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Accounting, the State and democracy: a long term perspective on the French experiment, 1716-1967

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Abstract

Accounting tools and procedures played a significant role in the development of the modern State, in the implementation of democracy and in its operation. This paper sets out to illustrate several aspects of this long term relationship by examining the French example.

We firstly look at two fundamental improvements which occurred in the public sector accounting, in the early nineteenth century, i.e., the implementation of an efficient tax collecting system, replacing private tax-collecting agencies by a centralised bureaucratic administration, after several unsuccessful attempts during the eighteenth century, and the organisation of the parliamentary control on public expenditure through the adoption of budgetary rules and the definition of control mechanisms. With the *Règlement général de la comptabilité publique* of 1838, the design of the general framework of French public sector accounting was completed and was to last for over a century.

The paper then examines the intervention of the State in the regulation of private sector accounting, in two phases. Only after World War I did State begin to intervene in private accounting practices, because of the creation of an income tax, defining a set of accounting rules with the aim of optimizing income tax performance. At a later date, by the end of the Interwar years, the growing interest for the ideas encompassing a co-ordinated economy and economic planning gradually shaped a further stage in accounting regulation with the adoption of a national accounting chart or the *Plan comptable général* of 1947. One of the main objectives was to obtain accounting data that were sufficiently homogeneous to be aggregated for the construction of national income statistics and the development of national accounting. These choices contributed to France's economic recovery after World War II.

During these 250 years, accounting as a technology of power, knowledge and control, was enrolled in the service of strengthening the State in various respects, and became one of the governance tools of modern democracy. This proactive policy contrasts sharply with the abandonment of sovereignty from the European countries regarding accounting regulation, in favour of a non-European private organisation, i.e. the IASB.

Keywords. Accounting and the State, accounting standardisation, modern fiscal State, public sector accounting, French history.

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Examining how the role of the British Exchequer accounting system helps to explain why Britain, “rather than other areas of Europe, became the most centralised and administratively advanced state”, Jones (2010) recalls that with few exceptions such as Miller (1986, 1990) or Edwards, Coombs H.M. and Greener H. T. (2002), “the nature and role of accounting techniques and practices in the establishment, emergence and extension of governmental power has traditionally received relatively little attention.” Moreover, apart from Miller (1986, 1990) who studied the French case, most of the authors cited by Jones have concentrated their studies on the British case. Relying both on a series of works devoted to particular moments and aspects of French accounting history¹ and on research conducted as part of the preparation² of a *Dictionnaire historique de la comptabilité publique* (a historical dictionary of public sector accounting) (Legay, 2010), this paper seeks to endow the French experiment with a long term perspective.

Unlike Miller (1990) who focused on the links between private accounting regulation by the *Ordonnance du commerce* of 1673 and the implementation of Colbert’s mercantilist policy, the present study covers a 250 year period, spanning from the early eighteenth century to the middle of the twentieth century. The paper is divided into two main sections, each corresponding to a different period, 1716–1838 and 1867–1967, and to different kinds of accounting rules and techniques: public sector accounting for the first period and private sector accounting for the second. Despite their difference in nature, the object remains the same in both sections, i.e., the intimate interplay between accounting and the State. In fact, we can consider that by the end of the first period, the designing of the French public sector accounting system was more or less achieved and that whereas the intervention of the State in private accounting was to begin quite later, taxation and power issues pertaining to the State were key features in each period.

The first section examines two fundamental improvements that occurred in public sector accounting in the early nineteenth century, but which had been prepared by earlier attempts to reform the institutions. A first step in the construction of a modern fiscal State, was the implementation of an efficient tax collecting system, replacing private tax-collecting agencies, inherited from the old patrimonial administration, by a centralised bureaucratic administration. A second step was in the organisation of parliamentary control in both public revenue and expenditure through the progressive adoption of a set of budgetary rules and the definition of control mechanisms. All of these provisions were consolidated in the *Réglement général de la comptabilité publique* (General regulation of public accounting) enacted in 1838. Their application was to last for over a century.

¹ Bocqueraz (2000, 2001), Bottin (1995, 2000), Lemarchand (1993, 1995, 1999), Nikitin (2001), Ouriemmi (2010), Parker (1992), Ramirez (2001, 2005), Standish (1990), Touchelay (2005, 2008, 2010), Vanoli (2006).

² Coordinated by Marie-Laure Legay, the preparation of this dictionary was conducted by an interdisciplinary research group funded by the *Agence nationale de la recherche* and gathering scholars in history, law and accounting: Anne Dubet, Joël Félix, Jean-Claude Hocquet, Sébastien Kott, Yannick Lemarchand, Bernard Lutun, Natalia Platonova.

This section illustrates the incorporation of accounting as a technology of power, knowledge and control into the construction of the modern State and into the emergence of democracy. Reforms were implemented through major political changes, such as the French Revolution of 1789, the Napoleonic Empire and the Restoration, which made it possible to overcome the opposition of private interests. However, by the early twentieth century, improvements in the taxation system had become necessary given that the financial needs of the State had increased due to much greater military expenditure. In particular, direct taxation had to be reformed in order to bring more equity into the distribution of an increasing tax burden. This new stage in the building of the modern fiscal State marked the starting point for the French government's concern with private accounting issues.

The second section is thus devoted to the study of the intervention of the State in private sector accounting regulation from 1867 to 1967. It appears that in the early twentieth century, France was one of the European countries with the most liberal accounting rules. In addition, it was only after World War I that the State began to intervene in private accounting practices, because of the creation of an income tax. The State required efficient taxation of profits based on accounting numbers, but because of a lack of agreement among accountants, together with the plethora of accounting practices, the fiscal administration developed a set of accounting rules, particularly regarding valuation issues. The expansion of the market for accounting services which resulted from this introduction made it necessary to help the associations of accountants in their efforts towards professionalisation, but the result fell short of what the practitioners expected. Later, by the end of the Interwar years, the growing interest in the idea of a co-ordinated economy and economic planning gradually led to a further stage in accounting regulation with the adoption of a national accounting chart or *Plan comptable* and the creation of the *Ordre des experts comptables et comptables agréés*. One of the main reasons for harmonizing accounting practices was to obtain sufficiently homogeneous accounting data that could be aggregated so as to establish national income statistics and namely "national accounting", for the purpose of economic planning. In any case, the deep involvement of the tax administration in the whole process demonstrates that this fiscal issue was paramount despite the new concerns surrounding economic policy.

This second section shows that the intervention of the State did not follow a linear path. It hesitatingly covered various aspects, ranging from the definition of certain basic accounting principles to the establishment of an accounting chart and the organisation of the accounting profession. Here again, the most crucial changes occurred in periods of significant political change, when the opponents were at their weakest. However, such changes were not merely a consequence of change in the balance of political forces but rather a consequence of an intellectual and ideological renewal within the French senior civil service.

During these 250 years, accounting as a technology of power, knowledge and control, was enrolled in the service of strengthening the State in various respects, and became one of the governance tools in modern democracy, despite a tragic reversion to authoritarianism during the German Occupation. This occurred both internally, with public sector accounting as a central part of the apparatus of State, together with the newly introduced national accounting, and externally with a private sector accounting regulation designed to meet the informational needs of the State. This intervention on accounting regulation contributed to the economic recovery of France after World War II, through national accounting and economic indicative planning.

