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Author(s): Jonathan Levy

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Accounting for Profit and the History of Capital

Jonathan Levy, *Princeton University*

ABSTRACT

Rather than being a timeless category, profit has a history as contingent and as eventful as any other. Focused on the United States, this article narrates a history of profit from the dissemination of early modern double-entry bookkeeping practices to the mark-to-market criteria of contemporary global capitalism. Profit, despite its changing accounting definitions, always concerns a rate over time. In addition to serving as a medium of competition and a category of distribution, a chief task of profit under capitalism is to organize capital's inherent temporal motion. Posing the problem this way leads to the temporal logics of the changing forms of capital—the biological life cycle of the slave, the rusting obsolescence of the steel mill, the debt-financed “special purpose entity” of today's financial markets—from which capitalists define and make profit. It also leads to the history of corporations, ultimately the great scenes of action in profit's history.

The case of *The United Steel Workers of America v. The United States Steel Corporation* (1980) concerned the closing of two Youngstown, Ohio, steel mills. The steelworkers claimed U.S. Steel had promised to keep the two mills open so long as they were “profitable” and that the mills in fact were. The corporation said they were not.¹

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1. *United Steel Workers of America v. United States Steel Corporation*, 631 F. 2d 1264 (6th Cir. 1980). On Youngstown, see Staughton Lynd, “The Genesis of the Idea of a Community Right to Industrial Property in Youngstown and Pittsburgh, 1977–1987,” *Journal of American History* 74, no. 3 (1987): 926–58.

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The union, as Chief Justice George Edwards Jr. explained in his opinion for the court, “attempted to demonstrate profitability by defining minimum profitability as the ‘gross profit margin.’” In other words, this meant “the revenues minus variable costs of performing the operation to produce the product.” By this profit metric—an operating ratio—the Youngstown mills had turned a profit of \$32,571,000 in 1979. The projected profit for 1980, when the mill was closed, was \$32,396,000.

But as Justice Edwards continued, “with a different definition of profit,” the “outcome of an accounting analysis could be made to be nonprofitability.” William R. Roesch, president and chief operating officer (COO) of U.S. Steel, and David Roderick, the chairman of the board of directors and chief executive officer, had objected to the steelworkers’ calculations. They did not account for historical *fixed costs*, namely, the fixed costs over time of maintaining the mills, whose obsolescence was the very reason they were being shuttered. Roesch explained: “There are other factors involved . . . you have to subtract the depreciation for the equipment which was involved and depreciate it over a period of time; you have to subtract the selling expenses which are necessary; and you have to subtract the administrative charges, the taxes, and so forth.” All these factors were taken into account in the corporation’s preferred profit metric, the *rate of return on capital invested*. CEO Roderick added that in light of this particular metric, according to his “best judgment,” the mills were operating at a loss. There was nothing that could be done to reverse the trend. Hence the mills had to be closed.

In his decision, Justice Edwards admitted that profit had revealed itself to be a matter of “interpretation.” Profit, the judge realized, is no obvious, neutral, or timeless economic benchmark. Rather, it is a calculative practice open to interpretation. Edwards was still loath to exchange an interpretation of “the parameters of profitability for that of the corporation.” Corporations decide what profit is. The Youngstown mills joined the more than one thousand factories in the United States that closed during the 1970s, along with many others in the Western industrial core.² With aging capital stock, aging organized labor, and rising international competition, so it went, these mills were simply not “profitable.”

The 1970s collapse of manufacturing profits in the West is a familiar drama, spelling the end of capitalism’s postwar Golden Age, the exhaustion of the Ford-

2. Barry Bluestone and Bennet Harrison, *The Deindustrialization of America* (New York: Basic Books, 1982).

ist industrial paradigm.³ As industrial productivity and growth stalled, a zero-sum distributional stalemate between capital and labor ensued, manifesting as wage-push stagflation, if not as plant closures. With their own revenues dissipating and citizen entitlements surging, states encountered fiscal troubles, further diminishing their ability to navigate Western industrial economies out of the doldrums. Capitalism was once again in crisis.

Then a new footing emerged. “Financialization” unleashed a new pattern of economic development, as Western capitalism sought to transcend the industrial crisis of the 1970s through financial profit making—by now a well-known story.⁴ But the shift entailed not only a purging of fixed capital, as in Youngstown, with a subsequent reallocation of capital to financial activity. It also entailed an utterly “different definition of profit.” When the profit rate exhibited a tendency to decline, in other words, capitalists redefined what profit was. Soon, not only the Youngstown steel mills but also the profit metric that U.S. Steel championed before Justice Edwards in 1980 were obsolete. By the turn of the twenty-first century, profit was increasingly computed as a *rate of return on equity*, more and more calculated according to new mark-to-market criteria. Profit only continued to be a matter of interpretation.

WEALTH, CAPITAL, PROFIT, TIME

In this essay—spanning from the dissemination of double-entry accounting book-keeping in the early nineteenth-century United States to the present—I aim to assemble and narrate a history of profit. I isolate four periods, marked by four profit regimes. In rough sequence they are:

1. The commercial balance of income and outgo = buy low, sell high (before 1850);
2. The operating ratio = sales revenue in excess of product cost (1850–1920);
3. Rate of return on capital invested = historical cost of capital expenditures correlated to an operating ratio (1920–80);
4. Rate of return on equity = market (or market model) valuations of assets and liabilities on the balance sheet (1980–).

3. Robert Brenner, *The Economics of Global Turbulence* (New York: Verso, 2006); Stephen A. Marglin and Juliet B. Schor, *The Golden Age of Capitalism: Reinterpreting the Postwar Experience* (New York: Oxford University Press, 1990).

4. Greta R. Krippner, *Capitalizing on Crisis: The Political Origins of the Rise of Finance* (Cambridge, MA: Harvard University Press, 2011).

The four regimes are not mutually exclusive. None emerged from whole cloth. Indeed, in 1980, seeking to hold management accountable, the steelworkers cited an operating ratio—ironically, given that it was the very same metric that Andrew Carnegie had used a century before in the steel mills to hold labor accountable to the costs of production. Certainly it is still possible today to profit by buying low and selling high. Mark-to-market accounting, in fact, recognizes the salience of this timeworn strategy in contemporary global financial markets. Nevertheless, these four profit regimes, I hope to illustrate, are historically distinct.

At the same time, throughout, ever since the rise of double-entry bookkeeping in late medieval Italy, the basic possible contributions of accounting to capitalism have remained constant.⁵ First, in the ledgers, accounting can transform wealth into capital—wealth assigned a money value in pursuit of profit.⁶ Second, accounting can distinguish capital from profit, or the “rational capital account,” as Weber emphasized, from the “profit and loss statement”—today, in any accounting textbook, the “balance sheet” from the “income statement.”⁷ Third, after distinguishing the two, accounting can reintroduce capital and profit back into relationship. Incremental profits and losses increase or diminish capital. This way, the act of calculating profit cements the original transformation of wealth into capital. All of this can already be read about in Luca Pacioli’s *Summa de Arithmetica, Geometria, Proportioni et Proportionalita* (1494), published in Venice, a landmark text in the early modern double-entry bookkeeping revolution.⁸

If I own a fork, for example, and record its existence on a piece of paper—“fork”—I have created a record of wealth. If I own a factory and record its money value on one piece of paper, while recording a separate profit and loss statement concerning its operations on another, I am accounting for my factory as a form of capital, not merely recording it as a form of wealth. An eye toward the next profit and loss statement compels me to continue to do so—to continue to think of my factory as capital, and nothing more.⁹ The tautologies reflect the circular character

5. Eve Chiapello, “Accounting and the Birth of the Notion of Capitalism,” *Critical Perspectives on Accounting* 18, no. 3 (2007): 263–96.

6. Wealth of course can be recorded in monetary terms. Money, in other words, is a necessary but not sufficient condition of capital.

7. Max Weber, *Economy and Society*, ed. Guenther Roth and Claus Wittich (1956; repr., Berkeley: University of California Press, 1978), esp. 91–98, 226–28.

8. Pacioli’s “Rules of Double-Entry Bookkeeping” appeared in sec. 9 of treatise 11. John B. Geijsbeek, “Ancient Double-Entry Bookkeeping” (Denver, 1914), 32–80.

9. Bruce G. Carruthers and Wendy Nelson Espeland, “Accounting for Rationality: Double-Entry Bookkeeping and the Rhetoric of Economic Rationality,” *American Journal of Sociology* 97, no. 1 (1991): 31–69.

of value creation under capitalism. The changing meanings of profit, however, tell us that this tautology has a history.

Wealth, taking the form of capital or not, demands an adding up calculation, a momentary capture. Wealth, in principle, can be a static category, a mere “stock” of things that people, for whatever reason, value—in monetary terms or not. Profit, however, always concerns a “flow,” a process, and a rate over time. Capital therefore has not only a monetary but also a temporal dimension that wealth does not necessarily possess. No doubt, accounting furthers the illusion that capital is an essentially quantitative phenomenon, an independent “factor of production.” But the profit rate does quantitatively express capital’s inherent temporality. Or to say the same thing in another way, without profit capital ceases to be capital and reverts back to wealth. And so to account for profit, then, must be to narrate a history of capital.

Profit metrics have the following charges under capitalism. Profit is, as commonly thought, both a medium of competition and a category of distribution.¹⁰ Nonetheless, transforming wealth into capital, preventing it from reverting back, profit also quantitatively organizes capital’s temporal motion.¹¹ Profit remains open to interpretation if only because—as in the case of *United Steel Workers v. U.S. Steel*—temporality in economic life is so often subject to contestation. The history of profit is a history of power. My task in what follows is to open this history up, by focusing on the crucial dimension of time.

That demands shifting attention away from “the market” and to the broader historical dynamics of capital and wealth. The history of profit concerns the temporal histories of the concrete forms that capital (so abstract in the accounts) takes—and from which capitalists attempt, often but not always through market activity, to define and make profit. This history of forms of capital includes the biological life cycle of the African-American slave, the rusting obsolescence of the Ohio steel mill, or the debt-financed digital “special purpose entity” of contemporary global financial markets. Profit regimes, that is, take shape in the following reciprocal en-

10. The two rival views of profit in classical political economy, whether Adam Smith, *An Inquiry into the Nature and Causes of The Wealth of Nations* (1776; repr., Chicago: University of Chicago Press, 1976), esp. bk. 1, chaps. 9–10; or Karl Marx *Capital: A Critique of Political Economy*, vol. 3, trans. David Fernbach (1894; repr., New York: Penguin, 1991).

11. In conceptualizing the relationship between wealth, capital, profit, and time, I draw from Moishe Postone, *Time, Labor, and Social Domination: A Reinterpretation of Marx’s Critical Theory* (New York: Cambridge University Press, 1995); David Harvey, *The Limits to Capital* (New York: Verso, 2006); Dipesh Chakrabarty, “The Two Histories of Capital,” in *Provincializing Europe: Postcolonial Thought and Historical Difference* (Princeton, NJ: Princeton University Press, 2000), 47–71; William H. Sewell Jr., “The Temporalities of Capitalism,” *Socio-Economic Review* 6, no. 3 (2008): 517–37.

counter: between the abstractions of capital in the accounts and the concrete embodiments of capital and wealth on the ground. That encounter is material, cognitive, and ideological. Since accounting entails accountability, it is also social. Further—given the historical appearance of the *profit motive*, when profit became simultaneously an object of measurement and longing—it is also psychological. Lines of influence—between changing forms of capital and changing calculative practices—run in both directions. Profit paradigms have the power to alter the structural conditions of capitalism, I hope to demonstrate, as they themselves emerge from the structural possibilities at stake in any given moment of capitalism’s history, given the particular concrete forms of capital, as well as the cognitive orientations that make profiting from them possible.

The limitations of the inquiry—which is schematic, only suggestive of a larger study given the subject’s scope—will be evident. Presenting profit’s long arc sacrifices depth, as well as adequate attention to turning points in profit’s history. Ultimately the focus will be on the history of corporations (for profit and nonprofit). But I can only gesture toward profit’s many historical contexts and the connections between them across economic, moral, legal, cultural, intellectual, organizational, and political fields, as well as toward the different frames of analysis necessary to make sense of them. And while I acknowledge transnational, comparative, and global dimensions, I draw mostly from the history of the United States—although I suspect that, if not the exact periodization and content, both the rough sequence and the problems at hand are of broader interest and relevance.

Nevertheless, there are insights to be gleaned from profit’s *longue durée*, and the history of profit assembled here, with its focus on temporality, might open up new sightlines on the history of capitalism. It also indicates that we are still living in the midst of another great inflection point in profit’s history, the same moment opened up by the Western industrial crisis of the 1970s. Today, the future of profit, the future history of capital, is very much up for grabs.

THE BALANCE OF INCOME AND OUTGO

In the United States, for well into the nineteenth century, in accounting terms profit meant the balance of commercial income and outgo. This was a mercantile standard, a product of the early modern double-entry bookkeeping revolution. It made it possible for economic actors—should they need or wish—to assess their external transactions with the outside commercial world. Generally speaking this was an era in which profit calculations and motives were often conflated with a variety of other calculations and motives—to accumulate wealth, or

to assess levels of credit and debt. Early modern accounts told episodic histories of commerce, debt, and wealth in which profit was not always an end in and of itself. Therefore, these were histories in which capital—struggling to transform wealth—still struggled to assert its own independent temporality as sovereign in economic life.

In theory, as Weber, Sombart, and Schumpeter emphasized, double-entry book-keeping made possible the separation of the profit and loss statement from the capital account, or the transformation of wealth into profit-seeking capital. In practice, as scholars of early modern accounting have illustrated, including accounting historians of the early nineteenth-century United States, it did not necessarily happen. More than that, not even the external balance of commercial income and outgo was always added up.¹² Many accounts were single entry.¹³ During the 1830s the US federal government sought to determine the “rate of profit” in manufacturing firms. The *McLane Report* (1833) revealed that half of the respondents in the survey did not report a rate of profit.¹⁴ Why was all of this so?

