

TRUTH, OBJECTIVITY AND SUBJECTIVITY IN ACCOUNTING

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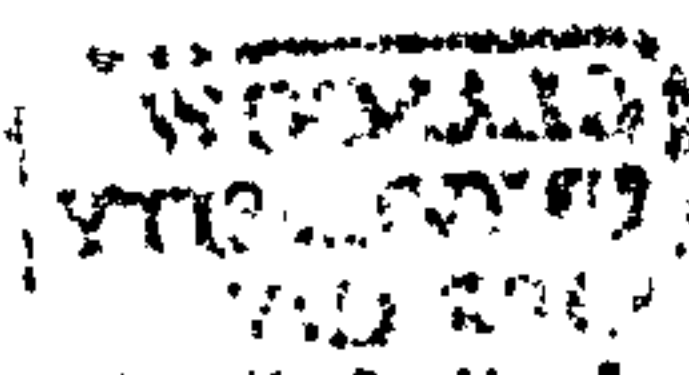
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My debts to my family and in particular to my wife Elizabeth are beyond expression.

Abstract

The central thesis defended here is that we can have truth and objectivity in accounting. We do not contend that this potential is presently realized: On the contrary, we argue that certain contradictions immanent to capitalism give rise in late modernity to crisis tendencies in financial accounting as a way of knowing - epistemological crisis. We do contend that accounting's tendencies to epistemological crises can, at least in theory, be overcome. We begin to defend this view by considering accounting as an essentially descriptive activity. The account given by the philosopher Donald Davidson of the very possibility of knowledge is used to justify the view that intersubjectivity is all the foundation we need, or can have, for objectivity, and to defend our claim that we can have accounting knowledge, that is, true accounts/descriptions of an objective and intersubjectively accessible public world. The defence here is against those theorists, including those inspired by certain strands of the phenomenological, (post)structuralist, and hermeneutic traditions, who would deny the possibility of any such objectivity in accounting.

Using an analysis of the history and debate surrounding the issue of accounting for deferred tax in the United Kingdom (UK), we endeavour to locate accounting in terms of the dichotomy the philosopher Bernard Williams draws between science and ethics. We find that the descriptive and normative are inextricably entangled in accounting concepts in much the same way as they are entangled in thick ethical concepts such as 'chastity' or 'courage'. We recognise that the descriptive aspect of accounting can not be neatly distinguished from the normative and dealt with separately. Furthermore, following Williams, we argue that difficulties associated with the objective validation of the normative dimension of thick accounting concepts renders knowledge held under them vulnerable to destruction by reflection. Reflection may reveal the essentially local or perspectival nature of the normative dimension of our thick concepts; it may undermine them by forcing us to recognize just how far short they fall of any normative objectivity. We argue that descriptive objectivity can not be separated from normative objectivity in modern accounting. We therefore accept that in our increasingly rational and reflective modern society, descriptive knowledge of the world held under accounting concepts will be progressively undermined unless the normative validity of those concepts can somehow be objectively, and in modernity that means rationally, established/demonstrated.

We turn to Jürgen Habermas' theory of discourse ethics to defend the possibility of normative objectivity in accounting. We argue that accounting norms might ideally be objectively validated through the application of communicative rationality; that is, they may attain an objective legitimacy founded upon intersubjectivity. The defence here is against those theorists including those inspired by emotivist and scientific thinking, who would reduce rationality in the accounting domain to instrumental or purposive rationality, and place the normative beyond any rational determination and consequently beyond any rationally based objectivity. Habermasian discourse theory offers the possibility that the normative dimension of accounting concepts may be objectively validated. We may then accumulate descriptive knowledge of the objective world in terms of those objectively validated concepts, that is, from the objective point of view of those concepts.

We conceive of objectivity as always a matter of degree, with the more objective positions being those which are more open to intersubjective agreement, that is, the more inclusive and less narrowly perspectival views. We recognise the Habermasian moral point of view as the perspective of reason, albeit communicative reason. This perspective is narrow in so far as it excludes the other of reason, that is, all that can not be consciously articulated. We recognise that Habermasian discourse ethics relies upon an inadequate conception of the subject insofar as it appears to demand the co-presence in real argument of relatively unified, transparent, and autonomous subjects who have, know, and can articulate and act on their interests. The thesis concludes by arguing that the rationality of discourse ethics stands in need of being supplemented, but not replaced, by a poststructuralist and psychoanalytic sensitivity to alterity and the unconscious; that which is immune to discursive retrieval and communicative reason. We find such a sensitivity in the work of psychoanalyst Jacques Lacan. To illustrate the rich Lacanian conception of the subject we offer a view of the firm, the subject of financial accounts, as a split subject; divided between conscious and unconscious. This sketch of the firm as divided subject also stands as a contribution to the developing theory of the firm as moral agent, which has been inspired by Donald Davidson's conceptualisation of the subject/agent.

Throughout the thesis we use recent work of the ASB, and the debate it has occasioned, to contextualize and focus the analyses we offer.

Preface

This thesis is intended as a modest contribution to the “unfinished project of modernity” (see Habermas, 1981c, 1985a). It defends the possibility of objectivity in accounting by applying aspects of the work of certain philosophers, including Donald Davidson, Jürgen Habermas and Jacques Lacan, to the accounting problematic.

The thesis is presented in a somewhat unconventional in form which some readers may find unsettling and inconvenient. At the core of the presentation are five chapters, each of which has been written in such a way that its conversion into a separate refereed publication might be achieved with a need for minimal modification. Those five chapters are preceded by an introduction that sets out in broad terms the theses defended in those chapters, and they are followed by a conclusion that reviews the defence made and reflects upon its adequacy. Preambles have been written to each of the chapter with the intention of providing sign-posts which will help the reader locate the chapter in the context of preceding and following material and the thesis as a whole. The reader will not find explicit ‘literature review’ or ‘methodology’ chapters, and the justification of our allegiances is normally allowed to remain implicit. Our central commitment/allegiance, to a Davidsonian world view is tested and justified through the critique presented of less adequate positions, including Putnam’s internal realism, Searle’s external realism and Rorty’s pragmatism. Throughout, a methodology of logical and philosophical analysis is adopted, and applied to accounting practice, theory and debate, in particular as it appears in the recent work of the United Kingdom (UK) Accounting Standards Board (ASB) and the responses their work has provoked.

The presentation format occasions a certain degree of repetition. Extended and blatantly repetitive passages are identified as such so that the reader may omit them without significant loss. We have not always excised repetitive passages on the grounds that some readers may find the repetition and recapping on previously presented ideas useful. We apologize to those readers who find the repetition they encounter here tedious and irritating.

An effort has been made to avoid sexist language. However, rather than adopt complex solutions to the problem, the simple expedient of alternating between the feminine and masculine pronouns has been adopted. We regret any residual traces of sexism that the reader may detect in the language employed.

Introduction

This thesis is motivated by the conviction that accounting has emancipatory potential. From the outset we assume that social emancipation must rely on rational critique, which itself must be based upon our knowledge of the objective conditions in the world we share; we argue that financial accounting can provide us with such knowledge. The essential thesis that we will explicate and defend here is that we can have truth and objectivity in accounting. We recognize that this potential is presently frustrated by the distortions of capitalist modernity but argue that those distortions can be overcome. Initially we treat accounting as an essentially descriptive activity and use the philosopher Donald Davidson's account of how it is possible for us to have knowledge of any type to justify by inference the view that we can have accounting knowledge of an objective publicly accessible world. We recognize that in order to fully and convincingly address the problem of objectivity in accounting we must directly engage with its normative dimension. We use the issue of accounting for deferred tax to focus an analysis of accounting in terms of the distinctions the philosopher Bernard Williams draws between science and ethics. We come to recognize that the descriptive and normative are inextricably entangled in accounting concepts in much the same way as they are entwined in thick ethical concepts like 'treachery' and 'cruelty'. Williams argues that whilst reflection may justify scientific knowledge, it will tend to destroy knowledge held under thick (ethical) concepts. We acknowledge that impediments to the objective validation of the normative dimension of thick concepts like 'profit' or 'chastity' may render knowledge held under such concepts vulnerable to erosion by reflection. Reflection may destroy such knowledge by revealing, as Williams thinks it must, that the thick normative concepts under which it is held are essentially local and lacking in objectivity.

In search of an alternative to the rather depressing prospect painted by Williams of the destructive progress of rationality and reflection, we turn to the work of the philosopher Jürgen Habermas and in particular to his theory of discourse ethics. We see this central aspect of Habermas' work as an extension of the Davidsonian project to the normative domain, and we employ it to defend the view that we can have normative objectivity in accounting. We contend that through an appropriate institutionalization of communicative rationality we may objectively validate the normative position, or point of view, in terms of which we accumulate accounting descriptions of the world. If the moral dimension of accounting

concepts were thus objectively validated the descriptive knowledge held under them would not be vulnerable to destruction by reflection in the way that Williams fears; indeed reflection would then tend to justify accounting knowledge.

We conceive of objectivity as always a matter of degree, with the more objective positions being those which are more inclusive and can command high levels of intersubjective consensus. At the less objective end of the spectrum are those local and narrowly perspectival views that can command only limited intersubjective agreement because they are in some way exclusive or not generally accessible. The Habermasian moral point of view of discourse ethics is the perspective of communicative reason; it is narrow in so far as it excludes the other of reason, that is, all that can not be discursively retrieved and articulated. We conclude the thesis by arguing that the Habermasian perspective needs to be broadened, and thus made more objective; it needs to allow footholds to the unconscious and the inarticulate from which they might disrupt the automatic functioning of reason. We contend that the rationality of discourse ethics needs to be supplemented, but certainly not replaced, by sensitivity to alterity and the unconscious; that is a sensitivity to that which is immune to discursive retrieval and communicative reason. We find a basis for such a sensitivity in the work of the post-structuralist psychoanalyst Jacques Lacan. In the following paragraphs of this introduction we will outline how the thesis that we have just sketched in the broadest of terms will be developed and defended in the following chapters.

In Chapter 1 “Financial Accounting, Crisis and the Commodity Fetish” we introduce certain themes of the thesis and set the context for the analysis presented in subsequent chapters. In particular, we begin to consider the impact of processes of reflection and rationalisation, characteristic of the development of modernity, on accounting conceived of as both a descriptive and as a normative/prescriptive enterprise; as both scientific and as moral practice. We argue that certain contradictions immanent to capitalism give rise in late modernity to crisis tendencies in financial accounting as a way of knowing - epistemological crisis. We analyze those tendencies, manifest as crises of rationality, legitimacy and motive, in terms of a Habermasian account of the evolution of society. We argue that the processes of rationalisation and reflection attendant upon the modernisation of society have torn accounting from its traditional anchorage and legitimating resources. In this and other chapters we use an analysis of the certain recent work of the United Kingdom (UK) Accounting Standards Board (ASB) to ground and give a practical focus to the ideas

presented. We argue that the controversy surrounding the ASB's efforts to develop a conceptual framework for financial reporting under the title of a "Statement of Principles for Financial Reporting" (ASB, 1995b, 1999a, 1999d), reveals the contradictions and crises tendencies immanent to financial accounting in capitalism. And we interpret the conceptual framework for financial reporting project undertaken by the UK Accounting Standards Board (ASB) in recent years as an attempt to restore a measure of spurious objectivity and legitimacy to UK financial reporting.

In chapter 2 "Accounting Knowledge" we use Davidson's analysis of the conditions of possibility of knowledge to justify an anti-representationalist conception of accounting knowledge and objectivity. The Davidsonian account we give of the possibility of accounting knowledge recognises that intersubjectivity as all the foundation we need, or can have, for objectivity. To help clarify and justify the view we favor we contrast it with a selection of essentially dualist strands of accounting theory which each cast doubt on accounting's capacity to give knowledge of an objective publicly accessible world. These views draw their inspiration from certain elements of the phenomenological, (post)structuralist, and hermeneutic traditions.

The primary aim of chapter 3, "Objectivity in Accounting - The Case of Deferred Tax", is to develop our consideration of the Davidsonian view of the possibility of objectivity in accounting introduced in the previous chapter. In chapter 2 we implicitly assumed that the descriptive and normative dimensions of accounting are separable and that we could therefore sensibly bracket the normative and focus on accounting as essentially descriptive activity. In chapter 3 we directly address the moral/normative dimension of accounting and recognize that it creates problems for accounting objectivity. The application to accounting of a Davidsonian conception of objectivity as intersubjectivity is explored here in terms of the contrast drawn by the philosopher Bernard Williams between the prospects for objectivity in science and ethics. Using an examination of the history and debate surrounding the issue of accounting for deferred tax in the United Kingdom to help focus our analysis, we endeavour to locate accounting in terms of the dichotomy that Williams draws between science and ethics. We find that the descriptive and normative are knotted together in accounting concepts in just the same way that they are entangled in thick ethical concepts like 'chastity' or 'brutality'. We recognize that, whilst in science we can reasonably expect world-guided reflection to lead us towards more objective conceptions of reality and to

justify our perspectival knowledge, in ethics reflection can not be world guided; the world can not guide us to more adequate conceptions of the “good life”. Not only can reflection not justify ethical knowledge it may destroy it by forcing us to recognize how far short our ethical concepts fall of any universal objectivity. On this analysis it seems that, insofar as accounting entails an ethical dimension, we can not reasonably expect reflection on accounting concepts to lead to more objective conceptions of reality; indeed we should expect reflection to undermine local accounting knowledge. In search of some relief from this rather bleak prospect we return, to Habermas’ work. We draw in particular on his analysis of the evolution of society and his theory of discourse ethics, for a vision of how accounting norms might attain objectivity, that is, how they might ideally be rationally justified so as to command universal agreement. Habermas argues that in modernity the ethical sphere, which in traditional society had appeared as a totality, breaks into two components: the moral and the evaluative. Moral questions being those that can be approached rationally in terms of the generalizability of interests, and evaluative questions being those which are accessible to rational analysis only from within the horizons of a particular historical form of life. Habermas shows how moral norms of action can be objectively validated through communicative reason, that is, through the institutionalisation of what he calls “discourse ethics”. We argue that accounting regulations may be viewed as moral norms and that an objective validity for normative accounting concepts might be achieved through the application of communicative rationality in democratic processes. We conclude chapter 3 with a discussion of the implications of Habermas’ discourse ethics for accounting policy making, and its implications for the appropriate role for conceptual framework for financial reporting projects.

Whilst in chapter 2 we defended the possibility of objective financial reporting against the poststructuralist/postmodernist “totalized critiques” of reason and objective knowledge. In chapter 4 “Validity in Accounting Standard Setting and the Presuppositions of External Financial Reporting” we seek to defend accounting from those theorists who seem to want to reduce reason in accounting to instrumental reason. The analysis presented here is again shaped by the work of Donald Davidson and Jürgen Habermas; it represents a consolidation and development of our view of the application of central elements of their thinking to accounting practice and regulation. In particular we extend our consideration of practical issues concerning the application of Habermas’ discourse ethics/communicative

reason in accounting. The chapter responds to, and critiques, the analysis presented by Shapiro (1997 & 1998) of the presuppositions of external financial reporting and the maxims and of rational argument in accounting standard setting. We use Shapiro's analysis as a counterpoint to our own very different views on the philosophical foundations of objectivity in financial reporting and validity in accounting standard/norm setting. We thereby hope to contribute to an ongoing debate concerning what is at stake in disputes about truth, objectivity and validity in accounting and accounting standard setting.

In chapter 5, "The Reporting Entity as Divided Subject", we recognise that the Habermasian conception of communicative rationality, that we have advocated as a foundation for the possibility of normative objectivity in accounting, relies upon a flawed conception of the subject/agent of discourse. It apparently demands the co-presence in debate of impossibly unified and self-transparent agents that know and can fully articulate their interests. We accept the force of the post-structuralist critique of the Habermasian position, that foregrounds a need for sensitivity to the "other of reason" that which is immune to rational articulation - the unconscious. We recognize that the rationality of discourse ethics needs to be supplemented by sensitivity to alterity, and we locate such a sensitivity in the psychoanalyst Jacques Lacan's conception of the divided subject; the subject split between conscious and unconscious. We explain the Lacanian perspective by sketching an interpretation of the firm as reporting entity as a divided Lacanian subject. We hope that this sketch may incidentally enrich the development of conceptions of the firm as moral agent. We conclude by arguing that a Lacanian sensitivity to alterity is consonant with an ethic of absolute responsibility for the Other that could make good the motivational deficit that attends the abstraction of the Habermasian moral point of view; the rationality of discourse ethics.

Preamble to chapter 1: Financial Accounting, Crisis and the Commodity Fetish

In this thesis we aim to defend the view that we can have objective knowledge in accounting. Our defense of the possibility of accounting objectivity relies above all on the philosopher Donald Davidson's account of the possibility of constative knowledge and Jürgen Habermas' justification of the possibility of normative validity. We will turn to Davidson's work in chapter 2 and to Habermas' work on the objective validation of norms in chapter three. In this chapter we intend to set the context for our subsequent analysis of the financial reporting's potential for descriptive and normative objectivity by examining its present condition. We will introduce here certain themes that will be returned to in subsequent chapters, in particular we will begin to consider the impact of processes of reflection and rationalization, characteristic of the development of modernity, on accounting conceived of as both a descriptive and as a normative enterprise. We will argue here that in capitalist modernity financial accounting as a way of knowing faces crisis – epistemological crisis.

In this chapter we analyze financial accounting's tendency to crisis in terms of a Habermasian account of the evolution of society, and use the recent efforts of the UK Accounting Standards Board (ASB) to produce a conceptual framework for financial reporting to give focus to our discussion. We find that the contradictions immanent to financial accounting in capitalism are manifest as tendencies to crises of rationality, legitimacy and motivation. We argue that accounting's traditional taken-for-granted legitimacy is eroded by the progress of rationalization and reflection in modernity, and we interpret the ASB's conceptual framework project as an attempt to restore a measure of spurious objectivity and legitimacy to UK financial reporting.

In subsequent chapters we will defend the view that financial accounting may obtain objectivity and legitimacy through rational processes and in particular through the application of communicative reason. We recognize, however, that in late capitalism the processes of rationalization have become pathological and have in fact tended to undermine financial accounting as a way of knowing. In the following paragraphs we offer a very brief sketch of the processes of rationalisation and differentiation that Habermas identifies as operating in the evolution of western society. This sketch is intended to help put the present crisis in financial reporting into perspective and to give some indication of the nature and scale of the challenge associated with the realisation of the promise of communicative rationality in accounting.

Habermas sees two distinct processes of rationalisation at work in the evolution of society: a rationalisation of the lifeworld and a rationalisation of the system. The term “lifeworld” refers to all of those aspects of human life and relations - social, cultural and personal - that are co-ordinated and reproduced through communicative action and thus language. The symbolic reproduction of society through the lifeworld can be distinguished from its material reproduction through systems of action. The material development of modern society is initially facilitated by the rationalisation of the lifeworld and in particular the development of modern law. This rationalisation of the lifeworld is marked by a transition from social integration based upon ritual and sacred symbols to an integration motivated by the shared understandings based on communicative action, that is, integration and cooperation structured by consensus on norms. Habermas calls this transition the “linguistification of the sacred”. The increasing complexity of society, particularly the complexity of its material reproduction, stretches the integrative capacity of communicative action (social integration), which is always to some extent affected by the interpretative difficulties attendant on language as an integrative medium. Therefore, as society evolves it becomes more and more reliant on systems integration, that is, integration that comes about as an unintended consequence of action. Perhaps the prime example of systems integration, is the automatic allocation of resources through market operations. Over time, in important fields of action, particularly those involving markets and state administration, the integrative role of language is increasingly taken over by the alternative steering media such as money and power. Eventually the system achieves a high degree of independence from the lifeworld. In itself this process of rationalisation can be seen as one of evolutionary advance. However, in capitalism the process becomes pathological. The need to manage the crisis tendencies immanent to the capitalist mode of production institutes an expansionist tendency in the system, so that the system steering media of money and power intrude into the lifeworld. This “colonisation of the lifeworld” damages those areas of society, which rely on integration and reproduction through communicative action, that is, all of those social, cultural, and personal aspects of life which rely on symbolic, as opposed to material, reproduction. The process of rationalisation becomes damaging when the social tensions generated by capitalist exploitation drive the system, which has slipped out of the normative control by the Lifeworld, to colonise and undermine the symbolic reproduction of the of the Lifeworld.

We contend that the ASB's conceptual framework project reveals financial reporting in process of rationalisation. Our analysis of resistance to the ASB's proposals, outlined in chapter 1, suggests that accounting's transition to modernity, through rationalisation, has been painful and is as yet incomplete. Many of accounting's "everyday" practitioners and users are found to be clinging tenaciously to remnants of a pre-modern accounting structured by the myth and ritual¹, and to the remnants of legitimacy associated with traditional authority. We find accounting in the process of becoming little more than a mere adjunct to a systems based integration of society founded on the free and automatic operation of markets and progressively moving beyond any normative / lifeworld control.

Whilst the transition from traditional to modern society is marked by the struggle between reason and its other - the "sacred", modernity itself is characterized by the tension between communicative and instrumental rationality - lifeworld and system. A central concern of Habermas' work has been to waken us to the emancipatory potential of communicative reason, which he argues both his predecessors in critical theory and the poststructuralist/postmodernist theorists have failed to recognise. For Habermas, the early critical theorists made the mistake of equating reason with purposive-instrumental reason, while the postmodernists relinquish reason altogether. The tension between the two modes of reason in modern capitalism reflects a tension between capitalism and democracy, which correlate with alternative modes of integration - instrumental and communicative reason respectively. In chapter 1, which we now turn to, we see evidence of this tension in the accounting standard setters' attempts to gain a semblance of democratic legitimacy for a program, which is essentially driven by instrumental reason and the imperatives of money and power.

Chapter 1: Financial Accounting, Crisis and the Commodity Fetish

“The aim of socialism is to liberate the rich diversity of sensuous use-value from the metaphysical prison-house of exchange-value - to emancipate history from the specious equivalences imposed upon it by ideology and commodity production.”

(Eagleton, 1991, p. 127)

Introduction

The UK Accounting Standards Board (ASB) recently published a draft conceptual framework² for financial reporting (ASB, 1995b). The draft proposes, inter alia, that practice should move towards a balance sheet orientated current value accounting model. As might well have been anticipated, the proposals have run into a wall of opposition from preparers and auditors. In this chapter we set out to explore two questions. Firstly, why has the ASB adopted such obviously controversial proposals? And secondly, why do the proposals provoke an almost visceral resistance in some quarters? It is not our intention to give “full” answers to these questions, and we will not draw on the vast literature concerning the putative advantages and disadvantages of alternative accounting models.

We analyse the ASB's proposals and the reaction to them in terms of the crisis tendencies, which are immanent to capitalism; we investigate the pressures and contradictions, which have impelled accountancy in the UK to the edge of the abyss:

“... the Accountancy Profession is standing on the edge of a precipice and is in danger of taking a giant step forward. ...”

(The Group of Scottish Finance Directors, 1996, p. 358)

The chapter contains seven parts. We begin by briefly contextualising the ASB's proposals in terms of fundamental income measurement alternatives. We then outline the ASB proposals and the response they have provoked. In part three we begin to develop the foundations of our analysis - accounting's reflection and reproduction of commodity fetishism. In the fourth part of the chapter we initiate an immanent critique of commodity fetishism in accounting. We begin to unpick financial accounting's false equation of exchange-values and use-values. We do so, by developing the implications of research on

the psychology of choice which reveals that use-values of prospects can not be separated from how they are represented, in mental accounts, and understood by human beings, and therefore can not be grasped by exchange-value relations between things. In the fifth part of the chapter we relate the analysis developed in the previous part more directly to financial accounting, and in particular the ASB's proposals. We argue that whilst in terms of the abstraction of exchange-values wealth is conceptually homogeneous, in terms of use-values wealth is heterogeneous. And we suggest that the ASB's proposals threaten to push accounting further towards the rational abstraction of exchange-value and away from its traditional unquestioned legitimacy and residual connection with use-values. In the penultimate part of the chapter we develop our analysis of the origins of the ASB's proposals and the controversy surrounding them, using Habermas' (1973) exposition of the crisis tendencies immanent to advanced capitalism as an analytical framework. In the final part of the essay we return to the key issue of accounting's reflection of the commodity fetish - accounting as identity thinking - and consider the implications for critical accounting.

Basic income measurement alternatives

Accounting income may be determined in two fundamentally different ways. It may be calculated as the change in the worth (net assets) of the business during a period, excluding the change resulting from the transfer of resources to and from owners. This approach reflects a long-standing consensus that business income must ultimately be understood in terms of wealth enhancement (see Gellein, 1987, p. 60), and corresponds closely with certain conceptions of income developed by economists. It implicitly requires current value measurement of assets and liabilities as it makes little sense to define income in terms of the change between two balance sheets unless those balance sheets reflect some measure of current value. In this chapter we will refer to this approach as either the current value or economic income approach.

The alternative approach to income measurement allows only realised gains to be recognised in accounting income. It requires the institution of revenue recognition criteria and rules for the allocation of costs, that is, the matching of costs against recognised revenue (see Paton & Littleton, 1940). We will refer to this profit and loss account orientated method as the matching approach. It might seem that both systems might tend to produce the same results. This is not so - the current value approach allows unrealised gains to be included in income whilst the matching approach does not. Furthermore the

revenue recognition criteria applied under the matching approach are more demanding than the criteria for recognising changes in the value of assets and liabilities applied under the current value approach. This is because the matching approach embodies the idea that revenue should only be recognised once it has been earned, that is, revenue recognition should be based on performance. Financial accounting practice has been dominated by the matching approach for almost all of this century³, and revenue recognition criteria have been dominated by the concept of prudence. The current value approach has theoretical appeal. However, the approach is unattractive to both preparers and auditors⁴, and its translation from theory to practice has been difficult and highly controversial (see Miller et al, 1994, p. 142). The American Financial Accounting Standards Board's (FASB) efforts to develop a conceptual framework for accounting were effectively "derailed" by the current value issue in the early 1980's. And "experiments" with its application, as current cost accounting, by both the FASB (Statement of Financial Accounting Standards (SFAS) No. 33 - Financial Reporting and Changing Prices, 1979), and the Accounting Standards Committee (ASC) in the UK, (Statement of Standard Accounting Practice (SSAP) No. 16 - Current Cost Accounting, 1980a), ended in failure. The collapse of SSAP16, due to preparer non-compliance, "resulted in a serious loss of confidence by and in the ASC" (Whittington, 1989, p. 195).

Despite the controversial nature of the current value issue, standard setters have been unwilling to drop it entirely from their agendas. In recent years the FASB has issued a number of accounting standards requiring disclosure of fair value information (see Barth & Landsman, 1995). However, the FASB's approach has been cautious. They have required fair value information principally in respect of financial instruments. And whilst initiating fresh proposals for the reporting of comprehensive income (FASB, 1996) they have recognised that given the lack of preparer enthusiasm for the fuller application of the concept⁵ "a project that considers all aspects of comprehensive income, including recognition and measurement of its components, is not practical at this time" (see Johnson et al, 1995, p. 133). The same degree of caution has not been shown by the ASB in the UK⁶.

The way ahead for UK financial reporting

The publication by the ASB of a "Statement of Principles for Financial Reporting" exposure draft (1995b), has brought the current value accounting issue back to the centre of contemporary financial reporting debate in the UK. The exposure draft is wide ranging.

We will focus on certain key features, which are particularly relevant to the concerns of this chapter.

Gains and losses are defined in chapter 3 of the exposure draft as increases or decreases in ownership interest, other than those relating to contributions from or distributions to owners (ASB, 1995b, para 3.47). Ownership interest itself is defined as the entity's assets less its liabilities (ASB, 1995b, para 3.39). The determination of entity performance becomes essentially derivative of the measurement of assets and liabilities in the balance sheet, and the key issue becomes “getting the balance sheet right”. Only a very small proportion of the one hundred and seventy five published responses to the exposure draft were positively supportive of the balance sheet orientation put forward by the draft. Table I presents a basic⁷ analysis of our interpretation of comments on this issue:

Table I		Analysis of comment on the <i>Statement of Principles For Financial Reporting; Exposure Draft</i> , (ASB, 1995b)		
		Comment on the draft's proposals, which favour the adoption of a balance sheet orientation, (comments alternatively expressed in terms of a preference for the matching approach).		
Classification of Commentators	Number of responses	Supportive	Opposed	No unequivocal comment
Users	10	10%	30%	60%
Preparers	91	3%	52%	45%
Accountants	54	2%	48%	50%
Academics	12	-	33%	67%
Others	8	13%	37%	50%

Measurement is dealt with in chapter 5 of the draft, and a preference for current values is made plain: “practice should develop by evolving in the direction of greater use of current values to the extent that this is consistent with the constraints of reliability and cost”, (ASB, 1995b, para 5.38). Table II presents our analysis of comment on this issue

and shows that preparers and accountants tend to be quite clearly opposed to significant extension of the use of current values:

Table II		Analysis of comment on the <i>Statement of Principles For Financial Reporting; Exposure Draft</i> , (ASB, 1995b)			
		Comment on the draft's proposal that the use of current values in accounts should be extended.			
	Number	Supportive	Supportive in principle with reservation on practicality	Opposed	No unequivocal comment
Users	10	40%	-	30%	30%
Preparers	91	3%	1%	84%	12%
Accountants	54	2%	7%	69%	22%
Academics	12	-	-	42%	58%
Others	8	50%	-	25%	25%

The presentation of gains and losses is dealt with in chapter 6 of the exposure draft. It is suggested that the statement of total recognised gains and losses, a statement introduced by Financial Reporting Standard No. 3 - Reporting Financial Performance FRS.3, ASB, 1992c), should become the key performance statement: "In assessing the overall financial performance of an entity during a period, all gains and losses need to be considered. The statement of total recognised gains and losses (as its name implies) reports the total amount of the gains and losses recognised in the period ...", (ASB, 1995b, para 6.20). The chapter 6 proposals would discard the traditional rule that only realised profits appear in the profit and loss statement and would require that the profit and loss account, and the statement of total recognised gains and losses, report the gains and losses that arise in the period, irrespective of when they are realised, (ASB, 1995b, para 6.25). The distinction between realised and unrealised gains and losses, which has been a cornerstone of conventional accounting, would be relegated to notes to the accounts, (ASB, 1995b, para 6.24). Our analysis of comment on the proposal that the

realisation principle be abandoned is shown in table III. Few commentators supported this proposal. We have recorded commentators as opposed to the ASB's proposals on any issue only where they have made specific statements to that effect. This issue did not excite as high a volume of direct comment as the proposal that greater use be made of current values. Many of the comments opposing greater use of current values could be more liberally interpreted as opposing any change to the "tried and trusted" historical cost and realisation based accounting model. We thus consider that table III probably understates the extent of real opposition to the ASB's proposals.

Table III		Analysis of comment on the <i>Statement of Principles For Financial Reporting; Exposure Draft</i> , (ASB, 1995b)		
		Comment on draft's proposals, which would abandon the traditional rule that only realised profit appears in the profit and loss account, (comment alternatively expressed in terms of support for the prudence concept).		
	Number	Supportive	Not supportive	No unequivocal comment
Users	10	10%	10%	80%
Preparers	91	3%	39%	58%
Accountants	54	6%	52%	42%
Academics	12	-	42%	58%
Others	8	13%	50%	37%

Chapter 6 of the exposure draft goes on to draw a distinction between profits or losses arising from operating activities and gains and losses resulting from changes in the value of assets and liabilities held to enable those operations. The latter would be dealt with in the statement of total recognised gains and losses (ASB, 1995b, para 6.27), and never feature in the profit and loss account. All other gains and losses would be dealt with in the profit and loss account, (ASB, 1995b, para 6.28). The proposals would tend to lead towards a "standardised" profit being reported in the profit and loss account without regard to the terms of transactions that the company has undertaken. For example

revaluation of loans would lead to interest expense being recognised in the profit and loss account at current rates irrespective of the contracted rate. The revaluation of leasehold interests would standardise lease charges to the market rate irrespective of the lease terms negotiated (Ernst & Young, 1996a, p. 7). In effect the profit and loss account would no longer present a full statement of gains and losses arising from operations; some of those gains and losses would be dealt with elsewhere - in the statement of total recognised gains and losses. Ernst and Young describe the proposed division of gains and losses between the profit and loss account and the statement of total recognised gains and losses as entailing a “serious degrading of the profit and loss account”, (Ernst & Young, 1996a, p. 13). Many of the commentators on the exposure draft focused on this issue (ASB, 1996a, p. 6). Our analysis of comments table IV shows that very few commentators were supportive of the ASB's proposals:

Table IV		Analysis of comment on the <i>Statement of Principles For Financial Reporting; Exposure Draft</i> , (ASB, 1995b)		
		Comment on the draft's proposals concerning the division of gains between the profit and loss account and the statement of total recognised gains and losses, which elevate the significance of the latter statement, and correspondingly threaten to reduce the profit and loss account to a normalised statement of operating results.		
	Number	Supportive	Opposed	No unequivocal comment
Users	10	40%	30%	30%
Preparers	91	3%	46%	51%
Accountants	54	2%	54%	44%
Academics	12	-	25%	75%
Others	8	13%	25%	62%

Finally, chapter 1 of the exposure draft attempts to clarify the objectives of financial statements. It suggests that the objective of financial statements “is to provide information about the financial position, performance and financial adaptability of an enterprise that is useful to a wide range of users for assessing the stewardship of

management and for making economic decisions” (ASB, 1995b, para 1.1). This espousal of a decision usefulness purpose for financial statement may appear to be innocuous. However, as table V shows, this definition excites significant opposition.

Table V				
Analysis of comment on the <i>Statement of Principles For Financial Reporting; Exposure Draft</i> , (ASB, 1995b)				
Comment on the draft's proposal that financial statements should have the objective of “of providing information about the financial position, performance and financial adaptability of an enterprise that is useful to a wide range of users for assessing the stewardship of management and for making economic decisions” (ASB, 1995b, Para.1.1), (may be expressed in terms of a call to stress stewardship over decision making, and/or in call for emphasis on shareholders as primary user group).				
	Number	Supportive	Opposed	No unequivocal comment
Users	10	10%	20%	70%
Preparers	91	-	22%	78%
Accountants	54	4%	35%	61%
Academics	12	-	33%	67%
Others	8	13%	13%	74%

Those opposed to the definition are concerned primarily that it might raise “unfulfillable” expectations and thereby expose directors and auditors to litigation.

We hope we have succeeded in conveying the weight of opposition facing the ASB. Their proposals are substantially opposed by the preparers, auditors, and academics and have received a mixed response from users. However, the proposals do succeed in winning the virtually unqualified approval of one highly significant user group: The Institute of Investment Management and Research which represents the investment analysis profession in the UK. They enthusiastically endorse the call for greater use of current value information and agree with the ASB that the objectives of financial statements should include the provision of information to a range of users for making economic decisions:

“It is right that the setters of accounting standards should explicitly recognise that some users will be involved in the process of determining whether to buy, sell or hold securities of a company, ... it is right for the exposure draft to highlight the predictive value of financial information as a key characteristic relating to content.”

(Institute of Investment Management and Research, 1996, p. 445)

The debate surrounding the development of the ASB's draft Statement of Principles has been vigorous. The ASB received more letters of comment on it than on any other document it has exposed (ASB, 1996, p. 1). Each of the chapters of the exposure draft was initially issued as a discussion document, and the lines of opposition clearly drawn before the issue of the exposure draft in November 1995. Ernst & Young have taken a lead in opposing the ASB's proposals (Ernst & Young, 1993 & 1996a), and a relatively high percentage of commentators on the exposure draft directly refer to Ernst & Young in making their own response. They have described the proposed draft as “an academic diversion that will not serve the interests of financial reporting practice” (Ernst & Young, 1996a, p. 3), and challenged the ASB's authority to proceed with the project, saying; “... we do not believe that the ASB should use British industry as a test-bed for academic theories on accounting, and we question whether it has a mandate to do so” (Ernst & Young, 1996, p. 3). In the face of hostile comment the ASB has accepted the need for fuller discussion before they proceed to a finalisation of the Statement of Principles.

Commodity fetishism and identity thinking in financial accounting

In this section of the chapter we develop the foundations of our analysis of the squabble surrounding the ASB 'Statement of Principles' project. These foundations lie in accounting's reflection of the contradictions and crises tendencies immanent to commodity production.

In *Capital*, Marx (1867) begins his economic investigation of capitalism with the analysis of the commodity form. He shows that, through the exchange process, the qualitative differences between commodities are suppressed as use-values become dominated by the abstract quantitative equivalences of exchange-values, and that the social relations between men and women, capitalist and worker, come to be dominated by the relations between inanimate commodities:

“The mysterious character of the commodity-form consists therefore simply in the fact that the commodity reflects the social characteristics of men's own labour as objective characteristics of the products of labour themselves, as the socio-natural properties of these things. Hence it also reflects the social relation of the producers to the sum total of labour as a social relation between objects, a relation that exists apart from and outside the producers. ... It is nothing but the definite social relation between men themselves which assumes here, for them, the fantastic form of a relation between things. I call this fetishism ...”

(Marx, 1867, pp. 164-165)

Marx's analysis exposes the real disjunctions in capitalism between substance and form and reveals the ideological power of exchange to forge equivalences between incommensurables: concrete inequalities and exploitative social relations appear as abstract equivalences, for example, exploitative wage relations appear as equal exchanges of the commodities of money and labour. He reveals ideology's material foundations in fetishised commodity production and exchange: market exchanges are real, not imaginary, and effected through, and reflected by, significant social institutions which lend the semblances they produce a robustness and naturalness which is difficult to penetrate.

Accountants are the commodity fetishists par excellence: they embrace the specious equivalence between exchange-value and use-value, and take for granted the dominance of exchange-values in their representations of events. By dealing almost exclusively with the sterile quantitative abstraction of exchange-value, they help reproduce the ideological grip of the fetishised commodity on social relations. From this perspective, financial accounting in capitalism is unremittingly oppressive. As it raises up relations between thing and thing in exchange, it suppresses far richer relations between people and things - use-values.

Marx's analysis of exchange value and commodity fetishism was adopted by Adorno as a model for a wide-ranging critique of bourgeois ideology. For Adorno (1966), exchange and false equivalences are at the core of all ideological thought. Ideology is “identity thinking”, a type of rationality which strives to subsume the plurality of all particular things within unitary systems of concepts. It works to homogenise diverse

phenomena, to make the different interchangeable (fungible), to forge and hold in place spurious equivalences between concepts and objects, ideas and the material world. Order and control at the level of concepts is achieved in systems of thought, at the expense of the suppression of many of the qualitative dimensions of the objects those systems pretend to grasp. Identity thinking can not penetrate the form of social systems and scrutinise the “nonidentical” - that which “defies subsumption under identity - the 'use value', in Marxist terminology” (Adorno, 1966, p.11). It can never reveal the true exploitative nature of the social relations of production, which determine, in so many ways, the way we live.

The magic of the commodity fetish is powerful and real. However it is not beyond challenge. Marx recognises that the antithesis immanent in the commodity form “imply the possibility of crisis” in capitalism (Marx, 1867, p.209); that immanent contradiction could drive the system to a point where it could not continue to operate without radical structural change. To constantly reproduce the mystification of the commodity form, a good deal of ideological work needs to be done. Financial accounting itself, in taking the primacy of exchange-values for granted, is a powerful ideological support to the commodity form. However, accounting, as an ideological sub-system of capitalism reflecting and reproducing the commodity fetish, contains within itself the seeds of crisis; accounting's unitary system of concepts is inadequate to grasp and hold their object. In any system the object is always more than the concept, “what is, is more than it is” (Adorno, 1966, p.161). However in accounting the inadequacy of the concept, exchange-value, to speak of the object, use-value, is of an absolute and chronic nature. Financial accounting presents a systematic unitary account of relations between things, which excludes the plurality of person-to-thing, and person-to-person relations.

The framing of decisions and mental accounts

In this section of the chapter we use advances in the study of psychology of human choice to illustrate the incapacity of exchange-value to close its grasp on its object, use-value. We draw the implications of research, which shows that the meaning of wealth depends upon how it is represented and understood - on our mental accounting for it. We focus on the “universal commodity”, money, the unit of account, and show that humanity and its representational heuristics can not be separated from the meaning and value of even the most abstract of commodities at the heart of the unitary systems of exchange value accounting.

Mental accounts are psychological frames within which decision-makers are hypothesised to organise representations of the costs and benefits associated with an event or option. The mental accounts concept is derived from prospect theory (Kahneman & Tversky, 1979). Choice under Kahneman & Tversky's prospect theory is postulated to follow a two phase process of editing and evaluation. Editing is a mental accounting phase in which prospects are represented in terms of gains, losses and neutral outcomes with respect to some reference point. The establishment of reference points is crucial and will depend upon, inter alia, expectations and aspirations. In phase two, edited representations are evaluated according to a value (utility) function with three key characteristics: (i) it is defined over gains and losses (rather than states of wealth) which are reference-point dependent, (ii) losses have more hedonic intensity than gains of equivalent size, (iii) there is diminishing marginal value of both gains and losses as size increases. Together these characteristics yield a value function that is concave for gains, convex for losses, and steeper for losses than for gains.

Kahneman & Tversky make the linkage of mental accounts and prospect theory clear using modifications of the following scenario, introduced in Tversky & Kahneman (1981, p.457):

“Imagine that you are about to purchase a jacket for \$125 and a calculator for \$15. The calculator salesman informs you that the calculator you wish to buy is on sale for \$10 at the other branch of the store located 20 minutes drive away. Would you make a trip to the other store?”

The financial advantage versus the inconvenience can be framed in terms of a minimal, topical, or comprehensive account, as follows:

- (i) A *minimal account* would include as a cost the inconvenience of travelling to the other store, and the financial advantage as simply \$5.
- (ii) A *topical account* relates the consequences of choice to a reference point determined by the circumstances of the decision. In this case because the saving is associated only with the calculator the financial advantage will be represented as a reduction of the price from \$15 to \$10.

- (iii) A more *comprehensive account* the saving could be framed in relation to the price of the jacket and the calculator and more broadly still in relation to other expenses.

Kahneman and Tversky (1984) suggest that people spontaneously organise decision problems in terms of topical accounts. They test the suggestion by first noting that topical organisation of the problem together with the concavity of the prospect theory value function in the domain of gains would lead to a prediction that willingness to travel to save \$5 on the price of a calculator would be inversely related to the price of the calculator and be independent of the price of the jacket. They tested the prediction by modifying the problem in which the price of the two items were interchanged, the price of the calculator being given as 125. Clearly this modification leaves the problems identical in terms of minimal and comprehensive accounts. As predicted the proportion of subjects who said they would make the trip fell significantly when the problem was modified: 68% of 88 respondents were willing to travel to save \$5 on a \$15 calculator, only 29% of 93 respondents were willing to travel to save the same amount on a \$125 calculator. The differences in response, obviously, can not be explained in terms of wealth effects - Tversky & Kahneman (1981), propose that they can be explained as an effect of psychological accounting.

Subsequent research has produced numerous replications, extensions and applications of the mental accounting effect⁸. However, little consideration seems to have been given to the implications of the effect for financial accounting. Some of those implications are, we believe, indirectly illuminated by Shefrin & Thaler's (1988) use of the mental accounts concept to explain savings behaviour and in particular violations of the classic life-cycle theories of saving.

The life-cycle models of saving and consumption developed by Modigliani and Brumberg (1954), and Friedman (1957), predict that rational, utility-maximising consumers will smooth year to year consumption towards an amount consistent with their lifetime conception of permanent income. To do this people would have to behave *as if*, each year, they calculated the present value of their total wealth, including their future income, and set consumption for the year equal to the amount receivable from an annuity with a present value equal to their estimated wealth. The collapsing of future income and present assets into a single measure of wealth is based on an assumption that wealth is fungible; that its form, or source, is not relevant to the analysis.

The classic life-cycle models of saving are elegant and eminently rational, yet they are among those economic theories which do not fit well with the way research indicates people actually behave (Hall & Mishkin, 1982; Wilcox, 1989). The main problems which emerge from empirical test of the theory are, firstly, that consumption seems too sensitive to current income to be consistent with classic life-cycle theories and rational expectations, and, secondly, that the marginal propensity to consume (MPC) wealth seems to vary across forms of wealth. People typically have very low MPC's for pension wealth or home equity, and very high MPCs for current income and windfall gains. Various ad hoc amendments to classic life-cycle theory have been advanced to try and improve its fit with actual behaviour.

Shefrin & Thaler (1988) suggest a parsimonious explanation of the failure of the classic life-cycle models. They question the implicit assumption of the traditional life-cycle models that the labelling, or the framing, of wealth is irrelevant because wealth is fungible. Their behavioural life-cycle theory assumes that various components of wealth are represented in different mental accounts. The posited psychological motive for the differentiation being that it is part of a technology of self-control in which some accounts are more resistant to the temptation of consumption than others. They argue that the source and size of a change in wealth will affect how it is categorised within an internal representation system containing, in broad stylised terms, the following mental accounts: a current income account with an MPC of close to unity; an asset account with an MPC of close to zero; and a future income account, with an MPC somewhere between zero and unity (also see Thaler, 1990). The behavioural life-cycle theory proposes an understanding of wealth in which “labels matter”.

Investigations of the anomalies of inter-temporal choice reinforce and develop the suggestion that the labelling of wealth may affect its subjective value. When making inter-temporal choices people are not consistent in their use of discount rates, as economists suggest they should be. Various behavioural regularities in the effective choice of discount rate have been identified, including a “magnitude effect” whereby discount rates used decline as the amounts increase. Lowenstein & Thaler (1989), propose a mental accounting explanation of the magnitude effect. They suggest that small windfall gains may be entered in high MPC mental current income accounts, whilst larger amounts are entered in mental asset accounts with low MPCs. The cost of delay in receipt of small windfalls may then be interpreted as foregone consumption, whilst the cost of delay in receipt of a larger amount may be perceived in terms of foregone interest. A magnitude

effect would then occur if were more painful to forgo consumption than to forgo interest. The magnitude effect suggests that the subjective utility of a gain will depend in part upon whether it is entered in a mental income account or a mental asset account: whether it is perceived as consumable or as merely a source of interest. And the effect suggests that preparers of financial accounts may add or destroy value by influencing users' mental topical recording of gains and costs.

The research discussed above reminds us that value is always subjective and dependent upon human understanding and representational frameworks. It indicates that use-value can not be detached from its representation in human minds; it is always a person-to-thing relation and can not be captured by thing-to-thing exchange-value relations.

Mental accounts and financial accounting practice and theory

Wealth has a dual character: exchange-value and use-value. In terms of the abstraction of exchange-value, wealth is conceptually fungible; homogeneous. In terms of use-values, wealth is multifarious; heterogeneous. Despite the ideological pressure of commodity fetishism, people seem to organise their mental representations of wealth in topical accounts, which treat it as non-fungible; multifarious. We find, in the traditional topical organisation of financial accounts, a reflection of the mental accounting categorisation of wealth and changes in wealth, which reveals the multifarious nature of human concerns and use-values breaking into accounts of exchange-values.

The mental accounting categories appear to be associated with psychological mechanisms for disciplining and control of consumption (see Shefrin & Thaler, 1988). Financial accounts have traditionally served a similar function. Hicks identifies the basic need for income measurement in terms of giving “people an indication of the amount they can consume without impoverishing themselves” (Hicks, 1946, p.172). The role played by financial accounting, in informing and restraining consumption decisions, is given legal recognition in European law which takes realised profits as the basis of permissible distributions to shareholders (see UK Companies Act, 1985, para.263(3)).

Traditional financial accounting facilitates the identification of a financial accounting current income broadly consistent with mental current income. The prudence convention requires that revenue is normally recognised in the profit and loss account only “when realised in the form of cash or other assets the ultimate cash realisation of which can be assessed with reasonable certainty” (ASC, 1971, para.14.b). Unrealised

holding gains are therefore excluded from the traditional financial accounting income statement, just as they are generally excluded from mental income accounts⁹. Financial accounting practice also normally requires the separate disclosure of income which, because of its “size or incidence”, is exceptional (ASB, 1992c, para.5). The separate disclosure of exceptional income would allow its assignment to an appropriate mental account, dependent upon the size and incidence of the gain - large amounts of windfall income may be assigned to mental capital accounts with low MPCs¹⁰. Similarly financial accounting practice customarily makes a clear distinction between operating profits and capital gains. For example FRS.3 (ASB, 1992c, para.20), requires that gains or losses on the sale or termination of an operation or on disposal of fixed assets should be shown separately from operating profit on the face of the profit and loss account. The clear labelling of realised capital gains facilitates their allocation to appropriate mental income accounts - with MPCs lying somewhat below those applicable to realised operating income¹¹. Traditional financial accounting practice effectively recognises that wealth is not fungible. We interpret the relation between mental accounts and financial accounts as an instance of human need protruding through the abstraction of exchange-values in accounting; humanity breaking into the abstraction of thing-to-thing relations.

In contrast to traditional financial accounting practice, the economic income perspective implicitly assumes that wealth is fungible. From that perspective Alexander (1950) defined a company's profit as the amount the company could distribute to shareholders and remain as well off at the end of the period as it was at the beginning. In which case income, in the absence of new contributions of capital or distributions, can be expressed as: $Y_i = V_i - V_{i-1}$, where Y_i is the income for the period i , and V_i and V_{i-1} are capital values, or wealth, at the end and beginning of period i respectively. From this perspective, income measurement is simply a derivative of the measurement of well-offness at the beginning and end of the period. Hicks suggests that well-offness should be measured in terms of the present value of future cash flows, and he frames his influential income concept number 1 in those terms. Accordingly, income becomes “the maximum amount which can be spent during a period if there is to be an expectation of maintaining intact the capital value of prospective receipts (in money terms)” (Hicks, 1946, p.173). The calculation of V_{i-1} and V_i would then represent the collapse, into present values, of all future cash flows of the entity as at the beginning and end of period i respectively. The meaningfulness of the collapse of the vector of a company's cash-flows into a single present value number depends upon the assumption that wealth is fungible. Given that

many assets and claims are not in fact represented in perfect markets, in which case the failure of the equation of exchange-value and use-values is rather difficult to ignore, full practical application of the economic income model to financial accounting is impossibly problematic (see Bromwich, 1992, chapter 4). The economic income approach may, in consequence, have lost something of its dominant hold on financial accounting theory (see Beaver, 1981, p.13). However, it remains highly influential - it has motivated many of the proposals for market value and current cost accounting found in the accounting literature over the years, including classics such as Edwards & Bell (1961), Chambers (1966), and Sterling (1970), and the view that accounting income measures should ideally be based on the present value of earning power now can claim “virtually universal acceptance in the academic literature” (Edwards et al, 1987, p.2). Most significantly, the economic income ideal has had deep and continuing influence on accounting policy makers (see Bromwich, 1992, p.33) - the ASB's “Statement of Principles” proposals being a recent instance.

The closeness of the fit we find between mental accounting and traditional financial accounting practice suggests that they have developed in dialectical relation to one another. It suggests that the conceptual structures and knowledge pertaining to mental accounts as a source domain have partly constructed the structures and knowledge of financial accounting as a target domain, and vice versa. We recognise the structures of mental accounting as culturally and historically contingent, and, furthermore, we do not regard the heuristics underlying prospect theory as in some way innate or “hard-wired”. However, we do consider that ultimately such constructs have a grounded relationship with quite fundamental aspects of human experience and need. In particular, we have identified above the need for mechanisms of self-control as instrumental in shaping mental and in turn traditional financial accounting¹². The ASB's proposals, discussed above, threaten to wrench financial accounting away from traditional, yet highly circumscribed, relations with certain human concerns and further towards the rational abstractions of marginalist economics.

Contradiction and crisis and the statement of principles project

In this section we examine the origins of the ASB's 'Statement of Principles' project and the controversy surrounding it in terms of the crisis tendencies immanent to advanced capitalism. We build our analysis around the framework presented by Habermas' neo-Marxist exposition of those tendencies. Habermas (1973, p. 45) argues that, other things

being equal, “fundamental contradictions of the capitalist system” will be manifest as either economic crises, crises of rationality, crises of legitimation, or as motivational crises (see e.g., Held, 1980 pp. 284-295; Puxty, 1997).

Economic crisis; Marx contends that the contradictions of class interests made immanent in capitalism as contradictions of system imperatives are manifest in the system's tendency to periodic economic crisis according to the logic of the tendential fall in the rate of profit (see e.g., Marx 1867; Habermas, 1973; Wright, 1978; O'Connor, 1984). In liberal-capitalism, the primary focus of Marx's analysis, the task of social integration, the reconciling of the fundamentally incompatible claims and intentions of individuals, groups and classes is taken over by a depoliticized steering mechanism - the market - which draws a specious legitimacy from the apparent justice of the exchange of equivalents, that is, from the ideology of commodity fetishism (see, Habermas, 1973, p.24). Whilst arguing that economic crisis holds the key to development of class consciousness and the revolutionary recoupling of the economic and the political (see Habermas, 1973, p.26), Marx recognises that even in economic crises the contradictions embedded in capitalism are not self evident:

“... in liberal capitalism, class antagonism is shifted from the intersubjectivity of the life-world into the sub-stratum of this world. Commodity fetishism is both a secularized residual ideology and the actually functioning steering principle of the economic system. Economic crises thus lose the character of a fate accessible to self-reflection and acquire the *objectivity of inexplicable, contingent, natural events*. The ideological core has shifted to ground level. Before it can be destroyed by reflection, these events are in need of an objective examination of system processes. This is reflected in the Marxian critique of political economy.”

(Habermas, 1973, p.30)

Financial accounting in privileging exchange-value reflects and sustains the ideology of commodity fetishism upon which the legitimacy of the market as a steering mechanism relies.

Adorno's (1966) analysis of identity thinking suggests that as reality becomes more volatile, complex and threatening, efforts are commonly made, by those with an interest in sustaining the system, to insulate it from critique, by enforcing an increased

coherence at the level of concepts, which increases the separation of idea and reality. The period preceding the initiation of the ASB's 'Statement of Principles' project was one of “exceptional innovation” in commercial, financial and regulatory practice, and of blatantly creative accounting (see Tweedie & Whittington, 1990). The ASB's proposals press financial accounting, as a system of identity thinking, towards fuller conceptual coherence in reflection of the logic of the commodity form to the exclusion of human need, and promote its unity by reducing opportunities for accounting creativity. Whilst we agree with the many authors (e.g., Hines 1991) who suggest conceptual frameworks play a role in the construction and maintenance of social realities, we would contend that the “reality” they principally support is that of commodity fetishism.

Habermas extends Marx's analysis to take account of the realities of advanced capitalism that Marx himself was unable to fully anticipate. Of particular relevance here is the politicization of the system steering mechanism which tends to occur as capitalism advances, that is, the tendency for states to take an increasing role in supplementing and modifying market operations. Accounting is an important part of the state para-apparatus (see e.g., Clark & Dear, 1984; Puxty et al, 1987; Robson & Cooper, 1990) of advanced capitalist society, taking both technical-rational and ideological roles in the regulation of market operations. Habermas recognises that in advanced capitalism economic crisis might be indefinitely avoided by state intervention. However, he argues that whilst state intervention can both modify and displace economic crises, it can not eradicate the immanent contradictions - ultimately contradictions of class interest - which give rise to the crisis tendency in capitalism. The translation of the fundamental contradictions of capitalism from the economic to the political sphere will, naturally, change their form and the terms in which they may possibly be resolved or managed:

“In the economic system, contradictions are expressed directly in the social consequences of capital loss (bankruptcy) and deprivation of the means of subsistence (unemployment). In the administrative system, contradictions are expressed in irrational decisions and in the social consequences of administrative failure, that is, in disorganization of areas of life.”

(Habermas, 1973, p.63)

Rationality crisis; Habermas argues that rationality crisis occurs where “the administrative system does not succeed in reconciling and fulfilling the imperatives

received from the economic system” (Habermas, 1973, p.46). His analysis reveals the origin of a tendency to such crisis in the contradictory nature of the demands made on the political-administrative system in advanced capitalism. The advanced capitalist state must secure general compliance, the loyalty or acquiescence of all classes, whilst fundamentally privileging the interests of capital and sustaining the processes of capitalist accumulation. A degree of compliance can be obtained by coercion. However late-capitalist states generally seek to find fuller compliance, “mass loyalty”, on the basis of the legitimacy conferred by the practice and ideology of bourgeois democracy (see Lehman & Tinker, 1987). The political system holds legitimacy on the claim that it can provide a rational steering of the economic system compatible with the legitimating value system - bourgeois ideology. Failure to redeem that claim - failure to meet “demands that it has placed on itself” - manifest in either economic crisis or in rationality crisis, will threaten the legitimacy of the political system (see Habermas, 1973, p.69).

To securely hold its place as part of the system steering mechanism of advanced capitalism, accounting must deliver consistent inputs for rational economic management and in particular promote the accumulation of capital and help restrain the crises tendencies in the economic system. In the late 1980's accounting was seen to be failing to meet this challenge. Tweedie & Whittington (1990), writing shortly before David Tweedie took over as chairman of the ASB, presented an analysis of the current problems of financial reporting, which reading as an agenda for the ASB's subsequent work, identified inconsistency in financial reporting - “creative accounting” - as the key issue. Mitchell et al similarly identify creative accounting as at the heart of a rationality crisis facing accounting:

“Without decent and credible information, the economy can hardly be managed in an effective way. With creative accounting and off-balance sheet financing ruling the day, no-one knows the rate of profitability, liquidity or investment. It is difficult to make sense of any published corporate report. The police force of capitalism has gone into cahoots with the people it was meant to police. Everything and anything is 'true and fair'. Accountancy has become a process of mystification, obfuscation and downright deceit.”

(Mitchell et al, 1991, p.9)

We view the 'Statement of Principles' project to be part of the ASB's response to the crisis of rationality and confidence manifest in the creative accounting abuses of the late 1980's and early 1990's¹³.

As explained above, rationality crises tendencies are inevitably present in the administrative apparatus of the advanced capitalist state because of the conflicting demands put upon the system. Tweedie & Whittington (1990) recognise that conflicts of interests and demands as the root of financial reporting's failures in the period immediately prior to the initiation of the 'Statement of Principles' project:

“The central issue in accounting standard-setting (the 'disease' in our metaphor) is the market failure or failures which make accounting standard setting necessary. One of these failures is that company managements *individually* have incentives to represent their company's performance in the best possible light (e.g. by creative accounting), although *collectively* they would like accounting to conform to high standards in order to inspire confidence in the markets in which they operate.”

(Tweedie & Whittington, 1990, p.97)

In their identification of the fundamental and ineradicable conflict between collective and individual capital; Tweedie and Whittington's analysis of the basis of the crisis facing accounting in the early 1990's directly echoes Habermas' general analysis of the rationality crisis tendency:

“The (rationality) crisis theorem is based now on the reflection that growing socialization of production still adjusted to private ends brings with it unfulfillable - because paradoxical - demands on the state apparatus. On the one hand, the state is supposed to act as a collective capitalist. On the other hand, competing individual capitals can not form or carry through a collective will as long as freedom of investment is not eliminated.”

(Habermas, 1973, p.62)

Tweedie and Whittington (1990) correctly find the immanent contradiction of the interests of collective and individual capitals, at the root of accounting's failures to meet

the needs of collective capital. The ASB's 'Statements of Principles' project clearly aims to help rectify this failure by responding to the need of collective capital for accounting information which will be useful for decision making, and in particular which will promote the profitable allocation of resources and accumulation of capital. This is notably evident in the "decision usefulness" orientation of the objectives of financial reporting proposed by the ASB and in their call for greater use of current value information. However, the conflict of interest between individual and collective capitals, which Tweedie & Whittington (1990) found manifest in creative accounting, is an ineradicable feature of the system. It now threatens the progress of the ASB's proposals. As we have shown in a previous section, the ASB's proposals designed to increase the usefulness of financial reporting, have encountered considerable opposition from the representatives of individual units of capital, especially from preparers and auditors concerned by the effect that the proposals could have on their individual exposures to risk, costs, and competitive positions.

Tweedie and Whittington's analysis, whilst correct, does not quite convey the full variety of the conflicting demands facing accounting. In addition to the conflict between collective capital and individual capital which they focus upon, we can identify in our analysis of the debate surrounding the ASB's 'Statement of Principles' project, conflict between the generalizable public interests and the interests of capital, and conflict between various elements of organised individual capital.

As part of a politicized steering apparatus financial accounting must, if it is to hold political legitimacy, endeavour to sustain the claim that it serves the generalised public interest. We find this reflected in the ASB's advocacy of the view that financial statements should provide information which is useful to a wide range of users including "employees" (ASB, 1995b, para.1.7.a) and "the public" (ASB, 1995b, para.1.7.f). We have seen above that this suggestion is strongly resisted by auditors and preparers who clearly see it as not in their individual interests to encourage any inflation of public expectations of financial statements. The claims of generalizable public interest on financial accounting have been relatively marginalized, and the public effectively excluded from active involvement in the administration of financial reporting as a system and from accounting policy formation. For example, the respondents to the ASB's 'Statement of Principles' exposure draft are predominantly representative of commercial interests. The public interest claim is suppressed but it is fundamental - there is an unavoidable immanent contradiction between public and private interest, which may

move towards crisis when accounting conspicuously fails to meet public expectations - as we suggest was the case in the late 1980's and early 1990's.

As finance capital has grown in power and significance an increasing division has developed between the interests of finance capital and productive capital which finds expression in, for example, the demands made of the accounting system (see Hilferding, 1910; Laughlin & Puxty, 1983). The conflict between financial capital and productive capital substantially reflects the conflict between collective and individual capital. Financial capital, represented, for example, by the investment analysts, has an interest in demanding value-based accounting information, which will have predictive value and provide valuable input to buy, sell, or hold decisions concerning financial investments. Productive capital as represented by the management of non-financial enterprises has an interest in limiting the disclosure of information with predictive value which may erode competitive advantage, or set up expectations which may not be met. Finance capital is more completely divorced from use-values than productive capital, it is essentially concerned only with rates of return and risk. The distinction between realised and unrealised gains can be of comparatively little significance to finance capital. In contrast, managers of units of productive capital have residual links to use-value; they are more involved with real operations and product, and will be more concerned about the maintenance of operating capacity. For the productive unit manager wealth and profit are not fungibles; unrealised holding gains are not consumable without undermining the real productive potential of the enterprise - that is its usefulness - and by extension its use-value. The managers of productive units of capital will be concerned by the consumption demands that financial reports may provoke, and relatively more concerned, than finance capital, that the prudence concept be maintained. In the debate over the ASB's proposals we see a struggle for the meaning of accounting income which reflects different needs for action-motivating meaning in different sections of capital. The conflict is reflected in, for example, differential reactions to the proposal that the traditional rule allowing only realised profit to appear in the profit and loss account be abandoned.

Habermas does not argue that the full development of rationality crises tendencies within the capitalist political system is inevitable. Rather, he identifies three reasons why rationality defects may not develop to the extent that they threaten the continued existence of the system. Firstly, whilst bankruptcy and unemployment represent clear failures of the economic system, the criteria for failure in the administrative sphere are less clear, and the extent to which contradictions within the administrative system

expressed as policy failure can be tolerated is difficult to predict. Accounting's policy failures perhaps become most obvious, and it moves most clearly towards crisis, when its administrative failure is linked in the imagination with the unambiguous failures in the economic system. For example, calls for increased use of current value information in accounts received fresh impetus from the savings and loan industry crisis, in the United States (US) in the late 1980's¹⁴. Similarly, in the UK in the late 1980's and early 1990's the occurrence of a spate of company bankruptcies, in circumstances where financial statements provided little warning of impending collapse, fuelled similar calls for radical accounting change:

“The usual company collapses of the 'stop' phase of the British economic cycle, into which we are now firmly locked reveal the lax practices, creative manipulations and dubious standards accepted by accountants and auditors in the Lawson go phase. Instead of being a secular priesthood, the profession looks more and more like accessories to casino capitalism. The air of sleaze this produces is generating an angry demand for change”

(Mitchell et al, 1991, p.3)

Elements of the state para-apparatus are liable to receive state support in proportion to their ability to contribute to the state's management of economic crises tendencies and the production of legitimacy. Their success or failure will be affected and in part judged by their own stability and ability to manage internal contradictions and thereby support the legitimacy of the system as a whole. Conspicuous failure to meet expectations raises the threat that the state will be forced to take a more direct involvement with the functions previously effectively delegated to the para-apparatus:

“Fear of governmental intervention has long been, and continues to be, the major reason for calls for action in the profession.”

(Dopuch & Sunder, 1980, p.17)

More direct state intervention may be perceived as a threat to the privileges enjoyed by the profession. In such situations we should expect and find the introduction of initiatives, like the ASB's 'Statement of Principles' project, which promise to rectify past weaknesses. A second reason why rationality defects may not develop into full

crisis is that an administrative system may allow for provisional compromises to be fashioned. The anarchic market is dominated by the rule of wealth maximisation. That rule is non-negotiable and therefore the medium of market exchange allows little scope for conflict resolution or compromise. In contrast, the administrative system:

“... enters into compromise-orientated negotiations with the sectors of society on which it depends. “Bargaining” is applied under pressure to the reciprocal adaptation of structures of expectation and value systems. ... The state *can* make visible to its negotiating partners how generalizable interests of the population differ from organized individual interests as well as from the collective-capitalist interest in the continued existence of the system.”

(Habermas, 1973, pp. 63-64)

The ASB's 'Statement of Principles' project serves to make the policy alternatives for accounting visible and to stimulate a debate through which compromise may be found. The active debate surrounding the ASB's proposals opens the possibility of bargaining and compromise. The ASB's project can be seen as a compromise-seeking crisis-management strategy.

Third and finally, rationality crises may be contained because “crisis tendencies cannot assert themselves through collective administrative action unconsciously in the same way as they can through the particularized behaviour of individual market participants. ... Instead, *crisis avoidance is thematized* as a goal of action” (Habermas, 1973, p.64). Tweedie & Whittington (1990) makes it clear that the chairman of the ASB was well aware of the developing rationality crises tendencies engulfing accounting and intellectually engaged in an attempt to understand and propose a strategy for their containment. The ASB could have been in no doubt that their ideas would be highly controversial. Systematic conflicts of interests were clearly recognised (Tweedie and Whittington, 1990), and previously exposed discussion papers containing ideas similar to those eventually included in the exposure draft had provoked hostile reactions from some quarters. The ASB did not stumble blindly into controversy, rather, its 'Statement of Principles' project appears to be a conscious attempt to manage a rationality crisis by provoking a debate in which compromise *might* eventually be found.

An anarchic market dominated by the rule of private wealth maximisation is not capable of finding or imposing the compromises or solutions, which are necessary if crisis is to be avoided (see Habermas, 1973, pp. 63-64). The management of crises tendencies in advanced capitalism typically entails intervention by the state, often effected via state para-apparatus such as the ASB - it is market failure which make accounting standard setting necessary (see Tweedie & Whittington, 1990, p.97). However the very the strategies employed to manage rationality crises may raise other crises tendencies.

Legitimation crisis; Habermas identifies a tendency to legitimation crises in the repoliticization of the late-capitalist system steering mechanism. The politicization, by state intervention, of spheres of life previously considered private threatens to uncover the element of social choice underlying the planning and control of social arrangement. Such a demystification of social processes could jeopardise mass loyalty to the system by bringing “to consciousness the contradiction between administratively socialized production and the continued private appropriation and use of surplus value” (Habermas, 1973, p.36), and thereby stimulate political demands which the system would be unable to reconcile. Conscious thematization of this contradiction would be encouraged by real participative democracy that gave citizens genuine substantive involvement in the administration. The late-capitalist state must obtain mass political loyalty, yet prevent substantive democracy. Typically diffuse mass loyalty and the legitimating formation of generalised motives is elicited through formal democratic processes which are kept, so far as possible, separate from technocratic administrative systems charged with delivering social planning and control with a semblance of apolitical naturalness and rational inevitability - “the separation of instrumental functions of the administration from expressive symbols that release an unspecified readiness to follow” (Habermas, 1973, p.70). The separation is sustained by the ideology of civic privatism and by rhetorics of rationality and efficiency. Habermas argues that with the advance of capitalism traditions such as that of financial accounting, are increasingly “flushed out of their nature-like course(s) of development” (Habermas, 1973, p.72) and drawn within the public problematic where ultimately the contingency of both their contents and techniques may be revealed and their once unquestionable character undermined.

Accounting and accounting policy-making has indeed become increasingly politicized, especially in the latter half of this century:

“... the public accounting profession has acquired a unique quasi-legislative power. ... Furthermore, its accounting “legislation” affects the economic well-being of thousands of business enterprises and millions of individuals, few of whom had anything to do with giving the profession its power or have a significant say in its use.”

(Gerboth, 1973, p.481)

The politicization of accounting policy-making draws attention to the social choice aspect of financial accounting - it may no longer be conceived of as the naturally legitimate product of the “invisible hand” of the market. Furthermore, recognition of the political contingency of accounting makes it difficult to conceive of accounting or accounting regulation in terms of a search for truth (see Gerboth, 1973, pp. 478). Politicization threatens the foundations of accounting's traditional taken-for-granted legitimacy. However, a new political legitimacy may be conferred by the political process itself. Accounting policy-makers typically adopt the trappings of bourgeois democracy - due processes and formal procedures, including the exposure of draft proposals, designed to secure a generalised authority for their accounting policy making. However, a substantive public participation in accounting policy-making would threaten to bring to consciousness the contradiction between the socialized production of accounting policy, and its systematic privileging of the information needs of private capital accumulation. If the systematic privileging of capital accumulation is to be sustained, real democratic involvement in the accounting administration and policy making must be avoided (see Arrington & Puxty, 1991).

