75% shareholder support — the requirement for 50% remained in the 1897 revised code, the *Handelsgesetzbuch für das Deutsche Reich* (Buchard, 1931) Fears over the excess distribution of capital reflect the aim of the state to foster real capital accumulation. Klausning (1931, p. 746) points out that management itself, through fear of economic consequences and competitive effects, were concerned to ensure a regular and conservative dividend policy through income smoothing with the aid of secret reserve accounting

Secrecy in the public realm is also a potentially important factor in mediating the distribution of wealth between capital and labour and a broader interpretative analysis should include the importance of the reception of accounting statements by the workers' movements Socialism was a strong and growing movement in the world prior to the First World War and much thought was being given by political activists as to how to organize working people under its banner. In Germany, this is likely to be of significance, since Germany was considered to have the most advanced and developed body of socialist thought and no less than four and a half million Social Democrats — thought to be the largest contingent of active socialists in the world (Marcy, 1984) It is clear that even revolutionary leaders such as Luxemburg and Liebknecht were informed about the language of accounting, at least to some extent, as we shall elaborate Unions were organized by industry with the two major aims of increasing pay and reducing working hours From 1885 to 1910 it has been estimated that the unions had managed to approximately double the incomes of working people in real terms. Strikes increased significantly in 1914 in accordance with general union aims but this trend was largely arrested with the onset of war (Grebing, 1985, pp. 69–70). One would not necessarily expect, in accordance with the theoretical exposition here, direct evidence that accounting played a role on behalf of

capital in any pre-war conflicts between capital and labour Yet clearly, to the extent that accounting representations were perceived as expertly derived statements with legal authority, they can be presumed to have effectively played such a conflict-resolving role where the masses were uneducated about the poor quality of accounts and had no effective guidance to appreciate alternative insights

Thus "secret" reserves had a positive connotation in the language and understanding of the state and the powerful banking financiers and there is no evidence of them having any negative connotation in the public realm. Indeed the construct used — that of "Stille Reserven" — is more literally translated as "quiet" reserves rather than secret reserves, and a German interpretation would put the stress on confidentiality and privacy rather than secrecy, although this mode of accounting clearly contributes to a less than open disclosure policy. And the common company practice of keeping (private) accounting records, has been termed "secret" bookkeeping in a German context (van Dien, 1929) This again suggests that "secrecy" would have been generally expected rather than being viewed as a dubious or unethical practice.

In this context, the law allowed and encouraged secret reserves in the broader sense (e.g. through the valuation rules of historic cost and the *Niederstwertprinzip*) of emphasizing underestimation and conservatism (Klausning, 1931, p. 746; Dietzen, 1937; Passow, 1919, p. 62; Schmidt, 1929, 1931). Klausning (1931) specifically suggests that secret reserves were created by the application of the *Niederstwertprinzip*, the historic cost principle and by the vagueness of regulations surrounding depreciation policy — article 185a, 3 of the 1884 *Aktionnovelle* stipulated that fixed assets could be stated as cost or market value providing an amount for wear and tear was put aside (c.f. Barth, 1953; Passow, 1919, Isaac, 1931) While the law formally allowed the tradition of secret reserve building in circumstances only where to account otherwise would threaten company survival, and not, for example, to control dividend (Klausning, 1931, pp. 748–749), such a basically subjective provision was generally ignored. The

Niederstwertprinzip was reiterated in section 261 of the 1897 code. This 1897 code, which retained much of the 1884 *Aktiennovelle* built into it virtually unchanged, was still applicable in 1918 (Barth, 1953, p. 61; Hoffmann, 1920)

Apart from the establishment of secrecy as a principle of accounting law, a general reason why any state policy might be accepted by many would have been the phenomenal success of the German economy associated with the state-led industrial policy. The organized capitalist system as theorized by Hilferding (1981) with the tight tie up between industrial and finance capital (in contrast to the position in Great Britain (c.f. Ingham, 1985)), really secured firm roots from this time. The state itself took a lead in financing industry and furthering the industrial revolution. Gradually, the banks, with centralized investment funds from dispersed sources, assumed the leading role within the framework of state policy (c.f. Armstrong, 1987). The banks — as they still do in the Federal Republic of Germany — dominated the Stock Exchange as the major brokers and invested in and lent directly to industry, taking a role in its administration and securing a position of trust with the public (c.f. Baehring, 1985). As well as the phenomenal economic growth that became associated with this arrangement, Germany also had effectively appeased the growth of mass socialist feeling with an early usage of welfare programmes. The 1874 Sayon Tax Act was one of the first instruments for pursuing such programmes and had been introduced to help stabilize the social system — a major response to the economic troubles of the early 1870s. For many this would have strengthened the image of the state as “caring”, moral and legitimate. Thus accounting can be said to have been firmly supported by a legal authority and by a state that was itself widely supported such that the rather misleading and secretive reporting practices preserved their aura.

The form of the accounting representation

The form of the accounting representation in itself conceivably significantly enhanced the authority of accounting reports. These reports

appeared in the newspapers as T-form balancing statements — usually in a highly condensed form — conveying a semblance of an unproblematic order. In this way they fitted very well the conception of the accounting report that Aho (1985) argued was significant in legitimating profit-making as just, fair and reasonable in a different socio-political and historical context. Clearly the form of the accounting representation (which arguably also reflects the sort of order and discipline so important to the Prussian military hegemony) can be considered to bolster further the legal support in this context. The balance sheet consisted of basic classifications of assets, liabilities and various equity accounts. The profit and loss account was usually presented in a very condensed and aggregated form (again as a T-form balancing statement). All were presented in the form of “facts and figures” in money terms. This form of the accounting representation would have arguably enhanced the perception of accounts as neutral and objective.

Accounting as expertise with a knowledge base

Much of the growth in an awareness that accounting possessed a knowledge base requiring expertise developed in the process of the growing association of accounting with the legal apparatus. Of particular relevance here are the case law rulings already mentioned. There were other developments, however, that are worth noting in this context: the growth of an associated auditing practice and the study of accounting in institutions of higher education.

By 1914 the law, as well as allowing shareholders to agree the profit and loss account, balance sheet and dividend by simple majority, also allowed them (but did not oblige them) to appoint auditors (Klausing, 1931, p. 735). From 1900, Chambers of Commerce became empowered in most of the German regions to swear and appoint auditors, something previously left to the law courts. The major association whose members could be called upon to carry out the audit, apart from the bank auditors, was the *Verband Deutscher Bucherreviseuren*, formed in 1896 (van Dien, 1929). The attachment of a notion of “professional” auditor as a means for the control

of the quality of the accounting representations was thus already fairly well developed by the outset of the First World War. Auditing was seen to require commercial expertise and was effectively delegated by the law courts in this context.

The German policy to bring about rapid industrialization in the latter half of the nineteenth century was also accompanied by the establishment of many institutions of higher education for the promotion of business economics (*Betriebswirtschaftslehre*), including accounting (*Rechnungswesen*). Accounting was established in many German universities by 1914 (c.f. Locke, 1984; Abel, 1971, McClelland, 1980). In addition, accounting was integral to the commercial law studied in Germany. This would also have contributed to the perspective whereby accounting was seen to depend on a technical and expert knowledge base.

In sum, the aura of accounting in the public realm was firmly in place by the outset of the First World War. This was constituted through the influence of developments in France, responses by the new German state to economic disturbances in early 1870s and through the relationship between accounting, dividends and taxation. The form of the accounts contributed to the constitution of their aura. Accounting was also regarded as requiring expertise and a knowledge base. Apart from the association of accounting with the law, we have pointed to the development of auditing and the inclusion of accounting on the syllabuses of institutions of higher education as evidencing such a position. In such a context the misleading and secretive accounting practices in the broader public realm (i.e. for the masses or majority of the people), were effectively legitimated. Such a legitimation was enhanced by the stability and progress seemingly engendered by the state itself up to this time through its policies. Thus the accounting representation appearing in German newspapers arguably possessed an aura, as we have interpreted it here, by 1914.