Rather than capital/profit, economic actors were more preoccupied with accounting for two other categories. First, they tracked external commercial transactions in order to assess levels of credit and debt. Indebtedness might then lead one to better tend to their profit and loss statements. Second, more closely tracked than capital/profit was productive or consumable wealth—wealth in the long sweep of time being the most consistently recorded economic category of all. Much wealth in preindustrial economies took the form of land, doubling as both a concrete form of capital and the bedrock of social and political order—the latter perhaps rendering capital/profit accounting unnecessary, if not nonsensical. But with enough wealth at hand, of whatever kind, profit and loss statements might languish. Or, wealth might never take the form of profit-seeking capital at all. To the extent to which motivations can be read off accounts, a wealth motive rather

12. B. S. Yamey, “Some Seventeenth and Eighteenth Century Double-Entry Ledgers,” *Accounting Review* 34, no. 4 (1959): 534–46; Richard Grassby, *The Business Community of Seventeenth-Century England* (New York: Cambridge University Press, 1995). While granting the point, some are doubtful that the gap between theory and practice was all that meaningful. Carruthers and Espeland, “Accounting for Rationality,” 54; and Naomi Lamoreaux, “Rethinking the Transition to Capitalism in the Early American Northeast,” *Journal of American History* 90, no. 2 (2003): 437–61.

13. Sally M. Schultz and Joan Hollister, “Single-Entry Accounting in Early America: The Accounts of the Hasbrouck Family,” *Accounting Historians Journal* 31, no. 1 (2004): 141–74.

14. *Documents Relative to the Manufactures in the United States*, 2 vols. (Washington, 1833); Rob Bryer, “Americanism and Financial Accounting Theory, Part I: Was America Born Capitalist?,” *Critical Perspectives on Accounting* 23, nos. 7–8 (2012): 511–55.

than a profit motive was the likely mainspring of economic action.¹⁵ When early moderns spoke of profit, they were not even necessarily referring to a numerical rate. Many if not most did not even bother to calculate such a rate so how could they have? Profit's etymological roots were in more vague and general conceptions of "a favorable circumstance or condition."¹⁶

The question of motivation aside, as sociologists and anthropologists have demonstrated, relations of accountability are always at stake in numerical accountancy.¹⁷ In addition to authors, accounts have audiences. Double-entry bookkeeping, for instance, emerged from the complex forms of partnership and debt that constituted merchant capital in late medieval Italian city-states—which created the need for new forms of accountability. The issue of audience well illustrates capital's struggle to assert its own temporality. For instance, a critical audience throughout the early modern rise of double-entry bookkeeping was not other men, but God. Merchants often opened their ledgers with the inscription, "In the Name of God and of Profit." Elsewhere, monks, charged with managing great wealth, were studious accountants.¹⁸ Pious seventeenth-century Puritan merchants in Boston kept remarkably detailed account books, often addressed to God.¹⁹ In economic cultures still suspicious of usury, adding up the balance of profit and loss proved not so much "that such and such is the net worth of our business, but rather that such profit is morally legitimate."²⁰ The temporality of commercial income and outgo was often conflated with sacred time—with a yearning for a metric of the soul's ultimate bottom line.

These are broad generalizations. Consider the following emblematic accounting statement. John Couper, a Georgia plantation and slave owner, wrote to his brother in 1828, after Couper had turned over much of his property to a credi-

15. See Martha C. Howell, *Commerce before Capitalism in Europe, 1300–1600* (New York: Cambridge University Press, 2010). Lamoreaux insists that early nineteenth-century accounts do not "tell us much about the aspirations of the business people keeping the accounts," including whether they were "interested in profits." The point must be kept in mind, but the fact that theory and practice did ultimately converge in the twentieth century, I would argue, is historically significant. "Rethinking the Transition to Capitalism," 444, 445.

16. *Oxford English Dictionary Online*, s.v. "profit, n.," <http://www.oed.com>.

17. Carruthers and Espeland, "Accounting for Rationality"; Anthony G. Hopwood, "Accounting Calculation and the Shifting Sphere of the Economic," *European Accounting Review* 1, no. 1 (1992): 129.

18. Carruthers and Espeland, "Accounting for Rationality," 41; Paolo Quattrone, "Accounting for God: Accounting and Accountability Practices in the Society of Jesus," *Accounting, Organizations and Society* 29, no. 7 (2004): 647–83.

19. Mark Valeri, *Heavenly Merchandize: How Religion Shaped Commerce in Puritan America* (Princeton, NJ: Princeton University Press, 2010), esp. chap. 3.

20. James A. Aho, "Rhetoric and the Invention of Double Entry Bookkeeping," *Rhetorica* 3, no. 1 (1985): 33.

tor, James Hamilton. After chronicling a sixteen-year history of commercial hardship, Couper concluded:

so to make a long story short—Mr. Hamilton being my principal creditor—on his agreeing to pay what other debts I owed—I surrendered to him all my property, debt, and dues of every description in a lump without valuation—except my lands on St. Simons and one hundred slaves—on the 1st day of January 1827. I was thrown on the world without a dollar to support my people and my family—Am glad to get off so well. Even though at a reasonable valuation the property I surrendered, was more than sufficient to pay my debts, yet had it been brought to a forced sale, it might have done less. I am satisfied and relieved from much anxiety. By this event neither my standing in society—nor my mode of living have suffered change.²¹

Couper's plantation account books were exquisite and are some of the best to have survived.

Couper had "commenced planting without capital" and "had to go into debt." "8 per cent compound interest," he told his brother, had been "the real perpetual motion" at work on his plantation.²² That does not mean Couper added up the balance of income and outgo at regular and periodic intervals.²³ It is not clear why Couper would have gone to the trouble. That does not mean he was casual about his affairs. Like other planters of his generation, he kept farm books with detailed accounts of planting and harvesting cycles. He, like others, kept single entry accounts to track external commercial transactions with the outside world. It is even possible to retrospectively reconstruct profit and loss statements from the basis of his accounts.²⁴ But that does not mean that he himself did. Tellingly, Couper's critical transaction with Hamilton involved settling a series of debts in which such figures were not relevant.

With respect to temporality, much of this reflected the episodic character of profit in this period. Double-entry bookkeeping was designed for long-distance maritime trade. A ship went out and months later, if not years, it came back. Upon

21. Quoted in Thomas P. Govan, "Was Plantation Slavery Profitable?," *Journal of Southern History* 8, no. 4 (1942): 527, 528. Many of Couper's accounts are accessible at: <http://www.lib.unc.edu/mss/inv/c/Couper,J.Hamilton.html>.

22. Govan, "Was Plantation Slavery Profitable?," 527.

23. An absence throughout the antebellum US South, according to Richard K. Fleischman, David Oldroyd, and Thomas N. Tyson, "Plantation Accounting and Management Practices in the US and the British West Indies at the End of their Slavery Eras," *Economic History Review* 64, no. 3 (2011): 765–97.

24. Govan, "Was Plantation Slavery Profitable?," 529.

the event, profits were calculated and distributed to partners, investors, and creditors. Deaths and harvest cycles might also trigger accounting balances. Or, how much time Couper possessed to generate income, to keep his creditors at bay, was determined by how much time his creditors afforded him, subject to any number of contingencies. The “event,” as Couper put it, determined the kind of economic assessment in which profit was relevant. Depending on the event at stake the time span of profit’s calculation could be very long or very short.

In form, the Couper account books were little different from those of a Renaissance Italian merchant.²⁵ John Mair’s *Book-Keeping Methodized: Or a Methodical Treatise of Merchant-Accounts According to the Italian Form*, first published in Dublin in 1736, traveled to colonial America and was still the standard American bookkeeping text when John Couper sat down to write to his brother in 1828. Mair wrote that the most important thing for a commercial agent to know was not the balance of gain versus loss in the sum of his commercial transactions—in other words, profit—but rather “whom he owes and who owes him.”²⁶ Indebtedness was the balance that most mattered.

Such concerns were evident in Couper’s letter. For one, the letter itself must be read along with Couper’s account books, since accounting still combined qualitative and quantitative methods.²⁷ And here was another relation of accountability, between family members. At stake in economic life, in this period, was almost always the transmission of household wealth across generations. Sombart argued that the consequence of double-entry bookkeeping was the “segregation of the business sphere” from the household—in other words, the practical separation of the capital account from household wealth. But Sombart was wrong.²⁸ As late as the nineteenth century, little distinction was still made in most account books, in the United States at least, between the business enterprise and the larger concerns of households. Forks were often entered into account books, no different from productive property—if for no other reason

25. On this point, see Alfred D. Chandler Jr., *The Visible Hand: The Managerial Revolution in American Business* (Cambridge, MA: Harvard University Press, 1977), 455.

26. John Mair, *Book-Keeping Methodized: Or a Methodical Treatise of Merchant-Accounts According to the Italian Form* (1736; Dublin, 1772), 2.

27. In double entry, there was the still qualitative “waste-book” and the quantitative “journal.” Mary Poovey, *A History of the Modern Fact: Problems of Knowledge in the Sciences of Wealth and Society* (Chicago: University of Chicago Press, 1998), chap. 2.

28. Werner Sombart, “Medieval and Modern Commercial Enterprise,” in *Enterprise and Secular Change*, ed. Frederic C. Lane and Jelle Riemersma (Homewood, IL: Irwin, 1953), 25–40; on the Sombart thesis, see B. S. Yamey “Accounting and the Rise of Capitalism: Further Notes on a Theme by Sombart,” *Journal of Accounting Research* 2, no. 2 (1964): 117–36.

than in preparation for probate proceedings, when deaths triggered accounting balances.²⁹ This was true of Couper's plantation accounts, which mixed in household items. Here, in brief, were three chief reasons why economic actors added up the balance of income and outgo in this era. Profit was a matter of God, debt, and death.

Wealth and debt mattered much more to Couper than capital and profit. In assessing his economic life, Couper was chiefly "anxious" about his "standing in society" and his "mode of living." Namely, he worried over whether or not he could mobilize enough productive and consumable wealth to maintain "his people" (his black slaves), "his family," and himself at a satisfactory "mode of living." That meant keeping land, as well as enough black slaves. Which meant profit calculations were means, not ends. Thomas Affleck published *The Cotton Plantation Record and Account Book* in 1851. He still complained: "Many planters go from year to year without keeping any records of their business [and are satisfied] if there is enough [cash] left over to pay taxes, oversee wages . . . and a few hundred to meet expenses in New Orleans at Christmas. . . . This is a true picture of the system pursued by too many who [do not] keep any records of their business."³⁰ Affleck's account book sold well in the 1850s and American cotton planters began to more meticulously account for the volume of cotton production, computed according to "bales per hand." Planters captured commercial profits by shifting acres into cash crops, expanding marketable output and increasing their transactions with the outside world.³¹ But profit remained something like a candle—when lit, the point was to shine a light on something else.

Indeed, much of this was because of capital's inability to assert its own independent history as sovereign—because the temporality of profit, and the economic motivation to make it, was so conflated with other temporalities and motivations. Here, the dynamics of slave capital are most revealing. Couper's accounts, as with

29. Elizabeth Blackmar, "Inheriting Property and Debt: From Family Security to Corporate Accumulation," in *Capitalism Takes Command: The Social Transformation of Nineteenth-Century America*, ed. Michael Zakim and Gary J. Kornblith (Chicago: University of Chicago Press, 2012), 93–118.

30. Thomas Affleck, *The Cotton Plantation Record and Account Book* (New Orleans, 1851), 19.

31. The "emphasis in the Affleck book was on tracking revenues with a lack of interest in cost management and worker productivity." Richard K. Fleischman, David Oldroyd, and Thomas N. Tyson, "The Efficacy/Inefficacy of Accounting in Controlling Labour during the Transition from Slavery in the United States and British West Indies," *Accounting, Auditing and Accountability Journal* 24, no. 6 (2011): 757. For a different interpretation, see Bill Cooke, "The Denial of Slavery in Management Studies," *Journal of Management Studies* 40, no. 8 (2003): 1895–1918; Walter Johnson, *River of Dark Dreams: Slavery and Empire in the Cotton Kingdom* (Cambridge, MA: Harvard University Press, 2013), chap. 9; Caitlin Rosenthal, "From Slavery to Scientific Management: Accounting for Control in Antebellum America" (PhD diss., Harvard University, 2012).

many slaveholders, tracked the health of black slaves. For slave health determined what the former George planter John C. Reed would infamously recall as “the greatest profit of all,” or what any master “thought of and talked of all day long—the natural increase of this slaves.” Among slave societies, the United States was unique for the positive fertility of its slave plantation.³² Since slaves were capital assets, to account for their health over time was in a sense to account for capital—a kind of proto-depreciation, a practice not yet common in the northern United States, where capital was increasingly taking an industrial form.³³ The labor process on plantations was a delicate balance between expanding the volume of output—often to keep out ahead of creditors—and maintaining the health and reproductive capacities of slave capital.

And yet, to Couper, and to men like him, to account for the successful biological reproduction of their capital was in no wise incompatible with keeping a faithful record of their paternal care for their dependents. Couper recorded for his brother his relief that his settlement with Edwards had allowed him to keep “his people.” In addition to capital, slaves were human beings. Within the minds of men like Couper, the successful biological reproduction of profit-seeking capital and the motive to exercise interpersonal benevolence probably amounted to no contradiction whatsoever.³⁴ The point is that capital and profit so often remained fundamentally conflated with other temporalities, spanning the sacred and secular, the linear and circular. Within the same institution, here the slave plantation, a plurality of motivations—for wealth, sex, salvation, exploitation, profit, benevolence, power, and love—conflated. This was true of American slavery as it was true of economic life in this period of profit’s history writ large.³⁵

THE OPERATING RATIO

In practice, well until the nineteenth century, double-entry bookkeeping failed to realize its logic—the separation of the profit and loss statement from the capital

32. Robert Fogel *Without Consent or Contract: The Rise and Fall of American Slavery* (New York: Norton, 1994), chap. 5.

33. Rosenthal, “From Slavery to Scientific Management.”

34. On the ambiguities, Amy Dru Stanley, “Slave Breeding and Free Love: An Antebellum Argument over Slavery, Capitalism, and Personhood,” in Zakim and Kornblith, *Capitalism Takes Command*, 119–44.