We interpret the ASB's 'Statement of Principles' project and the debate surrounding it as reflecting a legitimation crisis in accounting in two ways. Firstly, we see the 'Statement of Principles' project as part of an ongoing defense against demands which might follow real public involvement in accounting policy formation. The defence is one of rationalism - the fostering of the illusion that accounting practice and policy making are technical matters, affairs of reason and expertise rather than of value judgements and social choice, and as such, appropriately left to professionals - the technocrats. A conceptual framework might reasonably be expected to increase the apparent rationality and consistency of accounting standard setting and financial reporting, and by supporting the illusion that accounting practice and policy has emerged with rational inevitability from a scientific body of economic theory help insulate accounting from the incompatible

demands which politicization might otherwise encourage. Solomons recommends a conceptual framework for financial reporting as a “defense against politicization”:

“If the FASB could show that its standards were derived from a coherent and plausible body of concepts, it would greatly enhance the credibility of financial reporting. I know of no better way to reduce accounting's vulnerability to political pressure. How else can the board demonstrate the superiority of a proposed standard over a counterproposal from some sectional interest that is self-serving and not in the public interest?”

(Solomons, 1986, p.116)

We substantially agree with Solomons' analysis - conceptual frameworks are indeed constructed as a defense against politicization. However, accounting's mystique of rationality - its scientism - seems to be rather more successful in stifling the articulation of generalized interests than in moderating the self-serving demands of sectional interests (see Tinker, 1991). The mystique remains powerful and difficult to penetrate:

“Accountants like to see their art as a technical one, best excluded from the unworthy gaze of politicians, even the wider public, ... Politicians, particularly Labour ones, are far too inclined to accept this mystification out of awe or ignorance.”

(Mitchell et al, 1991, p.3)

The ASB's proposals press accounting rationality towards an extreme in the measurement of economic income. Paradoxically, however, in doing so they threaten to undercut vestiges of the legitimating force of financial accounting tradition. We interpret the practitioners' bitter reaction to the ASB proposals as forlorn resistance to the progress of rationalization and politicization, and as reflecting an intuitive awareness of the need for financial accounting, on the edge of crisis, to hang on to the threads of traditional legitimacy, which we suggest are reinforced by the correspondence which is found between the categorisations of the traditional financial accounting model and mental accounting - the traces of a relationship between financial accounting and human concerns.

Secondly, we interpret the ASB's 'Statement of Principles' project and the controversy surrounding it as reflecting a legitimation crisis arising from politicization's stimulation of ever greater and incompatible demands of the system. The early development of financial accounting theory and practice was dominated by the assumption that the purpose of financial statements was the provision to owners of a transactions-based report of management's stewardship (See Beaver, 1981, ch.1). Growing awareness, throughout the 1960's and 1970's, of the economic consequences of financial reporting (Rappaport, 1977; Zeff, 1978), and "the social choice nature of selection among financial reporting systems" (Beaver, 1981, p.17) opened the way for the acknowledgement of the information needs of a range of users in influential authoritative statements concerning the objectives of financial statements (see AICPA, 1973; ASC, 1975a; FASB, 1978).

Growth in expectations increases the risk that accounting will fail to meet aspirations and suffer consequent loss of legitimacy. As we have seen, the promotion of the informational perspective by the ASB's Statement of Principles has provoked significant opposition¹⁵. Much of that opposition is expressed in terms of warnings of the dangers of encouraging "unfulfillable expectations". It is clear that many preparers and auditors of accounts would like to see a deflation of expectations and a retreat to a less exposed stewardship position. They are no doubt in part motivated by the growth of litigation involving accounts and accountants (Economist, 1994, 1995) - (a litigation crisis).

Advanced capitalism has arguably been able to stay a step ahead of legitimation crisis by providing rising living standards and distributing rewards in such a way that growth has been sustained without economic crises. However, development has taken the shape dictated by the private pursuit of capital accumulation rather than the generalised interest of society; The contradiction of class interest is unresolved and "in the final analysis this class structure is the source of the legitimation deficit" (Habermas, 1973, p.73). Habermas' analysis suggests that the legitimation defect will ultimately overtake advanced capitalism through a breakdown of motivation.

Motivation crisis; Habermas argues that the development of advanced capitalism systematically undermines the motivational base upon which it relies - the ideological complexes of civil and familial-vocational privatism - so that eventually its socio-cultural sub-systems will fail to generate "the requisite quantity of action-motivating meaning" (Habermas, 1973, p.45). Civil privatism generates interest in the performance of the

political system whilst engendering little demand for substantive public involvement in the administration. Familial-vocational privatism engenders family oriented interest in consumption, and career-oriented interests in competition, achievement and status. These privatistic motivations of advanced capitalism originate in both bourgeois and in pre-capitalist elements of tradition.

Habermas identifies the ideology of achievement and competition, possessive individualism, and the orientation to exchange-value as among those vital bourgeois elements of the motivating traditions of capitalism which are undermined by the social changes brought about by capitalism's own advance. Financial accounting through its articulation of the profit motive has played a part in providing action-motivating meaning for capitalism. It has promoted and legitimised the pursuit of profit as good for the managers - indicative of their operational success - as good for the firm - congruent with the accumulation of capital, and as good for society - marking the responsiveness of the firm to social demands. The legitimacy and power of accounting profit as a motive is eroded by recognition of its contingency and the inconsistency of its measurement. We interpret the ASB 'Statement of Principles' proposals as in part an effort to restore the action-motivating meaning of accounting performance measurement by reinforcing its congruence with economic income.

Habermas suggests that the pre-capitalist elements of the traditions which motivate capitalism are eroded by progressive rationalization of areas of life once regulated by tradition: "the scientization of professional practice", and the "administrative regulation and legalization of areas of political and social intercourse previously regulated informally" (Habermas, 1973, p.79). Among the effects of this erosion he identifies a dissipation of the disposition to "take-for-true" and a recognition of competing positions that are "undecided as to truth" (Habermas, 1973, p.80). Erosion of the disposition to take-for-true, and in particular to take-accounting-for-true presents an opportunity for the encouragement of substantive public political involvement in accounting policy formation, which would challenge the system by revealing the contradiction of its claim to mass loyalty whilst systematically privileging private capital accumulation. The imperative for those who seek an accounting which is more responsive to human need, must be to provoke ever increasing awareness in the public, and their political representatives, of the political nature of accounting, and to stimulate their involvement in the accounting policy-formation process. Ernst & Young's vociferous mobilisation of the resistance of certain elements of capital to the ASB's proposals may have done more

to provoke awareness of the political contingency of accounting than all the scribblings of critical theorists.

Accounting - the negative dialectic

We have seen that the contradictions immanent to the commodity fetish find expression not only in the economic system, but also in the administrative and socio-cultural systems as tendencies to rationality, legitimacy and motivational crises. In this final section of the chapter we return directly to the commodity fetish to consider its implications for critical accounting.

Capitalism makes a commodity of humanity and personifies commodities as capital. Financial accounting reflects and reproduces this inversion and addresses itself to the information requirements of the personified thing, capital, driven by the imperatives of appropriation and accumulation. Accounting as presently constructed in advanced capitalism is clearly part of the system's ideological infrastructure (see Dillard, 1991). Operating through the commodity fetish it suppresses use-values and helps stifle awareness of the exploitative inequality of exchange in capitalism, it reinforces humanity's alienation, in capitalism, from the form, content, and fruits of its labour, and by supporting an orientation to exchange value it inhibits fuller recognition of the richness of human nature and wants.

Financial accounting may be made less effective as a repressive ideological system if it is challenged and its inadequacies exposed. The time is ripe for such exposure; Habermas identifies the orientation to exchange value as one of the motivating elements of bourgeois ideology that is weakened in advanced capitalism. The socialising power of an orientation to exchange value is undermined by, for example, the growth of those segments of the population which do not reproduce the conditions of their lives through labour, and by the reduced significance of labour which follows reductions in working hours and the development of leisure pursuits which raise the significance and recognition of needs which may not be satisfied monetarily. The poverty of exchange value therefore tends to begin to become spontaneously apparent in late capitalism. Adorno, (1966) argues, however, that ideology can be ultimately penetrated and its spurious equations undone only by "nonidentical thinking", that is, by immanent critique focused on the relations and contradictions between concept and object - through a "negative dialectic". In this chapter we have opened an immanent critique of the commodity fetish in accounting, revealing the concept of wealth to be less than its object:

In concept, wealth is fungible and a matter of relations between things. In object it is non-fungible and a matter of living relationship between person and thing.

An emancipatory accounting must break with the ideology of the fetishised commodity which holds accounting in the grip of its inadequate unitary conceptual system. It must discover new ways to identify and measure the things of value and concern to humanity, it must confront the concept of exchange-value with its inadequacy to encompass the nonidentical, multifarious nature of use-value and human need and desire. Tinker reminds us that accounting academics bear moral responsibility to help prepare accountants (including writers of conceptual frameworks and accounting standard setters) to meet this challenge; the intellectual base of the subject must be broadened and accounting students encouraged to recognise value beyond exchange-value; they must be brought to see the “rich configurations of meaning” associated with concepts of value in other disciplines (Tinker, 1985, p.207).

Advocates of emancipatory accounting must carefully avoid the temptation to slip into alternative modes of identity thinking. Tinker (1985) has called for the development of an “emancipatory accounting” based upon a labour theory of value. Such an accounting would indeed draw a key dimension of capitalist alienation into the light, that is the “exchange among social classes of commodities containing unequal amounts of social labour” (Tinker, 1985, p.171). However, under capitalism, the abstraction of socially necessary labour-value is no more capable than exchange-value of expressing the rich diversity of human concerns and values, needs and wants. Indeed an accounting built upon labour-value would constitute an alternative unitary system of false equivalences; an alternative form of identity thinking equally able to suppress the diversity of human need and use-values. In a fully developed socialist society, labour would be allocated to various branches of production and social activity, on the basis of a democratic prioritisation of human needs; and so, in broad terms, there would be a clear connection between labour inputs and human need and utility. In a capitalist society labour is allocated not by the social recognition of need but by the “law of value” (Marx, 1868, p.524) and effective demand. And the social recognition of labour, as valuable socially necessary labour, is independent of the social usefulness of the given commodity. Labour “only counts” (see Marx. 1867, p.180) as its value is proven by expressed market demand - on commodity exchange:

“The labour theory of value has nothing to do with judgements on the usefulness of things from the point of view of human happiness or social progress. It has even less to do with establishing 'conditions of justice in exchange'. It simply recognises the deeper meaning of the actual act of exchange and of the output of commodities under capitalism, and what governs the distribution of income between social classes which results from these acts, independently of any moral aesthetic or political judgements, Indeed if one were to look for such 'judgements', one would have to say that Marx, while understanding why the law of value has to operate as it does under commodity production, did not at all strive to 'defend' that law, but on the contrary to build a society in which its operations would be totally abolished.”

(Mandel, 1976, p.44)

We believe that environmental accounting holds special promise as a site for the development of emancipatory forms of accounting and that it should be made a central part of the critical accounting project. Environmental accounting throws into relief the inadequacy of exchange-values. In this area, perhaps more than in any other, accounting researchers and pressure groups have worked to find ways of identifying, quantifying and reporting corporate impacts, which push accounting to work beyond exchange-values and to more adequately engage with the human needs and the diversity of use-values.

Almost inevitably, capitalism and those concerned to preserve the natural environment are in conflict (Gorz, 1991). There is an imperative of growth at the heart of capitalism, and incessant growth in consumption can not be sustained without environmental damage and erosion of the eco-system. Indeed the “environment” has in recent times become a dramatic site of resistance to capital, rivalling, in prominence, the equally inevitable conflict between labour and capital. To maximise impact, an emancipatory accounting must put its weight on the points of resistance. It must work for, and with, those groups that find themselves in opposition to capital. The points of resistance should be used as a “catalyst so as to bring to light power relations, locate their position, find out their point of application and the methods used” (Foucault, 1982, p.211).

We acknowledge that environmental accounting in corporate financial reporting can be, and has been, subverted. It has been used to help preserve the legitimacy of the

institutions of capitalism, and financial accounting itself, by lending them a semblance of relevance to human needs, concerns and values (Puxty, 1986; Tinker et al., 1991). However it is possible for accounting to make itself part of a counter hegemony, in resistance to capital (see e.g., Hopper et al, 1986; Arnold & Hammond, 1994). And we believe that alternative accounts focused on capital's conflict with the environment have the potential to reveal, in dramatic ways, both capital's need to fuel growth at the expense of the environment and in utter disregard of human need, and the inadequacy of the concept of exchange-value to grasp the variety of human use-value. Ultimately, in the production of alternative accounts which privilege human need and use-values over exchange-values, accounting may open a negative dialectic of the nonidentical, help bring to light the alienating relations of power in capitalism, and thereby help empower men and women to change the oppressive circumstances of their lives.

The possibility of crisis is immanent in financial accounting's embrace of the commodity fetish. And it may be that in time the system will collapse under pressure of its internal contradictions. However considerable effort is expended in sustaining the system and staving off possible crisis. We interpreted the ASB's 'Statement of Principles' project as a, somewhat misguided, effort to re-position financial accounting's conceptual base on firmer ground designed to sustain control, at least, at the conceptual level. It would be naïve, and morally irresponsible, to behave as if by force of its internal contradictions alone the systems of capitalism might spontaneously collapse. Ultimately, only an active refusal of identity thinking and the application of a vigorous negative dialectic will allow the heterogeneous to invade thought, "release the nonidentical" (Adorno, 1966, p.6), and burst the straight jacket of unitary systems of concepts and thought, such as financial accounting, which presently govern our lives. To serve an emancipatory purpose, accounting must, above all, help men to penetrate the "hieroglyphic" of exchange-value:

"Value, therefore, does not have its description branded on its forehead; it rather transforms every product of labour into a social hieroglyphic. Later on, men try to decipher the hieroglyphic, to get behind the secret of their own social product: for the characteristic which objects of utility have of being values is as much men's social product as is their language."

(Marx, 1867, p.167)

Preamble to chapter 2: Accounting Knowledge

In the previous chapter we argued that financial reporting in advanced capitalism faces crises of rationality and legitimacy and we read ASB 'Statement of Principles' project as part of the profession's efforts to manufacture and impose a measure of ostensive rationality and specious legitimacy for financial accounting. We argued that as capitalism advances, and in order to forestall the full expression of the tendencies to economic crisis immanent to that system, the state, often acting through quasi-independent institutions such as accounting, tends to take an important role in modifying and regulating market operations: Accounting is thus politicized. We found however that accounting has been unable to satisfactorily reconcile the conflicting demands placed upon it under capitalism, and has consequently and conspicuously failed to provide consistent inputs for rational economic management: "Accountancy has become a process of mystification, obfuscation and downright deceit" (Mitchell et. al., 1991, p.9). Accounting faces a rationality crisis – manifest in its failure to deliver "decent and credible information"; without which "the economy can hardly be managed in an effective way" (Mitchell et. al., 1991, p.9).

The legitimacy of an effectively politicized financial accounting, within a modern liberal democracy, must ultimately rely on the credibility of its claim to serve the generalised public interest. The systematic privileging, within capitalism, of the imperatives of private capital accumulation is essentially incompatible with that claim. We found that the tendency to legitimacy crisis that originates in this conflict of private and public interest was managed in various ways, most notably through the denial or occlusion of the political nature of accounting choice. Through the cultivation of the view that accounting practice and policy making are primarily matters of instrumental reason and expertise, the wider public has effectively been excluded from the accounting debate and the demands that could be expected to follow their real involvement suppressed.

We ended chapter 1 by looking beyond the crises that financial accounting presently faces towards the possibility of an emancipatory accounting. Such an accounting must overcome the "mystification, obfuscation and downright deceit" that characterizes financial accounting as dominated by the ideology of the commodity fetish. It must confront the concept of exchange-value with its inadequacy to the multifarious reality of use-value and human need and desire. Above all an emancipatory accounting must be able to provide us with knowledge of the objective world that we share. It is only on the basis of knowledge of

the objective realities of our existence that we can hope to rationally modify social conditions and progress towards a fuller realization of human potential.

In this chapter we will draw on the account given by the philosopher Donald Davidson of the very possibility of knowledge to support the view that in accounting we can have knowledge of an objective reality of objects and events in the world we share. We will, in effect, defend a variety of realism; one that recognizes intersubjectivity as all the foundation we have and need for objectivity. We begin the chapter by considering and rejecting two alternative realist views that have been influential in accounting thought; metaphysical realism and internal realism. We find metaphysical realism unsatisfactory because of its reliance on the ultimately unintelligible notion of truth as correspondence of representation and representation-independent reality. And we reject internal realism because it tends to make truth, in so far as it has any use for the concept, some sort of mere coherence of beliefs. In the Davidsonian world-view we find a habitable middle ground between the unsatisfactory poles of correspondence or coherence.

An important motive for this chapter is our desire to defend the view that we can have accounting knowledge of “an objective, shared and intersubjectively accessible world” against those theorists who would reject such a “mundane” (Hines, 1991, p.317) notion and prefer to imagine that somehow our conceptual schemes constitute the very objects they describe (see Hines 1988). We therefore go on to contrast our Davidsonian view with three dualist conceptions of accounting, each of which encourages us to either abandon or relativize the concepts of truth and reality.

In this chapter we *begin* to develop a case for the emancipatory capacity of financial reporting. We confine ourselves here to discussion of accounting as a descriptive enterprise. We recognise, however, that accounting has a normative dimension. We take up the implications of prescriptive dimension of accounting in subsequent chapters, where we deal with questions of the legitimacy or normative objectivity of financial accounting regulation.

In this chapter we point to the possibility of a way beyond the rationality crisis that accounting faces; we can have accounts of objective reality. Notwithstanding the fact that financial accounting in late capitalism is deeply mired in the ideology of commodity fetishism, accounting is not in principle inevitably ideological; we can have true accounts of the objective world we share. In later chapters we take up the question of how accounting might find a way beyond the legitimacy crisis it presently faces.

Chapter 2: Accounting Knowledge

“If I did not know what others think I would have no thoughts of my own and so would not know what I think. If I did not know what I think, I would lack the ability to gauge the thoughts of others. Gauging the thoughts of others requires that I live in the same world as them, sharing many reactions to its major features, including its values.”

(Davidson, 1991, p.166)

Introduction

The basic aim of this chapter is to justify the view that in accounting we can have knowledge of an objective reality of objects and events in the world. We want to defend accounting against those theorists, of various hues, who would encourage us to either relativize, or give up altogether, the concepts of truth and reality in accounting. We begin the chapter with an examination of the issue of truth in accounting: We consider, and quickly reject as ultimately unintelligible, metaphysical realism and the notion of truth as correspondence of representation and representation-independent reality. We also find unsatisfactory those dualist views, like internal realism, which assume that our conceptual schemes constitute their objects and which tend to make truth, in so far as they find the concept viable, some sort of mere coherence of beliefs. The philosopher Donald Davidson's work offers a way beyond the correspondence or coherence dichotomy. In the central part of the chapter we outline Davidson justification of the possibility of objective knowledge. We then attempt to show the significance of Davidson's analysis for accounting, by explaining how it stands against three dualist conceptions of accounting. The ideas introduced in this chapter are carried into the succeeding chapter where we develop a fuller exploration of the possibility of objectivity in accounting.

Truth in financial reporting; the mirror of reality

External financial reporting is generally recognized as resting upon realist pre-suppositions (Shapiro, 1997, 1998). The philosopher Hilary Putnam argues that two varieties of realism can be distinguished: 'metaphysical realism' and 'internal realism'. Metaphysical realism consist in the conjunction of the relatively unobjectionable ontological thesis that reality

exists independently of our representations of it, and the epistemological thesis¹ that there is one correct scheme for describing reality: “the world consists of some fixed totality of mind-independent objects. There is exactly one true and complete description of 'the way the world is'. Truth involves some sort of correspondence relation between words or thought-signs and external things and sets of things” (Putnam, 1981, p.49).

The notion of truth as correspondence *seems* to have a central place in the conceptions of the possibilities of financial reporting held by accounting regulators. Typically it is expressed in terms of the ideal of faithful representation²: the “correspondence or agreement between a measure or description and the phenomena it purports to represent” (FASB, 1980a, para.63). The dominant metaphor of metaphysical realism, the mind or language as mirror of reality (see Rorty, 1980), is even occasionally pressed into service by accounting theorists:

“Just as a distorting mirror reflects a warped image of the person standing in front of it, or just as an inexpensive loudspeaker fails to reproduce faithfully the sounds that went into the microphone ... so a bad model gives a distorted representation of the system that it models. The question accountants must face continually is how much distortion is acceptable. The cost of a perfect sound reproduction system puts it out of the reach of most people, and perfect reliability of accounting information is equally unattainable.”

(FASB, 1980, para.76)

From the perspective of metaphysical realism the pursuit of objectivity becomes a matter of eliminating the subjective distortions of the mirror in which reality is reflected, so that the objects of our perceptions and thoughts come clearly into view and our statements, theories, and the accounts we give, accord with the independent reality³. Metaphysical realism suggests that we might somehow conceive of the world wholly independently of our representations and theories of the world, and it relies on the unintelligible notion that our representations might fit or correspond to the world as it “really is”, prior to our descriptions of it:

“It suggests that we can, so to speak, get round behind our descriptions and

see how they fit the world, and this makes no sense at all: any conception of the world we can use at all is one that is already expressed in terms that we understand, our terms. The world cannot describe itself for us.”

(Williams, 1991, p.12)

We agree with Putnam that: “to say that truth is 'correspondence to reality' is not false but *empty*, as long as nothing is said about what the 'correspondence' is” (Putnam, 1992b, p.10). And it seems to be quite clear that nothing meaningful can be said about what sort of “thing” it is that can make a sentence true by corresponding with it⁴. Correspondence and the realism associated with it would become interesting: “... if anyone could come up with an intelligible and illuminating way of individuating the entities to which true utterances or beliefs correspond, along with an acceptable semantics for talk about such entities (Davidson, 1999a, p.17). Until then, the notion of correspondence is essentially vacuous and it is rather pointless to describe oneself as a realist. If we stop believing that there is anything for our sentences to correspond to, we must give up the notion that truth can consist in the accurate mirroring of facts. And, we must relinquish the representationalist view of language and accounting: “... if there is nothing for true sentences to correspond to, neither is there anything for them to represent” (Davidson, 1999a, p.17). Metaphysical realism is clearly not the form of realism we seem to share in our daily lives, and despite the rhetoric of correspondence which seems to permeate financial reporting, it cannot actually be the form of realism which underpins external financial reporting.

Truth in financial reporting; Scheme and Content

As an alternative to the untenable delusions of metaphysical realism, Putnam offers the perspective of 'internal realism'. On that view there can be no God's eye view of the world; We can have no way of knowing or usefully imagining what objects the world consists of except from within our descriptive schemes. Indeed, it seems that the world in itself is assumed to be undifferentiated before we cut it into objects by the introduction of a scheme of description: “Objects' do not exist independently of conceptual schemes. We cut up the world into objects when we introduce one or another scheme of description” (Putnam, 1981, p.52). Putnam's internal realism, then, allows the world only limited space to impose itself upon our conceptual schemes. It can provide “no general philosophical understanding of how

our thoughts and words latch on to the world” (Williams, 1991, p.12), and, because both objects and words are regarded as internal to schemes of description, questions of reference become “trivial”: “What does 'rabbit' refer to? Why, to rabbits of course!” (Putnam, 1981, p.52). Most, even very modest, realists will find this vision of a world with no structure in itself, prior to our schemes unacceptable. Realists will, generally, want to hold on to a stronger sense of the world-guidedness of our descriptions, at least in the scientific sphere, than Putnam's internal realism allows. They will argue that the world “... must, *on its own*, make some boundaries more salient than others, ... even if it does not single out a unique way of marking off individuals and sorts” (Farrell, 1996, p.167)⁵. On Putnam's view of things it would seem that “there would be no more, and no less, reason to be puzzled if extraterrestrial physics were quite different from ours than if extraterrestrial fashions or food are” (Williams, 1991, p. 13).

Clearly truth as 'correspondence' can have no substantial role within any version of the internal realism, where the idea of representation-independent reality is empty. However, for Putnam's internal realist, once a particular conceptual scheme is in place, truth can be established in terms of the objects it constitutes. Putnam's internal realism then accommodates a pressure of reality upon our conceptual schemes, but only from within. The impact of the world on the conceptual scheme is conceived of as being constrained by the conceptual scheme itself. On this view, beliefs can be tested against evidence as that evidence appears in terms of the conceptual scheme, and, by submitting beliefs to communal criticism, we may hope to move towards truth defined as *idealized* rational acceptability (Putnam, 1981, p. 55). In defining truth as “idealized rational acceptability”, Putnam certainly does not mean to imply that we should think of truth as the final results that rational inquiry and reality itself somehow presses us towards. He rejects the suggestion, he finds in the early pragmatist writings of James and Pierce, that truth should be identified with “... the 'final opinion', that is, not with what is presently confirmed, but with what is 'fated' to be confirmed, if inquiry is continued long enough, and in a responsible and fallibilistic spirit” (Putnam, 1992b, p.10). And he rejects Bernard Williams' view that, in science, we might reasonably hope for world-guided convergence of knowledge (see Putnam, 1990, p.173). The difficulty for Putnam, then, is to make sense of his notion of truth as “idealized rational acceptability” whilst maintaining an anti-convergence position. Rorty suggests that we must understand Putnam's “idealized rational acceptability” as “rational acceptability to an ideal

community.” And given that we can have no vantage point outside of our community, the ideal community must be *us*, that is, “*us* as we should like to be” (Rorty, 1998, p.52). In this context, Rorty suggest, with approval, truth is “just the reification of an approbative adjective” (Rorty, 1998, p.53). Putnam himself clearly thinks that truth is something more than an honorific adjective - a “mysterious something more” (Rorty, 1998, p.61) - but what more? - is not made intelligible. Rorty too, in fact, knows that there is more to truth than commendation: There is a tension in Rorty's own views on truth. On the one hand he seems to want to “reduce truth to justification” (Rorty, 1995, p.282); In describing an utterance as true we commend it as justified, and “once you understand all about justification ... you understand all there *is* to understand about ... truth” (1995, p.282). On the other hand he knows that there is “something more” to truth than this approbative or commending use, he identifies what he calls its cautionary use, that is “its use in such expressions as 'fully justified, but perhaps not true'“ (1995, p.283). The force of this cautionary usage is to emphasize the relativity of justification - it is always justification to an audience, justification to *us*. Rorty recognizes that truth is not relative in this way; “we can never exclude the possibility that some better audience might exist, or come to exist, to which a belief that is justifiable to us would not be justifiable” (1995, p.283). The point of the cautionary use of truth is to remind us that our justified beliefs may not be true. Ultimately Rorty “knows truth isn't identical with justification” (Davidson. 1999a, p.18): Truth is not relative in the way that justification is. Davidson rejects Putnam's internal realism because it “makes truth relative to a scheme”, and that is an idea he does “not think intelligible” (Davidson, 1983, p.309).

The underlying problem, as Davidson sees it, with Putnam's internal realism is the “unintelligibility of the dualism of a conceptual scheme and a 'world' waiting to be coped with” to which it is committed⁶. Following sustained critique of the “straw man” of metaphysical realism, the contemporary critical accounting theory literature is overflowing with dualist, scheme and content, formulations of the role of financial reporting. In the following section of this chapter we will use Donald Davidson's persuasive critique of dualism, as a basis for resistance to such views. However, before we turn to a close examination of Davidson's views, we pause to briefly illustrate kind of dualist accounting theory we want to oppose.

Among the more influential strands of dualist thinking in the accounting literature are those papers which bluntly advance the view that “in communicating reality, we construct

reality” (Hines, 1988). In perhaps the best known paper in this genre, Hines suggests that scientists, and accountants, have “not so much grasped reality, as created it, by thinking of it in a certain way, and treating it in that way!” (Hines, 1988, p. 254)⁷. She thinks that there is an abundance of “evidence” against the “mundane” “assumption of an objective, shared and intersubjectively accessible world” (Hines, 1991, p.317). Prior to our conceptual schemes, there is “Just a jumble” (Hines, 1988, p.255); Our various and arbitrary conceptual schemes somehow impose a structure on our reality, they constitute the very objects they describe. In Hines' view of things, our freedom to modify our conceptual schemes “our picture of reality”, and therefore our reality itself, seems to be quite unconstrained by any objective reality⁸:

“Remember, we are creating reality. ... As ordinary people, we arbitrarily combine, and define, and add, and subtract things from our picture of reality. As professional people, we arbitrarily combine, and define, and add, and subtract things, in a different way: that is what differentiates us.”

(Hines, 1988, p. 254)

The main check Hines identifies on the development of our conceptual schemes, is the state of our existing conceptual commitments: The main constraint on a conceptual domain, such as accounting, is that it cohere with the dominant social conceptions of reality: “... if people have a certain conception of reality, then naturally, we must reflect that. Otherwise people would lose faith in us” (Hines, 1988, p. 255). Hines' views, then, clearly reflect Putnam's internal realism, and in particular his notion that “we cut up the world into objects when we introduce one or another scheme of description” (Putnam, 1981, p.52). She also conceives of truth in a way that makes it essentially relative to a scheme⁹.

On Hines's view the conceptual systems maintained by institutions like accounting, play an significant part in creating and sustaining our reality - where otherwise there would be chaos: “Everything would be a mess without us. Just a jumble. No-one would know where they were” (Hines, 1988, p.255); She sees these institutions as owing much of their power to the fact that people are reluctant to accept “that their world is so ... tenuous” (Hines, 1988, p.255). We will argue in the following section of this chapter that, contrary to Hines' view, Davidson has convincingly shown that we can have good reason for thinking that we are

securely in touch with an objective world¹⁰, and that our world, and the relations between our beliefs and that world are far from being “tenuous”.

Truth and Knowledge in Accounting; Beyond Scheme and Content

Davidson rejects Putnam's internal realism as unintelligibly relativist. However, metaphysical realism is equally unacceptable to Davidson, for it allows the possibility that our whole system of beliefs may be out of touch with reality; “all our best researched and established thoughts and theories may be false” (Davidson, 1983, p.309). On this view, the truth of a sentence depends upon its correspondence with something in the world, yet it seems that our assessment of correspondence can only consist in the acquisition of further beliefs - and how are we to know that those beliefs themselves are true? - but by the acquisition of yet further beliefs. We may try to overcome skepticism by identifying bases for belief which transcend belief itself. Sensations, for example, may be thought to provide conclusive justification for certain beliefs. Davidson strongly opposes any such foundationalism. He argues that while sensations may cause belief, they can never be 'reasons' for belief:

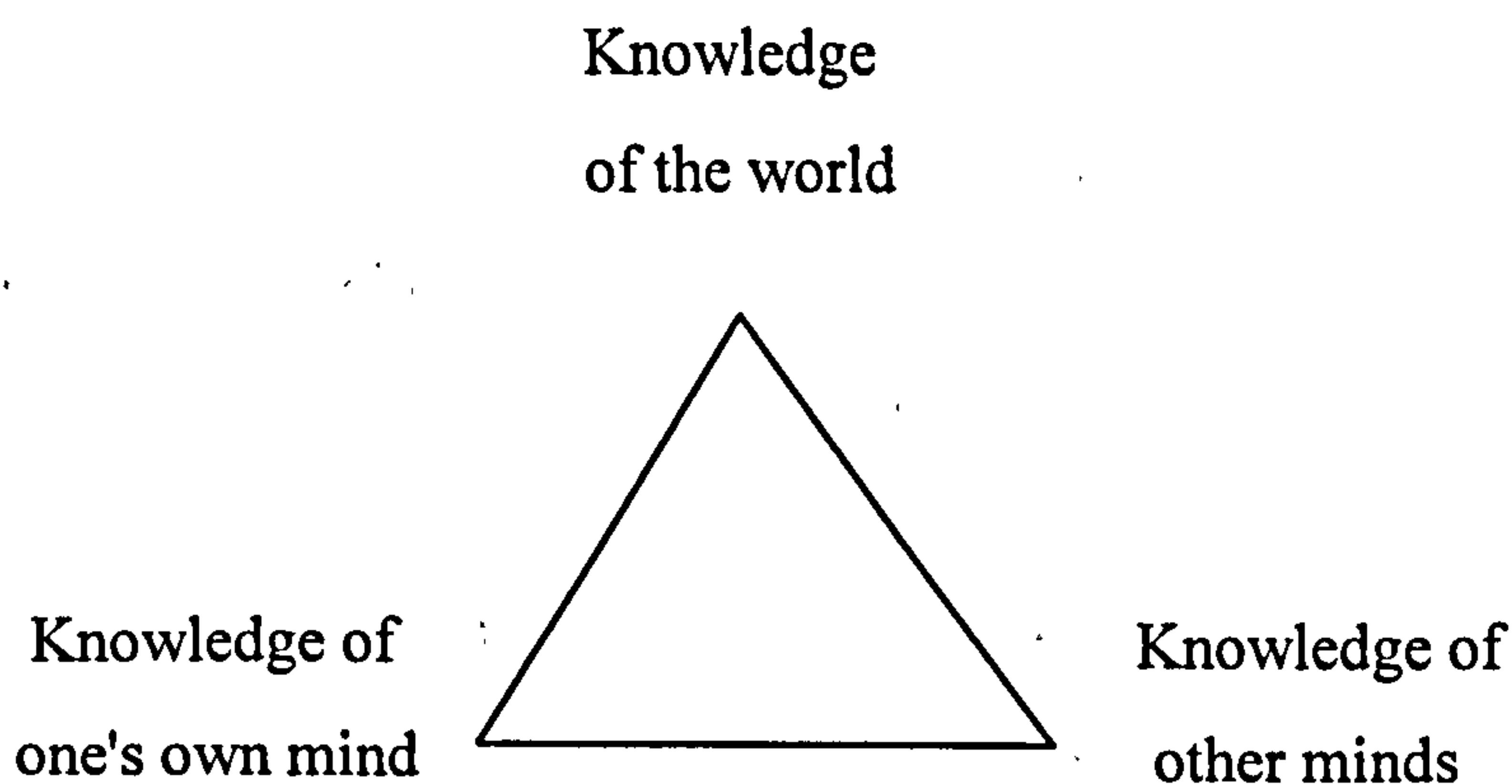
“The relation between a sensation and a belief cannot be logical, since sensations are not beliefs or other propositional attitudes. What then is the relation? The answer is, I think, obvious: the relation is causal. Sensations cause some beliefs and in *this* sense are the basis or ground of those beliefs. But a causal explanation of a belief does not show how or why the belief is justified.”

(Davidson, 1983, p.310)

Alternatively, we may hope to avoid the problem of skepticism by redefining our concept truth. The coherence theory of truth starts out by rejecting, as unintelligible, the search for any foundation for our beliefs in grounds beyond our beliefs: “What distinguishes a coherence theory is simply the claim that nothing can count as a reason for holding a belief except another belief” (Davidson, 1983, p.310). On this view a belief is true, not if it corresponds to something in the world, but if it coheres with other beliefs. Truth becomes purely a matter of the internal relations within networks of beliefs or sentences. The loss of truth's connection with the world raises an obvious difficulty: It is clearly possible to

construct competing sets of sentences, each of which is internally coherent, yet inconsistent with the other sets. If truth is taken to consist merely in coherency we would then, apparently, find ourselves in the position of accepting inconsistent sets of statements as 'true'. Whilst Davidson firmly rejects the correspondence theory of truth, “it would appear to require a confrontation between what we believe and reality; and the idea of such a confrontation is absurd” (Davidson, 1983, p.307), he is not prepared to see truth as mere coherence¹¹. He is unwilling to accept the loss of truth's connection with the world. He argues that despite the fact that we cannot “get outside our beliefs and our language so as to find some test other than coherence”, we nevertheless can “insist that knowledge is of an objective world independent of our thought or language” (Davidson, 1983, p.307). He wants to persuade us that someone with more or less coherent beliefs has good reason for thinking that most of those beliefs are true and in touch with objective reality. In the following paragraphs we explain how Davidson justifies this view.

Davidson gives an account of how it is possible for us to have three irreducibly different, but deeply interrelated, varieties of knowledge; (i) knowledge of the world, (ii) knowledge of other minds, and (iii) knowledge of one's own mind. The three types of knowledge are essentially interdependent: “The three sorts of knowledge form a tripod: if any leg were lost, no part would stand” (Davidson, 1991, p.166). For Davidson the basis of our propositional knowledge is interpersonal communication: The communicative link between knowledge of other minds and knowledge of one's own mind, forms the “base line” (Davidson, 1991, p.160) of the triangular relationship between the three types of knowledge. Davidson shows how this base line of communication can be established and how it both yields and depends on the three varieties of knowledge:



Knowledge and hence communication, the connection between knowledge of one's own mind and knowledge of other minds, clearly pre-supposes belief. Davidson argues that to hold beliefs requires that one have a concept of truth and therefore the capacity to appreciate the contrast between true and false. He follows Wittgenstein in arguing that only source of the concept of truth is communication itself¹²:

“Someone who has a belief about the world - or anything else - must grasp the concept of objective truth, of what is the case independently of what he or she thinks. ... The source of the concept of objective truth is interpersonal communication. Thought depends on communication. This follows if we suppose that language is essential to thought, and we agree with Wittgenstein that there can not be a private language.”

(Davidson, 1991, pp.156-157)

Communication requires shared understanding, one person must obtain an understanding of the meaning of the behaviour (usually the linguistic utterances) of an other; Communication in effect entails interpretation, The object of interpretation is the assignment of propositional content to a speaker's utterances. Davidson sees interpretation as proceeding through the interpreter's matching of sentences of her own to those of a speaker; In so far as the interpreter “gets things right” (Davidson, 1991, p.157), her own sentences will yield the truth conditions of the speaker's sentences, and give a basis for interpretation. Davidson wants to show how such a theory of truth for a speaker's utterances, that is “an empirical theory about the truth conditions of every sentence in some corpus of sentences” (1990a, p.309), can be constructed and verified and serve as a theory of meaning.

The evidential foundation for the theory must not “beg the question” by assuming knowledge of meanings at the outset, it must be plausibly accessible to the radical interpreter, that is someone with no prior knowledge of the language and no capacity to directly observe the *detailed* content of the speakers propositional attitudes; desires, beliefs, intentions¹³. Davidson argues that it is possible for an interpreter to directly observe that a speaker holds a sentence to be true, in particular circumstances, without knowing the meaning of the sentence. Therefore the speaker's prompted assent or dissent can be taken, without circularity, as basic evidence in the development of interpretive theory: “This is a fair place to start

identifying beliefs and meanings, since a speaker's assent to a sentence depends both on what he means by the sentence and on what he believes about the world. Yet it is possible to know that a speaker assents to a sentence without knowing either what the sentence, as spoken by him, means, or what belief is expressed by it" (Davidson, 1983, p.314-315).

The fact that the notion of truth is central to all of our interpretive schemes does not lead Davidson to think we need a definition of truth¹⁴. He does, however, identify one "intuitive truth about truth "the simple notion that the truth of any sentence depends upon its meaning and the world. He finds this intuition reflected in Tarski's test (Tarski, 1944) of the material adequacy of theories of truth, Convention T¹⁵:

"What Convention T, and the trite sentences it declares true, like "Grass is green" spoken by an English speaker is true if and only if grass is green', reveal is that the truth of an utterance depends on just two things: what the words as spoken mean, and how the world is arranged."

(Davidson, 1983, pp.308-309)

Davidson suggests that an adequate theory of truth for the purpose of radical interpretation can be developed in terms of a modified version of convention T: An adequate theory will entail for every sentence *s* of a language a testable T-sentence, expressed in the language of the interpreter, of the form - "*s* is true if and only if *p*," where '*s*' is the name of an object language sentence and '*p*' is any sentence that is true if and only if '*s*' is¹⁶.

The interdependence of belief and meaning is a potentially fatal impediment to the construction of a theory of truth and meaning: "If all we have to go on is the fact of honest utterance, we cannot infer the belief without the meaning and we have no chance of inferring the meaning without the belief" (Davidson, 1974b, p.142). Davidson thinks that the only way an interpreter can break into the circle of belief and meaning is by the adoption, "across the board", of a principle of charity. The principle of charity itself has two key components a principle of correspondence and a principle of coherence. The principle of correspondence directs the interpreter to proceed on the basis that the speaker's utterances express beliefs with which she is largely in agreement. It "prompts the interpreter to take the speaker to be responding to the same features of the world that (s)he (the interpreter) would be responding to under similar circumstances" (Davidson, 1991, p.158). The empirical constraint thus

imposed on the attribution of belief makes the derivation of meanings possible. The approach deals with the problem of the interdependence of belief and meaning by “holding belief constant as far as possible while solving for meaning” (Davidson, 1973a, p.137). This is done by assigning truth conditions to the speaker's sentences that make her right, according to the interpreter's view of the circumstances, whenever plausibly possible¹⁷.

The principle of coherence directs the interpreter to assume that the speaker shares her standards of rationality; it prompts the interpreter to find “a degree of logical consistency in the thought of the speaker” (Davidson, 1991, p.158). An interpreter cannot build an interpretive theory of truth and meaning by taking each sentence of an object language in isolation and deciding upon an appropriate T-sentences for it. Rather she must build a pattern that fits the evidence and respects the interlocking relations of rational entailment between sentences¹⁸. Davidson thinks that the meaning of words and sentences can be drawn only indirectly from the whole structure of interrelated T-sentences entailed by the truth theory for the speaker's language. For Davidson a theory of truth and meaning for a language is an account of how the speakers' utterances hold together in a coherent pattern that, as a whole, fits and makes sense of the interaction of the speakers and their environment as understood by the interpreter¹⁹. Davidson's approach to meaning is thoroughly holistic²⁰.

Davidson's approach to interpretation does not make the ridiculous demand that the speaker is always right about the world, always rational and consistent. However it allows no room for the possibility that the interpreter might discover that the speaker is largely wrong about the world. If the interpreter cannot find a way to read into a creature's utterances a pattern of beliefs which, by the interpreter's own standards, is largely consistent and true she has “no reason to count that creature as rational, as having beliefs, or as saying anything” (Davidson, 1973a, p.136-137). The principle of charity requires that the interpreter maximize the truth, by her own standards, of the speakers' utterances, that is, she must interpret so as to maximize the consistency and coherence of her own beliefs with those of the speakers.

It seems to be clear that interpretation necessarily²¹ entails the application of interpersonal standards of coherence and correspondence to the beliefs and utterances of speaker and interpreter. But why should an interpersonal standard be objective, what is there to prevent interpreter and speaker being in agreement yet thoroughly mistaken in their beliefs? If nothing, then we should agree with Rorty that when Davidson argues that most of anybody's beliefs must be true, what he means boils down to just that “most of anybody's

beliefs must coincide with most of *our* beliefs” (Rorty, 1995, p.286). Truth then would just be truth *according to the interpreter*. An other, very much related, question also occurs at this stage; why should we accept that it is only through communication that an objective standard of truth can be established? Why not think that the world itself provides an objective standard that makes our sentences true or false? To clarify Davidson's view on these questions, we must go back and say a little more about the triangular relations between knowledge of the world, knowledge of other minds and knowledge of one's own mind.

Davidson does indeed think that the ultimate source of “objectivity is intersubjectivity”: Without communication we have no basis for the concept of truth, no foundation for the idea that our thoughts, or the things we say, might be right or wrong. And without a concept of objective truth we can have no thought or communication. Davidson stresses that the notion of objective truth can arise and have application only in the context of the relations between communicating parties responding jointly to each other and stimuli from a shared world. His reasoning is as follows: All creatures tend to classify objects and events in the world in terms of patterns of similarity and difference in the stimuli those objects and events generate. The basis for claiming that this is happening is the similarity/regularity of the creature's response to the stimuli. But on what grounds can it be said that the creature's responses to the stimuli are similar? The only answer we can have to this question is that another creature finds similarity in both the stimuli and in the response of the first. Only when the observer or interpreter completes the triangle, by correlating the first party's responses, with the objects and events in the world, as the observer sees it, are there grounds for thinking that the parties are responding to an objective reality of objects and events in the world rather than some proximal stimuli or imaginings. It is through this process of triangulation, this sharing of stimuli, that thought is given content: “It takes two points of view to give a location to the cause of a thought, and thus to define its content” (Davidson, 1991, p.159)²².

It now becomes clear why it is that Davidson, contra Rorty²³, thinks that while a speaker and interpreter may often understand one another on the basis of erroneous beliefs, such cases “cannot be the rule” (Davidson, 1983, p.317)²⁴; The interpersonal standard is an objective standard. He thinks most of our beliefs must be true because of the causal linkage of the most fundamental of those beliefs with the world:

“... what ultimately ties language to the world is that the conditions that typically cause us to hold sentences true *constitute* the truth conditions, and hence the meanings, of our sentences.”

(Davidson, 1996, p.275)

While the truth of an utterance may depend “on just two things: what the words as spoken mean, and how the world is arranged”, it is the conditions in the world which typically cause sentences to be held true which give content to utterances. The interpreter must attribute beliefs and interpret sentences held true in terms of the events and objects in the world that cause the sentences to be held true; Radical interpretation does not allow the possibility that belief can somehow be out of phase with the environment which determines its content. It has no room for the notion of an epistemological gap between the content of thought and language and the world upon which the skeptic relies²⁵:

“What stands in the way of global skepticism of the senses is, in my view, the fact that we must, in the plainest and methodologically most basic cases, take the objects of belief to be the causes of that belief. And what we, as interpreters, must take them to be is what they in fact are. Communication begins where causes converge²⁶: your utterance means what mine does if belief in its truth is systematically caused by the same events and objects.”

(Davidson, 1983, p.317-318)

Davidson urges us to learn to conceive of our relation to the world in causal rather than representationalist terms. He takes us to be firmly 'in touch' with reality, not in the sense that our beliefs can be more or less adequate representations of reality, but rather in the sense that our beliefs are causally related to our environment, ultimately via our senses. Davidson's is a purely extensional theory of meaning; content is an effect of radical interpretation: “The semantic features of language are public features. What no one can, in the nature of the case, figure out from the totality of the relevant evidence cannot be part of meaning” (Davidson, 1979, p.235). There can be no sense in the notion that even an adequate interpretation of a speaker's utterances might somehow miss the mark by failing to grasp the speaker's intention - “what she 'really meant’”. As a matter of principle, meaning and belief are open to public

determination and scientific investigation²⁷: “What a fully informed interpreter could learn about what a speaker means is all there is to learn; the same goes for what the speaker believes” (Davidson, 1983, p.315).

Davidson's analysis shows that the possibility of knowledge requires that many of our plainest beliefs are true, and publicly accessible. Radical interpretation obviously does not guarantee all of our beliefs are true. Some of our beliefs are no doubt caused by misleading sensations, and many of our sophisticated beliefs are given content only by their relation to further beliefs and therefore bear only indirect and perhaps *tenuous* relation to the causal stimuli provided by the world²⁸: Any individual belief or set of beliefs may be false. What radical interpretation does not allow is that our basic framework of belief can somehow be out of phase with the world. And, it insists that it is only in the context of this framework/fabric of basic true belief that more sophisticated beliefs can have content and a theory of error be developed.

We have stressed in the in the last few paragraphs that the world does indeed constrain our knowledge. Yet, we must not lose sight of the fact that our knowledge of the world is always based upon our knowledge of other minds²⁹; Knowledge is grounded in intersubjectivity:

“A community of minds is the basis of knowledge; it provides the measure of all things. It makes no sense to question the adequacy of this measure, or to seek a more ultimate standard,”

(Davidson, 1991, p.164)

One way of thinking of Davidson's analysis of the basic methodology of interpretation is to see it as part of a fundamental critique of scheme and content dualism. And one way to understand his suggestion that we should learn to conceive of the relation of language and the world in purely causal terms, is to see it as a call for us “to stop thinking that there is something called 'language' which is a 'scheme' which can organize, or fit, or stand in some other non-causal relation to, a 'content' called 'the world'“ (Rorty, 1991, pp.59-60). According to the dualist vision at the core of the empiricist tradition, we have on the one hand 'content'; the given of sensory experience, and on the other the 'scheme', a mechanism of mind or language, that provides some system of categories which gives form to sensation and

organizes experience to produce meaning, belief, and other mental states. As we have seen Davidson's analysis of radical interpretation allows no epistemological intermediary between language and the world: Experience, how things seem to the subject, is allowed a causal, but absolutely no evidential role. The world's determination of the meaning of sentences is direct: Mental states, the contents of belief and the meaning of sentences, are fixed directly through radical interpretation, by the things and events in the world which cause / prompt assent and dissent to sentences. The causation is distal rather than proximal; the senses do not act as epistemological intermediaries. When experience is denied an evidential role in the theory of meaning there can be no place for its counterpart - a scheme which somehow fits³⁰ or organizes experience.

Scheme and content dualism seems to make the thoughts we are capable of thinking depend upon the scheme we apply, and certain thoughts generated on the basis of one scheme may, then, be quite inaccessible to persons employing a different scheme. It tempts us to see reality and truth as scheme relative:

“Conceptual schemes, we are told are ways of organizing experience; they are systems of categories that give form to the data of sensation; they are points of view from which individuals, cultures, or periods survey the passing scene. There may be no translating from one scheme to another, in which case the beliefs, desires, hopes, and bits of knowledge that characterize one person have no true counterpart for the subscriber to another scheme. Reality itself is relative to a scheme: what counts as real in one system may not in another.”

(Davidson, 1974a, p.183)

For Kant the mind, the 'transcendental unity of the self consciousness' (1781, B 131), is the crucial intermediary between experience and knowledge. He argues that knowledge is produced through the active synthesis of phenomenal experience by the transcendental structures of the mind. The minds 'intuitions' of time and space allow the spacio-temporal ordering of phenomena in experience and the mind's categories of understanding such as 'substance' and 'causality' allow us to experience, refer to and describe objects and their relations, and in that sense know things. The Kantian model “was soon replaced by a more reasonable candidate, *society*. Instead of a mythical Mind giving shape to reality, carving it,

cutting it, ordering it, it was now prejudices, categories, and paradigms of a group of people living together” (Latour, 1999, p.6). It became common to conceive of the intermediation of world and meaning, not in terms of universal conceptual categories of mind, but rather in terms of terms of the plurality of language: We might then perhaps say that two groups of people have different conceptual schemes if they speak languages which it is impossible to translate satisfactorily one into the other. Davidson cites the 'Sapir-Whorf hypothesis' as a leading example of this claim³¹:

“... language produces an organization of experience. We are inclined to think of language simply as a technique of expression, and not realize that language first of all is a classification and arrangement of the stream of sensory experience which results in a certain world-order. ... In other words, language does in a cruder but also in a broader and more versatile way the same thing that science does. ... We are thus introduced to a new principle of relativity, which holds that all observers are not led by the same physical evidence to the same picture of the universe, unless their linguistic backgrounds are similar, or can in some way be calibrated.”

(Whorf, 1956, p. 55)

Davidson finds all the necessary elements of scheme content relativism in the Sapir-Whorf formulation: (i) Language as the organizing scheme. (ii) The content to be organized, “the physical evidence” or “the stream of sensory experience”, supplied by nature. And (iii) the failure of translation, or “calibration” as a condition for different conceptual schemes. Davidson's approach is to question the sense that can be made of the notion of failure of translation. Given the methodology of radical interpretation which we must employ, nothing, he argues “could count as evidence that some form of activity could not be interpreted in our language that was not at the same time evidence that that form of activity was not speech behaviour” (Davidson, 1974a, p.185). The method of radical interpretation demands that starting out the interpreter must assume a great deal about a speaker's beliefs. She must begin by applying the principle of charity: “We get a first approximation to a finished theory by assigning to sentences of a speaker conditions of truth that actually obtain (in our opinion) just when the speaker holds those sentences true” (Davidson, 1974a, p.196). The

methodology requires the interpreter to go directly to the conditions, objects and events, in the world in order to determine the content of the speaker's utterances. And if an interpreter can't make a coherent pattern of the activity she is faced with - in context of the evidence - she has no basis for thinking that activity is speech. Content is an effect of radical interpretation, if some activity is uninterpretable we can have no basis for thinking it meaningful - meaning is extensional not intensional. No sense can be made of complete failure of translation.

Davidson thinks that no more sense can be made of the notion of conceptual relativism, and hence the notion of a conceptual scheme, in terms of partial failure of translation. We make most sense of a speaker's utterances when we optimize agreement. The method of radical interpretation can not eradicate all error and disagreement: "its purpose is to make meaningful disagreement possible, and this depends entirely on a foundation - *some* foundation in agreement" (Davidson, 1974a, p.196). We improve the clarity of our disagreements by enlarging the basis of our agreement, and if the level of agreement is low, the process of interpretation will be undermined. Whether we consider the possibility of total or partial failure, the key issue for Davidson is that given the necessary methodology of radical interpretation, we as interpreters, "could not be in a position to judge that others had concepts or beliefs radically different from our own" (Davidson 1974a, p.197).

In relinquishing the scheme and content formulation, we give up the idea of an uninterpreted reality, the notion of something neutral and common lying outside our schemes, which our conceptual schemes might fit, organize, or correspond to. As we have previously emphasized, this does not mean that Davidson is asking us to accept, as Rorty would urge, that the world is "well lost". On the contrary it enables him to insist that we have good reason to think that we can have objective knowledge of a public world which is not of our making:

"In giving up dependence on the concept of an uninterpreted reality, something outside all schemes and science, we do not relinquish the notion of objective truth - quite the contrary. Given the dogma of dualism of scheme and reality, we get conceptual relativity and truth relative to a scheme. Without the dogma, this kind of relativity goes by the board. Of course truth of sentences remains relative to language, but that is as objective as can be.

In giving up the dualism of scheme and world, we do not give up the world, but re-establish unmediated touch with the familiar objects whose antics make our sentences and opinions true or false.

(Davidson, 1974a, p.198)

Davidson's critique of scheme content dualism poses a significant challenge to important trends in accounting thought, which seem to encourage us to understand 'the real' as a construct of signifying practices and structures. In our view dualist thinking has come to dominate the critical accounting literature. There are a number of obvious variants on the dualist theme in accounting thought. We deal only with three: Most obvious, and discussed above (exemplified by Hines, 1988), is writing in the phenomenological tradition which takes a social constructionist view of accounting; Other equally influential, and essentially dualist, perspectives on accounting have drawn on both the structuralist and hermeneutic traditions. We will now briefly discuss examples of such literature; We will not pretend to address the complexities of the arguments advanced in the papers which we use as illustrative examples, and we will not systematically reiterate Davidson's challenge to dualism which we hope we have adequately outlined above.

The thesis of linguistic relativity advanced by Sapir and Whorf has its origins in the structuralist theory of language developed by Saussure. Whilst the Sapir-Whorf hypothesis has had relatively little direct impact on accounting thought (Belkaoui 1978, being an exception), the 'linguistic turn'³² taken by much of twentieth century thought, following Saussure, has had a profound effects on the conception accounting advanced in the critical accounting literature. Saussure reacts against an atomistic theory of language in which words are thought to have meaning by virtue of their direct relation to objects. In place of atomism he offers a holistic theory of language in which words have meaning by virtue of their relation to other words, that is, by virtue of their relations to the whole system of language. He conceives of language as a system of differences "*without positive terms*" (Saussure, 1931, p.120). Saussure turned away from questions of reference, relations between words and objects and events, and instead focused on language as a system of signs. He regarded each sign as composed of two arbitrarily related parts a signifier (word) and signified (concept), and he thought of language as a closed structure capable of producing stable meanings. Derrida radicalizes the Saussurian project by insisting that meaning is produced in open and

endless play of signifiers - there are no stable meanings. In both structuralist and Derridean / poststructuralist forms, the Saussurian tradition presents a linguistic variation on classic scheme and content dualism, there is no denial of the existence of extra-discursive objects and events, however, our access to that reality is seen as always mediated by language³³. It is fundamental to structuralist and poststructuralist thinking that language is essentially conventional - a system of culturally sustained arbitrary relations. Questions of truth and reference can be intelligible then, if at all, only in relation to particular systems of signification or conceptual schemes.

This Saussurian dualist view of the relation between language and reality is taken up in the accounting literature by Tinker (1991) who draws explicitly on Saussure as authority:

“There is an authoritative semiotic case for recognising the quasi-independent (discretionary) status of accounting “signs”: Saussure's principle of the “the arbitrariness of signs” ... Saussure's principle highlights the independence (autonomy) of signification from economic reality;”

(Tinker, 1991, pp.302-303)

Tinker also seems to accept the dualist analyses of the history of science which suggest the incommensurability of different scientific paradigms (see e.g., Kuhn 1962; Davidson 1974a), from which he draws the implication we must accept the scheme relativity of truth / epistemological criteria:

“This socially relative character of epistemological criteria is evident in the turmoil of scientific revolutions at times of social upheaval and crises.”

(Tinker, 1991, p.304)

Certain other theorists in accounting and finance (see e.g., McGoun, 1997; Macintosh et. al., 2000) seem prepared to go further still. They appear to be ready to follow Baudrillard's radical working through of the structuralist problematic to its bitter extreme, and seem to toy with his diagnosis of the collapse of any distinctions between true and false, real and imaginary:

“We conclude that much of today's accounting information circulates in a Baudrillardian “hyperreality” where time and space implode and accounting signs no longer reflect the material, economic realm but rather precede it or bear no relationship to it.”

(Macintosh et. al., 2000, p.14)

The Saussurian tradition and Davidson's thinking are equally and unreservedly anti-atomistic, they share commitment to thoroughly holistic theories of meaning. Indeed we might classify Davidson as a structuralist, he provides a structural explanation of meaning, in terms of the truth conditions of sentences, which accounts for the infinite capacity of words to be combined in meaningful utterances. The Saussurian tradition goes wrong when it brackets off reality and conceives of meaning as simply a product of signifying structure, a matter of convention. Truth and reference are then relativized to particular languages or conceptual schemes, so that, for (post) structuralist theorists like Foucault, they become merely local effects of power³⁴:

“Each society has its regime of truth, its “general politics” of truth: that is, the types of discourse which it accepts and makes function as true; ...”Truth” is linked in a circular relation with systems of power which produce and sustain it, and to effects of power which it induces and which extend it.”

(Foucault, Power/Knowledge, 1980, pp131-133)

The Saussurian tradition fails to recognize the concept of truth as a logical primitive, and as the pre-requisite for any interpretation or communication, which Davidson's work reveals it to be.

The other great reorientation of twentieth century philosophy, the shift of emphasis from “epistemology to hermeneutics” (see Rorty, 1980, Ch.vii), originating in Heidegger's hermeneutic analysis of ontological issues (1927), has also had considerable impact on critical accounting thought. The implications of this “interpretive turn” for the social sciences are developed in the work of hermeuticians such as Gadamer's (1960) and Ricoeur (1974). We will consider the influence of this interpretive turn on critical accounting thought primarily through reference to an influential paper, by Lavoie (1989), that introduces

Gadamer's hermeneutics to an accounting audience.

Gadamerian hermeneutics presents a variation on the theme of scheme and content dualism, in which the organizing scheme is conceived of as a historically developing framework of prejudices - a tradition. On this view, all interpretations are historically and linguistically mediated, and all our understandings of the world grounded in our pre-understandings, the enabling prejudices which set the horizons or limits to our thought³⁵. The world has meaning, only through the pre-structured framework of our tradition, the conceptual scheme that constitutes our openness to the world:

“Prejudices are not necessarily unjustified and erroneous, so that they inevitably distort the truth. In fact the historicity of our existence entails that prejudices, in the literal sense of the word, constitute the initial directedness of our whole ability to experience. Prejudices are biases of our openness to the world. They are simply conditions whereby we experience something - whereby what we encounter says something to us.”

(Gadamer, 1967, p.9)

For Gadamer, a tradition³⁶ is not a possession, something controlled or used by human being in order to deal with the world, rather it is something to which they are subject. Our tradition is not something we can bring into full view it is the very ground of our being, it is the prerequisites of any³⁷ understanding:

“In fact history does not belong to us; we belong to it. Long before we understand ourselves through the process of self-examination, we understand ourselves in a self-evident way in the family, society, and state in which we live. The focus of subjectivity is a distorting mirror. The self-awareness of the individual is only a flickering in the closed circuits of historical life. That is why the prejudices of the individual, far more than his judgments, constitute the historical reality of his being.”

(Gadamer, 1960/1989, p.276-277)

On the Gadamerian view of things we are always already part of an ongoing tradition,

making almost automatic sense of the world; Knowledge is never objective, it is always pre-structured by prejudice, and questions of truth or falsity are always internal to a tradition³⁸.

Lavoie, (1989), advocates an hermeneutic view of the problem of accounting theory choice. He suggests that theories are “like spectacles through which we see the world”; they are not hypothesis to be tested against the facts, rather they are the way we see the facts (Lavoie. 1989, p.590). He then goes on to suggest that we can solve the problem of theory choice only: “by trying to look at the world through alternative pairs of spectacles until one is convinced, for now, that one is seeing clearly” (Lavoie, p.590). This view of things is clearly dualist; our ways of seeing, our theories, provide the scheme which somehow fits, or bring the world into focus.

Some schemes or theories, it seems, will fit reality more satisfyingly than others will. Lavoie argues that while “the history of science teaches that all efforts to set down objective criteria for theory-choice fail” (Lavoie, 1989, p.583), we can in a hermeneutic spirit discriminate between competing theories if we “just talk to each other about alternative interpretations and see which one appears more persuasive” (Lavoie, p.583). The 'more persuasive' theories will be those which are able to win the support of open-minded and critical members of the community; they will be the product of good conversation and will be supported by good reasons³⁹:

We can point to no objective technique, which would tell us how we can select better accounting theories from the multitude of candidates. Instead the problem has to be solved, as it is in science, anonymously and continuously, by the critical process of controversy that can occur among persons who commit themselves to the pursuit of knowledge.

(Lavoie, 1989, p.590)

The meaning of 'good' in such contexts “is itself the product of conversations” (Lavoie, 1989, p.586), and therefore shaped by tradition itself. Compelling theories, it seems, will turn out to be those which are most consistent with our pre-understandings: “those which most comfortably fit into individual scientist's *presuppositions*, themselves the product of a long evolution of scientific dialogue” (Lavoie, 1989, p.585).

Davidson's analysis of the methodology of radical interpretation is itself an important

contribution to hermeneutic / interpretive thought. However, from a Davidsonian perspective, the dominant (Gadamerian) line of the hermeneutic tradition, goes seriously wrong in the priority it accords to tradition as the mediator of understanding. For Lavoie, acceptance of the authority of tradition is the necessary foundation for communication and mutual understanding of the world:

“Thus “enabling prejudices,” elements of shared understandings which are “passed down” to us as traditions, are what make the mutual communication among scientists possible. We only understand our world because we understand one another. We only understand each other, in turn, because we all spent some substantial part of our lives being enculturated into the life world ...”

(Lavoie, 1989, p.585)

On a Davidsonian view, however, our understanding of one another's utterances and actions depends upon our common relation to an objective world; we understand one another because we share a world, and not primarily because we have been subject to similar traditions or processes of enculturation, or because we share particular conceptual schemes or languages. The hermeneutic tradition pays insufficient attention to the real structural forces and interests in the world which underlie the development of tradition, and allows too little space to possibility that our “enabling prejudices” may be systematically distorted⁴⁰.

Conclusion

The Davidsonian analysis we have discussed in this chapter shows that we have good reason for thinking that our knowledge has secure foundations⁴¹: Intersubjectivity provides all the objectivity we need, or could have. In the following chapter, we will extend our exploration of the possibility of objectivity in accounting, and in the process give further consideration to the implications of the Davidsonian view for accounting.

Preamble to chapter 3: Objectivity in Accounting - The Case of Deferred Tax

In chapter 1 we argued that in advanced modernity financial accounting as a way of knowing tends towards crises – epistemological crises. We ended chapter 1 with a discussion in very broad terms of the possibility of an emancipatory accounting; an accounting that might overcome the obfuscation of the ideology of the commodity fetish. In chapter 2 we began to develop a reasoned defense of the view that financial accounting might overcome its tendency to rationality and legitimacy crises and become emancipatory. We associated accounting's emancipatory potential with what we see as its latent capacity to provide us with true accounts of the objective world we share and we used Davidson's account of the possibility of knowledge to justify our faith in accounting's potential to give knowledge of an objective reality.

We recognize that accounting faces joint crises of rationality and legitimacy. In chapter 2 we primarily addressed the issue of accounting's rationality – its potential to provide us with true accounts of the objective realities of our lives and thereby facilitate informed decision-making. In chapter 2 we implicitly bracket questions of financial accounting's legitimacy and treated it as an essentially descriptive activity. In this chapter we deepen our exploration of the possibility of objectivity in accounting, we engage with issues of legitimacy, and we argue that financial accounting may obtain a normative objectivity and legitimacy through the application of communicative reason in democratic processes.

We begin chapter three by reviewing and restating our commitment to a Davidsonian view of descriptive objectivity in accounting. The application of Davidson's antirepresentationalist conception of objectivity as intersubjectivity to accounting is analysed here in terms of the contrast, drawn by Bernard Williams, between the prospects for objectivity in science and ethics. The analysis tends to confirm the deep and inextricable entanglement of the descriptive and normative in accounting. We accept that ethical questions, those evaluative questions that concern competing self-understandings and conceptions of 'the good life', can not be settled objectively. We recognise that if we were to accept that the normative dimension of accounting consists in evaluations that can not be objectively validated then we face the disturbing possibility that reflection, which tends to secure scientific knowledge, may destroy accounting knowledge by revealing its lack of secure foundation. We do not accept, however, that the normative dimension of financial

accounting inevitably lies beyond rational and objective determination / validation. We turn to Habermas' theory of discourse ethics to justify the view that normative objectivity and validity might be secured for financial accounting regulation through communicative rationality. Again we contend that intersubjectivity is all the foundation we need or can have for objectivity in accounting.

In terms of the Habermasian analysis of the evolution of society, accounting's crisis of legitimacy can be understood in terms of a loss of moral force characteristic of institutions in transition to modernity. In traditional societies, the self-understandings characteristic of dominant groups and the value preferences that emerge from their traditions and conceptions of the good life, have the power to anchor and motivate norms of action. However, in transition to modern pluralist society, participants must come to terms with a plurality of traditions and self-understandings. The power that a behavioural expectation might have obtained by association with a particular tradition and associated self-understandings, is relativized in modern pluralist society by the recognition that other groups within society do not share those understanding and value-preferences. In modernity acceptable norms of action, guiding necessary integration and cooperation across the whole of society, can no longer be powerfully motivated by appeal to the value preferences associated with particular conceptions of the "good life". Normative claims derived from local identities can not have the same quality of motivating force as those, which can command universal agreement.

The advance of reason in modernity, and in particular the development of the potential for communicative rationality, promises the possibility of a restoration of moral force to social norms in pluralism. Habermas does not suggest that communicative rationality can be appropriately applied to all ethical / evaluative questions. He argues, rather, that in modernity a set of moral questions that do admit of objective determination / validation in terms of the generalizability of interests through communicative reason can be broken away from the ethical. In traditional society, ethics (dealing with conceptions of the good life) and morality (dealing with norms of action binding on everyone across society) are tied tightly together, and the latter obtains much of its normative force from the former. In the transition to modern society, processes of differentiation, associated with the development of expert subcultures in all spheres of society, are set in train. Through those processes an analytic distance is produced and reflective perspectives emerge; "perspectives from which the lifeworld appears as practice with which theory is to be mediated, as life with which art is to

be reconciled, or ethical life to which morality must be related” (Habermas, 1983, pp.106-109). The moral perspective, which emerges in modernity, then sets the lifeworld at a reflective distance, and differentiates the ethical sphere from the whole. The apparent totality, of the ethical sphere, which required that “questions of justice are posed only within the horizon of questions concerning the good life, questions which have *always already been answered*” (Habermas, 1983, pp.106-109), loses its self-evident quality, and breaks into two components; the moral and the evaluative. Moral question being those that can be approached rationally in terms of the generalizability of interests, and evaluative questions being those which are accessible to rational analysis only from within the horizons of a particular historical form of life.

We conclude chapter 3 with a discussion of the implications of Habermas’ discourse ethics for accounting policy making, and in particular the implications for the appropriate role for conceptual framework projects such as the ASB’s “Statement of Principles for Financial Reporting” project. We take the view that accounting regulations might, in principle, be thought of as moral norms and as open to objective validation through communicative reasoning in terms of the generalizability of interests. Thereby the moral force of financial accounting might be restored and a financial accounting developed that allows the lifeworld some normative grip on the system.

Chapter 3: Objectivity in Accounting - The Case of Deferred Tax

Introduction

This chapter sets out to defend and explore the emancipatory potential of accounting. We associate that potential with accounting's capacity to be objective, and therefore seek to defend the notion of objectivity in accounting. It seems to be widely accepted that it is meaningful to attempt to evaluate alternative accounting methods and standards of external financial reporting in terms of their objectivity. This criterion, in various guises, has featured prominently, and continues to appear, in conceptual studies and professional publications (see for example, ASSC, 1975; FASB, 1980; ICAS, 1988; ASB, 1999). However, the term "objectivity" obviously does not possess a fixed unitary meaning (see Megill, 1994), and it clearly presents accountants with "considerable semantic problems" (Stamp, 1981). We hope, in this chapter, to contribute towards a clarification of the meaning of objectivity in the context of its application to accounting. In this introduction we sketch the broad outline of the chapter.

We begin by adopting Donald Davidson's view that intersubjectivity is all the foundation we need, or can have, for objectivity, and use that Davidsonian perspective to justify the view that accounting can, in principle, provide us with knowledge of an objective publicly accessible world. We recognize, however, that accounting is more than a purely descriptive enterprise; it is a moral practice. It performs regulative and integrative functions within society and has a normative/ethical dimension. Therefore, without losing sight of the notion that "the ultimate source of objectivity is ... intersubjectivity" (Davidson, 1997, p.121), we move on to develop our discussion of objectivity in accounting in terms of the distinction, drawn by Bernard Williams (1978, 1985), between the viable aims of scientific and ethical inquiry. Williams argues that in science we may reasonably hope to transcend the limits of perspective and converge upon an "absolute conception of reality": "... a conception consisting of nonperspectival materials available to any adequate investigator" (Williams, 1985, p. 140). That is, in science we can realistically hope for world-guided convergence on the ideal an "absolutely" objective conception of reality; a conception open to maximal intersubjective agreement. Williams argues that we can not expect no such convergence in the ethical domain, and in fact he suggests that reflection, so vital to the justification of scientific knowledge, may destroy ethical knowledge.