THE THREAT OF WAR PROFITS IN GERMANY

Germany in the early years of the war

In the earlier war years there was little change in the regulatory environment of business. Germany was slower than Britain to develop a war economy with greater state control and did not give equivalent powers to a Ministry of Munitions (c.f. Hardach, 1980; Marriner, 1980). It was not until late 1916 that the German War Ministry established the *Kriegsamt* (War Office) — to place tighter regulations on the movement of war supplies — and this move was initiated by industry to improve the co-ordination of economic activity (Baudis, 1978, p. 289; Baudis & Nussbaum, 1978; Lucas, 1976, p. 137). The *Kriegsamt* was unable to exercise much control over industry and indeed effectively appears to have had such an intention. Moreover, the general philosophy of the pricing of war production — the Hindenberg programme — was that tight control of pricing was to be properly sacrificed to the giving of incentives to industry to encourage production (Baudis, 1978, pp. 290–300). Hence key aspects of the regulation existent in the pre-war economy continued into the war period. Yet, clearly, the socio-political context of that regulatory activity was changing, given the emergence of a crisis. A critical analysis of newspapers, company proceedings and parliamentary pronouncements and debates was thus undertaken, in order to reveal insights into changes in the auratic dimension of accounting in this changing context.

War profits, accounting techniques and the further promotion of secrecy

The war became very profitable for many German companies. The state began to realize that a reception of high profit figures in the public realm might meet with extreme disapproval. It was feared that this might result in a critique of the morality of the state and antagonize workers and soldiers (Hoffman, 1920, pp. 4–5). There was an increase in the activity of creating secret reserves throughout the war years by companies whose economic interests were bound up with the war. It was because profits were so high, note

some commentators, that industry and the state effectively colluded in seeking to hide them (Bartel, 1958, p. 340; Hoffman, 1920). The state thus supported a further promotion of secrecy. The increased concern to hide profits through secret reserves and other accounting techniques was an extension of traditional practices (Hoffman, 1920).

The potential problems of war-time heightened the tensions underlying such a policy with respect to accounting, however. The war had consequences for the entire nation and was shocking and terrible in nature. It placed previously unknown strains on the German economy and its social fabric (Hardach, 1980). One tension facing the capitalist accumulation process was the conflict of interest between making war profit and achieving military victory to the extent that any profit was identified as such within the accounting representation, this increased the likely size of the dividend distribution (and the tax charge, although this was not of great significance), depleting productive war capital. Under such conditions, tensions over distribution between industrial management and shareholder groupings threatened to be subsumed into potentially more significant conflicts, between capital and the state and between capital and labour, whether fighting on the battlefield or working in the factories. While citizens were making enormous sacrifices, where there was a shortage of food, mass carnage and increased poverty, profiteering could not be well received by the public. Even in an article in a conservative banking journal (Bankhaus Gebr. Arnhold, 1917) it was highlighted that only a small proportion of the population participated in war profits while most others had problems managing to ensure basic provision for themselves. The development of a widely held acceptance that capitalist exploitation had been an ongoing feature of the war economy contributed to a threat to and endangering of the fundamental nature of the capitalist system (Harman, 1982).

At the company level, there were equivalent tensions emanating from the disclosure of war profits. In addition, the accounting representation continued to play a role in the capitalist ac-

cumulation process. Thus German company accounting practices would have reflected concerns over potential increases in wage demands from workers (which had increased significantly in 1914 prior to the war (Grebing, 1985)), a desire not to stimulate the attention to the tax authorities and a concern not to make excessive distribution to shareholders (Hoffmann, 1920, pp 5–7). Several commentaries of the time highlight possible additional motivations and rationales behind particular accounting applications during this period. Meusel (1918), writing in a tax journal, stressed two major factors. In the first place, many companies were contracted to supply the state with war materials and may have been motivated to manipulate cost figures upwards (increasing the size of subjective provisions) so as to report no more than a moderate level of profit thus enhancing bargaining power in respect of price setting on subsequent contracts. Secondly, Meusel reports that the state was considering tightening the rules with regard to the taxation of war profits which, leaving aside the practicalities of applying such proposals, could have provided a further motivation for secret reserves and the hiding of profits in other ways (Hoffman, 1920, p. 10). Another commentary, in a major industry journal (*Zeitschrift für Aktiengesellschaften und Gesellschaften mit beschränkter Haftung*, No. 8, May 1917, pp 130–131), also suggests several motivations for the “common” practice of creating secret reserves. Here appeal was made to the traditions of pre-war practices. Secret reserves, it was noted, for example, were given explicit legal approval and understatement had become part of custom and traditional practice. Yet, the commentary pointed to extra pressure — with the stock market being suspended as it was during the war (c.f. Baehring, 1985) — for shareholders to press for distribution in the absence of any capital appreciation or takeover possibilities. Finally, it was noted that the Chambers of Commerce had tended to support secret reserves and to attack shareholders as being motivated by short term gain. Thus, there was arguably a complex of motivations for “hiding” profit. In pursuit of this aim two main methods were employed. Firstly,

various conventional techniques of secret reserve accounting were utilized. Secondly, rights issues of shares were often made to existing shareholders at an amount less than nominal value in order to wipe out accumulating reserves — as these became a focus for conflict. Such share issues, whether at less than nominal value or not, also had the effect of reducing the dividend rate, commonly reported in the published accounts and in the business sections of newspapers. Further analysis of conflicts between management and shareholder groups, as evidenced in reports in journals and newspapers, sheds further light on the reception of an increase in such practices which impinged upon the quality of disclosure. Such received understandings split over into broader concerns and began to touch a wider public.

AN EMERGING CONCERN

Tensions between managers and shareholders over secret reserves accounting

There were numerous cases reported in journals and in the press in this period where groups of shareholders were cited as objecting to an understated profit figure. Such groups felt that, given the level of company profitability in their eyes, they were being cheated out of a dividend through the manipulation of accounting numbers. Direct "hiding" of accounting profit was accomplished by various techniques of secret reserve accounting — often involving an exaggerated depreciation charge. In July 1918 it was reported in the *Zeitschrift für Aktiengesellschaften und Gesellschaften mit beschränkter Haftung* (No. 10, July 1918, p. 147) that a group of shareholders, annoyed at the condensed nature of the accounts, had managed to push through a demand requiring their company to prepare a detailed breakdown of assets. It turned out that the company had even included in the asset figure, land, purchased during the year, at a value lower than cost price. Of interest is that the journalist here excused the company in the context of its "magnificent war efforts". In the *Kölnische Volkszeitung und Handelsblatt* (9th March

1918, see also reports on the 16th and 25th March 1918), a court case was reported in which a shareholder had argued that his company had created excess reserves in order to manipulate reported profit downwards. He demanded a dividend of 30% rather than the 20% proposed by management. The defence of the company was a common one. Management argued that there was a need to provide for the post-war re-adjustment. The shareholder won the case however, thereby increasing the dividend due to him.

Two additional reports in the same newspaper are further illustrations of a growing tension between corporate management and some groups of shareholders over distribution (12th May 1918 and 25th May 1918). In the first, a gunpowder factory, the *Deutsche Waffen- und Munitionsfabrik*, had been attacked by shareholders because of their secret reserves accounting. At an extraordinary meeting, the shareholders decided that the balance sheet had been constructed so as to hide profits. The directors here attempted to excuse themselves by arguing that companies during the war could not maintain the usual reporting standards. When some of the shareholders took this case to court, they found the law on the side of the directors. In the second example, another group of shareholders contended the existence of hidden profits. Here it is of significance that the journalist was prepared to attack current reporting practices and argued that the balance sheet should be comprehensible to laymen. In the report of many such cases, which threatened the aura of accounting but were confined at this stage to the business sections of newspapers, a growing critique of accounting and reporting practice emerged. The *Rheinische Zeitung* (8th January 1918) contained an article analysing accounts to illustrate how depreciation had been exaggerated. Yet at this stage a concern over accounting practices was relatively constrained and confined effectively to more inside circles. The critique was made from the perspective of business investment and there was no attempt to link accounting practices to the hiding of war profits as such.