35. Such “conflation” was obscured by the anachronistic historiographical debates of the 1970s and 1980s concerning whether or not slave owners were “profit motivated.” For a thoughtful critique along these lines, see Paul A. David, *Reckoning with Slavery: A Critical Study in the Quantitative History of American Negro Slavery* (New York: Oxford University Press, 1976), 340. As we shall see, these historiographical debates took place in the context of new talk of “profit maximization” in the 1970s and 1980s.

account, the complete transformation of wealth into profit-seeking capital. A new accounting metric, the operating ratio, began to change that. The operating ratio sought to relate external commercial transactions, income and outgo, to internal production costs. Amid industrialization, capital was taking new concrete forms, opening potential room for new calculative practices. Accounts begin to tell not so much mercantile histories of commerce, debt, and wealth, but industrial histories of costs. As entrepreneurs began to measure price-cost ratios in standardized units of time, ever shorter, the profit calculation became less eventful, more abstract. In practice, the operating ratio began to remove noncapitalist temporalities from profit calculations. Profit might now become an end in and of itself, an object of both quantitative accounting and obsessive entrepreneurial longing—further cementing the transformation of wealth into capital.

Early modern double-entry bookkeeping at least prodded economic actors to think of wealth only as profit-seeking capital. The cognitive effects might translate into business practice.³⁶ It was no accident that Andrew Carnegie and John D. Rockefeller Sr.—both important progenitors of the operating ratio—began their careers as accounting clerks.³⁷ Rockefeller enrolled in a three-month bookkeeping course at Folsom's Commercial College in Cleveland, Ohio, and would grow emotional about bookkeeping. Late in life, he clutched his first ledger book—"Ledger A" he called it—high into the air in the middle of a Baptist prayer circle and wept. Schumpeter once wrote that accounting "exalts the monetary unit."³⁸ Rockefeller recalled that as a young clerk, when his boss would leave the office he would unlock the safe, and with "with open eyes and mouth" gaze "longingly" at money.³⁹ The same decade Rockefeller was reminiscing, Freud was writing (in the Wolfman case) that we "expect of any normal person that his relationship to money should be kept free of libidinal influences and controlled by realistic considerations."⁴⁰ By all accounts, Rockefeller was not normal. Ohio Senator Mark Hanna called him "a kind of economic super-clerk, the personification of

36. Carruthers and Espeland, "Accounting for Rationality."

37. Ron Chernow, *Titan: The Life of John D. Rockefeller, Sr.* (New York: Vintage, 1998), 60; John Rockefeller, *Random Reminiscences of Men and Events* (New York, 1913); Andrew Carnegie, *Autobiography of Andrew Carnegie* (New York, 1920), 63. On clerkdom, see Michael Zakim, "Producing Capitalism: The Clerk at Work," in Zakim and Kornblith, *Capitalism Takes Command*, 223–48.

38. Joseph Schumpeter, *Capitalism, Socialism and Democracy* (New York: Harper, 1950), 123.

39. Chernow, *Titan*, 49, 48.

40. Sigmund Freud, *The "Wolfman" and Other Cases*, trans. Louise Adey Huish (1918; repr., New York: Penguin, 2003) 271–72. That profit became libidinal at this moment might help explain the separation of the new, public realm of capital/profit from the household—recast as the new, private, and intimate sphere of familial life.

ledger-keeping."⁴¹ Or perhaps it is more accurate to say that Rockefeller helped redefine what a "normal" relationship to profit was.

Likewise, from the moment he opened the Edgar Thomson Steel Works in 1872, Carnegie obsessed over reducing the costs of steel production.⁴² Cost accounting had multiple historical sources. In the United States, antebellum textile mills—spinning slave-produced cotton—developed the practice.⁴³ But railroads, especially British ones, led the way. Railroads gathered large pools of capital. More so than to account for the use of capital in production, different operating ratios—revenues over, say, cost per ton mile—signaled to outside creditors, stockholders, or partners the profitability of different roads with respect to their capital advanced. The American railroads were great absorbers of British capital, and followed suit. Whether or not US railroad directors actually cared to rationally calculate operating ratios, as opposed to convincing investors they were—to sell financial securities—is another matter.⁴⁴ As late as 1892, an American railroad accountant, William Mahl, cited the continued presence of rampant "false book-keeping" in the industry precisely for this purpose.⁴⁵ One exception Mahl admitted, ever since the 1850s, was the Pennsylvania Railroad—in 1880 the largest corporation in the world. Carnegie cut his teeth as a telegraph clerk at the Pennsylvania Railroad.

Carnegie first made profits buying railroad and other financial securities low and selling them high, manipulating inside information. "I'm rich!" he proclaimed to a friend, only 28 years old. He subsequently took his capital, and the operating ratio, to steel production—an intermediate capital good itself.⁴⁶ Rather than "cost per ton-mile," it was now "cost per ton" of steel. Carnegie's

41. Thomas Beer, *Hanna* (New York: Octagon, 1973), 249.

42. On Carnegie's legendary obsession with costs, see Harold C. Livesay, *Andrew Carnegie and the Rise of Big Business* (New York: Pearson Longman, 2007), 40, 96; Joseph Frazier Wall, *Andrew Carnegie* (Pittsburgh: University of Pittsburgh Press, 1989) 322, 328.

43. H. Thomas Johnson and Robert S. Kaplan, *Relevance Lost: The Rise and Fall of Management Accounting* (Cambridge, MA: Harvard Business School Press, 1987), chap. 2; Margaret Levenstein, *Accounting for Growth: Information Systems and the Creation of the Large Corporation* (Stanford, CA: Stanford University Press, 1998), chap. 2; Rob Bryer, "Americanism and Financial Accounting Theory, Part 2: The 'Modern Business Enterprise,'" *Critical Perspectives on Accounting* 24, nos. 4–5 (2012): 273–318.

44. Chandler, *Visible Hand*, chap. 3. On financial manipulation, see Richard White, *Railroaded: The Transcontinentals and the Making of Modern America* (New York: Norton, 2011).

45. William Mahl, "The Relation That the Accounting Department of the Railroads Should Bear to the Stockholders or Owners of the Property" (1892). I thank Richard White for sharing a copy of this document from the William Mahl Papers (box 2E 462, Center for American History, University of Texas at Austin).

46. The accountant Alexander Holley accompanied Carnegie from the railroads to the steel, designing many of Carnegie's initial cost practices.

mills operated with the most advanced production technologies. In an age of capital accumulation, he always sought to deepen his capital, putting more capital in the hands of the same worker. Steel production was capital-intensive, and Carnegie practiced “hard driving.” He tried to run his mills full blast, 24 hours a day, seven days a week. When his plant ran down, he scrapped it, replacing it with physical capital that produced more steel at less variable cost. Charles Schwab once speculated about a more efficient design for a fully integrated steel-works, and so Carnegie razed an existing rolling mill that was only three months old.⁴⁷

Carnegie was able to do this in part because he was not beholden to outside investors, carrying very little debt, raising very little outside equity. Financing relied on “retained earnings,” or profits. Carnegie compulsively deepened his capital, at the expense—his partners and investors sometimes grumbled—of his company’s commercial balance of income and outgo. Carnegie, like Rockefeller, bought out the interests of as many partners and stockholders as possible.⁴⁸ Both men, to an incredible extent, were accountable only to themselves. And so a new accounting audience appeared—the entrepreneur’s own psyche.

Carnegie paid little attention to accounting for the use of capital in the industrial production process. He did not depreciate, that is, his fixed capital—not surprising given how often Carnegie scrapped his plant anyway. Carnegie and Rockefeller focused almost exclusively on product costs. Tend to product costs, and profits—no longer defined as the external balance of commercial relationships with the outside world—would take care of themselves. Carnegie explained the new mind-set, lecturing his managers and foremen: “Show me your costs sheets. It is more interesting to know how well and how cheaply you have done this thing than how much money you have made, because the one is a temporary result, due possibly to special conditions of trade, but the other means a permanency that will go on with the steel works as long as they last.”⁴⁹ Carnegie’s accounts were exacting histories of product costs. For to buy low and sell high in commercial markets was merely to transiently profit from uncontrollable “conditions of trade.” Of course, with the expanding and urbanizing continental US economy, conditions of trade were highly favorable. Market demand for steel and oil were vast, and both

47. Livesay, *Andrew Carnegie*, 52, 98, 99; Thomas K. McCraw and Forest Reinhardt, “Losing to Win: U.S. Steel’s Pricing, Investment Decisions, and Market Share, 1901–1938,” *Journal of Economic History* 49, no. 3 (1989): 595.

48. Wall, *Andrew Carnegie*, 322, 337; Chernow, *Titan*, 389, 196–205.

49. Livesay, *Andrew Carnegie*, 112.

men expanded output—through economies of scale, scope, and speed— at break-neck pace.⁵⁰ When they colluded with or bought out the competition both were often surprised to learn that other firms did not account for their production costs. Rockefeller often complained that so many a competitor was “ignorant of his costs.”⁵¹ They did not know whether or not they were profitable—according to this new criteria. To a surprising extent, in the 1870s and 1880s both men competed only against themselves.

The Carnegie Steel Company adopted many innovative cost accounting techniques.⁵² As the firm vertically integrated production, the bookkeeping department attached costs to products using vouchers and note cards.⁵³ The accounts now held individual workers accountable to daily production targets, tracking output per worker, per given units of time. One of Carnegie’s partners once recalled: “A workman engaged in building a heating furnace [for Carnegie said]: ‘There goes that damn book-keeper. If I use a dozen bricks more than I did last month, he knows it and comes round to ask why!’ The minutest details of cost of material and labor in every department appeared from day to day . . . and soon every man around the place was made to realize it.”⁵⁴ At first Carnegie had been very pleased when his mills were able to calculate product-cost ratios on a monthly basis. Notably, the operating ratio was linear, measuring price-cost ratios in standardized units of time. Half-independent of external commercial transactions with the outside world, it was a less eventful profit calculation, dependent merely on the passage of homogenous units of abstract time. In Carnegie’s hands, those units became ever shorter. Carnegie pushed harder, arriving at the week and then the day, scouring the cost sheets from his Scottish castles and ocean-going yachts in pursuit of operating ratios calculated at shorter increments of abstract time. At Edgar Thomson Steel Works, between 1873 and 1889 production increased by a rate of 25, to 536,838 tons per year, while “prime costs” plummeted from \$58 to \$25 per ton. In this way, the US economy transitioned to modern, intensive economic growth.⁵⁵

50. Chandler, *Visible Hand*, chap. 8.

51. To Rockefeller this became an argument for corporate consolidation. Competition was ruinous, because, “Oftentimes, the most difficult competition comes, not from the strong, the intelligent, the conservative competitor, but from the man who is holding on by the eyelids and is ignorant of his costs.” Chernow, *Titan*, 150.

52. On cost accounting in this period, see JoAnne Yates, *Control through Communication: The Rise of System in System in American Management* (Baltimore: Johns Hopkins University Press, 1989).

53. Chandler, *Visible Hand*, 259–80.

54. James Bridge, *The Inside History of the Carnegie Steel Company: A Romance of Millions* (New York: Aldine, 1903), 85.

55. Livesay, *Andrew Carnegie*, 106.

One cost for the Carnegie Steel Company was purchased hourly labor time.⁵⁶ The consequences for labor in the Carnegie steel mills have been well documented by labor historians.⁵⁷ Carnegie established the 12-hours-a-day, seven-day workweek. His commitment to technological innovation, to raise labor productivity, demanded that he break the power of craft labor at the point of production. But there was also the cruel irony of the operating ratio. Because Carnegie did not account for capital used in physical plant and machinery, labor costs appeared to him as an incredibly high percentage of his total costs. Labor, to follow the logic of his accounts, would be excluded from reaping benefits from the productivity gains achieved by capital deepening.⁵⁸

In this context, Carnegie's chief lieutenant Henry Frick turned bookkeeping into a weapon to be wielded against craft labor. Slave masters, that is, ultimately used interpersonal violence—whips—to hold their workers to account. Frick, in his negotiations with the recalcitrant Amalgamated Association of Iron and Steelworkers, often cited the more abstract coercion of the Carnegie Steel Company's bottom line—inventing it at the same moment he presented it as self-evident. In 1892, at Homestead, Pennsylvania, from the end of the Pinkerton's rifle, not the lash, this new profit metric turned bloody as well. The Amalgamated Association of Iron and Steelworkers was broken. As one of Carnegie's partners put it, because it “placed a tax on improvements, therefore the Amalgamated had to go.”⁵⁹ Meanwhile, Carnegie was right. The profits did take care of themselves. Much of it was plowed back into the company's operations, to once again become profit-seeking capital.

Carnegie had decided to hold the Carnegie Steel Company accountable to the short-term metric of the operating ratio. It truly was, following Sombart, the “segregation of the business sphere” in the name of profit/capital.⁶⁰ Profit was now like a flame emitted from the end of one of Carnegie's blast furnaces, never

56. On the purchase of labor time, Amy Dru Stanley, *From Bondage to Contract: Wage Labor, Marriage, and the Market in the Age of Slave Emancipation* (New York: Cambridge University Press, 1998), chap. 2.

57. David Montgomery, *The Fall of House of Labor: The Workplace, the State, and American Labor Activism, 1865–1925* (New York: Cambridge University Press, 1987), chap. 1.

58. This phenomenon was described by Marx (who also struggled to see the logic of capital depreciation) in *Capital*. Chiapello, “Accounting and the Birth of the Notion of Capitalism.”