Nevertheless the period since World War II has clearly shown itself to be the apogee of the nation-State. Globalisation, the growing power of giant corporations, the emergence of new economic leaders (and the European construction for European countries) increasingly challenge state sovereignty and the ability of nation-States to make decisions based on the democratic choices of their citizens. Since the end of the 1990s, in France as in many other European continental countries, there have been significant changes in accounting regulation and practices, towards an alignment with International Public Sector Accounting Standards (IPSAS) and International Financial Reporting Standards (IFRS). This abandonment of sovereignty contrasts sharply with the proactive policy observed before.

1. Reforming public sector accounting system: 1716 – 1838

In order to introduce our topic, we must remind ourselves of that long-standing distinction between two individuals, both involved into the management of State finance: *l'ordonnateur* and *le comptable*. The Financial Regulation of 21 December 1977, applicable to the general budget of the European Communities (Art.21), defines the rights and the duties of these two individuals. The *ordonnateur*, in English the authorising officer, is responsible for making budgetary commitments, for validating expenditure and for authorising payments, while the *comptable*, in English the accounting officer, executes the payment and recovery orders issued by the authorising officer. Article 21 begins with the following sentence: “The budget shall be implemented in accordance with the principle that the authorising officers and accounting officers are different individuals.” This distinction is a long-standing principle underpinning the French public sector accounting system and was already present during the *Ancien Régime*. It will help us to structure this first section.

During the *Ancien Régime*, the *ordonnateur* was the King himself and even if his responsibility was delegated to several officers, a major cause for concern was the monitoring and supervision of the *comptables*, particularly on the receipt side, as tax collecting was a private business yielding high profits to the tax collectors, at the expense of the Crown. The aim of the reforms, which were implemented from 1716 until the early nineteenth century, was to replace a set of decentralised contractual relations, between the King and private tax-collecting agencies, with a centralised bureaucratic administration where tax-collecting would be conducted by civil-servants, in order to improve tax recovery and to curb each and every opportunity for fraudulent gain. The monitoring of the *comptables* was greatly improved by the transition from *business to bureaucracy*. With the Revolution of 1789, ministers became *ordonnateurs* and the new democracy immediately tried to establish parliamentary control over them, but it took more than 50 years before such parliamentary control became effective. With the *Règlement général de la comptabilité publique* (General regulation of public accounting) issued on 31 May 1838, the design of the general framework of the French public sector accounting was completed and it lasted for over a century.

Both steps — the implementation of an efficient tax collecting system and the organisation of parliamentary control over public expense — could be considered as fundamental stages in the building of the modern State.

1.1. Monitoring the *comptables*: from business to bureaucracy...

We must mention that we have partly borrowed this title from the American historian John Bosher, a specialist in French public finance history, author of a book entitled *French Finances, 1770-1795. From Business to Bureaucracy*, published in 1970. In this first part, we will follow the

chronology of the reforms and important accounting changes, but prior to this, we will commence with a brief description of the tax-collecting system.

1.1.1. Tax collecting: a profitable private business

As recalled by White (2004, p. 636), “To the modern mind, the collection of taxes would seem to be an essential governmental function but delegation of tax collection for profit was common in Europe”. This was the case in France before the Revolution of 1789 and tax-collecting was a very profitable private business. Using fiscal receipts, tax-collectors lent money to the Crown, instead of systematically transferring funds, so the State actually paid interest on public funds !

Tax-collection used two main channels: the *ferme générale* (general farm) for indirect taxes and the *recettes générales* (general receipts) for the *impositions* (direct taxes) (Matthews, 1958, p. 3-33). Both were managed by private individuals, *fermiers* (farmers) and receivers, according to a contract giving the fixed amounts that the State was to receive at specified moments.

Under the farm system, tax-collection was sub-contracted out to a company of financiers through a six year lease. By the auction-sale, farmers gained the rights to the indirect tax revenues in exchange for fixed dues which they partly advanced to the Crown, at the beginning of the lease. Indirect tax receipts were naturally uncertain, so the farmers, who were responsible for the cost of collection, either incurred losses or, in most cases, made profits. The amount of these profits represented the cost of the farm system for the State, a cost partly offset by advance payments for the lease and by the guarantee of a fixed income.

In contrast, there was no real uncertainty about the direct tax product and the government fixed the yearly amount of direct taxes for each administrative and geographical subsection, i.e., *généralités*, *élections* and *paroisses*. At the local level (*paroisses*), collectors were responsible for sharing the tax burden between inhabitants and remitting the proceeds through the hands of the *receveurs particuliers* (particular receivers) of the *élections*, to the receiver general of each *généralité*³, and finally to the Royal Treasury. Payments to the Treasury were supposed to occur on a quarterly basis and for amounts established under contract. Thus the State received regular returns independent of the true pace of collection, which could be slow because of the settlement deadlines of 18 to 24 months granted to taxpayers.

On the other hand farmers and receivers were not only tax-collectors and one of their their duties was to use their receipts to pay certain State expenses so as to limit money transfers. But sometimes they had to anticipate on the receipts. So they acted as a short term credit system for the Royal Treasury. The latter benefited from early payment of the tax revenue but at a considerable financial cost, comprising the interest paid to financiers and the lost ‘profit’ on leased taxes. These arrangements also rendered the State dependent on people over whom it really needed to exert careful control.

Combining the roles of tax collector and lender with the functions of payer and receiver, together with the mixing of royal and private funds, proved to be the source of a plethora of abuses. In particular, the receiver generals often made the pretence that there were delays in the tax collection and the money thus retained could be used to grant loans to the King at

³ There were two receivers for the same division, who were each responsible for the recovery of taxes in successive years. This made a total of 48 receivers general for 24 *généralités* and 408 *receveurs des tailles* for 204 *élections*.

high interest rates, using the King's own money! (see Véron de Forbonnais, 1758, tome I, p. 301; Dessert, 1984, p. 44 and 203-204). These gains, together with their regular incomes, which were proportional to the amount of cash handled from tax recoveries, thus endowed the receivers with both opulence and power.

The receiver generals had to report to the *Chambres des comptes*, as did other *comptables*, like for example treasurers, but this audit process was largely ineffective. Firstly, they took several years to submit their reports. and secondly, they used the charge-and-discharge accounting method. This method theoretically made it possible to verify that the *comptable*, when rendering his accountability, did not conceal anything such as double-count expenses, or omit receipts from the outset. However, in reality, this control disregarded the chronological movement of cash, and its judiciously arranged distribution was often a source of significant gain. In fact, the *Chambres des comptes* intervened only when a financier was in a dire situation and, therefore, suspected of being a debtor to the State (Bosher, 1970, p. 114). They could not prevent abuses and at best they could only punish them.

1.1.2. The Paris brothers' reform, 1716 - 1726

The Paris brothers — Antoine Paris, Claude Paris “la Montagne”, Joseph Paris du Verney and Jean Paris de Monmartel — ranked among the most famous *financiers*⁴ in the kingdom. In 1712, Antoine Paris acquired the office of general receiver of the Dauphiné and he successfully reorganised the *recette générale* of the Dauphiné, by introducing double-entry accounting. After that, the four brothers became the promoters of the same reform at national level (Levy, 1980, tome II, p. 40). In 1715, in the early days of the Regency⁵, the Duke de Noailles, the new superintendent of finances, commissioned them to reorganise the financial administration.

The first step in their reforms⁶ concerned the *recettes générales*, and had two main goals. Firstly, the brothers aimed to increase the speed of collection of direct taxes, and to increase the performance of the supervision of receivers. Secondly, they sought to ascertain their balance with the State, as soon as possible, in order to obtain a clear insight into the financial situation of the State itself. In June 1716, they created a common *caisse* where all the cash collected by receiver generals had to be deposited directly and a set of rules governed the collection of information. An edict obliged all the *comptables* to keep a day-book of their receipts and expenses. To verify the receivers' books, it was decided to appoint a controller in each *généralité*, and every fortnight each receiver was obliged to send a fair copy of his journal to the *Contrôle général*.