Further latent tensions: share issues to wipe out reserves and/or deflate reported dividend per share

The issuing of share capital at an amount less than nominal value, in order to wipe out reserves, also featured as a discussion point in some business reports. Again this was initially not a widely held understanding in the public realm. The *Zeitschrift für Aktiengesellschaften und für Gesellschaften mit beschränkter Haftung* (No. 1, October 1917, pp 3–4) was clearly concerned about the reception of such a practice. The editorial of this journal maintained that industrial management genuinely wanted to raise capital. They attempted to dismiss arguments that share issues were made so as to wipe out levels of reserves or so as to effect the disclosure of a lower dividend rate — another consequence of such a share issue. It has, however, been well argued in the German literature that the activity of disclosing seemingly low profits through wiping out excess reserves and reducing the disclosed dividend rate was common practice, especially through rights issues, and that this was a major motivation in the latter years of the war (c.f. Klausning, 1931, pp 754–755, Hoffman, 1920). The major illustration of this practice — at least for the case of deflating the dividend rate — can be found in the case of Daimler (Hoffman, 1920).

The *Kölnische Volkszeitung* reported, on the 28th April 1918, consistently with the developing press interpretation of “malevolent practices”, that a company was seeking to increase its share capital from 13 million to 18 million marks, after two increases of capital in the same month (on the 17th and 21st April 1918). One of the shareholders spoke up (but against the tide) arguing that the company had more than enough capital and that the only purpose behind the incremental issue was to dilute dividends. The reporting journalist was similarly critical in this case. In the *Berliner Tageblatt und Handelszeitung* (7th June 1916), the *Kölner Pulvergruppe*, a gun powder factory, was “accused” of making a rights issue “at a discount” in order to keep the dividend low. Here, we find the reporter, as well as being prepared to publish the

story, expressing the view that he believed the transaction had been made to fool the public and criticizing the company from a moral point of view, underlining this by pointing out that the company was making surplus profits out of the war while many German people were having to sacrifice their lives fighting it.

A developing broader concern

According to Baudis (1978, p 300), the masses of the public became aware of the increased profits of the armaments industry and of other profiteers taking advantage of the war to increase their wealth. This engendered concerns about morality and the political system. Moreover, the revolutionary forces such as the Spartacists, put more effort into arguing that the real motivation for the war was a capitalist one (Baudis, 1978, p 320, Marcy, 1984). Karl Liebknecht, for example, stressed in his public speeches that the real traitors of Germany were the armament companies, the large banks and the landowners (Bartel, 1958, p 320). Eschwege (1917, p 343), even writing in a conservative banking journal, claimed that the reason for keeping reported profit low was the fear of the effect upon worker morale and motivation that disclosure of a high profit would have. He maintained that it was not just to ensure the retention of capital by agreeing lower dividends for the shareholders. Singer (1918, p. 117) was concerned that the enormous redistributions of wealth, usually necessary in a war, had been exaggerated through the organization of army supplies.

Press reports concerned to expose further the link between secret reserves and war surpluses, coupled this with an explication of the share issue practices. The state had tried to pre-empt these concerns to some extent. On the 4th August 1914, in a *Verordnung*, it was stated that the state had to approve any increases in share capital before they could go ahead. Reports, however, argued that this was not very effective. One difficulty was understood to be bureaucracy (another may have been complicity) with the approval of the state having to be accompanied by the approval of the *Reichsbank* (c.f.

Frankfurter Zeitung und Handelsblatt, 6th November 1917; *Kölnische Volkszeitung und Handelsblatt*, 3rd, 4th, 5th and 15th March 1918)

The various practices implicated in the building of secret reserves through major write-downs became of concern to the state as a result of a mounting public concern during the latter stages of the war. On 3rd March 1918, the German Finance Minister spoke out against such practices and suggested the possibility of an excess profit tax. Industry responded that normal depreciation charges were inappropriate since they under provided for likely post-war falls in specific asset values (*Zeitschrift für Aktiengesellschaften und für Gesellschaften mit beschränkter Haftung*, No. 1, October 1918, p. 5). Thus a tension between the state and industry was emerging in the rapidly deteriorating situation on the war front. Indeed, in 1918 the war government brought forward a tax proposal: the war tax law. The *Kriegssteuergesetz für das vierte Kriegsjahr* encapsulated the aim of taxing an element of war profits. The *Preussische Oberverwaltungsgerichtshof* (an appeal court dealing with taxation matters) had brought pressure earlier for a stricter tax regime in a tax case heard by them in 1917. On 5th October 1917, this Court stated that only those assets losing "value" on initial cost should be depreciated for tax purposes. This was felt to be of great concern to industrial management, as reported in the industry journal (*Zeitschrift für Aktiengesellschaften mit beschränkter Haftung*, No. 2, November 1918, pp. 21–22).

DAIMLER BILANZ

The Daimler affair and prior tensions between management and some shareholders

The Daimler Bilanz⁸ affair (referred to in Baudis, 1978, p. 303; Hoffman, 1920) demonstrates how the methods of accounting for

secret reserves and the pursuit of the policy of increasing share capital — in order to hide war profits — became more widely understood in the public realm rather than being latent within relatively more inside circles. It hence forms a basis for an empirically informed focus on the potentiality of transformations in the aura of accounting in the public realm and the manifestation of any conflict-enhancing potential.

Towards the end of the First World War, a previous administrator of Daimler (lately sacked by the company) informed the Government commission responsible for the control of army supplies, of certain irregularities in the pricing policy of Daimler. Daimler had been materially involved in supplying the war effort. On investigation, Daimler were accused of war-profiteering through fraudulent costing and pricing of government contracts. The management of the company initially denied this charge and made things worse by protesting and apparently attempting to blackmail the Government — threatening that, if the valid implications of their pricing policy were not accepted, they would reduce future production (*Berliner Tageblatt und Handels-Zeitung*, 21st March 1918). The investigation had, however, exposed management and on 6th March 1918 Daimler was taken over by the military and an investigation into the affair was instigated by the *Hauptausschuß* — a committee of the *Reichstag* (the German Parliament) made up partly of elected members of Parliament and partly by selected "expert advisers" (8th March 1918). On receipt of a report from the *Hauptausschuß*, it was then debated by Parliament itself.

More significantly here, the scandal thus portrayed, involving cost manipulation in cost plus contracting, engendered concerns about the nature of Daimler's disclosure in the public realm. The accounting issues involved at this level thus emerged out of dispersed critiques in the business sections of middle-class newspapers to appear on the front page of most news-

⁸ "Daimler Bilanz" refers to the accounts of Daimler. Here it signifies the "Daimler accounting affair". We wish to point out that this paper is not meant to constitute an attack on the Daimler company, but is an historical study in which Daimler emerged as a fruitful example.

papers — with a focus upon the Daimler case. Indeed, Daimler was implicated in allegations over the issuing of shares to dilute reported dividend per share and the creating of secret reserves to hide war profits.

Concerns about such accounting practices had already been reflected in attendance levels at the annual general meetings which went up significantly during the latter half of the war (archival sources, Daimler Archive, Stuttgart). Analysis of the documentation preserved on company meetings at the Daimler archive reveals some of the tensions that had arisen between management and some shareholders. Even before the war some shareholders complained about the creation of reserves, depreciation policy and the level of dividend. In responding, management argued that the reason for the secrecy had been to avoid the danger of informing competitors and the potentially damaging economic consequences. The debate at the 1915 meeting is of particular interest. Here complaints centred around changes in accounting policy. Some shareholders alleged that the annual report had been made too abbreviated, with many questions concerning balance sheet policy and the make up of net profit being unanswerable therefrom. Motivated by a desire for a higher dividend, they asked for an analysis of the depreciation and reserve items. A major complaint was that some new buildings had been written off in total during the year. This was permissible within the “vague” rules of the law but the constitution of Daimler required shareholder approval and this had not been given. The managers stressed the extraordinary nature of the war situation and requested “patience” from the shareholders. The shareholders decided at this stage not to take the matter to the law courts (*Protokoll über die 26. Generalversammlung der Aktionäre der Daimler-Motoren-Gesellschaft*, 4 May 1915 (Daimler Archive, Stuttgart)).