59. Wall, *Andrew Carnegie*, 553. On Homestead, see Kenneth Warren, *Triumphant Capitalism: Henry Clay Frick and the Industrial Transformation of America* (Pittsburgh: University of Pittsburgh Press, 1996), chap. 3.

60. Sombart, “Medieval and Modern Commercial Enterprise.”

ceasing, sucking up all the oxygen around it. To compete with Carnegie, other steel producers had no choice but to do the same.

In other words, Carnegie's profit metric, as well as his motivation to make it, was pure, not conflated in the business domain with any other motivation. So was his capital, inseparable from his productive wealth. The time-pressure of profit, defined as the operating ratio, would want to blast everything but short-term profit out of the business domain. In other words, the question of whether or not Carnegie truly harbored benevolent feelings for his steel works—a question that has vexed many historians of slavery, when the form of capital was human chattel—becomes absurd. Meanwhile, as Carnegie went about making profit/capital sovereign in enterprise, there occurred the intellectual discovery of a distinct profit motive.

And so, for the first time, profit became not only an *ex post* accounting metric, but also as an *ex ante* psychological motivation—latent within the psyche of economic man. Conceptually, the profit motive was a late Victorian intellectual discovery, as economics took for its subject, as Emile Durkheim put it, “the sad portrait of sheer egoism.”⁶¹ Economic motivation, in this model, sprung from subjective assessments of immediate (short-term) expected payoffs from alternate sets of choices, in which agents were assumed to be profit motivated. The profit motive became the foundation of the entire supply and demand edifice of neo-classical economics.⁶² Tellingly, the late nineteenth-century profit motive was a very different concept than classical notions of commercial self-interest. For Adam Smith, self-interest mediated the distinctive sociality of commercial intercourse. Self-interest was interpersonal, paralleling the focus of double-entry bookkeeping—the recording of external exchanges with the butcher, as Smith might have put it.⁶³ By contrast, the profit motive emerged as an abstract, universal drive, asocial if not antisocial in character. It paralleled Rockefeller's youthful longing for money or both Carnegie's and his single-minded adult obsession with costs.

As commercial self-interest gave way to the egotistical profit motive, so did its eighteenth-century pole—benevolence—give way to the abstract foil of egoism: altruism. The term *altruisme* first appeared in the work of Auguste Comte,

61. Emile Durkheim, *The Division of Labor in Society* (1893; repr., New York: Macmillan, 1933), 197.

62. Frank Knight, *Risk, Uncertainty, and Profit* (Boston: Houghton Mifflin, 1921).

63. On Smith and the sociality of commerce, see Emma Rothschild, *Economic Sentiments: Adam Smith, Condorcet, and the Enlightenment* (Cambridge, MA: Harvard University Press, 2001), esp. 50.

connoting the “inherent tendency to universal love.”⁶⁴ The concept traveled to America through the writings of the English evolutionary thinker Herbert Spencer. The second edition of Spencer’s *The Principles of Psychology* (1871) featured Spencer’s first discussion of altruism. All psychological motivation, he reasoned, could be reduced to the evolutionary biological foils of egoism and altruism.⁶⁵ From the exhaustive polarity of egoism and altruism new patterns of moral reasoning arose. Was altruism still, in the end, the mark of the capitalist beast? The English moral philosopher Henry Sidgwick scribbled in his journal in 1861, “The strongest conviction I have is a belief in what Comte calls ‘altruisme.’” But “it may be that my philanthropy has its root in selfishness?”⁶⁶

Carnegie was an avid reader of Spencer. The more Spencer he read, absorbing “the truth of evolution,” as he put it, the more he treated his workers as factors of production, rather than human beings. Yet, at the same time, the more profits he transformed into philanthropic wealth, rather than transforming them back into profit-seeking capital.⁶⁷ Carnegie began his famous 1889 essay “Wealth” by noting, “The problem of our age is the proper administration of wealth.”⁶⁸ He had in fact developed a novel approach to wealth’s administration. In the era of early modern double entry—when profit meant the balance of commercial income and outgo—much wealth never entered the accounts to become profit-seeking capital. Carnegie would disrupt the temporal logic of capital/profit, withdrawing profits from his accounts on the back end of his business enterprise to circulate it as philanthropic wealth—on behalf of some vaguely defined long-term evolutionary end.

Touring America in 1882, Spencer himself visited a Carnegie steel mill near Pittsburgh, declaring, “six months’ residence here would justify suicide.”⁶⁹ In New York Spencer lectured a stunned group of American admirers, including Carnegie, on the risk of “nervous collapse due to stress of business.”⁷⁰ But when

64. Auguste Comte, *System of Positive Polity: General View of Positivism and Introductory Principles* (1851; repr., London: Longmans, Green, 1875), 1, 12.

65. Herbert Spencer, *Principles of Psychology* (1855; repr., New York, 1871).

66. Stefan Collini, “The Culture of Altruism: Selfishness and the Decay of Motive,” in *Public Moralists: Political Thought and Intellectual Life in Britain, 1850–1930* (Oxford: Clarendon, 1991), 86; Thomas Dixon, *The Invention of Altruism: Making Moral Meanings in Victorian Britain* (New York: Oxford University Press, 2008); Louis J. Budd, “Altruism Arrives in America,” *American Quarterly* 8, no. 1 (1956): 40–52.

67. Carnegie, *Autobiography*, chap. 25.

68. Andrew Carnegie, *The “Gospel of Wealth” Essays and Other Writings* (1888; repr., New York: Penguin, 2006), 1.

69. Wall, *Andrew Carnegie*, 386.

70. Herbert Spencer, *An Autobiography* (New York: Williams & Norgate, 1904), 2, 406.

Carnegie encountered the foils of egoism and altruism he even more ruthlessly exercised his profit motive at the Carnegie Steel Company. Citing the evolutionary law of economic competition, he argued, in essence, that to raise his workers' wages, or to shorten their working day, would be to contradict the temporal logic of evolution. For that same reason, neither Carnegie nor Rockefeller believed in redistributing their wealth to the poor, for fear of altering the competitive basis of the capitalist wage system. They had boxed themselves into a corner. To be altruistic, to amass great philanthropic wealth from profits, they had in the first instance to be egoistic—which now meant minding their operating ratios.

Meanwhile, conveying philanthropic wealth would be a new institutional form—the nonprofit corporation. The new moral binaries of egoism and altruism, profit-seeking capital and philanthropic wealth, settled into a new institutional binary: for-profit and nonprofit corporations. Carnegie, for instance, organized the Carnegie Steel Company in 1892, and a series of nonprofit corporations across the next two decades.⁷¹ The twentieth-century history of profit was to be inseparable from the history of corporations.

Rather than profit, for centuries corporations had long been defined with respect to sovereignty and property. In America, after the Revolution, state legislatures granted corporate charters, concessions of popular sovereignty, on a discretionary basis. The propertied basis of corporations was private, but states brought them into existence only if they fulfilled some “public purpose.” A public purpose might include the construction of a turnpike, the issuing of money, the task of municipal governance, or the benevolent work of charity. The language of corporate charters held them to a public account.⁷² Further, the purpose of the charter restricted corporate activity. A banking corporation, for instance, could not turn around and build a railroad simply because doing so would increase the corporation's profits.⁷³

In the second half of the nineteenth century, the legal personality of American corporations transformed. Public expectations were increasingly abolished.

71. The Carnegie Steel Company was actually organized as a partnership association, an early form of limited liability company.

72. Pauline Maier, “The Revolutionary Origins of the American Corporation,” *William and Mary Quarterly* 50, no. 1 (1993): 51–84; Hendrik Hartog, *Public Property and Private Power: The Corporation of the City of New York in American Law, 1730–1870* (Ithaca, NY: Cornell University Press, 1989); Ronald Seavoy, “The Public Service Origins of the American Business Corporation,” *Business History Review* 52, no. 1 (1978): 30–60.

73. Herbert Hovenkamp, “The Classical Corporation in American Legal Thought,” *Georgetown Law Journal* 76, no. 4 (1988): 1593–1689.

Joint-stock companies became private actors, even if they maintained many of the privileges once granted in return for the fulfillment of public purposes (such as limited liability for investors). States, in the middle decades of the nineteenth century, began to pass general incorporation laws, democratizing and freeing access to incorporation from the legislative chartering process.⁷⁴ This, among other things, freed the hands of corporate actors to pursue profit anywhere. Corporations, rather than receiving charters that expired after a number of years, increasingly enjoyed legal existence in perpetuity. Death, of both natural and corporate persons, had long triggered an adding up of the books. With the important exception of bankruptcy, now there would be no corporate death. Corporate persons conveyed property—whether as profit-seeking capital or philanthropic wealth—into a limitless future.

In the decades after 1850, in corporate charters the private language of “lawful purpose” began to replace “public purpose.” Lawful purpose became profit. Pennsylvania (Carnegie’s home state) passed a new general incorporation law in 1874, dividing all of its private corporations into two mutually exclusive categories: “for Profit” and “not for Profit.” The for-profit corporation, an accounting project, was and is a legal person that literally personified capital. As profit became distinct and sovereign in the business sphere, it made sense to invent a category of, in effect, everything else under the sun. In the 1870s, the language of “not for profit” began to appear.⁷⁵

The history of the nonprofit corporate personality parallels that of the for profit. After the Revolution, the activities of charitable corporations were similarly restricted to their charters, according to the stricture of public purpose. Charitable wealth had specific targets. If a banking corporation could not build a railroad because it was more profitable, a corporation chartered to feed the poor could not turn around and tend to the blind simply because doing so might maximize benevolence. Still yet, in 1853 the proslavery thinker Louisa S. McCord had unfavorably compared philanthropy to slavery, railing against the “Charity Which Does not Begin at Home”—the charity that did not end at the plantation’s

74. James Willard Hurst, *The Legitimacy of the Business Corporation in the Law of the United States, 1780–1970* (Charlottesville: University of Virginia Press, 1970), chap. 1.

75. Angelo T. Freedley, *The Pennsylvania Corporation Act of 1874* (Philadelphia, 1890). The law was passed much at the behest of the Pennsylvania Railroad, which hoped to abolish restrictions on its activities (presumably by committing itself to the abstract goal of profit). Albert J. Churella, *The Pennsylvania Railroad*, vol. 1, *Building an Empire, 1846–1917* (Philadelphia: University of Pennsylvania Press, 2013), chap. 11.

gate.⁷⁶ If not at their own doorsteps, Carnegie and Rockefeller first targeted specific institutions with their wealth—libraries, swimming pools, the University of Chicago. Eventually, with the birth of a new nonprofit legal person, the “general-purpose foundation,” philanthropic corporations acquired very nearly complete freedom of action to distribute wealth.⁷⁷ When the Rockefeller Foundation was chartered in New York in 1913, it announced the universal and abstract purpose: “to promote the well-being of mankind throughout the world”—and for all time. The Foundation declared in 1918 it was free to distribute philanthropy to anyone acting from “altruistic” motives. However it could do nothing involved in any way with “private profit.”⁷⁸ That was the business, and the only business, of the Standard Oil Company.

And so it went from entrepreneurial fathers to corporate sons. The transference of motives, back and forth and back again, between human beings and corporate persons now becomes dizzying.

RATE OF RETURN ON CAPITAL INVESTED

Rate of return on capital invested—or ROI, as it became known—was a corporate metric of profitability. It emerged, fittingly, in the wake of the industrial depression of the 1890s and the resulting Great Merger Movement of 1895–1904. After the financial panic of 1893, many capital-intensive, high-fixed-costs industrial firms succumbed to cutthroat market competition. These were firms, in many instances, who had recently invested in large-scale fixed industrial capital outlays. Market competition, in the context of financial panic and depression, prohibited them from ever realizing profits from industrial forms of capital. Many simply went bankrupt.⁷⁹ Carnegie of course had not accounted for fixed capital, scrapped so often anyway, but had focused on product costs, precisely for such moments—when only the fittest survived. To focus on his philanthropy, Carnegie sold out to J. P. Morgan in 1901. Morgan consolidated the Carnegie Steel Company into U.S. Steel, which became the largest corporation in the world. The organizers of U.S.

76. Richard C. Lounsbury, *Louisa S. McCord: Political and Social Essays* (Charlottesville: University of Virginia Press, 1995), 321.

77. Barry D. Karl and Stanley R. Katz, “The American Private Philanthropic Foundation and the Public Sphere, 1890–1930,” in *Minerva* 19, no. 2 (1981): 236–70; Olivier Zunz, *Philanthropy in America: A History* (Princeton, NJ: Princeton University Press, 2011), chap.1.

78. “Appeals Which the Rockefeller Foundation Must Decline,” *Rockefeller Foundation* 1, no. 6 (1919): 1.

79. Naomi R. Lamoreaux, *The Great Merger Movement in American Business, 1895–1904* (New York: Cambridge University Press, 1988).

Steel had wanted Carnegie out of the business—to reduce competition, and to enjoy enough time, literally, to actually realize profits from fixed capital investments.⁸⁰

ROI correlated operating ratios to past fixed capital expenditures—to capital used in the industrial process. Neither a mercantile history of commerce, nor an entrepreneurial history of costs, ROI narrated a corporate history of the life cycle of fixed industrial capital. As profit-seeking capital took the concrete form of long-lived industrial plant and machinery, ROI stretched the time span of profit's calculation. Its calculation fell into the hands of a new class of white-collar corporate managers—who, with such technical competency, entered the saddle of corporate governance. Corporate accountants, assisted by a new accounting audience, the fiscal state, developed the practice of *historical cost accounting*—a bureaucratic accounting for the past use of fixed capital. Further, long-term corporate profit motives created ideational space, and time, for the possible reentry of once-banished nonprofit goals. In specific places, capital in the accounts might once again double as wealth.