We take the issue of accounting for deferred tax in the UK as a focus for our effort to locate accounting in the context of the science - ethics dichotomy outlined by Williams. We examine both the history of accounting for deferred tax and the recent debate on the topic that has taken place in the context of a developing conceptual framework for financial reporting in the UK. Two conclusions of our consideration of the deferred tax debate are perhaps particularly notable: Firstly, we suggest that descriptive objectivity may be low in respect of many accounting issues, because the accounting concepts and theory employed often lack a clear relation to causal stimuli in the publicly accessible world. Considerable scope is thereby allowed for failure of intersubjective descriptive consensus, that is, in our terms, failure of objectivity. We note that this issue has been identified by other observers of accounting, including Sterling and Chambers, who have called for accounting to become more rational, less bound by myth and tradition, and more like science; that is, more closely tied to an objective public reality. Secondly, our analysis suggests that the descriptive and normative are deeply entangled in accounting. We conclude that the normative element is entirely integral to accounting; it can not become a purely descriptive enterprise. We suggest that accounting concepts resemble thick ethical concepts, and that we should therefore not expect to find in accounting theory the kind of world-guided convergence that we can reasonably expect in science; It seems that Williams' suggestion that reflection may destroy ethical knowledge might need to be extended to accounting.

In the final part of this chapter, accepting that we can not expect world-guided convergence and objectivity in accounting theory, we look for an alternative foundation for accounting objectivity in rationally motivated consensus; convergence guided by communicative reason. We turn to Habermas' work to sustain the view that, at least potentially, we can have normative objectivity/validity in accounting recognized as a normative/regulative enterprise. Williams and Habermas would agree that there can be no objective adjudication between value-preferences or between competing conceptions of the "good life": Such evaluative questions can only be addressed from within particular forms of life. Habermas argues, however, that whilst in traditional society the ethical sphere appears as a totality in which the norms of action and "question of justice" are determined by answers given to the evaluative questions, in the transition from traditional society to modernity, the ethical sphere breaks into two components - the evaluative and the moral. That is, in modern pluralist society a set of moral questions becomes detached from the evaluative. The moral

questions are defined as those very questions that admit of a generalizability of interests and are therefore open to the possibility of objective validation through rational argument. These moral questions have a priority, over the evaluative/ethical questions, because their resolution allows the integration and coordination of society and thus sets the social conditions within which particular forms of life may flourish and the ethical questions they raise be addressed. Habermas shows how moral norms of action can be objectively validated through communicative reason, that is, through the institutionalization of what he calls "discourse ethics". We argue that accounting regulation falls within this moral sphere and is open to objective validation through rational argument and in particular the application of discourse ethics. It is in this application of communicative reason that we see the fuller/second dimension of accounting's emancipatory potential. Accounting regulation established through the institutionalization of discourse ethics may truly contribute to communicative integration of society and help to put a normative check on the colonizing depredations of the capitalist system upon the lifeworld. The chapter closes with a brief discussion of some of the implications of the analysis presented for conceptual frameworks for financial reporting projects.

Objectivity as intersubjectivity

Throughout the discussion of objectivity in accounting which follows we adopt the view that ultimately objectivity needs, and can have, no other foundation than intersubjectivity. In this section of the chapter we sketch a justification of this view in terms of the work of the philosopher Donald Davidson. **The reader will find that this section repeats, with different emphasis, much of the discussion of Davidson's views contained in chapter 2 of this thesis.** It is not our intention to offer any comprehensive discussion of competing conceptions of objectivity. However it may help clarify our position if it is understood from the start that we find the correspondence theory of truth, and any conceptions of objectivity built upon it, unintelligible. We agree with Davidson that correspondence is "an idea without content" (1990, p.305), and therefore we can make no sense of those views that somehow make objectivity coextensive with the faithful representation of a representation independent reality. For a full critique of the notion "objectivity as correspondence", often referred to as "absolute objectivity", see Rorty (1980).

Davidson finds a foundation for objectivity in intersubjectivity, that is, in the network

of relations between creatures reacting to one and other and their shared environment:

“The only ultimate source of objectivity is, in my opinion, intersubjectivity. If we were not in communication with others, there would be nothing on which to base the *idea* of being wrong or, therefore, of being right, either in what we say or in what we think. The possibility of thought as well as of communication depends, in my view, on the fact that two or more creatures are responding, more or less simultaneously, to input from a shared world, and from each other.”

(Davidson, 1997, pp.121)

Justification of the notion of objectivity as intersubjectivity is found most plainly in the account Davidson offers of the possibility of knowledge and communication, which he insists “forces us to the idea of an objective, public truth” (Davidson, 1975, p.170). We sketch that account in the following paragraphs.

Knowledge clearly always pre-supposes belief, and holding a belief requires that one understands the possibility of being mistaken; it requires that one grasp “the contrast between truth and error - true belief and false belief” (Davidson, 1975, p.170). Appreciation of the contrast between true and false belief, the concept of objective truth, emerges only in the context of communication: “Without a second person there is, as Wittgenstein powerfully suggests, no basis for a judgment that a reaction is wrong” (Davidson, 1997, pp.122). At the core of communication is interpretation; if communication is to take place at all interpreters must be able to attribute meaning to speakers’ utterances. If we are to account for knowledge we need an explanation of the possibility of interpretation. Davidson proposes a truth conditional theory of meaning; he argues that interpretation must proceed through the interpreter’s matching of sentences of her own to each of the speaker’s utterances / sentences. The interpreter’s own sentences will constitute a theory of truth and meaning for the speaker’s sentences, and insofar as the interpretation is correct, yield the meaning / propositional content of those utterances. Davidson gives us an explanation of how such an empirical theory of truth for a speaker's utterances can be constructed and verified and can serve as a theory of meaning. We shall see that that explanation forces us to the notion of a publicly accessible objective reality.

Davidson argues that we must consider the problem of interpretation from the position of the “radical interpreter”, that is, someone with no prior knowledge of the speaker’s language and no direct access to the detailed propositional intentions or beliefs of the speaker. Otherwise, we simply beg the question of interpretation by assuming knowledge of meanings at the outset. We must explain how it is that interpretation is possible on the basis of the evidence available to the radical interpreter. That evidence will obviously include the speaker’s utterances, and Davidson argues that we can also reasonably presume that the radical interpreter can directly observe that a speaker holds an utterance / sentence to be true in particular circumstances, without knowing what the speaker means by it: We can reasonably assume that “it is possible to know that a speaker assents to a sentence without knowing either what the sentence, as spoken by him, means, or what belief is expressed by it” (Davidson, 1983, p.315). There is, however, an obvious difficulty associated with using the speaker’s prompted assent or dissent as a foundation for the construction of and verification of a theory of truth and meaning for the speaker’s utterances. The problem is that a speaker will hold an utterance to be true, or false, in part because of what it means, and in part because of what he believes to be the case. Belief and meaning are thoroughly entangled in the evidence available to the radical interpreter; “a speaker's assent to a sentence depends both on what he means by the sentence and on what he believes about the world” (Davidson, 1983, p.314).

Davidson argues that the interpreter can break the deadlock of belief and meaning by applying the principle of charity. That principle requires the interpreter to proceed on the basis that the speaker is reacting to the same features of the world as she would herself react to in similar circumstances, and that the speaker's utterances express beliefs with which she would for the most part agree. By thus assigning truth conditions to the speaker's utterances that, whenever plausibly possible, make him right according to the interpreter's view of the circumstances, sufficient constraint may be placed on the attribution of beliefs to allow the derivation of meanings. The impasse of belief and meaning is broken by “holding belief constant as far as possible while solving for meaning” (Davidson, 1973a, p.137). The principle of charity also directs the interpreter to credit the speaker with her own standards of rationality and consistency. An interpreter cannot construct a theory of truth and meaning for a speaker’s language by dealing with each of the speaker’s utterances in isolation, rather she must build a pattern that fits the evidence and maintains the rationality of relations

between sentences. The method of radical interpretation is thoroughly holistic; the meaning of words and sentences can be drawn only indirectly from the whole pattern of interrelated sentences that constitute the truth theory for the speaker's language. An interpretive theory, once established, will generally not be obvious in use, especially where the speaker and interpreter share the same language. "Once we have the theory, though, we can explain the truth of sentences on the basis of their structure and the semantic properties of the parts" (Davidson, 1990a, p.300). The structure and semantic properties of the parts, the meaning of words, can not be a starting point, for the development of an interpretive theory of truth for a speaker's language, they are products of such theory. Davidson insists then that "all understanding of speech involves radical interpretation" (Davidson, 1973a, p.125).

The method of radical interpretation, sketched above, allows no room for the possibility that the interpreter might discover the speaker to be largely mistaken in his beliefs about the world. If the interpreter cannot find in the speaker's utterances a pattern of beliefs that, by her own standards, is largely consistent and true she has "no reason to count that creature as rational, as having beliefs, or as saying anything" (Davidson, 1973a, p.136-137). The method directs the interpreter to maximize the truth, by her own standards, of the speaker's utterances; correct interpretation must proceed so as to optimize the correspondence / agreement and coherence of the interpreter's, and speaker's, beliefs. Interpretation clearly relies on "an interpersonal standard of consistency and correspondence" (Davidson, 1991, p.158). At this point, the critic may agree with all of the above yet ask; what assurance do we have that the interpersonal standard is objective? What, if anything, prevents the interpreter and speaker from being agreed upon largely wrong beliefs? If we are to have convincing justification of the view that ultimately objectivity needs, and can have, no other foundation than intersubjectivity, we need to understand why Davidson thinks that the "interpersonal" standard of coherence and correspondence, that is so vital to communication, is an "objective" standard. We need to see, that is, why he believes that whilst an interpreter and speaker may occasionally understand one another on the basis of mistaken beliefs such cases "cannot be the rule" (Davidson, 1983, p.317). Furthermore, we need to be convinced that the interpersonal standard, achieved through communication, is the only objective standard we can have; we need to see why we should accept that the world itself can not provide an objective standard that makes our sentences true or false.

The Davidsonian line of argument traced out above proceeds on the basis that all

thought and knowledge presupposes beliefs and that having beliefs requires a grasp of the concept of objective truth. The notion of objective truth itself, Davidson argues, can emerge and have application only in the context of the communicative relations between parties responding jointly to each other and stimuli from a shared world. Communication relies upon the interpreter's ability to find regularities in the behavior / utterances of the speaker that can be correlated with events and objects in the world as the interpreter sees it. It is this process of triangulation, this sharing of stimuli, that gives content / meaning to speech and thought, and provides us with grounds for thinking that the communicating parties are responding to an objective publicly accessible reality of objects and events in the world - rather than to some proximal stimuli, or imaginings:

“For until the triangle is completed connecting two creatures, and each creature with common features of the world, there can be no answer to the question whether a creature, in discriminating between stimuli, is discriminating between stimuli at the sensory surfaces or somewhere further out, or further in. Without this sharing of reactions to common stimuli, thought and speech would have no particular content - that is, no content at all. It takes two points of view to give a location to the cause of a thought, and thus to define its content.”

(Davidson, 1991, pp.159-160)

It should now be clear why Davidson thinks that the interpersonal standard of the community of minds is an objective standard, and why we can be sure that our view of the world is, in its most basic features, largely correct. On Davidson's view of things most of our plainest beliefs must be true because they are given content by the objects and events in the world that cause them; “... what ultimately ties language to the world is that the conditions that typically cause us to hold sentences true *constitute* the truth conditions, and hence the meanings, of our sentences” (Davidson, 1996, p.275). Radical interpretation allows no gap between the content of thought and language and the world; the general framework of our plain beliefs can not be out of phase with the reality that determines its content. We can be confident that our beliefs are securely in touch with reality, not in the sense that they somehow correspond with, or faithfully represent, reality, but rather in the sense that they are

necessarily causally related to our environment and true. We can be sure that most of anyone's utterances / statements are true because their truth depends "on just two things: what the words as spoken mean, and how the world is arranged" (Davidson, 1983, pp.308-309), and those two things are not independent entities, whose correspondence might be tested, rather one is causally dependent on the other.

The process of radical interpretation, and the causal relations between our beliefs and the world it relies upon, obviously can not guarantee that all of our beliefs are true. Misleading sensations will sometimes produce mistaken beliefs and many of our beliefs have only indirect relations with objects and events in the world. What the process does provide is a backdrop of agreement and true belief against which error can be distinguished and particular intelligible beliefs formulated. The process of radical interpretation allows that any particular belief or set of beliefs may be false, what it does not allow is that "our general picture of the world and our place in it is mistaken, for it is this picture which informs the rest of our beliefs, whether they be true or false, and makes them intelligible" (Davidson, 1991, p.160).

It is clear, then, that the objective world constrains our knowledge, without a common cause we can have no communication and no knowledge: "Communication begins where causes converge" (Davidson, 1983, p.317-318). Equally, it is clear that our knowledge of the world is, always dependent on, and conditioned by, our knowledge of other minds. Without communication we can have no sense of objectivity, no basis for discrimination between true and false belief: "A community of minds is the basis of knowledge; it provides the measure of all things" (Davidson, 1991, p.164): Davidson claims that creatures tend to classify objects and events in the world in terms of patterns of similarity and difference in the stimuli they generate. The only grounds we can have for such a claim is the similarity/regularity of the creature's response to the stimuli. But the only grounds we can have for claiming that the creature's responses to the stimuli are similar / regular is that another creature finds similarity in both the stimuli and in the response of the first creature. Ultimately the interpersonal standard of the community of minds is the only standard of the real we have or need and the objectivity of particular knowledge must be conceived of in terms of the degree and quality of the intersubjective agreement supporting it. On this view, perspectival knowledge can be objective in cases where it is supported by reflective explanation of its possibility, the validity of which is itself open to broadly based intersubjective consensus.

Objectivity and knowledge is essentially founded on agreement, yet does not require total agreement. Nevertheless, too many disagreements or mistakes, will tend to undermine the possibility of interpretation and the communicative foundations of knowledge. Some disagreements will be more destructive than others; disagreement about beliefs that derive their content from relations to other beliefs rather than directly from the environment may pose relatively little difficulty, more damaging will be those disagreements that concern matters where the causal influence of the environment is apparently direct:

“Disagreement about theoretical matters may (in some cases) be more tolerable than disagreement about what is more evident; disagreement about how things look or appear is less tolerable than disagreement about how they are; disagreement about the truth of attributions of certain attitudes to a speaker by that same speaker may not be tolerable at all, or barely.”

(Davidson, 1975, p.169)

Persistent disagreement on theoretical matters bearing little direct relation to causal stimuli provided by a shared world may be easily accommodated. Intelligible disagreement on matters more directly related to the world, perhaps explainable in terms of differences in the positions and faculties of the speaker and interpreter, may also be readily accommodated. Most disruptive will be those unintelligible disagreements in matters closely related to the stimuli provided by the world where objective agreement is reasonably expected.

Bernard Williams (1985) offers a similar analysis of the possibility of objectivity in the domains of science and ethics. His analysis turns upon the nature of agreement and disagreement in those spheres, and on “our reflective understanding of the best hopes we could coherently entertain for eliminating disagreement in the two areas” (Williams, 1985, p.135). He contrasts (1985, p.133) two types of disagreement; On the one hand, disagreements, such as that between two children wanting one bun, which need not suggest that there has been any failure of recognition or understanding or any language problem¹. And on the other hand disagreements, such as those involving the recognition of “middle-sized dry goods”, which do suggest such failures or problems. He argues that the difference between such cases of disagreement underlies the epistemological contrast between science and ethics.

For Williams, like Davidson, the objectivity of a particular belief must be assessed in terms of the degree and quality of intersubjective support it enjoys. The more objective views are those which are open to fullest intersubjective agreement; those views which rely least "on the specifics of the individual's makeup and position in the world, or on the character of the particular type of creature he is" (Nagel, 1986, p.5). On such a view, the distinction between subjective and objective judgement is obviously always a matter of degree. Williams contends that in science we can coherently expect to achieve a much higher degree of objectivity, through reflection, than we can ever reasonably expect to obtain in the ethical sphere. He argues that in science perspectival knowledge may attain objectivity when it is justified by reflective explanation of its possibility, that is itself guided by objects and events in the world that any competent observers may triangulate upon.

Williams recognizes that any description of the world must incorporate a point of view - a subjective element. This, he argues, need not prevent our perspectival representations from being objective and providing knowledge² of how things are in the world. He fully appreciates the difficulties associated with any attempt to maintain the notion that human inquiry can provide a systematic account of the way the world really is. He agrees that notions such as "how things are" or "the world" are, prior to our descriptions, empty and unspecifiable (see Rorty, 1991, p.55). He characterizes the problem in terms of a dilemma: either we conceive of the world in terms of our current beliefs, in which case the world can do no more "than repeat the beliefs we take to represent it", or we try to conceive of the world prior to any description of it - and this is simply "an empty notion" (Williams, 1985, p.138). Indeed, it is with the hope of taking us beyond this dilemma that Williams suggests that we should strive to form an absolute conception of the world that is "already there" in terms only of those of our beliefs and theories "that we can reasonably claim to represent the world in a way to the maximum degree independent of our perspective and its peculiarities" (Williams, 1985, pp.138-139). He suggests that in science we may step back from our competing perceptions, and beliefs and work to develop a more inclusive conception of the world that is capable of explaining the relations of competing and more perspectival representations to the world. In science perspectival knowledge can be justified through the process of reflection which allows a particular perspective to be understood in the context of a more inclusive view. The more inclusive conception produced may itself face competition from other representations, in which case a yet more inclusive conception of the world must

be sought. Williams argues that we can coherently hope that *ideally* science will eventually converge on a conception of the world that meets no competition and which can claim to be 'the absolute conception' of reality. The absolute conception will be maximally independent of perspective, it will be a maximally inclusive and objective conception of the reality that is 'there anyway'.

The idea of scientific convergence - as convergence on how things anyway are - relies heavily on notions of explanation: "The substance of the absolute conception ... lies in the idea that it could non-vacuously explain how it itself, and various perspectival views of the world, are possible" (Williams, 1985, p.139). Science can provide some degree of second-order explanation of how creatures with our history and faculties can perceive and understand the world with properties that this same science ascribes to it. We can explain our perspectival view; we can explain why it is that "grass" seems to be "green" to creatures like us, and we can explain why the concept of green is not available from certain other perspectives. We can make some disagreement intelligible and thereby, in a sense, resolve them. The realisation that the concept "green" is perspectival certainly does not undermine our use of the concept or our colour classification systems; in fact, the knowledge that "grass is green" is supported by explanation. In science second order explanation of perspectives also justifies, because it explains how perceptions are related to one another and to the physical reality which they give knowledge of - it explains how scientific understandings help us "find our way around the physical world" (Williams, 1985, p. 151). Crucially, in science, world-guidance does not breakdown on reflection: both perspectival knowledge and the second order, absolute, conception of reality can be world-guided. In science, at least, we may hope and expect to converge³ on an account of the world that, whilst inevitably an account of how things seem to beings like us, is to a maximum degree independent of local perspectives; an account that is objective, and that might reasonably, if not literally, be thought of as an expression of "how things are".

Williams clearly accepts that we can not shed our descriptive perspective and move to a 'God's eye view' of reality from which we can develop a conception of the world as it is in itself independent of all representation. He rejects the correspondence theory of truth: "It suggests that we can, so to speak, get round behind our descriptions and see how they fit the world, and this makes no sense at all: any conception of the world we can use at all is one that is already expressed in terms that we understand, our terms. The world cannot describe

itself for us" (Williams, 1991, p.12). For Williams, the 'world as it is in itself' "... is not the object of a representation that tries to transcend all representation, but only the object of a representation that is relatively inclusive and unrivalled" (Sorrell, 1990, p.13). We should think of the absolute conception of reality as literally unattainable ideal towards which we can reasonably expect scientific knowledge to converge: "Of course, we may never actually *arrive* at such a view, but as rational human beings we can be expected to converge toward an approximation of it. Absolute objectivity, then, presents itself as absolute not in its certitude or infallibility, but rather in the hold that it ought to have on us as rational beings" (Megill, 1994, p.3).

An argument might be made that convergence on how things are is also possible in ethics. Clearly, our thick ethical concepts like cowardice, cruelty, brutality, or gratitude, are action-guiding but they are also typically world-guided; their proper application depends on the state of world, or the users' perception of the world. Those, non-cognitivist, moral philosophers who take the view that the descriptive and prescriptive aspects of thick ethical concepts can be separated out, will argue that ethical sentences are not capable of truth because their value element is not open to truth. On such a view we can not have knowledge under ethical concepts and *a fortiori* we can not have world-guided convergence in ethics. Williams opposes the non-cognitivist view, he recognises "the way in which fact and value are entangled in our concepts" (Putnam, 1990, p.168) and insists that the descriptive and prescriptive elements can not in fact be disentangled. The distinction Williams wants to draw between science and ethics is clearly not a crude distinction of fact versus value. He argues that practices and values within a culture may clearly set the appropriate use of a thick ethical concept such as chastity, so that it is possible within the local community to obtain agreement on the chastity of a person's behavior, and it may simply true that, within the culture, certain behaviour is chaste. Statements made using thick ethical concepts can be "locally true", and "users of such concepts, in correctly applying them, could properly be said to have knowledge" (Williams, 1995, p 206). In order for speakers to a correctly apply thick ethical concepts to novel situations Williams believes that they must be aware of the evaluative interests with which the concept is connected and be capable of imaginatively identifying with them.

In Williams' view, an insightful observer may understand and anticipate the use of a thick ethical concept without sharing the values connected with it, provided she can grasp

its evaluative point. She could not, however, stand entirely outside the evaluative interests of the local community being observed and somehow "pick up the concept simply as a device for dividing up in a rather strange way certain neutral features of the world" (Williams, 1985, p.142). An observer may be able to recognize the locals' correct application of thick concepts, but, because she does not share the associated values, be effectively unable to use the concept herself; she may essentially be "barred from saying just what the locals say" (Williams, 1985, p.145). For example, an observer who does not share the evaluative interests connected with the local use of the term "chastity" can know that within the terms of the culture it is true to describe a particular person as chaste but she could not herself properly say that the person is "chaste". Knowledge of the person's chastity is possible for the locals but not for the observer:

"There seem to be perfectly good grounds for saying that some of them (statements made using thick ethical concepts) are what, in local terms, they are taken to be, namely true; and, since the people who use them satisfy other relevant conditions, we can say that those people have some knowledge under these concepts. But this is not knowledge that we share, since we do not share those concepts.

(Williams, 1995, p 206)

In their use of particular thick ethical concepts members of a society may express knowledge of the world to which they apply their concepts: in this sense they may have local / perspectival ethical knowledge. This kind of local knowledge entails no display of second order knowledge concerning the use of those particular thick concepts as opposed to some others; such knowledge would entail a stepping back from the initial position and values - ethical reflection. Nevertheless, it seems that we can have perspectival knowledge in ethics, "X is chaste", just as we do in science, "grass is green". Indeed we can have *local* convergence in our conceptions of what it means to be "chaste" or what it means for something to be "green". In science reflection can reinforce local knowledge; can this effect be extended to the ethical domain - what impact will reflection have on our local ethical knowledge?

As explained above, Williams argues that in the scientific context the world-

guidedness of our knowledge extends to the reflective level. In science reflective explanation of our perspectival knowledge does not unsettle our knowledge, it justifies it by identifying its coherence with other knowledge on both the perspectival and absolute level. If we want to extend this process of reflective justification to the ethical domain we need to be able to identify a basis for second-order reflection on ethical perspectives, which is capable of somehow validating our local ethical knowledge. We might hope to apply the analogy with science directly by obtaining explanatory accounts of our ethical perspectives, which justify by explaining how our perspectival view relates to the world. In science explanation justifies by showing how perceptions relate to and give knowledge of the one physical reality. For second-order explanations of ethical perspectives we need to look, not just to the physical world, but, to the social world, and this means "*some social world or other*" (Williams, 1985, pp. 151). Clearly there are many social worlds, both actual and possible, and explanations, which are relative to some particular social world, can provide no answer to the essential question raised by ethical reflection: "is this the best kind of social world?" (Williams, 1985, p.151).

At the reflective level in ethics, we need accounts/theory that can deal with the question "is this a good way living in comparison with other ways?" We need a theory that is able to justify local ethical concepts, and perhaps explain why one local concept or ethical perspective is appropriate in particular circumstances and not in others. Given that an explanatory theory can not address such issues, Williams argues that if we want to move to a reflective level in ethics we are forced to use "thin" concepts such as "right". Those most general and abstract of ethical concepts are capable of very wide application, but they "do not display world-guidedness" (Williams, 1985, p.152). For reflective ethical theory to be capable of justifying local ethical knowledge it would need to have some objectivity of its own. Williams argues that because ethical beliefs at this reflective level are not world guided, we can not reasonably expect that they will track the truth, and we can not realistically anticipate their rational convergence on one determinate set of ideas. At the root of the distinction Williams draws between science and ethics is the contrast, as he sees it, between the relative universality of science and the fact that "the interests that thick ethical concepts subserve are the interests of one human community (one 'social world') or another" (Putnam, 1990, p. 169). Williams recognises that *in theory* we might obtain some measure of objectivity at the reflective level in ethics through a convergence of ideas about human nature

- about our needs and motivations, which might yield the schema of an ethical life that would be the most satisfactory for humans in general. Indeed, he sees the project of giving ethics an objective grounding in knowledge of human nature as the "only intelligible form of ethical objectivity at the reflective level" (Williams, 1985, p.153). However, he does not think that such a project is likely to ever succeed, and he believes that any such approach would always "radically underdetermine the ethical options" (Williams, 1985, p.153) in any given situation.

Because the world-guidedness of ethical beliefs breaks down at the reflective level we can not coherently expect ethical reflection to lead to convergence in thinking. And because, in ethics, we have nothing corresponding to science's ability to provide explanations of our perceptions which relate how the world seems from a particular perspective to how it is in itself, that is, how it is when viewed objectively or in other words when viewed in a way that is, so far as possible, independent of local/idiosyncratic perspectives, we have no basis for an objective theory of error in ethics:

"An ethical theory ... might explain why it was reasonable for people to have these various ethical beliefs, it would not be the sort of theory that could explain why they did or did not have them. It could not do something that explanations of perception can do, which is to generate an adequate theory of error and to account generally for the tendency of people to have what, according to its principles, are wrong beliefs."

(Williams, 1985, p, 151)

We can not have ethical knowledge at the reflective level, and therefore ethical reflection will not justify local ethical knowledge. Indeed, Williams suggests that ethical reflection may destroy knowledge held under thick ethical concepts by effectively placing the users of the concept in the position of the observer unable, after reflection, to fully identify with the evaluative interests connected with a thick ethical concept.

The objective public world plays a crucial role in Williams' model. It provides the independent stimuli to which the community of scientists reacts and about which they form communicative relations. Williams thinks that in science, if not in ethics, it is reasonable to expect that the world's causal impact on the content of meaning and belief can guide convergence "that could meaningfully be said to be a convergence on how things anyway

are” (Williams, 1985, p.139). The world does not provide equal guidance in all domains, and clearly the strongest guidance is in respect of “our perceptual beliefs, the beliefs that are directly caused by what we see and hear and otherwise sense” that is those beliefs that must be “in the main true because their content is, in effect, determined by what typically causes them” (Davidson, 1999a, p.19).

We tentatively suggest that Williams' notion of “an absolute conception of reality” may be extended to the domains of economics and accounting, at least in so far as it is reasonable to conceive of those domains as world-guided and analogous to science. We might develop an absolute conception of the economic world that is “already there” in terms of those of our beliefs and theories that are, so far as possible, independent of local perspectives. No matter what our perspective, we may, for example, agree that in the economic domain certain factors or forces of production operate in relation and produce certain flows - of cash, other resources and products. These conceptions may command a high degree of agreement from participants and observers of the economic domain, irrespective of their interpretive perspective - how they represent the meaning of these factors and flows. Other beliefs and concepts will clearly not be part of the absolute conception of economic reality: We suggest that concepts like; profit, the appropriation of surplus value, and efficiency, are very much more local/perspectival. Accounting theorists have generally recognized that many of the objects with which accounting deals are highly perspectival and consist of beliefs and theories built upon other beliefs rather than on direct causal relations with the environment. Furthermore, they have appreciated the difficulties associated with the justification of such perspectival “knowledge”. Solomons for example contends that accountants are on "safe ground" only when describing "external phenomena that have an independent existence of their own ... phenomena such as cash flows, contractual rights, market values, etc" (Solomons, 1978, p.72). Those beliefs and theories about the economic realm that are open to maximal intersubjective agreement guided by “phenomena” (objects and events) in the world may be thought of as an approximation of the absolute conception of economic reality.

If Williams' notion of an “absolute conception” does extend to the domain of economics, the elements included in the absolute conception of economic reality will underpin and moderate the development of those more perspectival economic concepts, which could be explained, and thereby justified, in its terms. And if it is valid to view

economics and financial reporting as scientific, we might ideally expect to find convergence in accounting inquiry - convergence that is best explained as convergence guided by how things are. In the following section of the chapter we look for convergence in the development of financial accounting, focusing particularly on the history of accounting for deferred tax in the UK.

The kind of convergence that would suggest that it is valid to conceive of accounting as science, will not be sort that might best be explained by the accounting / economic historian. Such explanations of the socio-historical development of perspectival views will essentially stay on local, or perspectival, level. The ideal convergence will be best explained in terms that show how "convergence has been guided by the way things actually are" (Williams, 1985, p.136). To support an extension of Williams notion of the absolute conception of reality to accounting we should look for convergence explainable in terms of how things are when viewed from more inclusive perspectives, rather than convergence driven by regulatory fiat.

The history of accounting for deferred tax in the UK

In the UK, companies are not taxed on their profit as reported in the annual report. Instead, a separate calculation is made of taxable profit. This starts with the accounting profit and makes adjustments for items that are not allowable or assessable for tax purposes. Some of these adjustments create permanent differences between the accounting and taxable profit figures. Other adjustments create temporary, 'timing', differences, where gains or losses are recognized in the financial accounts and the calculation of taxable profits in different periods. Timing differences give rise to the issue of deferred tax.

Whilst there are many sources of timing differences, two have been particularly important under UK tax regimes: Firstly, the costs of fixed assets have generally been allowed, via capital allowances, in the calculation of taxable profit ahead of their recognition as depreciation expense in financial accounts. For any particular fixed asset, the timing differences originated in this way will reverse in later years when depreciation charges will tend to exceed capital allowances given for the year. Secondly, the costs of pensions and other post retirement benefits have been required to be recognized in accounts on an accruals basis, yet have been allowed in the calculation of taxable profit only on the basis of amounts paid. Companies which have unfunded schemes are required to accrue pension costs in their

accounts over the working lives of their employees, yet do not receive tax allowance in respect of these charges until the related payments are actually made. The timing difference originating in this way will reverse when pension contributions are paid and tax relief received.

At issue is the question of how, if at all, the tax effects of timing differences, 'deferred tax', should be reflected in financial statements? There are three main alternatives: Firstly, the 'flow-through' method, which makes no provision for deferred tax. This method is sometimes described as the 'nil provision' method, it recognizes no assets or liabilities in respect of the future tax effects of the reversal of timing differences and bases the tax charge in the accounts on the taxable profit arising in the period. Secondly, there is the 'full provision' method, which makes provision for the tax effects of all gains and losses which are recognized in the accounts and are expected to enter the calculation of taxable profits at some point in the future. The third possibility is the 'partial provision' method, under which deferred tax is provided for only in respect of the net amount by which it is probable that tax temporarily deferred or accelerated by timing differences will reverse in the foreseeable future without replacement. The partial provision method recognizes that for companies which are not expected to reduce the scale of their operations significantly, for the foreseeable future, the reversal of timing differences will be compensated for by the origination of new timing difference so that a certain element of tax - a hard core - will be deferred indefinitely. Under the partial provision method no provision would be made in the accounts for the hard core timing differences. Arguments for and against the flow-through, full provision and partial provision alternative treatments of deferred taxation have been put forward by many authors. For example, Rosenfield & Dent (1983) argue for the flow-through method, DeFliese (1983) and Schwarz (1983) defend full provision, and Chaney & Jeter (1989) make a case for partial provision.

The historical development of accounting standards for deferred tax in the UK is outlined Table 1, below:

Document	Accounting treatment
SSAP 11 (ASC, 1975b)	Full provision basis.
SSAP 15 (ASC, 1978 revised 1982)	Partial provision basis.
UITF 6 (1992) & SSAP 15 revision	Partial provision with the exception that full

(ASB, 1992)	provision allowed in respect of post-retirement costs such as pensions.
ASB Discussion paper (1995a), FRED 19 (ASB, 1999) & FRS 19 (ASB, 2001)	Full provision basis, with provision made for all timing differences, except for those resulting from the revaluation of fixed assets, and allowing but not requiring discounting.

Statement of standard accounting practice, SSAP 11 (1975) was developed, following exposure draft ED 11 (1973), in a period of growing inflation when tax law contained a number of provisions designed to offset the punitive effect of taxing inflated historical cost profits. Those provisions included 100% capital allowance on fixed assets acquisitions in the year of purchase and a stock appreciation relief, both of which gave rise to timing differences. The application of the full provision method advocated by SSAP 11 would have led to the recognition of large and growing deferred tax liabilities in many companies' accounts, which could not reasonably be expected to reverse, in aggregate terms, in the foreseeable future. Resistance by the preparers of financial statements to the implementation of SSAP 11 forced the Accounting Standards Committee (ASC) to suspend the standard's implementation date before it became effective (see Hope & Briggs, 1982). After reconsideration of the issue, through ED 19 (1977), the ASC replaced SSAP 11 with SSAP 15 (1978), which required the use of the partial provision method, with the conservative caveat that deferred tax assets could only be recognized where their reversal without replacement was assured beyond reasonable doubt. The main impact of SSAP 15 was that the amounts of deferred tax liabilities recognized in companies tended to be very much smaller than they would have been under SSAP 11.

Tax law and business practices significantly changed in the period following the introduction of SSAP 15. The decline of inflation led to the phasing out of stock appreciation relief, and the rates used in the calculation of tax allowances on fixed asset acquisitions were brought more into line with depreciation charges. Timing differences from these sources, which normally gave rise to deferred tax liabilities, were therefore very much reduced. In the same period there was a trend towards increased use of unfunded pension schemes. The timing differences arising in respect of unfunded pension schemes reverse when payment is made, However, unless the scale of the scheme is reduced, the reversing differences will tend to be replaced by new originating differences. The partial provision basis, proscribed by SSAP 15, allowed deferred tax provision to be made for the tax effects of timing differences

only to the extent that the difference could be expected to reverse without replacement in the foreseeable future. On that basis, the deferred tax asset in respect of pension costs could generally not be recognized: In effect, tax relief in respect of accrued pension cost was not recognized in accounts. The Accounting Standards Board (ASB) came under pressure to review this aspect of SSAP 15. The 'problem' was addressed by the Urgent Issues Task Force (UITF) who proposed in UITF 6 (ASB, 1992d) that the recognition under full provision method of deferred tax assets in respect of pension cost and other post retirement benefits should be permitted; SSAP 15 was correspondingly amended in December 1992.

The amended SSAP 15 permits the tax effects of different types of timing differences to be dealt with in different ways. Full provision is allowed in respect of pension cost timing differences which predominantly give rise to deferred tax assets, while partial provision is required for other timing differences which mainly entail deferred tax liabilities. The ASB themselves seem positively embarrassed by the glaring inconsistency introduced by the SSAP 15 amendment: "its practical effect is that what for most entities is their biggest deferred tax asset is recognised in full while deferred tax liabilities are only partially recognised. To a jaundiced observer this could well appear a somewhat cynical approach" (ASB, 1995a, para.5.8.3). In search of a more satisfactory position, the ASB reopened the deferred tax debate by issuing a discussion paper (ASB, 1995a) which, on balance, favoured return to the full provision method for all timing differences. Most respondents to the discussion paper supported the retention of the partial provision method (ASB, 1999c, Appendix V, para.19). Partial provision has, however, lost ground with standard setters internationally: The US Financial Accounting Standard SFAS No.109 "Accounting for Income Taxes" (FASB, 1992), which requires full provision for deferred tax has become well established and influential. In 1996 the International Accounting Standards Committee (IASC) adopted a new standard on accounting for Income Taxes IAS No.12 (IASC, 1996), that requires companies applying International Accounting Standards to make full provision for deferred tax. By 1999, the UK and the Republic of Ireland were the only countries still requiring the partial provision method (ASB, 1999c, appendix.v, para.20), and in view the international trend the ASB has maintained its advocacy of full provision. Exposure draft FRED 19 (ASB, 1999c) indicated the Board's intention to proceed with the implementation of many of the proposals included in the 1995 discussion paper, including the requirement of full provision for deferred tax. One novel feature of the exposure draft was the support it

gave to the discounting of deferred tax provisions.

Early in 2001 a new Financial Reporting Standard for deferred tax FRS 19 was issued. The new standard implemented the Boards previously expressed intentions: it required that a liability should be recognized whenever an obligation to pay tax arises because of past events. Effectively, this means that provision should be made in respect of all timing differences with the exception of those arising on the revaluation of fixed assets, where no obligation to pay tax exists until such time as the company decides to sell the asset and realize the gain. The full provision method will also apply to deferred tax assets, including those arising on pension costs. The new standard allows but does not require discounting of deferred tax balances. Timing differences on pension costs are effectively based on net present values therefore no discounting will be applicable in respect of the associated deferred tax assets. Thus, one implication of the new standard is that the increase in liabilities due to the switch to full provision will be offset by the recognition of the resulting balances at their net present values, while there will be no corresponding impact on existing deferred tax assets recognized under UITF 6.

The development of accounting regulation for deferred tax in the UK has followed a cyclical pattern that has been highly responsive to socio-economic changes. There is no pattern of convergence obvious in the movement from full provision through various options and eventually back to full provision. This, of course, is not sufficient grounds for us to conclude that accounting are essentially unscientific: The course of science may be perverted by social and political pressures. It may simply be the case that in the past, the development of accounting for deferred tax in the UK has been so biased by successive political pressures that a convergence guided by “how things are” has been thwarted. Conceptual framework projects for financial reporting *may* be understood as attempts to raise accounting thought beyond the local idiosyncratic perspectives and pressures and onto a more reflective and inclusive level, that is, as an effort to move accounting thought in the direction of an absolute conception of “how things are” in economic terms. Solomons (1983, 1986) argues that a conceptual framework for financial reporting would help defend accounting against politicization and thereby facilitate the development of a bias-free financial reporting which would “tell it like it really is”. We now turn to examine the possibility that a conceptual framework might facilitate the development of a convergence in financial reporting guided by “how things are”. We will continue to use the issue of accounting deferred tax a vehicle

for our analysis.

Deferred tax - a test of the ASB's 'conceptual framework'

The development of a conceptual framework to guide accounting policy-making can be seen as an attempt to identify and set out certain “absolute conceptions” of the commercial and accounting world, or at least approximations thereof. Ideally the framework will be produced in a context that is abstracted from the political pressures and economic interests that are bound to surround particular reporting issue. The concepts derived in the relative calm of a careful and measured development of a conceptual framework may then serve to discipline consideration of particular issues. It may promote objectivity and convergence, explainable in terms of the way things are, by providing a shield against the political pressure and personal bias (see Solomons, 1978).

We evaluate this view by examining the ASB's discussion paper “Accounting for tax” (ASB, 1995a) and the responses made to it by the Big Six accounting firms, in the context of certain elements of the ASB's then developing conceptual framework project; the draft “Statement of Principles for financial reporting” (ASB, 1995b). The aim of the project was to clarify the ‘conceptual underpinnings’ of the Boards work and to establish a ‘coherent frame of reference’ for standard setting (ASB, 1999a, paras.1-4). Some aspects of the Board’s draft Statement of Principles excited considerable opposition. However, we intend to draw mainly upon a relatively uncontroversial aspect of the draft - its definitions of assets and liabilities. The definitions proposed by the ASB in 1992 at the initial discussion paper stage of the project were in fact carried through the consultation process without any change to the recently issued final version of the Statement of Principles (ASB, 1999d). Those definitions are as follows; (i) “Assets are rights or other access to future economic benefits controlled by an entity as a result of past transactions or events.” (ASB, July 1992a, para.7), and (ii) “Liabilities are an entity's obligations to transfer economic benefits as a result of past transactions or events” (ASB, July 1992a, para.24). These definition were then available, to guide thinking about particular accounting issues, three years prior to the publication of the “Accounting for Tax” discussion paper (ASB, 1995a).

Our primary focus is on how the crucial question - “do timing differences constitute assets and liabilities?” - was addressed by the ASB in its discussion paper (ASB, 1995a), and by respondents to the paper. We concentrate on this issue for two reasons. Firstly, definitions

of assets and liabilities are central to debates concerning alternative accounting treatments of deferred tax. For example, those who favour the “flow-through” method tend to take view that tax liabilities arise only on taxable profits, deferred tax does not, on this view, represent a liability, and therefore no provision should be made. Secondly, the ASB's draft Statement of Principles project, from the outset, gave a pivotal role to definitions of assets and liabilities by advocating that the determination of entity performance should essentially be made derivative of the measurement of assets and liabilities in the balance sheet⁶. Thus, the definition of assets and liabilities lies at the very heart of the ASB's attempt to provide standard setters with a "coherent frame of reference". This "balance sheet" approach has been retained in the final version of the Statement of Principles (see ASB, 1999d, para.10). Furthermore, the provision of robust definitions - answers to some basic questions - has generally been considered to be one of the main purposes of any conceptual framework of financial reporting: "What is an asset? What is a liability? What belongs on the financial statements and what in the footnotes? Just what is accounting trying to do, anyway? A conceptual framework, so the idea went, would answer those questions up front, get them out of the way once and for all" (Gerboth, 1987, p.2).

If conceptual frameworks can be effective as a defence against politicization then surely we should find that the ASB's evolving Statement of Principles, and in particular its definitions of assets and liabilities, informed thinking on accounting for deferred tax and thereby reduced the scope for political leverage on the issue. If the definitions are not capable of providing a clear and robust answer to the question of whether the tax effects of timing differences should be regarded as an asset or liability in the financial statements, then one might doubt whether they will provide useful guidance in any difficult case. Our aim, then, in this section of the chapter is to look for the development of agreement - convergence - within the recent debate in the UK on the issue of accounting for deferred tax; possibly convergence facilitated by the ASB's Statement of Principles.

The “Accounting for Tax” discussion paper (ASB, 1995a), explores accounting for tax “from first principles”. It examines, in turn, the flow-through, full provision and partial provision bases. It discusses each of the three methods in terms of their relationship with the draft Statement of Principles, and explicitly considers whether the balance sheet amounts recorded by each method meet the draft Statement of Principles definitions of assets and liabilities. The Board favours the adoption of the full provision method, but is unable to

provide unequivocal guidance on how the balance sheet amounts arising should be understood: “Some (Board members) take the view ... that deferred tax represents a known increment or decrement of a future tax liability. Others take the view ... that it represents a 'valuation adjustment' to other assets and liabilities at the balance sheet date” (ASB, 1995a, para.4.7.8). The discussion paper devotes considerable space to comparing these alternative views.

The Board explains that those who view deferred tax as an increment to future assets or liabilities do so on basis that: “as a result of the cumulative timing differences at the balance sheet date, future tax assessments (whatever their amount in absolute terms) will be higher or lower than they would have been if those timing differences had not arisen” (ASB 1995a, para.4.4.12). But at no point does the Board make it clear how immediate recognition of increments or decrements to future tax assessments can be reconciled with the draft Statement of Principles. In particular, it is never made clear on what basis it is thought that recognition can be given to increases or decreases in future assets or liabilities which do not themselves meet the criteria for recognition. The ASB is clearly aware that the fact that “the actual tax assessments of a future period are not liabilities at the balance sheet date” (ASB 1995a, para.4.4.12), presents a problem for this approach. Yet no recognizable attempt is made to directly test it against the draft Statement of Principles, and it is not rejected outright. Furthermore, it is not strictly correct to say that *whatever* the amount of tax assessments in future periods they will be higher or lower in absolute terms than they would have been if the timing differences had not occurred. A company which does not earn taxable profits in future periods will generally not incur future obligations to pay tax, and the timing differences brought forward would tend to have no impact upon that state of affairs.

The appeal of the view of deferred tax as increment to future asset or liability, is perhaps associated with a residual attachment to the matching concept: “It is possible, and appropriate, to attribute tax effects to individual transactions, even though tax is not legally assessed on this basis.” (ASB, 1995a, para.3.7.3). The Board's balance sheet driven Statement of Principles precludes any very frank or open admission of reliance on the matching principle:

“Notwithstanding its origins as a means of matching income and expenditure with their effects, deferred tax is equally valid conceptually ... under models

of accounting, such as that in the Board's draft Statement of Principles, that start by identifying assets and liabilities.”

(ASB, 1995a, para.4.2.2)

The Board has elsewhere made it clear that it recognises that ‘matching’ can have only an epiphenomenal place within the balance sheet driven approach to accounting it favours: “Matching would continue to apply, but balances that were being carried forward in the balance sheet as assets and liabilities would be subject to a test as to their authenticity” (ASB, 1996, p.5). Despite the rhetoric, the Board, in the case of deferred tax, gives no real primacy to assets and liabilities: No clear direct test is made, against definitions, of the ‘authenticity’ of the balance sheet amounts resulting from the application of the matching principle. Instead, the matching principle, a mere supplement seems to play a significant part in sustaining the Board's preference for full provision.

Some members of the Board favoured an alternative view of the nature of deferred tax, seeing it as a ‘valuation adjustment’ to the carrying value of the asset or liability in respect of which the timing difference has arisen. For example, an asset which is partially tax-exhausted by the receipt of accelerated capital allowances would be regarded as “worth” less to the enterprise than an otherwise identical asset with greater tax deductibility (ASB, 1995a, para.4.4.13). The ‘valuation adjustments’ might, in principle, be best reflected by the net-of-tax method whereby assets, liabilities, gains and losses are reported net of their tax effects. On consideration, the Board reject the net-of-tax alternative and suggest that it would be preferable to pool the tax-related ‘valuation adjustments’ to all assets and liabilities in the balance sheet under the single heading ‘deferred tax’. Thus by a circuitous route we have a rationalization of a ‘deferred tax’ balance in the balance sheet - which presumably must be an asset or liability: Again, no direct test against definitions of the “authenticity” of the balance sheet amounts is offered. The ‘valuation adjustment’ approach relies upon the concept of ‘worth’ - where ‘worth’ is in effect the asset's book value less the amount of deferred tax arising in respect of it. This measure of ‘worth’ is not independent of deferred tax and bears no necessary relation to the valuation of the asset concerned in terms of the measurement bases discussed in chapter 5 of the draft Statement of Principles. It is not; ‘value in use’, ‘net realisable value’, or ‘value to the business’. The concept of a net-of-tax measurement base (‘worth’) is novel and as the Board itself notes it is effectively prohibited by United Kingdom

company law which requires assets to be recorded at cost or, in some cases, valuation. The lines of argument discussed by the ASB in support of full provision for deferred tax rely on bases not found in the Statement of Principles.

The ASB is aware that provisions for deferred tax do not sit easily with its Statement of Principles and in particular its definitions of assets and liabilities. They confine explicit recognition of this problem to their discussion of the partial provision method. They note that “the arguments as to whether the balances recorded under the partial provision method represent assets or liabilities are essentially the same as those in respect of the full provision method” (ASB, 1995a, para.5.4.2). They then go on to say that they find it difficult to reconcile the partial provision method to the draft Statement of Principles “which defines ‘assets’ and ‘liabilities’ as respectively benefits and obligations arising from *past* events” (ASB, 1995a, para.5.4.10). The problem they see with partial provision is that “it recognises the tax effect of future transactions before they have occurred and in many cases before the reporting entity is even committed to undertaking them” (ASB, 1995a, para.5.8.2). The Board seem to be saying that amounts calculated under the partial provision method do not meet the definitions of assets and liabilities - which is curious given that such amounts are essentially part of the full provision amounts which they want to see recognized as assets or liabilities. Inconsistency and division within the Board concerning the relation of deferred tax and the Statement of Principles is reflected in a number of places in the discussion paper. Different Board members conclude that; “the definition of a liability supports the flow-through method (section 3.7.6), the partial provision method (section 1.4.2) and the full provision method (section 4.4.7)”, (Touche Ross, 1995, p. 535). In sum, the Statement of Principles seems to have been of little help to the ASB in forging unforced agreement / convergence within the Board itself concerning the appropriate treatment of deferred tax.

The 'Accounting for Tax' discussion paper attracted 144 responses, running to 604 pages of comment. In the remainder of this section of the chapter we will examine the responses made by the UK National offices of the 'Big Six' accounting firms, which ran to 77 pages. Our aim is to evaluate the degree of convergence / agreement within the views of this well informed group, and to assess the extent to which the ASB's developing Statement of Principles project seems to have informed their views and promoted consensus. We concentrate on the responses of the Big Six firms because, in our view, they may be expected to be particularly aware of the role the Statement of Principles might play in guiding thinking

on an issue such as accounting for deferred tax. In addition their economic interests are not obviously radically disparate or potentially compromised by the accounting for deferred tax issue: They appear to be relatively well positioned to take a knowledgeable and dispassionate view of the issues.

Even the most cursory examination of the positions taken by the 'Big Six' firms, summarized in table 2 shown below, indicates the lack of consensus in their thinking. Each of the three basic approaches to accounting for deferred tax is advocated, by one firm or another. And a wide spectrum of rationales is applied to justify preferences.

Firm	Preferred method	View on whether or not timing differences give rise to assets and liabilities.
Arthur Andersen	Full provision.	Support hybrid view which regards timing differences originating in the financial statements as giving rise to assets and liabilities and timing differences arising in the tax computation as not giving rise to assets or liabilities but to 'valuation adjustments'.
Coopers & Lybrand	Partial provision as in SSAP 15 as amended by UITF 6.	Argue that partial provision can be reconciled with the ASB Statement of Principles - if amounts provided are understood in terms of a contingent liability.
Ernst & Young	Partial provision with withdrawal of the UITF 6 amendment to SSAP 15, and temporary suspension of consideration of the issue.	Argue that the only method that gives rise to assets and liabilities fully consistent with the Statement of Principles is the flow-through method.
KPMG	Partial provision with withdrawal of the UITF 6 amendment to SSAP 15.	See the nature of deferred tax as a liability rather than a valuation adjustment, and argue that the partial provision basis can be reconciled with the draft Statement of Principles if recognition and measurement issues are clearly separated.
Price Waterhouse	Flow-through modified to provide for deferred tax as a contingent liability.	Argue that deferred tax is of the nature of a contingent asset or liability.
Touche Ross & Co	Full provision.	Follow the ASB's line and argue that deferred tax constitutes an asset or liability on the grounds that it effects an increment or decrement to future tax liabilities.

Arthur Andersen argue that neither of the two views of the nature of deferred tax in terms of which issues are principally analysed in the Discussion Paper (i.e., the increment or decrement of a future tax liability or a valuation adjustment to other assets and liabilities, perspectives), are fully appropriate in all cases. They contend that the particular characteristics of each timing difference should determine which view is appropriate. Arthur Andersen urge the ASB to have regard to the conceptual force of a hybrid approach under which certain timing differences would be accounted for as assets and liabilities and others as valuation adjustments. Arthur Andersen suggest that some of the difficulties encountered in resolving the accounting for deferred tax puzzle originate in constraints imposed by the Statement of Principles' three-category balance sheet, made up of only assets, liabilities and equity. Arthur Andersen imply that there is difficulty in fitting "provisions" made for deferred tax into this scheme:

"More guidance would be helpful on how provisions, including deferred taxation, fit into the framework as a sub-set of liabilities and emphasising the difference between the nature of the deferred tax number created as part of the accounting allocation exercise and say a creditor."

(Arthur Andersen, 1995, p. 19)

Arthur Andersen seem effectively to invite the ASB to rethink the essential logic of the Statement of Principles: The ASB's balance sheet orientation quite deliberately allows no place in financial statements for those residuals of matching and allocation exercises which do not meet the definition of liabilities in the way that, say, creditors do.

Coopers & Lybrand prefer the partial provision method, which they argue can be reconciled with the ASB's draft Statement of Principles project, if the amounts of deferred tax are "regarded as contingent liabilities rather than actual ones" (Coopers & Lybrand, 1995, p.138). A contingency, of course, is generally understood as a condition *existing at the balance sheet date*, where the outcome will be confirmed by uncertain future events (ASC, 1980b, para.1). Coopers & Lybrand offer no explanation of how deferred tax can be properly understood, in these terms, as a contingency. The ASB themselves hint, somewhat obliquely, that it may be appropriate to regard deferred tax as a contingent liability. The Board explains

that those who advocate the flow-through method take the view that: “it is incorrect to report a liability to tax that is contingent on certain future events (e.g. earning taxable profit), as is the case when deferred tax is provided for” (ASB, 1995a, para.3.7.2). In fact, advocates of the flow-through method would argue that timing differences do not constitute liabilities (contingent or otherwise) at the balance sheet date because any future liability is dependent upon future events not merely confirmed by them - the future tax liability will not exist until future profits are earned: “earning future revenue wouldn't be merely ancillary to the obligation” (Rosenfield & Dent, 1983, p.50).

Ernst & Young, with a suggestion of irony, put forward the view that only the flow-through method produces balance sheet amounts that represent assets and liabilities as defined, “on any reasonable construction of the words”, by the Statement of Principles. They argue that the “true conceptual basis” for the full provision basis is the matching principle (Ernst & Young, 1995, p.194), and they describe the ASB's attempts to justify the full provision method in terms of the Statement of Principles assets and liabilities definitions as “unconvincing rationalisations”. They attack both the ‘increment and decrement to future liabilities’ and the ‘valuation adjustment’ routes the ASB use to rationalise advocacy of the full provision method. They express their difficulty in comprehending how the “how the Boards' draft Statement of Principles allows the recognition of an increment or decrement in a future asset or liability that does not yet meet the criteria for recognition itself” (Ernst & Young, 1995, p.194). And, in response to the 'valuation adjustment' line of reasoning they argue that while it may be true that a partially tax-exhausted asset must be worth less than one whose book amount is still fully tax deductible, a 'valuation adjustment' made on that basis does not “represent an asset or liability as defined in the Board's draft Statement of Principles” (Ernst & Young, 1995, p.195).

KPMG favour the partial provision approach and argue that it can be more readily reconciled with the draft Statement of Principles than the ASB suggest. The Board maintain that it is difficult to reconcile partial provision with the draft Statement of Principles definitions of assets and liabilities because it recognises the tax effects of future transactions before they have occurred (ASB, 1995a, para.5.8.2 and para.1.3.6). KPMG argue that partial provision can be justified if it is interpreted in terms of separate recognition and measurement processes; “first, the liability definition is met and thus existence of the liability is acknowledged, or recognised; and secondly, that liability is measured at the amount that will

probably be paid” (KPMG, 1995, p. 317). KPMG suggest that future events will need to be taken into consideration only at the second stage, that of measurement, and thus the ASB’s principal objection to partial provision is misconceived. However, KPMG offer no explanation of how deferred tax can properly be understood as meeting asset and liability definitions. This omission is understandable in context of their view of accounting for deferred tax as “primarily a matter of expense allocation and only secondarily a matter of ensuring that the resulting liability fits into the balance sheet focused framework” (KPMG, 1995, p.315).

Price Waterhouse prefer the flow-through method arguing that it “match(es) tax charges to related past transactions and events which have a tax consequence” and produces balance sheet amounts which “can be explained and understood” (Price Waterhouse, 1995, p.401). They advocate, however, a modification of the pure flow through in which provision would be made for timing differences arising on “one-off” transactions and other timing differences likely to crystallise in the foreseeable future. They state that such an approach “quite clearly accounts for all liabilities existing at the balance sheet date and those which are likely to arise within a short space of time thereafter” (Price Waterhouse, 1995, p.404). However they do not make it clear why they consider it appropriate to account at the balance sheet date for liabilities which may arise some time after the year end - and which by implication do not exist at the balance sheet date.

Touche Ross view deferred tax as an increment or decrement to tax payable on future profits, and support the ASB in advocacy of the full provision method. They recognize that until future profits have been earned “the principal liability to tax on those profits does not yet exist” nevertheless they insist that “a measurable increase or decrease in that future tax liability does exist, and is the result of past transactions. The method thus meets the requirement of the definition of assets and liability” (Touche Ross, 1995, p.540). Touch Ross seem to be no more prepared than the ASB to provide a convincing explanation of how the recognition of possible increments or decrements to a future assets or liabilities, that do not themselves meet the criteria for recognition, can be reconciled with the draft Statement of Principles.

Just as we found no evidence of convergence in the history of accounting for deferred tax in the UK, we find no evidence of convergence in the recent debate. Despite the draft Statement of Principles, the Big Six firms do not agree on the most appropriate treatment of

deferred tax. Indeed there is a remarkable lack of consistency in their application of the ASB's definitions to this topic and extensive disagreement on basic issues. In general our findings reflect Gerboth's analysis of the use of definitions developed by the FASB in debate on accounting for pension costs. He found, much as we have, that, whilst the definition of liabilities affected the vocabulary of the debate and the terms in which decisions were justified, "from all external indications, the substantive contribution of the definition was slight. All of the arguments raised, however they were expressed were those that a knowledgeable observer would have expected to be raised with or without the definition" (Gerboth, 1987, p. 2-3). In the following section we will consider the implications that might be drawn from the apparent failure of convergence in accounting thought and regulation in the UK concerning accounting for deferred tax.

Explaining disagreement (and agreement) - science, ethics and accounting

The distinction, Williams draws, between ethics and science does not depend on whether or not agreement, or convergence, is actually obtained. The distinction hinges on how we might best explain agreement or disagreement: "It is not that disagreement needs explanation and agreement does not, but that in different contexts disagreement requires different sorts of explanation, and so does agreement" (Williams, 1985, p.133). In science we can coherently expect that agreement might be best explained as convergence guided by how things are, whilst any agreement that may occur in ethical thought is likely to be best explained in socio-cultural terms.

There is, in fact, a considerable degree of international convergence in accounting standards for deferred tax: a convergence on the method of full provision with discounting. This is, in a sense, convergence for the sake of convergence, driven by the perceived value of international accounting consistency itself. The international dominance of full provision method, following the lead given on the issue by the FASB, in the US, through SFAS No.109, is crucial to the ASB's rationale for proceeding towards full provision in the UK. The ASB's move certainly does not seem to reflect any strong view that the full provision method captures how things are any better than does the partial provision method. The Board can "see the logic for all three of the methods of accounting for tax under consideration" (ASB, 1999c, appendix.V, para.22), but they "do not believe that a good case can be made for standing up against the direction of international opinion" (ASB, 1999c, appendix.V,

para.23). Essentially, the ASB believe that failure to conform would damage the credibility of UK financial reporting because, as the dominance of the full provision method is increasingly established, a marginalized partial provision alternative will become “less well understood and accepted” (ASB, 1999c, appendix.V, para.24). The responses to the 1995 'Accounting for tax' discussion paper indicate that, there is no ground-swell of opinion in the UK against SSAP 15 and partial provision, and certainly no natural consensus in favour of full provision. The ASB held a number of meetings with representatives of the preparer, user, and auditor groups and apparently succeeded in reconciling them to the need for international conformity: “each of these groups, whilst disappointed that there has not been international acceptance of the partial provision method, now accepts the rationale for change” (ASB, 1999c, appendix.V, para.25).

A cynical view of the development of accounting standards for deferred taxation in the UK might be that they have blown in the wind of economic and fiscal change in response to sectional interest and political pressure. The full provision method was abandoned at a time when its use would have forced recognition of substantial liabilities - with consequent impact on profits after tax. The rehabilitation of the full provision method has coincided with changes in the UK tax regime and business practices, particularly concerning the use of unfunded pension schemes, that tend to give rise to substantial deferred tax “assets” which could not be reflected in the balance sheet under partial provision method. There is little to suggest that the evolution of accounting for deferred tax in the UK can reasonably be described, or best explained, as convergence on how things are. Accounting, at least in the instance of accounting for deferred tax in the UK, does not seem to exhibit the kind of convergence that we might hope to find in science. Furthermore, the development of accounting for deferred tax in the UK is not an atypical case. Accounting for tax in the US has also been shown to have been shaped by political and economic pressure (see Moonitz, 1966; Zeff, 1978), as has financial accounting in respect of many other issues, including for example; accounting for stock option compensation (Zeff, 1997), accounting for goodwill (Nobes, 1992), accounting for Research and Development (Hope & Gray, 1982), and accounting for troubled debt restructuring (Pushkin & Pariser 1991).

Robert Sterling (1979) suggests that there is little convergence or objectivity in accounting because it has taken law as its model, and has therefore become drawn into politics and matters of social choice. He argues that there is nothing essential to the subject

matter of accounting preventing it from being reformulated as science. As Sterling sees things, accounting may keep law as its model and thus become increasingly mired in politics or it can take the scientific path: "the law rather naturally shades off into consideration of politics. Thus we can also expect those interest groups to appeal to higher legislative authorities when they don't get their way with the FASB. ... The alternative is to adopt the method of science" (Sterling, 1976, p.87). Sterling's call for a scientific accounting is motivated, above all, by his observation of the lack of convergence in accounting thought: "When we confront a problem, we almost invariably disagree about its proper solution" (Sterling, 1979, p.3). He suggests that, if accounting is to move towards scientific status, it must abandon the "fantasy" of historic costs and arbitrary allocation processes and ground itself in the observable objects and events in the shared and accessible public world. "What I mean when I suggest that accounting move toward a science is simply that it take the first step by switching from calculating numerals to measuring (observing) and reporting some kind of verifiable magnitude, such as prices" (Sterling, 1993, p.153, note.25). For Sterling a scientific accounting, by being securely based in an observable public commercial reality, will obtain objectivity through intersubjectivity. He thinks that, for the most part, we can easily recognise the broad contours of our shared economic world, and that prices are part of that shared experience (whilst historic cost residuals of allocation processes are not). He recognizes, however, that measurement issues are much more problematic than those of recognition:

"Although at the boundaries there are problems in deciding exactly which objects qualify as economic resources and obligations, it is quite clear that the subject matter of accounting practice includes such things as cash, claims to cash, stock-in-trade, machines, buildings, land, and the like. Unfortunately, that is the end of clarity: as soon as we move to a consideration of the *amount* of those things or events, we face a maze of murky ideas."

(Sterling, 1993, p.125)

He suggests that a move to exit value accounting would go a long way towards resolving the "murk" around accounting measurement by giving accounting a clear verifiable empirical base in prices which are part of the "phenomena of common experience" (Sterling, 1993,

p.153, note.24).

Raymond Chambers has similarly advocated a more scientific approach to accounting. Like Sterling, he regards accounting practice as having lost its direct connection with commercial realities: “Much of the corpus of traditional accounting doctrine and practice rests on myths, propositions that are treated as not corrigible by recourse to observation and experiment” (Chambers, 1980, p.167). He too recommends a move towards a more empirically grounded accounting. Chambers has argued that the weakness of the FASB conceptual framework project⁷ lies in its failure to adequately conceptualise how things are in the commercial world: “the contents of the 'concepts statements' deal substantially with what lies within the lore of accountants, not with 'relationships in the world out there' which it is the business of accounting to depict” (Chambers, 1996, p. 127). As Chambers sees it, the confusion of prescription and description he finds in the FASB conceptual framework, is not inevitable; he thinks that in accounting we can and should have “reliable knowledge ... before prescription”. Sterling and Chambers seem to believe that accounting can be ideally conceptualized as a primarily descriptive project; others would disagree.

Stamp rejects Sterling's suggestion that accounting can become like science. He argues that accounting is fundamentally a normative enterprise. He likens accounting to law, arguing that both disciplines are essentially concerned with “resolving conflicts among people and organisations” (Stamp, 1981a, p.216). Stamp sees science as dealing with the world as it any way is, “a world which would still exist without any scientist” (Stamp, 1981b, p 20), whilst accounting, on the other hand is involved, in human effort to construct or modify a social world: “accounting standards are man-made efforts to control a man-made environment” (Stamp, 1981a, p 218). Stamp's conviction that accounting is an essentially normative, value laden, conflict resolution mechanism is shared by many critical accounting theorists (see e.g. Tinker, 1980). On such a view, all of our efforts to control, modify or maintain a social world, including accounting, inevitably involve choices, implicit or explicit, concerning the “values that are to be “maximized” (Williams, 1992, p.103). Financial reporting then comes to be seen as “fundamentally an ethical problem” (Williams, 1992, p.103), and accounting as an essentially a moral practice: “It is precisely because value choices underlie accounting practices (though often invisibly so) that accounting is a political as well as moral practice” (Francis, 1990, p.7). From this perspective, the primary danger of

the scientific view of accounting is that it may foster “the illusion that accounting can be thought of in strictly technical terms” (Williams, 1992, p.103), and lead us to overlook the implicit ethical choices involved in accounting practice. It would be a mistake to see the Sterling - Stamp debate as a contest between two philosophical extremes (see Power, 1986). They share a preoccupation with “stability and consensus in accounting practice” (Power, 1994, p.5). Sterling hopes that accounting knowledge might be founded upon intersubjective consensus guided by triangulation on the objective contours of commercial reality. Stamp, on the other hand, sees the jurisprudential model, of ongoing free debate within a developing tradition, as the only legitimate foundation for accounting consensus.

The tension between the descriptive and normative aspects of accounting that underlies the accounting as science versus accounting as ethics debate may be illuminated in terms of the distinctions Williams draws between science and ethics. In table 3, shown below, we try to locate accounting in terms of the science / ethics dichotomy:

Table 3: A comparison of science ethics and accounting.		
Science	Ethics	Accounting
Aims to help us find our way around a world in which we occupy no special position.	Aims to help us answer the Socratic question “how should one live?” Aims to help us construct and find our way through the best type of social world for us.	Aims to help us find our way through the social/cultural world in which we find ourselves. Aims to help us reproduce and develop our world.
Concepts are not primarily action guiding.	Concepts are action guiding; they are prescriptive.	Concepts are action guiding; they are prescriptive.
Concepts are world guided at local level; they are descriptive.	Concepts are world guided at local level; they are descriptive. The proper application of the concept of chastity depends upon the state of the world.	Concepts are world guided at local level; they are descriptive. The proper application of the concept of profitability depends upon the state of the world.
We can have local knowledge under concepts; “grass is green”.	We can have local knowledge under concepts. “X is chaste”.	We can have local knowledge under concepts; “Company X is profitable”.

Table 3 continued: A comparison of science ethics and accounting.		
Science	Ethics	Accounting
<p>We can coherently expect that the <i>one</i> physical world may guide the convergence of scientific understanding. – Convergence that can be best explained as convergence guided by the way things are.</p> <p>We can coherently hope that the world might guide us towards a view of the world- the absolute conception of reality – which is so far as possible free of local idiosyncrasies and thus maximally inclusive, and objective.</p>	<p>There are many actual and possible social/cultural worlds. Therefore notion of the convergence of ethical theory on an absolute conception of reality is not coherent.</p> <p>It is reasonable to expect some degree of local convergence – on the ethical concepts we need to help us find our way around the world we find ourselves in.</p>	<p>There are many actual and possible social/cultural worlds; therefore the notion of a convergence on an absolute conception of reality is not coherent.</p> <p>Some degree of local convergence on the accounting concepts we need to help us find our way around the particular economic world we find ourselves in might reasonably be anticipated.</p>
<p>Theory is world guided at a reflective level.</p> <p>Reflective / second-order theory can be an explanatory theory of local perspectives/knowledge; It can explain how a perspectival view relates to the world; It can explain why grass seems to be green to creatures like us.</p> <p>Scientific theory can incorporate a theory of error.</p>	<p>Theory is not world guided at a reflective level.</p> <p>At a reflective level theory can not be explanatory; it can not explain the use of the concept chastity rather than some other concept.</p> <p>Theory can not incorporate a theory of error.</p>	<p>Theory is not world guided at a reflective level.</p> <p>At a reflective level theory can not be explanatory; it can not explain the use of the concept of profit rather than some other concept.</p> <p>Theory can not incorporate a theory of error.</p>
<p>Reflection can explain and thereby justify local knowledge.</p>	<p>Reflection can not explain and may destroy local knowledge.</p>	<p>Reflection can not explain and may destroy local knowledge.</p>

The differences between science and ethics arise, in part, because both enterprises have very different aims. Science aims to provide explanation of experience, including some explanation of why the physical world presents itself as it does to creatures like us. Science thus helps us find our way around a world in which we occupy no special position - a world

which “anyway is”. Ethics does not generally aim to explain experience at all, and certainly there is no world such that it could be the aim of ethical thought to explain why it presents as it does to creatures like us. Ethical thought aims to help us answer the Socratic question “how should one live?” and ethical theory aims to help us to “construct a world that will be our world, one in which we have a social, cultural, and personal life” (Williams, 1985, p.111). Accounting embodies a tension between descriptive and normative objectives. It has the aim of describing or explaining (economic) experience, and in this respect has something in common with science. However where science describes or explains a world to which we stand in no special relation, accounting describes aspects of our social world - a world which we construct. Accounts help us find our way in the social world, but they do more; they act on it: they help us to construct, reproduce and modify our world. Accounting deeply affects how we live with one another, and is imbued with both explicit and implicit values. The value choices that run through accounting are absolutely integral to it. We can not reasonably expect or aspire to an accounting that avoids value choices and simply describes the economic world. The fundamental accounting acts of aggregation and classification inevitably acknowledge, use, and thereby tend to legitimise, certain meaningful and value laden social categories. For example, notions of property rights underpin the category of assets, and the category of liabilities is underpinned by notions of obligation. We can imagine different social worlds and different meaningful categories, but whatever categories we use we will inevitably privilege some value system or other. We suggest that certain key accounting concepts such as 'profit' are in essence thick ethical concepts, in which the descriptive and normative, fact and value are inextricably entangled.