Questions at the 27th General Assembly of Daimler, on the 17th April 1916, reveal an aggravated dissatisfaction. A minority group of shareholders were adamant in their criticism of some of the accounting techniques. They were

concerned about the level of aggregation of fixed assets — arguing that the overall amount of depreciation was too high — and the excessive conservatism and secrecy reflected in the reserve accounting. Reserves had been increased over the legal requirement. There was even a concern that the figure for creditors contained secret reserves. Shareholders demanded a breakdown of the “investments” figure which they believed was made up of such a diverse set of items as war bonds and foreign investments. They maintained that the promise made by the management in the previous year had not been kept. Management again invoked the argument about the detrimental consequences of disclosure in a competitive environment but added to this a call for patriotism pointing out that the only current customer was then the military administration. Over 10% of the shareholders (as required by section 264 of the 1897 code) were not satisfied with this defence and the general assembly was deferred. The protestors wanted the balance sheet “fully explained” and “corrected” arguing that as it stood it was “false” (*Protokoll über die 27. ordentliche Generalversammlung der Aktionäre der Daimler-Motoren-Gesellschaft*, 17th April 1916 (Daimler Archive, Stuttgart)).

The rearranged meeting took place on 19th May 1916. Here management admitted that significant secret reserves had been set off against debtors, that a new building had been completely expensed and that the obligatory legal reserve had been aggregated with extraordinary reserves. The dividend was increased from 24% to 28%. The shareholders accepted this but, interestingly, a smaller group still held that management were attempting to understate corporate wealth so as to appear more legitimate in war time. They felt that high profits made were not being distributed to the “rightful” claimants (*Protokoll über die 28. ordentliche Generalversammlung der Aktionäre der Daimler-Motoren-Gesellschaft*, 19th May 1916 (Daimler Archive, Stuttgart)).

The meeting of 4th September 1917 is of note as this passed a massive issue of share capital (the largest of its kind during the war (Hoffman,

1920, Eschwege, 1917)) In terms of nominal value a rights issue was passed to increase share capital from 8 million reichsmark to 24 million reichsmark At the meeting it was confirmed by the Reichsbankhauptstelle, Stuttgart, that the president of the Reichsbank had granted permission for an increase in share capital (as was required by law) The extraordinary general meeting to confirm the issue decreed that the new shares were to accrue dividends from 1st January 1918 This was subject to government approval which was actually granted as from 1st January 1918 (*Protokolle der Verwaltungssitzungen der Daimler-Motoren-Gesellschaft* (Daimler Archive, Stuttgart)) Since dividend rates were publicly expressed as proportions of nominal value, the share issue had the effect of understating the real significance of dividend changes, apart from allowing profitable investment for the existing shareholders (c.f Hoffman, 1920). Throughout, the management of Daimler invoked a patriotism in order to justify an esoteric disclosure policy which had secrecy as its major aim, placing a restraint on dividends which were already abnormally high (see Table 1)

The complaints of Daimler's shareholders

were also noted by Hoffman in a book specifically concerned with criticizing the hiding of war profits (Hoffman, 1920, p. 43). As noted, Hoffman holds Daimler up as the prime example of how war profits were hidden and illustrates how Daimler put excess provisions against debtors (citing some newspaper criticism), grossly undervalued their stock and investments and provided excess depreciation (Hoffman, 1920, pp 46–50)

On the affair becoming public

Analysis of the reception of the Daimler affair in German newspapers reveals the link between accounting and concerns over it in the public realm Our selection of newspapers, the major medium during the First World War, provides a broad representative spectrum of the vehicles for public opinion.⁹ The first major newspaper to cover the Daimler story was *Vorwärts* which, on an inside page on 8th March 1918 included a short report outlining how the military had been brought in to replace Daimler's management This report addressed the concerns over Daimler's cost calculations with respect to war supplies. The Daimler affair thus became much wider public knowledge, stimulating further

⁹ Handbuch der Weltpresse (1931) classifies the *Frankfurter Zeitung* and *Berliner Tageblatt* of the time as "independent", while they are elsewhere described as being representatives of the "linksdemokratischer deutscher Journalismus" (Koszyk, 1966, 1968, 1972), aiming for a "liberal" approach to newspaper reporting. Both of these newspapers were national and also distributed abroad. The *Frankfurter Zeitung* was a paper for trade and industry and catered largely to the middle classes (Heinemann, 1929, Handbuch der Weltpresse, 1931) The *Vorwärts* and *Rheinische Zeitung* were representatives of another broad classification The *Vorwärts* and the *Rheinische Zeitung* both supported the Social Democrats *Vorwärts* was a national newspaper distributed abroad while the *Rheinische Zeitung* was distributed in the large industrial region around the river Rhine (Handbuch der Weltpresse, 1931) The *Kölnische Volkszeitung* was supportive of the Conservative and Catholic Zentrum party, a national newspaper distributed abroad, whose readers tended to be influential members of trade and industry circles It is difficult to obtain full details of newspaper circulation in Germany during the First World War Circulation in itself is not a good indication of readership or reception since stories can be passed on to others, through many channels The same copy was often read by many readers The *Frankfurter Zeitung* had three issues every weekday A copy of such a paper would often be found in the hotels and coffee houses frequented by all groups in society At the outset of war the *Vorwärts* had a circulation of around 160,000 which it roughly repeated in 1915 By 1917 the available statistics report a circulation of "over 10,000" (there was a lack of data) The *Rheinische Zeitung* had a circulation of 230,000 at the outset of hostilities and this had actually increased to 245,000 by 1919 The following sets out the number of issues per week (Source *Jahrbuch der Tagespresse*, 1928, Eisfeld & Koszyk, 1980)

<i>Vorwärts</i>	12
<i>Rheinische Zeitung</i>	6
<i>Berliner Tageblatt</i>	12
<i>Frankfurter Zeitung</i>	19
<i>Kölnische Volkszeitung</i>	18

TABLE 1 Dividend rates of Daimler as disclosed in *Vorwärts*, 9th March 1918

Year	Dividend Rate
1909	8%
1910	10%
1911	11%
1912	12%
1913	14%
1914	16%
1915	28%
1916	35%

These figures, and the story around them, were included on the front page under the main feature, headlined "The Daimler scandal" The figures are consistent with the archival material

media treatment. Significantly, the *Vorwärts* made it the main front page story on the following day (9th March 1918) with the headline: "The Daimler scandal" Other newspapers responded The *Frankfurter Zeitung* (10th March 1918, in its first edition of the day) and the *Kölnische Volkszeitung* (9th March 1918) also included the story on their front pages though neither as the main feature

The story was thrust into the public arena when it appeared on the front pages of *Vorwärts*. Its appearance as a major news item can be traced back to an underlying tension between organizing the economy for the war effort and profit-making Economic or business sections of newspapers were not very effective at conveying information to the public at large (Heenemann, 1929) The *Rheinische Zeitung* (11th March 1918) included the story initially on the inside pages but subsequently made it a front page feature. The reporting of the *Frankfurter Zeitung* was noted by Bartel (1958, pp 342–345) who pointed to the paper's emphasis of the position whereby "even the reported net profit of [Daimler and other companies] was higher than [their] share capital". The *Berliner Tageblatt* (9th March 1918) appears to have kept the story off the front page. This paper does, however, portray the problems associated with price setting on Government contracts as a more general problem rather than confine analy-

sis to an emphasis on the Daimler case as though it was an exception.