The Du Pont Powder Company, formed in 1903 at the tail end of the Great Merger Movement, stumbled on the new approach. ROI was first known as the “Du Pont formula.” In 1903 the Du Pont cousins reacquired the family firm through, effectively, a leveraged buyout.⁸¹ Once again, debt prodded accounting innovations. A Du Pont accountant explained the new mind-set in a 1911 internal memo for the “High Explosives Operating Department”: “a commodity requiring an inexpensive plant might, when sold only ten per cent above its cost, show a higher rate of return on the investment than another commodity sold at double its cost, but manufactured in an expensive plant. . . . The true test of whether the profit is too great or too small is the rate of return on the money invested in the business and not the percent of profit on the cost.”⁸² That was a rebuke to the short-run product cost obsessions of an Andrew Carnegie. By “money invested,” the accountant did not mean working capital or credit advanced but rather the capital embodied and used in physical structures. In 1903 Du Pont thus created the new *permanent investment* ledger.

80. McCraw and Reinhardt, “Losing to Win.”

81. Levenstein, *Accounting for Growth*, chap. 3; Alfred D. Chandler Jr. and Stephen Salsbury, *Pierre S. Du Pont and the Making of the Modern Corporation* (New York: Harper & Row, 1971), chaps. 3–4.

82. R. H. Dunham, “Object of Accounting” (paper for the High Explosives Operating Department Superintendent’s Meeting no. 33, New York, April 20–26, 1911), in *System and Profits: Early Management Accounting at Du Pont and General Motors*, ed. H. Thomas Johnson (New York: Arno, 1980), 17.

ROI calculations, in place at Du Pont by the 1920s, correlated the operating ratio to the actual use of capital.⁸³ The new notion of “sunk costs,” not coincidentally, accompanied the turn to ROI.⁸⁴ Industrial corporations continued to monitor these and other costs, as “cost accounting” became a distinct, professionalized field.⁸⁵ For as U.S. Steel COO William R. Roesch would admit in 1980, in testimony for *United Steel Workers v. U.S. Steel*, someone may account for fixed capital any way and however much he or she likes, but without a positive operating ratio “there is no way to” make ROI “profitable.” But profitability was now tied to the life cycle of fixed industrial capital.

The larger political context in which ROI emerged is clear. The Du Ponts were sharp critics of organized labor and state regulation, future antagonists of FDR and the New Deal.⁸⁶ Likewise, no economic treatise on accounting has ever been more influential than Yale economist Irving Fisher’s *The Nature of Capital and Income* (1907). Fisher drew from accounting to prove that capital and labor, as distributive shares of profit and wages in corporate income, both earned their rightful share according to their “marginal productivity”—refuting, in a single stroke, socialism.⁸⁷ Fisher translated the accounting distinction between capital and profit into “stock of wealth” and “flow of income.”⁸⁸ Defining capital as a quantitative thing, *The Nature of Capital and Income* was an astonishing illustration of capitalism’s potential reification of wealth.⁸⁹

For their part, corporations developed many competing corporate historiographies of industrial capital.⁹⁰ In terms of influence, the practical companion to Fisher’s *The Nature of Capital and Income* was William Paton’s *Accounting Theory with Special Reference to the Corporate Enterprise* (1922). Paton introduced “entity” accounting theory. Industrial corporations were distinct entities, realizing all-inclusive income

83. The use of capital in the formula, to be precise, was a function of “stock turn,” or the ratio of sales to investments. And so the formula becomes: $ROI = \text{earnings} / \text{sales} \times \text{sales} / \text{investments}$. Levenstein, *Accounting for Growth*, chap. 6; Johnson and Kaplan, *Relevance Lost*, 84–85.

84. Sunk, irrecoverable costs, as distinct from “differential” costs. J. Maurice Clark, *Studies in the Economics of Overhead Costs* (Chicago: University of Chicago Press, 1923).

85. William B. Lawrence, *Cost Accounting* (New York, 1925).

86. Kim Phillips-Fein, *Invisible Hands: The Businessmen’s Crusade against the New Deal* (New York: Norton, 2010), chap. 1.

87. On marginalism and distribution, see James Livingston, “The Social Analysis of Economic History and Theory: Conjectures on Late Nineteenth-Century American Development,” *American Historical Review* 92, no. 1 (1987): 69–95.

88. Irving Fisher, *The Nature of Capital and Income* (New York, 1907).

89. Bryer, “Americanism and Financial Accounting Theory, Part 2.”

90. Gary John Previt and Barbara Dubis Merino, *A History of Accountancy in the United States* (Columbus: Ohio State University Press, 1998), chaps. 5–6.

from capital expended. Paton advocated historical cost accounting. Capital expended entered the accounts at present value. So did production inputs and overhead costs, with more costs subsequently “attaching” to products as they passed through the production process to final sale. In the accounts, income was thus realized from the past. Corporate income was “all-inclusive” of profits, wages, dividends, debt payments, and taxes, all measured against the original book value of capital and costs. Corporate accounting was thus a backward looking historical practice, in pursuit of the full integration of the firm’s internal operations and external transactions into a singular accounting “entity”—the corporation *qua* corporation. Paton, drawing inspiration from “natural” and “real” legal theories of corporate personality, then in currency, declared a corporation a “living organism.”⁹¹

ROI defined profit *ex post*. By the time Paton wrote corporations were beginning to institutionally define their *ex ante* profit motives as well. In 1921 Pierre Du Pont left the Du Pont Powder Company when the family acquired a majority stake in General Motors Corporation. He took Donaldson Brown, a creator of the Du Pont formula, with him. The two helped adopt ROI to GM’s multidivisional structure, using the metric to allocate capital across the corporation’s many divisions. The Great Merger Movement—during which time 1,800 industrial firms consolidated into 157 corporations—begat many vertically and horizontally integrated multiproduct corporations.⁹² White-collar managers would employ ROI to develop a bureaucratic, quasi-internal capital market.

Brown announced in 1921 that GM sought long-run returns on investment “consistent with a sound growth of the business.” In other words the “highest attainable rate of return on capital” in the short run did not motivate the corporation.⁹³ Neither the factories’ physical infrastructure nor consumer demand could sustain it. GM announced the corporation’s motivation to achieve, over the long run, a 20 percent ROI, while operating its plant at, on average, 80 percent capacity (20 percent less capacity than Carnegie). GM developed sales forecasts and capital budgets to enable its divisions to hit the preordained targets. This would lead to the post-World War II accounting literature on “profit plan-

91. William Allen Paton, *Accounting Theory, with Special Reference to the Corporate Enterprise* (New York: Ronald, 1922), 472, 473–74; Gregory Mark, “The Personification of the Business Corporation in American Law,” *University of Chicago Law Review* 54, no. 4 (1987): 1441–83.

92. Lamoreaux, *Great Merger Movement*, 2.

93. Donaldson Brown, *Centralized Control with Decentralized Responsibilities*, Annual Convention Series 57 (New York: American Management Association, 1927), 51, and “Pricing Policy in Relation to Financial Control,” *Management and Administration* 7 (February 1924): 195–96.

ning” and “standard markup pricing.”⁹⁴ After World War II, the decentralized, multidivisional, or M-form, corporation rose to prominence. Postwar central office managers employed ROI metrics to hold disparate operating divisions—around the globe, as the multidivisional corporation went multinational—to account.⁹⁵ Profit, in other words, was now a bureaucratic phenomenon. Market prices were often of subordinate interest in its calculation.

GM thus developed a clearly defined corporate profit motive. Or, as Talcott Parsons explained in a 1942 article on “The Motivation of Economic Activities,” profit had become “an institutionally defined goal” rather “than a motive.”⁹⁶ By the 1950s ROI and historical cost accounting, joining hands across academic and management literatures, were triumphant.⁹⁷

ROI also took shape in the context of a new accounting audience: the fiscal state. In the wake of the Great Crash, New Deal administrative agencies, such as the U.S. Securities and Exchange Commission (created in 1934), further formalized corporate accounting procedures, as well as the quarterly and annual system of public financial reports. Financial reporting and audit systems continued the managerial trend toward ROI calculations and historical cost accounting.⁹⁸ Meanwhile, the collapse of asset values during the Great Depression favored historical cost accounting. If corporations had been forced to update the assets on their balance sheet from historical book values to present market values, overnight thousands more bankruptcies might have been declared. Keynes had this absurdity in mind when, in 1933, he described the Great Depression as “a sort of parody of an accountant’s nightmare.” Concern for profit—due to “false analogies from an irrelevant accountancy”—was destroying national wealth. If “we allow ourselves to be disobedient to the test of an accountant’s profit,” Keynes wrote, “we have

94. W. W. Cooper, “A Proposal for Extending the Theory of the Firm,” *Quarterly Journal of Economics* 65, no. 1 (1951): 87–109; Joel Dean, “Measuring the Productivity of Capital,” *Harvard Business Review*, January–February 1954, 120–30.

95. Alfred D. Chandler Jr., *Strategy and Structure* (Cambridge, MA: MIT Press, 1962); Robert F. Freeland, *The Struggle for Control of the Modern Corporation: Organizational Change at General Motors, 1924–1970* (New York: Cambridge University Press, 2005).

96. Talcott Parsons, “The Motivation of Economic Activities,” *Canadian Journal of Economics and Political Science* 6, no. 2 (1940): 200.

97. William Paton and A. C. Littleton, *An Introduction to Corporate Accounting Standards* (Columbus, OH: American Accounting Association, 1940).

98. In 1938 the SEC delegated standard setting authority to the American Institute of Accountants (1917). Previts and Merino, *History of Accountancy*, 277. William O. Douglass, a leading advocate of the historical cost accounting, became chairman of the SEC in 1937. He criticized those “interested solely in the immediate profit.” William O. Douglass, *Democracy and Finance* (New Haven, CT: Yale University Press, 1940), 9.

begun to change our civilization.”⁹⁹ Keynes did not believe in the supply-side phenomenon of an individual profit motive. To him, capitalists were not profit motivated but rather skittish adherents to their “liquidity preference”—hoarders of capital in its money form, rather than expenders of it in fixed form.¹⁰⁰ It was aggregate demand that called forth a long-term commitment to industrial production. In the United States, in the postwar decades Keynesian economics justified the progressive taxation of corporate income. Sustaining aggregate demand, wealth circulated through the new pathways of national income accounts, themselves modeled after corporate income accounts.¹⁰¹

More than that, the prior existence of ROI made the twentieth-century state fiscalization of corporations possible. In the nineteenth century, states mostly taxed property and commerce (especially foreign commerce through the tariff).¹⁰² Taxing income was difficult. During the American Civil War, for instance, the federal government’s income tax was an administrative disaster.¹⁰³ The Sixteenth Amendment to the United States Constitution (1913) constitutionalized a federal income tax, which would include from the beginning a corporate income tax—an “entity” tax distinct from personal taxes on shareholder dividends.¹⁰⁴ The Internal Revenue Service helped corporate managers clarify corporate income, so as to tax it.¹⁰⁵ The 907-page Internal Revenue Code of 1954 consolidated the plethora of tax-exempt 501(c) statuses—what became known as the “nonprofit sector.”¹⁰⁶ Regardless, more than 70 percent of the federal government’s total fiscal income in the decades after World War II was the result of individual income (about 40 percent) or corporate income (about 30 percent) taxes.¹⁰⁷ Ultimately policymakers chose to define income along the lines of ROI. The US

99. John Maynard Keynes, “National Self-Sufficiency,” *Yale Review* 22, no. 4 (1933): 763.

100. J. M. Keynes, “The General Theory of Employment,” *Quarterly Journal of Economics* 51, no. 2 (1937): 209–23.

101. Eli Cook, “The Pricing of Progress: Economic Indicators and the Growth of American Capitalism” (PhD diss., Harvard University, 2013.)

102. Robin L. Einhorn, *American Taxation, American Slavery* (Chicago: University of Chicago Press, 2008).

103. Joseph A. Hill, “The Civil War Income Tax,” *Quarterly Journal of Economics* 8, no. 4 (1894): 416–52.

104. Ajay K. Mehrotra, *Making the Modern American Fiscal State: Law, Politics, and the Rise of Progressive Taxation, 1877–1929* (New York: Cambridge University Press, 2013), chap. 5; Steven A. Bank, *From Sword to Shield: The Transformation of the Corporate Income Tax, 1861 to Present* (New York: Oxford University Press, 2010).

105. Arthur A. Ballantine, “Some Constitutional Aspects of the Excess Profits Tax,” *Yale Law Journal* 29, no. 6 (1920): 625–42.

106. Zunz, *Philanthropy*, chap. 8.

107. US Office of Management and Budget, Fiscal Year 2012, Historical Tables, table 2.1, <http://www.whitehouse.gov/omb/budget/Historicals>.

fiscal state too, in other words, recognized income realized from long-term fixed industrial capital. For purposes of warfare, welfare, and Keynesian macroeconomic policy, it taxed off its own slice, transforming corporate revenues into national fiscal wealth.¹⁰⁸

In all of this, depreciation loomed large. In response to business lobbying, the Internal Revenue Code of 1954 included many friendly depreciation deductions from the corporate income tax.¹⁰⁹ The historical depreciation of fixed capital over time was the critical component in the ROI calculation. For, if the operating ratio was a short-term profit metric, ROI focused on the long term, as the trick was to “realize” as much income from fixed capital as possible. It took Henry Ford, for instance, nine years to build the great factory complex that was River Rouge (1928), let alone to begin to realize income from it. Manipulating depreciation schedules to avoid taxes quickly became a national corporate pastime.¹¹⁰ But “straight-line” postwar depreciation schedules were normally 40 years in duration. Four decades, it would turn out, would be about how long Fordism would last.