For science there is *one* physical world which may guide the convergence of scientific understanding, whilst for ethics there are *many* possible social worlds, (social worlds to which we stand in special relation as constructor or imaginer). Convergence in ethical thought guided by the way the world “anyway is” is therefore not possible. Accounting helps us to find our way about the social world - which means one particular social world - one of many, real or imagined, worlds. Ultimately, the ethical dimension to accounting thought ensures that there is no one world to guide convergence in accounting; politically driven views and choices about the “values to be maximised” will always tend to stand in the way of full agreement and allow the possibility of reversal in accounting thought. The history of policy reversal in accounting for deferred tax might be explained in these terms. Nonetheless

we do live in a particular social world, and our shared “reactions to its major features, including its values” (Davidson, 1991, p.166), provide all the basis we need for objective knowledge of that world.

Given that accounting apparently aims to describe certain of the most significant phenomena of our shared experience: “Producing and consuming goods, buying and selling, and receiving income and spending it ... activities engaging everyone's attention practically all the time” (Leontief, 1982, quoted by Sterling, 1993, p.153, note.24), one might anticipate easy agreement on accounting issues - local convergence. Yet, despite this background of shared experience, there is persistent disagreement in accounting debate. Our analysis of the recent UK accounting for deferred tax debate suggests that one reason why disagreement persists is that accounting theory in respect of such matters is so far removed from any direct relation with any causal stimuli provided by objects and events in the world. The commercial world we share gives the participants no strong lead on the issue, no clear stimuli to triangulate upon. Our examination of the competing views on the deferred tax issue indicates that a logic of matching and allocation is not far below the surface of the debate; and, as Sterling and Chambers suggest, such processes bear little relation to any publicly observable commercial realities.

The ASB clearly intended that its Statement of Principles project would help move UK financial reporting away from those accounting ideas and practices that most obviously rest on 'myths' and towards a clearer empirical basis in observable commercial realities. The balance sheet approach favoured by the ASB is specifically intended to prevent the inclusion, in balance sheet of 'fantasy' items, such as the residuals or products of allocation and matching processes, which bear no clear relation to observable objects and events in the world. The failure of the ASB's statement of Principles project to promote convergence in the accounting for deferred tax debate is in a sense a failure to carry through good intentions. We, perhaps, should not be surprised that the ASB's Statement of Principles project failed to bring any significant measure of consensus to the deferred tax debate. The definitions at the heart of the project have previously proven "notably unhelpful" in the context of real accounting argument (Gerboth, 1987, p.2). Experience seems to bear out Dopuch and Sunder's view that accounting definitions “no matter how carefully worded, cannot bear the burden of the struggle for economic advantage between various interest groups” (Dopuch & Sunder, 1980, p.16). They specifically predict that the Financial Accounting Standards

Board's definition of liabilities, upon which the ASB's definition is based, "will not help resolve the issue" of accounting for deferred tax (1980, p.7). Our own analysis of the deferred tax debate suggests the failure of the definitions to help resolve fundamental questions in accounting can, in part, be accounted for by the indeterminacy of meaning, that is, by the impossibility of making meaning, as a product of difference, fully present in language. Meaning depends upon context but context is boundless therefore meaning is ultimately indeterminate: "no context permits saturation" (Derrida, 1979, p. 81, quoted by Culler, 1983, p.123). We found that the definition of liabilities understood in relation to many other texts - notably the texts of 'matching', 'contingent liabilities', and 'provisions'. Definitions, far from resolving ambiguity, may be drawn on by competing interests as powerful but indeterminate rhetorical elements in accounting debate; their meaning is always contestable. The unconvincing contortions performed by the ASB in their efforts to make full provision 'fit' with their Statement of Principles definition of liabilities, seems to support the view that we should not expect accounting definitions to bear the burden of economic and political interests. In this case definitions seemed to be used to help legitimize an accounting policy choice that was in fact determined by other factors, including the perceived need for international consistency.

In science, ethics, and accounting our concepts can be world-guided at the local level; the right application of concepts such as green, chastity, or profit depends upon the state of the world, and we can have local knowledge under such concepts. In each domain we may reasonably anticipate a degree of local convergence in knowledge. In science world-guidance can extend to the reflective level; we can properly strive to transcend our local perspectives on the world to gain an "absolute conception" of it which can explain and justify local knowledge. Progression towards an ideal conception of reality relies upon the possibility of second-order explanation. It requires that we might step back from (or transcend) our competing local perspectives to produce a more inclusive conception of the world which is capable of explaining the relations of itself and the more local perspectival representations it encompasses to the one world which produced them. Explanation, for example, of how it is that creatures like us can have the concept of "greenness", also justifies because it can show how our perception relates to the physical world and how it can provide knowledge and help us find our way around that world.

The essence of the idea of the absolute conception of reality is that the world might

guide us towards a view of the world which is so far as possible free of local idiosyncrasies and thus maximally inclusive and thus objective. If the notion of the absolute conception is to be extended to accounting we need to be able to step back from our local accounting knowledge. We need to be able to explain our accounting concepts from some more inclusive position and show how they relate to the world and how they can give knowledge of that world, and thus help us find our way in it. Any explanation of accounting concepts like “profit”, “assets” and the like will need to draw not only on the physical world but on a particular social world. Such explanation therefore will not be quite comparable with explanation in science, and in particular the degree of inclusiveness that might be coherently aspired to will be constrained by the social world. As a first step back from the local perspective of accounting, a first step in the direction of a more inclusive (if not absolute) conception, we might consider economic conceptions of the world. Some accounting concepts may be explained on the basis of economic conceptions of reality and thus to some extent be justified, whilst others may find no explanation in economic conceptions of reality and thus not be justified by reflection. For example, accounting matching and allocation concepts, and the balance sheet and income statement amounts they give rise to, may not be explainable or justifiable in terms of more inclusive economic conceptions of reality. Those local concepts that can not be explained in terms of the developing absolute conception of reality, or be made to cohere with it, will tend to be undercut and forced from use by reflection. Some other accounting concepts, for example, sales, purchases, assets and liabilities, may be either directly related to or explainable in terms of the inclusive common conceptions of economic reality, and therefore justified by reflection. The import of Chambers' criticism of the FASB conceptual framework, is effectively that it has failed as a reflective enterprise; that it has failed to justify the accounting conceptions it prescribes in terms of inclusive (widely accessible) conceptions of the economic reality.

The extension of the idea of the pursuit of an ideal absolute conception of reality to the realm of accounting makes some sense if we can maintain a view of accounting as a neutral descriptive enterprise; if we can take the social world we find ourselves in as given. On this view, perspectival accounting knowledge may be justified by more inclusive conceptions of reality attained through reflection. Those theorists who suggest that accounting might appropriately be conceived of in terms of science, will of course tend to argue that accounting must carefully protect its neutrality. Solomons (1991) argues that if

accounting becomes a partisan advocate of any particular vision of the "social world that would be best for us", it will compromise its capacity to help us find our way around the world that we presently find ourselves in. However, the idea that reflection from more inclusive (if not actually absolute) positions might justify local accounting knowledge will make little sense if we see accounting as an essentially a normative enterprise that aims of help us answer the fundamental ethical question: "is this the best kind of social world?" Explanation of local ethical perspectives, based for example, on analysis of their origins in particular social worlds can not address such a question. In ethics world-guidance does not extend to the reflective level. Ethical reflection, therefore, can not be based on explanation, instead it must rely on thin concepts, such as "good", "right", "obligation", and the like, which are not world guided. Reflection can not justify local ethical knowledge in the way that it can justify local scientific knowledge. We will find no basis in ethical reflection for thinking that our local concepts are grounded in any absolute sense. Indeed, the process of reflection may encourage recognition of the absence of any 'absolute' basis for ethical knowledge, and thereby weaken identification with the evaluative interests involved in local ethical concepts. Reflection may thus destroy ethical knowledge. There are, as we have seen, good reasons why we might view accounting as an ethical practice. Certain of its key concepts clearly contain a prescriptive element; they embody notions of "the good way of living" and might reasonably be described as thick ethical concepts. If we accept that in a pre-reflective state users of such concepts might have knowledge under them, in so far as they correctly apply and make judgements using those concepts, then reflection may destroy accounting knowledge. Reflection may, for example, undermine one's capacity to take the category of profit, as an ethical prescription, for granted as part of our way of life.

Reflection and the destruction of accounting knowledge:

The drive towards reflective understanding of our culture and our practices seems more urgent than ever before and to reach into virtually every aspect of modern society: "There is no way back from reflectiveness" (Williams, 1985, p 163). Reflection tends to put traditional concepts, including accounting concepts, under pressure. Two distinct impacts of reflection on accounting may be anticipated; Firstly we might expect reflection to promote an increased rationalisation of accounting practice - associated with a diminution of the significance of the role of accounting myth and symbol. Secondly, we might anticipate that reflection will lead

to increasing recognition of the ethical dimension of accounting ethical practice; Reflection may, therefore, have the potential to destroy accounting knowledge by driving from use certain thick ethical concepts under which knowledge was previously held.

Reflection can lead us to recognize just how far certain accounting descriptions miss describing the world in any absolute sense. Reflection may show that many traditional accounting concepts are not explained or justified by any economic, or deeper, conceptions of the world. In such cases unjustified concepts may need to be abandoned or modified if the credibility and action guiding force of the discipline is to be maintained, in a society that increasingly prizes the rational guidance of action. To some extent the ASB's Statement of Principles project can be understood as part of a project of accounting rationalisation. Through reflection the ASB has recognized, for example, that the traditional notion of profit as an outcome of a matching and allocation process based on historic costs is not well related to economic conceptions of income. The ASB has responded by advocating a balance sheet approach to accounting in which income and profit would be conceived in more clearly economic terms - based on a Hicksian view of income. The recognition, belated though it may be, that many of our traditional accounting concepts can not be justified, in any absolute terms, and that in fact they can not even be justified in terms of economic conceptions of the world, opens the question of how they can be best explained. The appreciation that accounting concepts and standards are often essentially an arbitrary expression of the preferences of significant interest groups, and engagement with the ethical dimension of accounting is then but a short step away. Reflection on the nature of accounting as a "descriptive" enterprise potentially begins to reveal its ethical dimension.

In practice, however, the rationalisation accounting practice has tended to inhibit the acknowledgement of the ethical nature of accounting and ethical component of thick accounting concepts such as profit. The suppression of the ethical in accounting has paralleled the wider denial of the ethical component of management in modern society. Accounting has been understood to take ends as given and to be concerned only with the rational, effective and efficient, matching of means to ends. Accountants and more generally managers and bureaucrats have been widely assumed to be morally neutral characters:

"They are seen by themselves, and by those who see them with the same eyes as their own, as uncontested figures, who purport to restrict themselves to the

realms in which rational agreement is possible - that is, of course from their point of view to the realm of fact, the realm of means, the realm of measurable effectiveness.”

(MacIntyre, 1985, p.30)

MacIntyre suggests that this Weberian stance reflects the dominance in our culture of an 'emotivist' doctrine, that holds that all judgments insofar as they are moral or evaluative in character, are no more than expressions of preference, attitude or feeling. Emotivism itself can be seen as a response to the apparent failure of the enlightenment project and its successors to find rational foundations for an objective morality; On an emotivist view reason must be silent on questions of value. The selection of appropriate ends in accounting and other realms is a matter of values, and the “conflict between rival values cannot be rationally settled. Instead one must simply choose - between parties, classes, nations, causes, ideals” (MacIntyre, 1985, p.25-26).

The value choices associated with the ends of accounting have traditionally been subject to relatively little reflection. The measurement of profit has simply been part of the commercial life, which accountants, preparers and users of accounting information, inhabited rather than consciously constructed, chose, or reflected upon in ethical terms. However, in more recent, and increasingly reflective, times, blindness to the ethical aspect of accounting - the fact that it privileges certain values and interests over others, the fact that it helps sustain certain ways of life and curtails other alternatives - has become increasingly difficult to sustain. The interminable nature of accounting debates, and the way that arguments shift in response to changing economic circumstances as they affect the interest of powerful groups, makes the contested and ethical nature of accounting quite plain. The increasingly open and widespread recognition of the apparently emotivist nature of accounting argument has fostered the rise of an unapologetic economic consequences style of accounting argument and lobbying behaviour (see Zeff, 1978, 1997). Many accounting researchers have come to regard any appeal to accounting theory as an excuse or foil for the disguised expression of personal preference and interests (see for example Watts & Zimmerman, 1979). Positive accounting researchers, in particular, have taken the view that in accounting debate as “in moral argument the apparent assertion of principles functions as a mask for expressions of personal preference” (MacIntyre, 1985, p.19). The flight to positive accounting research can be

interpreted as a response to the uncomfortable recognition of the political / ethical dimension of accounting, by researchers committed to the notion that normative/ethical issues can not be settled rationally (see Mattessich, 1993, pp.262-263)⁸. From time to time, particularly contentious issues, such as accounting for stock option compensation (Zeff, 1997), bring the attention of a wider public to the contested and highly politicized nature of accounting choice. Nevertheless accountants themselves have been most intensely and regularly forced to recognize and reflect on the ethical nature of accounting than have accounting user groups or the public in general.

Williams does not suggest that reflection necessarily obliterates 'thick' ethical concepts from memory, rather, he thinks that it can make it difficult for people to go on using them. Reflection can place us in the position of observer with regard to our pre-reflective beliefs, so that we see them, after reflection, as knowledge we can no longer share or use. Our suggestion is that the effect of the pressures of reflection on accounting have been such that accountants have been put into the position of observers with respect to accounting as knowledge - it is now knowledge that they can no longer share. Concepts such as 'profit', once taken for granted and embedded in a commercial way of life that implied no level of ethical reflection whatsoever, no search for the best way of life, but simply participation in *our* way of life, have been problematized by reflection. For the accountant forced to reflection by events, and potentially for a reflective wider public, judgements made in terms of thick accounting concepts may no longer constitute knowledge, because the ethical dimension of those judgements will cease to be seen as being open to truth or falsity⁹. Our suggestion that accountants no longer fully share in accounting as knowledge is in no way meant to imply that accountants have *entirely* lost any faith in accounting as a valuable systems steering mechanism. Rather, we mean to suggest that their faith in the usefulness of accounting is no longer underpinned by the belief that accounting gives us knowledge of the world.

Not only will reflection not justify thick accounting concepts, it may positively discredit them by revealing them as expressions of arbitrary of will and preference. Reflection clearly has liberative potential; it may undermine oppressive traditions. Equally clear, however, are the dangers that the destruction of knowledge held under thick concepts may present to societies and institutions that have come to rely on that knowledge. The potential for social disruption if people become unwilling or unable use certain thick

concepts, say “profit”, is obvious. A certain kind of action-guiding knowledge which people have used to find their way around their social world and to help shape it will no longer be available to them. In a modern society, increasingly reliant on thin ethical concepts that can not give us knowledge, it is not clear, where will we find the conviction to go on. Williams' argues that it is a mistake to think that ethical conviction needs to be founded on knowledge - “a mode of certainty” (Williams, 1985, p 169). And he suggests that ‘confidence’ can be a viable basis for ethical conviction. Given society's drift away from thick ethical concepts, an increasing number of ethical challenges may need to be dealt with using thin ethical concepts alone. As we can not have knowledge under such concepts, we may need to rely on confidence to support their use. In addition, it seems likely that some thick ethical concepts will survive reflection¹⁰, and that new ones may emerge. While we can have knowledge under such concepts, they will inevitably come under pressure in a reflective society. Williams thinks that confidence can sustain our faith in thick evaluative concepts which we may retain but must now see are not simply given:

“While we shall have the knowledge that comes with the deployment of our surviving thick concepts, we shall still not have any knowledge to the effect that we have a definitively desirable set of such concepts. ... So we are aware, when we think of it, of something that less reflective people were not aware of, that these concepts are not simply given, and this leaves space where confidence, again, is indeed, confidence in seeing the world in these evaluative terms. The thick concepts under which we can have some pieces of ethical knowledge are not themselves sustained by knowledge, but by confidence.”

(Williams, 1995, p 208)

The conceptual framework projects and standard setting work undertaken by the accounting profession since the late 1960's can be interpreted as an effort to generate the confidence and the moral conviction needed to maintain the utility of certain thick accounting concepts. In a context where accountants themselves have increasingly come to hold attitudes of private irony towards the accounting knowledge that they can not share in, the profession's public efforts seem to have helped to sustain the confidence of users and the wider public. Many

thick accounting concepts do seem to survive in society at large, and users of accounts do seem to be able to confidently hold and apply the knowledge available under those concepts. Nevertheless, in our increasingly plural and reflective society, there is bound to be growing appreciation of the contested value element of thick ethical concepts, of all sorts. The action guiding force of thick accounting concepts is thus liable to come under mounting and ultimately destructive pressure, unless our confidence in those concepts can be justified. Reflection reveals the ethical dimension to thick accounting concepts like 'profit': A dimension that our emotivist culture encourages us to see as beyond rational justification. In the following section of the chapter we draw on Habermas' discourse ethics to suggest how the moral or normative aspects of accounting might be objectively validated - and its normative force sustained.

Restoring normative validity and force to accounting

Williams has little to say about what might underpin the confidence that he sees as having such an important role to play in sustaining the action guiding force of norms in our modern pluralist society. In this section of the chapter we turn to Habermas for an account of how confidence in our normative claims might be redeemed, that is, how through discourse ethics we might recover moral objectivity in a posttraditional world. Like Davidson and Williams, Habermas associates objectivity with intersubjectivity, that is, with uncoerced consensus/convergence. He argues that we can have rational consensus/convergence in moral/normative matters. In this part of the chapter we introduce Habermas' discourse ethics and in broad terms explain its relevance for accounting and accounting standard setting. In doing so we will stress the affinities between Habermas' discourse ethics and the Davidsonian truth conditional semantics that we drew on in previous sections of this chapter. In the following parts of the chapter we discuss the application of discourse ethics to accounting standard setting and consider some of the implications of Habermas' reconstruction of discourse ethics for the role of conceptual frameworks in accounting¹¹.

The essential claim at the core of the discourse ethics project is that moral objectivity needs no foundation other than discourse itself. Discourse ethics is an essentially procedural, rather than substantive, moral theory. It aims to reconstruct the moral point of view from which the validity of competing normative claims can be rationally and objectively judged. That reconstruction locates the decision procedure for the validation of norms in practical

discourse striving for consensus and it identifies a rule of argument that makes rational consensus on norms and the impartial testing of norms, possible. According to that rule, the principle of universalization (U), a norm is valid if:

(U) *All affected can accept the consequences and the side effects its general observance can be anticipated to have for the satisfaction of everyone's interests (and these consequences are preferred to those of known alternative possibilities for regulation).*”

(Habermas, 1983, p.65)

Habermas recognizes the contemporary plurality of conceptions of the good life; he does not think that philosophy, anymore than religion, can provide an objective or generally acceptable answer to the ethical question “how should I (we) live?” He does, however, want to show that we can have a narrower moral theory, a theory of justice, that will allow us to objectively (impartially and fairly) test the validity of competing normative claims. For Habermas, ethical questions can only be addressed from within the context of a particular life form and history. They involve deep issues of identity and self-realisation, and are often expressed in terms of goods and value preferences. In contrast, moral claims refer to behavioural expectations, the obligations and prohibitions that we expect to apply across society and be binding on everyone. They raise questions like; “which norms of action are justified?” A moral perspective will require participants to be aware and take notice of the value preferences and self-understandings of those affected by the norm, but the moral point of view will not allow any preferred identities to be prescribed, imposed, or set up as the ideal or goal. Habermas' deontological ethics then applies only to “practical questions that can be debated rationally, i.e., those that hold out the prospect of consensus. It deals not with value preferences but with the normative validity of norms of action” (Habermas, 1983, p.105). On Habermas' analysis, the moral breaks away from the ethical as society evolves to become more plural, rational and reflective, that is, as the traditional anchorage of normative claims in particular forms of life and given ethical/lifeworld contexts is put under increasing stress.

As the complexity and plurality of society grows in modernity, the level of interdependence among groups with very different self-understandings and life goals increases. In such conditions, the development by particular individuals and groups of the

forms of life that they value increasingly depends upon the existence of social co-operation and freedoms that can only be secured at the moral level. Secured, that is, at the generalizable level where broad rational, and therefore intersubjectively binding, social consensus is possible. Habermas' discourse ethics is an attempt to recover the motivating power of the normative in a post-traditional society where the social norms that we rely on to integrate and coordinate social life can no longer easily draw motivating force from shared self-understandings. Discourse ethics addresses modern society's need to find ways of generating and maintaining consensual social integration that can operate across different conceptions of the good life.

Discourse ethics justifies a mode of social co-operation based on norms that are powerful because they are seen to be objective and fair; it privileges a consensual mode of conflict resolution and 'social integration'. The prime alternative to such 'social integration' is 'systems integration', that is, integration as a consequence of action, as exemplified by the integration achieved through market operations. In late capitalist society financial reporting has tended to become little more than an element of the 'system' through which the material world is reproduced and integrated via the steering media of money, markets and power. It has become colonized by the system, and in the process its moral / normative dimension has become suppressed. The primary role for financial reports has come to be seen as the provision of information to markets to allow the efficient pricing and allocation of resources, and to facilitate the disciplining of management through the market for corporate control and the managerial labour market. Financial reporting then appears as an adjunct to a market based 'systems integration' of society that has thus drifted beyond substantive normative control. Through discourse ethics, accounting might be reclaimed as a normative practice with real moral force, and thus be empowered to exercise some control, or at least moderating influence, on the system. At present the system seems to have substantially broken free and is turning back to colonise those aspects of our social lives that rely upon social integration - the lifeworld. Standards / norms of action in the domain of accounting and financial reporting involve issues of justice or fairness and appear, *prima facie*, to be open to the possibility of rational and consensual determination, at a generalizable level, through discourse. Through discourse ethics accounting may be drawn into the realm of normed co-operation underwritten by rational consent, and come to operate as a media through which the lifeworld might achieve some normative control of

the system.

Habermas' reconstruction of what is implicit in everyday moral thinking ties the motivating force of moral claims to confidence that they can be redeemed with convincing reasons. And, his reconstruction of convincing, or rationally motivating, reason giving, based on the communicative practices intuitively adopted by competent participants in argument, yields the conclusion that any rationally motivating exchange of reasons concerning norms of action, must conform to the principle of universalization (U). That principle demands that the validity of a norm be tested 'dialogically' through a process of real public argument in which all those affected are prepared to try and reciprocally share one and others' perspectives in an uncoerced effort to assess the fairness, for all, of the proposed norm. Under (U), the validity of a norm depends upon its acceptability to *all* in view of its consequences for *each*. Empathy is thus built into the rule, it "is intended to compel the *universal exchange of roles* that G.H. Mead called 'ideal role taking'" (Habermas, 1983, p.65).

Habermas' discourse ethics moves beyond the philosophy of the subject and establishes and explicates the intersubjective basis of moral objectivity and knowledge. Discourse ethics clearly takes its "bearings from the basic intuition contained in Kant's categorical imperative" (Habermas, 1983, p.63); It insists that valid norms have a universal quality, so that everyone could rationally will that they be binding on all. Habermas, however, significantly breaks with Kant by shifting the locus of moral cognition away from the solitary individual to the community in real practical discourse. The formulation of (U) "preclude(s) the monological application of the principle" (Habermas, 1983, p.66), and clearly points to the necessity of some supra-individual foundation for the kind of empathy and intersubjective moral insight that might rationally validate a norm. The necessary insight can not be generated on the basis of individual perspectives, even if they are aggregated in some way:

"I can be rationally convinced of the rightness of a norm only if I have grounds for considering you (and each affected person) to be just as rationally convinced. But you can be rationally convinced only if you likewise have grounds for considering my conviction a rational one."

(Rehg, 1997, pp.214-215)

The obvious impasse here is resolved only if we locate the necessary insight and rational conviction, not in the individual subject, but rather in a jointly accessible public sphere. The rational validation of norms is then seen to take place not within the mind, but instead communicatively in the objectively accessible public world of discourse; that is, in language.

On Habermas' view of things (U) effectively underlies all our moral claims; it is a universal moral principle (not merely a local product of late modernity). He offers a transcendental justification of discourse ethics¹², designed to show that it is implicit in certain presuppositions of argument, which anyone who engages in argument must be committed to, insofar as their denial would entail performative contradiction:

Every person who accepts the universal and necessary communicative presuppositions of argumentative speech and who knows what it means to justify a norm of action implicitly presupposes as valid the principle of universalization, whether in the form I gave it above or in an equivalent form."

(Habermas, 1983, p.86)

Habermas' transcendental-pragmatic justification of (U) does not constitute proof or ultimate justification of discourse ethics. Rather, it locates discourse ethics "among the reconstructive sciences concerned with the rational bases of knowing, speaking, and acting" (Habermas, 1983, p.98). It provides a transcendental justification of the intersubjective basis of moral objectivity and knowledge, that reflects Davidson's transcendental justification of the intersubjective basis of all knowledge and objectivity in general. Habermas' discourse ethics extends a Davidsonian truth conditional semantics to the moral domain. For Habermas, understanding any utterance, including a moral claim, means understanding how the utterance's claim to validity could be redeemed with reasons: We understand the meaning of any speech act "when we know the conditions under which it can be accepted as valid" (Habermas, 1985a, p.313). He treats normative claims to validity as "analogous to truth claims" (1983, p.56), and associates understanding and meaning with intersubjective agreement:

"We understand a speech act when we know what makes it acceptable. ... A

speech act may be called "acceptable" if it satisfies the conditions that are necessary in order that the hearer be allowed to take a "yes" position on the claim raised by the speaker. These conditions can not be satisfied one-sidedly, either relative to the speaker or to the hearer. They are rather conditions for the *intersubjective recognition* of a linguistic claim, which, in a way typical of a given class of speech acts grounds a specified agreement concerning obligations relevant to the sequel of interaction."

(Habermas, 1981a, pp.297-298)

This truth/validity conditional approach to meaning "gives center stage to the relation between sentence and state of affairs, between language and the world" (Habermas, 1981a, p.276); for both Davidson and Habermas meaning can not be separated from context; context determines content:

"Thus the interpreter cannot become clear about the semantic content of an expression independently of the action contexts in which participants react to the expression in question with a "yes" or a "no" or an abstention. And he does not understand these yes/no positions if he cannot make clear to himself the implicit reasons that move the participants to take the positions they do."

(Habermas, 1981a, pp.115-116)

For Habermas, understanding any utterance, including a moral claim, thus requires that the interpreter grasp the reasons that the speaker would use to defend its validity. Recognising reasons is not something that can be done in the attitude of the third person, it requires that the interpreter take a performative attitude; Understanding reasons, inevitably draws the interpreter into the process of assessing their validity. In taking such an evaluative stance, the interpreter can not avoid applying her own standards of judgement (Habermas, 1981a, p.116):

"From the perspective of a participant, however one's own rationality standards must always claim general validity; this claim to general validity can be restricted only subsequently, from the perspective of a third person. In short, the interpretive reconstruction of reasons makes it necessary for us to

place "their" standards in relation to "ours," so that in the case of a contradiction we either revise our preconceptions or relativize "their" standards or rationality against "ours."

(Habermas, 1985b, p. 204)

The interpretive principle of charity then clearly underpins the Habermasian approach to meaning and understanding. The Habermasian model of rational interpretation can be viewed as essentially a "modification" of the rationalist analysis of meaning and interpretation offered by Davidson. Like Davidson, he argues that participants engaged in the process of reaching for understanding must operate on the assumption that that they share certain standards of communicative rationality and many basic beliefs and common convictions about the world, including their shared lifeworld. It is only against this background of shared belief - this conservative counterweight - that disagreement can be identified:

"... the rational potential of speech is interwoven with the *resources* of any particular given lifeworld. To the extent that the lifeworld fulfils the resource function, it has the character of an intuitive, unshakeably certain, and holistic knowledge, which cannot be made problematic at will - and in this respect it does not represent "knowledge" in any strict sense of the word. This amalgam of background assumptions, solidarities, and skills bred through socialization constitutes a conservative counterweight against the risk of dissent inherent in processes of reaching understanding that work through validity claims."

(Habermas, 1985a, p.326)

The principle of charity constrains the participants, entering the communicative process of trying to establish what is true or morally right, to interpret the contributions of other participants, in accordance with their own beliefs and standards of judgement - so as to optimise agreement. The attribution of meaning is always constrained by *the interpreter's* appreciation of context and her evaluations of truth and falsity.

Habermas recognises that the evaluative element integral to his model of interpretive understanding "places the usual type of objectivity of knowledge in question" (Habermas, 1981a, p.116). Nevertheless he argues that "objectivity of understanding" can be reconciled

with the "performative attitude of one who participates in a process of reaching understanding" (Habermas, 1981a, p.112). Like Davidson, Habermas takes the view that ultimately objectivity can have a foundation in intersubjectivity. He argues that the conditions for objective understanding exist within the "general structures of the processes of reaching understanding" (Habermas, 1981a, p.123). That is, he sees the possibility of objectivity attained through reflection and critique as integral to the universal structures of communicative action. The adoption of the interpretive approach does not force the interpreter to abandon all "reflective self-control" - on the contrary the criteria for reflective self-control are derived from the rationality implicit in communication:

"(T)he most general structures of communication that speaking and acting subjects have learned to master not only open up access to specific contexts which draw participants passively - so it may seem at first - under the spell of the merely particular. These same structures also simultaneously provide the critical means to transcend it; the means, if need be, to push beyond a de facto established consensus, to revise errors, correct misunderstandings, and the like. The same structures that make it possible to reach an understanding also provide for the possibility of reflective self-control of this process."

(Habermas, 1981a, pp.120-121)

On Habermas' view, the general/universal structures of communicative action are procedural, rather than substantive. They are the procedural principles associated with the ideal of uncoerced consensus, which itself can claim a necessity and universality, because it is presupposed by any "effort to formulate, communicate, and vindicate a view" (Hoy, 1994, p.176). As we have seen, for Habermas moral rightness, meaning, and validity and are all tied to uncoerced rational consensus: That is, to communicatively achieved, rather than instrumentally or strategically imposed, agreement on validity claims that are "in principle criticizable" (Habermas, 1981a, p.287).

Taken together, the principle of charity, the ideal of uncoerced consensus, and the notion that "the possible correctives for confused communicative experiences are, so to speak, built into communicative action itself" (Habermas, 1981a, p.123), lead to the conclusion that we can enter real practical discourse with a reasonable expectation of rational

convergence. At the generalizable / moral level, but not ethical, we can rationally hope for convergence guided by the critical potential of communicative action and by the way our lifeworld is: We can reasonably aspire to objectivity in moral questions, concerning issues of justice, fairness and the validity of normative claims¹³.

The application of discourse ethics to accounting standard setting

Discourse ethics makes high demands: Ideally the disputants seeking to validate a norm, or decision, must engage in a full exchange of arguments which excludes no affected parties nor any relevant considerations. External and internal coercive pressures must be removed so that the parties, standing back from the pressures of action, can achieve a reflective detachment and participate in a reciprocal perspective sharing. The ideal is clearly essentially counterfactual: It will almost always be impossible to obtain complete participation in debate or complete rational consensus in judgment. In moral argument there will always be a “tension between facticity and validity” (Habermas, 1992, p.23): We must recognize that every actual discourse is fallible yet hold onto (U) as a regulative ideal. In the case of argument concerning accounting standards / norms, for example, it will never be possible to identify, and include in debate, *all* the parties that might possibly be affected by an accounting regulation - if only because the effects of regulation are likely to persist into future ‘generations’. In addition, perfectly reasonable time and resource constraints will almost always place limits on the debate. It will, for example, normally be necessary to implement procedures designed to close discussion and secure a clear decision prior to the attainment of full consensus. In our discussion of deferred tax we saw that even the small group of experts making up the ASB were unable to reach full consensus - so that the ASB's decision on the issue was based on a majority vote. Other obvious practical problems associated with the implementation of discourse ethics include the difficulties associated with the interpretation of interests, the overcoming of power differentials, and the practicality of reciprocal perspective taking.

The inevitable tension between the ideal and the reality of practical discourse does not destroy the validity or utility of the principles of discourse ethics: “the counterfactual idea that a norm deserves universal assent is by no means absorbed and neutralized by the facticity that attends the legal institutionalization of public discourse” (Habermas, 1994, p.459). Indeed, our confidence in the rationality of a consensus must in large part be based on

assessment of the quality of the institutions generating the consensus. Confidence in the validity of a norm cannot properly be primarily based on its substantive supporting arguments nor on the fullness of the consensus backing it. Ultimately confidence in the validity of a norm must depend on the extent to which the consensus supporting it has been generated through procedures that meet the demands of discourse ethics. Confidence in the rationality of a consensus must rest on the quality, the depth and breadth, of the process of reciprocal perspective taking out of which the consensus emerges, which in turn depends on, and can only be assessed in terms of, the procedures adopted. Given the high demands of the principle of universalization (U), it is only likely to be approximated in certain contexts, including legal and political settings, where something like it is deliberately institutionalized.

Accounting standards have, in effect, a quasi-legal status, and may obtain legitimacy from their 'legality'. For Habermas, "the legitimacy of legality is due to the interlocking of two types of procedures, namely, of legal processes with processes of moral argumentation" (1988, p.230). Accounting standards may thus obtain a 'legal' legitimacy when produced and applied through such mutually supporting procedures. That is, when validated through processes of moral argumentation that are supported by quasi-legal processes that create and protect the space and structures within which the processes of moral argumentation can operate. Both types of procedure are identifiable in existing accounting standard setting regimes. The quasi-legal component is institutionalized in those procedures for public consultation, including the publication of discussion papers and exposure drafts that, invite wide participation in debate. It is also present in procedures, such as majority voting, that may be used to bring debate to a conclusion in circumstances where full rational consensus can not be attained. The component of moral argumentation is found in the debate and analysis, the perspective sharing, and the generation of moral insight prior to the finalization of decisions/votes. That is; in the analysis of the content of comment letters received on proposals, in the public hearings and open debate on proposals, and in the process of reciprocal perspective taking achieved (in part) through the impartial consideration of arguments by the Board (acting as judge). In accounting standard setting we find some reflection of the sophisticated procedures employed by the courts in their efforts to instantiate the idealisations of impartiality in very difficult circumstances. We see, in particular, a parallel between the processes of accounting standard setting and the adversarial judge and jury system. That system itself can be seen as an attempt to break down the requirements of

rational discourse into two elements; the full exchange of best arguments and reciprocal perspective taking "artfully approximated by a division of labor (between disputants and jury)" (Rehg, 1997, p.226).

Accounting standard setters plainly seek to obtain for their output the legitimacy associated with legality and democracy in our society. They are concerned that accounting standards are seen to be the outcome of a 'due process' that includes the wide exposure of proposals and active debate. Nevertheless, our examination of the deferred tax 'debate' suggest that the actuality of standard setting procedures in the UK fails even to broadly approximate an institutionalization of (U). Indeed the actuality of UK standard setting falls so far short of the discourse ethics ideal that, in effect, the standards produced have no moral validity / legitimacy. Almost all of the respondents to exposure drafts are drawn from very narrow constituencies; accountants, preparers of accounts, and investors. The procedures of UK accounting standard setting do not succeed in drawing representatives of all affected groups into debate. External pressures and forces, other than the force of the better argument, play a significant role in the determination of standards. And the extent to which member of the ASB are capable of overcoming those pressures and their own biases, and acting impartially as 'judges' in a effective simulation of reciprocal perspective taking is clearly limited. UK accounting standards seem to be determined by instrumental and strategic considerations and certainly not by the development of rational consensus / convergence.

We have concentrated, in this section of the paper, on the moral dimension of accounting regulations; we do not mean to suggest that accounting regulations can properly be reduced to moral norms alone. There is clearly a technical-pragmatic, or instrumental, dimension to financial reporting and accounting regulation. The legitimacy of accounting regulations, as quasi-legal norms, involves more than the approximation of standard setting procedures to moral idealizations: "the more complex validity dimensions of legal norms prohibits one from assimilating the legitimacy of legal decisions to the validity of moral judgments" (Habermas, 1992, p.233). Technical-pragmatic, and ethical (as distinct from moral) issues and discourses will also bear on the validity of accounting standards. Nevertheless, the moral dimension of accounting standards / norms requires that their legitimation be based on principles of impartiality and democracy. Ultimately the legitimation of accounting standards must be primarily secured through institutionalization of the broad based discourse principle: "that the only regulations and ways of acting that can

claim legitimacy are those to which all who are possibly affected could assent as participants in rational discourse” (Habermas, 1994, p.459).

Conclusion; objectivity and conceptual frameworks

The Habermasian view of objectivity clearly resonates with Davidson and Williams' association of objectivity with intersubjectivity and convergence. Together, these views suggest that if objectivity is to be retained as a useful ideal in accounting it must be substantially reconceived. The dominant, but ultimately unintelligible, representationalist view that makes objectivity synonymous with truth as correspondence, must give way to a conception of objectivity as intersubjectivity or solidarity. As an ideal objectivity becomes “simply the desire for as much intersubjective agreement as possible, the desire to extend the reference of “us” as far as we can” (Rorty, 1991, p. 22-23). On this antirepresentationalist view, the pursuit of objectivity must be construed in terms of a “de-parochialization” of inquiry and a disciplined search for “rational consensus” or “unforced agreement”, that is, as an ongoing critical process involving the collision of rival viewpoints. Objectivity can not require disinterestedness or emptiness; we are necessarily ethnocentric and “must work by our own lights” (Rorty, 1991, p. 38). However, it does require that we exercise sufficient detachment from our own commitments to motivate critical reflection upon them and to ensure their openness to the test of alternative perspectives. The possibility of progress, beyond our local perspective, to more objective concepts then lies not in the uncovering of predeterminate truths but in openness to the Other in debate. It requires that we maximise reciprocal perspective taking and empathy, which in turn demands that we adopt procedures that bring to our debate knowledge of the interests and values of all the parties affected by the issue being considered.

From the, thoroughly intersubjective, perspective of discourse ethics, the demands of justice and solidarity, individual interests and the common good, appear as inextricably interrelated: “solidarity is simply the reverse side of justice” (Habermas, 1996, p.29). The framework of norms developed through a communicative process that makes the interests of each individual the concern of all, sustains a cooperative lifeworld which provides indispensable resources and space for individual social development and self-realisation. The antirepresentationalist perspective forces us to recognise ourselves, our communities, and our institutions including financial accounting as in constant process of re-invention, through

discourse, labour, and struggle: “every conjunctural foundation, all vocabularies and all forms of practical reasoning become open to question” (Daly, 1994, p.180). It thus forces us towards the political; ethics and politics take priority over epistemology.

A conceptual framework project for financial accounting could help make accounting more open to critical reflection and intersubjective critique, and thereby more objective. Such a project might serve as a valuable catalyst for self-critical debate and reflection by helping to make the basic presuppositions and commitments of financial reporting clear and open for debate. A conceptual framework project might also provide a forum where voices not normally included in accounting debate might be welcomed and listened to. Only through the encouragement of open dialogue and critique can accountants hope to transcend their acculturation and develop more objective and socially useful accounts. Unfortunately, the ASB's Statement of Principles project does not seem to be designed to stimulate real intersubjective critical engagement. At least four factors indicate the misguided nature of the ASB's conceptual framework project: Firstly, it plainly clings onto a conception of “objectivity as correspondence” and a related rhetoric of representational faithfulness. For the ASB a transaction is faithfully represented in financial statements when “the way in which it is recognised, measured and presented in those statements corresponds closely to the effect of that transaction or event” (ASB, 1999a, para. 3.10). By hanging onto objectivity as correspondence the ASB is able to avoid facing up to the questions that would follow from clear recognition that there is no way that things are - independent of the community of minds:

"If one reinterprets objectivity as intersubjectivity, or as solidarity, ... then one will drop the question of how to get in touch with "mind-independent and language-independent" reality." One will replace it with questions like "what are the limits of our community? Are our encounters sufficiently free and open? Has what we have recently gained in solidarity cost us our ability to listen to outsiders who are suffering? To outsiders who have new ideas?"

(Rorty, 1991, p.13)

Secondly, it is clear that the ASB primarily conceive of their conceptual framework project as an effort to set down, or fix, a framework which will guide (in a deductive fashion) future

decision making (see, ASB, 1999a, introduction, para.1-4). Rather than see the framework project as part of an essentially ongoing process of self-reflection and intersubjective exchange, the ASB hope that their framework will enable the development of standards on a consistent basis “by reducing the need to debate fundamental issues” (ASB, 1999a, introduction, para. 3). Rather than see the framework project as a focus and provocation for continuing dialogue and debate, the Board fall into the mistake of presuming that a conceptual framework must either be “deductive or defective”. The Board implicitly assume that to be operational in the required sense a conceptual framework must “provide a set of axioms from which the standard setters can logically derive standards without appeal to processes of debate” (Power, 1993, p.47-48). By conceiving of their conceptual framework as standing “*outside* practice, i.e. as a fixed ahistorical construct from which accounting standards can be derived deductively” (Power, 1994, pp.54-55), the Board fundamentally misconstrue the possibilities for a conceptual framework. We agree, with Power, that a conceptual framework should not be thought of as an: “ultimate foundation in any classical sense but a point of reference in the network of accounting standards and practices that serves to ‘organize’ thinking about them” (Power, 1994, p.53). The ASB fail to see that the primary value of a conceptual framework project lies in the contribution it may make to ongoing dialogue and debate; openness rather than closure on a set of axioms should be the goal of a conceptual framework project.

The third problem with the ASB’s conceptual framework project is that it failed to incite broadly based intersubjective engagement. It has not made itself open to radically competing viewpoints, and has provoked very little involvement of the wider public in the accounting debate. Analysis of comment of the ASB’s draft Statement of Principles (see, e.g., McKernan & O’Donnell, 1998) shows that participation in the debate instigated by the ASB’s project was essentially confined to accountants, auditors, preparers of financial statements and representatives of investors. Finally, it draws its inspiration from narrow streams of thought - it is highly derivative of the FASB’s conceptual framework project of the 1970’s, and does little to expand the accounting imagination - it provides us with no “new candidates for belief and desire phrased in new vocabularies” (Rorty, 1991, p.14). The ASB’s project perpetuates an unexamined privileging of the position of the investor as user of financial statements. It allows no space or purchase to new ideas and gives no encouragement to other voices. Rather than enable progress in financial reporting it entrenches the status quo:

“We can only hope to transcend our acculturation if our culture contains (or thanks to disruptions from outside or internal revolt, comes to contain) splits which supply footholds for new initiatives. Without such splits - without tensions which make people listen to unfamiliar ideas in the hope of finding means of overcoming those tensions - there is no such hope.”

(Rorty, 1991, p.13-14)

The ASB's project provides UK accounting with no basis for growth, through transcendence of our acculturation. It can be viewed as an attempt to repel “disruption from the outside”, and suppress “internal revolt” - a defense at the level of concepts against disorder, contradiction, and most of all against competing perspectives. The straightjacket of an expert search for “correspondence” continues to impede the expansion of the accounting imagination and the development of accounting objectivity. The accounting community does not yet seem to have found a way of “avoiding the disadvantages of ethnocentrism”. We must find ways of expanding our communality if we are to expand the possibilities of accounting thought and knowledge: “There are no definite limits to how far dialogue can or will take us” (Davidson, 1991, p.165).

Preamble to chapter 4: Validity in Accounting Standard Setting and the Presuppositions of External Financial Reporting

In chapter 2 we used Davidson's work to justify the possibility of truth and objectivity in accounting. Our intention there was to defend the possibility of a rational accounting against those "totalized critiques" of reason which have featured prominently in the critical accounting literature in recent decades. In that chapter we defended accounting's potential for descriptive objectivity; its latent capacity to provide true accounts of the objective reality we share, and we take the view that in principle, at least, the rationality crisis facing accounting can be overcome. We regard the possession of true descriptions / accounts of objects and events in the world as a necessary component of rationality. Only on the basis of knowledge of present conditions and relationships can we reasonably expect to be able to orchestrate action so as to achieve desired ends. Clearly, the rationality involved here is primarily an instrumental or purposive rationality, concerned with the effective and efficient relations between means and ends.

We recognize, however, that the full emancipatory potential of financial reporting cannot properly be conceived of in narrowly instrumental terms, and we see the moral and descriptive dimensions of accounting as inextricably entangled. In chapter 3 we argued that the crisis of legitimacy that faces financial accounting might, in principle, be overcome through the application of Habermasian discourse ethics. We take the view that it is only through communicative rationality that the full emancipatory potential of financial reporting can be realized. Our emphasis in chapter 4 is on defending the role of communicative reason in the domain of financial reporting. The defence here is against those theorists, including those of emotivist and scientific hue, who would be inclined to reduce rationality to instrumental rationality and objectivity to descriptive objectivity, and thereby place the normative beyond any rational determination and consequently beyond any rationally based objectivity.

On the Habermasian view of the evolution of society, introduced in chapter 1, the transition to modernity is marked by a struggle between reason and the other of reason, represented by tradition. Modernity itself, in contrast, is characterized by a tension between the instrumental and communicative modes of reason. That tension in modernity is reflected in the contest between the systemic and the communicative integration / coordination of

society. As modernity progresses there is a tendency for the instrumental rationality of the system to turn back upon the lifeworld and supplant the communicative rationality upon which it relies. In modernity the moral dimension of accounting can no longer draw powerful motivating force from tradition, but in principle, as we argued in chapter 3, it can have a strong and objective basis in communicative rationality. Yet as modernity develops there is a tendency for institutions like financial accounting to be increasingly dominated by expertise and instrumental reason and for the moral issues and communicative reason to be progressively marginalized. If accounting is to fulfil its emancipatory promise and serve as a means by which the lifeworld may come to exercise some normative control over the colonizing depredations of the system, in capitalist modernity, it must itself secure its moral foundations in the lifeworld through communicative reason.

The colonization of the lifeworld meets little resistance primarily because the rationalization of the lifeworld is associated with its “differentiation”; it is accompanied by the rise of expert cultures and the segmentation of the lifeworld into fields of knowledge and expertise - science and production, art and aesthetics, morality and law. Because the expertise and knowledge accumulated in the separate spheres is not integrated, and because the separate spheres develop their own technical vocabularies, there is no common consciousness, no synthesised position, from which colonisation can be effectively resisted. In this chapter we use Habermas’ reconstruction of the moral point of view in communicative rationality to resist the collapse of reason in accounting to instrumental reason and of objectivity in accounting to descriptive objectivity. We defend the possibility of normative objectivity in accounting against those accounting theorists, exemplified for us by Shapiro (1997 & 1998), who seem to conceive of the moral dimension of financial reporting, in so far as they recognize it at all, as standing beyond any rational validation. We object to the view that somehow the moral and descriptive dimensions of accounting can be neatly separated and that the accountants’ role can properly be understood in terms of an application of a neutral expertise and instrumental rationality; means in the service of ends that lie beyond rational adjudication.

An important aim of this chapter is to consolidate the analysis of objectivity as intersubjectivity in accounting that we have outlined in previous chapters. This chapter is therefore entirely underwritten by our conviction that objectivity can have no other foundation than intersubjectivity and it contains a restatement of our commitment to a

Davidsonian view of the possibility of descriptive objectivity and to a Habermasian view of the possibility of normative objectivity. The main body of the chapter consists in the development of a critique of scientific analysis of the presuppositions of external financial reporting and maxims of rational argument in accounting debate advanced by Shapiro (1997 & 1998). We use Shapiro's instrumentalist conception of the limits of rationality in financial reporting as a counterpoint to our own view of the foundations of financial reporting and the possibility of validity in accounting standard setting. We thereby hope to contribute to a clarification of what is at stake in debates concerning truth, objectivity and validity in accounting and accounting standard setting.

Chapter 4: Validity in Accounting Standard Setting and the Presuppositions of External Financial Reporting

Introduction

This chapter defends the possibility of objectivity and rationality in accounting and accounting standard setting. The philosopher Donald Davidson's analysis of radical interpretation is used to defend the view that in accounting we can have cognitive objectivity, that is, knowledge of an objective publicly accessible world. And Jürgen Habermas' work on communicative rationality, and in particular his analysis of discourse ethics, is used to resist the collapse of reason in accounting to instrumental reason, and to defend the view that the normative component of accounting could, in the right conditions, attain an objective validity. For both Davidson and Habermas intersubjectivity and the power of reason is all the foundation we need, or can have, to ground claims to descriptive and normative objectivity.

In two recent papers Shapiro (1997, 1998) has set out his views on the presuppositions of external financial reporting and on the principles of rational argument in accounting debate. This chapter responds to Shapiro's recognition of the need for further debate on these issues and to his suggestion that those who disagree with the views he presents, ought to articulate and defend their own thinking on these matters (Shapiro, 1997, p.183). We disagree with much of Shapiro's analysis, and find in the framework of presuppositions and maxims that he provides a natural counterpoint to our own views.

Whilst we share Shapiro's interest in promoting a clarification of the philosophical bases of financial reporting, we have reservations concerning his view that the identification of our "common assumptions and definitions" will facilitate sensible debate. In our view, the search for definitions often leads in essentially fruitless circles. We should not expect always to be able to define our useful concepts in terms of other concepts. Davidson treats the concept of truth as a primitive, "beautifully transparent" in comparison with the much more problematic concepts such as meaning and interpretation which he wants to illuminate using a theory of truth, and he regards humanity's persistent efforts to define and analyse truth as "folly":

"Let me suggest a diagnosis of our aporia about truth. We are still under the spell of the Socratic idea that we must keep asking for the *essence* of an idea,

a significant *analysis* in other terms, an answer to the question what *makes* this an act of piety, what makes this, or any, utterance, sentence, belief, or proposition true. We still fall for the freshman fallacy that demands that we *define* our terms as a prelude to saying anything further with or about them.”

(Davidson, 1996, p.275)

Following Davidson’s lead, in the analysis that follows we take the concept of truth to be vital to the possibility of objective knowledge but refuse to engage in any search for the meaning of “truth” in accounting¹. Nor do we attempt to assemble any alternative synopsis of presuppositions and maxims to compete with Shapiro’s.

The chapter consists of four basic elements: In the first section we offer an antirepresentationalist view of the possibility of objective accounting knowledge. Secondly, Shapiro’s essentially representationalist analysis of the presuppositions of external financial reporting is critically reviewed. In the third section of the chapter we critically comment on Shapiro’s analysis of the role of argument in accounting debate. We object primarily to his preclusion of norms as the subject of rational argument. In the final part of the chapter we outline a Habermasian view of the ideal role of argument in accounting debate, and we argue that, ideally, objective accounting norms and standards can be established and validated through rational argument and debate.

The intersubjective foundations of epistemological objectivity

In this part of the chapter we outline our view of the foundations of accounting knowledge and objectivity. We see no reason to think that accounting knowledge constitutes, in any fundamental way, a special kind of knowledge. Therefore, we begin this section by sketching Davidson’s persuasive analysis of the conditions of possibility of knowledge - of any kind. We then go on to comment, briefly, on the implications of Davidson’s analysis and its application to accounting knowledge. **The reader will find that this section repeats, with different emphasis, much of the discussion of Davidson’s views contained in chapter 2 of this thesis.** Davidson argues that any explanation of the possibility of knowledge must account for the three distinct, but mutually interdependent, kinds of knowledge: knowledge of the world, knowledge of other minds, and knowledge of one's own mind. He suggests that we might think of these three varieties of knowledge in terms of a triangle, resting on a base

of communication - the relation between knowledge of one's own mind and knowledge of other minds. Davidson argues that; knowledge clearly pre-supposes belief; that having a belief requires that we can discriminate between true and false; and following Wittgenstein, he holds that the “source of the concept of objective truth is interpersonal communication” (Davidson, 1991, pp.156-157). Davidson refuses to define truth, but he does recognize one “intuitive truth about truth”, that is; “the truth of an utterance depends on just two things: what the words as spoken mean, and how the world is arranged” (Davidson, 1983, pp.308-309).

It seems that we cannot have knowledge without communication. But what makes communication itself possible? How is it possible for a speaker and interpreter to share an understanding of the meaning of the speaker's utterances? It seems that we need an account of the possibility of interpretation. The interpreter's task is clear; she must assign a propositional content to each of the speaker's utterances. Essentially, she must match a sentence of her own with each of the speaker's sentences. If she “gets things right”, her own sentences will “provide the truth conditions of the speaker's sentences” (Davidson, 1991, p.157) and yield the meaning of the speaker's utterances. But how can the interpreter construct and verify such a framework of truth conditions - a theory of truth and meaning - for the speaker's utterances? What evidence is available? The interpreter clearly has no direct access to the detailed propositional intentions or beliefs of the speaker - and to assume that she did would be to beg the question of interpretation. The interpreter does, however, have access to the speaker's utterances, and, Davidson suggests that it is reasonable to assume that she can detect which utterances the speaker holds to be true in particular circumstances. A speaker will hold an utterance to be true, or false, in part because of what it means, and in part because of what he believes to be the case. If the interpreter aims to establish meanings on the evidence of prompted assent or dissent (holding true or false) to utterances, she must deal with the problem of the entanglement of meaning and belief.

The separation of meaning and belief in interpretation is made possible by the application of the principle of charity. The principle of charity has two components a principle of correspondence and a principle of coherence. The principle of correspondence directs the interpreter to proceed, so far as possible, on the basis that the speaker's utterances are a response to the same aspects of the world that she herself would respond to in similar circumstances. The intention is to constrain belief so as to allow a solution for meaning.

Whenever plausibly possible, the interpreter must assign sentences of her own (truth conditions) to the speaker's sentences that make him right - credit him with true beliefs - according to her own view of things. An interpreter cannot build an adequate interpretive theory of truth and meaning for the speaker's language by taking each sentence in isolation and deciding upon an appropriate matching sentence from her own language for it. Rather she must build a pattern that fits the evidence and respects the interlocking relations of rational entailment between sentences. The principle of coherence directs the interpreter to assume a degree of logical consistency in the speaker's thinking, that is, to assume that the speaker shares her standards of rationality. An adequate interpretive theory of truth and meaning for a language is an account of how the speaker's utterances hold together in a coherent pattern which as a whole fits and makes sense of the speaker's interaction with his environment, as understood by the interpreter.

It is clear that the process of correct interpretation, we have just sketched, relies on "an interpersonal standard of consistency and correspondence" (Davidson, 1991, p.158). Davidson argues that this "interpersonal" standard is an "objective" standard: An interpreter and speaker will, no doubt, on occasion understand one another on the basis of mistaken beliefs, but such cases "cannot be the rule" (Davidson, 1983, p.317). We can be sure "that our view of the world is, in its plainest features, largely correct" (Davidson, 1991, p.158). To understand why we should see the interpersonal standard as objective, we need to go back to the triangular relation between knowledge of the world, knowledge of other minds, and knowledge of one's own mind. We began this section of the chapter by recognizing that all thought and all knowledge, including knowledge of one's own mind, presupposes beliefs, and that having beliefs presupposes a grasp of the concept of objective truth, which in turn depends upon interpersonal communication. We then considered the process of communication, construed as interpretation, and found that it required that the interpreter be able to find regularities in the (verbal) behaviour of the speaker that she could correlate with events and objects in her own world. This process of triangulation on shared stimuli, gives content / meaning to thought and speech, and provides us with assurance that we are in contact with an objective publicly accessible reality of objects and events. Only when the triangle is complete can we tell "whether a creature, in discriminating between stimuli, is discriminating between stimuli at the sensory surfaces or somewhere further out, or further in" (Davidson, 1991, pp.159). We can now see why Davidson thinks that the interpersonal

standard of the community of minds can give us objective assurance that our view of the world must, in its most basic features, be largely correct: "The reason is that the stimuli that cause our most basic verbal responses also determine what those verbal responses mean, and the content of the beliefs that accompany them"(Davidson, 1991, p.160).

Most of our plainest beliefs must be true and their nature known to others because their truth conditions, and therefore their meaning, is constituted by the public objects and events in the world that cause them. Acceptance of the notion that: "the truth of an utterance depends on just two things: what the words as spoken mean, and how the world is arranged" (Davidson, 1983, pp.308-309) does not commit us to a dualism of scheme and content, language and corresponding world. On the contrary it leads us to a closer focus on how the words as spoken are given meaning, and the realisation that our most basic statements and thoughts are given content by virtue of their causal relation with the world we share. Davidson's analysis of the conditions of possibility of the three varieties of knowledge, which we have sketched above, allows no room for possibility that our basic framework of belief can somehow be out of phase with the environment which determines its content. It has no room for the notion of an epistemological gap between the content of thought and the world.

Davidson shows that the nature of correct interpretation guarantees that we are firmly in touch with reality. In touch, that is, not in the sense that our beliefs can be more or less adequate representations of reality, but rather in the sense that many of our simplest beliefs are necessarily causally related to our environment and true. This obviously does not mean or imply that all of our beliefs must be true; mistaken beliefs may sometimes be provoked by misleading sensations, and many of our beliefs derive their content entirely from their relations with other beliefs and have no direct causal relation with our environment. Any particular beliefs may be false, but the basic framework of plain beliefs we hold about the world and our place in it can not be mistaken "for it is this picture which informs the rest of our beliefs, whether they be true or false, and makes them intelligible" (Davidson, 1991, p.160).

Davidson finds a basis for objectivity in intersubjectivity, that is, in the relations between creatures reacting simultaneously to each other and stimuli from a shared world. In effect he finds a middle ground between subjectivity and absolute objectivity, between matters of taste and an objectivity based on the ideal of correspondence: That middle ground and "our only usable notion of 'objectivity' is 'agreement' rather than mirroring" (Rorty,

1980, p.337). The objectivity of a particular piece of knowledge should then be understood in terms of the breadth and quality of agreement associated with it. For Davidson, the notion of an impersonal objectivity beyond the community of minds is delusional. It then becomes clear that if we want to improve our standards of objectivity, it is vital that we take steps to deepen, broaden, and secure the quality of interactions within community of minds.

Davidson is not an antirealist; he clearly accepts the world as “out there” and does not doubt that most things in the world are causally independent of us. What he denies is that they are representationally independent of us; He insists that the world contains no 'truths' or 'facts' prior to language, waiting to be discovered. For an object to be representationally independent of us it would need to have certain intrinsic features, so that it would be more adequately described or represented by certain of our terms or conceptual schemes than by others. A representationally independent object would have a way that it is in itself - its own point of view. Many philosophers recognise that we have no way to distinguish the supposedly intrinsic features of an object from the merely extrinsic, or description relative, features. The antirepresentationalists respond to this fact by discarding “the intrinsic-extrinsic distinction, the claim that beliefs represent, and the whole question of representation independence or dependence” (Rorty, 1998, p.86).

Antirepresentationalists, like Rorty and Davidson, will certainly agree that, within the terms of a particular descriptive framework, the world may justify beliefs. They will, however, urge us to avoid the temptation “to confuse the platitude that the world may cause us to be justified in believing a sentence true, with the claim that the world splits itself up, on its own initiative, into sentence shaped chunks called 'facts'” (Rorty, 1989, p. 5) that may make our beliefs true by corresponding to them. The antirepresentationalist will therefore hesitate to accept without qualification the apparently innocuous suggestion that statements such as “There are no chairs in this room” will be true or false in virtue of the way things are. They will hesitate because they see two ways of interpreting “in virtue of the way things are”: The antirepresentationalist will not accept that any statement can be true “in virtue of the way things are” interpreted as “*simply* in virtue of the way things are, quite apart from how we describe them” (Rorty, 1998, pp.86-87). But she will think any true statement, whether about the presence of chairs, the amount of cash in my pocket, or human rights, is true “in virtue of the way things are” understood as: “in virtue of the way our current descriptions of things are used and the causal interactions we have with those things” (Rorty, 1998, pp.86-87). This

latter interpretation is in effect a variation on the “intuitive truth about truth” recognised by Davidson that: “the truth of an utterance depends on just two things: what the words as spoken mean, and how the world is arranged” (Davidson, 1983, pp.308-309). Anyone who accepts that the world “divides up the way we divide it” (Searle, 1995, p.160), rather than “on its own initiative”, must surely agree that the truth of a statement depends on both “what the words as spoken mean, and how the world is arranged”. But this raises an obvious question: can we distinguish the role of the words (scheme) and the role of the world (content) in determining the truth of our statement? Antirepresentationalist do not think that there is any way that we can make such a distinction, and they will urge us to drop the scheme and content model, and with it any “attempt to sort out propositions by whether they are “made” true by “the world” or by “us” (Rorty, 1998, p.87). If we drop the distinction we will not be able to explain correspondence except by reintroducing something like the notion of the way the world divides itself up – the way the world is in itself. If we are not prepared to do that correspondence must go and along with it the notion of representations and representational faithfulness. An antirepresentationalist will see any attempt to keep correspondence without the notion that there is a way that the world divides itself up, as bound to fail.

We will complete this section by very briefly outlining the salient implications of a Davidsonian antirepresentationalist view of things for accounting: Davidson's analysis gives us good reason for thinking that most of our plainest beliefs must be true, in touch with objective reality, and shared with others. This core of simple true belief, that is given content by its causal relation to the environment, provides the context that informs and makes intelligible our other beliefs. Financial accounting therefore is at its most intelligible when it strongly coheres with beliefs that have direct causal relation with the environment. And accounting is on strong ground when, for example, it deals with market values and transactions, and with assets and liabilities that have a real presence in the environment that is corroborated by their existence in other belief systems. When accounting is on this strong ground, particular accounting statements may be objectively true or false. Financial accounting drifts towards unintelligibility when the indirect connections it can have with the core of plain true beliefs that are causally related to the environment are stretched to breaking by certain accounting practices. Cost allocation and matching exercises, for example, produce accounting values, including depreciated historic cost carrying values for fixed assets, that are patently out of touch with the commercial environment and indeed seem to bear little

relation, if any, to any other system of beliefs. Davidson's analysis also gives us grounds for thinking that an intelligible account, whether about the amount of cash in my pocket, or the trading activity of a commercial organisation, can be true or false "in virtue of the way things are". In antirepresentationalist terms, we may conceive of an account as being true or false in virtue of the meaning of the account and how the world is arranged, provided that we recognise that the meaning of the account is causally, rather than representationally, related to things in the world. That is, our accounts may be true or false "in virtue of the way our current descriptions of things are used and the causal interactions we have with those things" (Rorty, 1998, pp.86-87).

The presuppositions of external financial reporting

In this part of the chapter we critically review the representationalist analysis of the presuppositions of external financial reporting presented by Shapiro (1997, 1998). Shapiro argues that every "community needs some common assumptions and definitions in order to conduct a constructive and intelligible debate about issues that are significant to its members" (1997, p.167). In the hope of clarifying what is at stake in disputes over "rationality, objectivity and 'truth' in external financial reporting" (1997, p.165), and of facilitating rational debate in accounting, Shapiro sets out what he believes to be the primary philosophical presuppositions of external financial reporting. The assumptions identified by Shapiro are clearly inspired by the thinking of the philosopher John Searle, and in particular they closely follow Searle's analysis of the "presuppositions of our contemporary world view" (Searle, 1995, pp.150-151). Much of our disagreement with Shapiro's thinking has its roots in what we see as weaknesses in the analysis put forward by Searle. In specifying those weaknesses we have drawn on Rorty's criticism of the representationalist position presented by Searle. We hope that our critique of Shapiro's essentially representationalist view of the possibility of objectivity and truth in accounting will help to clarify and reinforce our own antirepresentationalist view.

The five presuppositions of external financial reporting identified by Shapiro (1997, p.167) are set out below in Table 1:

Table 1. Five presuppositions of external financial reporting offered by Shapiro	
P1	External realism: External reality exists independently of financial statements that represent it. Social phenomena are ontologically subjective but just as real as ontologically objective physical phenomena.
P2	Correspondence theory of truth: A financial representation is true if it corresponds (at least approximately) to the underlying economic reality that it purports to represent.
P3	Conceptual relativism of financial reporting schemes: All systems of representation, such as conceptual frameworks, are human creations and thus socially constructed. Different systems of representations can be used to represent the same reality, and one system may or may not be better than another. The Objectives of financial reporting are based on normative values that cannot be verified or empirically validated.
P4	Subjective judgement (epistemological subjectivity): Accountants' judgements about what constitutes valid descriptions of economic reality are influenced by many factors – cultural, economic, political, psychological, and so on. Absolute epistemological objectivity is not possible because all accounting judgements are made from a point of view, subject to various measurement biases, motivated by personal factors, and within a certain historical context.
P5	Commitment to rationalism (epistemological objectivity): Knowing is epistemologically objective to the extent that a community can agree on the criteria for evaluating the justification or evidence for assertions. The idea that knowledge consists in having true representations for which we can give certain sorts of justification or evidence is the basis of Western rational science, the notion of due process in standard-setting, and the demand for attestation services. Absolute epistemological objectivity is rejected in favour of a pragmatic, intersubjective, and consensus view.

Shapiro claims that this inventory of presuppositions is, at least implicitly, “generally accepted” (1997, p.167). He argues that it underlies many of the beliefs and attitudes we have

concerning financial reporting, is embedded in various conceptual frameworks for financial reporting, and underpins much of financial accounting and auditing practice. We will argue that Shapiro's presuppositions of external financial reporting represent an incoherent amalgam of two, essentially incompatible, philosophical positions: John Searle's "realism" and Richard Rorty's pragmatism. We begin our critique of Shapiro's analysis by examining each of these supposed presuppositions of external financial reporting in turn.

P1: External realism (ontological objectivity)

Shapiro thinks that realism in financial reporting may usefully be conceived of as a purely ontological philosophical thesis lacking any semantic or epistemic content. Such realism asserts "that some reality exists 'out there' independently of any observer's perceptions, but it does not make any epistemological claim about how or how well an observer might come to know or perceive" (Shapiro, 1997, p.168). Shapiro follows Searle in referring to this ontological realism as external realism. As an ontological thesis, realism "says that there exists a reality totally independent of our representations" (Searle, 1995, p.155), but it allows us to say nothing about the features of that reality:

"Realism does not say how things are but only that there is a way that they are. And 'things' in the previous ... sentence(s) does not mean material objects or even objects. It is, like the 'it' in 'It is raining', not a referring expression."

(Searle, 1995, p.155)

Both Shapiro and Searle emphasise that, in itself, realism does not imply that it makes sense to think that we can have any epistemic access to reality, nor does it imply a correspondence theory of truth. Realism "is not a theory of truth, it is not a theory of knowledge, and it is not a theory of language" (Searle, 1995, p.155).

As a purely ontological thesis we find realism uninteresting but unobjectionable; it is a form of realism that Rorty suggests "no one has ever attacked" (Rorty, 1997, p.160). We are however suspicious of any articulation of a purely ontological realism as we agree with Davidson (1990, p.305) that no positive sense can be made of talk of the real as independent of our representations and beliefs, except in so far as it paves the way for epistemic claims.

Indeed, Rorty is able to identify epistemic claims even in Searle's carefully described ontological realism: Searle insists that realism does not imply “that there is one best vocabulary for describing reality” or “that reality itself must determine how it should be described” (Searle, 1995, p.155). Nevertheless, he is not always quite able to resist the temptation to see systems of representation in terms of their adequacy to reality. And in so far as he suggests that “some of these systems (of representation) can be used more or less adequately, to represent (features of representation-independent reality)” (Searle, 1995, p.167), he clearly implies that some representations are more or less faithful to reality than others. Despite Searle's insistence that there is no way that the world is in itself, he occasionally seems to suggest that we might somehow find “enough of a representation-independent way the world is to make some systems of representation less, and others more, adequate to represent reality” (Rorty, 1997, p.162).

Searle's realism arguably allows space for covert epistemic claims to creep in. Shapiro's external realism, on the other hand, allows blatant epistemic claims; it simply isn't a purely ontological thesis. Searle's external realism consists in the notion “that there is a way that things are that is logically independent of *all human representations*” (Searle, 1995, p.155, emphasis added). The version of “external realism” which Shapiro suggests we should accept, as a presupposition of external financial reporting, significantly modifies Searle's formulation of the thesis. For Shapiro's external realism is the thesis that there is a way that things are that is independent of *financial* representations: “external reality exists independently of the financial statements that represent it” (Shapiro, 1997, p.167). Searle defends the thesis that there is a reality independent of human representations, that is, an “ontologically objective” reality. He sees this “brute reality” as the base upon which we impose and develop our ontologically subjective “social reality”:

“The ontological subjectivity of the socially constructed reality requires an ontologically objective reality out of which it is constructed. ... Because the logical form of the creation of socially constructed reality consists in iterations of the structure X counts as Y in C, the iterations must bottom out in an X element that is not itself an institutional construction. Otherwise you would get infinite regress or circularity.

(Searle, 1995, p.191)

For Searle, a representation dependent social construct like money presupposes the existence of a representation independent reality upon which the social is constructed; it presupposes external realism. However, whilst the “physical realization” of money - “a bit of paper or blip on a computer disk” - is for Searle part of an external reality, money as a social construct is ontologically subjective and not part of external reality (see Searle, 1995, p.56). Shapiro's external reality is not a reality external to all human representation, but merely the reality external to financial representation. It therefore includes much of our ontologically subjective social world - the world that is dependent on our representations. Shapiro's external reality can contain stock option compensation. Searle's external reality would not contain any such, ontologically subjective, social constructs.

Searle tries hard to maintain the notion that “realism does not say how things are but only that there is a way that they are” (Searle, 1995, p.155). He insists that external realism does not imply that there is “privileged vocabulary” for describing external reality). Searle's external reality imposes no descriptive scheme on us: “ontologically objective reality does not have a point of view” (Searle, 1995, p.176). Such claims do not hold for Shapiro's external reality, which includes both ontologically objective reality and ontologically subjective reality. Ontologically subjective reality exists under representations; it has “a point of view”. The socially constructed economic reality of “assets”, “liabilities”, “stock options”, and the like, exists only relative to certain conceptual schemes. If we want to describe the features of the economic reality we are constrained to recognise the privileged descriptive schemes that are built into that reality. The ontology and epistemology of the social are deeply entangled. We can not talk about money or marriage, or a particular debt or particular marriage without implicitly drawing on the conceptual frameworks, which are constitutive of those social realities. Shapiro's external realism allows representation-dependent epistemic claims to be made about the content of reality (how things are). It allows the claim that reality includes certain economic features, including stock option compensation, which are not represented in financial statements.