The copies of day-books received from the receivers were used to construct a general day-book kept by double-entry. In the ledgers of the administrative offices, a *compte particulier* (private account) was opened for each receiver and a *compte général* (general account) for each category of receipt or expense of each administrative subdivision. This accounting system provided the balance of each *comptable* with the Treasury, and a view of the different categories of receipts and expenses. It was not designed to give a statement of the State's property, but simply to follow the cash flows.

⁴ Until the Revolution of 1789, a *financier* was someone who received, held or spent royal funds.

⁵ Louis XV was five years old when his great grandfather, Louis XIV, died in 1715. Until 1723, when Louis XV came of age, his uncle Philippe d'Orléans headed the Regency.

⁶ An in-depth presentation of this reform is provided in Lemarchand (1999).

The second step in the Paris brother's reforms began in 1721 when the *Ferme générale* was placed under *régie*. This meant that the State met the full cost of tax collection and received the entire proceeds of the tax. At that moment, Paris du Verney was powerful enough to be thought of as the true Prime Minister (Marion, 1914, p. 121) and the Paris brothers attempted to extend their reform to other areas of the public finances, that is not only to taxes but also to expenses, i.e., to the various treasurers' offices. This extension was accompanied by certain innovations designed to achieve closer control. However, a large number of people were rather dissatisfied with all these innovations, and the four brothers made many enemies.

The experiment came to an end in June 1726, after the replacement of the *Contrôleur général des finances* (the equivalent of the Finance Minister at the moment), because of the opposition of farmers and receiver generals. Du Verney was jailed 'under an indictment whose inanity did not take long to be demonstrated' (Marion, 1914, p. 134), and his brothers were forced into exile. After a short period of disgrace, the four brothers regained the limelight and, for more than 25 years, exerted a strong influence on Louis XV through the king's mistress, Madame de Pompadour (Chaussinand-Nogaret, 1972, p. 61-67), who was their goddaughter. However, they no longer endeavoured to reorganise the French finances.

The *Caisse commune* of the receiver generals was scrapped while the functions of itinerant inspectors of *recettes générales* were also waived. Although the formal rules of the edict of June 1716 were maintained, there was no obligation for receivers to send in monthly copies of their day-books. In fact, they simply had to submit summary statements. All these changes were supposed to lighten the administrative work of the receiver generals and to allow them to better conduct their assignments. A certain favour was expected in return, especially for those advance remittances that came regularly to the help of a Treasury perpetually lacking in cash. Offices created by the Paris brothers, for accounting supervision, were also abandoned. The same took place at the General Farm where the return to *affermage* (leasehold) was accompanied by the abandonment of the Paris brothers' accounting practices.

However, the reforms of the Paris brothers and their writings about these reforms could be considered as one of the manifestations of the constitution of a science of state administration, which emerged in Europe during the Period of Enlightenment, and as an anticipation of further reforms. In particular, the content of the manuscript entitled *Traité des administrations des recettes et dépenses du royaume*, written in 1733 by Claude Paris La Montagne (Archives Nationales, KK 1005 C) largely surpasses the accounting literature of the period, in terms of the potentialities of double entry bookkeeping as instrument of supervision.

The Paris brothers were by no means the first to advocate the use of double-entry in royal finances. The earliest proponent of the idea was probably Simon Stevin (1608) who developed similar arguments to those of the Paris brothers in a book written for the instruction of Prince Maurice of Nassau, governor of the United Provinces from 1585 to his death, entitled *Livre de compte de prince à la manière d'Italie, en domaine et finance extraordinaire*. Certain countries had already performed the experiment⁷, such as Spain at the end of the sixteenth century (Hernandez Esteve, 1986), and Sweden (Forrester, 1990, p. 310) and Holland (Stevelinck, 1970, p. 48-56) in the early seventeenth century. Others followed, such as that carried out by Sébastien Pombal, Prime Minister of Portugal from 1755 to 1777, who introduced double entry bookkeeping within the Portuguese Royal Treasury, on its establishment in 1761 (Gomes, 2007 ; Gomes et alii, 2008).

⁷ For an overview of European attempts at introducing double entry in public finance, see Gomes (2007, p. 128-141).

1.1.3. Necker's reforms 1778 - 1781

The three main elements of the Paris brothers' reform, i.e., common *caisse*, *régie* instead of farm lease, and double-entry, were revisited in reforms that began in the 1770s. To reduce the large number of *caisses* was one of the foremost preoccupations of Turgot (*contrôleur général* from 1774 to 1776) and Necker (*ministre des finances* from 1776 to 1781 and from September 1788 to September 1790) (Bosher, 1970, p. 140). The logic of the *chambres des comptes* involved increasing the number of *comptables* and *caisses* in order to simplify accountability by facilitating control of the management of each *comptable* (Bosher, 1970, p. 140). However, double-entry offered the possibility of centralisation, by allowing a subdivision of accounts within the accounting system itself, which was far more precise than was possible, merely through a physical increase in the number of *comptables*. This could perhaps result in an increase in the administrative workload but would enable the simultaneous supervision of cash and *comptables*. The number of *caisses* was drastically reduced by Necker and in 1780, the 48 *receveurs généraux* were replaced by a *régie* of 12 people, with a *caisse commune*. In parallel, the recollection of the *aides* (sales taxes), which accounted for 40 % of indirect taxes, were taken out of the *ferme générale* and put under *régie*. Finally, in 1788, the *Règlement général du Roi pour la manutention du trésor royal* (Isambert, 1827, p. 521-524), introduced double-entry in the management of the Royal Treasury.

Nevertheless, administrative reforms alone were insufficient to bring about real change. The substitution of the *régie* for contractual arrangements, linked with the limitation of the agents' profit potential through accounting supervision, represented a break with the old system. A logic of subordination replaced a contractual logic. Several venal offices were discontinued, such as those of the 48 *receveurs généraux* and Necker's aim was to replace venal officers by officials hired on a meritocratic basis. This attempt to centralise and bureaucratise the central administration, in control of direct taxes, and to shift tax collection from private hands to public hands was of prime importance. Yet this reform was reversed within a year, when Necker was dismissed, under the pressure of receiver generals who proved to be too powerful to dislodge (Bosher 1970, p. 166).

Was it impossible to reform finances without a revolution? The only answer we have is that the Revolution made it possible!

1.1.4. The Revolutionary era 1789-1799

Examining the relationship between revolution and the bureaucratization of tax administration in both early modern England and France, Kiser and Kane (2001) conclude that "Revolution was neither the beginning nor the final stage of the rationalisation of the tax collecting process, but it was the most critical turning point nonetheless." A large number of those who were opposed to any reforming attempts, given the threat to their interests, were swept aside by the Revolution. The tax farmers, for example, were so unpopular that after the dissolution of the *Ferme générale* in March 1791, 28 of the 60 *fermiers généraux* were guillotined on 8 May 1794, during the rule of *la Terreur*. Without systematically achieving such a dramatic outcome, several other bureaucratic innovations were carried out with the intention of establishing a modern State. The sale of offices, which had been a considerable source of cash for the Monarchy, was abolished in August 1789 (Doyle, 1996, p. 275-311), together with many other privileges. Again, the purpose was to replace venal officers by civil servants hired on a meritocratic basis, thus opening careers to the talented was a revolutionary principle.