The “great happy paradox of the profit motive,” as *Fortune* put in 1959, was the result of the long-term focus of ROI. Management, *Fortune* explained, “precisely because it is in business to make money years on end, cannot concentrate exclusively on making money here and now.”¹¹¹ ROI had stretched the time span of profit’s calculation. The paradox was that, on the one hand, ROI represented the triumph of profit as an ex post accounting category. In their day, Carnegie and Rockefeller were still unique in their obsessive concern for the operating ratio. Only in the twentieth century, with ROI, did profit become a uniform and universal business metric. Yet, on the other hand, in the short run, corporate managers enjoyed great scope of action to pursue what the transaction-cost economist Oliver Williamson in 1963 referred to as “discretionary” or “nonprofit” goals.¹¹² The

108. The United States featured relatively high progressive income taxation. European states were more likely to tax consumption rather than income. Monica Prasad, “Tax Expenditures and Welfare States,” *Journal of Policy History* 23, no. 2 (2011): 251–66.

109. Julian E. Zelizer, *Taxing America: Wilbur D. Mills, Congress, and the State, 1945–1975* (New York: Cambridge University Press, 1998), chap. 3.

110. Mark Wilson, “The Advantages of Obscurity: World War II Tax Carry-Back Provisions and the Normalization of Corporate Welfare,” in *What’s Good for Business: Business and American Politics since World War II*, ed. Kim Phillips-Fein and Julian E. Zelizer (New York: Oxford University Press, 2012), 16–44.

111. *Fortune*, August 1959, 103.

112. Oliver E. Williamson, “Managerial Discretion and Business Behavior,” *American Economic Review* 53, no. 5 (1963): 1032, 1033.

representative *The American Business Creed* (1956), coauthored by four prominent Keynesian economists, referred to management's "sphere of unhampered discretion and authority which is not merely derivative from the property rights of owners." For "stockholders" had "no special priority; they are entitled to a fair return on their investment, but profits above a 'fair' level are an economic sin."¹¹³ Indeed, in corporate law, the "business judgment rule" granted twentieth-century corporate managers and directors wide discretion to deploy corporate treasuries as they saw fit.¹¹⁴ If forced to, management could collectively bargain with organized labor. They might actually want to divert profits toward long-term research and development projects. Or, in *A. P. Smith Manufacturing Company v. Barlow* (1953), the New Jersey Supreme Court upheld the legality of corporate philanthropy, clearing the way for "corporate social responsibility."¹¹⁵ ROI created ideational space, and time—quite literally—for other values and concerns, even of the "nonprofit" variety, to be brought back into the for-profit corporation.

The Fordist corporation was, at least in the short run, not a profit-maximizing institution. Legal scholar and New Deal liberal Adolf A. Berle Jr. described the situation in 1954, "The capital is there, and so is capitalism. The waning factor is the capitalist."¹¹⁶ The modern corporation, Berle wrote with his coauthor Gardiner Means, had split the "atom of property" between managers and owners. With ownership dispersed and shareholders passive managers were in the corporate saddle. They held power "in trust" for the "paramount interests of the community."¹¹⁷ As another foundational text, *The Corporation in Modern Society* (1961), explained, "The great corporations," had become "political systems in which their market, social, and political influence go far beyond their functional efficiency in the economy."¹¹⁸ In this context, postwar discussions of corporate profit abounded with qualifiers—"fair profit," "sound profit," "excessive profit," "some profit" "satisfactory profit," "minimum acceptable level of profit," "required profit," not to

113. Fracis X. Sutton, Seymour E. Harris, Carl Kaysen, and James Tobin, *The American Business Creed* (Cambridge, MA: Harvard University Press, 1956), 65.

114. Directors were immune from shareholder prosecution so long as they acted in "good faith," which over time became tantamount to not committing fraud. S. Samuel Arshst, "The Business Judgment Rule Revisited," *Hofstra Law Review* 8, no. 1 (1979): 130–33.

115. *A. P. Smith Manufacturing Co. v. Barlow*, 13 N.J. 145 98 A. 2d 581 (1953); Archie B. Carroll, Kenneth J. Lipartito, James E. Post, Patricia H. Werhane, and Kenneth E. Goodpaster, *Corporate Responsibility: The American Experience* (New York: Cambridge University Press, 2012).

116. Adolf A. Berle Jr., *The Twentieth Century Capitalist Revolution* (New York: Harcourt, 1954), 39.

117. Adolfe A. Berle Jr. and Gardiner C. Means, *The Modern Corporation and Private Property* (New York: Harcourt, 1932); J. A. Livingston, *The American Stockholder* (New York: Lippincott, 1958).

118. Edward S. Mason, ed., *The Corporation in Modern Society* (Cambridge, MA: Harvard University Press, 1959), 218.

mention “profit control,” “profit shifting” and “profit smoothing.” Of course, all the more paradoxical was that by historical standards in this period profit rates, however calculated, were remarkably high.¹¹⁹ And so, in an era of high profits, only decades after its very discovery, man’s profit motive appeared to be in eclipse.

An entire new academic literature explored the new managerial mind-set, seeking to explain “the firm’s failure to seek to maximize short-run profits.”¹²⁰ Among midlevel corporate managers, one economist speculated that, “profit has approximately the same significance as one’s golf score.” Another wondered if the very notion of “profit maximization” was a “vestigial remnant from an earlier full-blooded capitalism.”¹²¹ Descriptions of corporate managerial motives now came in lists, pluralities of objectives and goals, with profit sometimes nowhere to be found. Salary, security, power, status, prestige, and professional competence often rose to the top.¹²² Or, rather than a short-run “profit-maximizer,” the corporation, according to Herbert Simon, was a long-run “profit-satisficer.” It sought to earn satisfactory profits within a given set of constraints. This included a temporal constraint—to make profits in the long run.¹²³ Giving that larger constraint, subsidiary constraints can be added to the list.

Above all, there were growth and expansion—extending over a limitless horizon. Richard M. Cyert and James G. March’s *A Behavioral Theory of the Firm* (1963), the classic text in its field, puzzled over this new *summum bonum*. ROI figured here, since the task it set was to realize as much income as possible from a given fixed long-term capital input (whose allocation was determined by central office). The point was to grow, or at least, not to deplete the capital stock, so that product divisions could then focus on maximizing sales revenue. Meanwhile, depreciation allowances contributed to what Cyert and March called “organizational slack”—a managerial fund with which to reduce organizational “goal conflict.” U.S. Steel, for example, bankrolled the Youngstown Ohio Works minor league baseball team. In other words, ROI and historical cost accounting provided plenty of “organizational slack,” so long as managers maintained the capital stock, assuring the continued growth and expansion of corporate revenue.¹²⁴

119. Brenner, *Economics of Global Turbulence*.

120. William J. Baumol, *Business Behavior, Value and Growth* (New York: Macmillan, 1967), 48.

121. E. S. Mason, “The Apologetics of “Managerialism,” *Journal of Business* 31, no. 1 (1958): 7.

122. Robert A. Gordon, *Business Leadership in the Large Corporation* (Berkeley: University of California Press, 1961).

123. Herbert A. Simon, “Theories of Decision-Making in Economics and Behavioral Science,” *American Economic Review* 49, no. 3 (1959): 252–83.

124. Richard M. Cyert and James G. March, *A Behavioral Theory of the Firm* (New York: Prentice Hall, 1963). On growth, see Baumol, *Business Behavior, Value and Growth*; Neil Fligstein, *The Transformation of Corporate Control* (Cambridge, MA: Harvard University Press, 1990), chap. 4.

Next consider labor. Coming out of World War II, many unions sought access to management's books, to scrutinize and contest their ROI calculations with respect to wages. They were rebuffed. Corporate managers successively inserted "sole prerogative" clauses in collective bargaining agreements. The trend-setting preamble to the United Auto Workers' 1940 contract with General Motors declared that it was the "sole responsibility" of the corporation to determine "the products to be manufactured, the location of the plants, the schedule of production," as well as "the methods, processes, and means of manufacturing."¹²⁵ U.S. Steel eventually accepted collective bargaining, although it still enjoyed a relatively contentious relationship with organized labor.¹²⁶ But corporate managers—as the power of organized labor crested after World War II—did become preoccupied with a new cost—labor turnover. General Electric was one of the first corporations to account for the costliness of labor turnover in industries with high "sunk" costs in fixed capital and to launch a personnel department focused on reducing such short-run costs on behalf of long-run profits.¹²⁷ Corporate personnel departments might crash into waves of labor militancy. In 1979, in the wake of plant closure announcements, 100 steelworkers stormed the Ohio Works personnel department (founded in 1936).¹²⁸ But with so much accounting fixation on the long-term productivity of capital expenditures, with such an "asset-heavy" cost structure, to managers labor costs appeared to decline as a relative share. Jobs extended into careers with long-term labor contracts. Workers might earn pensions, health insurance, paid vacations, and sometimes profit shares—all justified with an eye toward long-run productivity gains, all, in their own way, temporal departures from short-run operating ratios.¹²⁹

Further taking advantage of ROI's long-term basis was the corporate "human relations movement." Harold McCormick, for instance, was the son of Cyrus McCormick, the entrepreneurial progenitor of the International Harvester Corporation. The McCormick family long maintained control of the International Harvester Corporation. The corporation, at Harold McCormick's direction, was a 1919 co-founder of the Special Conference Committee, which helped launch the project of

125. Nelson Lichtenstein, *Walter Reuther: The Most Dangerous Man in Detroit* (New York: Basic Books, 1995), 142.

126. The Steel Strike of 1959 was one of the great labor disturbances of the postwar era. The union struck after steel producers' reported high profits. Judith Stein, *Running Steel, Running America: Race, Economic Policy, and the Decline of Liberalism* (Chapel Hill: University of North Carolina, 1998).

127. Howard M. Gitelman, "Being of Two Minds: American Employers Confront the Labor Problem, 1915–1919," *Labor History* 25, no. 2 (1984): 189–216.

128. "Youngstown Steelworkers Protest," *Michigan Daily*, January 31, 1980.

129. Jennifer Klein, *For All These Rights: Business, Labor, and the Shaping of America's Public-Private Welfare State* (Princeton, NJ: Princeton University Press, 2003).

corporate human relations.¹³⁰ Four years earlier, in 1915, from Switzerland, Harold McCormick had mailed a copy of Friedrich Nietzsche's *The Will to Power* to his father-in-law John D. Rockefeller Sr.—on the recommendation of his then analyst Carl Jung. McCormick attached the note, "It cites the theory, you exemplified the practice." Jung himself had once met Rockefeller, remarking that "Rockefeller is really just a mountain of gold, and it has been dearly bought." Rockefeller's daughter, however, had put up \$120,000 of Rockefeller wealth for Jung's Zurich Psychological Club. (From Vienna, Freud diagnosed the transaction: "Swiss ethics have finally made their sought-after contact with American money.")¹³¹

The corporate human relations movement subsequently imported psychoanalytic concepts into what became, eventually, corporate "human resource" departments. By the 1950s the use of attitude surveys and personality tests, the Minnesota Multiphasic Personality Inventory (1939) chief among them, was widespread. Inside corporations there was as much talk of adjustments and maladjustments, to both production schedules and personalities, as there was of profits and losses.¹³² ROI, in the end, was an object not of "maximization," or even "satisfaction," but rather of the "integration" of the corporation *qua* corporation—precisely the theme, as it were, of corporate human relations, corporate historical cost accounting, and postwar legal theories of "real" corporate personality.¹³³

Profit became, so to speak, the perpetual light at the end of the corporate tunnel. The focus on the long term, intentionally or not, made it possible for fixed capital to double in specific places as wealth. The Mahoning Valley was one such place. In *United Steel Workers v. U.S. Steel*, in an early decision, a federal district court judge explained the significance of the Ohio Works for the city of Youngstown. He began with a history, not of capital, but of wealth: "Everything that has happened in the Mahoning Valley has been happening for many years because of steel. Schools have been built, roads have been built. Expansion that has taken place is because of steel. And to accommodate that industry, the lives and destinies of the inhabitants of that community were based and planned on the basis of that institution: Steel."¹³⁴ The historian (and, as it would happen, the labor

130. Sanford M. Jacoby, *Modern Manors: Welfare Capitalism since the New Deal* (Princeton, NJ: Princeton University Press, 1997), chap. 1.

131. Chernow, *Titan*, 601, 602.

132. Jacoby, "Employee Attitude Surveys in Historical Perspective," *Industrial Relations* 27, no. 1 (1988): 74–93. Two illustrative texts were Elton Mayo, *The Human Problems of an Industrial Civilization* (New York: Macmillan, 1934); and Harold M. Rush, *Behavioral Science: Concepts and Management Application* (New York: National Industrial Conference Board, 1969).

133. Mark, "Personification."

134. *United Steel Workers v. U.S. Steel*.

lawyer) Staughton Lynd, had constructed this historical narrative for the court. The postwar corporation, with its factories, career ladders, pensions, 40-year depreciation schedules, had offered physical and social structure. As the economist Carl Kaysen, coauthor of the *The American Business Creed*, further predicted in *The American Economic Review* (1957): “No longer the agent of proprietorship seeking to maximize return on investments, management sees itself as responsible to stockholders, employees, customers, the general public, and perhaps most important the firm itself as an institution. . . . Responsibilities to the general public are widespread: leadership in local charitable enterprises, concern with factory architecture and landscaping, provision of support for higher education, and even research in pure science, to name a few.” Kaysen even concluded that, “The modern corporation is a soulful corporation.”¹³⁵

And yet, at the same time, in principle everything corporate managers did—whether it was employee pensions, local baseball clubs, R&D budgets, factory architecture, or free cafeteria lunches—ultimately had to be justified in light of ROI. Profit always still loomed in the distance. That was one reason why the Fordist industrial corporation was, according to the economist Oliver Williamson, such “a prolific generator of anxiety and insecurity.”¹³⁶ As C. Wright Mills explained in *White Collar* (1951), the lash had become so abstract as to be internalized. “Many whips are inside men, who do not know how they got there, or indeed that they are there.”¹³⁷ By this point, few, only professional corporate accountants, even possessed the technical competency to know what profit was. But it was still there.