The fact that Shapiro's external realism is not a purely ontological thesis becomes obvious when we examine his assertion that critics who reject his external realism will have difficulty explaining the existence of business practices which are not reflected in accounts:

“Critics who reject external realism will find it difficult to explain how certain business practices - such as the granting of employee stock options - can exist even though present-day financial reporting practices do not formally recognise them.”

(Shapiro, 1997, p.168)

The genesis of this assertion, we suggest, may be found in Searle's response to antirealism (see Searle, 1995, pp.177-193). Searle sometimes writes as if antirealist philosophers, who “do not believe in ‘mind independent reality’ must deny that there were mountains before people had the idea of ‘mountain’ in their minds or the word ‘mountain’ in their language” (Rorty, 1998, p.72). The “antirealist”, is in fact unlikely to want to engage with Searle's challenge: “it is pointless to ask whether there really are mountains or whether it is merely convenient to talk about them” (Rorty, 1998, p.72). Any similarity, however, between Searle's comments on mountains and Shapiro's on stock option compensation is superficial. Searle's external realism does not in itself say anything about how things are. For Searle reality in itself does not have a privileged vocabulary that includes mountains. The notion of mountains can only arise through our creation of descriptive schemes that include mountains. From Searle's perspective, it is only once we fit the descriptive schemes we have created to reality and find that there really are mountains there that it can make any sense to challenge the antirealist, who agrees that there are mountains, to explain the status of mountains prior to our human recognition of them. If our descriptive schemes did not include mountains then the challenge to the antirealist could not arise. Accepting that stock option compensation is not part of the descriptive scheme of financial reporting, we must consider how it is possible for Shapiro to consider that the existence of stock option compensation can present a challenge to the critics of his external realism. Clearly, Shapiro's urge to challenge the critic is made possible by the fact that the concept of stock option compensation is part of the privileged conceptual scheme already built into the object domain of external reality prior to any account being given. Shapiro's external realism imposes a conceptual scheme on reality, a scheme that includes stock option compensation. Shapiro's external realism is not a purely ontological thesis.

Any critic rejecting Shapiro's external realism, that is someone who does not believe in financial statement independent reality, would not actually be troubled by the challenge

that Shapiro seems to think stock option compensation represents. Such a person would simply not recognise stock option compensation. It would of course be rather difficult to conceive of such a person as anything other than mad. A challenge would arise for this critic only if a new accounting standard was introduced giving financial statement recognition to stock option compensation. The challenge then for such a mad critic would be to explain the status to stock option compensation prior to its recognition in accounts. The common-or-garden antirealist, someone who just wants to deny mind independent reality and confine reality to the scope of human knowledge, might have difficulty in explaining the existence of mountains prior to any human representation of mountains - if they thought that an issue worth engaging with. However they would not have any problem in explaining the existence of stock option compensation and other features of economic reality that are not recognised in financial statements. Stock option compensation is clearly a mind dependent social construct, with a clear existence within human knowledge outside accounts.

In any case, we doubt the validity of Shapiro's "external realism" thesis: it simply does not seem to us that it is correct to say that our socially constructed economic reality exists independently of the financial representations of it. On the contrary, we suggest that accounting and economic concepts and the realities they constitute are inextricably intertwined. In one sense of course it is sensible to think that a company's financial report does indeed give an account of an economic reality that is external to the account given. Just as "Talk of money and marriages is talk of publicly accessible reality, and such phenomena are "representation independent" in the sense that this twenty dollar bill or this marriage between Sam and Sally exists independently of your or my representations of it" (Searle, 1995, p.190), there is clearly a sense in which an individual company's commercial activities are independent of the financial account given of those activities. "But marriages and money, unlike mountains and atoms, do not exist independently of *all* representations" (Searle, 1995, p.190). Money, marriages and economic reality are not part of the "external reality" which Searle argues exists external to "our systems of representation" not just external to particular representations of it. The antirealist critic breaks with Searle by insisting that mountains and atoms are also representation dependent. However, both Searle and his antirealist critic, could (and surely would) agree that the economic reality of any company's commercial activities exists only by virtue of our representations and that accounting concepts play some part in sustaining the representational complex which supports economic reality.

We do not want to claim that realism, in the purely ontological form proposed by Searle, and apparently intended by Shapiro, is false. However, we can see no way in which its recognition could contribute to a clarification of what is at stake in debates concerning financial reporting. Indeed, we regard it as positively unhelpful because it seems, above all, to lay a foundation for the mistaken idea that truth can be intelligibly conceived in terms of the correspondence of representation and reality:

“it is futile either to reject or accept the slogan that the real and the true are ‘independent of our beliefs.’ The only positive sense we can make of this phrase, the only use that derives from the intentions of those who prize it, derives from the idea of correspondence, and this is an idea without content.”

(Davidson, 1990, p.305)

We agree with Davidson that the motive for realist talk, even when it is couched carefully in terms of ontological realism, is generally ultimately, if covertly, epistemic. We are therefore suspicious of any talk of realism in the context of financial reporting, even ontological realism. It prepares the ground for the vacuous idea of truth in accounting as correspondence of financial representation and economic reality². Furthermore, Shapiro’s extension of the notion of external reality to refer to both the ontologically objective and the ontologically subjective domains is particularly dangerous because it may encourage the reification of our social constructed economic reality. By supporting the “phantom objectivity” (Lukács, 1923/1971, p. 83) of the ontologically subjective economic reality, it may help sustain the exploitative social relations which underpin that reality.

P2: Correspondence theory of truth (representational faithfulness)

Shapiro suggests that the correspondence theory of truth is a presupposition of external financial reporting: “a financial representation is true if it corresponds (at least approximately) to the underlying economic reality that it purports to represent” (Shapiro, 1997, p.167). Again it seems Shapiro's position is supported by Searle's analysis of the presuppositions of our worldview. Searle defends a substantial conception of the correspondence theory of truth according to which:

“there really are nonlinguistic facts in the world and statements are true because they really do stand in certain relations to these facts, relations that we variously describe as fitting, matching, stating, or corresponding to the facts.”

(Searle, 1995, p.209)

For Searle the truth or falsity of a statement is fixed by how the world is, independently of how we represent it: “Statements are made true by how things are in the world that is independent of the statement” (Searle, 1995, p.219). Correspondence theorists, like Searle, seek then to explain what it is for whole statements to be true in terms of their correspondence with something else - usually referred to as facts. To give content to the notion of correspondence, they need to give some explanation of how we can specify and talk about those “things” that make our statements true. Many philosophers, from Strawson (1950) to Davidson (1990) have argued that no satisfactory account of facts, as nonlinguistic entities existing in the world, can be given. Critics like Strawson point out that the only way we have of individuating and identifying a particular fact is by using the same language we use to individuate and identify its corresponding sentence. Facts are not extralinguistic entities, they are “what statements (when true) state” (Strawson, 1950/1964, p.38). Therefore true statements and their corresponding facts are not independent entities: Correspondence theories of truth essentially fail to provide independent entities to which truth vehicles (whether statements, sentences or utterances) can be said to correspond (see Davidson, 1990, pp.303-305). Rorty suggests that Searle's realist-correspondentists position breaks-down on precisely this point; he can give no satisfactory explanation of “in what sense a ‘way the world is’ can be ‘independent’ of a description of the world?” (Rorty, 1997, p.161). Rorty thinks that any such explanation would have to “find a use for ‘a way the world is’ that is glossable by neither ‘in itself’ nor ‘under a description’” (Rorty, 1997, pp.161-162), and he suggests that no such explanation can be found. At one time Searle accepted the force of the Strawson / Davidson critique of correspondence (see Searle, 1995, p.204). Recently, however, he has taken the view that the statement of a true sentence is a satisfactory way of specifying the “thing” that makes a sentence true - “that which stands outside the statement but which makes it true” (Searle, 1995, p.211). Together with Strawson, Davidson and Rorty, we can see no sense in which the statement of a true sentence can take us beyond language

to how things are in the world prior to our descriptions; we cannot see how a fact, defined as “the statement of a true sentence”, can be extralinguistic. We nevertheless accept the intuition that whether or not what is claimed about the world is true must depend upon the world. We therefore agree with Putnam that “to say that truth is ‘correspondence to reality’ is not false but *empty*” (Putnam, 1992, p.10). Empty that is, as long as nothing is said about what the correspondence is. And, unfortunately, the Strawson / Davidson critique of the correspondence theory of truth leaves us with no reason to think anything meaningful can be said about the nature of “correspondence”. No one seems to be “able to say in a nontrivial way what sort of ‘thing’ it is that makes a sentence (or other truth bearer) true” (Davidson, 1997, pp.110). The notion that truth is a matter of correspondence to facts will remain empty until such time as someone can “come up with an intelligible and illuminating way of individuating the entities to which true utterances or beliefs correspond, along with an acceptable semantics for talk about such entities” (Davidson, 1999a, p.17)³.

A rhetoric of correspondence apparently permeates financial reporting. Nevertheless, the correspondence theory of truth can not be a real substantial presupposition of financial reporting, because the notion that truth consists in a relation of correspondence between representation and the (nonlinguistic) facts is essentially unintelligible. We suggest that accounting theorists ought to avoid any talk of correspondence and facts, which seems inevitably to foster confusion. The notion of correspondence may be empty/unintelligible, but it is not innocuous: Our deepest objection to the kind of realist-correspondentist view put forward by Searle and others, is that it gives us no grounds for well founded confidence that our beliefs are securely in touch with reality. Indeed, it allows the possibility that all our beliefs, thoughts and theories, including those most firmly established and best researched, may be mistaken: “We could be totally mistaken about how the world is in every detail” (Searle, 1995, p.155). In contrast, Davidson's analysis of the conditions of possibility of knowledge, which we sketched in the first part of this chapter, gives us good reason for thinking that most of our basic beliefs are true and in touch with objective reality.

P3: Conceptual relativism of financial reporting schemes

Conceptual relativity for Searle basically consists in the assertion that: “All representations of reality are made relative to some more or less arbitrarily selected set of concepts” (Searle, 1995, p.161). Shapiro essentially applies Searle’s version of the conceptual relativity thesis

to financial reporting. He argues that that in accounting many “Different systems of representations can be used to represent the same reality, and one system may or may not be better than another” (Shapiro, 1997, p.167). Any full-blooded relativism, that for example made reality itself relative to our conceptual schemes, would of course be fundamentally incompatible with the idea of an uninterpreted reality that is as it is independently of our representational schemes. Therefore, given their commitment to external realism, Searle's and Shapiro's invocation of relativism is perhaps best understood as a rhetorical device intended to draw attention to their view that any interpretation of reality is bound by the conceptual scheme employed by the interpreter; “we do not make ‘worlds’; we make *descriptions* that the actual world may fit or fail to fit” (Searle, 1995, p.166). Conceptual relativity, for Searle and Shapiro, then implies that true descriptions are always made relative to some more or less arbitrarily selected system of concepts for describing the world. It is, however, important to see that this relativity of truth amounts to no more than the obvious fact that the truth or falsity of any sentence is relative to the language in which it is expressed. The conceptual relativity of truth for Searle and Shapiro can *not* mean that “the same statement (not the same sentence, but the same statement) could be true of the world in one conceptual system but false of the world in another conceptual system” (Searle, 1995, pp.166-167).

Searle rejects naïve metaphysical realism⁴; in particular, he rejects the idea that there is a correct conceptual scheme for describing reality. He argues, rather, that things can be represented under an indefinitely large number of alternative descriptive schemes, points of view or aspects: “representation, and a fortiori all truthful representation, is always under certain aspects and not others” (Searle, 1995, pp.175). He maintains that there is no way things are *in themselves*, and warns us that “it will be impossible to get the coincidence between truth and reality after which so many traditional philosophers seem to hanker” (Searle, 1995, p.176). His conceptual relativism, therefore only allows the possibility that one scheme of representation may be better than another, provided the term “better” is understood in strictly pragmatic terms: One scheme may be “better for some purpose” than another. Any suggestion that some systems of representation might somehow better reflect, or more adequately grasp reality, than others, would be incompatible with Searle’s external realism as a purely ontological thesis and with the notion that “reality does not have a point of view” (Searle, 1995, pp.176). Nor could such a suggestion be squared with the conviction that there is; *no* “one best vocabulary for describing reality” (Searle, 1995, p.155); *no* “privileged

conceptual scheme” (Searle, 1995, p.164). Nevertheless, if Searle’s dualism of descriptions we make (scheme) and world (content) is adopted, and it is accepted that the world may fit (correspond to) some descriptions and fail to fit others, it surely must become difficult to resist the temptation to think that some descriptions are more adequate to reality than others. If that temptation is succumbed to, the pursuit of full and correct descriptions of the one reality must begin to appear to be a reasonable goal, and any practical distinction between Searle’s realism and naive metaphysical realism dissolves. Searle himself occasionally seems to be tempted to recognise some descriptive schemes as more adequate to reality than others. He claims, for example, that “It is a well-known fact that certain models, e.g., Aristotelian physics and the Mercator projection, are mistaken about or distort certain features of the world” (Searle, 1995, p.167).

In his discussion of the possibility that some systems of financial representation might be “better” than others Shapiro mainly confines his remarks to what we have called a pragmatic understanding of “better”, where the “better” scheme is the one which is somehow more fitting to our interests and objectives. He does, however, seem in places to lapse into the suggestion that some systems of financial representation may be better than others; in the sense that they may more adequately grasp reality. He suggests, for example, that in financial reporting; “Disagreement and other difficulties with definitions may suggest that the definitions describe some features of external reality better than others” (Shapiro, 1997, p.171). For Shapiro there does seem to be a way that economic reality is in itself, and it includes stock options - whether or not they are included in the in the financial descriptions we make. It seems that, for Shapiro, truth and reality can be made to coincide in accounting; and including stock option compensation in our scheme of financial representations would be a step towards more adequate, complete and faithful representation of reality.

Searle’s conceptual relativism to allow the world scope to impose itself upon our conceptual schemes only from within those schemes: On this view, the world itself has no structure, which it can impress on our concepts. Most, even very modest, realists would want to maintain a stronger sense of the world-guidedness of our descriptions, than Searle’s external realism allows. They would argue that the world must in itself “make some boundaries more salient than others” (Farrell, 1996, p.167). A vision of a world that “divides up the way we divide it” (Searle, 1995, p.160), a world with no structure in itself prior to the introduction of the system of concepts that we have “more or less arbitrarily selected” for

describing it, is clearly very difficult to consistently reconcile with realism and the correspondence theory of truth. Neither Searle nor Shapiro is able to strictly maintain any such reconciliation, and, in relaxing their commitment to conceptual relativity, both drift towards a naïve metaphysical realism.

Our basic objection to the thesis of conceptual relativism is that, in anything other than the banal sense that the truth of a sentence must be relative to the language in which the sentence occurs, the thesis is ultimately unintelligible: “Conceptual relativism is a heady and exotic doctrine, or would be if we could make good sense of it. The trouble is, as so often in philosophy, it is hard to improve intelligibility while retaining the excitement” (Davidson, 1974a, p.183). In his discussion of conceptual relativism, Shapiro seems to imply that the work of Davidson and Rorty would support the presupposition of conceptual relativity:

“(A)ccounting judgements are made through the lens of conceptual schemes, and to that extent they are constrained by the inherent limitations of those schemes. Many philosophers hold the belief that no one can completely shed their conceptual schemes and attain what may be called a God's-eye view from which one may objectively compare alternative schemes (e.g. Davidson, 1984; Rorty, 1991).”

(Shapiro, 1997, pp.172-173)

Davidson and Rorty certainly do reject the notion of a Gods-eye-view, however it would be a mistake to think that either embraces conceptual relativism. Indeed, Davidson is anxious to discourage talk of conceptual relativism and “the very idea of a conceptual scheme” (Davidson, 1974a) as something that might organise, fit, or construct reality. He strongly rejects the dualist, scheme and content, view which Searle and Shapiro seem to be committed to, of a world of facts which can somehow fit (or fail to fit) our descriptions and which can make them true (or false):

“I want to urge that this ... dualism of scheme and content, of organizing system and something waiting to be organized, cannot be made intelligible and defensible.”

(Davidson, 1974, p.189)

Davidson rejects the correspondence theory of truth and with it the notion of the mind or language as holding a mirror to reality. He equally clearly rejects any suggestion that the specular relation might work in the opposite direction so that our representations are somehow projected upon and articulate the world. Davidson argues that our representations must generally be sensitive to the way the world any way is; the way it articulates itself (see Farrell, 1996, p.78).

Davidson of course recognises that we address the world through language - our conceptual scheme, and he accepts that if different languages could not be intertranslated they would constitute different conceptual schemes, and that we might then sensibly talk about conceptual relativity. Searle uses the example of weight to illustrate his notion of different conceptual schemes; Weight in pounds and kilograms supposedly operate in different conceptual schemes: “the claim that I weigh 160 pounds is consistent with the claim that I weigh 73 in kilograms. External realism allows for an infinite number of true descriptions of the same reality made relative to different conceptual schemes” (Searle, 1995, p.165). Clearly, translation between pounds and kilograms is possible - there is no “genuine inconsistency” (Searle, 1995, p.167), we therefore have some difficulty in making any real sense of the notion that we are dealing here with different conceptual schemes. Davidson (1974a) argues that we can never make much sense of failure of intertranslatability, and consequently we cannot make good sense of the notion of different conceptual schemes or of conceptual relativism. Rorty lends no more support to conceptual relativism than Davidson⁵.

Confined to the notion that alternative vocabularies and systems of representation can be used to represent the same reality, conceptual relativism is innocuous if banal. Nevertheless, we recommend that accounting theorists should avoid any talk of conceptual relativism: The problem is that those who entertain the notion of conceptual relativism are often unable to resist the allure of more exotic and less intelligible variants of the doctrine. Shapiro succumbs to this temptation when quoting, with apparent approval, Morgan's view that “Accountants ... are subjective ‘constructors of reality’” (Morgan, 1988, p.477, quoted by Shapiro, 1997, p.172), he endorses the view that alternative schemes construct alternative realities. Shapiro offers no explanation of how this relativity of reality can be reconciled with the presupposition of external realism and the correspondence theory of truth; we suggest that

no such reconciliation is possible⁶.

P4: Subjective judgement (epistemological subjectivity)

Shapiro seems to want to encourage us to recognise an inherent subjectivity of accounting judgement:

“Absolute epistemological objectivity is not possible because all accounting judgements are made from a point of view, subject to various measurement biases, motivated by personal factors, and within a certain historical context.”

(Shapiro, 1997, p.167)

From Searle’s realist-correspondentist perspective, judgements are ‘objective’ when their truth or falsity can be decided by the facts of the matter; and ‘subjective’ when “their truth or falsity cannot be settled ‘objectively,’ because the truth or falsity is not a simple matter of fact but depends on certain attitudes, feelings, and points of view of the makers and hearers of the judgement” (Searle, 1995, p.8). Given Shapiro’s advocacy of external realism and the correspondence theory of truth, we might have anticipated that he would be committed to the possibility of epistemological objectivity in accounting; at least as an ideal. Otherwise it would be hard to see any point to his talk of realism and correspondence. And indeed he does seem to indicate, relatively plainly, that he believes that financial statements may be objective; that is, in a realist-correspondentist sense, true or false in virtue of the facts of the matter:

“Once the basic financial statement elements are defined it is neither arbitrary nor a matter of opinion as to whether features of external reality do in fact satisfy the definitions.”

(Shapiro, 1997, pp.170-171)

Furthermore, the “transcendental” argument advanced by Searle (1995, pp.183-294) in support of the external realism, embraced by Shapiro, purports to show that the normal intelligibility of a large class of utterances requires a publicly accessible reality of phenomena that are both ontologically *and* epistemically objective. Searle’s effort to justify external

realism is clearly motivated by his desire to defend the possibility of epistemological objectivity: “the rejection of realism, the denial of ontological objectivity, is an essential component of the attacks on epistemic objectivity, rationality, truth, and intelligence in contemporary intellectual life” (Searle, 1995, p.197). The presupposition of the epistemological subjectivity of accounting sits uneasily with Shapiro’s other commitments. Given those commitments we would have expected him to emphasise the possibility of epistemological objectivity in accounting and perhaps agree with Searle that: “Facts about money can be epistemically objective even if the existence of money is socially constructed, and, therefore, to that extent, ontologically subjective” (1995, pp.190-191). The presupposition of the epistemological subjectivity in accounting is attractive to those scheme and content dualists who see accounting as a representational scheme that constructs its own reality. We should not be surprised to find that such theorists see “the idea of objectivity in accounting is largely a myth” (Morgan, 1988, p.477). As we have seen, Shapiro is clearly drawn by views such as those expressed by Morgan, and this may explain his view on the subjectivity of accounting judgement.

It may be that we are reading too much into Shapiro’s presupposition of the epistemological subjectivity of financial reporting; Perhaps he means to suggest no more than the platitude that ‘absolute’, understood as ‘complete’, objectivity is unattainable. The contrast between epistemically objective and epistemically subjective judgement is however, surely, always essentially a “matter of degree” (Searle, 1995, p.8). We suggest that it would be difficult to find any accountant (academic or practitioner) who would want to dispute the notion that in accounting, as in most other areas of contemporary life, the attainment of “complete epistemic objectivity is difficult, sometimes impossible” (Searle, 1995, p.151). But this would seem to give scant justification for suggesting that financial reporting rests on a presupposition of epistemologically subjectivity. Surely financial reporting is predicated upon the presupposition that a significant degree of “objectivity” is attainable in accounting; The very existence of accounting practice seems to rely on the assumption that we can have accounting knowledge; And knowledge for a realist-correspondentist like Searle (and Shapiro?) is by definition objective:

“Having knowledge consists in having true representations for which we can give certain sorts of justification or evidence. Knowledge is thus by definition

objective in the epistemic sense, because the criteria for knowledge are not arbitrary and they are impersonal.”

(Searle, 1995, p.151)

The statement that *absolute* epistemic objectivity is unattainable is in itself unobjectionable, so long as the emphasis is kept on the word “absolute”. The problem with the presupposition of “subjective judgement (epistemological subjectivity)” (Shapiro, 1997, p.167) is that it is liable to be (mis)understood, at least by the unwary, as an advocacy of the view that objectivity in accounting is unattainable, that is, as support for the view that “objectivity in accounting is largely a myth” (Morgan, 1988, p.477). We read the work of both Searle and Davidson as defences of the possibility of epistemic objectivity, and find particularly persuasive Davidson’s defence of possibility that we can have knowledge of the objective public world we share. Accounting theorist should, perhaps, avoid talk that could be construed as a dismissal of the possibility of epistemic objectivity in accounting.

P5: Commitment to rationalism (epistemological objectivity)

For a realist-correspondentist, like Searle, judgements are epistemically objective in so far as “the facts in the world that make them true or false are independent of anybody’s attitudes or feelings about them” (Searle, 1995, p.8). On Searle’s representationalist view of things epistemic objectivity is understood in terms of accurate or true representation. Such a view stands in stark opposition to the antirepresentationalism of philosophers like Davidson and Rorty, outlined in the first part of this chapter, that recognises that intersubjectivity is all the foundation we need, or can have, for objectivity. Shapiro’s fifth presupposition of external financial reporting “epistemological objectivity” seems to be caught somewhere between these two fundamentally antithetical views of objectivity.

In stating his fifth presupposition, Shapiro echoes Searle’s representationalist view that having “knowledge consists in having true representations for which we can give certain sorts of justification or evidence” (Searle, 1995, p.151, and Shapiro, 1997, p.167). Antirepresentationalist would, of course, like us to stopped talking about representations altogether: “it is good to be rid of representations, and with them the correspondence theory of truth, for it is thinking that there are representations which engenders thoughts of relativism”(Davidson, 1988, pp.165-166, quoted by Rorty, 1998, p.48). If there are no

“things” for our true sentences to correspond to, there can be nothing for them to represent. Despite Shapiro’s apparent commitment to representations and correspondence, he rejects the representationalist view of epistemological objectivity - “absolute epistemological objectivity” - in favour of a conception of objectivity as intersubjectivity. With presupposition five Shapiro abandons Searle’s realism for Rorty’s pragmatism, and suggests that we should recognise that financial reporting presupposes “a pragmatic, intersubjective, and consensus view” of objectivity (Shapiro, 1997, p.167). In keeping with this pragmatic turn, Shapiro endorses Rorty’s suggestion that “there is nothing to be said about either truth or rationality apart from descriptions of familiar procedures of justification which a given society - *ours* - uses in one or another area of inquiry” (Rorty, 1991, p.23, quoted by Shapiro, 1997, p.173).

These pragmatic views of truth and objectivity are plainly inimical to the realist-correspondentist position put forward by Shapiro in presuppositions one and two⁷. Those who hold a correspondence theory of truth (with the apparent exception of Shapiro) clearly do think that there is more to be said about truth than mere description of our ways of manufacturing justification⁸. Above all else, it is Searle’s commitment to a correspondence theory of truth that distinguishes his representationalist position from Rorty’s antirepresentationalism:

“The question at issue between representationalists like Searle and antirepresentationalist like me is merely this: Can we pair off parts of the world with parts of beliefs or sentences, so as to be able to say that the relations between the latter match the relations between the former? Can true beliefs or sentences be treated on the model of realistic portraiture?”

(Rorty, 1998, p.74)

For Rorty the “the substitution of objectivity-as-intersubjectivity for objectivity-as-accurate-representation is the key pragmatic move” (1998, p.83). Shapiro is prepared to make that move and to encourage us to conceive of truth, in Rortian terms, as “what is good for us to believe” (Shapiro, 1998, p.657). However, Shapiro’s talk of realism and correspondence suggests that he remains caught within the realism/idealism, scheme/content, problematics which antirepresentationalist like Rorty want to leave behind.

The representationalist conception of objectivity as correspondence or true representation is, as previously explained, essentially incoherent. We therefore welcome Shapiro's recognition that objectivity must be founded upon intersubjectivity. The notion of objectivity-as-solidarity is, however, surely unlikely to be taken seriously in accounting debate until we stop talking about 'correspondence' and 'true representations', and thereby free ourselves of the illusion of objectivity-as-accurate-representation. Shapiro's advocacy of external realism and his attempts to resuscitate the correspondence theory of truth in accounting can only impede proper recognition of the necessarily intersubjective basis of objectivity.

The Presuppositions – Summary

The presuppositions of financial reporting articulated by Shapiro are inconsistent, one with the other. Such inconsistency can do little to facilitate rational debate in accounting. The main problems we see with the formulation of the presuppositions of external financial reporting offered by Shapiro are as follows: (i) We see no point to the presupposition of external realism except insofar as it paves the way for misguided epistemological claims - this presupposition should be dropped without replacement. (ii) The correspondence theory of truth is unintelligible - it must be dropped. We follow Davidson in thinking that we can well do without a stipulative definition of truth - we should not look for alternative definitions of truth in accounting. (iii) In any full-blooded form conceptual relativity is difficult to make any sense of, and it hardly seems worth stating the obvious fact that the truth of any sentence is relative to the language in which it occurs. We suggest that the presupposition of conceptual relativism should be dropped, and that accounting theorists should carefully avoid terminology liable to encourage the unintelligible view that reality or the truth of statements (as opposed to sentences) might be scheme relative. (iv) We agree with Shapiro that absolute epistemological objectivity is not possible in accounting. Accounting does, however, deal with publicly accessible phenomena and does seem to presuppose the possibility that some high degree of epistemological objectivity can be achieved (albeit objectivity based on intersubjectivity). We suggest that accounting theorists should avoid any terminology that implies that accounting is somehow incorrigibly subjective, or that objectivity in accounting is a myth - the statement of a presupposition of "epistemological subjectivity" may foster such misconceptions. We find in Shapiro's

presupposition of epistemological objectivity a welcome turn towards an antirepresentationalist position that recognises that the only ultimate foundation for objectivity is intersubjectivity. In our discussion above we have stressed that such a position cannot be married with a commitment to a correspondence theory of truth.

We have not meant, in anything that we have said above, to cast any doubt on the view that “truthfulness”, “fairness” and “objectivity” are absolutely vital qualities in financial reporting. The value of philosophical theorising about such matters is, perhaps, altogether more dubious:

“If we antirepresentationalist and anticorrespondentists ever win our argument with Searle, that will give historians and physicists no reason to behave differently than they presently do. Nor, I suspect, will their morale or their efficiency improve if Searle and his fellow representationalists should win. Honesty, care, truthfulness, and other moral and social virtues are just not that closely connected to what we philosophy professors eventually decide to be the least problematic way of describing the relationship between human inquiry and the rest of the universe.”

(Rorty, 1998, p.75)

Nevertheless, we do believe the acceptance of an antirepresentationalist view of accounting ought to have significant implications for how we conceive of the role of rational argument in accounting debate. We turn to that issue in the next part of this chapter.

Rational argument in accounting debate

Antirepresentationalism acknowledges the inevitable contingency of language and the human condition (see Rorty, 1989); it recognises our referential categories as the product of historical discursive struggle and allows no scope for the validation of our referential schemes by test against predeterminate reality. It denies the possibility of a paradigm-free “final vocabulary” with privileged access to reality; “there is no chance that someone can take up a vantage point for comparing conceptual schemes (e.g. the astrologers and the astrophysicists) by temporarily shedding his own” (Davidson, 1974a, p.185). For the antirepresentationalist questions about the accuracy with which our representations reflect

reality tend to be supplanted by questions about the usefulness of our referential frameworks and their political/ethical justification. From this perspective it then becomes vital that we pay close attention to how the accounting, recognised as an “ethical, historically contingent, and socially constructed” (Shapiro, 1998, p.657) practice, is developed through debate and argument. Shapiro has made a welcome contribution to this project by providing an analysis of the conditions and maxims for rational debate concerning alternative accounting practices. In our view, however, Shapiro misconceives proper role of argument in accounting debate and thereby underestimates its potential. Once we have explained our critical assessment of Shapiro’s analysis, we will outline our own Habermasian view the role and potential of argument in accounting debate.

Shapiro's (conditional)-normative model of rational argument

We have summarised, in Table 2, the three conditions for rational and objective debate over alternative accounting practices, put forward by Shapiro in his 1997 paper. Shapiro develops his analysis of the conditions for rational debate in accounting more fully in his 1998 paper, and Table 3, briefly sets out the maxims for critical discussion he advances in that paper.

Table 2. Three conditions for rational and objective debate over alternative accounting practices, proposed by Shapiro (1997, p.166).	
C1	Participant in a debate must give justification or evidence for their assertions and respond to counter-arguments.
C2	Participants must ... assert only what they know not to be false and avoid asserting something for which they lack evidence.
C3	Participants must be able to evaluate the extent to which a particular financial reporting practice may achieve an explicitly stated financial reporting objective, independently of the opinions or attitudes they have toward the particular reporting objective in question.

Table 3. Maxims for critical discussion proposed by Shapiro, (1998) (adapted from Van Eemeren & Grootendorst, 1987)	
M1	Parties must not prevent each other from advancing or casting doubt on standpoints.
M2	Whoever advances a standpoint must defend it if asked to do so.
M3	An attack on a standpoint must relate to the standpoint that has really been advanced by the protagonist.
M4	A standpoint may be defended only by advancement of arguments related to that standpoint.
M5	A person can be held to the premises he leaves implicit.
M6	A standpoint must be regarded as conclusively defended if the defence takes place by means of arguments belonging to the common starting point.
M7	A standpoint must be regarded as conclusively defended if the defence takes place by means of arguments in which a commonly accepted scheme of argumentation is correctly applied.
M8	A failed defence must result in the protagonist withdrawing his standpoint and a successful defence must result in the antagonist withdrawing his doubt about the standpoint.

We will attempt to justify our critique of Shapiro's model of rational argument in accounting by concentrating on certain salient issues and in particular his conception of the limits of argument. We will have little to say about most of the detail of the maxims he proposes. In our view the vital thing to understand about Shapiro's prescription for rational argument concerning alternative accounting practices, is that it places the norms and values upon which alternative accounting schemes are based beyond the scope of rational argument. For Shapiro, norms are not open to objective validation and "... because the objectives of financial reporting are based on norms that cannot be validated or empirically verified, reasonable people can disagree about those objectives" (Shapiro, 1997, p.183).

Shapiro's denial of the possibility that norms might be validated by rational argument is made the more surprising by the fact that he opens his 1998 paper with a quote from an essay in which Habermas (1983) sets out precisely to show how norms can be objectively

validated through rational debate. Shapiro seems to reject the basic import of the Habermasian analysis. He appreciates that accounting practice is always historically contingent and built upon norms and values. However, he does not draw the obvious Habermasian implication that accounting practice can ultimately only be legitimated through the objective validation of those underlying norms in rational debate. Instead, because he assumes that accounting norms can not be objectively validated, he concludes that the accounting practice built on those norms can have no objective basis or legitimacy; “because all financial reporting schemes are socially constructed and based on norms that cannot be empirically refuted or verified ... they lack an objective basis or absolute foundation to legitimise them” (Shapiro, 1998, p.641).

Shapiro rightly sees that norms invariably undergird our historically contingent accounting schemes and practice; they “are embedded not only in user-oriented financial reporting objectives... , but also in qualitative characteristics of accounting information such as relevance and reliability ... , and definitions of basic financial statement elements” (Shapiro, 1998, p.655). Nevertheless, despite his recognition of their vital significance he does not want to make these norms the focus of rational argument. For Shapiro the embedded norms are part of the “common starting point that makes a critical accounting discussion possible” (Shapiro, 1998, p.655). In Shapiro's view of things, the dominant norms and the accounting objectives and prized qualitative characteristics of accounting that follow from them, set the bounds of acceptable rational argument concerning alternative accounting practices: They are not to be the subject of that argument but its starting point. Shapiro recognises that the norms underpinning accounting practice are historically contingent and socially contested, he appreciates that “these norms and the language games they prescribe and proscribe ... are sites of much conflict” (Shapiro, 1998, p.647), yet his model of rational accounting argument has no place for that contest.

Shapiro's maxims of rational argument are, in effect, his suggestions for how debate should be focused and disciplined. Maxim 6, for example, stipulates that: “A standpoint must be regarded as conclusively defended if the defence takes place by means of arguments belonging to the common starting point” (Shapiro, 1998, p.644). A key element of the discipline he proposes is the exclusion of “irrelevant” and the “unacceptable” arguments. The “operational definition” of acceptable and relevant argument, he suggests, will be guided by the common starting point including “the stakeholder objectives of financial reporting, and

the other norms they entail” (Shapiro, 1998, p.647). To illustrate the distinction between acceptable and unacceptable argument Shapiro considers the position of argument from “economic consequence” in context of the concept of neutrality. He argues that the concept of neutrality is predicated on the normative assertion that the role financial reporting is to facilitate economic and business decision-making, and he recognises that, as such, it has a “partisan role” (Shapiro, 1998, p.649). Nevertheless, he happily suggest that the concept of neutrality renders “indirect economic consequences that result from stakeholder responses” (Shapiro, 1998, p.649) irrelevant to rational accounting debate; “such economic consequences arguments commit the *argumentum ad consequentiam fallacy*” (Shapiro, 1998, p.649). For Shapiro, the close relation of the concept of neutrality to the presently existing normative base of financial reporting seems to place it beyond rational contention; it has a privileged position as a starting point for rational debate in accounting.

Shapiro recognises, but makes no apology for the fact that his “normative model of rational argumentation imposes (and even condones) a certain kind of “violence” on the heterogeneity of language games that seek to occupy the accounting debates” (Shapiro, 1998, p.660). His stance is stolidly conservative; he seems to see the status quo as imposing “obligations” on the participants in accounting debate:

“Although financial reporting objectives lack an absolute or universal foundation, a given set of explicit objectives imposes social obligations on all participants (including rule making bodies) in the accounting standard setting process. For example, user oriented financial reporting objectives obligate standard setters to establish and improve standards for the benefit of external users.”

(Shapiro, 1998, p.642)

He provides no explanation or justification of why we should think that the dominant norms and associated objectives and prized qualitative characteristics of accounting impose obligations on the participants. Nor does he give any explanation of the nature of the supposed obligation. Our own view is that norms carry the obligatory force that they do, only by virtue of their validity. Shapiro seems to think that norms can’t be validated, yet he clearly thinks these obligations are somehow strong enough to justify the stifling curtailment of

argument - the “violence” - that he recognises his normative model of rational argument would impose.

Shapiro's approach to rational argument complements the “conditional-normative” approach to financial reporting developed by Mattessich (1995). Mattessich recognises the growing interest in the ethical and normative aspects of accounting, and he agrees with Shapiro that the value judgements and associated norms that underlie accounting theory and practice can have no objective basis, and are not open to validation: they “are neither objective nor accessible to empirical refutation or verification” (Mattessich, 1995, p.264). He suggests we should conceive of accounting as an applied science, and that the normative dimension of accounting might best be accommodated by the adoption of what he calls a conditional-normative methodology. That methodology would recognise that our accounting models rest on value judgements and norms; indeed it would insist on their explicit recognition and disclosure, and require that we acknowledge that the preferred norms have been chosen from “many possible alternatives” (Mattessich, 1995, p.265). The elected norms and value judgements would then be incorporated as premises in the development of purpose-oriented accounting models. The contribution of the accounting researcher/theorist would then be to empirically research and appropriately theorise the relationship between various norms, values, and purposes and accounting means. Mattessich sees the conditional-normative methodology as a significant break with positive accounting theory, which allows no normative elements in its premises and essentially leaves the user to tie together purposes and accounting means. The essence of any applied science, as Mattessich sees it, is in the development of a set of theoretical solutions for a range of alternative objectives:

“Only then can the user - be she or he a medical practitioner, engineer, lawyer or accountant - take the theory and apply it to actual practice without getting her/himself involved in cumbersome inferences of means-end relations”

(Mattessich, 1995, p.266).

Both Mattessich and Shapiro treat the norms underlying accounting practice as lying beyond critical analysis - beyond reason. For both, the selection of ends in accounting, is a matter of simple choice, an expression of preference and power; reason is reserved for the evaluation of means:

“Once the objectives are explicitly stated, a conditional normative approach makes it possible for one to evaluate the extent to which a proposed financial reporting practice (the means) may achieve the objectives.”

(Shapiro, 1997, p.170)

Shapiro contributes to the development of conditional-normative approach to accounting theory by giving more emphasis to the role of argument in the identification and selection of appropriate means, than does Mattessich who is content to emphasise the identification of appropriate means through logical analysis and empirical verification. Mattessich's approach is to frankly urge the need for the rigorous application of instrumental reason. Shapiro recommends an instrumental reason but in terms perhaps more superficially palatable to a liberal audience. He repeatedly suggests that the conditions of argument he prescribes are somehow appropriate for “critical” debate, and he explains that his conditional normative model is based on “the premise that the goal of a critical accounting discussion should be to reach conclusions by means of reasoned argument” (Shapiro, 1998, p.642). However, it is not at all clear how we are expected to understand the term “critical” in this context. The conditions for argument that Shapiro prescribes, and in particular the distinction they maintain between the acceptable and unacceptable argument in terms of respect for the common starting point, are in our view essentially inimical to critical discussion. Shapiro's conditions for rational argument set the ground for debate between experts - who know and respect the “common starting point” (Maxim 6), and “commonly accepted scheme of argumentation” (Maximum 7). It provides for the exclusion of those critical elements, which would seek to disrupt the status quo.

We have two main objections to the conditional-normative approach that Shapiro seeks to develop/advance. Firstly, it relies heavily on the 'myth' of managerial effectiveness; Mattessich's accountant will supposedly have in his dispensary a battery of effective accounting means to match a wide range of purposes. One “very simple, yet probably devastating” problem with this “prediction and control view of accounting science” is that “we can't predict” (Williams, 1992, p.100). And there are good reasons why we should recognise that accounting research will never yield the kind of knowledge, that is, a stock of law-like generalizations with good predictive power, that would seem to be necessary to

operationalize Mattessich's vision (See MacIntyre 1985, ch.8). It would be a mistake, however, to think of the conditional-normative approach as misconceived but harmless. The masquerade of managerial effectiveness and hence justified authority is one of the central moral fictions of our times - "and perhaps the most culturally powerful of them all" (MacIntyre, 1985, pp.76). We see Shapiro's attempt to find a place for "rational" argument in the identification of means, as a new twist to the masquerade.

Our second objection to the conditional-normative approach is that it maintains the notion of accountants as primarily concerned with finding/producing the most effective and efficient means to match the desired/chosen ends. The ends are simply taken as premises for model development - they are not open to rational examination and hence lie beyond the scope of the accountant's implicitly neutral analysis of means-ends relations. The accountant need only be concerned with the effectiveness of her models, and she can maintain a claim of moral neutrality. The difficulty with this view is that the claim to effectiveness is not morally neutral, rather it is closely associated with the domination of the mode of manipulation in our societies; which treats human beings as means - rather than ends:

"Managers themselves and most writers about management conceive of themselves as morally neutral characters whose skills enable them to devise the most efficient means of achieving whatever end is proposed. ... Nonetheless there are strong grounds for rejecting the view that effectiveness is a morally neutral value. For the whole concept of effectiveness is ... inseparable from a mode of human existence in which the contrivance of means is in central part the manipulation of human beings into compliant patterns of behaviour; and it is by appeal to his own effectiveness in this respect that the manager claims authority within the manipulative mode."

(MacIntyre, 1985, p.74)

The dominance of the manipulative mode in our societies may not be matched by any real effective planned manipulation. This however does not mean that "the activities of purported experts do not have effects and that we do not suffer from those effects and suffer gravely" (MacIntyre, 1985, pp.106-107). Writing and theorising in the conditional-normative mould is liable to serve to perpetuate the mode of manipulation.

The validation of norms

To conclude this chapter, we will briefly sketch a more optimistic view of the potential role of argument in accounting debate. This view is based upon Habermas' reconstruction of the potential for communicative rationality implicit in the intuitions that underpin everyday communicative practice; his "discourse ethics" (Habermas, 1983). Habermas reacts against Weber and the early Frankfurt school's pessimistic identification of rationality with means-ends rationality, described respectively as 'goal-rationality' and 'instrumental reason'. He argues that both lose sight of the *potential* for communicative rationality that he sees as a basic competence of the human species. He thinks that language contains within itself an impetus towards the development of rationally-based shared understanding and social coordination. And it is this potential, implicit in the intuitions of everyday life, that Habermas seeks to reconstruct and explicate. Habermas' discourse ethics originates, then, as a response to just the kind of "value scepticism growing out of the scientific contraction of reason to scientific and technical domains" (Rehg, 1997, p.21), which characterises the morally disarming, conditional-normative, approach to accounting - as applied science - advocated by Mattessich and Shapiro⁹:

"Moral philosophy does have an enlightening or clarificatory role to play vis-a-vis the confusions that it has created in the minds of the educated, that is, to the extent to which value scepticism and legal positivism have established themselves as professional ideologies and have infiltrated everyday consciousness by way of the educational system. Together scepticism and positivism have misinterpreted and thus neutralized the intuitions people acquire in a quasi-natural manner through socialization. Under extreme conditions they can contribute to the moral disarmament of academics already in the grip of cultivated scepticism."

(Habermas, 1983, p.98)

Habermas' basic purpose is to justify and promote a communicative rationality capable of redeeming the enlightenment promise and delivering a more free and equal society. That is, a rationality that can be applied not just to "means" but to "ends"; a rationality that can be

used to validate or challenge norms of action:

“Against the pessimistic vision of an impermeable instrumentality - totalized society - Habermas' model of rationalization encloses the counterfactual basis for the possibility of reconstituting a public sphere in which citizens can engage in the discussion of ends.”

(Power & Laughlin, 1996, p.444)

Habermas' central concern has been to analyse the human capacity to create to a more “rational” society. He finds the promise of emancipation in modernity’s potential for rationality and thus welcomes the transition from traditional to modern society. Whilst the transition to modernity is marked by the struggle between reason and its Other - the “sacred”, modernity itself, as Habermas sees it, is characterized by tension between two modes of reason, instrumental reason and communicative reason. The full emancipatory potential of modernity can be realized only through communicative reason, yet distortions associated with the development of modernity are liable to impede the growth of communicative rationality. In the following paragraphs, we provide a rudimentary sketch of the processes of rationalisation that Habermas sees as characterising the development of modern Western society - insofar as they the impact on accounting. This sketch will facilitate subsequent discussion of the nature of Habermas’ model of communicative rationality, its potential application in accounting debate, and the associated benefits and difficulties.

As society becomes increasingly pluralistic and complex the need grows for ever-more sophisticated mechanisms of integration. Ways need to be found of resolving conflict across the whole of society in circumstances where acceptable norms of action can no longer be motivated by appeal to the value preferences and self-understandings associated with particular, religious or metaphysical, worldviews or group related conceptions of the “good life”. In such circumstances, where society can no longer be effectively stabilised around shared traditions and taken for granted authorities that place many issues and assumptions beyond consideration, there is an inevitable pressure to find explicit agreement on a widening range of issues on the basis of diminishing common ground. That pressure, Habermas argues, gives impetus to processes of rationalisation affecting society as both “lifeworld” and the “system”.

For Habermas the lifeworld is the “background assumptions” (Habermas, 1981a, p.335), norms, and shared expectations and understandings, through which we make sense of experience and coordinate social action. It is the “scaffolding” which forms the “horizon” of communicative understanding (Habermas, 1981a p.70). It is all those social, cultural, and personal, aspects of life that can only be integrated and reproduced through communicative action. The term “system”, in contrast, refers to society conceived of in terms of the different sub-systems (e.g., economic, legal, educational), each with its ends and means, which together sustain the material reproduction of life and are coordinated through the functional interconnection of the consequences of action. The distinction between lifeworld and system is essentially one of interpretative perspective. As system, society is viewed from an external and objectifying viewpoint. Whilst as lifeworld, society is understood as it is lived by the participant, that is, the viewpoint is internal and performative. The two perspectives allow us to separate two dimensions under which the integration of society can be analyzed:

“Whereas social integration presents itself as part of the symbolic reproduction of the lifeworld - which depends not only on the reproduction of memberships (or solidarities) but also on cultural traditions and socialization processes - functional integration amounts to a material reproduction of the lifeworld that can be conceived as system maintenance. The transition from one problem area to the other is tied to a change of methodological attitude and conceptual apparatus.”

(Habermas, 1981b, pp.232-233)

The coordination, integration, and regulation of almost all aspects of traditional society were based upon the lifeworld of kinship and tradition. The rationalisation of the lifeworld in the transition to modernity is marked by a shift from social integration based on sacred symbol and myth, to a social integration structured by a consensus on norms motivated by shared understandings achieved through communicative action. As the development of society proceeds, facilitated by the rationalisation of the lifeworld including the development of modern law, there is a tendency towards the differentiation and decoupling of the lifeworld and system. The increasing complexity of the material reproduction of life reveals the limits and burdens of social integration based on the lifeworld and the media of language. There is

then, necessarily, increasing reliance on systems integration, achieved as an unintended consequence of action, through, for example, markets and bureaucratic functioning. The system of material reproduction eventually acquires a high degree of autonomy, so that it tends to slip beyond symbolic/normative social control. Instead of being guided by norms and shared understandings developed through the communication in the lifeworld, the system is steered by media of power and money. Furthermore, irresolvable tensions within the system, and particularly within the system of capitalism, tend inevitably to drive it to intrude upon, and damage, the lifeworld:

“(T)he systemic imperatives of autonomous subsystems penetrate into the lifeworld and through monetarization and bureaucratization, force an assimilation of communicative action to formally organized domains of action - even in areas where the action coordinating mechanism of reaching understanding is functionally necessary.”

(Habermas, 1981b, p.403).

There is, then, a contradiction in the process of modernisation: The rationalisation of the lifeworld is liberating insofar as it opposes deference to traditional authorities and promotes the public use of reason in the communicative evaluation of norms. However, rationalisation of the lifeworld, facilitates the development of sub-systems which, acquiring quasi-autonomy, impose their own methods and logic, instrumental reason, on the lifeworld which relies for its reproduction on communicative reason:

“The rationalization of the lifeworld makes possible a kind of systematic integration that enters into competition with the integrating principle of reaching understanding and, under certain condition, has a disintegrative effect on the lifeworld.”

(Habermas, 1981a, pp.342-343)

This “colonization” of the lifeworld by the system in capitalist modernity makes clients of citizens and consumers of workers, and thereby inhibits the development of the kind of collective will formation that could overcome the injustices of the capitalist system.

Habermas sees a special potential for resistance to the colonization of the lifeworld in the “new resistance and withdrawal movements”, like environmentalism, that share an opposition to the capitalist growth on which the welfare-state compromise, that suppresses class conflict and the development of class consciousness, is based (see Habermas, 1981b, pp.391-393). Resistance to the colonization of the lifeworld is also hampered by the “differentiation” that is associated with the rationalization of the lifeworld. The segmentation of the lifeworld into separate fields; science and production, art and aesthetics, morality and law, each dominated by experts, fragments political consciousness and thereby impedes the development of any synthesized position from which colonization can be recognized and effectively resisted. The conditional-normative conception of accounting as applied science embraces this process of fragmentation and encourages us to see accounting as a distinct field of technical expertise clearly differentiable from any moral/normative issues. The expert élites empowered by the process of differentiation typically strive to sustain their positions by propagating the myth of technical validity/effectiveness and by isolating themselves and their expertise from non-technical normative issues. Nevertheless, expertise remains open to challenge, and in the case of accounting the rhetoric of effectiveness regularly collides with real, and very public, failures of accountability: “it increasingly encounters legitimacy problems not just from its own apparent technical failure to deliver expected forms of corporate control but also from non-economic discourses of need and effectiveness which it cannot easily absorb” (Power & Laughlin, 1996, p.446).

The retention of any lifeworld, or normative, hold on the differentiated system, is obstructed by the fact that each sub-systems will develop its own semantics and “*grammar for interpreting the world*” (Habermas, 1992, p.346). Communication between the lifeworld and system then becomes problematic. Functional sub-systems, like accounting, will typically not speak the language of norms. Habermas insists, however, that it is unrealistic to think that “one can separate the professional knowledge of specialists from values and moral points of view”, on the contrary they are deeply interlocked:

“As soon as specialized knowledge is brought to politically relevant problems, its unavoidably normative character becomes apparent, setting off controversies that polarize the experts themselves. This by itself shows that problems of functional coordination, when handled politically, are

intertwined with the moral and ethical dimensions of social integration.

(Habermas, 1992, p.351)

He argues then that it is counterproductive, from both the cognitive and legitimacy viewpoints, for the system to be allowed to become divorced from will-formation in the public sphere. And he suggests that this mediation of public sphere and system may be effected through the medium of law. The language of law may act as a “transformer” between the ordinary language of the lifeworld and the specialised language of systems. Ideally normative/political issues should be raised and debated in the public sphere - where a public will can be formed, and influence deliberative bodies (legislatures and quasi-legislatures such as the accounting standard setting bodies). In this way, ideally, the public will may be expressed in law, a language that the semi-autonomous systems (administrative, economic, educational, and others) can understand:

“The language of law brings ordinary communication from the public and private spheres and puts it in a form in which these messages can also be received by the special codes of autopoietic systems - and vice versa. Without this transformer, ordinary language could not circulate throughout society.

(Habermas, 1992, p.354)

Law can potentially tie together the public sphere (lifeworld) and system. Indeed, from the perspective of bourgeois ideology, systems can only be regarded as legitimate insofar as they are accountable and responsive to the public sphere - they must respond to the public will. There are real difficulties associated with the actualisation of such an ideal; not least in respect of those quasi-governmental institutions, such as the accounting standard setting bodies, that lack strongly developed and effective communicative ties with the public sphere. The effectiveness and legitimacy of the mediation of accounting expertise and the public sphere is, of course, a central concern of the critical accounting project:

“(M)uch of what passes for the “applied turn” in critical theory focuses upon the legitimacy of particular forms of expertise and on Habermas' question of how “expert cultures can be mediated with everyday practice” (1981b,

pp.397-398). This brings critical theory face to face with existing preoccupations with corporate governance and the problem of making expert insiders accountable to outside ‘stakeholders’.”

(Power & Laughlin, 1996, p.446)

Two difficulties seem to us to be particularly salient in the case of accounting. Firstly, the influence of the public sphere is always procedurally mediated; “public influence is transformed into communicative power only after it passes through the filters of the institutionalized *procedures* of democratic opinion-and-will-formation and enters through parliamentary debates into legitimate law making” (Habermas, 1992, p.371). Yet the institutions of accounting regulation are not directly linked to effective democratic or parliamentary processes. Secondly, because the functional demands of material reproduction of society require a degree of system autonomy, the influence of the public sphere on functionally differentiated systems such as the economic, financial and accounting systems, can only be indirect:

“Civil society can directly transform only itself, and it can have at most an indirect effect on the self-transformation of the political system; generally, it has an influence only on the personnel and programming of this system. But in no way does it occupy *the position* of a macrosubject supposed to bring society as a whole under control and simultaneously act for it.”

(Habermas, 1992, p.372)

Furthermore, in many contexts “the law is combined with the media of power and money in such a way that it takes on the role of a steering medium itself” (Habermas, 1981b, p.365). Most commercial and administrative law, and accounting regulation as quasi-law, is of this type; it serves as a means of organising media-controlled sub-systems that are already substantially autonomous of the lifeworld and communicative action integrated through mutual understanding. Such law/regulation deals with formally organised domains of action that are in effect constituted by law. We must then be content with procedural legitimation of such regulations/law; “substantive justification is not only not possible, but is also, from the viewpoint of the lifeworld, meaningless” (Habermas, 1981b, p.365). Habermas contrasts

law as steering medium, with those regulative, as distinct from constitutive, legal institutions (and by extension accounting regulations) that are superimposed on areas of life that are already communicatively structured. It is with this second category of juridification that the potential for colonisation of the lifeworld arises. Much of accounting regulation falls in this category; it is superimposed on communicatively structured relationships of accountability, and upon norms (e.g., truthfulness, prudence, and fairness) that are part of the pre-existing order of the lifeworld. There is a potential for accounting regulation to not merely supplement aspects of the social order but rather to convert them over to the medium of quasi-legal regulation. It is this kind of colonisation of areas of life that are functionally dependent on social integration that Habermas' wants to help us resist:

“The point is to protect areas of life that are functionally dependent on social integration through values, norms, and consensus formation, to preserve them from falling prey to the systemic imperatives of economic and administrative subsystems growing with dynamics of their own, and to defend them from becoming converted over, through the steering medium of the law, to a principle of sociation that is, for them, dysfunctional.”

(Habermas, 1981b, pp.372-373)

It is with respect to this second category that issues of normative evaluation arise; a procedural justification will no longer suffice: “They need substantive justification” (Habermas, 1981b, p.365). Habermas argues that, in our modern pluralist society, the legitimation of norms must be based upon procedures of rational will and consensus formation, that is, on the institutionalisation of the “discourse principle” (D) that:

“that the only regulations and ways of acting that can claim legitimacy are those to which all who are possibly affected could assent as participants in rational discourse.

(Habermas, 1994, p.459)

In late capitalist society the normative/moral dimension of accounting/financial reporting has become suppressed. That suppression of the moral damages the commercial lifeworld and

robs accounting of the force of moral obligation. Accounting and financial reporting is then forced to rely on legal sanction - which invites creative avoidance. The force of normative obligation depends upon the perceived validity of the norm. Habermas has tried to show how in post-traditional society norms can be validated; such validation must rely on rational consensus achieved through discourse/argument. Through discourse ethics, financial reporting/accounting may be reclaimed as a normative practice with real moral force, and thus be empowered to exercise a communicative-normative influence on functional subsystems that are otherwise steered by media of money and power and regulation/law as medium.

A Habermasian discourse ethics approach to accounting argument contrasts sharply with the conception of the role of argument in accounting debate advanced by Shapiro (1997, 1998). To help clarify the contrast we will briefly outline certain features of the Habermasian approach. We begin with the most significant point of contrast, which is simply that whereas Shapiro takes norms for granted as a starting point of debate, Habermas believes that it is possible to objectively validate norms. His basic aim is to reconstruct the moral point of view from which the validity of competing normative claims can be rationally and objectively judged. Habermas' approach is to trace out the implications of our everyday moral thinking and judging. He contrasts moral norms with simple imperatives, and argues that moral norms, as distinct phenomena, characteristically have an internal force that does not rely on external threat, reward or will. He argues that the moral authority or normative force of a behavioural expectation is always associated with a claim to an impersonal or general validity that can be supported with convincing reasons:

“There is apparently an inner connection between, on the one hand, the authority of generally accepted norms or commands, ... and, on the other hand the impersonality of their claim. Such norms claim that they exist by right and that if necessary, they can be *shown* to exist by right. This means that indignation and reproaches directed against the violation of a norm must in the last analysis be based on a cognitive foundation. ... To say that *I ought* to do something means that I have good reasons for doing it.”

(Habermas, 1983, pp.49-50)

On this view of moral phenomena, the moral authority or motivating force, of a normative expectation relies on confidence that its claim to validity can be redeemed - that good reasons can be given in support of it. In which case, clearly, the reconstruction of the force of normative validity calls for an account of convincing or rationally motivating reason giving. Habermas' responds to this challenge by making a formal-pragmatic analysis of the communicative practices intuitively adopted by competent participants in argumentation concerning moral validity claims. His conclusion is that any rationally motivating exchange of reasons must conform to what he calls the principle of universalization (U), according to which every valid norm must meet the following condition:

(U) *All affected can accept the consequences and the side effects its general observance can be anticipated to have for the satisfaction of everyone's interests (and these consequences are preferred to those of known alternative possibilities for regulation).*"

(Habermas, 1983, p.65)

The principle of universalization reconstructs the objective moral point of view as a rule of argument that makes rationally binding consensus in moral discourse possible: It is "a bridging principle that makes agreement in moral argumentation possible" (Habermas, 1983, p.57), even in a modern society characterised by a "pluralism of ultimate value orientations" (Habermas, 1983, p.76). At its most basic, the idea behind (U) is that provided the participants in argument about hypothetical norms are prepared to work to gain an understanding of their own and each others real interests and perspective, and have equal opportunity to argue for and against the proposed norms, any uncoerced consensus that emerges must express a generalised interest, and thus have an impersonal or general validity or objectivity (that can be supported with convincing reasons):

"The moral principle is so conceived as to exclude as invalid any norm that could not meet with the qualified assent of all who are or might be affected by it. This bridging principle, which makes consensus possible, ensures that only those norms are accepted as valid that express a *general will*."

(Habermas, 1983, p.63)

Habermas insists that (U) can be justified as a universal moral principle, rather than merely a “generalization of moral intuitions peculiar to our own Western culture” (Habermas, 1983, p.76). He suggests (but does not formally work through himself) a transcendental justification of the principle, designed to convince that (U) is implied by certain presuppositions of argument which we are all committed to, insofar as we can not deny them without involving ourselves in performative contradictions. The justification of (U) originates in the fact that Habermas' reconstruction of what is implicit in everyday moral thinking ties the motivating force of moral claims to confidence that they can be redeemed with convincing reasons. Indeed from the Habermasian perspective, developed in *The Theory of Communicative Action*, the very meaning of a moral claim can only be grasped through the give and take of reason giving, in practical discourse - that is in the performative attitude:

“In order to understand an utterance in the paradigm case of a speech act oriented to reaching understanding, the interpreter has to be familiar with the conditions of its validity; he has to know under what conditions the validity claim linked with it is acceptable, that is, would have to be acknowledged by a hearer.”

(Habermas, 1981a, p.115)

On this view, we understand the meaning of any validity claim, including a moral claim, only by understanding the pragmatics of its possible redemption, that is, by appreciating how it can be supported with convincing reason giving, in argument. Therefore, anyone who understands the validity claims they make (implicitly or explicitly) must understand how those claims can be redeemed in argument, and such understanding requires an implicit recognition of the presuppositions of argument - from which, Habermas argues, the principle of universalization directly follows:

“Every person who accepts the universal and necessary communicative presuppositions of argumentative speech and who knows what it means to justify a norm of action implicitly presupposes as valid the principle of universalization, whether in the form I gave it above or in an equivalent

form.”

(Habermas, 1983, p.86)

In *The Theory of communicative Action*, Habermas describes his reconstruction of the conditions of argumentation, (that is, communicative action oriented toward the achievement of rationally motivated consensus), that every competent speaker who believes that she is engaged in argument must presuppose are adequately fulfilled, as “an ideal speech situation”. The participants in argumentation must, for example, presuppose that all coercion - other than “the force of the better argument” - is excluded from their communication. The detail, and existence, of the presupposition of discourse can be demonstrated through systematic analysis of the performative contradictions entailed by their denial; The object of the analysis being to reconstruct the pragmatic rules of discourse which are implicitly used and already intuitively known. Following Habermas, Alexy (1973) identifies the following pragmatic rules of rational discourse, as quoted by Habermas (1983, p.89):

- (1) Every subject with the competence to speak and act is allowed to take part in a discourse.
- (2)
 - a Everyone is allowed to question any assertion whatever.
 - b Everyone is allowed to introduce any assertion whatever into discourse.
 - c Everyone is allowed to express his attitudes, desires, and needs.
- (3) No speaker may be prevented, by internal or external coercion from exercising his rights as laid down in (1) and (2).

Participants in discourse who suppose that any consensus they have reached is rationally motivated must presume these rules have been sufficiently met. However the nature of the rules is such that the participants could never be fully certain that the rules have in fact been fulfilled; there is always some room to doubt the rationality of consensus. The rules are, in a sense, counterfactuals, regulative ideals, that we can use as a foundation for the evaluation

of our argumentative practice and our institutions. The rules, however, are not merely ideals; they are fundamentally constitutive of any real communicative action oriented towards consensus. Habermas sees such communicative action as the fundamental social action, and thus takes us all, as social animals, to be implicitly committed to these rules as “transcendentally necessary presuppositions, no matter how mired they are in contingent motives and compulsions” (Hoy, 1994, p.181). Habermas argues that from these rules and our shared sense of what it means to justify a norm of action, we can derive the principle of universalization (U):

“If every person entering a process of argumentation must, among other things, make presuppositions whose content can be expressed in rules (3.1) to (3.3) and if we understand what it means to discuss hypothetically whether norms of action ought to be adopted, then everyone who seriously tries to *discursively* redeem normative claims to validity intuitively accepts procedural conditions that amount to implicitly acknowledging (U).

(Habermas, 1983, p.93)

For a full outline and critical discussion of the derivation of (U) see Rehg, (1997, ch.3)¹⁰.

The application of (U) in real practical discourse yields the broad-based principle of discourse (D). Habermas' reconstruction of the moral point of view yields just one rule of argument for the impartial testing of norms, one rule that makes rational consensus on norms possible; the principle of universalization (U). The institutional implications of that rule are however complex. Ideally procedures for the testing/validation of proposed norms, (including accounting norms), should be such that: (i) All those potentially affected by the norm under consideration are included in the debate; steps must be taken to ensure that no affected parties are excluded from the exchange of arguments; Shapiro's maxims do not make this crucial point explicit. (ii) A full exchange of arguments is facilitated, and no relevant considerations excluded. Shapiro's maxims emphasise the need to constrain discourse, so that only arguments which respect the privileged vocabulary of the “the common starting point” are permitted. Habermas recognises that we must operate on the basis that we share a (life)world with those we communicate with, and that it is only against a shared background that we can recognise disagreements. His emphasis, however, is quite the opposite of Shapiro's, he insists

that participants in debate must bring their particular perspective to the argument - they should not be constrained to any particular vocabulary (or language game). For Habermas, the rational justification of a norm requires that it be shown to have acceptable consequences for the interests of each individual affected by it, and the testing process demands that the needs, wants, values and self-understandings of those affected, including their conceptions of the good life, be brought into moral discourse as content:

“If the actors do not bring with them, and into their discourse, *their* individual life-histories, *their* identities, *their* needs and wants, *their* traditions, memberships, and so forth, practical discourse would at once be robbed of all content.”

(Habermas, 1982, p.255)

(iii) Habermas' discourse ethics requires that all external and internal coercive pressures must be removed. Here we have some level of agreement; Shapiro also recognises that coercion must be eliminated; his maxim No.1 requires that parties must not prevent one another from participating in the give and take of argument. However Shapiro's recommendation that debate be constrained by the “common starting point” does, as he himself recognises, do a kind of “violence” to debate. Finally (iv) the principle of universalization (U) demands that the validity of a norm be tested “dialogically”. That is, it must be tested through a process of real public argument in which all those affected are prepared to try and reciprocally share one and others' perspectives, in an effort to assess the fairness, for all, of the proposed norm.

“I have formulated (U) in a way that precluded the monological application of the principle. First, (U) regulates only argumentation among a plurality of participants; second, it suggests the perspective of real-life argumentation, in which all affected are admitted as participants. In this respect my universalization principle differs from the one John Rawls proposes. ... Like Kant, Rawls operationalizes the standpoint of impartiality in such a way that every individual can undertake to justify basic norms on his own.”

(Habermas, 1983, p.66)

Discourse ethics locates the decision procedure for reaching valid norms in practical discourse striving for consensus, as distinct from compromise: “Participants in a practical discourse strive to clarify a common interest, whereas in negotiating a compromise they try to strike a balance between conflicting particular interests” (Habermas, 1983, p.72). Shapiro's, essentially monological, approach does not encourage any reciprocal perspective. Shapiro's monological interests based approach is most flagrantly obvious in his citation of Demski's (1973) work which following Arrow (1963) work in information economics, emphasises the impossibility of finding acceptable (Pareto optimal) accounting standard compromises given the divergent interests of affected parties.

“Moreover, the diverse goals and preferences of multiple stakeholders virtually guarantee that a change in external financial reporting rules will benefit some stakeholders and harm others, such that it is impossible to prescribe a set of accounting standards to satisfy all stakeholder needs and preferences (cf. Demski, 1973; Dopuch & Sunder, 1980). Accordingly, social welfare metanarratives cannot legitimise accounting rule changes.”

(Shapiro, 1998, p.641)

While Shapiro remains focused on the unencumbered contracting individuals with more or less arbitrarily chosen interests, Habermas' approach is thoroughly intersubjectivistic. The discourse ethics approach is not a search for compromise, or for the best substantive argument, but for rational consensus driven by empathy. Where Habermas sees discourse ethics as transcendently justified by the presuppositions of discourse/argument itself, Shapiro sees the normative model of argument he offers as simply a “contract, explicit or not, between players” (Shapiro, 1998, p.643).

The discourse ethics ideal is fundamentally counterfactual; no institutionalization of (U) will be perfect. (U) is essentially a regulative ideal. Confidence in the validity/rationality of accounting norms must ultimately rest on the extent to which the procedures through which the norm is developed and validated, approximate the discourse ethics ideal; that is, it must depend on the quality of reciprocal perspective taking achieved. If accounting regulation is to harness any normative force, in our post-traditional society, our accounting standard setting procedures must be designed to approximate the ideal of discourse ethics.

Preamble to chapter 5: The Reporting Entity as Divided Subject

Following Habermas' lead we see the foundations for the possibility of emancipation laid down in modernity's triumph over tradition, that is, in reason's triumph over the Other of reason: that which is immune to reason. In capitalist modernity, however, the development of rationality tends to become pathological: The instrumental rationality and spontaneous functioning on which the systems based integration and material reproduction of society relies tends to colonise those aspects of life that depend on symbolic reproduction through communicative action. In chapter 1 we argued that the rationalisation of financial accounting, associated with the modernization of society, reflects the pathological tendencies inherent to the capitalist system and in particular its tendency to crisis. We found accounting in the process of becoming little more than an instrumental adjunct to a systems based integration of society founded on the automatic operation of markets. Indeed we argued that contradictions and in particular the tendency to rationality crisis within advanced capitalism undermines financial accounting's capacity to fulfil even this limited role. The fuller emancipatory potential of communicative reason in modernity is certainly not realised in contemporary financial accounting; the potential of financial reporting to put a communicatively based normative check on the system is undermined by the fact that it itself has been colonised and evades effective normative control.

In chapters 2 to 4 we argued that, in principle at least, financial accounting can overcome the tendencies to rationality and legitimacy crisis that afflict it in contemporary capitalism. We argued that it has the capacity to be truly emancipatory by providing us with knowledge of the objective world we share and by facilitating a measure of objective normative control on the essentially systems based material reproduction of society in advanced modernity. The view we have presented in previous chapters looks for the emancipatory potential of modernity and financial accounting in the tension between instrumental and communicative reason. In chapter 2 we were hostile to those contemporary discourses within accounting theory that seem to want to dismiss the possibility of rationality in accounting by casting doubt on the possibility of accounting truth and objectivity. Our stance in chapter 2 echoes Habermas' robust resistance to the post-structuralist/post-modern challenge to rationality, that is, his resistance to any invocation/reinvigoration of the Other of reason.

In chapter 5, which follows, we acknowledge the validity of the poststructuralist/postmodern critique of reason's exclusion of its Other. We admit that the perspective of reason is narrowed by the tendency of *both* instrumental and communicative reason to exclude those claims that are not open to discursive articulation and analysis. Furthermore, we accept that the Habermasian analysis of reason's potential is over optimistic, and in particular we recognize that, despite his efforts to overcome the philosophy of consciousness, his discourse theory ultimately relies on an inadequate model of the subject. The logic of the post-structuralism/post-modernism critique of reason's closure need not however be read paranoiacally as leading inevitably to the crowning of unreason and the banishment of reason. A more balanced and positive reading of the post-structuralist/post-modernist position will see it as tending to usefully destabilize the closure of reason and allow the claim of the Other some admittance / recognition. We take the view that the incitation of alterity, which is typical of post-structuralist/post-modern practices and discourses, is a vital complement to any emancipatory politics, and more specifically accounting standard setting, that might be based on discourse theory and communicative reason. The Habermasian model clearly needs to be supplemented by a post-structuralist/psychoanalytic sensitivity to Alterity and the unconscious; defined as, that which is immune to discursive retrieval and communicative reason. We find the imaginative resources for that supplement in the work of the psychoanalyst Jacques Lacan, and in particular in his conceptualization of the subject. We explore the Lacanian psychoanalytic framework by applying it to the commercial firm and, building upon existing conceptions of the firm as moral agent inspired by the work of Donald Davidson, developing a conception of the firm as a split subject; divided between conscious and unconscious. Following Lacan, we argue that the firm as subject of the unconscious bears a moral responsibility to subjectify its own cause; it must assume responsibility for itself and its desire; it must transcend its own fantasy. We contend that it is only through the assumption of this responsibility for its own cause in the desire of the Other, that any subject, including the firm as Lacanian subject, can come to terms with the Other and clearly recognise and respond to its absolute responsibility for the Other.