Regarding accounting organisation, the decrees of 18, 27 and 30 March 1791 placed the administration of the *Trésor national* with a committee of treasurership⁸, made up of six commissioners, in charge of the centralisation of receipts and payments. One of these six commissioners was in charge of the central accounting office. Again, double-entry bookkeeping was considered as a key instrument in the supervision of the *comptables* by the *Trésor national*. The decree of 30 March 1791 stated that “all receipts and payments will be registered by double entry and that therefore, every day, the cashier of the receipts and the four payers will present to him [the central accounting office], their revenue and expenditure statement.”⁹

1.1.5. 1806-1808, Mollien and the *receveurs généraux*

Under the First Empire (1804-1814), Nicolas-François Mollien (1758-1850) who was Napoleon’s Minister of the *Trésor*, pursued the centralisation process, with the aim of improving the speed and efficiency of tax collection (see Nikitin, 2001). In July 1806, a decree created the *Caisse de service* of the « new » receiver generals. The decree stated that the *caisse* would be “primarily responsible for promptly operating, within departments¹⁰, the application of the local receipts to the local expenses and will direct the surplus revenue to the places where the revenues would be insufficient for the expenditure”¹¹. In order to ensure that the funds would circulate as soon as possible, Mollien made use of a mechanism of incentives and dissuasion which was as simple as it was clever. The sums given to the *Caisse* by receiver generals, before the term fixed by their contracts, entitled them to interest, whereas a penalty interest was levied on the sums that they kept after the due date (Bruguière, 1991). The operation of this mechanism was based on the use of double entry into the account books of the *Caisse de service*, in which an account was opened to each receiver general. Finally, with the Decree of 4 January 1808, double-entry was made compulsory for the receivers themselves. This monitoring was rather more efficient than the former procedure of control of the *Chambres des comptes*. Mollien, whose father was a merchant manufacturer, was particularly aware of the technical possibilities offered by double-entry: “It was indeed only in this form [double-entry accounting] that the *caisse* was able to compare and balance its various accounts every day and to let me know every change occurring in its situation on a daily basis [...] I got clearer results, far more promptly, that checked themselves, and that were proved by each other [...] and I had soon acquired the certainty of being able to form the general statement of receipts of the Treasury by the compiling of accounts of all *comptables*, as promptly as the particular statement of each *comptable* established by him in this form could be verified by the Treasury; to prevent non-disclosures, concealments, involuntary and voluntary errors, much more efficiently merely by the operation of the method rather than by reproaches, threats or redress through tardy legal judgements; finally, in the interest of the Treasury and *comptables* themselves, to advance by several years the period of judgement of each administration”.

⁸ *Décret qui confie l'administration du Trésor public à un comité de trésorerie* (Decree that confides the administration of the Public Treasury to a committee of treasurership), 30 March 1791 (Duvergier, 1824, vol. II, p. 332-334).

⁹ « On y tiendra en parties doubles l'état de toutes les recettes et de tous les paiements ; à cet effet, le caissier des recettes et les quatre payeurs lui remettront chaque jour l'état de leurs recettes et dépenses. » All translations are ours unless otherwise indicated. We have included the original French texts.

¹⁰ The word department (*département*) refers here to a geographic and administrative subdivision. Under the *Ancien Régime*, France was organised into provinces. They were dissolved during the period of the Revolution and *départements* were created on 4 March 1790, to replace the provinces with what was considered as a more rational structure. This break with the historical regions aimed at erasing cultural differences and building a more homogeneous nation.

¹¹ *Décret qui établit au trésor public une caisse de service*, 16 juillet 1806. « Art. 2 Elle sera principalement chargée d'opérer avec célérité, dans les départements, l'application locale des recettes aux dépenses ; elle dirigera les excédents de recettes vers les lieux où les recettes seraient insuffisantes pour les dépenses. »

(Mollien, 1898, vol. III, p. 71-73)¹²

This shift from business to bureaucracy in tax collecting was now achieved and the monitoring of the *comptables* was significantly improving. This was a first important stage in the building of the modern fiscal State as defined by He (2007): “A State that has the institutional ability to use the tax revenues it collects in an amalgamated way to mobilize long-term financial resources from the markets, through either long-term borrowing or issuing paper money.” Let us therefore now consider the developments surrounding the control of the *ordonnateurs*.

1.2. ...Towards democracy: controlling the *ordonnateurs*

As previously mentioned, during the *Ancien Régime* the King was the *ordonnateur*, but with the changes brought by the Revolution, the Ministers became the *ordonnateurs*, delegating to secondary *ordonnateurs* whenever necessary. These Ministers were progressively submitted to a two-fold control: a direct parliamentary control through the approval of expenditure, resulting from the discussion on the budget and the voting of the *Loi de finances*, and an indirect control through the audit of the *Cour des comptes* after 1807. Both these aspects will be addressed here, following the chronology of the events. We will first go back to the Revolution, then consider the important reforms instituted during the Restoration.

1.2.1. The Revolutionary era 1789-1799

Art. 14 of the Declaration of Human Rights (26 August 1789), which was to be reaffirmed in the Constitution of 1791, states that, “all citizens are entitled to ascertain and determine, either personally or by their representatives, the need for public taxation, to consent to this freely, to supervise its use and to determine the proportion, the mode of assessment, the mode of collection and its duration.”¹³ Despite this proclamation, the link between the consenting of taxes and their use remained theoretical for ten years. Until 1799, the votes on taxes and expenses had been separated, but Article 45 of the constitution of the 22 *Frimaire an VIII* (13 December 1799) clearly stated the link: “The government manages the revenue and expenditure of the State in accordance with the law that determines the annual amount of each and every one”¹⁴. As a consequence, the budgetary power was shared between the executive power (the Government) and the legislative power (the Parliament), the former preparing the budget and the latter discussing, amending and approving the budget. This was

¹² « Ce n'était en effet que sous cette forme [parties doubles] qu'elle [la caisse de service] pouvait parvenir à comparer et à balancer, tous les jours ses divers comptes et à me faire connaître quotidiennement chaque changement survenu dans sa situation [...]. J'y puisais beaucoup plus promptement des résultats plus clairs, qui se contrôlaient, qui se prouvaient les uns par les autres [...] et j'eus bientôt acquis la certitude de pouvoir former la situation générale des recettes du Trésor par la réunion des comptes de tous les comptables, aussi promptement que le bilan particulier de chaque comptable établi par lui sous cette forme pouvait être vérifié par le Trésor; de prévenir les réticences, les dissimulations, les erreurs volontaires et involontaires, bien plus efficacement par le seul mécanisme de la méthode que par les reproches, les menaces, le redressement des jugements tardifs; de parvenir enfin, dans l'intérêt du Trésor et des comptables eux-mêmes, à avancer de plusieurs années l'époque du jugement de chaque gestion. »

¹³ « Tous les citoyens ont le droit de constater par eux-mêmes, ou par leurs représentants, la nécessité de la contribution publique, de la consentir librement, d'en suivre l'emploi, et d'en déterminer la quotité, l'assiette, le recouvrement et la durée. »

¹⁴ « Le gouvernement dirige les recettes et les dépenses de l'Etat, conformément à la loi annuelle qui détermine le montant des unes et des autres. »

a first step towards democracy, but it also took several years to organise a real control on the execution of the budget.