RATE OF RETURN ON EQUITY

In 2006 the Financial Accounting Standards Board (FASB), which was established in 1973, defined a “mark-to-market,” or “fair value,” accounting as one that captured “the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm’s length transaction.”¹³⁸ This was an accounting seemingly removed from the discretion of cor-

135. Carl Kaysen, “The Social Significance of the Modern Corporation,” *American Economic Review* 47, no. 2 (1957): 313, 319.

136. Williamson, “Managerial Discretion and Business Behavior,” 1034, citing V. A. Thompson, *Modern Organization* (New York, 1961), 24.

137. C. Wright Mills, *White Collar: The American Middle Classes* (1951; repr., New York: Oxford University Press, 2002), 110.

138. Financial Accounting Standards Board, *Statement of Financial Accounting Standards, No. 157: Fair Value Measurements* (Norwalk, CT, 2006). Accounting standards-setting institutions such as the FASB increasingly wrestled accounting regulation from state regulatory authorities, such as the SEC. The International Accounting Standards Board (IASB, established in 2001), dedicated to the “global conver-

porate managers. As rate of return on equity (ROE) calculations replaced ROI, accounts increasingly began to narrate market histories of finance capital, in which time was both reversed and compressed. Rather than the past, established by bureaucratic historical cost accounting, market prices, putatively reflecting all known information about the future, increasingly anchored present profit calculations. As future valuations instantaneously began to revise the present, once again short-term time pressure pushed the nonprofit out of the for-profit corporation. In the wake of deindustrialization, as capital increasingly took financial forms, the “profit-maximizing” corporation was born.

Before ROE could begin to displace ROI, first a twentieth-century generation of industrial capital had to reach the end of its life cycle. By the late 1970s, for instance, U.S. Steel struggled to extract profits from decades of fixed capital investments. Rocked by high oil prices and inflation during the 1970s, it had relatively outdated factories. Not benefiting from state-level industrial policies, it was battered by imports. Its pension liabilities were immense. U.S. Steel was not, according to any criteria one could possibly imagine, very profitable.

Listen to CEO Roderick’s testimony during pretrial hearings. Roderick explained why he decided to shut down the Ohio Works:

Well, what I really mean by an irreversible loss is based on our best judgment, or my best judgment, the loss would be incurred and there was nothing the plant could do to avoid that loss, that the market was working negatively and that it was our projection that the plant would lose money in five out of six months of the second half, that the loss for the year would be quite substantial in 1979, and with all the facts that we could see on the horizon for 1980, plus the actual performance for the second half of 1979, we felt there was no way that the loss trend could be reversed for the calendar year of 1980.¹³⁹

Roderick invoked “judgment” likely because his lawyers told him that the “business judgment rule” was on his side, which it was. Most notable about his busi-

gence” of accounting standards, adopted the same language in 2009. IASB, *ED/2009/5 Fair Value Measurement* (London, 2004). On mark-to-market, see Michael Power, “Fair Value Accounting, Financial Economics and the Transformation of Reliability,” *Accounting and Business Research* 40, no. 3 (2010): 197–210; James Perry and Andreas Nolke, “The Political Economy of International Accounting Standards,” *Review of International Political Economy* 13, no. 4 (2006): 559–86; Wendy Nelson Espeland and Paul Hirsch, “Ownership Changes, Accounting Practice and the Redefinition of the Corporation,” *Accounting, Organizations and Society* 15, nos. 1–2 (1990): 77–96.

139. *United Steel Workers v. U.S. Steel*.

ness judgment was its time span. Roderick was talking about months, at most a year.

The decision the CEO faced was whether to reinvest in the two mills—which compared with East Asian producers were old and obsolete. Roderick had been putting off capital expenditures, for a telling reason. ROI, as a managerial profit metric, had a perverse incentive.¹⁴⁰ As Du Pont had realized a century before, a high ROI could result from selling a product at a modest operating ratio, produced in an inexpensive plant. One way to profit from an inexpensive plant was to run it into the ground, holding back from reinvestment retained earnings and depreciation allowances—in other words magnifying an ROI calculation by correlating an operating ratio to a diminished “permanent investment.” The American steel industry did exactly this, achieving rather high ROI margins during the mid-1970s, before hitting a wall with this strategy in the late 1970s.¹⁴¹ The union in a sense was right. Given the existence of a positive operating ratio, however slight, and given the depreciated book value of the plant, the Ohio Works was profitable. Or at least, from the perspective of ROI—a metric that the union did not enjoy the prerogative to calculate itself—the mill was even more profitable than the operating ratio let on.

Roderick did not see it is this way and the question is why. The most obvious answer is that there is no reason to invest in a steel mill with a months long time horizon. Roderick was the first CEO of U.S. Steel to have never managed a steel mill. An accountant, he came from the finance side of the corporation.¹⁴² The same federal district court judge in *United Steel Workers v. U.S. Steel* who had narrated a history of wealth, in obvious sympathy with the union, actually ruled in U.S. Steel’s favor. Later in his decision, the judge turned to a history of capital:

This Court has spent many hours searching for a way to cut to the heart of the economic reality that obsolescence and market forces demand the closing of the Mahoning Valley plants, and yet the lives of 3,500 workers and

140. Naomi R. Lamoreaux, Daniel M. G. Raff, and Peter Temin, “Beyond Markets and Hierarchies: Toward a New Synthesis of American Business History,” *American Historical Review* 108, no. 2 (2003): 423–24.

141. This incentive was particularly intense in single-activity corporations like U.S. Steel, since central officers, unlike in multidivisional corporations, were not choosing whether to allocate capital to fundamentally different product lines. Research Council, *The Competitive Status of the U.S. Steel Industry* (Washington, DC: National Academy Press, 1985), 13, table 7.1. Brenner notes this tendency of US manufactures to “hunker down.” *Economics of Global Turbulence*, 165–71.

142. On this shift in management backgrounds, see Fligstein, *Transformation of Corporate Control*, chaps. 7–8.

their families and the supporting Youngstown community cannot be dismissed as inconsequential. United States Steel should not be permitted to leave the Youngstown area devastated after drawing from the lifeblood of the community for so many years. . . . Unfortunately, the mechanism to reach this ideal settlement, to recognize this new property right, is not now in existence in the code of laws of our nation.¹⁴³

If U.S. Steel would not continue to operate the mill, the steelworkers claimed, it should sell it to the union, under the guise of a “community corporation,” which would.¹⁴⁴ But the judge correctly ruled that, under US corporate law, Roderick enjoyed the right to apply his chosen standard of “profitability.” Musing over the various interpretations of “profitability,” the Sixth Circuit Court of Appeals would agree.

And so, in 1979 Roderick shuttered 12 steel mills and canceled plans to construct a new \$4 billion integrated steelworks on Lake Erie, while further reducing capital expenditures on mills left in operation. The CEO instructed shareholders that it was “essential to direct available funds where they will provide the greatest return.”¹⁴⁵ Roderick was thinking in terms of the new microeconomics, then fashionable in MBA curriculums, of “opportunity cost.”¹⁴⁶ In 1981 U.S. Steel—selling off parts of dismantled steelworks, tapping its own cash reserves, and borrowing \$4 billion—put up \$6 billion to purchase Marathon Oil. The acquisition was part of the general strategy, as Roderick put it, of “converting underutilized assets into cash for more profitable redeployment.” Down from 80 percent, suddenly only one one-third of U.S. Steel’s revenues came from manufacturing steel.¹⁴⁷ By then, the Ohio Works had been dismantled. Wealth, declared unprofitable capital, was destroyed.

The diversification of U.S. Steel was, in fact, a last managerial gasp. Roderick was following the same strategy that had led to the conglomeration movement of the 1960s, a trend furthered by the rise of a new crop of CEOs committed to a “financial” conception of corporate control.¹⁴⁸ But by the 1980s conglomerations

143. United Steel Workers v. U.S. Steel.

144. Lynd, “Genesis of the Idea.”

145. Nitin Nohria, Davis Dyer, and Frederick Dalzell, *Changing Fortunes: Remaking the Industrial Corporation* (New York: Wiley, 2002), 170.

146. J. R. Gould, “Opportunity Cost,” in Edey and Yamey, *Debits, Credits, Finance and Profits*, 91–107.

147. Nohria, Dyer, and Dalzell, *Changing Fortunes*, 170.

148. Fligstein, *Transformation of Corporate Control*, chaps. 7–8; Louis Hyman, “Rethinking the Post-war Corporation: Management, Monopolies, and Markets,” in Phillips-Fein and Zelizer, *What’s Good for Business*, 195–211.

tion had run out of steam. Roderick was thinking short-term in part because his shareholders were restless. Many of them were institutional investors—ironically the pensions funds and insurance and annuity plans made possible to begin with by the long-term timespan of ROI. In 1984, when Roderick acquired Texas Oil & Gas Corporation, Kim Schnabel, fund manager at the College Retirement Equities Fund (CREF, holding 2.3 million shares in U.S. Steel), cried that future retired university professors had been “taken to the cleaners.” CREF (created in 1952) was a nonprofit corporation, the largest of all tax-sheltered retirement plans—the inheritor of the Carnegie Corporation’s free pensions program for university professors.

Then the leveraged buyout artist Carl Icahn began circling U.S. Steel. Roderick announced that U.S. Steel—renamed USX to reflect its diversification—had hired the investment banks First Boston and Goldman Sachs to advise him on how to “enhance shareholder value.”¹⁴⁹ Roderick ultimately staved Icahn off. But U.S. Steel had nonetheless succumbed to the shareholder revolution. In 1991 the corporation split in two, representing its steel and energy holdings, to give its institutional shareholders “pure plays”—expressing a new theory of what a corporation should be.

According to the new academic “agency theory,” inspired by financial economics, a corporation was merely a “nexus of contracts” among self-interested parties. Managers were not “public trustees.” Rather, they existed to pursue the short-term “maximization” of “shareholder value.” The stock price—updated every instant—was the metric through which shareholders held managers to account, spelling an utter revolution in corporate governance.¹⁵⁰ Milton Friedman’s 1970 *New York Times* article, “The Social Responsibility of Business Is to

149. Nohria, Dyer, and Dalzell, *Changing Fortunes*, 173, 174. Note the absurdity of labor reaching for higher pensions yields in order to compensate for declining real wages by indirectly encouraging corporations to reduce real wages. Teresa Ghilarducci, *Labor’s Capital: The Economics and Politics of Private Pensions* (Cambridge, MA: MIT Press, 1992).

150. Dalia Tsuk Mitchell, “From Pluralism to Individualism: Berle and Means and 20th-Century American Legal Thought,” *Law and Social Inquiry* 30, no. 1 (2005): 179–225. The canonical texts were Eugene F. Fama and Michael C. Jensen, “Separation of Ownership and Control,” *Journal of Law and Economics* 26, no. 2 (1983): 301–25; and Henry Hansmann and Reinier Kraakman, “The End of History for Corporate Law,” in *Convergence and Persistence in Corporate Governance*, ed. Jeffrey Gordon and Mark Roe (Cambridge: Cambridge University Press, 2004), 33–68. Despite the theory, in practice, US institutional investors are so diversified that actual shareholder control is rather thin. The stock price stands in as the proxy. Simon Deakin, “Corporate Governance and Financial Crisis in the Long Run,” in *The Embedded Firm: Corporate Governance, Labor, and Finance Capitalism*, ed. Cynthia A. Williams and Peer Zumbansen (New York: Cambridge University Press, 2011), 25.

Increase Its Profits,” little noticed when published, became canonical.¹⁵¹ Corporations began to redescribe themselves. As late as 1981 the Business Roundtable, an elite business lobbying group, issued a “Statement on Corporate Responsibility,” in which it insisted that, “balancing the shareholder’s expectations of maximum return against other priorities is one of the fundamental problems confronting corporate management.” By 1997 it spoke not of corporate responsibility but of corporate governance: “In the Business Roundtable’s view, the paramount duty of management and of boards of directors is to the corporation’s stockholders; the interests of other stakeholders are relevant as a derivative of the duty to stockholders. The notion that the board must somehow balance the interests of stockholders against the interests of other stakeholders fundamentally misconstrues the role of directors.” For-profit corporations now once again brazenly existed to make profits.¹⁵²

It was in this context that the very definition of profit once again changed, with the rise of mark-to-market. Mark-to-market directly challenged historical cost accounting. Mark-to-market means this. When a corporation purchases, or creates, an asset, such as a steel mill, under historical cost accounting it enters the value of the asset on its balance sheet, based on the expected future income it is projected to produce. Over time, to compute ROI, to update its public financial statements, the corporation must revise the value of the asset. That is the task of depreciation. Markets might become involved in valuation, but only if actual market transactions occur—which then merely get recorded. Mark-to-market, however, says that asset values should be updated to reflect, “the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm’s length transaction.” But an actual market transaction does not have to happen. If corporations have their own stocks on their own balance sheet, they can be updated to reflect going market valuations. Or, if they have financial securities so complex that there is no market (e.g., over-the-counter mortgage-backed securities), then a synthetic market model suffices. The corporate performance of market valuations, in other words, in some cases can be more critical to profit calculations than actual market transactions themselves.

In calculating profits, during the 1980s the “mirror of the market” (or the model) began to replace so-called managerial discretion. Agency theorists and their advo-

151. Milton Friedman, “The Social Responsibility of Business Is to Increase Its Profits,” *New York Times*, September 13, 1970.