We recognize that the increase of moral rationality potentially obtained by stepping back to the moral point of view of discourse theory, from which we can distinguish matters of justice from those of the good life and objectively assess the validity of competing

normative claims, is achieved at the price of stripping norms of the motivating force that traditionally they might draw from their connection with powerful ethical conceptions of the good life:

At this stage, moral judgement becomes dissociated from the local conventions and historical coloration of a particular form of life. It can no longer appeal to the naïve validity of the context of the lifeworld. Moral answers retain only the rationally motivating force of insights. Along with the naïve self-certainty of their lifeworld background they lose the thrust and efficacy of empirical motives for action.

(Habermas, 1983, pp.106-109)

We conclude chapter 5 by suggesting that this motivational deficit, that attends the detachment of the Habermasian universalist moral point of view from any ethics of the good life, might be compensated for by the development of a universalist ethics of absolute responsibility for the Other from which morality might draw new motivational force. Lacan's analysis of the development of the subject points the way towards the potential realisation of an ethic of absolute responsibility for the Other, through the transcendence of fantasy.

Chapter 5: The Reporting Entity as Divided Subject

"Wo Es war, soll Ich werden"

Introduction

In this chapter we suggest that the Habermasian conception of the subject as moral agent of communicative action/reason needs to be supplemented by a post-structuralist/psychoanalytic appreciation of those dimensions of subjectivity which are not transparent, that is, those dimensions that are not open to discursive retrieval. We use some of the insights of Lacanian psychoanalysis to build upon existing conceptions of the firm as moral agent, which have been inspired by the work of Donald Davidson. The object of this chapter is to contribute to the enrichment of notions of the firm as a moral agent.

We begin with a review of alternative accounting conceptions of the financial "reporting entity". Specification of the reporting entity is pivotal to financial reporting; in the privileging of any particular accounting point of view alternatives are suppressed. Definition of the reporting entity has political implications, in so far as alternative conceptions of the reporting entity may emphasise on the one hand the interests of shareholders or on the other the interests of a wider community. We develop our analysis by critically examining the position taken by the UK Accounting Standards Board (ASB), on the reporting entity issue, in the development of its recently finalised conceptual framework for financial reporting, its "Statement of Principles for Financial Reporting" (Statement of Principles) (ASB, 1995b, 1999a, 1999d). The practical significance of the issue is illustrated by reference to the issue of accounting for stock option compensation. Our analysis reveals that alternative and essentially incompatible conceptions of the reporting entity seem to coexist in tension in the ASB draft Statement of Principles, and generally in financial reporting theory and practice. We contend that the equivocation on this issue can in part be attributed to the existence of a real split in the nature of the firm.

We go on to broaden our consideration of the nature of the firm: We briefly consider the literature of the moral agent that originates with Peter French's work, initially inspired by Donald Davidson analysis of agency. We try to make a contribution to the conception of the firm as moral agent, by showing how it can be enriched with some of the post-structuralist/psychoanalytic insights offered in Jacques Lacan's work. We explore the nature

of the firm as a split or divided subject using a Lacanian psychoanalytic framework, and contend that the firm may usefully be conceived of as divided between the conscious and the unconscious. We argue that the firm, as subject of the unconscious, bears a moral responsibility to subjectify its own cause, and assume responsibility for itself and its desire.

We conclude the chapter by turning to Habermasian conception of the subject of discourse ethics. We indicate the inadequacy of Habermas' conception of an essentially transparent subject, and suggest that it needs to be supplemented with a post-structuralist/psychoanalytic sensitivity to alterity. We conclude the chapter by suggesting that the motivational deficit which attends the rationalistic abstraction of the universalist moral point of view, of discourse ethics, may be compensated for by the development of an a new, universalist ethics: An ethics of difference and absolute responsibility for the Other.

The reporting entity

The "accounting point of view" has long been recognised by accounting theorists as a matter of central importance to financial accounting theory and practice. The question is; from which perspective should business records be maintained and accounts prepared? The most obvious alternatives are (i) the proprietary view point of the owner, and alternatively (ii) the viewpoint of the business entity itself as an operating unit.

The *proprietary perspective* makes the "owner", that is shareholders, (more or less broadly defined to include or exclude preference shares depending upon the version of proprietary theory being considered), the centre of attention; the focus of accounting. The accounting equation $A - L = P$ (assets minus liabilities equals proprietors' interest) reflects the essence of the proprietary view. From this perspective the reporting entity tends to be regarded as coextensive with its proprietors; "Assets belong to the proprietor and liabilities are obligations of the proprietor" (Kam, 1986, p.303). The business undertaking is regarded as a means by which owners seek to achieve their purpose of increasing their wealth. The objective of accounting in this context becomes the measurement and analysis of the proprietor's net worth; "... the proprietary theory may be said to be ... balance sheet oriented. Assets are valued and balance sheets are prepared to measure the changes in the proprietary interest or wealth", (Belkaoui 1985, p.224). Consequently, supporters of the proprietary theory tend to regard current values as more relevant than historical costs, (see Kam, 1986, p.303). The proprietary approach to accounting dates from before the rise of limited

companies, and to a time when most business was conducted by partnerships and sole trader proprietors. The proprietary perspective loses some pertinence when business activity is carried out through corporations which are legally separate from their owners, and which hold assets and assume obligations on their own account. For example in the case of limited liability companies it is difficult to regard the notion that the company's obligations are liabilities of the proprietor as meaningful. However this is not to say that the proprietary view is incompatible with the recognition that the corporation is a separate legal entity. Even sole traders recognise the need to keep business and private records separate. The key issue is from which perspective should the business records be maintained. From the proprietary point of view income is viewed as the increase in the owners' wealth arising from the business over a period: "Revenue is the increase in proprietorship; expense is the decrease in proprietorship" (Kam, 1986, p.303). The influence of this view is widely reflected in accounting terminology and practice. For example, in the treatment, under UK Companies Act profit and loss account formats (CA 1985, Sch.4 part.1), of wages, interest, and corporate taxes as expenses in the derivation of profit, the measurement of shareholders' income appears as the privileged object of the profit and loss account.

The main alternative to the proprietary perspective is to define the reporting entity in operational terms. We will describe this approach as the *entity* perspective. There are two distinct elements to entity theory. Firstly it holds that debt and equity can not be meaningfully distinguished (see Clark, 1993). This notion has been given impetus in recent years by the proliferation of financial instruments that blur traditional distinctions between debt and equity, (see FASB, 1990, para.219-222). Consequently, a critical feature of the entity perspective is that profits ought to be determined by reference to all capital providers; that is, before deduction of interest. Secondly, the entity perspective makes the 'business' itself as an economic operating unit the focus of accounting attention, as a distinct entity separate from its owners.

"It is the "business" whose financial history the bookkeeper and accountant are trying to record and analyze; the books and accounts are the record of "the business"; the periodic statements of operations and financial condition are the reports of "the business"."

(Paton, 1922, p.473)

The entity theory is most clearly applicable to the corporate form of business enterprise, where there is a clear legal separation between the corporation and providers of capital. From the entity perspective the business entity owns the assets of the enterprise and is responsible for the claims of shareholders and creditors alike as providers of funds and the source of the assets: The accounting equation becomes $\text{Assets} = \text{Equities}$.

Under the proprietary concept, the measurement of the proprietor's net worth in the business is the primary accounting objective, and therefore the balance sheet is of central importance. In entity theory, because the entity is the centre of attention, proprietor's net worth becomes a less meaningful concept. Emphasis moves to the determination of income, and the income statement:

"Because the business unit is held responsible for meeting the claims of the equity holders, the entity theory is said to be "income-centred" and consequently income statement oriented. Accountability to the equity holders is accomplished by measuring the operating and financial performance of the firm."

(Belkaoui, 1985, p.225)

The entity concept recognises a division between management and owners, who are outsiders to the entity. And in this context a stewardship role for accounting is given prominence. Balance sheet centred, valuation based, income measurement necessarily entails managerial estimation and is consequently open to manipulation in conditions of asymmetric information. In contrast, income statement based approaches to income determination measure income by matching against realised revenue the costs of generating that revenue. Valuation is avoided, the need for managerial estimation is reduced, and revenue is recognised only when relatively certainly earned. Income statement based "matching" approaches to income determination are therefore arguably better suited than the valuation approaches, for the purpose of monitoring managerial stewardship, entity performance and discharge of responsibility to providers of funds. The influence of the entity view is also widely reflected in accounting terminology and practice. For example, traditional definitions of revenue in terms of an enterprise's products sold in a period, and expenses as assets

consumed in generating those revenues "are consistent with the entity theory's preoccupation with an index of performance and accountability to equity holders," (Belkaoui 1985, p.226).

From a proprietary perspective the boundary of the reporting entity is drawn in terms of the proprietors' ownership of resources. From an entity perspective the reporting entity is the business itself, with a boundary generally defined in terms of effective operating control.

The preparation of consolidated accounts for groups, defined in UK Companies Acts in terms of control, is consistent with entity theory.

Entity theory initially emphasised responsibilities of the business enterprises to providers of capital (debt or equity). However, the informational or decision usefulness perspective on accounting, which conceives of accounting as providing information, for decision making purposes, to a range of users outside the business enterprise is compatible with an entity perspective. The enterprise perspective retains entity theory's conception of the reporting entity as a separate business enterprise but expands recognition of the enterprise's responsibilities. *The Corporate Report* (ASC, 1975a) reflects such a perspective in arguing that economic entities have a wide ranging duty of public accountability:

"We consider the responsibility to report publicly (later referred to as public accountability) is separate from and broader than the legal obligation to report and arises from the custodial role played in the community by economic entities. Just as directors of limited companies are recognised as having a stewardship relationship with shareholders who have invested their funds, so many other relationships exist, both of a financial and non-financial nature. For example, economic entities compete for resources of manpower, management and organisational skills, materials and energy, and they utilise community owned assets and facilities. They have a responsibility for the present and future livelihoods of employees, and because of the interdependence of all social groups, they are involved in the maintenance of standards of life and the creation of wealth for and on behalf of the community."

(ASC, 1975a, para.1.3, p.15)

In the following section of this chapter we examine the principles concerning the reporting

entity, that is the accounting point of view, as set out in the ASB's draft Statement of Principles.

The reporting entity and the ASB's Statement of Principles

Our purpose in examining how the ASB deal with the reporting entity issue in their draft Statement of Principles (ASB, 1995b) is primarily to reveal the difficulties of consistently specify a reporting entity in unequivocal terms. The draft Statement of Principles is a vehicle for our analysis; it is not the main focus of our interest in this chapter. The revised draft of the Statement of Principles (ASB, 1999a) advocates fundamentally the same approach to financial reporting as is found in the 1995 draft, and carries forward in more cautious terms, but substantially unaltered, the provisions contained in the 1995 draft which are most pertinent to our analysis. We will therefore primarily make reference to, and where appropriate quote, the initial draft Statement of Principles (ASB, 1995b), upon which public comment has been published - which we will also refer to.

The draft Statement of Principles (ASB, 1995b) contains seven chapters, including a final chapter which specifically addresses the definition of the "the reporting entity". The issue provokes relatively little explicit comment from respondents to the draft Statement of Principles. This relative neglect perhaps reflects the fact that the ASB's treatment of this issue is equivocal and does not make absolutely clear the real challenge it presents to a preconception, clearly held by some respondents, that the reporting entity is the operating entity.

Many aspects of the ASB's draft Statement of Principles strongly reflect a proprietary perspective. The proprietary accounting equation, $A - L = P$ is reflected in the draft's definition of 'ownership interest' as: "the residual amount found by deducting all of the entity's liabilities from all of the entity's assets" (ASB, 1995b, para.3.39). The draft Statement of Principles has a balance sheet orientation typical of the proprietary perspective. It defines gains and losses as increases or decreases in ownership interest, other than those relating to contributions from, or distributions to, owners (ASB, 1995b, para.3.47; ASB, 1999a, para.4.40). The determination of entity performance is made a derivative of the measurement of assets and liabilities. Less than 5% of the one hundred and seventy five published responses to the exposure draft Statement of Principles were explicitly supportive of its balance sheet orientation. And more than 45% of commentators were explicitly

opposed to it - preferring the retention of an income statement orientated matching approach to income determination, (for further analysis see McKernan & O'Donnell, 1998).

Consistent with its balance sheet orientation the draft Statement of Principles argues that "practice should develop by evolving in the direction of greater use of current values to the extent that this is consistent with the constraints of reliability and cost" (ASB, 1995b, para.5.38)¹. Less than 10% of the one hundred and seventy five published responses to the exposure draft Statement of Principles were explicitly supportive of evolution in the direction of greater use of current values, whilst 70% of commentators were explicitly opposed to it, (for further analysis see McKernan & O'Donnell, 1998). The draft Statement of Principles' proposals with respect to measurement can not, however, be considered as wholly congruent with a proprietary perspective. Unlike the Institute of Chartered Accountants in Scotland study, *Making Corporate Reports Valuable* (ICAS, 1988), the draft Statement of Principles does not propose "realisable value" accounting, which is arguably most consistent with a proprietary perspective / balance sheet orientation. "Value to the business", generally leading to the use of "replacement cost", is the measurement basis preferred by the ASB. Such a measurement basis is clearly more appropriate to an income statement based approach to income determination, entailing the matching against realised revenue of the replacement cost of the assets consumed in the generation of that revenue. This incoherence in the draft Statement of Principles' advocated measurement system might be understood as reflecting an underlying tension between the proprietary and entity points of view (see Ernst & Young, 1996b, pp.269-270).

The draft Statement of Principles proposes the abandonment of the traditional rule that only realised profits appear in the profit and loss statement. It would require that the profit and loss account, and the statement of total recognised gains and losses, report the gains and losses that arise in the period, irrespective of when they are realised, (ASB, 1995b, para.6.25)². Such a move would be consistent with a proprietary perspective. The proprietary conception of income in terms of change in owners' wealth, tends to imply that all changes in wealth, whether or not realised by an external transaction, ought to be included in income. Less than 5% of the one hundred and seventy five published responses to the exposure draft Statement of Principles were explicitly supportive of proposals to abandon the traditional realisation principles, whilst 42% of commentators were explicitly opposed, (for further analysis see McKernan & O'Donnell, 1998).

The proprietary view is concerned with the owners' wealth, that is, his or her capacity to consume. To measure the increase in capacity to consume, it is necessary to make adjustment for instability in the monetary unit of measurement. The proprietary perspective is consistent with 'financial', rather than 'operating', capital maintenance adjustments. Financial capital maintenance focuses on the consumption power of owners and adjusts income for the maintenance of the owners' consumption capacity, by applying a general price index, generally reflective of the owners' consumption, to the opening capital amount. Operating capital maintenance, on the other hand, concentrates on the business enterprise's ability to maintain the level of its physical operations, and makes provision for capital maintenance in terms of specific price changes. The draft Statement of Principles advocates a real-terms capital maintenance system:

"A real terms capital maintenance system improves the relevance of information because it shows current operating margins as well as the extent to which holding gains and losses reflect the effect of general inflation, so that users of real terms financial statements are able to select the particular information they require."

(ASB, 1995b, para.5.37, p.92)

A real-terms system in effect gives information for both a financial and operating capital maintenance perspectives³. However the ultimate measure of "real" income is based upon financial capital maintenance. If general inflation is less than specific inflation on the company's operating assets, distribution of the Statement of Principles' measure of "total real recognised gains", which includes holding gains (realised and unrealised), would erode the enterprise's operating capacity. The Statement of Principles' real-terms system mixes the proprietary and entity perspectives, whilst ultimately favouring the proprietary view.

The draft Statement of Principles formulates the objective of financial statements in what seem, *prima facie*, to be wide ranging "decision-usefulness" terms, consistent with an entity perspective:

"The objective of financial statements is to provide information about the financial position, performance and financial adaptability of an enterprise that

is useful to a wide range of users for assessing the stewardship of management and for making economic decisions."

(ASB, 1995b, para.1.1; see also ASB, 1999a, para.1.6)

In fact, this objective might be regarded as consistent with what we have described as an "enterprise" conception of the reporting entity, that is an entity perspective with a wide-ranging recognition of reporting responsibilities. The practical significance of this objective is, however, quickly cut short by the Statement of Principles' declaration that:

"Financial statements that meet the needs of providers of risk capital to the enterprise will also meet most of the needs of other users that financial statements can satisfy."

(ASB, 1995b, p.1.6; see also ASB, 1999a, para.1.12)

This assertion, which is not supported by either explanation or evidence, is recognised by many commentators as obviously dubious (see Page, M.J., 1996, p.583; & Pannell Kerr Forster, 1996, p.587). Mumford objects to the assertion in the following terms:

"Holders of quoted shares are not likely to be typical of users generally: unlike employees, they may be assumed to have diversified portfolios, very low transaction costs and little long-term commitment to the company - and unlike all other user groups their securities can easily be traded in a uniquely information-rich environment in which transactors may, with some safety, "free-ride" on the knowledge of others impounded in market."

(Mumford, 1996, p.552)

The ASB seem intent on promoting a view of financial reporting as primarily serving the needs of shareholders - an essentially proprietary perspective: "The wide range of users is collapsed down to the providers of risk capital - shareholders" (Ernst & Young, 1996b, p.273). Again, we seem to have a tension between an entity/enterprise perspective and the proprietary view.

Chapter 7 of the draft Statement of Principles, entitled "the reporting entity", prima

facie, supports the entity perspective on the reporting entity. It identifies control rather than ownership as the primary factor setting the boundaries of the reporting entity: a reporting “entity must be a cohesive economic unit, usually resulting from a unified control structure” (ASB, 1995b para.7.2; see also ASB, 1999a, para.2.3). Chapter 7 proceeds to a discussion of the proprietary and entity perspectives in the context of group accounts. Whilst recognising that “control provides the basis for determining which investments should be consolidated” (ASB, 1995b, para.7.22), the ASB suggest that both perspectives have a role to play in group accounts: “deciding which perspective to use as a basis for accounting for subsidiaries depends on the relative usefulness of the information each provides” (ASB, 1995b, para.7.21).

Less than 10% of the one hundred and seventy five published responses to the exposure draft Statement of Principles explicitly mention the draft Statement of Principles’ discussion of “the reporting entity”. No commentators explicitly applaud the ASB’s proposal on this issue. Among those few commentators dealing with Chapter 7 “the reporting entity”, there is something of a consensus that the draft Statement of Principles fails to significantly clarify, or advance, thinking. The comments below are representative:

Table 1. A selection of comments on ch.7 of ASB’s draft Statement of Principles
<p data-bbox="198 1721 1789 2113">"The Board’s principle is that "the financial statements should include consolidated information relating to all the activities controlled by an entity and account for other investments according to the level of influence exercised over them". The rest of Chapter 7 is actually a summary of current accounting practice and methods and as such has no place in a "Statement of Principles".</p> <p data-bbox="894 2145 1491 2208">(TT Group PLC, 1996, p.673)</p>
<p data-bbox="198 2227 1789 2556">"We have struggled to find many financial reporting principles in this chapter (chapter 7: the reporting entity). Much is either academic discussion (para.7.18 is a good example of this) or a description/justification of current practices (e.g., merger and acquisition accounting) or planned standards (goodwill, associates and joint ventures)."</p> <p data-bbox="815 2572 1491 2635">(Coopers & Lybrand, 1996, p. 218)</p>

Table 1 (continued). A selection of comments on ch.7 of ASB's draft Statement of Principles
<p>"Chapter 7 (the reporting entity) includes few principles. ... Rather, the chapter is a summary of existing standards (FRS 2, 6 and 7) and proposed standards (goodwill, associates and joint ventures)."</p> <p style="text-align: center;">(Deloitte & Touche, 1996, p254)</p>
<p>"We do not see the need for an extended discussion on the reporting entity as presently contained in Chapter 7 (the reporting entity). In many respects, this chapter is a discussion on consolidation, equity accounting and proportional consolidation, topics, which are dealt with adequately elsewhere, in for example FRS2 and FRED11. ... We recommend, ... that much of this discussion is deleted from the Statement of Principles."</p> <p style="text-align: center;">(Arthur Andersen, 1996, p. 57)</p>
<p>"The issues raised by this chapter (chapter 7: the reporting entity) do not seem to be contentious."</p> <p style="text-align: center;">(Bass plc, 1996, p. 88)</p>

The relative lack of response to the draft ASB on the issue of the "reporting entity" may be due to the fact the Chapter 7 of the draft does not obviously challenge the status quo. Other aspects of the draft which point towards the proprietary perspective, without making the connection explicit, are, as discussed above, generally fiercely resisted (e.g., the proposed balance sheet orientation and the proposed abandonment of the realisation principle). Even Professor Chris Nobes, a sophisticated and informed analyst, seems to have difficulty in recognising the depth of the ASB's commitment to a proprietary perspective. He indicates that the chapter 7 "is not quite clear" to him and asks whether the ASB might simplify it by "taking an entity view throughout?" (Nobes, 1996, p.576). It is perhaps little wonder then that almost no preparers or users of accounts comment on Chapter 7.

Only in one isolated place, paragraph 3.52, does the draft Statement of Principles make explicit and crystal clear a preference for an extreme proprietary perspective, which takes the reporting entity as coextensive with its *pre-existing* owners. Paragraph 3.52 does not occur, as might have been expected in chapter 7, which purports to deal with principles

concerning specification of the reporting entity, rather it occurs in the context of a discussion of the practicalities of accounting for stock options. We will discuss paragraph 3.52 in the following section of this chapter.

Accounting for stock option compensation and the accounting point of view

In preceding sections of the chapter we have noted that conceptions of the reporting entity have important implications for design of an accounting system. For example, and perhaps most obviously, a proprietary perspective may lead us towards measurement of financial capital maintenance whilst an entity perspective might lead to measurement of operating capital maintenance.

In this section of the chapter we want to further illustrate the importance of alternative perspectives on the reporting entity by reference to a particular accounting issue⁴ - accounting for stock option compensation. Perspectives on the reporting entity are recognised to be crucial to debate on this issue⁵. We will therefore look to the ASB's draft Statement of Principles for guidance concerning accounting for stock option compensation, paying particular attention to the "reporting entity" issue.

The draft Statement of Principles makes financial statements essentially depend entirely on three balance sheet elements: "assets", "liabilities", and "ownership interest". Ownership interest is defined as "the residual amount found by deducting all of the entity's liabilities from all of the entity's assets," (ASB, 1995b, para.3.39). The Statement of Principles makes it clear that "any item that does not fall within one of the definitions of elements should not be included in financial statements" (ASB, 1995b, 3.2, p.52). Therefore it is clearly necessary to consider stock option compensation in terms of these fundamental financial statement elements. Clearly it can be argued that the grant of stock options give rise to an asset:

"... the asset initially recognized for non-vested employee stock options is prepaid compensation, which represents the value already conveyed to employees for services to be received in the future. Later, compensation cost is incurred as the benefits embodied in that asset are used up; that is, as the employees render service during the vesting period."

(FASB, 1993, para.62)

The FASB make a strong defence of this view against common criticism of it (see FASB, 1993, paras.63-65). As the definition of assets is not the focus of this chapter we will accept this view without debate⁶. If we accept the ASB's view that "the interrelationship between the elements has the consequence that the recognition of one element (for example an asset) automatically requires the recognition of another element" (ASB, 1995b, para.3.4), we must ask - what is the nature of the corresponding element arising when stock options, as prepaid compensation, are recognised as an asset? This is a crucial question because measurement of the related compensation expense will depend upon whether we regard stock options as giving rise to a liability or to equity⁷:

"... whether an employee stock option - a call option written by the employer corporation on its own stock - is considered to be an equity instrument or a liability is significant in determining the date at which the final measure of the related compensation expense should be computed. If an employee stock option is an equity instrument, the final measurement date for compensation expense will be the date at which the option is deemed to be "issued" because changes in the values of equity instruments after issuance are not gains or losses to be recognized in the issuer's financial statements. ... Neither subsequent exercise of the option nor its expiry without exercise would affect the amount of compensation expense recognized. However, if granting an employee stock option is deemed to give rise to a liability, the final measurement date effectively would be the date on which the option is exercised (or expires) because changes in the amount or value of a liability after its incurrence do affect a debtor's net income."

(FASB, 1990, para.69)

Liabilities are defined in the ASB's draft Statement of Principles: "obligations of an entity to transfer economic benefits as a result of past transactions or events" (ASB, 1995b, para.3.21; ASB, 1999a, para.4.24). Specification of "the entity" is clearly crucial to the definition of liabilities⁸.

Advocates of an entity perspective will regard the reporting entity to be the enterprise

itself, that is, as an economic unit separate and distinct from its proprietors. From this perspective the equity interests in the enterprise are claims on the enterprise's net assets, they are not themselves assets of the enterprise. Therefore, from, this perspective a call option written on the enterprise's shares does not meet the definition of a liability; the enterprise has no obligation to transfer economic benefits. In fact, if the option is eventually exercised the enterprise will receive assets (the exercise price) in a non-reciprocal transaction. Because, under this view, the accounting enterprise is sharply distinguished from the proprietors of the equity interest in the enterprise, a transaction that benefits one group of proprietors at the expense of another group can not give rise to a gain or loss to the enterprise itself; "... An enterprise can not gain or lose on transactions in its own equity instruments" (FASB, 1990, para.125). If an entity perspective is taken an option can not fit the definitions of a liability. In this case, and almost by default, it must be regarded as an equity instrument, part of the residual element "ownership interest" determined by the deduction of "all of the entity's liabilities from all of the entity's assets" (ASB, 1995b, para.3.39; ASB, 1999a, para.4.38). If the option is regarded as an equity instrument, the increment to ownership interest, and the corresponding asset of prepaid compensation that in due course will be reflected in the income statement, should be finally measured by reference to the value of the option when it is issued. When the option should be regarded as being issued is another matter; the grant date, vesting date, service date and the service expiration date are all possibilities⁹.

From a proprietary perspective the reporting entity is not regarded as separate and distinct from its owners. On the contrary, it is essentially taken to be coextensive with its owners¹⁰, and more specifically, in the context of stock options, with its pre-existing owners (see FASB, 1990, para.131). Advocates of a proprietary perspective will note that stock options represent an obligation upon the enterprise to issue shares at a price that may be less than their market price at the date of the transaction. Such an obligation has the potential to transfer wealth (economic benefits) from the pre-existing shareholders to the option holders. From a proprietary perspective, stock options can then be regarded as meeting the definition of a liability of the reporting entity in so far as they potentially oblige the transfer of economic benefits from the reporting entity (defined to be coextensive with the pre-existing shareholders) to the option holders. From an extreme proprietary perspective:

"... an obligation to deliver a financial instrument to another entity on terms

that may be less than the market price on the date of the delivery creates a liability even if the financial instrument to be transferred is the enterprise's own stock. If the terms of a future issuance of stock have the potential to be unfavourable to the enterprise's preexisting stockholders, the terms are deemed to be potentially unfavourable to the enterprise itself and thus to have the potential of affecting the reported financial performance of the enterprise."

(FASB, 1990, para.128)

If the proprietary / pre-existing proprietor perspective is taken, options have the character of a liability. Because changes in the amount of a liability after its incurrence affect a creditor's net income, the final measurement date for the liability will be the exercise or expiry date of the option. Measurement of the liability will be revised until such time as it is discharged, so that the amount of the measured compensation expense will finally be determined by reference to the value of the option at the exercise or expiry date (by the exercise price and market price at that). The entity and proprietary perspectives lead to different conclusions on whether stock options are liabilities or equity; As liabilities the compensation expense should finally be measured at the exercise or expiry date, whilst as equity the compensation expense should be measured at the issue date.

Accounting for stock option compensation has been the most highly contentious and politicised issue in accounting regulation in recent years, (see Zeff, 1997; Young, 1997; Street et al, 1997; Fraser et. al., 1998). In December 1994, under extreme pressure, the FASB dropped its proposal that US companies be required to charge the value of share option compensation as an expense in their profit and loss accounts. A compromise was reached which provided, instead, for footnote disclosure of the impact of options on net profit and EPS (See FASB, 1995). The chairman of the FASB, Dennis Beresford, indicated at the time of the climb-down, that he believed that the view that share options have value, are an expense, and ought to be charged against income, would eventually be accepted. For the present "It was a case of the leader getting too far ahead of the followers" (quoted by Peterson, 1995, p.3).

In the wake of the highly politicised debate on the stock option issue in the US, the matter was considered in the UK by the ASB's "Urgent Issues Task Force" (UITF). The

UITF statement issued by the ASB recommended footnote disclosure, on the grounds that "it is not presently practicable ... to specify an appropriate valuation method for options as a benefit in kind" (ASB, 1994, para.9). The UITF recommendations are clearly less than fully satisfactory:

“The UITF’s proposals are flawed because they are voluntary and cumbersome. They are like giving a user a trial balance and leaving him to prepare the final accounts. The UITF should return to measurement. A simple workable method now is more useful than a theoretically more sophisticated method in the indefinite and remote future.”

(Westwick, 1994, p.88)

The UITF recommendations do not close the door on treating stock-based compensation as an expense at some future date when a satisfactory (politically acceptable) valuation approach is determined. We believe that, in time, accounting standard setters in both the UK and US will want to return to the issue.

Accounting for stock option compensation is clearly the sort of difficult and contentious issue where guidance from a coherent conceptual framework might be hoped to be of most crucial value. We might expect a conceptual framework to serve both as a bulwark against interest group pressure, and as a practical guide to the resolution of such technically complex matters (see Solomons, 1978 & Mozes, 1998). The FASB felt itself unable to proceed with its consideration of accounting for stock option compensation without first reconsidering its view on certain fundamental conceptual issues (see FASB, 1990, para.14). And it only returned to the topic in 1992 after deciding not to pursue possible changes to its conceptual definition of assets and liabilities.

In previous sections of this chapter we have explained that the ASB’s draft Statement of Principles does not give clear guidance on the reporting entity question. The draft contains apparent expressions of support for an entity perspective. The advocacy of financial statements which are “useful to a wide range of users” (ASB, 1995b, para.1.1; ASB, 1999a, para.1.6), and the principle in chapter 7 that “an entity must be a cohesive economic unit, usually resulting from a unified control structure” (ASB, 1995b, para.7.2; ASB, 1999a, para.2.3), both seem to imply an entity perspective. Other elements of the draft Statement of

Principles, including fundamental aspects of the accounting model proposed, seem to imply a proprietary view. In our view in its discussion of principles the draft Statement of Principles is fundamentally equivocal on the reporting entity issue. Only in a discussion of accounting for stock options as a practical issue, which a number of commentators noted might have been more fittingly included in a specific accounting standard, are the ASB emphatically driven off the "reporting entity" fence. As explained above, the stock options issue is one which forces the adoption, at least implicitly, of a view on the specification of the reporting entity; The Board take an extreme proprietary view which equates the reporting entity with its *pre-existing* owners:

"If the contribution received is less than the fair value of rights granted in exchange the transaction will result in a loss for the pre-existing shareholders and a windfall gain for the new investor. Since the ownership interest as a whole is co-extensive with the assets and liabilities of the entity, a gain or loss to the existing holders as a body resulting from an adjustment to their rights in the entity is a gain or loss to the entity."

(ASB, 1995b, para.3.52; see also ASB, 1999a, para.4.46)

Some commentators (see Mumford, 1996 & Forker, 1996) take the view that para.3.52 reveals the ASB's essential advocacy of the proprietary perspective. We do not share that view. As we have explained above we consider that the Statement of Principles is fundamentally ambivalent on the reporting entity question. We regard para.3.52 as a forced choice - given that the Board clearly desired that the Statement of Principles might be capable of giving some guidance on the stock options issue. The choice they make does, of course, reveal their sympathy with the proprietary perspective and their privileging of the interests of "owners"¹¹.

Those, relatively few, commentators who note and comment on paragraph 3.52 are typically bemused or resistant to it. The comments shown below in Table 2 are representative of those dealing with para.3.52:

Table 2. Selection of comments on para.3.52
<p>"Paragraph 3.52 contains a discussion of the situation inter alia where the ownership interest in an enterprise is increased by an issue of securities to a new investor. It suggests that where the securities issued to the new investor are issued at an undervalue, the reporting entity has incurred a loss; this cannot be correct - if there is a loss it is one suffered by the previously existing shareholders, just as the gain is made by the new shareholder. The suggested distinction between such an issue, and an issue by way of rights at an undervalue, is irrelevant in terms of the position of the reporting entity itself."</p> <p>(The Law Society, 1996, p.504)</p>
<p>"We are unable to see how adjusting the rights of any particular class of shareholder affects the value of the business to existing shareholders as a body (last sentence of paragraph 3.52, page 65): altering ownership rights between different types of shareholder should have no impact on the value of the total ownership interest in the entity."</p> <p>(Institutional Fund Managers' Association, 1996, p. 449)</p>
<p>"We find this (the last sentence of paragraph 3.52) peculiar. The entity has made no loss (other than an opportunity loss). Are we to bring all opportunity losses into account?"</p> <p>(KPMG, 1996, p.472)</p>
<p>"We do not understand the last sentence of paragraph 3.52. We cannot think of an example of a gain to the existing shareholders as a body resulting from an adjustment to their rights in the entity. If the board has a specific example in mind, it would be useful if you gave this to illustrate the point. Otherwise we are sceptical that such a gain could be a gain to the entity."</p> <p>(Pannell Kerr Forster, 1996, p.588)</p>

The proprietary perspective certainly does not have unqualified support in the wider accounting community of preparers and users of accounts, (see, Moores & Steadman, 1986). In our view a tension between the proprietary and entity views also runs deep in the thinking of accounting standard setters and in particular the ASB.

Identity thinking and the reporting entity

The ASB is promoting a balance sheet / valuation orientated accounting model. That model has a conceptual coherence that its primary rival, the income statement orientated realisation and matching model, can not claim. We have argued elsewhere (McKernan & O'Donnell, 1998) that the Statement of Principles project can be regarded as an attempt to reinforce at the conceptual level a world view threatened by its own immanent contradictions. Financial accounting as "identity thinking" (Adorno, 1966), works to subsume the plurality of the particular within a unitary systems of concepts. However the concepts through which we grasp the world are always inadequate to their object, their hold always imperfect, less than total, and there is always a residual which can come to threaten the coherence of any system of concepts. Conceptual frameworks for financial reporting contain an immanent tendency to failure because conceptual coherence will tend to be challenged by the real pluralities moving beyond its grasp. "What is, is more than it is" (Adorno, 1966, p.161). In our view the inadequate grasp of financial accounting's restricted system of concepts upon their objects, is revealed by the ASB's equivocation concerning specification of the reporting entity. The proprietary perspective is conceptually consistent with the ASB's preferred balance sheet orientation. However in its draft Statement of Principles the Board are unable to consistently sustain a proprietary perspective. Other aspects of the social reality of the entity force their way to recognition. These include, the legal separation of proprietor and enterprise, the legal definition of holding company - subsidiary relationship in terms of control, and most powerful of all the widespread social recognition of business enterprises as significant active agents / subjects in our societies, quite separate from their proprietors.

In subsequent sections of this chapter we use a Lacanian psychoanalytic perspective to explore the nature of the firm as a social subject, and to elucidate the tension between 'proprietary' and 'entity' aspects which we would argue runs deep in the nature of the firm. We will argue that the commercial firm may be conceived as a relationally dependent subject. And, just as the individual can become a more effective political/moral agent by recognizing its relational dependence on the Other, so too can the commercial firm. We will develop our analysis primarily using a Lacanian model of subjectivity. Before turning to Lacan, we will, however, locate our conception of the firm as moral agent/subject by outlining key aspects of the existing theory and literature of the firm as moral agent.

Corporate moral agency

That existing theory of the firm as moral agent originates in the work of Peter French (1979), which is in turn inspired by the philosopher Donald Davidson's analysis of agency. Davidson breaks with the conception of language as medium of representation (of the reality) or of expression (of the self), and he thus leaves behind any notion that either reality or the self/subject have any essential nature or core waiting to be represented or expressed. He thus breaks with the traditional picture in which subjects "are not simply networks of beliefs and desires but rather beings which *have* those beliefs and desires" (Rorty, 1989, p.10). Davidson describes a subjectivity that has no essential core, and is conceptually located in the public space of language. He allows no priority to the subjective; The Davidsonian subject exists only in relation to the other and the objective world: "The objective and the inter-subjective are thus essential to anything we call subjectivity, and constitute the context in which it takes form" (Davidson, 1991, p.165).

The moral status of the firm is a crucial issue in business ethics "... our notions about the nature of corporations must inevitably shape our positions on crucial questions relating to corporate social responsibility and the most effective means of exerting social control over corporations" (Metzger & Dalton, 1996, p.490). The debate concerning the ontological moral status of the firm has been long running. For a recent reviews of the debate see Moore (1999) or Metzger & Dalton (1996).

To many readers it may seem to be intuitively clear that the corporation can have no moral status at all. Indeed, the nexus of contracts view of the firm which has achieved some dominance in legal and financial spheres "effectually excludes corporations *per se* from the class moral persons" (French, 1979, p.207). In this view, the firm, as no more than a legal fiction serving as a locus for contract has no capacity for social or moral obligations and responsibilities. French cites Jensen and Meckling (1976) as a particularly flagrant example of this view. The ideological bias of the nexus of contracts view is quite blatant: "If the corporation is nothing but a nexus of contracts, why should the contractors be denied the freedom to design their contracts as they desire?" (Metzger & Dalton, 1996, p.492). On the other hand, many will agree, with French (1979, 1984, 1995), that corporations are possibly the most important moral agents of our times, holding enormous potential both for good and bad. French argues that our ways of thinking about moral agency have not kept pace with the invasion of our society by corporations. He suggests that the intellectual legacy of "atomistic

individualist liberalism" has encouraged the "anthropological bigotry" (Danley, 1980) which has made it difficult for us to reformulate our thinking to accommodate the moral agency of the firm. In this chapter we want to respond to the challenge set by French and contribute to the enrichment our ways of thinking about the moral status of the corporation, by bringing a Lacanian psychoanalytic perspective to bear on the issue.

French argues that the firm qualifies as 'agent' or 'actor' by virtue of its possession of three basic capacities, which are common to all agents. Firstly "it has purposes, plans, goals and interests that motivate some of its behavior". Secondly it has "the ability to make rational decisions and to consider rational arguments". And finally it has "the facility to respond to events and ethical criticism by altering intentions and patterns of behavior that are harmful (or offensive) to others or detrimental to their own interests" (French, 1995, p.12). For French the firm's capacity to "make rational decisions" and "to respond to events and ethical criticism" resides in its possession of a "corporate internal decision" (CID) structure. Whilst the firm may not normally be able to function without the participation of human beings its agency is not identical with theirs; it has the capacity for intentional action:

"For a corporation to be treated as a Davidsonian agent it must be the case that some things that happen, some events, are describable in a way that makes certain sentences true, sentences that say that some of the things a corporation does were intended by the corporation itself. That is not accomplished if attributing intentions to a corporation is only a shorthand way of attributing intentions to the biological persons who comprise e.g. its board of directors. If that were to turn out to be the case then on metaphysical if not logical grounds there would be no way to distinguish between corporations and mobs. I shall argue, however, that a Corporation's Internal Decision Structure (its CID Structure) is the requisite redescription device that licenses the predication of corporate intentionality."

(French, 1979, p.211)

French's (1979) view of the CID structure can be criticised as being overly formal. It seems to imply that the decisions made by managers which do not conform with the CID structure can not be corporate actions, (see Danley, 1980, p.185). We believe that by conceiving of the

firm as Lacanian subject, split between conscious and unconscious, French's idea of CID structures may be enriched. In particular the informal / unconscious elements of decision processes might be given fuller acknowledgement. Clearly each firm, as agent, has explicit/overt, we might say conscious, motivating "purposes, plans, goals and interests", found for example in the firm's constitution, mission statements, and so on. We suggest that the operation of desire in the unconscious is likely to have just as important effects on the firm's behaviour as any consciously specified goals and purposes.

An element of continuity, 'sameness', is vital to the constitution of any subject. We regard the firm as a special form of organisation, one with at least minimal continuity over time (as distinct from a mob). The firm has a history, a "memory", some continuity of elements, and a formal place in the symbolic order. It evidences an important degree of "identity and sameness over time" (French, 1995, p.329). Just as Singer (1984) argues that corporate conscience should be thought of as an emergent property of complex cognitive systems, and just as the child develops / emerges as a moral subject, we will argue that the firm as Lacanian subject emerges through processes described by Lacan as alienation and separation.

Much of the resistance to the conception of the firm as a moral agent/subject can be attributed, in our view, to the intellectual grip of methodological individualism and to inadequate biologicistic conceptions of the nature of the human-being as subject. New perspectives on the individual person tend to emphasise the fragmented/multiple nature of the individual (Elster, 1986). Kerlin's resistance to the notion of the firm as moral agent is typical:

"... we are more likely to achieve good and avoid evil by refusing to reify abstractions or personify relationships. ... we make a serious practical and ethical mistake in treating the group or the organization as a moral agent in its own right. Where a group is a force for evil we should change its membership or at the limit break it up. Moral blame or punishment must ultimately go to the people who have deliberately set the viruses loose or failed to control them or willingly submitted to them.

(Kerlin, 1997, p.1437)

Kerlin's view is consistent with the notion of the firm as machine (Ladd, 1970; Danley, 1980; Morgan, 1986), with the implication that it is set up, and more or less controlled, by individuals who must ultimately bear responsibility for its actions. It reflects the individualistic principle, defended by Lewis, that "... it is the individual who is the sole bearer of responsibility" (Lewis, 1948/1991, p.32). We do not find the 'firm as machine' metaphor persuasive, with Singer (1994, p.201) we regard the firm as much more akin to a living system than to machine. And we are persuaded by French's view of the firm as capable of intentional action. Firms have rationality, purposes, interests, and we would argue 'desires', which are distinct from and transcend those of the human beings upon which the firm depends. Velasquez's (1983) critique of French's position follows a similarly individualistic line. He concedes that French may be right to argue that we may infer intentions from corporate policies and procedures "and that these intentions may be attributed to the corporation" (Velasquez, 1983/1991, p.120). However, he argues that the corporation can not act intentionally, because "... corporations do not originate acts in the manner required by attributions of responsibility – namely, by directly moving one's own body" (Velasquez, 1983/1991, p.118). Ranken (1987) focuses on corporate motivation and argues that a moral agent it must be motivated to develop traits of character associated with moral responsibility. She suggests that the firm is incapable of such motive, "... it has no inner springs of change analogous to the motives of natural persons" (Ranken 1987, p.634). This argument seems to be simply another version of the individualist case against corporate moral agency, albeit focussed on motivation rather than intention and action. It seems clear that French's basic argument applies as much to motivation as it does to intention and action. Corporate motive, for example the institution of policies of corporate change, clearly originates, as does corporate intentionality in the actions of individuals, however the firm transcends its origins and "... accomplishes a subordination and synthesis of the intentions and acts of various biological persons" (French, 1979, p.212).

In his recent writings, French seems to have retreated from any claim that the firm is a moral 'person' to the more modest position that it is moral agent (French, 1995, p.10). Such distinctions between moral person-hood and moral agency are also advanced by other authors (see Ozar, 1985; Manning, 1984, 1988). Goodpaster and Mathews (1982) clearly regard the projection of person-hood and conscience to the firm as essentially a "useful" analogy. The Lacanian post-structuralist perspective is thoroughly anti-biologistic, the Lacanian subject

is 'de-centred'; it is not located within the body. We will argue that the firm may qualify as a Lacanian subject, and we suggest that, in some respects, this might be a helpful way of thinking about the development of the firm as an emergent moral agent.

The firm as Lacanian split subject

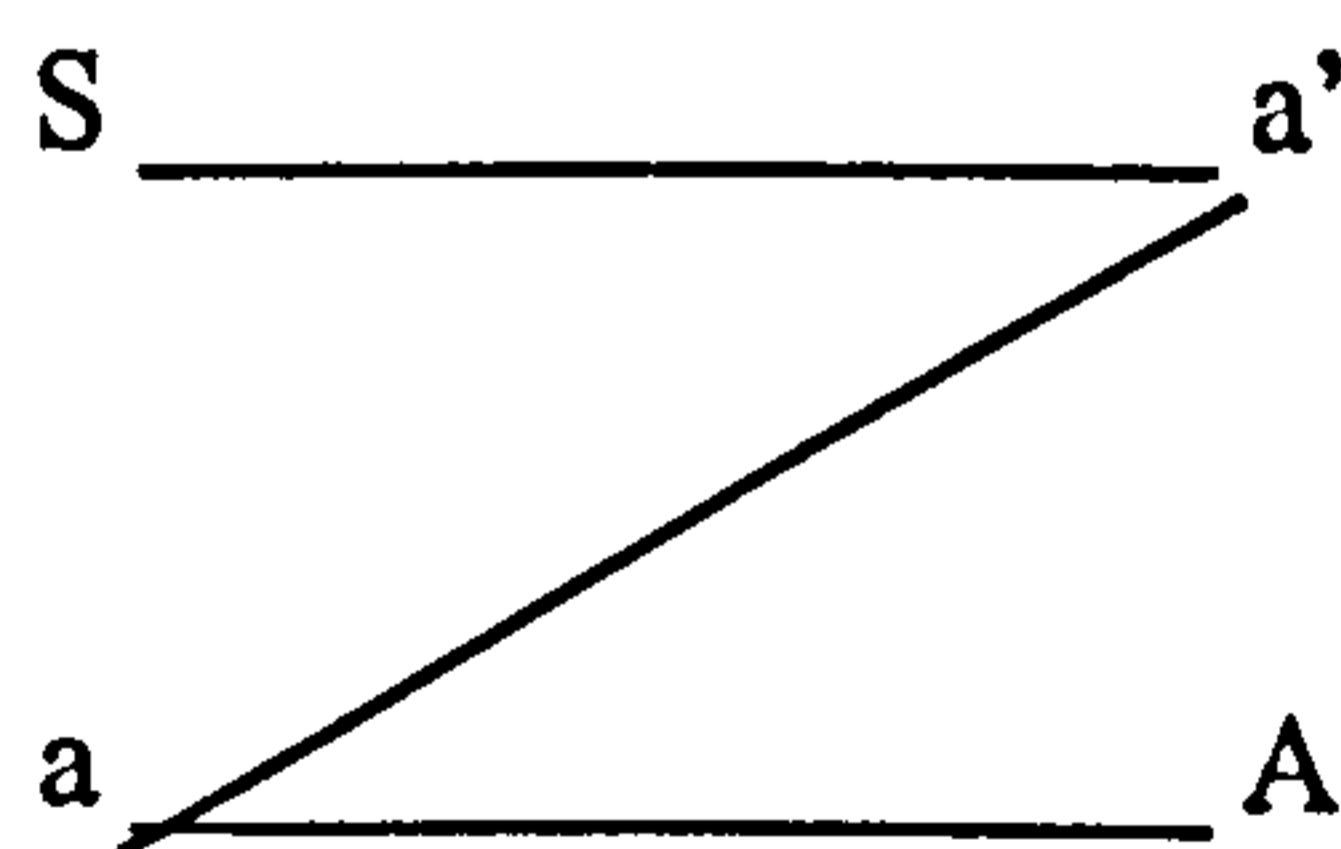
We now offer an outline sketch of the firm as a split Lacanian subject. Our reading of Lacan is guided by Fink's critical interpretation of "the Lacanian subject" (Fink, 1995). It may perhaps seem inappropriate to apply a psychoanalytic framework to an institution such as a commercial firm. Yet it is quite normal to relate to institutions as if they were a single person, albeit one constituted by many bodies, and with the reservation that the institution and its 'personality' are a 'symbolic fiction' (See, Zizek, 1997, p.140). Our treatment of the firm as subject, may appear less problematic if it appreciate that Lacanian subject is essentially a product of the symbolic order, an effect of language:

"The subject is born in so far as the signifier emerges in the field of the Other. But, by this very fact, the subject - which was previously nothing if not a subject coming into being - solidifies into being."

(Lacan, 1964a, p.199)

The Lacanian subject is not "flesh and blood", not a substance, prior to its emergence as an effect of the signifier it is "nothing"¹².

We will make use of Lacan's schema L to help elucidate his theorisation of the subject. Lacan employs various schemata in his writings. They are all attempts to represent his theories diagrammatically, and all consist of a number of points connected by vectors. The simplified form of the schema L, (Lacan, 1957-58, p.193), is as follows:



The symbols a and a' designate, indiscriminately, the ego and its counterpart, its specular

image, the little other (autre), the other that is not radically other. It is by identification with its image, whether in a real mirror or in the mirror of the imitative gestures of those around it, that the child begins to construct its ego in the mirror stage of development, and that the imaginary order is founded. The symbol A represents the big Other of the symbolic order, and S represent the subject, the subject of the unconscious¹³. Whereas the ego exists as an object in the imaginary order, in relation to the little other, the Lacanian subject of the unconscious exists as a relation to the radical Other of the symbolic order¹⁴. The schema L represents both the intrasubjective structure of the subject and the intersubjective structure of relations through which the subject comes into being (see Evans, 1996, p.170). The Lacanian subject is not simply located at the point marked S, in schema L. Rather, it is decentred, it "is stretched over the four corners of the schema" (Lacan, 1957-58, p.194). The Lacanian subject is "split" or "divided" between ego and unconscious: between the false-being of the conscious self and the automatic operation of the signifying chain of language in the unconscious. Schema L emphasises the opposition between the symbolic and the imaginary; the subject's symbolic relation to the Other is continually impeded by the imaginary axis, the ego's relation with its counterpart.

It is our contention that the commercial firm can usefully be conceived of as a "split subject", divided, and with two radically separate avatars: ego and unconscious. The false-being of the ego is sustained by a refusal of unconscious thought, "I think where I am not" (Lacan, 1957, p.166). We suggest that the conscious discourse of the firm, as it represents itself, in its annual report and elsewhere, constitutes a narcissistic ego discourse, which the firm, as subject of the unconscious, has no interest in.

The ego and the mirror stage of development:

The Lacanian subject is not the thinking Cartesian subject; it is not the ego. The ego is, however, one element of the schema within which Lacan locates the subject, and it is a convenient starting point for our analysis: A convenient place for us to begin relating elements of the Lacanian theory of the subject to the commercial firm as subject. The Lacanian ego is formed in the process of the child's identification with its own specular image in the mirror stage of development¹⁵. The infant can recognise itself before it has command of its bodily movements. In its own reflection, then, it finds an image of coherence and unity, which contrasts with a real lack of co-ordination in its body. The infant's "joy is

due to his imaginary triumph in anticipating a degree of muscular co-ordination which he has not yet actually achieved" (Lacan, 1953, p.15). The contrast provokes an aggressive tension in the infant, experienced as a rivalry with its own image. The tension is resolved through the child's identification with its image, its counterpart. It is this process of primary identification that produces the ego. The ego then, is formed through identification with something external, something alien and opposed to the subject; the subject is structured 'as a rival with himself' (Lacan, 1948, p.22). Both the ego and the imaginary order itself, rest on alienation: "I is an other" (Lacan, 1948, p.23).

The Lacanian ego is effectively a crystallisation of ideal images, a reified agglomeration with which the child comes to identify. The primary ideal image is of a unified coherence in contrast with a real confusion of sensations and impulses. However, as the child develops, new images will become sedimented upon the old, and various ideal images will fuse to form the child's sense of self. The primary source of those images will be the reflections of itself that the child finds in its parents' "eyes". Those images will be internalised, ratified, and invested with value for the child, by virtue of the parents' reactions to them. They will be structured by language, which has both symbolic and imaginary aspects; Whilst the signifier is the basis of the symbolic order, the signified is part of the imaginary order. So that the child may come to "see" or recognise herself through the parental Other, as representative of the symbolic order, as "good" or "bad", "clever" or "stupid", and so on. For Lacan recognition in the imaginary is always misrecognition. With its entry to the imaginary order in the ego, the child fundamentally misrecognizes itself as unified and autonomous; self-knowledge (me-connaissance) becomes synonymous with misunderstanding (méconnaissance). In the formation of the ego in the mirror stage the subject is alienated from its symbolic determination in the discourse of the Other, the unconscious. The imaginary order is founded upon illusion; primarily the illusion of unity:

"The illusion of unity, in which a human being is always looking forward to self-mastery, entails a constant danger of sliding back again into chaos from which we started; it hangs over the abyss of a dizzy Assent in which one can perhaps see the very essence of Anxiety."

(Lacan, 1953, p.15)

Financial accounting is dominated by the specular metaphor. Clearly financial accounts may be seen as one of the reflecting surfaces in which the commercial firm as reporting entity comes to misrecognize itself. The financial accounts are part of the imaginary register where the firm as subject becomes alienated from itself: alienated from its symbolic determinants. The financial accounts are of course not the only "mirror" in which the firm may come to misrecognize itself as a unified entity; Financial analysts' reports, and the stock market itself constitute possibly more significant reflecting surfaces for the modern firm. Arguably the primary ratification of the firm's ego image is the valuation put upon the firm by its owners and the market - its share price. The firm's existence in the imaginary order will be linguistically structured under the influence of the symbolic order, the big Other, as represented by, for example, shareholders, analysts, company law, interest groups, and the market. The firm may come to recognise itself in the imaginary as "lean", "sleepy", "innovative", "predatory", "socially-responsible", and so on. Above all the firm will succumb to the primary illusion of unity; in its reflection in its accounts, the firm will misrecognize itself as unified entity.

The object of Lacanian analysis is not to provide the analysand with a true "image" of her self; The ego is always a distortion, a seat of illusion and misunderstanding. Rather, analysis seeks to dislodge the alienating fixations of the imaginary order. Whilst structured linguistically, the ego essentially exists in the imaginary order and as such it tends to have a certain fixity. In the symbolic order of language slippage and displacement are of the essence. Lacanian psychoanalysis seeks to employ the symbolic to put the imaginary in motion, to cross the imaginary "plane of identification" (Lacan, 1964a, p.273), by transforming images into words. In considering the firm as ego, then, the object is not to identify the firm's true image: its "economic reality". Rather, the firm as ego in the imaginary order is essentially an alienating fixation, resistant to change and the dialectic of desire and an impediment to the full development of the firm's determination as subject in the relation to the symbolic order.

Thus far we have said little about the development of the Lacanian subject, as distinct from the ego. We will now turn to the processes through which the subject of the unconscious comes into being; The processes of alienation, separation and further separation.

Alienation:

Schema L makes it clear that "Otherness", that which is alien to the subject, is central to the structuration of the subject. Lacan's concept of alienation describes a process of submission to the Other as language. The child chooses to express itself in a foreign tongue - its mOther tongue. The child's choice is forced; If it does not submit to language it can not come into being as a subject. Yet in submitting to language, in presenting itself and its need through the distorting medium of language the child is alienated; it chooses its own disappearance. In the same moment that the firm as subject appears in language it fades behind language: "if it appears on one side as meaning, produced by the signifier, it appears on the other as *aphanasis*" (Lacan, 1964a, p.210). This alienation in language is, however, a necessary first step towards subjectivity. Through submission the child becomes a subject of language. Before alienation and submission there is no subject. Alienation institutes a location, a space in language, where a subject might be expected to be; it establishes the pure possibility of being. The space, however, is empty. Alienation institutes the symbolic order anew for each subject. But in that moment the subject slips behind the signifier and is "eclipsed" by language (Lacan, 1964b, p.270), his or her only trace is as a place-marker in the symbolic order.

Just as the child's place in the symbolic order "is already inscribed at birth, if only by virtue of his/(her) proper name" (Lacan, 1957, p.148), by its parents, a place is prepared for the firm by its proprietors. The firm's entry to the symbolic order may be marked by its legal constitution, whether by partnership agreement or in company law as a registered company. The firm is given a name and is recognised as a legal person, it can contract with other parties, and it must express and give accounts of itself in language of the Other. In a sense, the firm "chooses" to express itself in the language of the Other - the language of business, of law and contract. The choice, of course, is a forced one, a "your money or your life!" situation (Lacan, 1964a, p.212). In its entry to the symbolic order the firm is alienated and becomes subjected to the signifier.

Separation:

In the process of alienation the subject confronts the Other as language and in doing so 'disappears'. Alienation confers no being on the subject; it merely allows the possibility of

being. The “subject is actualized” (Lacan, 1964b, p.271), that is, the divided subject comes into being, only through a second confrontation with the Other, the Other as desire¹⁶. The process of separation hinges upon the mOther’s¹⁷ desire, she must reveal herself as incomplete, desiring, as lacking¹⁸. The child comes to be as a subject through desire, which arises in subordination to the mOther’s desire; “man’s desire is the desire of the Other” (Lacan, 1960, p. 312). The child desires *to be* the object of the mOther’s desire, and tries to fill the whole space of her lack with his own lack of being, and thus restore a lost original relation of wholeness with the mother. That original relation of unity is dangerous to the child, as it is maintainable only by denial of the possibility of the child’s subjectivity. The mOther’s desire threatens to engulf the child. However, the tendency towards superimposition of the mOther’s desire on the child is not fully realised. Firstly, there is an “incompatibility between desire and speech” (Lacan, 1958a, p.275), so that the child striving to read between the lines and catch the traces of desire in what the Other says¹⁹ will always fail to fully grasp or decipher “the enigma of the adult’s desire” (Lacan, 1964a, p.214). The mOther’s desire is always ambiguous and constantly in motion, it is always “the desire for something else” (Lacan, 1957, p.167). And, secondly, even if the mOther’s desire were known, the child would rarely be in a position to meet it. Other interests: the father, other children, her work, will command some of the space of her desire. Separation arises in the child’s forced and painful recognition that it can not be the mOther’s sole object of desire. Separation, then, may be understood as the outcome of a thwarted attempt by the subject to make two lacks coincide.

In separation the child is protected from engulfment by the introduction of a third term, the something-other-than-the-child desired by the mOther, which draws her away. Lacan refers to this other term as the name-of-the-father, the signifier of the Other’s desire, the primordial signifier, and as the phallus (as signifier of desire). The child obtains some protection from the Other’s desire through the operation of the paternal metaphor, that is, through the articulation of desire with language in the symbolic order. A name is substituted for the Other’s desire. By its mediation in language the Other’s desire is thus made less threatening, neutralized, and the child is able to escape subjection to it. Through separation a breach is made in the unity of mOther-child²⁰ which affords the child some space of its own where it can come into being²¹ as a subject, as something more than a mere place holder in the symbolic order. When separation breaches the unity of mOther-child it leaves a remainder

which Lacan refers to as 'object a', a last trace, a reminder, of lost unity.

The child's desire *to be* the sole object of the Other's desire "the desire of the Other" (Lacan, 1960, p. 312) is thwarted in separation. However, the desire of the Other remains the driving force of the child's desire. The child's desire is also caused by that part of the mOther's desire that aims beyond the child, it is the desire of the Other which causes any object to be desirable: "The object of man's desire ... is essentially an object desired by someone else" (Lacan, 1953, p.12). Object a is the object of desire, the one object that always arouses or causes the subject's desire; it is the Other's desire. In fantasy, the subject can express and explore the way it wants to be related to object a²², that is, how it wants to position itself in relation to the desire of the Other. And by manipulating object a in fantasy the subject can orchestrate for itself an excitement *jouissance*²³ that becomes a substitute for lost mother-child unity. By virtue of separation, the alienated / divided subject, by clinging to object a in fantasy, can avoid recognising its division²⁴ and obtain something of *being*, as distinct from *existence* as a mere placeholder in the symbolic order.

Just as the child is brought into the world by virtue of its parents' desire, the firm arises because of the desire of the proprietors, as primary representatives of the Other. Further, we suggest that as the child wants *to be* the object of its mOther's desire, the firm wants to be the object of its proprietors' desire, it wants to fill the space of their lack. Language protects the firm from engulfment by the proprietors' desire; Just as the child can not fully grasp the mOther's desire for "something else", because language can not fully capture desire, the firm can not fully grasp the desire of its proprietors. Furthermore, just as the child is incapable of filling the space of its mOther's lack so the firm is incapable of filling the space of its proprietors' desire. The proprietors look beyond the firm, to other firms in which they have an interest, and to society, for some satisfaction of their desires. A process of separation takes place as the firm recognises that it can not make its own lack (of being) coincide with the proprietors' lack. In the process of separation the proprietor's desire begins to be mediated by language and substituted by a third term, the name-of-the-father, the primordial signifier which anchors the neurotic²⁵ firm in the symbolic order. We suggest that for many firms, the signifier of the Other's desire, the name-of-the-father, seems to be "the-market"²⁶. In this process of separation the proprietor's desire begins to be mediated through language. Through the introduction of a third term the initial unity of proprietor-firm, typical of the origin of most firms, is breached, and the is firm given some space of its own

where it might become a subject.

As the child clings to object a, remainder of real unity with its mother, we suggest that the firm will cleave to a reminder of unity with its proprietors, its object a, the Other's desire. Object a is the object which sets desire in motion, the object around which the drives²⁷ circle and fantasy is structured. It is through fantasy that the subject "sustains (it)self as desiring" (Lacan, 1964a, p. 185), and can maintain an illusion of unity and wholeness. The specific object which plays the part of object a, will vary from subject to subject. However, in our society it is clear that money commonly becomes the object of desire, the object that promises to fill the space of our lack. In fantasy the subject will orchestrate its relations with object a, and manipulate it, so as to produce an excitement, *jouissance*, compensating for the loss of real unity. The subject may adopt a number of basic positions in relation to object a, the desire of the Other. Two dimensions of those possibilities are particularly notable (see Bracher, 1993, pp.19-45). Firstly, corresponding with Freud's distinction between the anaclitic (outward-leaning) and narcissistic libido, the subject may desire either to have or to be object a. Secondly, and corresponding with Freud's distinction between the active and passive aims of the libido, the subject may take the position of the active desiring subject or may place him/herself as the passive object of the Other's desire and means for the Other's *jouissance*.

An *active anaclitic* fantasy might involve the possession of money as a means for one's own *jouissance*. Here we might think of those firms that seem to find some satisfaction in amassing great stores of liquidity. A *passive anaclitic* fantasy positions the subject as being the object that the Other desires to have as a means to *jouissance*. This is essentially a masochistic fantasy. Here we may think of those firms that seem to become fixated upon their market/monetary value, their share price. The *passive narcissistic* fantasy is the fantasy of being the object of the Other's love, it is the fantasy of being special, a chosen people, race, etc. Here we might think of those firms which apparently become intoxicated with their "superiority" as the biggest, the best and so on, in such cases money may be the measure of that which makes them more valuable than other firms. Finally, the *active narcissistic* fantasy involves the attraction to object a in another and trying to identify or unite with it. Here we might think of certain firms that orchestrate the production of *jouissance* around acquisition strategies. For many firms profit itself may be object a. Lacan himself, in Seminar XVI (Lacan, 1969-70), equates object a with Marx's concept of surplus value. The

proprietor/capitalist as Other appropriates surplus value, so that the employees as subjects, and we suggest the firm as subject, find themselves in the position of being instruments of the Other's jouissance: "the subject finds him or herself in the unenviable situation of working for the Other's enjoyment, sacrificing him or herself for the Other's jouissance - precisely what the neurotic most abhors" (Fink, 1995, p. 96).

Further separation – traversing the fundamental fantasy:

Through separation the child can produce in fantasy a kind of being for itself. However, in fantasy the Other's desire, as object a, dominates and eclipses the neurotic subject, which fades behind the "object cause". Lacan suggests that it is only through a process of further separation that the neurotic subject might move beyond domination by the Other, beyond the false being of the ego and the "aphanatic" (fading) being of fantasy; The subject must traverse its fundamental fantasy. In separation, through the operation of the paternal metaphor, the Other's desire is named, and brought into the realm of signification. However that name is relatively static and restricted in its power of designation, it is not fully separated from the desire of the Other. The object of the process of further separation is to put the Other's desire fully into motion in language. In the process of further separation the Other's desire is increasingly signified, it is "unpacked" and brought into the full play of language. In this process the subject gains access to the signifier of the Other's desire, and ideally the subject may finally subjectify, that is, assume responsibility for, the Other's desire - as its own cause.

The Lacanian subject is "an effect of language" (Lacan, 1964b, p.265). It is a precipitate of meanings, and in particular the meanings generated by the relations between certain master signifiers, associated with the-name-of-the-father, and all other signifiers. It is "what the signifier represents, and the latter cannot represent anything except to another signifier: to which the subject who listens is thus reduced" (Lacan, 1964b, p.265). The master signifiers are those terms, closely linked with the name-of-the-father, which put an end to the chain of associations in language, for the subject, they represent blockages or dead-ends in language. Cut off from the play of language, they have a relative fixity and their significance or meaning for the subject is opaque; they are nonsensical. This opacity does not mean that the neurotic subject is unable to understand or use the terms concerned in ordinary speech. It pertains, rather, to the meaning of the master signifiers for the subject in the constitution

of the subject - what they mean *for* him or her. The neurotic split-subject is essentially eclipsed by meaning; "I identify myself in language, but only by losing myself in it like an object" (Lacan, 1953b, p. 86). The neurotic, or castrated, subject, is the subject that is represented, the subject "constituted by the message" (Lacan, 1960, p.305), by the message "which the sender receives back from the receiver in an inverted form" (Lacan, 1953b, p. 85).

The fixity of the master signifiers "freezes" the subject determined in relation to them (Lacan, 1964b, p.269). Movement beyond neurosis, further separation, requires the dialecticization of the master signifiers. Their isolation must be broken. They must be brought into relationship with other signifiers²⁸, and thereby given meaning for the subject. In the forging of the new linkages between the master signifier and other signifiers, in the making of new meaning, the subject as precipitation, as distinct from the subject as precipitate, flashes into being. This subject arising in the precipitation of meaning is no more than "metaphor's creative spark" as "it flashes between two signifiers" (Lacan, 1957, p.157). Lacan contrasts the action of metaphorization and assimilation. In assimilation there is an automatic working of the symbolic order, things fit into the signifying chain without fundamental disruption, sense is made of things, things are understood, in a way which provides us with a comforting, but false, sense of being "I think therefore I am". Assimilation is characteristic of the alienated subject petrified by language:

"The signifier, producing itself in the field of the Other, makes manifest the subject of its signification. But it functions as a signifier only to reduce the subject in question to being no more than a signifier, to petrify the subject in the same moment in which it calls the subject to function, to speak, as subject."

(Lacan, 1964a, p.207)

This petrified subject "is one who asks no questions about himself" (Soler, 1995, p. 48). Metaphorization, in contrast, produces something new; new meaning. Metaphorization unsettles the existing order in the symbolic by making new connections between signifiers. The production of new meaning through metaphor is more than the automatic functioning of the symbolic, it draws on the real and brings forth fleetingly the "subject in the real" (Lacan, 1964b, p.265), that is, the subject as precipitation. This subject appears as an

evanescent interruption of the automatic functioning of language in the unconscious, as an irruption of the "I" in the place dominated, in the split subject, by "it", by the Other as; language, desire, demand, and jouissance. The "I" concerned here is not the reified I of conscious discourse, it is not the ego. Rather, it is an I that takes responsibility for the operation of the unconscious, for the linkages made there between signifiers and the meanings created, including the meanings which constitute the subject as precipitate of meaning.

For Lacan the emergence of the subject as precipitation through further separation, that is the movement beyond the split subject dominated by the "it", is an ethical imperative; it is "a duty in the moral sense" (Lacan, 1955, p.128). A duty which Lacan sees as implied by Freud's motto "Wo Es war, soll Ich werden"²⁹, which for Lacan translates as a "there where it was it is my duty that I should come to being" (Lacan, 1955, p. 129). The object of analysis then is to help the subject on an ethically dictated path beyond the split, to help the subject to put "I" in place of "it" in the unconscious; that is to assume responsibility for the making of new meaning in the unconscious. The aim or end of analysis can then be understood as the acceptance of responsibility for, or a subjectification of, the particular Otherness, which structures the possibility of one's being: "the realization by the subject of his history in his relation to a future" (Lacan, 1953b, p. 88). One must become the subject of one's own history³⁰, "Wo Es war, soll Ich werden".

In separation the Other's desire is named and begins to be mediated through language. In further separation the signifier/name of the Other's desire is dialecticized, subject to further signifierization, and broken away from the Other's desire, so that finally the subject may take responsibility for his or her own cause – the desire of the Other - by subjectifying the Other's desire. Further separation, then, entails the reformulation of the subject's relations to the Other as language and as desire (object a). It will therefore disturb the subject's symptomatic production of jouissance, and the semblance of being, obtained in fantasy. If the subject is to achieve further separation it must traverse its fundamental fantasy, it must give up its castration, its position as subjected by the Other, and it must renounce satisfactions earned through that submission.

The castrated firm as subject, is the firm that constantly represents itself to the Other, the firm that constantly seeks attention and approval; from its owners, from the market, from financial analysts, from its industry regulators, and so on. The more it represents itself the

more it fades, “disappears beneath the signifier” (Lacan, 1964b, p. 265), the more castrated it becomes. We suggested, rather speculatively, that the name of the Other’s desire for many firms, their name-of-the-father, might be “the-market”. Closely linked with that name we would expect to find a cluster of master signifiers with respect to which the firm as castrated subject is determined as a sedimentation of meaning. Those master signifiers might typically include “growth”, “profit”, “competitiveness”, “quality”, “innovation”, and so on. If the firm is to traverse its fundamental fantasy, the master signifiers that hold it frozen/petrified, must be set in motion, by being subjected to a process of increasing signification, they must be dialecticized³¹. For example; if we subject ‘profit’ to further signification we might speak of it as a measure of response to demand - profit is a measure of the success with which companies have directed their resources to meet unsatisfied demand. From demand we may begin to speak of need - and when we speak of human need we may move to speak of rights, legal and moral, which arise in society, and so on. In language the Other’s desire can be put in motion and forced to give way before the signification of the Other’s desire³². The Other’s desire, the cause of the firm as subject’s desire, may thus be put in motion so that it moves out from proprietor to society. Through this process of increasing signification, the firm as subject may come to take responsibility for, subjectify, the Other’s desire - its own cause. To achieve further separation the firm will need to sacrifice its castration - give up the submissive compensations habitually obtained in fantasy. We regard the movement beyond neurosis and the split, as a moral duty; the firm as subject must come to put “I” in place of “it” in the unconscious; it must assume responsibility for the making of new meaning in the unconscious, through metaphorization, and must subjectify its history³³.