In their report on the state of the *Trésor* of 1 June 1791 (Poirier, 1997), the six members of the committee of treasurership, previously mentioned, moved for the removal of the *Chambres des comptes*, as “a necessary result of the new order of things decreed by the National Assembly.” The *Chambres des comptes* were removed by the decree of 29 September 1791 and the control of accounts was transferred to the *Assemblée législative* (i.e., the Parliament), which exerted control through a newly created *Bureau de la comptabilité nationale* (National Accounting Board). The constitution of the 22 *Frimaire an VIII* (13 December 1799) replaced this board by the *Commission de comptabilité nationale* (National Accounting Committee): “A national accounting committee rules and audits the accounts of receipts and expenditure of the Republic. This committee is made up of seven members appointed by the Senate from a national list (art. 89).”¹⁵

These various bodies, comprising an insufficient number of members, without any of the guarantees found in a body of irremovable judges, were clearly unsuitable and could not complete their tasks in a satisfactory way. This was difficult not only because of the backlog and the complexity of accounts, but also because of political and social crises that had shaken France for so long. However, the commission provided valuable accounting services until the creation of the *Cour des comptes* in 1807 under Napoléon. On the other hand, as we will see later, although the control of the *ordonnateurs* was one of the tasks of the *comptabilité nationale*, the power of the *Cour des comptes* was initially limited to the control of the *comptables*.

1.2.2. Introducing parliamentary control of the *ordonnateurs* under the *Restauration*

Napoléon abdicated on 4 April 1814 and Louis XVIII ascended to the French throne. The Empire was briefly restored during the Hundred Days from March 1815 until Napoléon's defeat at Waterloo, on 18 June 1815. The *Restauration* followed with a period of constitutional monarchy, more or less inspired by the English-style constitutional monarchy. Despite several measures aimed at a reversal of the results of the Revolution, the period saw an extension to the rights of Parliament.

As early as 22 July 1814, in his speech to the deputies, Baron Louis, Minister of Finances, defined the process by which Parliament would examine the budget: “This general Budget is composed of the particular Budgets developed by the Ministers [...] Every minister is responsible for the regular application of the funds placed at his disposal. The amount of these funds has been determined after the most rigorous investigations into the services required from them, and we believe that the manner in which they have been fixed will appear to be deserving of your confidence. The heads of each Department will be eager to afford you every explanation you may require, and to place for your viewing such particulars as will satisfy you as regards the moderation of the estimates with which we have the honour to present you. We must now confront to the statement of our needs that of our ways and means to supply them. This statement is annexed and divided according to the nature of the resources from whence they proceed.”¹⁶

¹⁵ « Une commission de comptabilité nationale règle et vérifie les comptes des recettes et des dépenses de la République. Cette commission est composée de sept membres choisis par le Sénat dans la liste nationale. »

¹⁶ « Ce budget général se compose des budgets particuliers formés par les ministres [...] Chaque ministre est garant de l'emploi régulier des fonds mis à sa disposition. Ces fonds sont dans la proportion la plus rigoureuse

More details about the whole process were included in the *loi de Finances*¹⁷ (Finance Act) of 25 March 1817 (see Bruguière, 1969). The responsibility of the ministers was reaffirmed in Article 151 and Article 150 introduced the principle of their accountability: “The ministers *ordonnateurs* of all the ministries will present the account of their expenditure for the time of their administration, and they will compare them with the orders they issued during the same period and with the appropriations opened to the various chapters of their budgets.”¹⁸ Whereas each year, every minister was to present his accounts of the preceding year to Parliament, there were special requirements for the Minister of Finance. He had to present to Parliament:

- The account of the perpetual debt ;
- The general account of the budgets, which was a comparison, year by year, between forecasted values and actual values, for every kind of revenue and expenditure ;
- The account of the *Trésor Royal* ;
- The account of the recovery of gross revenues from direct and indirect taxes.

These provisions were such as to allow for a true parliamentary control over the ministers but Parliament was devoid of the means to perform a serious audit of these accounts.

1.2.3. Three fundamental budgetary principles

Three fundamental budgetary principles were progressively defined and established through several important texts: the *Loi de finances* (Finance Act) of 25 March 1817, the *Loi de Finances* of 15 May 1818, the *Ordonnance* of 14 September 1822, the *Ordonnance* of 1 September 1827 and the Law of 29 January 1831. These principles — Annuality, Universality and Specification of the budget — could be found today among those governing the European Community budget. They were adopted in reaction to several long standing practices which were deemed to be distorting the visibility of forecasts and the legibility of operations, in other words, the uncertainty in the temporality of the year, the multiplicity of budgets, the net product practice and the globality of appropriations.

Annuality

All budgetary operations (revenues and expenditure) had to be attached to one financial year. This rule was stated in Article 1 of the *Ordonnance* of 14 September 1822: “appropriations of the Finance Act for the expenditure of a budget year cannot be used for the expenditure of another year”¹⁹. Consequently, appropriations which had not been used at the end of the financial year for which they were entered were to be cancelled. It was necessary to reduce the frequent overlapping of successive budget years. For practical reasons, it was decided that

possible avec les besoins mûrement approfondis de son service, et nous croyons que la fixation qui vous en est présentée mérite toute votre confiance. Si des éclaircissements vous sont nécessaires, chaque ministre sera empressé à vous les procurer, et à mettre sous vos yeux tous les éléments qui pourront fixer votre opinion sur la modération des résultats que nous avons l'honneur de vous présenter. Nous devons maintenant opposer au tableau des besoins que nous venons d'indiquer celui des voies et moyens qui peuvent y faire face. Ce dernier tableau est également ci-joint, divisé par nature de produits. » (Mavidal and Laurent, 1868, p. 165-171).

¹⁷ The *Loi de finances* is the law that puts into effect the budget of the year.

¹⁸ Les Ministres Ordonnateurs de tous les Départemens présenteront le compte des dépenses qu'ils auront arrêtées pendant le cours de leur administration, et ils en établiront la comparaison avec les Ordonnances qu'ils auront délivrées dans le même espace de temps et avec les crédits particuliers ouverts à chacun des chapitres de leurs Budgets

¹⁹ « Les crédits ouverts par la loi annuelle de finances pour les dépenses de chaque exercice ne pourront être employés à aucune dépense appartenant à un autre exercice. »

the expenses of the budget year had to be realised before the end of the ninth month following the end of the civil year.

Universality or Comprehensiveness principle

Until the *Restauration*, the net proceeds of taxes only appeared under the heading of revenues, after deduction of the costs of collection. Each administration deducted the total of the costs from its revenues without accounting for these costs. Consequently, legislative documents referred only to net amounts placed at the disposal of the Treasury. Stourm (1917) recalled that in Article 3 of the *ordonnance* of 26 March 1817, the following provision stated that: “Henceforth the cost of excise offices shall be regulated at the same time and in the same manner as other State expenditure. For this purpose, the gross tax proceeds shall be entered as a revenue in the annual budget and the costs of excise offices shall be included in the budget as an expenditure.” This is the reason why, as already mentioned, the *Loi de Finances* of 1817 stated that the Minister of Finance was to present to Parliament, among other documents, the account of the recovery of gross revenues from direct and indirect taxes.

Therefore, with the *Loi de Finances* of 15 May 1818, for the first time the gross proceeds of taxes were shown in the budget of revenues, while the total of the costs of their collection was shown in the budget of expenditure. The totals of this budget were suddenly increased by 120, 000, 000 F, comprising approximately 14% of the gross proceeds (Stourm, 1917, p. 151). Article 3 of the *Ordonnance* of 14 September 1822 supplemented the mechanism: “The ministers shall not increase by any particular resources the total of appropriations allotted for the expenditure of their respective branches of the service”²⁰. This article introduced, with regard to expenditure, the same principle of comprehensiveness which the *Loi de Finances* of 1818 introduced with regard to revenues. While the law of 1818 prohibited the concealment of an expenditure behind a revenue, the ordinance of 1822 prohibited the concealment of a revenue by an expenditure.