152. Business Roundtable, “Statement on Corporate Governance,” September 1997, 3; Benjamin C. Waterhouse, *Lobbying America: The Politics of Business from Nixon to NAFTA* (Princeton, NJ: Princeton University Press, 2014).

cates complained that historical cost accounting was simply the manager's self-interested history of capital, prone to profit smoothing and the sentimental treatment of profit-seeking capital as communal wealth. Mark-to-market was said to offer a more transparent financial snapshot—ROE became a market history of finance capital, compressed into a single price that reflected all known information about the future. Indeed, as a metric of corporate success, increasingly stock prices displaced rates of return, however calculated. According to agency theory, financial markets, unlike managerial “profit plans,” were inherently more efficient.¹⁵³

Mark-to-market is associated with the “balance sheet approach.” The profit and loss statement—the income statement—becomes redundant, since mark-to-market valuations of assets and liabilities instantaneously update profits and losses on the balance sheet itself. The operating ratio is almost superfluous. For the corporation no longer realizes income from past capital expenditures. Rather, the future (the profit and loss statement) presses down on the present (the balance sheet). Time is compressed, but it is also reversed. With mark-to-market the history of capital runs in reverse, from the future into the present, rather than, as with historical cost accounting, forward from the past.

Mark-to-market was not new. In the early twentieth century, before the triumph of historical cost accounting, it went under the name of “proprietary” theory. The idea was that corporate accounting should reflect value creation in light of the corporation's proprietary owners—its stockholders.¹⁵⁴ Managerial “entity” historical cost accounting triumphed instead, with the majority of assets on twentieth-century industrial corporations' balance sheets, after all, being non-financial assets—factories. The resurgence of proprietary theory makes sense in light of “financialization.”¹⁵⁵ Capital increasingly took new financial forms. Financial assets now burdened balance sheets, and often have clear market values. Why not mark them to market prices?

Mark-to-market first spread to corporate America from financial derivatives exchanges, such as the Chicago Mercantile Exchange and the Chicago Board of

153. It was no accident Fama developed the “efficient markets hypothesis” before he turned the agency theory of the firm. Donald MacKenzie, *An Engine, Not a Camera: How Financial Models Shape Markets* (Cambridge, MA: MIT Press, 2006), 65.

154. The concern then was about watered stock. Previts and Merino, *History of Accountancy*, chaps. 6–7.

155. By 2000, in the US nonfinancial corporations earned as much as 40 percent of their income from financial transactions, compared with 10 percent in the 1960s. Meanwhile, the profit take of the financial sector grew larger than the productive sector, despite the financial sector's relatively smaller share of asset values (since finance generated profits through debt-financing). Krippner, *Capitalizing on Crisis*, chap. 2.

Trade. Futures, options, and swaps derive their value from some conditional variable in the future. Historical cost frameworks, focused on realization, cannot account for their value over time—let alone make use of the increasingly sophisticated mathematical models employed to price securitized assets.¹⁵⁶ In the 1980s during the LBO mania management consultants—to increase the value of acquired assets, under pressure of debt—pushed for mark-to-market valuations.¹⁵⁷ But mark-to-market truly emerged when, during the 1990s, financial and nonfinancial corporations alike began to engage in the manufacture so many new financial derivatives.

If there is one corporation that illustrated the harmony between shareholder value and mark-to-market it was Houston's Enron Corporation. Enron was a natural gas provider before, beginning in the 1980s, gorged in debt, it stumbled on securitization. In 1985, its leading oil futures contracts dealer already explained its new business model. Securitization could "generate substantial earnings with virtually no fixed investment and relatively no risk." "My job as a businessman," a young Harvard MBA named Jeffrey Skilling declared, "is to be a profit center and to maximize return to the shareholders." Skilling would transform Enron into an online exchange platform for a proliferating series of energy derivatives contracts. In 1992 the SEC signed off on its use of mark-to-market criteria to book profits in the present based on future market predictions, or market model predictions, of trading income. ("Welcome to the Hotel Mark-to-Market," an Arthur Andersen accountant reportedly sang.) By 2000, 35 percent of the assets on Enron's balance sheet were marked-to-market, although "unrealized trading gains" from such assets accounted for more than half the corporation's reported \$1.41 billion of profits. As for its balance sheet, Enron pursued Skilling's "asset light" approach, which maximized return on equity by generating profits through debt-financed transactions. "Oh, Jeff just hates assets," an Enron colleague explained.¹⁵⁸

156. Financial Accounting Standards Board, *FAS 133, Accounting for Derivative Instruments and Hedging Activities* (Norwalk, CT: The Board, 1998); MacKenzie, *An Engine, Not a Camera*; Perry Mehrling, *Fisher Black and the Revolutionary Idea of Finance* (New York: Wiley, 2005).

157. Power, "Fair Value Accounting," 197. The 1980s savings and loans crisis, in some quarters, was blamed on the use of historical cost accounting in banks. Valuing underperforming loans at book value, rather than market value, hid losses.

158. Bethany McLean and Peter Elkind, *The Smartest Guys in the Room: The Amazing Rise and Scandalous Fall of Enron* (New York: Portfolio, 2003), 17, 31, 42, 110, 67; C. William Thomas, "The Rise and Fall of Enron: When a Company Looks Too Good to Be True, It Usually Is," *Journal of Accountancy* 193, no. 4 (2002): 1–11.

“Asset light” was a business model that Enron took to a fraudulent extreme, but it was nevertheless one that many US corporations were themselves increasingly pursuing. Fervently outsourcing production to low-wage areas of the globe, corporations sought to relinquish ownership and control over physical assets, as the intra-firm hierarchies of “entities” gave way to the cross-subsidiaries of “networks.”¹⁵⁹ Certainly the largest and most powerful corporations, even nonfinancial ones, such as Wal-Mart, did not want to engage in actual manufacturing.¹⁶⁰ That the US corporate income tax was predicated on the entity’s extraction of income from long-lived physical assets made corporate tax avoidance, through the use of global subsidiaries, all the more possible. US corporations successfully began to de-fiscalize themselves. In 2000, only about a tenth of federal revenue came from corporate income tax, down from about a third during the 1950s.¹⁶¹ Meanwhile, with less fixed capital, once again labor costs appeared as a relatively higher percentage of total costs, accelerating both the dispersal of production and assembly to low-wage areas abroad and the assault by US corporations against both white collar and organized labor at home.

Asset light, Enron was a highly leveraged institution, masking liabilities by creating off-balance sheet “special purpose entities,” with its own stock put up as the collateral. Enron became a Wall Street darling in 1993, when the California Public Teacher’s Retirement System (CalPERS), the largest public pension fund in the United States, put up \$250 million for an investment in an Enron off-balance sheet special purpose entity. Enron stock surged, increasing “shareholder value,” in light of the corporation’s enormous quarterly profits, the result of mark-to-market accounting for “recognized, but unrealized, income.” To consider just how innovative this new way of making profit was, consider Enron’s attitude toward costs. As one managing director explained, “If you are focusing on costs, you’re fucking up.” Enron was not realizing value from past effort. Rather, it was booking profits by continuously revising a certain accounting picture of the future. I remember working as a paralegal for a Houston, Texas, law firm in 2002, scouring through the wreckage of one baffling energy derivatives

159. Walter W. Powell, “The Capitalist Firm in the Twenty-First Century: Emerging Patterns in Western Enterprise,” in *The Twenty-First Century Firm: Changing Economic Organization in International Perspective*, ed. Paul Dimaggio (Princeton, NJ: Princeton University Press, 2001), 33–68.

160. Nelson Lichtenstein, *The Retail Revolution: How Wal-Mart Created a Brave New World of Business* (New York: Picador, 2009).

161. US Office of Management and Budget, Fiscal Year 2012, Historical Tables, table 2.1, <http://www.whitehouse.gov/omb/budget/Historicals>.

transactions after another, when a senior lawyer once pulled me aside to explain the key to the business model. Enron was neither an energy company nor a trading company, he explained; it was an accounting company. Depending on one's point of view, Enron was either creating the future "intangible assets" of the New Economy or massively looting wealth in the present. Meanwhile, Enron's human resources department featured performance review committees that rated employee teamwork according to the teams' generation of "unrealized income." The corporation valued future unrealized income over past effort and experience. At Enron, once it became apparent that recognized income would not in fact be realized, the stock price plummeted, the accounting frauds were revealed, and the corporation imploded.¹⁶²

There are striking parallels between the eras of the operating ratio and the era of mark-to-market. Both are eras of short-termism. Time pressure once again foregrounds the microeconomics of individual profit maximization. It also pushes the nonprofit from out of the for-profit corporation. Asset light in the books, for-profit corporations become more narrowly focused on profits, with—quite literally—little time left for anything else. "Organizational slack" is eliminated. Labor turnover accelerates.¹⁶³ Short-termism—through "outcome-orientated philanthropy," TIAA-CREF investment funds, or university endowments—invades the nonprofit.¹⁶⁴ Meanwhile, heightened economic inequality, as labor costs get squeezed, once again redistributes wealth through private philanthropy. The Gates Foundation prods the global rich to give. Now, as then, the conflation of a plurality of institutional goals and objectives gives way to bifurcating organizational and normative poles. Even the biologically inspired binaries of egoism and altruism—under the guise of "competitive" versus "prosocial" behavior—have returned to academic prominence.¹⁶⁵

There are major differences, one chief among them. Berle said of the modern corporation: "The capital is there, and so is capitalism. The waning factor is the capitalist." Today the capitalist is there, and so is capitalism. The waning factor

162. McLean and Elkind, *The Smartest Guys in the Room*, 67, 119, 63; Thomas, "Rise and Fall of Enron," 3.

163. Mark Huselid, "The Impact of Human Resource Management Practices on Turnover, Productivity, and Corporate Financial Performance," *Academy of Management Journal* 38, no. 3 (1995): 635–72.

164. Paul Brest, "A Decade of Outcome-Orientated Philanthropy," *Stanford Social Innovation Review*, Spring 2012, 42–47.

165. For an incisive review of this literature, see Alexander J. Field, *Altruistically Inclined? The Behavioral Sciences, Evolutionary Theory, and the Origins of Reciprocity* (Ann Arbor: University of Michigan Press, 2004).

is the capital.¹⁶⁶ Perhaps they did not account for the use of fixed capital, but the era of Carnegie and Rockefeller was nonetheless an era of capital accumulation. Debt fueled the 1980s leveraged buyout mania. Debt fueled the corporate stock buybacks that blew the 1990s New Economy bubble, as well as the obscene reliance on short-term debt-financing by global banks in the run up to the 2007–8 financial crisis.¹⁶⁷

Likewise, given mark-to-market's transaction-based character, aspects of the era of income and outgo have returned in new form. Debt, as then, prods concern for profitability. The urge to inflate balance sheet profits—recognized, if not realized—through securitization, not to mention the hiding of liabilities off-balance sheet in special-purpose entities, as Enron did, is apparent. Global banks howl against new regulations that would increase their equity (their capital) to higher than 3 percent of their assets.¹⁶⁸ Instead of running factories into the ground to inflate ROI, financial corporations finance themselves as much as possible through debt—that way slight upticks in market values can maximize an ROE calculation. In the switch from historical cost accounting to mark-to-market, ROI to ROE, profit has been literally turned inside out. ROI was once a metric that recognized capital accumulation. Today ROE serves to eliminate the need for capital. Profit maximization has introduced the specter, and spectacle, of capitalism without capital.

Further, with mark-to-market, the instantaneous updating of assets and liabilities values on the balance sheet, the “event” has returned. Events cannot be smoothed out in the quarterly and yearly managerial accounts. Temporality in economic life becomes more lumpy. Tweets can roil derivatives markets. The goal of sophisticated mathematical asset value modeling in global banks, for instance, is to exclude certain classes of events from “value-at-risk models”—eliminating risk, justifying debt-financing, further reducing the need for capital. When those events—the 1998 Russian sovereign default, the 2007 collapse of US housing prices—occur (not to mention unpredictably correlate in nonlinear fashion), the balance sheets of highly leveraged corporations simply blow up.¹⁶⁹ Mark-to-

166. This is all the more odd given the presence of large pools of capital throughout the world seeking investment. Ben S. Bernanke, “The Global Saving Glut and the U.S. Current Account Deficit,” <http://www.federalreserve.gov/boarddocs/speeches/2005/200503102/>.

167. Wolfgang Streeck, “The Crisis of Democratic Capitalism,” *New Left Review* 71 (September–October 2011): 5–29.

168. Anat Admati and Martin Hellwig, *The Bankers' New Clothes: What's Wrong with Banking and What to Do about It* (Princeton, NJ: Princeton University Press, 2013).

169. MacKenzie, *An Engine, Not a Camera*.

market compresses the future onto the present, with respect to profit and loss, boom, and bust.

The global financial crisis of 2007–9 was a setback for the mark-to-market movement.¹⁷⁰ The downside of having economic life mirror the market dawned on even global megabanks—some declared by the market, literally overnight, insolvent. To be clear, with the exception of derivatives valuation, both the FASB and the International Accounting Standards Board (IASB) still recommend the use of “mixed metrics,” combinations of both historical cost and mark-to-market valuations—despite one IASB member’s declaration of mark-to-market as the new “meta-rule.”¹⁷¹

Therefore, the “definition of profit,” the future history of capital, is still uncertain. Its fate remains in the far-reaches of the technical competency of global governance, far outside the arena of democratic accountability. Meanwhile, new corporate personalities—the “low profit” corporation, the “benefit corporation”—seek to reintegrate the for profit and the nonprofit. They lurk only at the margins.¹⁷² For now, like some black hole energized by a supernova of debt, the balance sheet collapses into profit—liquidating capital, devouring our wealth.

170. The response from mark-to-market defenders has been, essentially, don’t shoot the messenger. Christian Laux and Christian Leuz, “Did Fair-Value Accounting Contribute to the Financial Crisis?,” *Journal of Economic Perspectives* 24, no. 1 (2010): 93–118.

171. Peter Walton, “IAS 39: Where Different Accounting Models Collide,” *Accounting in Europe* 1, no. 1 (2004): 9; Philippe Danjou, “An Update on International Financial Reporting Standards” (February 1, 2013), <http://www.iasplus.com/en/news/2013/02/english-danjou-paper>.

172. Robert A. Katz and Antony Page, “The Role of Social Enterprise,” *Vermont Law Review* 35 (2010): 59–103.