Vorwärts particularly emphasized that Daimler was just one example of many companies exploiting the war situation It was the same paper which then switched attention to the information publicly available in the form of the accounting report As early as 9th March 1918, *Vorwärts* published the dividend rate of Daimler from 1909–1916 derived from previously published accounting reports (Table 1) The message portrayed was that dividends were increasing alarmingly.

Vorwärts followed up this feature with another front page story, under the headline "Daimler swindle". This explicitly addressed accounting and reporting concerns. The report described what it perceived as the hiding of profits from shareholders (who in turn are described as being "greedy for profit") Daimler were reported to have decided to increase share capital from 8 million Reichsmark to 32 million Reichsmark. *Vorwärts* criticizes the Government for allowing this (as noted, the Government body responsible, under the control of the Ministry of Trade, agreed to the issue on 1st January 1918 with the Reichsbank) Further, these shares were issued at 107% of nominal value compared with a market price before the suspension of the stock exchange of 1050% of nominal value The report thus suggested that the rights issue had been made at a substantial discount (pure bonus or scrip issues were illegal at this time (Hoffman, 1920)). Given the accounting policy of reporting dividends per share in the newspapers, *Vorwärts* interpreted this as a way of concealing profits from the public: the paper pointed out that with the same dividend, but no share issue, the dividend rate, significantly, would have been 100%.

The newspaper then goes on to note that land, buildings and machines were stated at 1 Reichsmark in the balance sheet of 31st December 1916 thus pointing to hidden reserves The recording of such values in Germany was in itself not remarkable given the interrelation of the taxation provisions on capital allowances and accounting. Moreover, increases in provi-

sion were anyway allowed in the cause of conservatism (Barth, 1953) There was, however, a movement towards this mode of accounting in the case of Daimler during the war (Daimler Archive, Stuttgart) This then, represents a very direct forcing of accounting disclosure as a problem into the public eye.

Developments stemming from public awareness

Daimler themselves had apparently anticipated the growing potential pressure from media disclosures as early as January 1918 On the 19th January 1918, Daimler attempted to justify a share issue, in a statement to the *Rheinische Zeitung*. Daimler's argument was not unique — they stressed the “extraordinary” need to maintain financial capital in the dynamics of war. Yet the *Rheinische Zeitung* countered this on the same day by arguing that the Daimler share issue was transacted in order to facilitate the reporting of a dividend rate which would not appear too extravagant This time they stressed the concerns of the tax authorities about the hiding of war profits, as well as the public

The *Rheinische Zeitung* had a front page feature on the Daimler affair on the 12th March 1918 They borrowed material, as a regional newspaper, from the high-profile *Frankfurter Zeitung* and set out the dividend rates as did *Vorwärts* This further serves to illustrate the importance that was attached to the highly dubious indicator of the dividend rate. Yet the figures were increasingly being made more transparent. The *Rheinische Zeitung* goes as far as arguing that Daimler was a “typical” example of business “making a profit out of the human tragedy of war” The same paper pursued this theme in the next issue (13th March 1918) by setting out information on the dividend rates, depreciation and reserves of the *Oberschleßische Eisenbahn-Bedarfsgesellschaft* (a company in the iron industry) which they did in order to illustrate the hiding of profits The paper reported this as being characteristic of the entire industry. Thus the general concern of war-profiteering became intertwined with a concern in the public realm

about accounting disclosures themselves

Not all newspapers stressed or suggested the generality of the Daimler case The *Frankfurter Zeitung* reported the Daimler case as though it was the *worst* example, rather than *typical*, of the attitude and activity of businessmen during the war The thrust of their critique came through on 10th March 1918, where they referred to Daimler as the “black sheep” of the industry They portrayed Daimler as giving a very bad public image to the industry as a whole, although previous reports, confined to the economic sections, had highlighted the war-profiteering of several businesses

It seems, on the evidence of analysis of the more conservative media, as though Daimler were being made a scapegoat to ease the developing crisis, whereby the activity of major capitalist enterprises was increasingly being brought into question — along with their accounting representations. Rather than using Daimler to attack capitalistic activity generally, the *Frankfurter Zeitung* referred to a need to punish the “wayward” quickly, so that the industry would be better appreciated in the public light The newspaper criticized Daimler for damaging the war interests of the nation, rather than for contributing to the deterioration of the circumstances of many people The *Kölnische Volkszeitung* (17th April 1918) were also concerned to put forward a message which was guarded in its critique of industry They were prepared to criticize the specific case of Daimler but at the same time were very careful to stress the “enormous and magnificent achievements” of German industry during the war.

Daimler attempted to rebuff the attacks In the *Kölnische Volkszeitung* (13th March 1918), the management of Daimler were reported as declaring that the accusations made were invalid, as they came from a person sacked by the company on 12th January 1918 That accuser had suggested that the Daimler management were pushing for a 50% increase in the prices offered in Government contracts Daimler stressed, however, that the reality was something in the order of 10% and that their threat to stop production applied only to the night shift.

As the criticism accelerated, Daimler took the further step of having a declaration, taking up one full side of a newspaper page, inserted into each major newspaper. The declaration reiterated Daimler's argument set out above. Of further significance, however, was that the declaration then went on to defend the financing and accounting practices carried out. Daimler declared that the rationale for its "dividend policy" was its consistency with secret reserve creation, enabling the storing up of reserves for the readjustment required in the forthcoming peace time environment.

In this way, Daimler hoped to sweep aside much of the ongoing criticism, preferring to reinterpret it as a criticism over the distribution of low dividends and countering this with the argument that there was a need to store up reserves. Such an argument had the weight of tradition behind it. Secret reserves were thus portrayed as something positive in accordance with the view that they were a way of "protecting" rather than "hiding". The newspapers printed Daimler's declaration but were still prepared to cast doubt on its sincerity in some cases (c.f. the *Kölnische Volkszeitung* 14th March 1918 and the *Rheinische Zeitung* 15th March 1918). The *Frankfurter Zeitung* wondered why the company had been so late in responding. The company immediately retorted that it had been "waiting three days for the declaration to be passed by the censorship body" (*Frankfurter Zeitung* 18th March 1918). Thus the press was drawing further attention to Daimler's activities and to the accounting figures. In this environment the war profits issue — and the issues thereby engendered — were increasingly difficult to ignore by the state. Here was a sign that the state, through one of its more overt organs, was showing alarm and concern.

The state and the public concern

As was touched on earlier, in accordance with the philosophy of the Hindenberg programme (Baudis, 1978), the pricing of Government war contracts was liberal so as to encourage production. The general liberal environment at the time is also reflected in the situation whereby it was

possible for Germans, holding shares in British companies, to exchange shares with British citizens holding shares in German companies (so as to avoid the confiscation of enemy property) and where, indeed, war material manufactured in Germany was exported to Britain (Bartel, 1958, p. 336). Eschwege (1917, pp. 342–343) argued that in the war economy, even the most inefficient company could make a profit, especially due to the liberal pricing of war supplies. He noted in this context that the need to explain the reason for the high level of war profits was causing headaches for industry and for the authorities. The German state, supported widely for its social reforms in the late nineteenth century and prior to the war, was increasingly threatened by a growing sense of its failure, as the war looked increasingly disastrous and food supplies were threatened (Bartel, 1958). Schwarz (1971, pp. 155–168) argued that the attitude of people to the state changed significantly and a radical change in public opinion signalled the alienation between people and the state. The state was failing to fulfil its welfare role and by 1918 opposition to the war had increased dramatically.

Key political opponents of the war effort attacked war-profiteering in their writings and speeches. Rosa Luxemburg, the revolutionary leader, stressed the significance of the war profits of capitalism in her political analysis — she argued that dividends were rising while proletarians were falling (i.e. being killed) (Walters (1970, pp. 257–331). Liebknecht invoked the greater awareness of the role of the accounting representation — balance sheet reserves — in his argument that capitalists were controlling the state to make huge profits while many starved (this echoed the basic message of Luxemburg's illegally distributed pamphlets, Bartel, 1958, pp. 282–288, 313 and Liebknecht, 1921, p. 42).