To summarise, the principle of Universality or Comprehensiveness means that the total revenue in the budget must cover the total expenditure or, in other words, it is not possible to use a specific revenue to finance a specific expenditure. This rule is also known as the “no-assignment rule”, and was adopted in order to avoid the possibility that Ministers should use particular resources, like selling a building, for example, to cover some of their expenses. Henceforth, the proceeds from the sale of the building had to be transferred to the Treasury. Accordingly, “all the revenues of the State and all its expenditure shall be described and classified separately without reduction, confusion or compensation, so that the expenditure as well as the revenues shall be equally subject to the sanction and the control of the representatives of the country.” (Stourm, 1917, p. 159).

Specification

Due to the principle of specification, each appropriation had to have a particular intended use and be earmarked for a specific purpose, in order to avoid any confusion between the different types of appropriations. This principle was inaugurated by the *Loi de finances* of 25 March 1817 in its Article 151, but it was only a specification of expenditure by ministry: “The expenditure shall not exceed the aggregate appropriation made for each of them [the ministers]. They shall not expend beyond this appropriation and shall be held responsible for

²⁰ « Les ministres ne pourront accroître par aucune recette particulière le montant des crédits affectés aux dépenses de leur service. » English translation from Stourm (1917, p. 152).

doing so.”²¹

A new step was taken with the *Ordonnance* of 1 September 1827, which prescribed establishing, in the general budget of the state, special sections limiting the expenditure of each service. As stated in the preface of this text, “in order to accurately determine the special appropriations within which our ministers shall henceforth confine their orders for payments, special sections shall be established in the budget, which shall limit the expenditure of each branch of the service”.²² In consequence thereof, the approval of the budget for 1829 applied not only to seven ministries but also to fifty-two budgetary subdivisions. However, the sections formed subdivisions of considerable extent, and it was possible to transfer credits from one section to another.

It was only with the law of 29 January 1831 that the principle of specification became effective. The budget of each ministerial department was subdivided into parts, sections, chapters, articles, etc., and the voting by chapter (164) was introduced by Article 11: “The budget of expenditures of each ministry shall henceforth be divided into special chapters; each chapter shall contain only subjects and works which are correlated or of the same nature”²³. Moreover, it was no longer possible to make any credit transfer between chapters: “The amounts allotted by law to each of these chapters cannot be applied to other chapters”²⁴ (Article 12).

Through these texts, the Parliament gradually broadened its control over the approval of expenditure. However, there was a return to the vote by ministry, after the *coup d’Etat* of Napoléon III, in December 1852, but the vote by chapter was re-established in 1869.

1.2.4. Administrative control

Here again, the main rules were defined and clarified by the *Ordonnance* of 14 September 1822. Several expenditure-control operations were executed by the *ordonnateur* himself: *vérification*, *liquidation*, *ordonnancement*. The *vérification* of documentary evidence that the service was actually performed on the basis of the *pièces justificatives* (supporting documents) was governed by Article 10 of the *ordonnance*: “Any payment order or any warrant resulting from a delegation order, when presented to our treasury, must be accompanied by documents evidencing that their effect is to pay all or any part of a debt of the State regularly justified.”²⁵ The *liquidation* is the establishment of the exact amount of the claim of the service supplier. The *ordonnancement*, or the authorisation, is the issue, by the *ordonnateur*, of a payment order to the Treasury with the indication of the year and of the item of the expense authorisation. An expense could not be paid if it had not been previously authorised by an *ordonnateur* (Article 7).

²¹ « Toutes les parties de ce service devront être réglées de manière que la dépense ne puisse excéder le crédit en masse ouvert à chacun d’eux [les ministres] Ils ne pourront, sous leur responsabilité, dépenser au-delà de ce crédit. »

²² « ... voulant ainsi déterminer avec précision les crédits spéciaux dans lesquels nos ministres devront désormais renfermer leurs ordonnances et à cet effet établir dans le budget des sections spéciales qui limiteront les dépenses de chaque service. »

²³ « Le budget des dépenses de chaque ministère sera à l’avenir divisé en chapitres spéciaux, chaque chapitre ne contiendra que des services corrélatifs ou de même nature. »

²⁴ « Les sommes affectées par la loi à chacun de ces chapitres ne pourront être appliquées à des chapitres différents. »

²⁵ « Toute ordonnance de paiement et tout mandat résultant d’une ordonnance de délégation doivent lorsqu’ils sont présentés à une des caisses de notre trésor, être accompagnées des pièces qui constatent que leur effet est d’acquitter tout en tout ou en partie une dette de l’Etat régulièrement justifiée. »

At this stage, two other verifications were exerted. Firstly, the Minister of Finance had to verify that the total of the payment orders did not exceed the amount of the appropriation on which they should be charged (Article 14). Finally, the *comptable* of the Treasury, had to make the payment, but before paying any expense he had to verify the supporting documents (*pièces justificatives*) transmitted by the *ordonnateur*. In the case of a missing document or irregular documents, he could refuse to pay. Nevertheless, he could be obliged to pay by the *ordonnateur*, under the *ordonnateur's* responsibility. In this case, the *comptable* had to report on the fact to the Minister of Finances (article 15). Complementing these provisions, Article 17 recalled that the duties of *ordonnateur* and *comptable* were mutually incompatible functions.

1.2.5. Combining judicial and parliamentary control

As previously noted, the *loi de Finances* (Finance Act) of 25 March 1817 called for a true ex-post parliamentary control but without providing the means to achieve it. Set up by the Law of 16 September 1807, the *Cour des comptes* was, moreover, only in charge of the audit of the *comptables*. "The purpose of the institution," said the councilor of the State Defermon, when reporting to the legislative body, "is to support and not to hinder the course of the Government and to apply the severity of its examinations to the *comptables* and not to the *ordonnateurs* [...] It cannot judge the Government's actions."²⁶ The prescription of Article 18 was quite clear: "The *Cour des Comptes* can in no case arrogate to itself jurisdiction over the *ordonnateurs*."²⁷ However, certain procedures under the Restoration adroitly removed the obstacle opposed to the judicial control over the *ordonnateurs* and the *Cour des Comptes* became an auxiliary to the Parliament.

From 1807, the *Cour des comptes* reported yearly to the Emperor and from 1815 reported to the King, but for fifteen years the report's concern was only the control of the *comptables*. It was extended for the first time to the *ordonnateurs* by Article 22 of the *ordonnance* of 14 September 1822: "The *Cour des Comptes* shall observe and certify, from the record of individual accounts and the supporting documents that the *comptables* should require, the accuracy of the general accounts published by the Minister of Finance and by each minister *ordonnateur*."²⁸ Henceforth, a general statement of conformity or compliance was delivered by the *Cour des Comptes* after an examination of the individual accounts, together with the *pièces justificatives* (supporting documents), and of the general accounts of each ministerial department. It was this statement of conformity which was transmitted to the Parliament, not the annual report.

It was only after the Revolution of 1830 and under the *Monarchie de Juillet*, that the Duke of Orléans, known as "Louis Philippe," agreed to respect the principles of English-style constitutional monarchy and when the law of 21 April 1832 (Article 15) ruled that this annual report was to be printed and transmitted to Parliament. Henceforth, the *Cour des Comptes* became an aid to Parliament in two ways: through its statement of conformity and through its annual report. Finally, in an indirect form, its annual report to the King bestowed to the *Cour des Comptes* the same control over the *ordonnateurs* which had been denied to it by Article 18 of the law of 1807. Finally, it was decided, in 1838, that the report of the *Cour des Comptes* had to be published in the *Journal Officiel*, in order that every citizen would be able to read it.