The Habermasian subject of discourse ethics

In this section of the chapter we will argue that the Habermasian subject of discourse ethics stands in need of theoretical supplement from post-structuralism/psychoanalysis. We have argued in previous chapter for the institutionalization of Habermasian discourse ethics as a regulative ideal: It is certainly not our intention in this chapter to dismantle the case we have tried to build for the application of communicative reason in accounting policy making. We want to urge the necessity of engaging post-structuralist/post-modernist sensitivity to Alterity as a supplement to communicative reason, not as an alternative to reason.

For Habermas the task of moral theory is to reconstruct, articulate and elaborate the

implications of, the normative presuppositions of social interaction that are intuitively grasped by competent social subjects/actors. He contends that the motivating force of moral claims depends upon confidence that they can be justified with convincing reasons. He argues that a reconstruction of convincing reason giving yields the insight that rationally motivating reasons for acceptance of a norm must conform to the principle of universalization (U), according to which a norm is valid if:

(U) *All* affected can accept the consequences and the side effects its *general* observance can be anticipated to have for the satisfaction of *everyone's* interests (and these consequences are preferred to those of known alternative possibilities for regulation)."

(Habermas, 1983, p.65)

(U) is the cornerstone of Habermas' discourse ethics, it ties the legitimation of norms to real discourse leading to a rational consensus. It requires that all those affected know their own real interests, and are willing and able to engage in debate with the objective of reaching mutual understanding. It requires an uncoerced debate in which each participant has freedom and the capacity to express their own interests and in which each party makes a real effort to understand the others by trying to share their perspective on the issue. The basic idea is that any normative consensus arising through such a process must encapsulate a general interest.

Habermas' discourse ethics suggests, then, that behavioural expectations can have normative or moral force (as distinct from the force associated with legal or other imperatives) only among subjects who hold themselves accountable and autonomous, and only insofar as its validity can be justified to them with convincing reasons. (U) seems to demand a certain self-transparency from the subjects: "To the extent that we *want* to treat him as a subject at all, we *must* assume the other opposite us *could* say why he behaves in a given situation this way and not that" (Habermas, 1986, p.123 quoted by Rehg, 1997, p.35). Discourse ethics is, clearly, a thoroughly dialogistic model of normative legitimation. Nevertheless, it might seem that all that discourse ethics requires is that each individual subject affected, brings his or her own, more-or-less arbitrarily and privately chosen, values and interests to the debate/dialogue and is prepared to engage with other similar monads in an effort to find mutually beneficial compromises and constraining rules of action. This

would be a misconstrual of Habermas' view: He is vitally concerned to move beyond the philosophy of consciousness - the paradigm of the essentially rational conscious individual subject. He wants to locate (moral) cognition in the intersubjective, that is, in communicative action - in language. Habermas recognizes that individual identities, self-understandings, values, and interests (all the contents of moral discourse) are socially developed and embedded in social networks of mutual recognition. A central function of morality is then the protection of the web of relations within which fragile identities can develop and thrive:

"Since moralities are tailored to suit the fragility of human beings individuated through socialization, they must always solve *two* tasks at *once*. They must emphasize the inviolability of the individual by postulating equal respect for the dignity of each individual. But they must also protect the web of intersubjective relations of mutual recognition by which these individuals survive as members of a community."

(Habermas, 1983, p.200)

Habermas certainly takes us to the brink of a transcendence of the philosophy of consciousness but he seems unwilling to take the final step. (U) takes us beyond individualism by insisting that rational moral conviction must be formed in relation to the intersubjective process of a real debate in which there is full reciprocal perspective taking leading to consensus. However, ultimately (U) locates moral conviction in the individual: "it still assumes that each individual is the ultimate site of rational conviction or insight, the common space of exchange notwithstanding" (Rehg, 1997, p.234).

Despite its counterfactual and essentially paradoxical nature, the full reciprocal perspective taking demanded by (U) does provide a valuable regulative ideal against which real processes of normative legitimation can be measured. However, the "facticity" of real discourse points towards the need for a fuller decentring of normative legitimation. Real perspective sharing is always less than complete, and moreover as society becomes more complex and differentiated it becomes increasingly unreasonable to assume that individuals can have full appreciation of any debate. That is, it becomes increasingly difficult to sustain the idea that the individual can form rational conviction or insight. In holding on to a residue of monadic individualism, (U) fails to recognize the real need for decentred cooperative

formation of rational conviction. Confidence in the legitimacy of norms would then generally need to be based not upon the individual's appraisal of arguments, but rather on the quality of the argumentative procedures, and it would inevitably entail reliance on trust:

"If real processes of discourse are decentred ... such that individual conviction becomes impossible; if rational consensus is cooperative even to the degree of requiring a decentred, "cooperative insight," then it would seem that something like trust must inhabit the heart of rational conviction."

(Rehg, 1997, p.233)

Habermas recognizes that subjects are individuated through language, but his discourse ethics seems to require that individuals emerge from the process of individuation as relatively unified, transparent, and autonomous subjects. Discourse ethics essentially requires that subjects; (i) have real interests, (ii) know their interests are able to express them in terms of some relatively fixed vocabulary, and (iii) have the power and inclination to further their interests in argument. (U) relies on a metaphysics of presence - "the self-presence of the cogito, consciousness, subjectivity, the co-presence of the other and of self, intersubjectivity" (Derrida, 1967/1976, p.12), that when viewed from a post-structuralist perspective will seem quite untenable. The ideal of complete reciprocal perspective sharing reflects the vain dream of personal and political transparency; "the Rousseauist dream ... of a transparent society, visible and legible in each of its parts" (Foucault, 1980, p.152). A post-structuralist analysis will emphasize that as we are not transparent to ourselves we should not expect other individuals or the community to be transparent.

The post-structuralist, say Lacanian, subject is always in flux - in process of construction and reconstruction - always decentred. For Lacan the unity of the subject is always a fiction, an illusion: "One can never be sure of one's self, one's desires, one's psychic borders" (McAfee, 2000, p.115). The Lacanian subject, as we have seen, is essentially divided, it is constituted and located in the relational tensions between conscious and unconscious, self and other; Its identity is founded upon alterity and differentiation. The Lacanian subject's relation to the other is complex, it includes the threat of negation and it is only through breaking with the Other that the Lacanian subject can come into being. However ultimately the Lacanian/post-structuralist view emphasizes the enormity of our debt

to the Other - without alterity there could be no subject. In the Lacanian split subject's indebtedness to the Other there is the promise of a new ethics of community. The split subject need not always be at odds with alterity, rather:

"she can come to terms with her strangeness, and thus reconfigure her relationship with others. This entails becoming cognizant of her own alterity. ... a subject-in-process can embrace alterity as a precondition for subjectivity. Insofar as the unconscious and the strangers around us are constitutive of our own identity (identity being a product of difference), we each need others."

(McAfee, 2000, p.132)

In coming to terms with our division and alterity we may move towards a more profound recognition of our essential dependence on the Other and our responsibility to the Other. Far from disabling our effective political agency, the recognition of our own history in the language and desire of the Other can form the basis for the social trust which we have argued above is vital if something like discourse ethics is to be retained as persuasive regulative ideal. Indeed, we suggest that recognition of our heterogeneity (our lack of sovereignty/autonomy) and the fragility and thoroughly relational nature of our identities is a precondition for our becoming effective political agents.

The post-structuralist/post-modern supplement communicative reason

In the transition from traditional to modern society, morality is increasingly decoupled from ethical discourse, conceptions of the good life and related self-understandings, and from the associated motivational resources. The moral point of view becomes intellectualistically located in rational discourse and, detached from powerful action motivating resources; morality faces a "motivational deficit" (Habermas, 1996, p.35). The distinction we are making here between ethics and morality is important: We are using the term "morality" in a Habermasian sense, to refer to the norms, the obligations and prohibitions, that we can expect to be binding on all across society, and to questions of how we can justify such norms. The moral, then, operates horizontally; it refer to those matters on which rational consensus can be obtained:

"Thus a person takes the moral point of view when he deliberates *like* a democratic legislator on whether the practice that would result from general observance of a hypothetical proposed norm could be accepted by all those possibly affected viewed as potential co-legislators."

(Habermas, 1996, p.30)

In our increasingly complex modern pluralistic society, the need for powerful consensual normative integration and coordination is surely self-evident - the alternatives are coercion or chaos. In the context of our discussion here, two senses of the term "ethical" can be usefully distinguished. Firstly it refers to those questions and discourses of "the good life", often religiously based that have traditionally motivated morality - e.g., with promises of personal salvation. Such ethical discourse always operates vertically, that is, it always works within particular life histories and traditions. The diversity of ethical conceptions within modern pluralist society undermines the capacity of the ethical to motivate norms, which need to operate horizontally - across all of society.

Lacanian and other post-structuralist/post-modern conceptions of the (split) subject, point towards the need for an alternative conceptualization of "ethics"; an ethics of difference and Alterity, as opposed to an ethics of unity, sameness, and the good life. Bauman (1989, 1993) argues that Levinas' work represents the most adequate attempt to think through the ethical implications of post-structuralism/post-modernity. Levinas gives an account of the subject as "ethical" to its very foundation. For Levinas it is the "ethical" relation of absolute responsibility for the Other that originates, and defines the space of, each subject's being: "Responsibility in fact is not a simple attribute of subjectivity, as if the latter already existed in itself, before the ethical relationship" (Levinas, 1985, p.96). This ethical relation of responsibility operates at a pre/non-discursive level, and indeed may be damaged by any attempt to discursively rationalize it. Rather than see ethics as primarily a societal product (conventionalism) and society as man's saviour from natural barbarity, Levinas' ethics of responsibility encourages us to see the ethical impulse as ontologically foundational for the subject. And it suggests that alienating social circumstances can undermine the immediacy of the ethical impulse to respond to the Other. From this perspective we may see society, and in particular modern rationality (instrumental and communicative), as potentially corrosive to the ethical impulse. Such practices block our response to the other by putting distance or

barriers between the subject and the Other. Bauman argues that it is this manufacture of an ethical distance in modernity which made possible the horrors of the Holocaust; the most remarkable feature of which, for Bauman, was that through rationality, an abhorrent project was able to overcome "the animal pity by which all normal men are affected in the presence of physical suffering" (Arendt, 1963, p.106, quoted by Bauman, 1989, p.20).

We suggest that a universal ethics of difference and responsibility for the Other, as distinct from any tradition bound ethics of the good life, has the potential to motivate and supplement the moral, in even a highly pluralist society. And we agree with Bauman that modern society is characterized by certain external blocks on the recognition of responsibility to the Other; Blocks which need to be overcome if the promise of an ethics of difference is to be realized. Foremost amongst the systemic blocks to the realisation of man's social being-for-the-other are the relations of domination and alienation imposed by capitalism and the ideology of commodity fetishism which impedes recognition of reality of those relations. The nascent subject's relation to fantasy presents, however, an even more fundamental barrier to the recognition of absolute responsibility for the Other. Taking a Lacanian perspective, we suggest that the subject's ethical responsibility for the Other can only come clearly into view, for the subject, as it traverse its fundamental fantasy. It is only by moving through the process of "further separation" that the split subject can move beyond domination by the Other, and that relations of subject and Other, characterized/haunted by a threat of negation, can be pacified and become the basis for the actualization of an ethic of responsibility for the Other. Transcendence of the fundamental fantasy requires that the subject come to terms with Alterity; it must subjectify its own cause in the desire of the Other by recognising and taking responsibility for its relations to the Other which are constitutive of its very being. This process requires that the subject confront the fragility and thoroughly divided and relational nature of its being, and demands that it face up to its essential dependence on the Other. Insofar as it forces a break with the illusions of unity, sovereignty and autonomy, the transcendence of the fundamental fantasy is a vital/necessary step in any subject's development as an effective post-modern political/moral agent. Through the recognition and subjectification of our split/divided subjectivity we may progress towards; (i) an ethics based on difference and responsibility for the Other, and (ii) a morality founded upon the institutionalization of the regulative ideal of discourse ethics stripped of monadic individualism and sustained by a fuller recognition of the relational nature of subjectivity and

of the necessity of our reliance on the Other - the necessity of trust.

Diana Coole (1996) makes a strong case that the incitation of alterity, typical of post-structuralist/post-modern practices and discourses, is an essential supplement to any emancipatory politics, based on a morality of communicative reason. Coole suggests that Habermas shows hostility towards the discourse of post-structuralism/post-modernity in, for example, *The Philosophical Discourse of Modernity* (Habermas, 1985a), primarily because those discourses rely on an appeal to the Other, in which he can find no emancipatory potential. Central to Habermas' work is the thesis that both his predecessors in critical theory (including Horkheimer and Adorno) and the post-structuralists/post-modernists, have, in their own ways, failed to grasp the emancipatory potential of reason. For Habermas, the early critical theorists follow Weber in making the mistake of equating reason with purposive-instrumental reason, while the post-modernists, according to Habermas, forsake reason altogether. Both miss the emancipatory potential of communicative reason orientated to the cooperative disclosure of the world, to transform that world through reflexive critique. For Habermas modernity is characterized by the tension between two modes of rationality instrumental and communicative reason, "lifeworld and system, emancipation and reification" (Coole, 1996, p.224). He sees the struggle between reason and its Other - the sacred, that which is immune to reason – as essentially occurring in the transition from traditional to modern society. In that transition, the Other of reason is overcome through the "linguistification of the sacred", and the conditions are set for the fulfillment of modernity's emancipatory promise. Coole suggests Habermas' hostility to post-modernist discourse can be traced to its invocation/reinvigoration of the Other, the beyond of reason/discursive analysis: "his entire project is predicated for its emancipatory claims on the *exclusion* of that alterity to which postmodernism appeals" (Coole, 1996, p.224). Alterity is effectively excised from his account of the modern lifeworld and subject. The lifeworld is defined in essentially linguistic terms and is thus, in principle, entirely open to the possibility of communicative critique and rationality. And, the Habermasian subject is given an analogous transparency: "Habermas gives subjects privileged communicative access to their inner selves such that, despite communicative blockages, there is in principle nothing immune to rational self-communication" (Coole, 1996, p.226-227). His vision of emancipation through communicative rationality allows little room for recognition of the Other of rationality - the non-systemic, non-rational, pre-and-non-discursive, forces and processes at work within even

modern society, and within the subject. He overstates the potential of rationality by substantially overlooking the non-systematic unconscious; those elements that can not be discursively retrieved or validated.

The post-structuralist/post-modernist invocation of Alterity subverts modernism's rationalist project not by means of a retreat to irrationality but rather by revealing the limitations of and violence done by rationality (both instrumental and communicative) when it "it aims to make everything knowable, communicable, transparent" (Passerin d' Entreves, 1996, p.26). In their initement of alterity, the post-modernists want to destabilize the rational by opening it up to the excluded voice of the Other, that is, they intend to awake us to processes of exclusion and suppression working within rationality's rendering of things knowable. The post-modernists' provocations and the absolute ethical claim of the Other operate together within those circuits of power and alterity that are resistant/immune to discursive redemption/analysis. However, we need not see the post-structuralism/post-modernism project as an attempt to overthrow reason and put unreason in its place. It is more helpful to see it as an attempt to destabilize reason's closure, that is, as an enterprise that worries reason along its boundaries, and allows the claim of the Other to be glimpsed (but not rationally dissected). It is this subversive role that makes post-structuralism/post-modernism political:

"From this perspective it is not just purposive-instrumental reason that colonizes and subjugates, but a metaphysical will to lucidity as such. Irruptions of alterity are a means of opening spaces through which the unnameable and hence uncolonizable might be glimpsed, as a strategy subversive of reason's closures, not a leap into the irrational."

(Coole, 1996, pp.238-239)

The post-modern ethics of difference points to the possibility of a reinvigoration of moral motivation. While moral claims must continue to draw force from their "rationality" that force can be underwritten by the ethical impulse - that is the feeling/intuition of absolute obligation to the Other; The sense of being bound, not by a trained conscience, but simply by the presence of the Other. That is, bound by a responsibility/obligation for the Other that can not be understood - a claim that operates below the level of discourse and rationality in

which moral claims circulate. It is the immediacy of the ethical relation of absolute responsibility that gives it motivational, action-guiding, force. And, whilst this ethics of responsibility is clearly opposed to the cognitive discourse of morality, we suggest that its force may be harnessed to the moral. The ethical imperative may drive action in response to interpreted moral claims by force of the uninterpreted and always unfulfilled claim of the Other, recognized by "its gnawing sense of unfulfilledness, by its endemic dissatisfaction with itself" (Bauman, 1993, p.80). We are absolutely not suggesting that the ethical can be subsumed within the moral. On the contrary if the ethical claim is to maintain its force it must remain outside discourse: "The transcendence of the other - the infinite dimension of the obligation in Levinas' terms - is neutralized when obligation is subject to discourse" (Furrow, 1996, p.162). Rather, we are suggesting that the Levinasian foundational ethic of being-for-the-Other provides us with an account of ethical agency which can put force behind moral responsibility, yet provide a basis for the ethical transcendence of the moral point of view, (the point of view of discursive rationality):

"This capacity to be shocked by others suffering, and resistance to settling ersatz explanations of it, accounts for our capacity to transcend the limitations of a moral point of view, and provides us with a recharacterized sense of universal moral agency ... The virtue of such a position is that it allows us to conceptualize an ethics and politics that depends only minimally on shared beliefs."

(Furrow, 1995, p.xx)

The Lacanian model suggests that through the transcendence of the fundamental fantasy the subject may emerge as an ethical subject-for-the-Other and as an effective political/moral agent. This post-modern moral agent will be reconciled to her own alterity and division. She will be deeply aware of her dependence on the Other and, recognizing the fragility of her own relational identity, she will appreciate that only within a just and relatively stable framework of social relations can self and Other thrive and effectively pursue their ethical projects of self-realization. She will therefore be committed to development and maintenance and of a just normative framework. In a modern pluralism norms tend to lose any motivating connection with an ethic of the good life³⁴ and must, in the first instance be motivated by

their rational validity. This post-modern agent-for-the-Other will thus have a commitment to universally binding moral norms validated through communicative reason but her moral motivation and commitment of will not rely on just the abstraction of the moral point of view. It will be impelled by an acceptance of an absolute ethical responsibility-for-the-other, expressed as a commitment to maintenance and protection of the relational space within which self and other may realize themselves.

This subject's real commitment to the validation of norms through the communicative reason, will be tempered by an awareness of her own alterity and division, she will recognise the limits of reason and be concerned to minimise the violence done by the always premature closure of reason. Nevertheless, just this breach with monadic individualism, this fuller recognition of the relational and ultimately exogenous nature of subjectivity, associated with the post-modern/Lacanian subjectivity, is vital if the regulative ideal of discourse ethics is to be made plausible. Real progress towards the realisation of the ideal of rational will formation in the public sphere of the Other will require a reliance on a measure of trust that itself will be plausible only among subjects who have come to terms with their own otherness.

Conclusion

“Two roads diverged in a yellow wood,
 And sorry I could not travel both
 And be one traveller, long I stood
 And looked down one as far as I could
 To where it bent in the undergrowth;”

(Robert Frost, “The Road Not Taken”, 1916, p.129)

This thesis set out to defend the emancipatory potential of accounting. Our efforts to sustain that defence took us on an intellectual journey that ranged from the analytic philosophy of Donald Davidson through Jürgen Habermas’ critical theory to the post-structuralist psychoanalysis of Jacques Lacan. In this conclusion we will look back on the road taken and emphasise the continuities and logical development of the route. We will also take some space here to very briefly comment on certain roads *not* taken by this thesis. This thesis developed through a process of auto-critique: At each of the main phases of the intellectual progress charted here, the position presented has been subject to a measure of critical reflection, weaknesses identified, and ways beyond the weaknesses offered. Self-critique has therefore been integral to the development of the views presented in previous chapters; in this conclusion we will review the main points of that critique but will not attempt to reconstitute it in detail nor will we, at this stage, undertake any systematic new critique.

The development of the thesis was an essentially constructive process. Our auto-critique led not to the undermining or destruction of the views previously presented, but generally to a recognition that they needed to be supplemented in some way. From the outset we associated accounting’s emancipatory potential with its capacity to provide knowledge of the objective publicly accessible world we share. Initially we addressed financial accounting as an essentially descriptive enterprise. This does not mean that we somehow failed to appreciate that accounting has a moral aspect; but rather that we implicitly assumed that the descriptive and normative dimensions of accounting could be cleanly divided and dealt with separately. Taking that division for granted we proceeded to make a case for the possibility of descriptive objectivity in accounting, by inference from the account given by Davidson’s of the possibility of knowledge of any type. We initially use our Davidsonian justification of the possibility that we can have accounting

knowledge of the objective public world we share as a basis for responding to those theorists who cast doubt on the possibility of any objectivity in accounting. In particular, we use Davidson to resist the logic of accounting theorists, like Ruth Hines, who would encourage us to drop altogether what they see as the “mundane” notion of “an objective, shared and intersubjectively accessible world” (Hines, 1991, p.317). Our Davidsonian view of the possibility of descriptive objectivity in accounting remains at the very heart of our thesis as it develops in subsequent chapters; it is by no means naïve and at no stage do we abandon it. At all stages of the development of our views we follow Davidson in arguing that intersubjectivity is all the foundation we need, or can have, for objectivity. Nevertheless as our analysis proceeds we come to recognise that the Davidsonian perspective on accounting objectivity needs to be supplemented by an approach that more explicitly engages with the moral dimension.

In chapter 3 we used an analysis of the debate surrounding the development of accounting for deferred tax as a vehicle to further our examination of the nature of financial accounting and the problem of objectivity in accounting. Two conclusion of our consideration of the deferred tax debate are particularly notable: Firstly, we observed that the descriptive objectivity of accounting for issues like deferred tax may be low because in such cases accounting concepts employed lack clear objective referents in the intersubjectively accessible world. The absence of clear objective referents for many accounting concepts allows massive scope for failure of intersubjective descriptive consensus, that is, failure of objectivity. We recognised that this issue has been identified by other observers of accounting, including Sterling and Chambers, who have called for accounting to become more rational, less bound by myth and tradition, and more like science; that is, more closely tied to an objective reality. Secondly we analysed accounting in terms of the science ethics dichotomy drawn by Bernard Williams and concluded accounting is not quite like science; more specifically we recognized that in accounting the descriptive and the normative are deeply and inextricably entangled. That recognition impelled our recourse to Habermasian discourse ethics. Given our acceptance that the moral and descriptive can not be neatly separated in accounting, we were forced to recognize that it can not be sensible to conceive of accounting and accounting objectivity in purely descriptive terms.

We use Habermas’ discourse theory to justify the view that, at least potentially, we can have normative objectivity in accounting. We progress from an implicit and relatively unsophisticated conception of financial accounting as a process that can

reasonably be addressed as an essentially descriptive enterprise, to a view of it as a process within which the descriptive and normative dimension are inextricably entangled. This recasting of our view of financial accounting compels us to re-conceptualize the problem of objectivity in accounting and drives us to supplement our Davidsonian analysis of the possibility of descriptive objectivity in accounting with a Habermasian approach to the possibility of normative objectivity. The move to Habermas' theory of discourse ethics is essentially supplementary; at no stage do we relinquish our Davidsonian view of the promise of descriptive objectivity in accounting. On the contrary, our view is that normative objectivity is a necessary complement to descriptive objectivity in accounting: an objectively validated normative position provides the objective viewpoint and concepts in terms of which we can have objective descriptive knowledge of the world.

We stress that we do not argue that we can have objective adjudication between value-preferences or between competing conceptions of the "good life". We agree that evaluative questions can only be addressed from within particular forms of life; they are simply not open to objective validation. We are therefore certainly not suggesting that we might somehow be able to objectively adjudicate between the value systems of say Christianity and Hinduism. Furthermore we recognise that accounting norms may be deeply affected by the evaluative system within which they are embedded. However, we follow Habermas in arguing that in modernity a set of moral/normative questions can be broken away from determination by the evaluative and addressed objectively. Habermas argues that in traditional society the ethical sphere appears as a totality in which the norms of action and question of justice are determined by answers given to the evaluative questions, and consequently the norms in such a society are not open to objective validation. However, in the transition from traditional society to modernity the ethical sphere breaks into two components, the evaluative and the moral, so that in modern pluralist society a set of moral questions becomes detached from the evaluative. The moral questions are defined as those very questions that admit of a generalizability of interests and are therefore open to the possibility of objective validation through rational argument. Moreover, Habermas suggests that these moral questions have a priority, over the evaluative/ethical questions, because their resolution allows the integration and coordination of society and thus sets the social conditions within which particular forms of life may flourish and the ethical questions they raise be addressed. Habermas shows how moral norms of action can be objectively validated through communicative reason,

that is, through the institutionalisation of what he calls "discourse ethics". We argued that accounting regulation falls within this moral sphere and is open to objective validation through rational argument and in particular the application of discourse ethics. It is in this application of communicative reason that we see the fuller/second dimension of accounting's emancipatory potential. Accounting regulation established through the institutionalisation of discourse ethics may truly contribute to a communicative integration of society and help to put a normative check on the colonising depredations of the system upon the lifeworld – within which we have our being as relational subjects.

We discussed the continuity of the Habermasian and Davidsonian perspectives in chapter 3. We will not repeat that discussion here except to note that crucially both rely on a truth/validity semantics and on the interpretive principle of charity. We see the Habermasian analysis as essentially an extension to the normative domain of the Davidsonian view of objectivity as intersubjectivity. We should like to re-emphasise that our Habermasian view of the possibility of normative objectivity complements rather than supersedes the Davidsonian analysis of the possibility of descriptive objectivity.

We located our optimistic defence of accounting's emancipatory potential in terms of Habermas' analysis of the evolution of society. The analysis we present in chapter 1, of the ASB's developing conceptual framework for financial reporting project and the debate surrounding their work, shows accounting in process of transition from the traditional towards modernity. It is in modernity's potential for rationality that we see the possibility of emancipation. In chapter 2 we drew on Davidson's work to defend objectivity and rationality against those "totalized critiques" of reason which have featured prominently in the critical accounting literature in recent decades, and which we see as undercutting the possibility of rational critique. Modernity, however, is characterised by the tension between two modes of reason, instrumental reason and communicative reason, which reflects a tension between systemic and communicative integration/coordination of society. We argue in chapter 3 that, given the entanglement of the descriptive and normative in financial accounting, the full emancipatory potential of modernity can only be realised in the case of accounting through the application of communicative reason. In chapter 4 we used Habermas' analysis of discourse ethics to defend the possibility of communicative reason and objectivity in accounting against those accounting theorists who would like to reduce reason in accounting to instrumental reason and accounting objectivity to descriptive objectivity.

We have tried to defend the positive dimension of modernity's triumph over the traditional; that is, we have stressed the emancipatory potential in the triumph of reason over the Other of reason. We are, however, aware of the possible distortions associated with the development of modernity and we have argued that the crisis tendencies immanent to capitalist modernity can be traced in modern financial accounting. We have, however, argued that those tendencies can be overcome through reason and most particularly through the application of communicative reason, construed in Habermasian terms of non-coercive intersubjectivity, that is, reciprocal perspective taking oriented to the achievement of mutual understanding and attainment of rational consensus. And we have emphasised that such communicative reason can only be attained through the deliberate institutionalisation of democratic processes and the ideals of discourse ethics, in all spheres of society - including accounting regulation.

We argue throughout that objectivity is essentially a matter of degree, and that the more objective position is that which is more inclusive; that which is open to the greater degree of intersubjective agreement; that which is less local and narrowly perspectival. We recognize a problem with the Habermasian moral point of view of discourse ethics. The problem is that it is perspectival, it is the point of view of reason, all be it communicative reason. It excludes what we have called the other of reason, that is, all that can not be consciously articulated, and brought to discourse/argument; it excludes the unconscious. Whilst we have resisted any totalized critique of reason (see chapter 2), we accept the validity of the poststructuralist/postmodern critique of reason's exclusion of its Other. We recognise that *both* instrumental and communicative reason perpetrate this exclusion.

In the final chapter of the thesis we turned to Lacan's post-structuralist, psychoanalytic theory for supplement to the Habermasian perspective of reason. We accept that the Habermasian analysis of reason's potential is overoptimistic. In particular, we appreciate that, despite his efforts to overcome the philosophy of consciousness, Habermas ultimately retains an inadequate model of the subject of discourse ethics. We recognise that the Habermasian model needs to be augmented by a sensitivity to Alterity and the unconscious; defined as, that which is immune to discursive retrieval and communicative reason. We argue that the post-structuralist / psycho-analytic incitation of the Other of reason should not be seen as leading to the replacement of reason by unreason but rather as means by which the premature closure of reason might be identified and resisted. That is, we see it as a means by which the narrowness of the

perspective of reason can be challenged. We therefore argued that, whilst we must hold onto reason and strive to develop our institutional capacity for instrumental and communicative reason, through which we impose some measure of normative control on the system, we must supplement reason with an openness to the (inarticulate) claims of the Other. Only through reason and in particular through communicative reason can we hope to tame the system of capitalism, yet we must not let reason become a straight-jacket; we must learn to resist reason's "will to lucidity". We must allow the Other of reason to be reflected in our deliberative processes. This means that our institutions must be open to the irruption of the unconscious and the inarticulate, they must allow new metaphors and meaning to be forged and help us move beyond the automatic functioning of language, that is beyond our castration or eclipse in language. We need institutions that help us to ask questions about ourselves and help us to move beyond our petrification in the spontaneous working of language. We need institutions that will challenge us to reformulate our relations to the Other, to recast our interests and transcend our fantasies. All this means that we must be prepared to institutionalise instability, we must admit other voices to our debates and we must not insist that they speak "our language" we must welcome disruption. In chapter 3 we criticised the Accounting Standard Board's conceptual framework project for its failure to do all these things and most especially we criticised its premature closure. As modernity matures and the stifling grip of unreason, in the shape of tradition and the sacred, recedes into history, we hope that we may become more confident in the application of a communicative reason, that does not demand closure but rather provides real "toeholds for new initiatives" (Rorty, 1991, p.13-14).

On any journey one is bound to take certain paths and not others. We recognise that we can not be fully aware of all the paths that other, differently disposed, travellers might have preferred. We certainly will not attempt to go down new paths at this stage. However, we are conscious of two issues that, given time, we would have liked to pursue. Firstly, we recognize that we have not presented any carefully constructed, detailed, argument to support our claim that financial accounting can, in Habermasian terms, be properly conceived of as falling within the moral domain. The moral sphere, as distinct from say the evaluative, includes those normative questions that could be settled discursively in terms of the generalizability of interests. Some accounting theorists would argue that the ineradicable conflict of class interest that underlies capitalism and the tendency to crisis that we analysed in chapter 1 mean that an accounting for capitalism ultimately is not open to validation in terms of the generalizability of interests through

communicative reason (See Puxty, 1986; Dillard, 1991). To these theorists accounting is “shaped above all by a systematic tendency to privilege the interests of capital relative to labour” (Willmott, 1990, p.325). They would argue that within the systematically distorted system of capitalism accounting’s claim to serve the public interest will always be essentially false; it serves the private interests of capital. Our own view is perhaps a little less radical; we take the view that even in our capitalist society law and regulation, including accounting regulation, produced in accordance with the principles of discourse theory has the potential to put a real public interest check on the capitalist system. The possibility of social progress lies not in the destruction of capitalism but in its disciplining and modification through communicative reason: “The intention is to tame the capitalist economic system, that is, to “restructure” it socially and economically” (Habermas, 1998, p.19).

Which questions fall within the moral sphere and can be settled in terms of generalizability of interests, can ultimately only be decided by the outcome of real practical discourse/debate governed by the principles of discourse theory. Outside of such a process we have no way to prove that accounting regulations fall within the moral sphere. We recognize that those theorists who are inclined to insist that, under capitalism, financial accounting will always be systematically distorted are liable to find our views rather naïve and idealistic; perhaps dangerously so. We appreciate of course that financial accounting is historically rooted in the functions of capitalism, we simply don’t accept that it must remain so. We place faith in the disruptive / liberative potential of democracy and communicative reason, and take the view that through those institutions accounting might help the lifeworld impose some communicatively based moral discipline upon the system of capitalism. We recognize, however, that we might have done more to address the concerns of those who see financial accounting under capitalism as inevitably in thrall to capital; as inevitably privileging private interests over public.

Secondly, we have not discussed, in any detail, the practical impediments to the realisation of the discourse ethics ideal. We have preferred to concentrate on what we see as the main theoretical problem of the Habermasian analysis, that is, his effective exclusion of Alterity from the account he gives of the modern lifeworld and the subject of discourse ethics. We argued that the post-structuralist outlook of the psychoanalyst Jacques Lacan might be drawn on to supplement the Habermasian perspective and in particular provide some antidote to its neglect of the Other of reason. Nevertheless, we acknowledge that we have not thoroughly discussed and explored the practical

impediments to the realisation of the ideals of discourse theory. We accept that the examination of the real forces and vested interests that might block the development of an emancipatory accounting, including the systematic power imbalances and distortions of communications associated with capitalism, is rather a neglected avenue in this thesis; a road not taken.

Notes to Chapter 1, Financial Accounting: Crisis and the Commodity Fetish

1. The instance of rationalisation we describe and the threat it poses to the lifeworld of the "everyday consciousness" (of preparers and users of accounts), is typical of the wider experience of the process of rationalisation leading to colonisation:

"the differentiation of science, morality, and art, which is characteristic of Occidental rationalism, results not only in a growing autonomy for sectors dealt with by specialists, but also in the splitting off of these sectors from a stream of tradition continuing on in everyday practice in a quasi-natural fashion. ... Everyday consciousness sees itself thrown back on traditions whose claims to validity have already been suspended; where it does escape the spell of traditionalism, it is hopelessly splintered. In place of "false consciousness" we today have a "fragmented consciousness" that blocks enlightenment by the mechanism of reification. It is only with this that the conditions for a *colonisation of the lifeworld* are met. When stripped of their ideological veils, the imperatives of autonomous subsystems make their way into the lifeworld from the outside - like colonial masters coming into tribal society - and force a process of assimilation upon it."

(Habermas, 1981b, p.355)

2. The ASB avoid the use of the term "conceptual Framework", however, in terms of content and purposes their "Statement of Principles For Financial Reporting" exposure draft (ASB, 1995b), can be seen as a conceptual framework underpinning and guiding the development of financial reporting:

'... the Statement of Principles for Financial Reporting ... addresses the concepts underlying the information presented in financial statements. The objective of this Statement of Principles is to provide a framework for the consistent and logical formulation of individual

accounting standards. The framework also provides a basis on which others can exercise judgement in resolving accounting issues."

(ASB, 1993, para.4)

The exposure draft contains all the elements, which have become de rigueur in a conceptual framework for financial reporting.

3. The Study Group on Business Income (1952, p.23) suggest that the matching approach to accounting came to dominate practice from the early years of the 20th century because of; (i) fears that the current value approach might encourage the premature taxation of unrealised gains, (ii) the growing separation of ownership and control which rendered the relatively high level of subjectivity involved in the current value approach increasingly problematic, and (iii) the restriction of distributable income, under the matching approach, to realised profits gave creditors a measure of protection from perhaps overly optimistic distribution plans. Whatever the reasons, we suggest that they "need to be openly discussed before reverting to the earlier model" (Grinyer, 1996, p.327).
4. Miller et al (1994, pp.140-141) outline reasons why current value approaches have tended to be unpopular with both auditors and preparers. They suggest that auditors find them unattractive because exposure to audit risk may be increased by the need to carry the audit beyond documented historic transaction costs into the unfamiliar territory of valuation. And preparers find them unattractive because of the costs of implementation, the volatility that valuations may induce in reported earnings, the loss of control over reported results, and the fact that reported income from operations will tend to be lower than under a historical cost system because the cost of goods sold and depreciation expense tend to be higher under a current value system in times of rising prices.
5. The FASB (1996) proposals effectively allow reported earnings to continue to be transaction and cost based whilst providing for unrealised gains and losses to be recognised, outside earnings, as a component of comprehensive income. They thus

accommodate the entrenched body of resistance to any suggestions that unrealised gains and losses might be included in reported earnings (see Swieringa, 1997, p.85).

6. The ASB superseded the ASC as the UK's private accounting standard setting body in August 1990, following a review of UK standard setting, under the Chairmanship of Sir Ron Dearing (1988), which was prompted, in part by the loss of confidence in the ASC provoked by the SSAP16 débâcle. The ASB is a prescribed standard setting body for the purposes of UK Companies Acts. Where accounts do not comply with applicable accounting standards the courts may order the preparation of revised accounts.
7. Our descriptive analysis of the comments is coarse. For example the classification "accountants" includes accounting firms ranging from the big six to sole practitioners and the professional bodies.
8. The mental accounting experiments have been replicated and extended to various groups including business managers (Mowen & Mowen, 1986), consumers (Peterson et al, 1986) and students (Singer et al 1986). The mental accounts concept has been used, by Thaler (1980, 1985) and Hirst et al. (1994), as a foundation element in a developing positive theory of consumer behaviour. It has been employed in management accounting research (Lipe, 1993) and in auditing research (Shields et al., 1987). And considerable use has been made of the concept of mental accounts in finance research, and in particular in the modelling and study of investment behaviour (Thaler & Johnson, 1990; Shefrin & Statman, 1985).
9. Summers & Carroll's (1987) finding (cited by Thaler 1990) that the marginal propensity for consumption of capital gains in the stock market was close to zero, suggests that unrealised capital gains tend to be categorised as mental asset account items.
10. Landsberger's (1966) analysis of the consumption behaviour of Israeli families which received restitution payments after World War II, (cited by Thaler 1990), revealed

that the families which received the largest compensation payments had marginal propensity for consumption of the windfall of about 23%, suggesting that even cash receipts are liable to be coded to mental asset accounts if the amount is large. Interestingly the families which received the smallest payments had marginal propensity for consumption of the windfall of more than 200%,

11. Hatsopoulos et al's., (1989) finding (cited by Thaler, 1990) that the marginal propensity for consumption of *cash* generated for stockholders by takeovers is around 59%, suggesting that gains realised on the disposal of an asset are categorised as income account items.
12. See Johnson, (1996) for analogous, and much fuller, discussion of the metaphorical relation between the economic and moral domains and the relative groundedness of the moral domain in the nature of bodily experience and the kind of experiences that make it possible for human beings to survive and flourish.
13. Accounting's failures were highly publicised, with studies of creative accounting even featuring in the "best sellers lists" (Griffiths, 1986; Smith, 1992).
14. Analysis of the savings and loans crisis revealed that by failing to present information on the current value of assets and liabilities many "savings institutions published financial statements that concealed their weaknesses instead of revealing them" (Miller, 1994, p.141).
15. The informational or decision usefulness approach does not seem to have ever achieved full acceptance. Armstrong (1977) reports that a 1976 survey of the attitudes of various parties involved in financial accounting found that only 37% of respondents were able to agree with the Trueblood report (AICPA, 1973) that the "basic objective of financial statements is to provide information useful for making economic decisions."

Notes to chapter 2: Accounting Knowledge

1. Shapiro, (1997, p.168) suggests that we may usefully conceive of realism as a purely ontological thesis lacking any semantic or epistemic content. We agree with Davidson that the motive for realist talk, even when it is couched carefully in terms of ontological realism, is generally ultimately, if covertly, epistemic:

"it is futile either to reject or accept the slogan that the real and the true are "independent of our beliefs." The only positive sense we can make of this phrase, the only use that derives from the intentions of those who prize it, derives from the idea of correspondence, and this is an idea without content."

(Davidson, 1990a, p.305)

It comes as no surprise, then, to find following fast on Shapiro's talk of realism as a purely ontological thesis, the vacuous suggestion that truth as correspondence should be counted as one of the presupposition of external financial reporting.

2. The overriding financial reporting requirement in UK law is that financial statements give a 'true and fair view' (Companies Act, 1985, s.226). Whilst 'truth and fairness' is not defined in Companies Acts, legal opinion suggests that the courts are likely to regard adherence to codified accounting standards as strong prima facie evidence that financial statements give a 'true and fair view' (e.g. see McGee, 1991 and Arden, 1993). However, in the foreword to Accounting Standards the ASB recognises 'truth and fairness' in representationalist terms as a quality independent of compliance with standards:

"because accounting standards are formulated with the objective of ensuring that the information resulting from their application faithfully represents the underlying commercial activity, the Board envisages that only in exceptional circumstances will departure from the requirements of an accounting standard be necessary in order for

financial statements to give a true and fair view."

(ASB, 1993, para.18)

3. Endorsement of the ideal of faithful representation in accounting does not, of course, entail acceptance of the adequacy of present accounting practice or representational categories. One may support the ideal yet consider the mirror of accounting hopelessly distorted: Certain Marxists would argue that accounts of exchange-values serve to obscure use-values and the true nature of social relations, and yet envisage an undistorted accounting which would serve to illuminate real relations of production and use-values. Nor does advocacy of representational faithfulness as an ideal necessarily imply that it is considered to be attainable. In accounting representational faithfulness is often advocated, on pragmatic grounds, as a necessary but unattainable ideal (see Solomons, 1991a). Such self-contradictory positions reflect a classic paradox:

"The champions of an absolutist, correspondence theory of truth defend their positions on pragmatic grounds: it has desirable consequences, is necessary to the preservation of essential values. We need not believe in the possibility of actually attaining truth, the argument runs, but we must believe that there is a truth - a way things are, a true meaning of a text or utterance - or else research and analysis lose all point; human enquiry has no goal. The proponents of a pragmatist view reply that, whatever the consequences of their relativism, we must live with them because this is the truth, the way things are: truth is relative, dependent on a conceptual framework. Both attempts to maintain a position give rise to a deconstructive movement in which the logic of the argument used to defend a position contradicts the position affirmed."

(Culler, 1983, p. 155)

Solomons himself finds the deconstructive moment in Tinker's (1991) rejection of the very idea of 'faithful representation':

If signs are "arbitrary" and are "independent" of what is being signified, then we are all beating the air, *including the philosophers who makes such a statement, for his signs are also independent of the reality that he is vainly trying to depict.*

(Solomons, 1991b, p.312)

4. Correspondence theorists want to explain what it is for whole sentences (or beliefs) to be true in terms of their *correspondence* with something else - facts: "... truth is a matter of correspondence to facts" (Searle, 1995, p. 199). Davidson uses a line of argument, initially advanced by Frege (1892) to show that "... if a statement corresponds to one fact, it corresponds to all" (Davidson, 1969, p. 42), in which case we can not explain truth in terms of correspondence to facts.

The argument tries to show that any sentential operator, such as: 's corresponds to the fact that ...', which allows the substitution of co-extensive terms within the sentences being operated on, is truth functional, that is, all that matters is the truth value of the sentences connected. Consider the statement "'Naples is farther north than Red Bluff' corresponds to the fact that Naples is farther north than Red Bluff'. If Naples is the largest Italian city within thirty miles of Ischia, then the fact that Naples is farther north than Red Bluff is the same fact as that the largest Italian city within thirty miles of Ischia is farther north than Red Bluff. It is clearly reasonable to allow the substitution of coextensive singular terms in this context. Therefore, from

1. "'Naples is farther north than Red Bluff' corresponds to the fact that Naples is farther north than Red Bluff'

We can infer,

2. "'Naples is farther north than Red Bluff' corresponds to the fact that the largest Italian city within thirty miles of Ischia is farther north than Red Bluff.'

If we also accept that we can always substitute logically equivalent sentences, that is sentences which can not possibly differ in truth value, we can go on to infer, from 1 that:

3. "Naples is farther north than Red Bluff" corresponds to the fact that London is in England."

The argument begins by noting that the following sentence is logically equivalent to "Naples is farther north than Red Bluff":

4. $x (x = x \text{ and Naples is farther north than Red Bluff}) = x(x = x)$

This sentence asserts the equivalence of two sets. On the right-hand side is the set of self-identical things, everything. On the left-hand side is the set of things that are self-identical and are such that Naples is farther north than Red Bluff. If the sentence 'Naples is farther north than Red Bluff' is true (false) then the sentence ' $x (x = x \text{ and Naples is farther north than Red Bluff}) = x(x = x)$ ' is true (false).

If we substitute ' $x (x = x \text{ and Naples is farther north than Red Bluff}) = x(x = x)$ ' for its logical equivalent 'Naples is farther north than Red Bluff' in 1 we have the following:

5. "Naples is farther north than Red Bluff" corresponds to the fact that $x (x = x \text{ and Naples is farther north than Red Bluff}) = x(x = x)$ ".

If we accept substitution of coextensive singular terms in this context, which we suggested above was reasonable, we might substitute another term for ' $x (x = x \text{ and Naples is farther north than Red Bluff})$ '. As Naples is indeed further north than Red Bluff, the term ' $x (x = x \text{ and Naples is farther north than Red Bluff})$ ' names the set which includes all self-identical things, everything. We could therefore take any true statement such as 'London is in England' and create a term such as ' $x (x = x \text{ and$

London is in England)', which is coextensive with 'x (x = x and Naples is farther north than Red Bluff)'. By substitution of coextensive terms in 5 we have:

6. "Naples is farther north than Red Bluff" corresponds to the fact that $x (x = x \text{ and London is in England}) = x(x = x)$ ".

The sentence ' $x (x = x \text{ and London is in England}) = x(x = x)$ ' is logically equivalent to the sentence 'London is in England'. Therefore, by substitution, we end with:

7. "Naples is farther north than Red Bluff" corresponds to the fact that London is in England".

All that the sentences 'Naples is farther north than Red Bluff' and 'London is in England' needed to have in common, to allow the transformation from 1 to 7, was their truth-value. The suspicion is confirmed that "... if a statement corresponds to one fact, it corresponds to all", and "we may read the result of our argument as showing that there is exactly one fact ... The Great Fact" (Davidson, 1969, p.42). Davidson concludes that given that 'corresponds to The Great Fact' can apparently not be told apart from 'is true' it is obvious that we can have no explanation of truth in terms of correspondence. Searle, on the other hand, argues that Davidson's argument, commonly known as the slingshot argument, should be understood as showing the falsity of its presuppositions - in particular the presupposition that 'logically equivalent sentences can be substituted *salva veritate* in (such) contexts" (Searle, 1995, p.223).

Pursuit of this debate is beyond the scope of this thesis. For further basic explanation of the slingshot argument see Evnine (1991, pp.180-182), and for evaluation of the argument see Neale (1995) and Neale and Dever (1997). Davidson repeats his essential commitment to the slingshot argument in various places including (1990a, pp.302-305), and recently (1999b, p.89).

5. Manicas (1993), for example, in presenting a 'scientific realist' (See Bhasker, 1986) view of accounting, stresses that it is vital to recognise that reality constrains the

development of our theories:

"... our claims to knowledge are about a reality which is "out there".
... The something out there cannot *determine* our theory ... , but the
something out there does pose constraints on what our theory can say
that something is.

(Manicas, 1993, p.155)

6. Bernard Williams also trace the inadequacy of Putnam's internal realism directly to its commitment to a dubious dualism of scheme and content, the internal and external:

"If we ... insist that the only standpoint is "inside" human experience, we are still, in fact using the idea of a boundary: we are claiming that there is a boundary, and that everything intelligible is on this side of it. Once we are stuck in that formulation, people who say such sensible things as that the world has certain characteristics that affect our experience - help to form our sciences, for instance - are read as trying to push the world and its characteristics back to the outside of this boundary. ... An *internal* realism must be inside something, but what we have learned is that there is nothing for it to be inside."

(Williams, 1991, p.13)

7. We focus on Hines' work as we see it as among the most influential, dualist accounting theory, of its type. Hines (1991, p.314, note.2) herself provides a useful but "by no means comprehensive" listing of papers which share fundamental aspects of her dualist view of accounting.
8. There seem to be some inconsistencies in the view developed by Hines. We have greatest difficulty in making sense, within her terms, of her suggestions that we might usefully make a distinction between those features of reality which pre-exist our representations those which we create. Such a suggestion appears in her discussion

of the FASB's use of the accounting as 'mirror' or 'map-making' analogies:

"The analogies are often inappropriate because the referent is a physical phenomenon such as physical terrain, which unlike a business enterprise, pre-exists accounts and significations of it."

(Hines, 1991, p.320)

She makes a similar distinction in the 1988 paper:

"There is a reality: there's something there alright. Do not think for a moment that we imagine the world! Oh no, not at all! The bricks are there, and the people, and those containers - no doubt about it. But the organization, and most of the minute particles in the bricks, and revenue, well, we create them."

(Hines, 1988, p.253)

Our difficulty is that we can not see any place for such distinctions within what is otherwise apparently an essentially anti-representationalist position. Given Hines' rejection of correspondence and her preferred Rortian view of truth as "what it is better for us to believe" (Hines, 1991, p.328), we would have expected her to follow Rorty in denying:

"... that it is explanatorily useful to pick and choose among the contents of our minds or our language and say that this or that item "corresponds to" or "represents" the environment in a way that some other item does not. On an anti-representationalist view, it is one thing to say that a prehensile thumb, or an ability to use the word 'atom' as physicists do, is useful for coping with the environment. It is another thing to attempt to *explain* this utility by reference to representationalist notions, such as the notion that the reality referred to by the "quark" was "determinate" before the word "quark" came along (whereas that referred to by, for example, "foundation grant"

only jelled once the relevant social practices emerged)."

(Rorty, 1991, p. 5)

9. Hines' clearly relativist view of truth seems to be influenced by both Foucaultian and pragmatist thought. She cites with apparent approval Foucault's view that "truth" and "knowledge" are socially constructed "products of interests and power relations" (Hines, 1988, p.259, note 6). And, she advocates a classic pragmatist view when she suggests that "a socially desirable stance for researchers is to see truth as "what it is better for us to believe" rather than as the "accurate representation of reality" (Hines, 1991, p. 328). The common theme is relativist; There is no absolute truth, however we may have a use for truth as a construct, operating within, or relative to, our particular conceptual schemes; truth for *us* as what is better for *us* to believe.

Hines' comments on truth tend towards the paradoxical and cryptic: "there is no such thing as the truth, but there is such a thing as stretching the truth too far" (Hines, 1988, pp. 253). She makes no effort, for example, to explain or develop her synoptic view that truth is "what it is better for us to believe"; And surely the notion of "better" calls for some development. Putnam suggests that the thinking of William James' from which Hines' preferred definition seems to be derived has commonly been misunderstood (1992a, p.8). He argues that James did not mean, or indeed say, that a belief was 'true' when its effects are good, and he reminds us that James actually wrote:

"The true", to put it very briefly, is only the expedient in the way of our thinking, just as "the right" is only the expedient in the way of our behaving. Expedient in almost any fashion; and expedient in the long run and on the whole of course, for what meets expediently all the experience in sight won't necessarily meet all further experiences equally satisfactorily. Experience, as we know, has ways of boiling over, and making us correct our present formulas."

(James, 1907, p. 106)

Putnam draws our attention to the phrase "expedient in almost any fashion", and

argues that on analysis of James writings, it emerges that:

"different types of statements correspond to different *types* of "expediency"; there is no suggestion that an arbitrary statement is true if it is expedient in any way at all (even "in the long run"). For example, the view that a statement is true if it will make people subjectively *happy* to believe it - is explicitly *rejected* by him. In the case of paradigm "factual" statements, including scientific ones, a sort of expediency that James repeatedly mentions is usefulness for prediction, while other desiderata - conservation of past doctrine, simplicity, and coherence ... are said to apply statements of all types."

(Putnam, 1992a, p.9-10)

In addition, and perhaps unsurprisingly given the above, Hines fails to explicate or problematise the "us" in "what it is better for us to believe". Presumably she takes it for granted that her reader will understand that "us" should be 'unpacked' along the lines of "we postmodern bourgeois liberals" (see Rorty, 1983).

10. The dualist view set out by Hines does not seem to allow any possibility that we might actually be securely in touch with an objective world. However, she recognises that, generally, it is only in "academic discourse" that we have been able to face up to the supposedly tenuous condition of our 'reality'. She attributes the wider incorrigibility of "the assumption of an objective, shared and intersubjectively accessible world" (Hines, 1991, p.317), to the essential cultural relativity of all reasoning:

Breaching the assumptions and reasoning of one's own culture represents a highly problematic task, because the tools for doing so - the assumptions and reasoning that will be perceived as convincing by members of one's culture - are the very target of the intended breaching.

(Hines, 1991 p.317)

Hines' position is thoroughly relativist, knowledge, truth and reason are all relative: She insists on "the essential culture and value-dependency of logic, reasoning and rationality" (Hines, 1991, p.313).

11. It would be a mistake to conceive of Davidson work as an attempt to develop a unified theory of truth reconciling the intuitions which motivate the correspondence and coherence theories; he rejects both:

"I do not aim to reconcile the two positions. I find the epistemic views untenable, and the realist views ultimately unintelligible."

(Davidson, 1990a, p.298)

12. Wittgenstein's naturalistic view of language, which Davidson's analysis grows out of, is explained and interestingly applied to accounting by Lyas (1993).
13. In considering how it is possible for sentences to have meaning some philosophers begin with the intuition that words only seem to have meaning in social context. That is meaning seems to depend on the speaker's intention. Such philosophers tend to believe that meaning can be reduced to the content of mental states. Grice for example suggests that meaning can be reduced to a speaker's intention to induce a belief in an audience through their recognition of that intention: "to ask what *A* meant is to ask for a specification of the intended effect" (Grice, 1957, p.46). Davidson rejects any such approach. He argues that "neither language nor thinking can be fully explained in terms of the other, and neither has conceptual priority" (Davidson, 1975, p.156): For Davidson, thoughts acquire their content and sentences their meaning together, through interpretation, and in relation to their context.

Davidson wants to show how empirically verifiable interpretive theories of truth can be constructed which do not assume at the outset too much of what the theory sets out to describe, that is, without "smuggling into the foundations of the theory concepts too closely allied to the concept of meaning" (Davidson, 1984, p.xiii). The challenge is to explain how adequate theory can be constructed on the

basis of evidence plausibly available to an interpreter with no prior knowledge of either the language or the *detailed* content the speaker's thoughts: Davidson thinks that we can construct adequate but purely extensional theories of meaning.

Davidson draws on the tradition of formal semantics, which tries to show how the meanings of sentences are systematically constructed from the meanings of their parts. Frege (1892) suggests that for each meaningful part of a language two distinct properties can be identified; intensions and extensions. He refers to these properties respectively as Sinn and Bedeutung, usually translated as sense and reference. The extension of a singular term is the object it 'stands for' or designates, and the extension of a predicate is the objects which 'fall under' it. A key Fregean insight was the realisation that the truth-value of a sentence is systematically dependent upon the references of its parts, what they 'stand for' in the world, and the relations between the parts. It follows that the extension of a sentence, for Frege its truth-value, ought not to be sensitive to the substitution of co-extensive terms. The terms 'morning star' and 'evening star' are co-extensive; they refer to the same planet. Therefore the truth-value of the sentence 'the morning star is the second planet from the sun' will not be changed if we substitute the co-extensive term and produce 'the evening star is the second planet from the sun'. There is however a problem; It appears that many natural language contexts are in fact non-extensional: If, for example, Kenneth believes that the morning star is the second planet from the sun, but does not know that the terms 'morning star' and 'evening star' refer to the same object. Then while the sentence 'Kenneth believes that the morning star is the second planet from the sun' will be true, the sentence 'Kenneth believes that the evening star is the second planet from the sun' will be false. The truth-value of sentences in contexts such as 'believes that' or 'means that' appear to be sensitive to the substitution of co-extensive terms. Frege's way of dealing with this problem was to introduce another notion into the theory of meaning - sense.

The intension, or sense, of an expression is not the object referred to, but the way it is referred to; The intension is a way of presenting a reference, and clearly the same reference may be presented in different ways. The intension of a name is a concept under which falls one extension, the intension of a predicate is the function which associates it with its extension, and the intension of a sentence we might think

of as the thought it expresses; the proposition which specifies the conditions which would need to be satisfied for the sentence to be true. Intensions are clearly more 'finely-grained' than extensions. The following expressions are all ways of referring to the planet Venus; 'the morning star', 'the evening star', 'the second planet from the sun'. These three expressions do not however, have the same sense or meaning. It seems clear that the statement 'the morning star is the morning star', does not have the same meaning as 'the morning star is the second planet from the sun'. If the meaning of a sentence were simply what it referred to, its truth value, then "all sentences alike in truth-value must be synonymous - an intolerable result" (Davidson, 1967, p.19). An adequate theory of meaning obviously must yield the fine-grain of intensions, it must respect the intensionality of meaning.

However, If a theory of meaning for a language is to be developed on the basis of evidence plausibly available to the 'radical interpreter' it can not be based on obscure entities such as senses, propositions or meanings, it can "make no use of meanings, whether of sentences or of words" (Davidson, 1967, p.24). Davidson thinks that an adequate theory of meaning can be expressed in a purely extensional metalanguage, that is, in a language restricted to contexts in which the extensions of sentences are insensitive to the substitution of co-extensive terms.

14. Davidson endorses no stipulative definition of truth:

"We should not say that truth is correspondence, coherence, warranted assertability, ideally justified assertability, what is accepted in the conversation of the right people, what science will end up maintaining, what explains the convergence on single theories in science, or the success of our ordinary beliefs."

(Davidson, 1990a, p.309)

Indeed, he regards the search for definition of truth as "folly" (Davidson, 1996). He takes the concept of truth as a primitive, and tries to show how the extension of the predicate "is true" can be fixed for a language by an interpreter. It is such empirical theories of truth, rather than any definition of truth, which he sees as the essential

core of "the scheme we all necessarily employ for understanding, criticizing, explaining, and predicting thought and action" (Davidson, 1990a, p.282).

Nevertheless, some of the terminology used by Davidson in certain early papers encouraged the mistaken view that he was offering a definition of truth as correspondence and /or coherence. In an important paper entitled "A Coherence Theory of Truth and Knowledge" (1983), Davidson sets out an argument which he says shows "that coherence yields correspondence". At that time Davidson thought that the fact that the development of the type of recursive characterisation of truth for a language, which he sees as central to interpretation, required that the words be put into relation with objects "was enough to give some grip for the idea of correspondence" (1990a). In other words, he considered that the semantic conception of truth developed by Tarski of truth "deserve(d) to be called a correspondence theory because of the part played by the concept of satisfaction" (Davidson, 1969, p.48). Satisfaction is a relation between words and objects, not a relation between sentences and facts. And clearly, relations between words and objects can not explain the truth of sentences. Davidson recognizes that a Tarski-style theory does not give an explanation of truth, which is something that correspondence theories of truth, have always been conceived of as providing (see Davidson, 1990b, p.135): "... 'Dolores loves Dagmar' would be satisfied by Dolores and Dagmar" however "the fact that verifies 'Dolores loves Dagmar' should somehow include the loving. This 'somehow' has always been the nemesis of theories of truth based on facts" (1969, p.48). Davidson has not changed the essential elements of his analysis in any way, but he has come to regret expressing his ideas in such a way that he could be misconstrued as advocating either a coherence or a correspondence theory of truth:

"I would now change the title of "A Coherence Theory", and I would not describe the project as describing how coherence yields correspondence. ... The mistake is in a way only a misnomer, but terminological infelicities have a way of breeding conceptual confusion, and so it is here. ... I also regret having called my view a coherence theory. My emphasis on coherence was probably just a way of making a negative point, that 'all that counts as evidence or

justification for a belief must come from the same totality of belief to which it belongs."

(Davidson, 1990b, pp.134-135)

15. Tarski sought to provide a definition of truth-in-L such that for each sentence of the language L, it would entail an equivalence, expressed in a metalanguage, in which the sentence is named on the left side and used on the right side. Thus if we consider the sentence "snow is white", an adequate theory of truth ought to imply the equivalence:

'Snow is white' is true in English if, and only if, snow is white.

Such equivalences are referred to as T sentences. Their general pattern, variously referred to as "convention T", "schema T", or "form T", is as follows:

S is true-in-L if, and only if, p

where S is the name of a sentence of the object language L and p is the correct translation of that sentence into the metalanguage. Tarski's aim was to provide a recursive definition of truth which would 'do justice' to our intuitions about truth and in particular the Aristotelian intuition that: "to say of what is that it is not, or of what is not that it is, is false, while to say of what is that it is, or of what is not that it is not, is true" (quoted Tarski, 1944, p.343). He proposed convention (T) as the appropriate test of any definition of truth:

"we wish to use the term "true" in such a way that all equivalences of the form (T) can be asserted, and *we shall call a definition of truth "adequate" if all these equivalences follow from it.*"

(Tarski, 1944, p.344)

Because there is a T sentence corresponding to each sentence of the language for which a theory of truth is being explicated, the totality of T sentences fixes the extension of the truth predicate, that is convention T "fixes the domain of truth".

Davidson sees convention T as providing the vital link between the intuitively obvious truths about truth and formal semantics: "Without convention T, we would have no reason to believe that truth is what Tarski has shown us how to characterize" (Davidson, 1973b, p.66).

16. We might expect that a theory of meaning for an object language L ought to consist of a way of directly mapping meaningful expressions in L onto meanings expressed in a metalanguage, entailing for all sentences of L, a sentence of the form '*s* means that *p*', where '*s*' is a metalanguage name for the object language sentence, and '*p*' is a metalanguage sentence giving the meaning of the object language sentence. And we might hope to develop such a theory through verification of the sentences it entails. Davidson sees no hope for this approach, because it seems that it must take intensions, the thoughts and propositions expressed by sentences, as foundational, thereby assuming too much of what the theory sets out to describe:

"In a way, nothing could be easier: just write '*s* means that *p*', and imagine *p* replaced by a sentence. ... It looks as though we are in trouble ... however, for it is reasonable to expect that in wrestling with the logic of the apparently non-extensional 'means that' we will encounter problems as hard as, or perhaps identical with, the problems our theory is out to solve."

(Davidson, 1967, p.22)

Davidson suggests that we should abandon the troublesomely intensional 'means that' and along with it any notion of an interpretative theory capable of giving the meaning of a sentence by directly associating it with obscure intensional entities such as propositions. He thinks that we need to look for a way of developing a theory of meaning for a language in strictly extensional language, avoiding any contexts where the extensions of sentences are sensitive to the substitution of co-extensive terms. He proposes that a Tarskian theory of truth may serve that purpose:

"The only way I know to deal with this difficulty is simple, and

radical. Anxiety that we are enmeshed in the intensional springs from using the words 'means that' as a filling between description of sentence and sentence, but it may be that the success of our venture depends not on the filling but on what it fills. The theory will have done its work if it provides, for every sentence s in the language under study, a matching sentence (to replace ' p ') that, in some way yet to be made clear, 'gives the meaning' of s . One obvious candidate for matching sentence is just s itself, if the object language is contained in the metalanguage; otherwise a translation of s in the metalanguage. As a final bold step, let us try treating the position occupied by ' p ' extensionally: to implement this, sweep away the obscure 'means that', provide the sentence that replaces ' p ' with a proper sentential connective, and supply the description that replaces ' s ' with its own predicate. The plausible result is:

(T) s is T if and only if p .

... it is clear that the sentences to which the predicate 'is T ' applies will be just the true sentences of L , for the condition we have placed on satisfactory theories of meaning is in essence Tarski's convention T that tests the adequacy of a formal semantical definition of truth."

(Davidson. 1967, pp.22-23)

In place of the intensional 'means that' in the sentence ' s means that p ', Davidson proposes the extensional, truth-functional, sentential connective 'if and only if'. And, if we use a sentential connective we need a sentence on the left-hand side, what we have is s , which is not a sentence but a metalanguage name for an object language sentence; A sentence is easily made by attaching a predicate T . We then have s is T if and only if p .

Davidson wants to use Tarski's theory of truth, which shows how the truth of a sentence systematically depends on the semantic properties of its parts, to yield a theory of meaning which shows "how the meanings of sentences depend upon the

meanings of words" (Davidson, 1967, p.23). He proposes an inversion of Tarski approach; While Tarski defined truth by assuming translation, Davidson suggests that by taking truth as basic we can derive an account of interpretation. He certainly does not want to suggest that the truth conditions of a sentence directly yield its meaning. Rather he intends to show how we can have interpretive theories of meaning which will allow the meaning of words and sentences to be drawn indirectly from the whole structure of T-sentences entailed by the truth theory for the language:

"If sentences depend for their meaning on their structure, and we understand the meaning of each item in the structure only as an abstraction from the totality of sentences in which it features, then we can give the meaning of any sentence (or word) only by giving the meaning of every sentence (and word) in the language. Frege said that only in the context of a sentence does a word have meaning; in the same vein he might have added that only in the context of a language does a sentence (and therefore a word) have meaning."

(Davidson, 1967, p.22)

We have already seen that for Davidson adequate theories of meaning need to be empirically verifiable on the basis of evidence plausibly available to someone with no prior knowledge of the semantics of object language. In Tarski's work an adequate definition of truth entails T-sentences taken to be true because the sentence used on the right-hand side of the biconditional is either identical with, or assumed to be a translation of, the sentence mentioned on the left-hand side for which truth conditions are being given. Davidson's does not see how translation without prior knowledge of the object language, can be verified. We cannot start by assuming that we can recognize correct translation "without pre-empting the point of radical interpretation" (Davidson, 1973a, p.134). If T-theories are to be put to empirical test we require:

"... a way of judging the acceptability of T-sentences that is not syntactical, and makes no use of the concepts of translation, meaning, or synonymy, but is such that acceptable T-sentences will in fact

yield interpretations."

(Davidson, 1974b, p.150)

If Convention T is to "go empirical" it must be modified in such a way that no appeal is made to the notion of translation. Recall that Convention T requires that an adequate theory of truth, expressed in a metalanguage, for object language L will entail, for every sentence *s*, of L, an equivalence, expressed in the metalanguage, of the form: '*s* is true-in-L if, and only if, *p*', where *s* is the name of an object language sentence, and *p* is a correct translation of the sentence. Davidson suggest a modification of Convention T so that an acceptable theory of truth will be one which entails, for every sentence *s* of the object language, a sentence of the form: "*s* is true if and only if *p*, where '*p*' is replaced by any sentence that is true if and only if *s* is" (Davidson, 1973a, p.134). Instead of requiring that the sentence used on the right-hand side is a translation of the sentence named on the left-hand side we have the weaker requirement that the sentence used on the right is true if and only if the sentence named on the left is true.

It may not seem as if Davidson's modified Convention T demands enough of T-sentences to provide a basis for the emergence of interpretation and meaning; "And of course this would be the case if we took T-sentences in isolation" (Davidson, 1973a, p.134). Considering T-sentences in isolation and provided we are sure of their truth, the modified Convention-T gives no direct basis for considering a theory which entails "'Snow is white' is true if and only if snow is white', any more correct than a theory which entails "'Snow is white' is true if and only if grass is green". Davidson's claim is that meaning will emerge from the whole complex of T-sentences: "the hope is that by putting certain appropriate formal and empirical restrictions on the theory as a whole, individual T-sentences will in fact serve to yield interpretations" (Davidson, 1973a, p.134).

17. The object of Davidson's reformulation of Convention T was to give us T-sentences that are verifiable on evidence plausibly available to the radical interpreter; evidence that they are true. If it is not to beg the question, the evidence can not assume knowledge of meanings, and it cannot consist of detailed descriptions of beliefs, the

attribution of which must rely on much the same evidence as will the identification of meaning. Davidson thinks that all the evidence we need to verify the truth of modified T-sentences can come in the form of observations that at certain times and under certain circumstances, speakers of the object language hold particular sentences to be true. The identification of an attitude of holding or accepting a sentence as true, is of course the identification of a belief. However, it does not demand that we be able to make fine discriminations between beliefs: "It is an attitude an interpreter may plausibly be taken to be able to identify before he can interpret, since he may know that a person intends to express a truth in uttering a sentence without having any idea *what* truth" (Davidson, 1973a, p.135). It is not immediately obvious that we are justified in taking such observations as evidence for the truth of T-sentences. Our aim is to verify T-sentences of the form:

- (T) 'Es schneit' is true-in-German when spoken by x at time t if and only if it is snowing near x at time t .

Our observations, however, give us evidence in the form:

- (E) Kurt belongs to the German speech community and Kurt holds true 'Es schneit' on Saturday at noon and it is snowing near Kurt on Saturday at noon.

Davidson acknowledges that (E) is not conclusive evidence for (T), the speaker may be mistaken in his belief. However he thinks that we must operate by what he calls the principle of charity and accept that (E) is prima facie evidence that (T) is true:

"I propose that we take the fact that speakers of a language hold a sentence to be true (under observed circumstances) as prima facie evidence that the sentence is true under those circumstances. For example, positive instances of 'Speakers (of German) hold "Es schneit" is true when, and only when, it is snowing' should be taken

to confirm not only the generalization, but also the T-sentence, "Es schneit" is true (in German) for a speaker x at time t if and only if it is snowing at t (and near x)."

(Davidson, 1974b, p.152)

In Davidson's view it is only by the adoption of a principle of charity that the radical interpreter can overcome the apparent interpretive impasse presented by the interdependence of belief and meaning. A speaker who accepts a sentence as true will do so in consideration of both what she believes and what she takes the sentence to mean. In all but the simplest of cases we can not hope to know what a speaker means by a sentence unless we already know some of the speaker's beliefs, and we can not hope to infer beliefs, except in the most basic of cases, unless we already know the meaning of some words for the speaker.