Concerns about profiteering had emerged in the state prior to the Daimler affair. Groener, the head of the Kriegsamt, is on record as stating that he was concerned about the demoralizing effects which war profits had and that industry should be more ethical and less motivated by an

extraordinary profit motive (Baudis, 1978, pp 300–301). On 25th May 1917, the *Kriegsamt* secretly issued a memorandum which suggested moderating the effects of the pricing policy through increasing war profit taxation, and, more radically, called for the introduction of a law similar to the British munitions law which would authorize the *Kriegskanzler* to put companies under military supervision and to set wages and profits for the industrialists (Baudis, 1978, p 302). Despite the concern to give the memorandum maximum secrecy, it was leaked. Groener was sacked because industry strongly opposed such control, posing a threat to the state which needed arms (Baudis, 1978, p. 303; *Internationaler Arbeiter*, 1929). That the state seemed to collude in the hiding of war profit is evident in the Krupp affair where the state censor board eliminated a sentence from the annual report of Krupp — such written reports were normally voluntarily given to shareholders — which had mentioned that the extraordinary depreciation figure for the year was put through so as to show a lower profit (Bartel, 1958, p 349; Passow, 1919, p 24).¹

The Daimler affair had become a particular concern for the state. The workers of Daimler had already gained a radical reputation. The first mass political strike of the war on 29th June 1916 had been a mass demonstration over war profits (Bartel, 1958, p 324). This had included workers from Daimler (the Marienfeld plant), along with workers from another company allegedly war-profiteering, the *Deutsche Waffen und Munitionsfabriken*, Berlin (Bartel, 1958, pp 320–327, pp 522–3). After the mass strikes of January 1918, the military had taken over seven firms (including Daimler) to simply force people to work (and the management assisted them by giving them lists of politically active workers), though at this stage they were concerned not to regulate financial management or take over much of the general management of these companies. As early as the fifth day of the strike the Daimler workers were arrested and forced back to work (Bartel, 1958, p. 496; Hortschansky, 1978, pp 30–33). The Daimler affair, and the issues it engendered, was thus poten-

tially all the more serious. The press realized the severity of the tensions.

The *Frankfurter Zeitung*, for example, demanded that this and other activities taking place in the business world should be discussed in the Reichstag because it felt that this was the only way of “keeping the public informed”. In Parliament, members brought their particular political stances to bear on the Daimler issue and made use of the accounting report in their arguments. The problem, now manifest, cut through the domain of accounting and the party political.

Among the main proponents of the view that Daimler was acting against the interests of the German people (as opposed to the “Nation”) was Noske, a member of the Social Democrats in Parliament, and later to become a key figure in the post-war Government (Ryder, 1967). Noske argued in the Reichstag that Daimler was not an individual case, but a typical one. The entire industry, he maintained, had been working for the start of the war and was now keen for it to continue (c.f. the *Rheinische Zeitung*, 21st March 1918). The Reichstag should have acted against all profiteers and not made a scapegoat of one, he complained. He employed accounting information in a bid to further substantiate his case. He emphasized the high dividend rate of Daimler (30%) and expressed serious concern over the one Reichsmark balance attributed to some assets. Noske contrasted the (accounting) profits of Daimler with the debt of the state and the poverty of working class people. He went on to explicate the state’s interest, effectively seeing this as part of the hegemony of capital as an explanatory factor for the relatively liberal nature of the administration of war supplies in Germany. Noske pointed out that a few large industrialists were able to gain much from the war since they sat upon, and held substantial power within, the Government bodies concerned with the organization of the war state (the *Kriegsamt*). He argued that it was a mistake that such bodies did not include experts representing the working class and concluded that the tensions of capitalism during war could best be overcome through bringing the arms manufacturers under increased government regulation (a view sub-

sequently taken up by academic commentators such as Noel-Baker (1936))

Conservative members of the Reichstag were prepared to join in the criticism of Daimler but tried to portray the affair as something of an isolated example (*Kölnische Volkszeitung*, 17th April 1918). A member belonging to the Zentrum or Centre party attacked Daimler, particularly condemning the strike threat of Daimler's management. The same member highlighted the fundamental economic contradiction between Daimler and the state and suggested that Daimler must have regarded the German government and its people as "stupid" He did not, however, make an attack on the industry as a whole Keinath, of the National Liberals, followed the Conservative viewpoint in the Reichstag, underlining this by praising industrial efforts during the war. Thus, to some degree, accounting was being formally politicized in Parliament.

ANALYSIS AND DISCUSSION

Having delineated the above case implicitly in terms of our theoretical position, we now turn to an elaboration of the major findings of our analysis in a manner more explicitly informed by the critical theoretical perspective we are seeking to apply and develop¹⁰

At the outset of the war it is reasonable to argue that the accounting representations appearing in the German mass media possessed an aura of neutrality, objectivity, independence and fairness. We elaborated how such an aura was historically constituted by various factors. We maintain that the German state, itself powerful and perceived to be legitimate, authorized and bolstered the legitimacy of the accounting representation in late nineteenth and early twen-

tieth century German society It enacted legislation requiring accounting disclosures. Moreover, case law implicating accounting principles tended to further enhance accounting's aura We showed how accounting representations in Germany came to be, through, for example, the introduction of legal and technical education into the universities, understood as having a "knowledge base" and to be viewed as the product of "expertise" Given that accounting required "knowledge" and was governed by legal principles, it seems that aspects of the accounting process (such as preparing and auditing accounts) were increasingly understood as "professional" And we suggested that the form of the accounting representation published in the German newspapers — the T-form balancing statement consisting of simple "facts" and "figures" (in money terms) — would have further contributed to accounts being perceived by the public to be "objective" and "true" It seems that the "aura" of accounting was constituted through a complex of these historical factors Secret reserves accounting and the particular content of accounting representations in Germany were thus legitimated

That accounting representations were understood to be objective, neutral, independent and fair engendered and enhanced ideological consequences which were enabling rather than constraining for capitalist power relations at the outset of the war Benjamin's argument that art in capitalist society is both "distant" and "close" to the public can be reinterpreted in this context and applied for the case of accounting (c.f Benjamin, 1973). The perception that accounting representations were the product of "expertise" was arguably a crucial factor in rendering the accounts "distant" from the public This is because few would have had detailed insights into the nature of accounting representations Such ac-

¹⁰ It should be pointed out that it has not been an aim here to make a straightforward and crude matching between the accounting phenomenon and a theoretical framework developed somewhat removed from an analysis of accounting (in the sense that the Frankfurt School never *specifically* concerned themselves with a study of accounting) The concepts of Benjamin and others applied here are contextualized and re-interpreted in terms of the specific analysis, rather than being applied non-problematically (as Benjamin himself advocated — cf Habermas, 1983a, p 159) Our analysis and the discussion which follows should therefore be read in the context of an approach which explicitly recognizes the interpretative nature of applying a critical theoretical perspective

countings would thus tend to be trusted and accepted in society rather than be questioned and challenged. Accounting representations were conceivably "close" to the public in terms of the significance of their consequences for society the form, content and "principles" of the accounts would displace alternative accountings, help to create the view of the business as a financial entity pursuing legitimate activity, and play a role in the creation and distribution of wealth. With Marcuse (1972), we maintain that accounting, as a representational phenomenon, acted as a "harmonizing illusion" with a conflict-resolving role for capitalist society.

Our illustration, however, was concerned to explore the mutability of the aura of accounting in the context of a crisis situation and the consequences thereby engendered. We analysed a transformation of the aura at two levels. Firstly, we delineated the process whereby a particular perception of accounts — that they were a political mechanism, manipulated in the struggle over the distribution of dividend — was enhanced at the level of capitalistic enterprises. Secondly, we showed how the aura of accounting was transformed in a broader public realm, through newspaper coverage. We analysed these developments both in terms of general occurrences and through a specific focus on the Daimler case, which appears to have been the spark that led to the transformation of the accounting aura in the public realm.