²⁶ « Le but de son institution est de seconder et non d'entraver la marche du Gouvernement, de porter la sévérité de ses recherches sur les comptables et non sur les ordonnateurs [...] Elle ne saurait juger le Gouvernement. »

²⁷ « La Cour ne pourra, en aucun cas, s'attribuer de juridiction sur les ordonnateurs. » English translation from Stourm (1917, p. 549).

²⁸ « La Cour des comptes constatera et nous certifiera d'après le relevé des comptes individuels et les pièces justificatives que doivent exiger les comptables, conformément à l'article 10 ci dessus, l'exactitude des comptes généraux publiés par le ministre des finances et par chaque ministre ordonnateur. »

Through all these events, a new *comptabilité publique* came into being that was a means of rendering account to the Nation. Three men played an important role in all these reforms. The first was the already mentioned Baron Louis. The second was Villèle, Minister of Finances from 1821 à 1827 and *Président du Conseil*, i.e., Prime Minister from 1822 to 1827 (see Bottin, 1995). The third was the Marquis Charles-Louis d'Audiffret, “*directeur du Trésor et de la Comptabilité publique*” (Director of the Treasury and of Public Accounting) deeply involved in the financial reform and in the implementation of this modern public sector accounting. From 1836, a committee under the responsibility of the Marquis d'Audiffret prepared a *Réglement général de la comptabilité publique* which was issued on 31 May 1838. A new version of this text, including additions and clarifications, was promulgated by decree on 31 May 1862.

At this moment, the design of the general framework of the French public sector accounting had been completed. It would last over a century and a great deal of its principles and rules are still in use, not only in France but also in some countries which were influenced by the French experiment. Having established an efficient tax collecting system, together with parliamentary control over ministerial expenditure, it was also necessary to implement a modern income tax system, based on taxpayer returns rather than standard estimates. This new stage prompted the State to intervene in private accounting matters, with the aim of improving income tax performance.

2. Regulating private sector accounting 1867 – 1967

After a long period of *laissez-faire*, it was only after World War I that the State began to intervene in private accounting practices, due to the creation of an income tax in 1914. The expansion in the market for accounting services which resulted from the introduction of this tax made it necessary to help the associations of accountants in their efforts towards professionalisation, but the result was not that expected by the practitioners. At a later period, when the Interwar Years were drawing to a close, a growing interest in the idea of a co-ordinated economy and economic planning gradually led to a further stage in accounting regulation with the adoption of a national accounting chart or *Plan comptable* and the creation of the *Ordre des experts comptables et comptables agréés* during the German Occupation. By the mid 1960s, the initial objectives were attained in both fiscal and economic policy issues.

2.1. Accounting, taxation and the *experts comptables*

2.1.1. The *Laissez-faire* era

Despite a long tradition of State intervention, in the early twentieth century France was one of the European countries with the most liberal accounting rules (Lemarchand, 1993, pp. 588-602 ; Parker, 1992). Although the *Ordonnance du Commerce* of 1673, a law governing trade, included certain accounting requirements, these only entailed the keeping of a journal and compiling, every two years, an *inventaire* of all the *actifs* (assets) and *passifs* (liabilities). In fact, there was no accompanying coercive measure. The scope of the *Code de Commerce* of 1807 was no wider, but was basically limited to increasing the frequency of the *inventaires*, which henceforth were to become annual.

In fact, it was with the definition of two new types of joint stock companies, the *Société anonyme* (SA - limited liability company) and the *Société en commandite par actions* (SCA - limited

partnership with share capital), that the *Code de Commerce* began shaping the future of accounting. Except for certain rules surrounding the SAs, such as the establishment of a reserve fund, the accounting requirements imposed by the 1807 *Code de Commerce* on limited companies were the same as for the individual merchant, until the Act of 1867. Article 32 of this act required that one or more *commissaires* (auditors), shareholder or not, should be appointed by the annual general meeting to submit a report to the general meeting in the following year on the situation of the company, on its balance sheet and on the accounts presented by the administration²⁹. Henceforth, the *inventaire*, the balance sheet (*bilan*) and the profit and loss account (*compte de profits et pertes*) had to be available to the *commissaires*, and they had to be presented to the members at the general meeting, who could require copies of the balance sheet and of the *commissaires'* report. However, nothing was mentioned about the form or content of the financial statements or the method of calculation of profit.

The SA originally required government authorization but this requirement was dropped by the 1867 Act. The result was a considerable expansion of limited liability companies³⁰, which was accompanied by a series of high profile corporate scandals. Consequently, many authoritative voices were raised calling for stricter legislation, and in particular for a harmonization in corporate balance sheet presentation and the adoption of accounting rules. However, this was the age of *laissez faire* and it was widely accepted that nothing should jeopardize free competition. The business community remained on their guard, and from 1867 to the late 1920s, there was a long series of failed reforms (Lemarchand, 1995). For example, in 1921, a member of the French Parliament named Fleury-Ravarin filed a bill containing a set of accounting rules, accompanied by a standardised balance sheet, to be applied by limited liability companies. Designed to protect savers and investors, the bill was never discussed. For the member of the Chamber of Commerce of Paris, in charge of reviewing the project, the proposed provisions were "purely demagogic" and meant "another attack on free trade and industry, without any profit for anyone"³¹.

Although this inertia may be explained by the hostility of the business community and the prevailing ideology, we must remember that self-financing was the main source of finance before World War I. With the exception of railway companies and other public statutory companies, external financing was only used parsimoniously in this period. Entrepreneurs zealously guarded their independence and appeals to financial markets, through the issue of bonds or new shares, were as unusual as the use of bank loans was rare. This was partly due to the fact that most of the industrial corporations, even the biggest ones, were continuously controlled by small groups of founders and subsequently by their heirs (Lemarchand, 1993; Freedeman, 1993).

2.1.2. Introducing income taxation

In the early twentieth century, improvements in the taxation system became necessary as the financial needs of the State increased because of higher military expenditure. The fiscal system relied too heavily on consumer taxes, and direct taxation had to be reformed in order to inject

²⁹ « L'assemblée générale annuelle désigne un ou plusieurs commissaires, associés ou non, chargés de faire un rapport à l'assemblée générale de l'année suivante sur la situation de la société, sur le bilan et sur les comptes présentés par les administrateurs. »

³⁰ Between 1868 and 1876, 798 *sociétés anonymes* were created in Paris, a number which was about four times the number of SAs created nationwide during the previous sixty years. During the year 1881, 976 SAs were created throughout the country (Freedeman, 1980, p. 144).

³¹ Chambre de Commerce de Paris, "Rapport présenté au nom de la Commission de législation commerciale et industrielle", 24 septembre 1921.

more equity into the distribution of an increasing tax burden: “income tax was, its defenders argued, a democratic attempt to reform a socially regressive fiscal system.” (Bonney, 2010). In fact, this new stage in the construction of the modern fiscal State prompted the French government to becoming concerned with private accounting issues.

Providing the basis of the new system, the Act of 15 July 1914 introduced a new general income tax, based on the total net annual income of each taxpayer, excluding the use of index or estimate-based methods to determine the taxable basis. It was completed by the Act of 31 July 1917 which introduced separate taxes for each category of income, with specific rates and appropriate rules for determining the taxable basis. One of these new taxes was a 4.5% tax on industrial and commercial profits. Henceforth, the State was directly interested in the accounting calculation of corporate profits.

In fact, the first tax to be calculated based on actual profits (as opposed to standardised estimates) was introduced by the Act of 1st July 1916 which created an extraordinary tax on war profits at a rate (50%) much higher than the tax on industrial and commercial profits. Applied to the additional profit made during the war by industrial firms, this tax led to many court rulings in cases characterized by a lack of any clear definition of how the tax was to be calculated. (Lemarchand, 1995).