A speaker's verbal behaviour is a joint product of meaning and belief. There seems to be no way of solving for both of these factors at once. However given sufficient independent evidence about one of these factors, and assurance of the speaker's sincerity, we might reasonably expect to be able to solve for the other factor with relative ease. The principle of charity operates by "restraining the degrees of freedom allowed belief" (Davidson, 1983, p.316), while solving for meaning. The principle of charity directs the radical interpreter to "read some of his own standards of truth into the pattern of sentences held true by the speaker" (Davidson, 1983, p.315), and to assume that the speaker shares his standards of rationality. Interpretation must then proceed in such a way as to maximise agreement between speaker and interpreter on matters of belief, that is, on the basis that the speaker's words express beliefs with which the interpreter is largely in agreement. In this way the interpreter can achieve enough of a fix on the speaker's beliefs to allow interpretation of the speaker's utterances. The interpreter need not assume that she agrees with the speaker in all things, some explicable disagreement is to be expected given variation in epistemic standpoints. However the interpreter must avoid attributing inexplicable, bizarre, beliefs to the speaker. Davidson considers the principle of charity justified by the fact that we simply cannot have interpretation unless we can find substantial agreement:

"What justifies the procedure is the fact that disagreement and agreement alike are intelligible only against a background of massive agreement. ... If we cannot find a way to interpret the utterances and other behaviour of a creature as revealing a set of beliefs largely consistent and true by our own standards, we have no reason to count that creature as rational, as having beliefs, or as saying anything.

(Davidson, 1973a, p.136-137)

Davidson thinks that by virtue of the principle of charity, the notion of truth can be taken as a basis for the production of interpretive theory of meaning. Part of the appeal of his approach is that all that is required as foundation for such theory is observation of the speaker's acceptance or rejection of various sentences and the conditions in the world, understood in the interpreter's own terms, which correlate with the speaker's attitudes to sentences. On that basis, the radical interpreter can construct an empirical theory, linking the speaker's sentences with sentences of her own. The developing theory will provide a basis for the prediction of the speaker's future pattern of the assent and dissent to sentences. And the success or otherwise of those predictions will facilitate the ongoing refinement of the theory.

18. The Davidsonian radical interpreter must match sentences of her own with the speaker's utterances, to derive an interpretive theory of truth for the speaker. Davidson accepts that if interpretation is approached in the way he suggests we should not expect that one uniquely right theory will be found to fit the speaker's behaviour. He regards this indeterminacy as the "semantic counterpart of Quine's indeterminacy of translation". Davidson accepts Quine's view that no amount of behavioural evidence can fix meaning; it is always possible to fit alternative incompatible translations to the behavioural data (Quine 1969; Davidson, 1979). Davidson's approach, however, and in particular his advocacy of the adoption of the principle of charity on an across-the-board basis, allows much less room for indeterminacy than Quine contemplates, (see Davidson, 1979, p. 235). For Davidson, indeterminacy of meaning does not signify the failure of theory to capture significant

distinctions, on the contrary: "it marks the fact that certain apparent distinctions are not significant. If there is indeterminacy, it is because when all the evidence is in, alternative ways of stating the facts remain open" (Davidson, 1979, p. 235). Such indeterminacy is obviously not of real concern. Davidson tries to clarify this point using the analogy of measurement in physical sciences:

"A rough comparison may help give the idea. A theory of measurement for temperature leads to the assignment to objects of numbers that measure their temperature. Such theories put formal constraints on the assignments, and also must be tied empirically to qualitatively observable phenomena. The numbers assigned are not uniquely determined by the constraints. But the *pattern* of assignments is significant. (Fahrenheit and Centigrade temperature are linear transformations of each other; the assignment of numbers is unique up to a linear transformation.) In much the same way, I suggest that what is invariant as between different acceptable theories of truth is meaning. The meaning (interpretation) of a sentence is given by assigning the sentence a semantic location in the pattern of sentences that comprise the language. Different theories of truth may assign different truth conditions to the same sentence (this is the semantic analogue of Quine's indeterminacy of translation), while the theories are (nearly enough) in agreement on the roles of the sentences in the language."

(Davidson, 1977, p.225)

Just as we might assign temperature in terms of centigrade or Fahrenheit scales, we can assign meanings in accordance with different theories of truth, different truth conditions. The indeterminacy allowed will not be significant, provided pattern of sentential roles is maintained by the constraints, principally those entailed by the principle of charity, put upon theory development:

"Because there are many different but equally acceptable ways of

interpreting an agent, we may say, if we please that interpretation or translation is indeterminate, or that there is no fact of the matter as to what someone means by his or her words. In the same vein, we could speak of the indeterminacy of weight or temperature. But we normally accentuate the positive by being clear about what is invariant from one assignment of numbers to the next, for it is what is invariant that is empirically significant."

(Davidson, 1991, p.161)

Callinicos argues that Davidson's approach effectively defuses the issue of indeterminacy, and he sees this as the key contribution of his work: "Davidson's contribution to the philosophy of language has been in large part to offer a way out of the indeterminacy of translation, ..." (Callinicos, 1987, p. 105).

Davidson, returns to the physical measurement analogy in various places (e.g., 1991, p.164). In an interesting comment, with clear implications for accounting, Davidson makes it clear that in his view numbers have a degree of objectivity:

"The analogy I proposed between measurement in the physical sciences and the assignment of contents to the words and thoughts of others is imperfect in an essential respect. In the case of ordinary measurement, we use the numbers to keep track of the facts that interest us. In the case of the propositional attitudes we use our sentences. But there is this difference: we can mutually specify the properties of the numbers. The numbers, like the objects we apply them to, lie, as it were, halfway between ourselves and others. This is what it means to say they are objective, that they are objects. It cannot be this way with our sentences. You and I cannot come to agree on the relevant properties of our sentences as a preliminary to using them to interpret others, for the process of coming to such an agreement involves interpretation of the very sort we thought to prepare for."

(Davidson, 1997, pp.121-122)

Rorty is "shocked" by the above passage, which he sees as "flirting" with dubious ontological distinctions, the subjective and the objective (Rorty, 1997, p. 151).

Davidson's acceptance of Quine's views on the inscrutability of reference and the indeterminacy of translation, (See Quine 1969; Davidson, 1979), underlie his refusal to allow intensions, meanings, or beliefs any foundational role in his theory of meaning, that is, his commitment to a purely extensional theory of meaning:

"... if meaning and belief are interlocked as I suggested, then the idea that each belief has a definite object, and the idea that each word and sentence has definite meaning, cannot be invoked in describing the goal of a successful theory. For even if, contrary to what may reasonably be expected, there were no indeterminacy at all, entities such as meanings and objects of belief would be of no independent interest. We could, of course, invent such entities with a clear conscience if we were sure there were no permissible variant theories. But if we knew this, we would know how to state our theories without mention of the objects."

(Davidson, 1974b, pp.153)

19. Davidson's modified T-sentences give the truth conditions of the object language sentences to which they refer. If truth-values were the only consideration "'Snow is white' is true if and only if grass is green", would be perfectly reasonable T-sentence. Taken in isolation, Davidsonian T-sentences can not be presumed to give the meaning of the named object language sentence: In isolation, they give an interpreter no clear basis for distinguishing between the predictive success of a T-sentence such as "'Snow is white' is true if and only if snow is white" where the used sentence seems to reflect the meaning of the named sentence, and a T-sentence like "'Snow is white' is true if and only if grass is green", which would have equal predictive success but in which there is clearly no reflection of the meaning of the named sentence.

Davidson suggests that "we may be confident perhaps that no satisfactory theory of truth will produce such anomalous T-sentences" (Davidson, 1973a, p.137).

He thinks that the gap between truth and meaning can be bridged by the principle of charity. For certain types of sentence evidence about the circumstances in which they are held true by a speaker would seem to provide a good basis for interpretation. We can reasonably anticipate a speaker's attitude to the sentence "It is snowing here and now." to vary depending upon the prevailing conditions, and through that variation we may have access to the meaning. More problematic, however are those sentences, such as "Snow is white." which we would expect to be held true by informed speakers, no matter what the circumstances. For these sentence variation in the conditions in which they are held true will provide no access to meaning. Davidson thinks that the problem can be overcome if we extend the principle of charity to the assumption that the speaker's utterances are rationally / logically interrelated. That is we must extend the principle of charity from the correspondence to coherence:

"Making sense of the utterances and behaviour of others, even their most aberrant behaviour, requires us to find a great deal of reason and truth in them. To see too much unreason on the part of others is simply to undermine our ability to understand what it is they are so unreasonable about"

(Davidson, 1974b, pp.152-153)

An adequate theory of truth in the Tarski-Davidson style must show how the truth conditions of sentences depend upon the semantic features of the words used and the effects of their combination. The T-sentences entailed by such a theory of truth are therefore locked together in relationship by virtue of the component parts that they share. A T-sentence such as "'snow is white" is true if and only if snow is white' will be the product of a theory which attributes semantic features to the elements of the sentence, which will be applied in the production of other T-sentences such as "'salt is white" is true if and only if salt is white' , or "'snow is cold" is true if and only if snow is cold'. Meaning is provided by T-sentences only as part of a whole truth theory constrained by the principle of charity.

"... in radical interpretation we cannot assume that a T-sentence satisfies the translation criterion. What we have been overlooking, however, is that we have supplied an alternative criterion: this criterion is that the totality of T-sentences should ... optimally fit evidence about sentences held true by native speakers. The present idea is that what Tarski assumed outright for each T-sentence can be indirectly elicited by a holistic constraint. If that constraint is adequate, each T-sentence will in fact yield an acceptable interpretation."

(Davidson, 1973a, p.139)

Davidson hopes that as the theory develops under the pressure of experience as a whole, and taking account of the interrelations of various sentences, its theorems will yield the meaning, and not just the truth conditions, of the object language sentences.

20. Our capacity to understand new sentences seems obviously to depend on them having been compiled in familiar ways using words we already know (see Davidson, 1965). It follows then that a satisfactory theory of meaning for a language must give an account of how the meaning of sentences depends on the meanings of words and the effects of their combination in accordance with the conventions of the language. This seems to imply that the concept of reference must have some important place in any theory of meaning. And it might seem to suggest that we might usefully take an atomistic or 'building block' approach to a theory of meaning and start by trying to connect words with the non-linguistic objects, events, or actions to which they refer. Davidson considers such an approach hopeless. We can have no *direct* explanation of the semantic features of individual words on the basis of non-linguistic phenomena:

"If the name 'Kilimanjaro' refers to Kilimanjaro, then no doubt there is some relation between English (or Swahili) speakers, the word and the mountain. But it is inconceivable that one should be able to

explain this relation without first explaining the role of the word in sentences; and if this is so there is no chance of explaining reference in non-linguistic terms."

(Davidson, 1977, p.220)

We can not hope to use a notion of reference as the foundation for a theory of meaning: "we must give up the concept of reference as basic to an empirical theory of language" (Davidson, 1977, p. 221). An alternative approach to a theory of meaning would begin at the point where we can observe the connection between language and the extra-linguistic interests and activities that it serves. That connection appears at the level of sentences. Such an approach would allow no foundational role to reference, yet as we have seen, an account of the semantic features of the parts of sentences seems to be a necessary part of an adequate theory of meaning. Davidson suggests that this dilemma can be dissolved if we accept a distinction between explanation *within* theory and *of* theory. Within theory the meaning of a sentence may be specified by reference to a postulated sentence structure and concepts such as reference. However when we want to interpret or explain the theory as a whole we turn to the relation at the sentential level of human interests and activities and language. He draws an analogy with science where we may explain observed phenomena by means of a postulated theory of unobserved phenomena and relations - the microscopic level, whilst theory is developed and tested by reference to observed phenomena - the macroscopic level. For Davidson "words, meanings of words, reference, and satisfaction are posits we need to implement a theory" (Davidson, 1977, p.222). Yet they need, and can have, no *direct* empirical basis, they are given content *indirectly* when sentences are:

"The building-block theory, and theories that try to give a rich content to each sentence directly on the basis of non-semantic evidence ... try to move too far too fast. The present thought is rather to expect to find a minimum of information about the correctness of the theory at each single point; it is the potential infinity of points that makes the difference. A strong theory weakly supported, but at enough points,

may yield all the information we need about the atoms and molecules
- in this case, the words and sentences."

(Davidson, 1977, p.225)

Thus whilst Davidson attacks the notions of reference, and the meaning of words, as foundations for a theory of language he certainly does not resist the suggestion that we may sensibly employ such notions within an adequate holistically constructed theory of meaning for a language:

"Once we have the theory, though, we can explain the truth of sentences on the basis of their structure and the semantic properties of the parts."

(Davidson, 1990a, p.300)

21. Davidson thinks that "all understanding of speech involves radical interpretation" (Davidson, 1973a, p.125). Where an interpretive theory of truth for a language has been established, it will not necessarily be obvious in use, especially where the speaker and interpreter share the same language. Nonetheless understanding is always ultimately underpinned by radical interpretation. His theory of content extends to our understanding of our own beliefs and utterances, even they are given content through radical interpretation; Their meaning is an effect of interpretation, and:

"the agent has only to reflect on what a belief is to appreciate that most of his basic beliefs are true, and among his beliefs, those which are most securely held and that cohere with the main body of his beliefs are most apt to be true."

(Davidson, 1983, p.319)

Davidson's approach fends off generalised skepticism, all coherent beliefs are justified to some extent, and the whole structure of belief can't be false - it doesn't tell us what counts as sufficient justification for any particular belief.

22. Davidson expresses these ideas particularly clearly in the following passage, in which he describes the process of teaching someone a language:

"... until the triangle is completed connecting two creatures, and each creature with common features of the world, there can be no answer to the question whether a creature, in discriminating between stimuli, is discriminating between stimuli at the sensory surfaces or somewhere further out, or further in. Without this sharing of reactions to common stimuli, thought and speech would have no particular content - that is, no content at all. It takes two points of view to give a location to the cause of a thought, and thus to define its content. We may think of this as a form of triangulation: each of two people is reacting differently to sensory stimuli streaming in from a certain direction. If we project the incoming lines outward, their intersection is the common cause. If the two people now note each other's reactions (in the case of language, verbal reactions), each can correlate these observed reactions with his or her stimuli from the world. The common cause can now determine the contents of an utterance and a thought. The triangle which gives content to thought and speech is complete. But it takes two to triangulate. Two, or, of course, more."

(Davidson, 1991, pp.159-160)

23. Richard Rorty has been a leading champion of Davidson's work over many years. However in his eagerness to co-opt Davidson to his Pragmatist camp he underestimates Davidson's commitment to the idea that the world directly determines certain of our beliefs:

"Rorty wants to explain away my claim that most of our simplest and most basic beliefs are true as 'saying that most of anybody's beliefs must coincide with most of our beliefs' (1995, p.286) or that 'the pattern truth makes is the pattern that justification to us makes' (ibid.)

I agree with these claims, but do not agree that they give my reason for holding that most of our beliefs are true. The beliefs I have in mind are our perceptual beliefs, the beliefs that are directly caused by what we see and hear and otherwise sense. These I hold to be in the main true because their content is, in effect, determined by what typically causes them. ... The point is that I believe in the ordinary notion of truth: there really are people, mountains, camels and stars out there, just as we think there are, and those objects and events frequently have the characteristics we think we perceive them to have. Our concepts are ours, but that doesn't mean they don't truly as well as usefully describe an objective reality."

(Davidson, 1999a, p.19)

24. Davidson offers more than one version of his basic argument as to why it can not be the case that in general a speaker and interpreter understand one another on the basis of erroneous beliefs. The basic theme of the argument always hinges upon Davidson's view of the causal relation of belief and the world. In one interesting version of the argument he uses the device of a fictitious omniscient interpreter to try and clarify his position:

"Why couldn't it be that the speaker and interpreter understand one another on the basis of shared but erroneous beliefs? This can, and no doubt often does, happen. But it cannot be the rule. For imagine for a moment an interpreter who is omniscient about the world, and about what does and would cause a speaker to assent to any sentence in his potentially unlimited repertoire. The omniscient interpreter, using the same method as the fallible interpreter, finds the fallible speaker largely consistent and correct, the fallible speaker is seen to be largely correct and consistent by objective standards. We may also if we want, let the omniscient interpreter turn his attention to the fallible interpreter of the fallible speaker. It turns out that the fallible interpreter can be wrong about some things, but not in general; and

so he cannot share universal error with the agent he is interpreting. Once we agree to the general method of interpretation I have sketched, it becomes impossible correctly to hold that anyone could be mostly wrong about how things are."

(Davidson, 1983, p.317)

If the omniscient interpreter were to take the stance of interpreter, it would need to find the speaker's beliefs substantially in agreement with its own, and because the interpreter's beliefs, in this cases, are defined to be true the speaker's beliefs must also be substantially true. This argument relies on Davidson's view that beliefs and utterances can only be given content through radical interpretation. If it were possible to determine the content of beliefs and utterances apart from the context of interpretation, that is the world we share, the omniscient being would not need to take the interpretive stance and could find that the speaker's beliefs were substantially different from its own - and in error.

25. The method of radical interpretation requires us to go directly to the objects and events in the world in order to determine the content of mental states and utterances, it allows no epistemological intermediary between the meaning of our beliefs and utterances and the world; "if I am right, we can't in general first identify beliefs and meanings and then ask what caused them. The causality plays an indispensable role in determining the content of what we say and believe" (Davidson, 1983, p.317). Thus, whilst experience remains causally fundamental, it is denied an evidential or epistemological role, and no sense can be made of the skeptic's worry that our senses might be systematically deceived. Davidson is able to side-step the challenge of skepticism by showing why we have a reason for thinking most of our beliefs are true which is not itself a form of evidence:

"Neurath, Carnap and Hempel were right, I believe, in abandoning the search for a basic sort of evidence on which our knowledge of the world could rest. None is available, and none is needed. What they perhaps failed to appreciate is *why* it is not needed. It is not needed

because the causal relations between our beliefs and speech and the world also supply the interpretation of our language and of our beliefs. In this rather special sense, 'experience' is the source of all knowledge. But this is a sense that does not encourage us to find a mental or inferential bridge between external events and ordinary beliefs. The bridge is there all right - a causal bridge that involves the sense organs. the error lies as Neurath saw in trying to turn this causal bridge into an epistemological one, with sense data, uninterpreted givens, or unwritable sentences constituting its impossible spans."

(Davidson, 1982, p.332))

26. The crucial Davidsonian notion that "communication begins where causes converge" (Davidson, 1983, p.317), has clear ancestry in Wittgenstein's claim that "if language is to be a form of communication, there must be agreement not only in definitions ... but also in judgments" (1967, para.242, quoted by Lyas, 1993, p.164).
27. Davidson never tires of repeating his commitment to an extensional theory of meaning and a publicly knowable world:

"Our thoughts are 'inner' and 'subjective' in that we know what they are in a way no one else can. But though *possession* of a thought is necessarily individual, what gives it content is not. The thoughts we form and entertain are located conceptually in the world we inhabit, with others. Even our thoughts about our own mental states occupy the same conceptual space and are located on the same public map.

(Davidson, 1991, p.165)

28. Clearly Davidson analysis of the conditions of possibility of knowledge applies equally to the 'social' and the 'natural' worlds:

"If I did not know what others think I would have no thoughts of my own and so would not know what I think. If I did not know what I

think, I would lack the ability to gauge the thoughts of others. Gauging the thoughts of others requires that I live in the same world as them, sharing many reactions to its major features, including its values."

(Davidson, 1991, p.166)

The features of the world which cause our knowledge include its social features including its value systems. Davidson would agree with Manicas that "Social reality is both subjectively created and objectively real" (Manicas, 1993, p.157). For Davidson, of course, intersubjectivity provides our only standard of objectivity.

29. Davidson's analysis emphasises the triangular interdependence of the three types of knowledge: He follows Wittgenstein in thinking that all knowledge depends on communication. Before a base line is established in communication it makes no sense to say that a person has a thought or that her utterances have propositional content. Knowledge of other minds is then clearly vital to all thought and knowledge. We can have knowledge of other minds only if we have knowledge of the world; Davidson's analysis of interpretation shows that the process of triangulation which is so vital to thought, demands that speaker and interpreter recognise that they stand in relation to a shared world. In addition, because communication is necessary for propositional thought, we can not have knowledge of the content of our own minds unless we have knowledge of the world and knowledge of other minds. And, the attribution of thoughts to others requires that we match their utterances with thoughts of our own; We can't attribute thoughts to others unless we have and know our own thoughts.
- 30 An adequate conceptual scheme that "fit the facts" would presumably be one that was true. Dualist thinking has nothing intelligible to add to the concept of truth which we have seen arises and has application only through communication. Davidson's directs us back, to all we have, interpretation - and Tarski like formulations of the notion of truth.

"The trouble is that the notion of fitting the totality of experience like

the notion of fitting the facts, or of being true to the facts, adds nothing to the simple concept of being true. ... Nothing, however, no *thing*, makes sentences or theories true: not experience, not surface irritations, not the world, can make our sentences true. *That* experience takes a certain course, that our skin is warmed or punctured, that the universe is finite, these facts, if we like to talk that way, make sentences and theories true. But this point is put better without mention of facts. The sentence 'my skin is warm' is true if and only if my skin is warm. Here there is no reference to a fact, a world, an experience, or a piece of evidence."

(Davidson 1974a, pp.193-194)

31. Belkaoui suggests that the Sapir and Whorf linguistic relativity hypothesis, "which emphasises the role of language as a mediator and shaper of the environment" (Belkaoui, 1978, p.97), may be applied to accounting as the "language of business". He suggests that according to the hypothesis the features of accounting as a language will: "... shape the perception and thoughts of those who have assimilated the accounting discipline. Accounting as a language predisposes "users" to a given method of perception and behaviour" (1978, p.97).
32. By the 'linguistic turn' we mean those various trends in thought which seem to look to language as the philosophical limit of knowledge and truth: the notion that there is nothing beyond the text, no facts beyond language and no reality other than that presented in language.
33. Callinicos (1989, p.76) draws a direct comparison between the Saussurian tradition's insistence on the mediation of reality through language, and Kant's view:

"... that we could not know things in themselves, but only sense-impressions organized by the categories of the understanding inherent in the structure of transcendental subjectivity underlying experience. The difference is that Derrida sets *differance* in place of the

unknowable *Ding-an-sich* and, resolving the subject into the play of presence and absence, sets the categories themselves in motion."

(Callinicos, 1989, pp.76-77)

Norris (1991) also emphasises the dualist nature of Saussurian thought:

"Meanings are bound up, according to Saussure, in a system of relationship and difference that effectively determines our habits of thought. ... In this view, our knowledge of things is insensibly structured by the systems of code and convention which alone enable us to classify and organize the chaotic flow of experience."

(Norris, 1991, pp.4-5)

34. The influence of structuralist and poststructuralist perspectives on accounting thought has provoked considerable resistance. The debate concerning the importation of Foucaultian perspectives has been especially vigorous: See Neimark (1990) for a particularly trenchant appraisal of the influence of the Foucaultian perspective the critical accounting literature.
35. Gadamer conceives of our horizons as constantly evolving, particularly through those interpretive encounters that challenge us to risk our prejudices. The framework of any living tradition will be in constant process of development:

"We started by saying that a hermeneutical situation is determined by the prejudices that we bring with us. They constitute, then, the horizon of a particular present, for they represent that beyond which it is impossible to see. ... the horizon of the present is continually in the process of being formed because we are continually having to test all our prejudices. An important part of this testing occurs in encountering the past and in understanding the tradition from which we come. ... In a tradition this process of fusion is continually going on, for there old and new are always combining into something of

living value, without either being explicitly foregrounded from the other."

(Gadamer, 1960, p.306)

Indeed, Gadamer is very explicit in his rejection of any the notion that our horizons are fixed or closed:

".. the closed horizon that is supposed to enclose a culture is an abstraction. The historical movement of human life consists in the fact that it is never absolutely bound to any one standpoint, and hence can never have a truly closed horizon. The horizon is, rather something into which we move and that moves with us. Horizons change for a person who is moving. thus the horizon of the past, out of which all human life lives and which exists in the form of tradition, is always in motion."

(Gadamer, 1960, p.304)

Bernstein (1983, p.167) is then correct to note that Gadamer is critical of the Myth of Framework, understood as "the myth that we forever are enclosed in our own horizon". Interpretation for Gadamer entails the fusion of horizons. This vision of evolving horizons does not, however, fundamentally change Gadamer's most basic of views - the notion that all our understandings are developed on a pre-structured framework of pre-understandings; we are fundamentally constrained by the framework of our pre-understandings, that is by our ongoing tradition.

36. For Gadamer, tradition is "essentially verbal in character" (Gadamer, 1960, p.389), and language is the mediator through the world comes into being for us:

"Language is not just one of man's possessions in the world; rather on it depends the fact that man has a *world* at all. ... language has no independent life apart from the world that comes to language within it. Not only is the world only insofar as it comes into language, but

language, too has its real being only in the fact that the world is presented in it. ... this world is verbal in nature. ... man's being in the world is primordially linguistic."

(Gadamer, 1960, p.443)

37. Gadamer's primary interest is in the understanding / interpretation of texts, works of art, and our relation to our historical tradition. However, he sees the hermeneutical problem as universal. The parties to any communication whether across time or cultural distance operate within the horizons of their own historical being, understanding then, always entails a fusion of horizons.
38. See Bernstein (1983) for an analysis of Gadamer's somewhat obscure comments on the question of truth. Essentially, Gadamer's view of understanding as mediated through tradition entails a relativist conception of truth:

"In effect, I am suggesting that Gadamer is appealing to a concept of truth that (pragmatically speaking) amounts to what can be argumentatively validated by the community of interpreters who open themselves to what tradition "says to us." This does not mean that there is some transcendental or ahistorical perspective from which we can evaluate competing claims to truth. we judge and evaluate such claims by the standards and practices that have been hammered out in the course of history."

(Bernstein, 1983 p.154)

For Gadamer, interpretations are always open to revision as the tradition evolves; and the correctness of any interpretation can be judged only in the context of the state of the tradition from which it springs:

"The historical life of a tradition depends on being constantly assimilated and interpreted. An interpretation that was correct in itself would be a foolish ideal that mistook the nature of tradition. Every

interpretation has to adapt itself to the hermeneutical situation to which it belongs."

(Gadamer, 1960, p.397)

39. Lavoie seems to suggest that the development of tradition arising from the fusion of horizons in "good conversation" will somehow take us along the "path to truth":

Rejecting objectivism does not entail embracing relativism. While alternative paradigms cannot be objectivistically translated into a neutral language and measured against a common set of standards, this does not mean that rivals should give up their search for truth and all go their own relativistic way. On the contrary, our only path to truth lies in the process of contention. It is out of the confrontation between two incommensurable theories, *their mutual attempts to re-interpret and criticize one another*, that we can hope to construct effective comparisons between them."

(Lavoie, 1989, p.587)

We find Lavoie's claim that hermeneutics can take us beyond relativism on a path to truth, difficult to make sense of within a Gadamerian hermeneutic tradition, which recognises all understanding as being historically conditioned. In the paradigm case of the hermeneutic problem, an interpreter of a text from a previous culture views the past and its texts from her own particular horizon, her own pre-understandings. Her interpretation of the text therefore involves a fusion of horizons in an interplay of past and present. As, in this way of viewing things, any understanding is inevitably historically framed and open to subsequent revision, it makes more sense to talk of understanding and interpretation in terms of authenticity than in terms of truth. An authentic interpretation would entail good reflective use of the interpreter's tradition. And the reflective interpreter must be prepared to explore and challenge her own prejudices, that is she must endeavour to understand herself. Such understanding will be promoted by interpretive confrontation with the past. However, whilst the interpreter may challenge and revise particular prejudices she has no basis for

challenging the authority of her entire tradition - the tradition can not be transcended, even through reflection - it is the ground of our being.

Lavoie insists that the Gadamerian view that "'we live wholly within a language,' does not ... constitute a form of 'linguistic relativism'", such as that suggested by the Sapir and Whorf Hypothesis. Nonetheless, the hermeneutic view does maintain that understanding is always relative to a particular horizon of pre-understandings, and that the meta-institution carrying forward our pre-understandings is language. Following Davidson we have some difficulty making sense of Lavoie's talk of "alternative paradigms" and the confrontation of "incommensurable theories". We understand Lavoie to mean that translation is possible but not by some objective standard; the interpreter must translate by the standards of her own tradition. What we find to be missing in this view is proper Davidsonian recognition of (i) the primary role of the concept of truth in facilitating translation, (ii) the role of the objective world in causing or constituting meaning.

Other advocates of a hermeneutic approach to accounting seem more prepared to be unequivocal in accepting its implication that we give up the search for truth: Boland recommends an hermeneutic approach to accounting research and urges that we should relinquish "the quest for universal truth and be content to engage in good, interesting conversations" (Boland, 1989, p.601). It may be that Lavoie intends to suggest the possibility of a movement beyond the constraints of the Gadamerian position; His analysis does little to elucidate such a possibility.

40. Habermas criticizes the ontological priority which Gadamerian hermeneutics gives to tradition: For Gadamer, understanding always presupposes the structure of prejudices of an ongoing consensus. Whilst individual elements of a tradition may be questioned, the priority given to tradition allows no basis for development of criticism of the consensus as a whole:

"It is a hermeneutical requirement that we refer to a concrete pre-understanding which itself, in the last analysis, goes back to the process of socialization, i.e. the introduction into a shared tradition. None of them is in principle beyond criticism; but neither can they be

questioned abstractly. This would only be possible if we could examine a consensus that had been achieved through mutual understanding by, as it were looking into it from the side and subjecting it, behind the backs of the participants, to renewed demands for legitimation. But we can only make demands of this kind in the face of participants by entering into dialogue with them. In this case we submit, yet again, to the hermeneutic demand to accept, for the time being, the clarifying consensus which the resumed dialogue might arrive at, as a supporting agreement. It would be senseless to abstractly suspect this agreement, which admittedly, is contingent, of being false consciousness since we cannot transcend the dialogue that we are. This leads Gadamer to conclude to the ontological priority of linguistic tradition over all possible critique; we can consequently criticize specific traditions only on the basis that we are part of the comprehensive context of the tradition of language."

(Habermas 1971, p.204)

Habermas is not suggesting that Gadamer's hermeneutics puts the contents of tradition entirely beyond criticism, but rather that it allows no basis for questioning of the legitimacy of the tradition as such. Such a questioning would necessarily entail engagement in dialogue with its participants and hence submission, at least for the time being, to the ongoing consensus. It makes no sense in such a case to suspect the consensus, because it can not be transcended. Gadamer gives us no way to step outside our tradition and no standard against which to judge the supporting consensus. It seems that we must be accepted the authority of the tradition. Indeed Gadamer wants to rehabilitate authority and tradition, and justify a presupposition of their legitimacy. He argues that the enlightenment opposition of reason and freedom to authority and tradition overlooks the possibility that authority may be a source of truth. He wants to justify a "prejudice in favour of the legitimacy of prejudices (or prejudgments) validated by tradition" (Habermas, 1967, p.170), by arguing that authority is ultimately based on knowledge. Authority and knowledge are not

opposed, in fact, they coincide:

"The Enlightenment's distinction between faith in authority and using one's own reason is, in itself, legitimate. If the prestige of authority displaces one's own judgment, then authority is in fact a source of prejudices. But this does not preclude it being a source of truth, and that is what the Enlightenment failed to see when it denigrated all authority. ... In fact the denigration of authority was not the only prejudice established by the enlightenment. It also distorted the very conception of reason and freedom, the concept of authority could be viewed as diametrically opposed to reason and freedom: to be in fact blind obedience. ... But this is not the essence of authority ... the authority of persons is ultimately based not on subjection and abdication of reason but on an act of acknowledgement and knowledge - the knowledge, namely, that the other is superior to oneself in judgment and insight and that for this reason his judgment takes precedence. ... Indeed, authority has to do not with obedience but rather with knowledge."

(Gadamer, 1960, p.279)

Habermas challenges the uncritical acceptance of the validity of tradition. He argues that the consensus on which authority is based does not arise in free circumstances but rather through historical processes characterized by domination and force, circumstances that systematically distort "the dialogue that we are":

"The dogmatic recognition of tradition, and this means the acceptance of the truth claims of this tradition, can be equated with knowledge itself only when freedom from force and unrestricted agreement about tradition have already been secured within this tradition. Gadamer's argument pre-supposes that legitimizing recognition and the consensus on which authority is founded can arise and develop free from force. The experience of distorted communication contradicts

this pre-supposition. Force can, in any case, acquire permanence only through the objective semblance of an unforced pseudo-communicative agreement. Force that is legitimated in such a way we call, with Max Weber, authority. It is for this reason that there has to be that principle proviso of a universal agreement free from domination in order to make the fundamental distinction between dogmatic recognition and true consensus. Reason, in the sense of the principle of rational discourse, represents the rock which factual authorities have so far been more likely to crash against than build upon."

(Habermas 1971, pp.207-208)

By taking language to be the sole meta-institution and treating tradition as self sufficient, Gadamer fails to recognise either their dependency on other social processes or their ideological role in sustaining and legitimising relations of systematic inequality and domination:

"There is good reason to conceive language as a kind of meta-institution on which all social institutions depend. ... But clearly this meta-institution of language as tradition is dependent in turn on social processes that cannot be reduced to normative relationships. Language is also the medium of domination and social power. It serves to legitimate relationships of organized force. In so far as legitimations do not articulate the power relationships whose institutionalisation they make possible, insofar as the relationship is merely manifested in the legitimation, language is also ideological. In that case it is not so much a question of deception in language as deception with language as such.

(Habermas, 1967, p.172)

Habermas thinks that a Gadamerian hermeneutics, which urges the necessity of submission to authority and tradition, would be unable to reveal "deceptions with

language as such" which sustain relations of domination. We may face not merely local error or failure of understanding, but a system of deception. The systematic distortions that underpin language, are likely to go unrecognized by an hermeneutic approach constrained to truth expressed at the level of social consensus and by the structure of prejudices legitimised as tradition:

"If I understand correctly, then Gadamer is of the opinion that the hermeneutical clarification of incomprehensible or misunderstood expressions always has to lead us back to a consensus that has already been reliably established through converging tradition. This tradition is objective in relation to us in the sense that we cannot confront it with a principled claim to truth. The prejudgemental structure of understanding not only prohibits us from questioning the factually established consensus which underlies our misunderstanding and incomprehension, but makes such an undertaking appear senseless"

(Habermas, 1971, p.204)

Because the forces driving and distorting consensus arise outside language, a hermeneutic analysis, in itself, will not reveal them. Only a systematic (albeit hermeneutically informed) analysis of the underlying realities, will give access to the deception within language. Analysis must respect the grounding of language in the material world and the lived relations of the production of our lives. In so far as the hermeneutic tradition follows Gadamer in seeing language as the essence of tradition, it risks descending into naive "linguistic idealism", which reduces the conception of our relation to the world to a matter of intersubjective ideas and practices circulating in language:

"An interpretive sociology that hypostatizes language as the subject of life forms and of tradition binds itself to the idealist presupposition that linguistically articulated consciousness determines the material being of life-practice. But the objective context of social action is not reducible to the dimension of intersubjectively intended and

symbolically intended meaning. The linguistic infrastructure of society is a moment in a complex that, however symbolically mediated, is also constituted by the constraints of reality: by the constraints of external nature which enters into the procedures of technological exploitation, and by constraints of inner nature which is reflected in the repression of social relationships of power.

(Habermas, 1967, p.173-174)

Habermas thinks that commitment to the rehabilitation of authority in Gadamerian hermeneutics, and its acceptance of the final validity of tradition, prevents its full recognition of the ideological status of tradition and language, and of the capacity of reflection to challenge and modify tradition:

"Against this stand the insight that the reflective appropriation of tradition breaks the quasi-natural substance of tradition and alters the position of subjects within it ... when reflection understands the genesis of the tradition from which it proceeds and to which it returns, the dogmatism of Life-praxis is shaken."

(Habermas, 1967, p168)

Habermas thinks that science can provide the critical autonomy / distance, from tradition, necessary for critical reflection on the interests and forces underlying the development of tradition. And he believes that the advance of science and the scientific mentality has shaken the grip and continuity of tradition in our society and considerably altered our relation to it. We are better able to see tradition for what it is and less accepting of the claims of authority. The inability of hermeneutics to acknowledge the power of reflection encourages and supports traditional relations of domination and exploitation. Habermas wants to argue that through reflection and communicative reason we may distinguish between a consensus which has been imposed by dominative force and a consensus openly and rationally accepted:

"Substantiality disintegrates in reflection, because the latter not only

confirms but breaks dogmatic forces. Authority and knowledge do not converge. Certainly, knowledge is rooted in actual tradition; it remains bound to contingent conditions ... But as reflection recalls that path of authority through which the grammars of language games were learned dogmatically as rules of worldview and action, authority can be stripped of that in it that was mere domination and dissolved into the less coercive force of insight and rational decision."

(Habermas, 1967, p.170)

By insisting that authority and knowledge coincide Gadamer undercuts the possibility of critique "anything that might challenge the legitimacy of tradition must be regarded as a form of non-knowledge. ... For hermeneutics tradition is always ultimately right" (How, 1995, p.143-144).

Habermas accepts that our pre-understandings condition all our understandings, he recognises language as a meta-institution that lends symbolic structure to all social action, and he certainly thinks that hermeneutic analysis has the potential to help reveal those structures which frame our understanding and knowledge. But he wants to insist, against Gadamer, that critical reflection which lays bare the structure of tradition and its pattern of development should fundamentally alter our relation to tradition and curtail our capacity to accept the authority of prejudices. After reflection we can no longer take the authority of tradition for granted. Habermas' aim is not to deny the critical value of hermeneutic analysis, as such. He wants to reject the "linguistic idealism" he finds in Gadamerian Hermeneutics; its tendency to absolutize language, and hence its inability to confront the realities of force, technology, and domination operating behind language. There is a moral dimension to Habermas' insistence on the power of reflection. He objects to the determinist strain in Gadamer's thought, which privileges tradition and seems to deny the possibility that human beings might shake-off the grip of their tradition and achieve self-determination. Habermas also attacks the similar denigration of the liberative potential of reflection that he identifies in the post-structuralist tradition.

Habermas does not think that we can find an Archimedean point somewhere outside our own culture from which we might obtain the leverage to critique our own

tradition. There is no 'outside', and no possibility of a 'Gods eye view':

"It is, of course, true that criticism is always tied to the context of tradition which it reflects. Gadamer's hermeneutic reservations are justified against monological self-certainty that merely arrogates to itself the title of critique. There is no validation of depth-hermeneutical interpretation outside of the self-reflection of all participants that is successfully achieved in a dialogue."

(Habermas, 1971, p.209)

Habermas does, however, think that we can retain the ideal of objectivity in the social sciences, and much of his work has been directed towards showing how we might move beyond the tradition bound pluralism of a Gadamerian hermeneutics. Habermas thinks that truth and objectivity interpretation / knowledge can emerge in the consensus achieved through rational discourse in conditions of free and unconstrained dialogue; in "ideal speech". He believes every act of communication anticipates the possibility of an 'ideal speech' situation, the possibility of dialogic consensus orientated to truth:

"A critically enlightened hermeneutic that differentiates between insight and delusion incorporates the meta-hermeneutic awareness of the conditions for the possibility of systematically distorted communication. It connects the process of understanding to the principle of rational discourse, according to which truth would only be guaranteed by *that* kind of consensus which was achieved under the idealized conditions of unlimited communication free from domination and could be maintained over time. ... If the understanding of meaning is not to remain *a fortiori* indifferent towards the idea of truth then we have to anticipate, together with the concept of a kind of truth which measures itself on an idealized consensus achieved in unlimited communication free from domination, also the structures of solidarity co-extensive in

communication free from force. Truth is that characteristic compulsion towards unforced universal recognition; the latter is itself tied to an ideal speech situation. i.e. a form of life, which makes possible unforced universal agreement."

(Habermas, 1971, pp.205-206)

41. Even theorists like Manicas (1993) who seek to advance realist views of accounting's possibilities, are apt to understate the strength of those foundations. Manicas, for example, seems to suggest that accounting as a critical social science has to acknowledge: "that it lacks any sort of secure foundations" (Manicas, 1993, p.157).

Notes to chapter 3: Objectivity in Accounting - the Case of Deferred Tax

1. Conflict over the allocation of goods seldom remains on a bluntly practical level. Typically such conflict will be expressed in ethical terms: "if the parties want to settle it by ordered speech rather than by violence, they will invoke more substantive judgements, usually of justice, and the children will talk of fairness and the heroes of precedence" (Williams, 1985, pp.133-134).
2. Williams (1985, pp.142-143) identifies three conditions of propositional knowledge: (a) the judgement made must be believed, (b) the judgement must be true, and (c) the beliefs acquired must "track the truth", so that it is no accident that the beliefs acquired are true, and in different circumstances, a different true belief would be acquired.
3. The fact of convergence in Western science is reasonably uncontroversial. However, critics of Williams position, including Rorty (1980, p.344-345), would argue that such convergence is not best explained as a convergence guided by how things are, but rather as a socio-cultural effect (see Rorty, 1991, p.58). Rorty's hostility to Williams' view seems to reflect his resistance to the full import of the Davidsonian notion that the content of many of our beliefs, and particularly our perspectival beliefs, is effectively determined by their distal causes in the world (see Davidson 1999, pp.18-19).
4. Williams is conscious of the apparent paradox entailed in this statement. One might argue that if the locals' statements are true then the observer can correctly say that they are true. He notes that his view may seem to conflict with Tarski's convention T (the disquotational principle), but argues that, in fact, there is no conflict (See Williams, 1985, pp.143-145).
5. In view of the level of opposition raised by some of the more controversial aspects of the 1995 exposure draft Statement of Principles, the ASB agreed to consult more fully before proceeding with the development of a final statement (ASB, 1996, p.1),

and a revised exposure draft (ASB, 1999a), responsive to criticism of the earlier draft, was issued prior to the issue of a final version of the Statement of Principles (ASB, 1999d).

6. The draft Statement of Principles defined gains and losses as increases or decreases in ownership interest, other than those relating to contributions from or distributions to owners (ASB, 1995b, para.3.47), and defined ownership interest itself as the entity's assets less its liabilities (ASB, 1995b, para.3.39).
7. ASB's Statement of Principles generally draws heavily on the FASB Conceptual Framework project: The ASB acknowledge that their framework is "based on the International Accounting Standards Committee's (IASC) 'Framework for the Preparation and Presentation of Financial Statements. ... (Which) was in turn based on the US Financial Accounting Standards Board's (FASB) pioneering work on its Statements of Financial Accounting Concepts" (ASB, 1999a, preface).
8. The positive accounting researcher moves into the position of detached observer rather than participant in a way of life, and hence is unwilling to use the normative language of the participants. Many critics of positive accounting research would argue that the positive approach does not in fact succeed in eliminating normative theory from accounting research but merely suppress its recognition (see Tinker, 1982).
9. If we allow that members of an unreflective society may have ethical knowledge when they correctly apply their concepts using appropriate criteria, and we therefore agree that there can be ethical knowledge at the unreflective level. And if we accept that ethical reflection tends to undermine thick ethical concepts, and that reflection itself can not give us ethical knowledge, then we can say that "reflection can destroy knowledge" (Williams, 1985, pp.145-148).
10. A thick ethical concepts may survive reflection "just in the sense that that we would not have encountered any considerations that led us to give it up, lose hold on it, or

simply drift away from it" (Williams, 1995, p.206). Survival in this sense does not mean that the concept will somehow be validated by reflection in anything like the way that scientific perspectival knowledge can be justified by explanation.

11. For fuller analysis of the relevance of Habermas' work for accounting see, for example; Laughlin, 1987; Arrington, & Puxty, 1991; Power & Laughlin, 1996.
12. Habermas adumbrates a transcendental-pragmatic justification of (U), but does not himself present its formal derivation. See Rehg (1997) for an outline and critical discussion of the formal derivation of (U).
13. For fuller discussion of the relationship between the views of Habermas and Davidson see Schatzki, (1986), Baynes, (1990), and Hoy (1994).

Notes to chapter 4: Validity in Accounting Standard Setting and the Presuppositions of External Financial Reporting

1. We follow Davidson's advice, and accept that we should:

“... not say that truth is correspondence, coherence, warranted assertibility, ideally justified assertibility, what is accepted in the conversation of the right people, what science will end up maintaining, what explains the convergence on single theories in science, or the success of our ordinary beliefs.”

(Davidson, 1990, p.309)

2. Correspondence theories of truth have historically tended to be realist, and many philosophers including Davidson (1990, p.308) have written as if the correspondence theory of truth implied realism. Searle, for example, suggests that “On a normal interpretation, the correspondence theory implies realism since it implies that there is a reality to which statements correspond if they are true” (Searle, 1995, p.154). We understand realism to be the thesis that certain things exist independently of mind, and we accept that correspondence theories of truth are not necessarily intrinsically realist; Strictly speaking, a correspondence theory “requires that a certain state of affairs x obtains, but not that it obtain independently of mind. It is perfectly possible to hold that truth consists in correspondence with facts and to hold also that facts are mind-dependent entities” (Kirkham, 1992, p.133-134). Nevertheless, without realism the thesis of correspondence is weak, and almost all theorists who are attracted to correspondence theories of truth prefer a substantial version of the thesis entailing realism.
3. Davidson uses a line of argument, initially advanced by Frege (1892) to show that “... if a statement corresponds to one fact, it corresponds to all” (Davidson, 1969, p.42), in which case, we can not explain truth in terms of correspondence to facts.
4. Metaphysical realism is a term used by Putnam to describe the conjunction of the

following theses: (i) The ontological thesis that reality exists independently of our representations of it. (ii) The epistemological thesis that there is one correct scheme for describing reality. And (iii) the thesis that truth consists in the correspondence between representation and representation-independent reality:

“... the world consists of some fixed totality of mind-independent objects. There is exactly one true and complete description of 'the way the world is'. Truth involves some sort of correspondence relation between words or thought-signs and external things and sets of things.”

(Putnam, 1981, p.49)

Searle does not accept that there is one correct scheme for describing the world.

5. Rorty enthusiastically claims Davidson's rejection of scheme-content dualism as supportive of his own pragmatist position: “his repudiation of ... the idea that something like 'mind' or 'language' can bear some relation such as 'fitting' or 'organizing' the world ... makes it tempting to see Davidson as belonging to the American pragmatist tradition” (Rorty, 1986, p.333).
6. Morgan clearly rejects external realism; He does *not* think, as Shapiro does, that “external reality exists independently of the financial statements that attempt to represent it” (Shapiro, 1997, p.167). Morgan seems to take a thoroughly idealist position, drawing inspiration directly from Berkley (see Morgan, 1988, p.482). Berkley's views are commonly interpreted as a reaction against Locke's empiricism - the thesis that the mind is furnished with ideas by experience (sensory mediation). Berkley was particularly opposed to the radical scepticism that Locke's empiricism seemed to invite: If all we have is our ideas, what is to guarantee that any of them are actually in touch with the world? Berkley's answer was to deny the existence of matter. He maintained that the ordinary objects of experience are just “collections of ideas”, radical scepticism then becomes impossible because it makes no sense to argue that things might not be as they appear. Berkley then faces an issue of what

causes our ideas? He deals with this question by invoking God. Shapiro's willingness to enlist idealist and social constructionist thinking is made all the more surprising by the fact that John Searle explicitly defends his realism against the antirealist challenge of "phenomenalist idealism" and "social constructionism", (see Searle, 1995, pp.183-197).

7. Just a few paragraphs prior the passage quoted by Shapiro in both his 1997 and 1998 papers, Rorty explicitly points out that antirepresentationalists like himself who see objectivity in terms of intersubjectivity have no use for the notion of correspondence:

“(T)hose who wish to reduce objectivity to solidarity - call them “pragmatists” - do not require either a metaphysics or an epistemology. They view truth as, in William James' phrase, what is good for *us* to believe. So they do not need an account of a relation between beliefs and objects called 'correspondence,' nor an account of human cognitive abilities which ensures that our species is capable of entering into that relation.”

(Rorty, 1991, pp.22-23)

8. Rorty's own 'cautionary' use of the concept of truth, (see Rorty, 1986 & 1995), suggests that he himself “knows that there is a difference between our beliefs being justified and our beliefs being true” (Davidson, 1999, p. 18). And once it is accepted that truth differs from justification, one must surely acknowledge that “there has to be something about truth that you don't understand when you understand 'all about' justification” (Davidson, 1999, p.18).
9. In recent times, “postmodernism”, in its many guises, has overtaken scientism and become the dominant mode of moral scepticism; we might now, more usually, think of discourse ethics as a response to postmodernism.

At the ideal limit a “balanced” modernization process is posited in which the three fundamental spheres of social reproduction can at all

times be mediated by communicative action, that is, action which explicitly raises claims to truth, rightness and sincerity within institutional contexts in which such claims may be consensually resolved. This involves something like sustaining the lines of substantive public accountability between quasi-autonomous sub-systems, such as the economy, and the public sphere of dialogue and debate concerning fundamental ends.”

(Power & Laughlin, 1996, p.444)

10. The transcendental-pragmatic justification of (U), we have discussed here, does not constitute proof or ultimate justification of discourse ethics. Rather, it locates discourse ethics “among the reconstructive sciences concerned with the rational bases of knowing, speaking, and acting” (Habermas, 1983, p.98).

Notes to chapter 5: The Reporting Entity as Divided Subject

1. In the revised 1999 draft of the SoP, the ASB is rather more guarded in its advocacy of current value accounting. However, the Board does continue to express its faith that current values will often be the most relevant measurement basis (ASB, 1999a, para.6.24), and that markets may develop so as to make current values more reliable and relevant (ASB, 1999a, para.6.25).

2. In view of recent international moves towards a single performance statement, the ASB's revised 1999 draft of the SoP does not discuss the relative roles of a profit and loss statement and a statement of total recognised gains and losses. However it remains clear that the ASB continue to view income/performance from proprietary perspective which understands income in terms of change in the owners' wealth:

“The difference (between the opening and closing balance sheets, adjusted for capital contributions and distributions) *is* equal to the total of all components of financial performance,...”

(ASB, 1999b para.13)

3. The ASB's revised 1999 draft of the SoP is less explicit than the 1995 draft in advocacy of a “real terms” capital maintenance model. However, consistent with “real terms”, it does imply that adjustment for both general and specific price change might be appropriate in times of inflation (ASB, 1999a, para.6.43).

4. Our purposes here could have been equally well served through the exploration of various other accounting issues. In accounting for stock option compensation we have selected an issue where the reporting entity issue is salient and obvious. It is equally obvious in many group accounting issues. Presently UK GAAP seems to apply proprietary and entity perspectives on a quite arbitrary basis to group accounting issues. Consider FRS2's treatment of disposals versus its treatment of intra group trading:

"Where the group decreases its stake in an undertaking whether or not it continues to be a subsidiary undertaking, a profit or loss generally arises. Consolidated financial statements are prepared from the perspective of investors in the parent undertaking of the group. Where the group disposes of part of its interest in a subsidiary undertaking it transacts directly with third parties and a profit or loss for the group arises and is reported in the consolidated financial statements. This can be contrasted with the treatment of intra-group transactions where no profit or loss arises for the group as a whole because the transaction involves only undertakings included in the consolidation and under common control and does not directly involve any third party."

(ASB, 1992b, para.91)

In para.91 the entity perspective prevails for treatment of intra group trading whereas a proprietary perspective is taken on the treatment of the disposal of an interest in a subsidiary. The justification given for the adoption of different perspectives is, obviously flimsy; How we define the entity will affect our identification of 'third parties'. We might have hoped that the ASB's SoP project might have helped us resolve such confusions and contradiction. In fact the SoP gives little guidance. The Board, surely rather disingenuously, suggest that: "Deciding which perspective to use as a basis for accounting for subsidiaries depends on the relative usefulness of the information each provides" (ASB, 1995b, para.7.19). But how should we conceptualise usefulness? From the perspective of a "wide range of users" (ASB, 1995b, para.1.1) or as collapsed down to the perspective of the providers of capital (Ernst & Young, 1996b, p.273)? The alternative perspectives on the definition of the reporting entity, tend to privilege the information needs of alternative user groups: "whose presumed "perspective" should be incorporated into the measurement of enterprise performance" (FASB, 1990, para.140).

5. The FASB, found this issue critical to its project on accounting for stock compensation:

"... advocates of the opposing views on the nature of an enterprise's contractual obligation to issue its own stock at a specified price - a call option written on its own stock - generally view the relationship between an enterprise and its owners differently."

(FASB, 1990, para.15).

Appendix B of the FASB's Discussion Memorandum, *Distinguishing between Liability and Equity Instruments and Accounting for Instruments with Characteristics of Both*, (FASB, 1990) is devoted to discussion of this issue.

6. We will also avoid any detailed discussion of recognition and measurement issues. However it is interesting to note that the draft SoP includes provisions, (which some commentators argue would be more fittingly included in an accounting standard), which would mean that under the SoP recognition would have to await the employees' delivery of service:

"When either party to a transaction has performed, the assets and liabilities arising from that performance should be recognised. Thus if payment is made before delivery of stock, an asset representing the claim on the supplier is recognised. More usually, delivery will be the first act of performance and the stock and an obligation to pay for it will be recognised at that time. In the case of property being acquired under a long-term contract the project and related obligations are recognised as the contractor performs. Performance has not occurred, conversely, in respect of future services of employment, and so no asset or liability should be recognised. ..."

(ASB, 1995b, para.4.19)

The ASB give no justification for the treatment of "future employment services" which they propose. The FASB dealing with the same issue, come to a different conclusion supported by more careful reasoning:

"Fully executory contracts under which neither party has begun to fulfil its obligations are usually not recognized as assets, liabilities, or equity in financial statements. Once an employee stock-option is granted, however, it no longer is a fully executory contract. The employer has already conveyed to the employee the right to benefit from future increases in the price of the underlying stock, which is the essence of an option. Moreover, the employee begins rendering the agreed-upon future service at the grant date. Accordingly, both parties have begun to fulfil the terms of the contract, which makes it partially executory. Accountants routinely recognize partially executory contracts - examples are transactions in debt and equity securities that are recognized at the trade date rather than the settlement date."

(FASB, 1993, para.65)

- 7. The FASB recognised, in 1988, that it is not possible to resolve accounting for stock compensation "without first considering the more fundamental issues in the broader project on distinguishing between liabilities and equity" (FASB, 1990, para.14).**
- 8. The FASB's Concept Statement 6 definitions of assets and liabilities also refer to "an entity". However, para.24 of Concept Statement 6 defines the "entity" as the "business enterprise", economic operating unit; that is the entity is defined in terms of entity theory rather than proprietary theory:**

"All elements are defined in relation to a particular entity, which may be a business enterprise, an educational or charitable organization, a natural person, or the like."

(FASB, 1985, para.24)

Therefore the FASB are able to clearly conclude that an enterprise's obligation to issue stock is not a liability in terms of the FASB conceptual framework:

"A call written on an enterprise's own stock fails to exhibit the first characteristic of a liability as defined in Concepts Statement 6 because it does not embody an obligation to transfer the enterprise's assets or to provide services to another entity in the future. ... The terms of the eventual "exchange" if the option is exercised cannot be unfavourable *to the enterprise itself*, although the terms may well be unfavourable *to the enterprise's preexisting shareholders* - its group of stockholders just before the transaction occurs."

(FASB, 1990, para.119)

9. The measurement date for a stock option is the date at which the share price that enters into the final measurement of the option is fixed. Subsequent changes in the price of the underlying share will have no effect on the measurement of the option as a liability or equity instrument or on the measurement of the related compensation cost, (see FASB, 1993, paras.80-99).
10. By "proprietors", advocates of the proprietary perspective generally mean "the stockholder group existing just before an issue of stock or remaining after a repurchase of stock" (FASB, 1990, para.131).
11. We believe that financial reporting standard setting in late capitalist societies is inevitably 'political'. The development of a conceptual framework for financial reporting accounting is in itself a political act; Both the proprietary and entity conceptions of the reporting entity are essentially ideological constructs.
12. Lacan's analysis may be regarded as deeply antibiologicistic. He "locates subjectivity entirely in language - of which the body becomes merely an effect" (Blum & Nast, 1996, p.569). Lacan's antibiologism is considered by some commentators to be a weakness. Lefebvre, whilst appropriating much of the Lacanian analytic framework, objects to the "logical, epistemological and anthropological priority" it gives language over space (Lefebvre, 1974, p.35-36). Lefebvre sees the Lacanian subject as two- dimensional: image and language. And he argues that the material and the

political dimensions are typically omitted from such structural analyses:

In point of fact this approach leaves two areas untouched, one on the near side and the other on the far side, so to speak, of the readable/visible. On the near side, what is overlooked is the body. ... For it is by means of the body that space is perceived, lived - and produced. On the far side of the readable/visible, and equally absent ... is power."

(Lefebvre, 1974, p.162)

For other critics, however, the problem with Lacan's analysis is that he fails to sufficiently omit the body; and in particular that he is unduly reliant on essentialized anatomies. For example, Gilles Deleuze and Felix Guattari (1972) attack what they see as Lacan's attempt to ground the subject of the unconscious in private Oedipal experience and fantasy. They argue that the unconscious is a social product, and that all fantasy is group fantasy.

13. For Lacan, "the unconscious is neither primordial nor instinctual" (Lacan, 1957, p.170), it exists entirely in the symbolic order of language, it is "the discourse of the Other" (Lacan, 1957-58, p.193). The Lacanian unconscious is not something interior to the subject. Rather, it precedes the subject, it is "intersubjective", "transindividual" (Lacan, 1953b, p. 49). Lacan equates the subject with the id. The equation is reflected in the homophony he exploits between the German term ES (it) and the letter S, the symbol by which Lacan designates the subject (Lacan, 1955, p.129). Lacan conceives of the id as the symbolic it, the force at the origin of speech, beyond the imaginary false-being of the ego. He stresses that the forces concerned are linguistic not primitive biological drives.
14. In opposition to the imaginary and the symbolic orders, Lacan identifies a third order, the real. The real is "that which resists symbolization absolutely" (Lacan, 1953-54, p.66). It is all that it is impossible to imagine or represent symbolically. For example, the body is in the real until it is inscribed by language and transformed into a social

reality; The symbolic “kills the real”.

15. The mirror stage is not merely a developmental phase. Lacan clearly regards it as part of the permanent structure of subjectivity, the paradigm case of the imaginary register, (see Evans, 1996, p.114).
16. Lacan distinguishes between 'need', 'demand', and 'desire'. Need is biological - the human child depends on others for satisfaction of his needs (and needs can be satiated). To get the Other's help the infant must articulate his need in language as demand, and “in so far as his needs are subjected to demand, they return to him alienated” (Lacan, 1958b, p. 286). The infant's demands call the Other to address its needs. The presence of the Other takes on significance beyond the satisfaction of need - it symbolises the Other's love. Demand then has double function - the articulation of need and a call for love. After the need articulated in demand has been satisfied a residual will remain - desire - the insatiable craving for love: "Desire begins to take shape in the margin in which demand becomes separated from need" (Lacan, 1960, p.311).
17. The mother as parent is first representative of the symbolic order to the child. She is thus, also (m)Other to the child; the big Other of radical alterity - equated with language and law. "The Other is, therefore, the locus in which speech is constituted" (Lacan, 1955, p. 141), and the mOther is the first occupier of this locus for the child. She introduces the child to the symbolic order, by which she is herself bound and structured. She introduces the world of rules and regulations, language and law, that is, the father's world.
18. What most threatens the child is a "lack of the lack" in the maternal: The fantasy of maternal plenitude, the perfect fit between the mother and child's needs.
19. The incompatibility of language and desire should not be understood as designating desire to some primordial pre-linguistic realm; Desire is inconceivable without language, and can only be recognised when it is brought into speech.

20. The unity of mOther-child need not be exclusively conceived of in temporal terms, it is also a logical or structural moment in the development of the subject. The operation of the paternal metaphor is clearly related, in Freudian terms, to the reality principle, which does not cancel the pleasure principle but rather directs it in socially acceptable ways. The symbolic order blocks the child's pleasurable contact with the mother, so that the child is driven to pursue pleasure in more socially acceptable ways. The symbolic kills the real and makes of it a socially acceptable reality.
21. For Lacan, being is constituted through language, and is existence in the symbolic order. It is therefore possible for something to exist in the real, without being. Each person has an "ineffable, stupid existence" (Lacan, 1957-58, p. 194), an element which can not be fully rendered in the symbolic. The subject originates in a lack of being (*manque-à-être*), which causes desire, which is always essentially a desire for being; "desire is the metonymy of the want-to-be, the ego is the metonymy of desire" (Lacan, 1958a, p.274).
22. Object a may also be thought of as the little other of schema L, the ego's phantasmatic counterpart. In separation the subject becomes split between the ego and the unconscious, and the Other is correspondingly divided between object a, a remnant of the real, and the lacking Other of the symbolic order.
23. The symbolic order, the Law, is "grounded in" the prohibition of *jouissance*; "jouissance is forbidden to him who speaks" (Lacan, 1960, p.319). This prohibition, the pleasure principle, acts as a restraint on excitement/enjoyment, which the subject rails against. Beyond the prohibition pleasure becomes pain, painful pleasure; *jouissance*. In the subject's entry to the symbolic order, through separation, the subject must give up the *jouissance* associated with union with the mOther. It must stop trying to be the phallus for the mOther and suffer castration in language: "Castration means that *jouissance* must be refused, so that it can be reached on the inverted ladder (*l'échelle renversée*) of the Law of desire" (Lacan, 1960, p.324).

24. The subject projected into fantasy by the process of separation is blocked from realising its cause - the Other as desire and language. .

"This second subordination (to the Other as desire in separation) not only closes the effect of the first (subordination to the other as language in alienation) in projecting the topology of the subject into the instant of fantasy; it seals it, refusing to allow the subject of desire to realize that he is an effect of speech, to realize, in other words, that he is but the Other's desire."

(Lacan, 1964b, p.265)

25. In Lacan's work the term neurosis refers to a particular clinical structure. Neurosis is the predominant human condition. The neurotic subject follows the pattern of alienation and separation we have described in this section of the paper. For Lacan the unconscious is instituted on the basis of relations between signifiers, anchored, for the neurotic, by the signifier of the Other's desire. The neurotic subject is anchored in the sense that all the signifiers used by a neurotic are tied back to the subject's master signifiers which Lacan links with the signifier of the Other's desire – the name-of-the-father. Every word used by the neurotic speaks of his/her relation to the desire of the Other. The neurotic subject is then fully implicated in language. The principal alternative to neurosis, psychosis, results from the failure of the paternal metaphor. The psychotic fails to assimilate the name-of-the-father into his/her symbolic universe, and so the words used by the psychotic are not pinned back to the subject; the psychotic is not anchored in language.
26. The name-of-the-father is a signifier, for Lacan, but it is different from other signifiers: It is primarily repressed, unpronounceable, and has a certain fixity so that it is not fully in the play of language - it can not be substituted or overlapped by other signifiers. Essentially the primordial signifier for the firm is dependent upon the subject's reaching towards the desire of the other. We are not suggesting that 'the-market' is a universal primordial signifier for firms. For some firms the name-of-the-father may be something altogether more mysterious.

27. Again we should stress the antibiologicistic aspect of Lacan's thought. For Lacan the drives are completely removed from biology. They are cultural products of the symbolic order. They should not be conceived of as "some ultimate given, something archaic, primordial" (Lacan, 1964a, p.162). Unlike need, drives do not aim at satisfaction, but at the repetitive movement around their object. For Lacan every drive is ultimately a death drive, they are all repetitive, excessive and finally destructive (see Evans, 1996, p.46-49).
28. Analysis aims at a kind of deconstruction, it aims to put into motion the meaning of the master signifiers. It is tempting to think of the master signifiers as "transcendental signifiers". Whilst recognising that no signifier is truly "transcendental", no signifier is fully isolated from the flow of language and history, it seems clear that power, for example the power of the Other's desire, holds certain signifiers very firmly in place. Lacanian analysis is in a sense ideology critique for the subject. Once the master signifier has been deconstructed, put in motion, the subject as sedimentation of meaning is correspondingly mobilised, its anchorage points in the name-of-the-father / master signifier are loosened.
29. The translation of "Wo Es war, soll Ich werden" given by the standard English translation of Freud's works "Where id was, there ego shall be" (Freud, 1933, p.80), is explicitly rejected by Lacan (1955, p.128).
30. An analogous moral imperative is implicit in Marx's theory of history. For Marx too man must subjectivize his own history and the living must shake free of the dead:

"Men make their own history, but they do not make it just as they please; they do not make it under circumstances chosen by themselves, but under circumstances directly encountered, given, and transmitted from the past."

(Marx, 1851, p.300)

31. The analyst clearly has a role to play in helping the subject on the path beyond neurosis. This is not the place for a full discussion of that role; however one or two thoughts seem pertinent. In analysis, the analyst will tend to be cast by the subject in the role of "the one who knows" the Other as the locus of speech and meaning. In attempting to represent itself to the analyst the subject is further alienated; it slips behind more language. As a surrogate object a, the analyst will also typically come to represent the Other as desire for the subject. The Lacanian analyst will typically adopt strategies designed to be to disrupt the neurotic subject's comfortable alienation in language. For example, the analyst may unexpectedly halt a session whilst the analysand is in the process of providing the explanations which he/she assumes the analyst wants to hear. The analysand pushed towards the recognition that he/she does not know what the analyst wants, that his/her relation to object a is not quite as he/she assumed in fantasy. By confronting the subject with the enigma of the Other's desire, the analyst aims to put the subject's relations to the Other as language and desire in motion. For the commercial firm the financial analyst may take the part of the psycho-analyst. Certainly in their relations with financial analysts many firms will be confronted by the enigma of the Other's desire - they will be left wondering "what do the analysts want?"
32. The disappearance of the firm beneath financial signifiers can be understood in terms of the colonization of the lifeworld:

"The colonizing potential of accounting consists not only in the instrumental reach of its information system technology but also in its capacity to capture organizational self understandings and reframe them in accounting terms, thereby insulating accounting from systematic inquiry other than in terms of technical success or failure. Hence accounting can be regarded as a disciplinary practice ... which colonizes areas of social life by creating newly internalized facts and vocabularies which potentially undermine the capability of actors to question its self-evident mission."

(Laughlin & Power, 1996, p.447)

That colonization effected through the constraint of dominant signifiers imposes constraints on the networks of social /communicative relations which sustain and allow the development of the identities of the human individuals associated with the firm and the firm itself as accountable, responsible, moral agent and subject. In the case of the firm the dominance of the financial signifiers threatens to deny the firm's subjectivity and reduce it to an irresponsible element of the systemic apparatus. Fuller understandings of firm must be developed through its openness to difference and the other (including new social movements as Other) - and the Other as the stranger within - the unconscious.

33. In this paper we have equated transcendence of the profit motive with, the Lacanian ethical imperative, the firm as subject's transcendence of its fundamental fantasy. With some exceptions in the tradition of Friedman (1970), there is growing recognition of the social benefits that might follow a transcendence of the profit motive (Arrow, 1973; Sen, 1977, 1987; Etzioni, 1988; Singer, 1994).

We suggest that the conception of the firm as a Lacanian subject, split between conscious and unconscious, may be usefully extended in other directions. It seems to have relatively direct application at least two spheres. The concept of the firm as agent has been as hotly debated in the field of strategic management as in ethics. And the linkages and similarities between strategy and moral philosophy have been clearly drawn by Singer (1994). He defends the concept of the firm as both strategic agent and moral agent, and he argues that moral philosophy might inform strategic management and provide a valuable counter-balance to economic considerations. We believe that a Lacanian psychoanalytic perspective on the firm could yield valuable insights in the field of strategic management.

A number of commentators argue that Law has not been a relatively ineffective mean of controlling corporations (see Metzger & Dalton, 1996) and have called for enriched perspectives on the firm as moral agent. Metzger and Dalton (1996) have argued that legal efforts to control the corporation would stand to gain from further ontological inquiry into the nature of the firm. We suggest that Lacanian perspective might provide useful insight on the issue of corporate responsibility. The

attribution of criminal responsibility generally depends upon two conditions - firstly the agent's wrongful action (*actus reus*) and secondly criminal intent (*mens rea*). Much of the debate concerning corporate moral responsibility has centred on the issue of intentionality - whether or not it is possible to establish a corporate "*mens rea*" (see Phillips, 1995). Under the legal principle of identification, the states of mind of certain controlling officers of the corporation may be taken to be the state of mind of the corporation itself (see Metzger & Dalton, 1996; Moore, 1999). Some commentators have argued that the attribution of criminal liability in the absence of moral culpability, which the principle of identification facilitates, is ill advised (see Metzger, 1996). In our view the Lacanian psychoanalytic perspective may provide justification for alternative routes to the attribution of intent to the corporation, for example, in circumstances where no intention is formed in the minds of any individuals but exists in the firm as subject - perhaps in its unconscious.

34. We suggest that a fuller recognition of centrality of responsibility for the other and the necessity of "The Inclusion of the Other" is becoming more strongly evident in some of Habermas' more recent work:

" If we interpret justice as what is equally good for all, then the "good" that has been extended step by step to the "right" forms a bridge between justice and solidarity. For universal justice also requires that one person should take responsibility for another, and even that each person should stand in and answer for a stranger who has formed his identity in completely different circumstances and who understands himself in terms of other traditions. The remnant of good at the core of the right reminds us that moral consciousness depends on a particular self-understanding of moral persons who recognize that they *belong* to a particular moral community. All individuals who have been socialized into any communicative form of life at all belong to this community. Because socialized persons can only stabilize their identities through relations of reciprocal recognition, their identity is particularly vulnerable and they are

consequently in need of special protection. They must be able to appeal to a source of authority beyond their own community - G. H. Mead speaks in this connection of the "ever wider community." Every concrete community depends on the wider community as its "better self," so to speak. As members of this community, individuals expect to be treated equally, while it is assumed at the same time that each person regards every other person as "one of us." From this perspective solidarity is simply the reverse side of justice."

(Habermas, 1996, p.29)

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