The process by which the aura was transformed and the consequences thereby engendered are areas of particular interest to review. Here, we explore the interrelation between the development of the crisis and the transformation in the accounting aura. Further, we consider the extent to which the state (and the capitalist enterprise) responded to the transformation of the aura. And we review the sense in which the transformed aura led to accounting assuming a conflict-enhancing role in terms of its consequences for the broader context (as Benjamin (1973) would suggest).

The crisis that we have studied appears to have come about through the enhancement of a struggle and contradiction of a politico-economic

nature in Germany. A struggle between capitalist war profiteers and the workers, soldiers and the generally disadvantaged was deepened by a draining of resources to the war effort and a redistribution of wealth in favour of the profiteers. As the war situation worsened for Germany, the poor were increasingly deprived and suffering. Meanwhile a capitalistic state, the management of capitalist enterprises and the owners thereof fought with each other over war profits. A contradiction developed in this context between shareholder gain and the prospect of military victory, since distributions to shareholders were diverted from the war effort. The state seems to have encouraged management to hide the sizeable profits that were offered to capitalist enterprises. This was so that such enterprises might retain funds for the increased production of war supplies. Managements thus extended an application of accounting practices and principles that had been generally accepted prior to the war in order to manipulate reported profit downwards. Yet shareholders, in many cases, appeared to have demanded, in the absence of any trading on the stock exchange, as much dividend as they felt it was possible to get. The accounting representation was a mediator in this struggle over wealth and came to be increasingly mistrusted by shareholders, as both the newspaper evidence (especially from 1915) and the evidence from Daimler's general meetings bears out. A perception that the accounting representation was a political phenomenon was increasingly held amongst a fraction of German society. Yet while this transformation of the aura was confined to *insider circles* and only reported in the business sections of middle class newspapers and management journals, the aura of accounting in the broader public realm remained relatively undisturbed.

The Daimler scandal seems to have been a key occurrence in the changing of this latter position. Reports about fraudulent cost manipulations at Daimler merged with the general critique of disclosure practices developing in the newspapers to bring the accounting representation increasingly into the public eye as a biased representation which could be manipu-

lated for political purposes. Newspapers criticized Daimler's accounting disclosures prominently, some describing Daimler's accounting practices as "malevolent" The major working class newspaper in Germany declared, on its front page, that accounts were being employed to swindle the German public. Concerns about war profiteering had become concerns also about accounting In this crisis context developments had occurred so as to engender the transformation of the aura in the broader public realm. It could then no longer be conflict-resolving for the hegemony of German society

Daimler attempted to respond by trying effectively to reconstitute the accounting aura. They attempted to defend their accounting disclosures by arguing that they were merely following traditional practice Yet the secrecy which had been positively regarded as a principle of German accounting prior to the war, was now seen as a way out of hiding activity regarded as undesirable by the masses Having been seen as a means of ensuring a fair and "conservative" representation which was objective in its nature, it came to now have a negative connotation. The newspapers, reflecting the deepening contradiction in German society, rebutted Daimler's arguments. The capitalist state's concern had at first been to cover up war-profiteering (as in the Krupp affair and as witnessed by the liberal policy governing the allowing of share issues and the way in which the law supported company management over the hiding of profit) The climate created by the Daimler scandal, however, led to the state attempting to treat Daimler as a scapegoat The state had been conscious of the threat that war profiteering might pose to public opinion earlier (as evidenced by the consideration of an excess profits tax) but the breakdown in the public's trust of accounts and the consequences thereby engendered were unanticipated

Accounting had lost much of the source of its power and authority to engender conflict-resolution, stability and legitimacy. It was mistrusted and perceived as a mechanism for hiding *immoral* profit No longer did the social process of accounting receive unquestioned allegiance or

effect the "harmonizing illusion" with the "real" consequences that we have referred to (Horkheimer & Adorno, 1972) Accounting had at this stage become more recognized in the public realm as a contested field. Critical perspectives on it had spread more widely.

Since accounting was bound up with the law and the state's policy, it is likely that this would have contributed to a wider questioning of the state and its law. Accounting was showing a capacity to create "an awareness and theorizing of social contradictions and antinomies" (Adorno, 1945, p 678) It had become conflict-enhancing for the capitalistic system of power relations In this context, without its previous aura of neutrality, objectivity, independence and fairness, accounting could now be used by radical politicians in their arguments Thus, as revolutionary leaders and Social Democrats alike stressed the capitalist and exploitative nature of the war, a discourse emerged within which accounting itself was perceived in the role of having come to the hand of the *villain* Revolutionary political leaders and Social Democrats, in their writings and speeches, pointed out how they saw accounting being employed in attempts to conceal war-profiteering. The aspect of secrecy — now seen in terms of the "hiding of profits" — thus further enhanced conflict for the underlying political order in Germany rather than resolving it. And accounting furnished a discourse of critique of war-profiteering in the German Parliament.

On the consequences of the auratic transformation

What was engendered by the transformation of the accounting aura? On 6th March 1918, the German government took over the management of Daimler. This quelled, it appears, much of the more immediate and specific concern The broader consequences of the transformation in the accounting aura are enmeshed in a complex of subsequent developments, the nature of which it is difficult to unravel It is reasonable to conclude that the German socio-political system was significantly changed after the war (with the abolition of the monarchy and the developments

emanating from the establishment of the Weimar republic), but clearly the system remained a capitalist one, with its fundamental institutional framework still intact (c.f. Fischer, 1979; Schiffrs, 1979). At the same time the post-war revolutionary situation had certainly threatened this, with a socialist revolution looking very likely for a time in the aftermath of the war. Linking such developments entirely to accounting would appear to be something akin to wild speculation! Our fundamental argument here is that, within a complex of forces at work, accounting *contributed* to the process of *radical* change. Rather than *moderating* conflict, accounting played a conflict-enhancing role in German society.

Accounting itself had changed in that it had come to be perceived differently and had different types of consequences for the society within which it was located. Did this transformation last beyond the crisis reflected in the occurrences around the end of the First World War?

Barth (1953, p. 82) notes that debates over secret reserves continued in official circles in the aftermath of the war. And debates about secret reserves accounting clearly continued well into the 1930s, becoming an established part of academic discourse (Dietzen, 1937). Perhaps one of the earlier "critical" works in accounting in Germany was produced soon after the war and related accounting practices to the hiding of war profit (Hoffman, 1920). Yet with the end of the war and the establishment of the Weimar republic, these critical debates apparently did not have much significance.

It seems that accounting representations came to be publicly criticized under very particular historical conditions. When these conditions had changed the focus once more shifted away from accounting. The accounting representation was again marginalized in capitalist society and its significance effectively downplayed. This contributed to the former aura of

accounting being reconstituted. A likely factor in this reconstitution would have been the perception, surely encouraged by the post-war authorities, that any "deceitfulness" or "malevolence" (including that implicating accounting) was something associated with the war regime rather than with the capitalistic system of power relations which continued after the war. With the preservation of the major institutions of capitalism on the return to relative conditions of stability, accounting was situated in a broader context within which it could redevelop its conflict-resolving role (c.f. Habermas, 1983b).

Thus it appears that the debates over secret reserves accounting were largely resolved, in the 1920s, in favour of a recognized principle of secrecy, with the same rationale that had been prevalent in the pre-war conditions being employed. Indeed when the subject of secret reserves accounting was debated by a commission in 1926, it was resolved that the system permitting the creation of secret reserves should be left unchanged and the suggestion of an obligatory reporting format and audit was rejected (Barth, 1953, pp. 82–83).¹¹ Subsequently, however, it seems that criticisms of secret reserves accounting did give further impetus to the development of principles of uniform accounting in Germany, these being adopted by the Nazis after their rigorous development in the German academic accounting community (see Abel, 1971, Dietzen, 1937).

After the First World War, the debates about accounting and the actions subsequently taken, even if limited, may have deflected somewhat any critical stance. That accounting would still have been associated with *technical expertise* arguably contributed to the reconstitution of the aura in this regard. Another development after the First World War appears to be the reformation of the *Treuhandgesellschaften* (the banks' "auditing wing") into an association with greater independence from the banks, the

¹¹ This commission was meeting after the great inflation period in Germany. The nature of the critique of the accounting representation seems likely to have been significantly modified by the effects of the great inflation period. In the early 1920s Daimler's directors freely admitted that their accounts were "meaningless", for example. Clearly, the principles of secret reserves accounting might once more have regained greater acceptance in this context.

Verband Deutscher Treuhänder und Revisionengesellschaften in 1919 (van Dien, 1929, p. 414).¹²

An important development soon after the end of the First World War which implicated accounting was the establishment (by the Majority Social Democrats in control of the Weimar republic) of a union representative on the supervisory board of companies "Concessions" had been earlier made to the unions in the midst of the crisis situation, including the reduction of the working day to 8 hours (Rosenberg, 1936, Ryder, 1967; Grebing, 1985, especially p. 70). The seat on the supervisory board gave the unions a formal role in relation to the processing of the accounting report (and access to a special long-form audit report), something which has contributed to the modern situation whereby the trade unions appear to have a greater weight to accounting issues in the Federal Republic of Germany than is the case in many other capitalist nations (c.f. Gallhofer, 1989). The inclusion of the unions on the supervisory board can arguably be seen as an attempt to pacify the labour movement. Yet, to the extent that the accounting representation was no longer regarded as a neutral representation by the unions, the aura of accounting arguably remained transformed in the context of particular management-union relations.

Accounting and political praxis

Applying a development of the critical theoretical perspective — the view that there is "an emancipatory interest of knowledge" (Habermas, 1972) — we can now consider, by way of concluding, what implications the above argument and case might have for political activity in the accounting realm. At present such a concern is implicit in the above discussion and is worth elaborating upon in a more explicit

manner.

Our study has sought to cast light on the process whereby accounting comes to have ideological consequences in the broader context (and hence to facilitate its functioning as an ideological state apparatus). For our case, we delineated the historical constitution of accounting's auratic properties in this regard. We suggest that a greater understanding of how accounting comes to have ideological consequences helps us to better conceive how we can change accounting's impact in society. It appears to us that accounting's aura can be transformed in society. It can then more openly play its part in political struggles and be recognized itself as a political phenomenon. And accounting, in this regard, has "no necessary class belongingness" (c.f. Hopwood, 1987; Lehman & Tinker, 1987; Tinker & Neimark, 1988). Accounting has the potential to interrelate with socio-political relations, sustaining or revolutionizing them. The transformation of the accounting aura we maintain could be engendered through political argument thereabout in an institutional context and framework. We should thus actively seek to unmask the capitalistic illusions (Horkheimer & Adorno, 1972) including those implicating accounting (c.f. Tinker, 1985). For example, we can attempt to reveal what is hidden by current accounting practices and pose "alternative realities" in the form of alternative accounting disclosures (Adorno, 1967). In this we accept Marcuse's argument of the need to actively engage in the "dissolution" of people's prevalent perceptions under capitalism — so that a representational phenomenon like accounting might come to play a role in revolutionizing people's attitudes (c.f. Habermas, 1983b, p. 166; Marcuse, 1972, pp. 103–4).¹³

Clearly, if this was to be linked to a broader

¹² In response to a developing crisis in the early 1930s, the formation of the *Institut der Wirtschaftsprüfer* (German Institute of Auditors) and their recognition by the state as the auditors of public companies in the satisfaction of legal requirements may also be seen as helping to re-constitute the aura.

¹³ We are not suggesting that the transformation of the accounting aura through political argument is an easy task. It seems to be enormously difficult, given that it may partly gain its authority through resonating with themes deeply embedded in the individual and social subconsciousness (c.f. Benjamin, 1973; Althusser, 1971; Tinker & Neimark, 1986; Lehman & Tinker, 1987). We are, however, here suggesting that it is both a feasible and legitimate action.

critical theoretical project in society, it would have to be merged with political critique across the broad spread of institutions of capitalism (c.f. Habermas, 1983a).¹⁴ In this respect, accounting is only something of a "small cog in a big wheel" in terms of the political system — although part of the radical critique must aim to bring out that accounting is more significant than is generally believed (c.f. Lehman & Tinker, 1987).

Our case showed that accounting's aura could be transformed and subsequently (largely) reconstituted. The latter reconstitution was arguably much easier on the preservation of the institutional framework of capitalism (c.f. Habermas, 1983a). It seems to us that, for the crisis period we have focused upon, the transformation of accounting's auratic properties was engendered as something of an unintended and unanticipated consequence. Since there was no conscious policy to transform the aura, it arguably could not be mobilized as the central focus of direct political action. It may have therefore been much more smoothly reconstituted in German society after the First World War (at least in the broader public realm) — though not without some more lasting consequences, as we have noted. Arguably, a conscious attempt to transform the accounting aura might be relatively more successful. A crisis situation might create the historical conditions in which a transformation of the accounting aura is more feasible but it

is not clear that a conscious attempt to enact such a transformation in a crisis context would be more productive in terms of its consequences than in conditions of relative stability. Indeed, on the passing of the crisis, much social activity occurring during the crisis — no matter how much it is criticized — can sometimes be more easily excused in terms of the crisis itself. Thus, in our historical case, the focus could clearly have shifted away from accounting on the return to conditions of relatively stability, in a way that may not have been as feasible if the transformation of auratic properties had not occurred in a crisis context. In the turmoil, the critical perception of accounting seems not to have been developed in detail but rather to have been a partially informed position which could be more easily expressed under crisis conditions.¹⁵ That which engendered the transformation of the aura may, in this instance, have made its reconstitution more feasible. All of this suggests that political strategy should be related to historical conditions and their likely potential, and, that an understanding thereof is likely to enhance the effectiveness of any strategy. Benjamin's perspective on political strategy, while at first appearing ambiguous, is arguably reconcilable in terms of its support for this latter position (c.f. Held, 1980, p. 109; Habermas, 1983a, Benjamin, 1973).¹⁶

There does not seem to be much of a rationale

¹⁴ Habermas has argued that repression can only be lifted on the changing of the broad spread of capitalist institutions. Where institutions are preserved, the basic nature of the system is also maintained. In this view

Cultural goods are spoils that the ruling elite carries in its triumphal parade, and so the process of tradition has to be distinguished from myth. The liberation of culture is certainly not possible without the overcoming of the repression of institutions (Habermas, 1983a, p. 135)

¹⁵ Under more stable conditions, however, people might tend to have more anxiety about challenging such an institution (c.f. Neumann, 1957)

¹⁶ While Benjamin recognizes the role of human agency in political change (with Marcuse (1972)), he appears at times (c.f. Held, 1980, p. 109) reluctant to advocate conscious involvement in a process *already set towards revolution*.

whereas Marcuse (by analytically disintegrating an objective illusion) would like to prepare the way for a transformation of the thus unmasked material relationships of life and to initiate an overcoming of the culture within which these relationships of life are stabilized, Benjamin cannot see his task to be an attack on an art that is already caught up in a process of dissolution (Habermas, 1983a, p. 136)

Benjamin, however, seems to be suggesting that while there is a role for human agency, this might be made more effective, or even be overridden by historical contextual developments

The manner in which human sense perception is organized, the medium in which it is accomplished, is determined not only by nature but by historical circumstances as well (Benjamin, 1983b, p. 224)

for "waiting for a crisis" (or even trying to create one!) before "acting". Nor does there seem to be much point waiting for "unintended consequences" to occur — although an awareness of the nature of historical conditions and their potential dynamic is of importance. It does seem that accounting critique should form an element of political praxis. In this respect, self-awareness of accounting's position in society

much enhances rather than negates critical praxis. The failure to act would be to promote or privilege extant practices, and their consequences, over alternatives. In modern times, when, without radical political action the very environment of the globe may be threatened, self-awareness without critical praxis appears to be irresponsible and dangerous.

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