The determination of the taxation basis provided the occasion for certain accounting principles relating to the calculation of profits to be referred to and discussed for the first time. In particular, in the absence of any accounting regulations, valuation and depreciation methods were defined and codified by administrative decisions. The taxpayers had to fill out a declaration of profits, which was reviewed by a local board (Art. 10). Any disputes between taxpayers and authorities were submitted to the *Commission supérieure des bénéfices de guerre* (Higher committee for war profits) (Art. 11) Supported by the *Conseil d'Etat* (State Council³²), the *Commission* progressively granted itself the right to intervene in the accounts of taxpayers, reintegrating sums unduly considered as overheads into profits. From 1917 to the late 1920's, the *Commission* examined approximately 70,000 appeals against decisions by the tax administration (Touchelay, 2008). The comprehensive study of the decisions of the *Commission* carried out by Bisson (1925) shows that several important accounting issues were discussed, such as inventory valuation rules or the distinction between reserves and provisions for expected losses and contingencies.

Income tax provided an important opportunity for accountants to increase their activity, but the growing complexities of tax laws compelled the State to act upon the organisation of the accounting profession.

2.1.3. The dashed hopes of the *experts-comptables*

The history of French accounting practitioners is well known today, mainly through the works by Bocqueraz (2000, 2001) and Ramirez (2001, 2005) and I will simply recall the main stages in this history.

Founded in 1881, the *Société Académique de Comptabilité* (SAC) was the first association with a national ambition, that of organising and regulating the accountancy profession on a national level. For this purpose, the SAC offered accounting courses and delivered three diplomas: the

³² The *Conseil d'État* is a body of the French national government that provides the executive branch with legal advice and acts as the administrative court of appeal.

diploma of accountant (*diplôme de comptable*, 1881), the certificate of bookkeeper (*certificat de teneur de livres*, 1900) and the diploma of expert accountant (*brevet d'expert-comptable*, 1905). SAC membership comprised practitioners with very different levels of qualification, working in a wide variety of professional environments (Bocqueraz, 2001). In 1912, some members of the SAC, who held the *brevet d'expert comptable* and were self-employed, founded the *Compagnie des Experts-Comptables de Paris* (CECP).

The CECP chose to limit membership to sole practitioners (i.e., self-employed accountants) and thus exclude those working in accounting firms or in industrial corporations. This strategy of hierarchical organisation within the professional field was seen as a means to enhance the status of the profession, particularly in order to ensure a monopolistic hold on auditing services (Bocqueraz, 2000, 2001). A *Fédération des compagnies d'experts-comptables de France et des colonies*, including the CECP was established in 1922 by integrating those associations that had been created in the major towns, following the same pattern as the CECP (Ramirez, 2001). However, the elitist strategy was seriously challenged because of a material expansion in the market for accounting services following the introduction of income tax during the 1920s. In fact, this expansion drew a crowd of self-proclaimed *experts-comptables* (expert accountants) devoid of any real skills. Solicited by the professional associations, the government decided to create a diploma, the *Brevet d'expert-comptable*, by the Decree of 22 May 1927. This was followed by the introduction of the *brevet professionnel de comptable* by the Decree of 31 March 1931. The same year saw the creation by the State of the *Institut de Technique Comptable (Conservatoire National des Arts et Métiers)* by the Decree of 26 October 1931, with the purpose of organising and supervising accounting education and examinations (Bocqueraz, 2000, 2001).

Despite these measures and the ensuing efforts, the *experts-comptables* did not succeed in monopolising auditing practice and on the contrary, the government created a new profession. New financial scandals, during the first half of the 1930s, cast serious doubts on the competence of the *commissaires aux comptes*, and they prompted the government to modify the provisions of the 1867 Act, in order to reinforce the control over company accounts. With the Decree of 8 August 1935, the rights and duties of the *Commissaires aux comptes* were more specifically laid down. In particular, they had to specify in their report and in accordance with Article 34, "the inaccuracies and irregularities they have identified", and they were required to report all criminal acts of which they have knowledge to the judicial authorities. The text also lays emphasis upon the notion of independence, by defining legal incompatibilities, and competence. Article 33 states that companies raising money on financial markets should appoint at least one of their *commissaires* from a list compiled by the regional appeal court within whose jurisdiction the head office of the company is located. The decree of 29 June 1936 specifies the terms for inclusion on these lists. Article 3 of the decree made admission to the list dependent upon both a technical examination and professional experience, creating *de facto* and *de jure* the profession of *commissaires aux comptes*. However, it was not until the Decree of 12 August 1969 that it officially became the *Compagnie Nationale des Commissaires aux Comptes* (CNCC)³³.

Ramirez (2001) demonstrates that the reason for the failure of professionalisation strategies linked to auditing was probably to be found in the opposition of the larger companies and in the deficit of the social capital of the accountants: "After all the reform did not modify the way

³³ Even today, despite the fact that most of the auditors are also experts-comptables, both professions remain institutionally separated. The experts-comptable diploma is sufficient to register with the Compagnie nationale des commissaires aux comptes, and very few people sit the commissaire examination to become auditors.

auditors would be “produced”. They would be selected on an individual basis, according to a pattern within which social capital counted for more than technical ability”.

2.2. Accounting and economic policy

2.2.1. Ideological changes

At the outset of the late 1920s the consensus supporting liberal policy finally disintegrated and, during the 1930s, a political current usually known as technocracy or neo-liberalism gained a growing influence (Kuisel, 1981 ; Margairaz, 1991). Profoundly influenced by the rationalisation movement of the twenties, its aim was to apply scientific logic to the workings of the whole economy. As expressed by one of its most influential leaders, Jean Coutrot, this current rejected both "the anarchic and so-called liberal economy in which we have lived until now, and the dictatorial economy in which some people would like us to live"³⁴, advocating the idea of a distributive and co-ordinated economy (Coutrot, 1937, p. 23-24). To his mind, it was necessary to go beyond sterile competition, by setting up collective agreements for production or distribution, between firms in the same industry. These agreements were supposed to make it possible to build "a completely different type of economy [...] where the setting of selling prices is achieved through accounting instead of directly resulting from the law of supply and demand."³⁵ (Coutrot, 1937, p. 22)

A second political wave of thought played a pivotal role during the same period. This was Corporatism, which recommended organising society on the basis of professional organisations gathering employers and employees of the same professional body or from the same industry, just like medieval guilds or corporations (Amdur, 1998). In France there was no corporatist doctrine that met general approval, but a whole range of trends that were more or less backward-looking or modernistic and more or less liberal or authoritarian (Boussard, 1993). There were several connections between technocracy and the modernistic fringes of corporatism, some people belonging to both political currents. These people influenced French economic policy before, during and after the War (Nord, 2010).

Both approaches were interested in accounting regulation. On the one side, uniform costing was seen as a means of ensuring market regulation and price control. On the other hand, a harmonization of financial accounting methods and financial statements were needed in order to supply the future State office of statistical observation with accounting data that were sufficiently homogeneous to be aggregated. On observing "the increasing replacement of the law of the jungle by social collaboration"³⁶, Maurice Allais (1938, p. 279-280), future Nobel prize winner in economics, added: "we will not be able to do anything if we do not have standard accounting models which are the prerequisites of any rational economy."³⁷ France required an accounting chart just like Germany, which had adopted its own in November 1937.

³⁴ « L'économie anarchique dite libérale, dans laquelle nous avons vécu jusqu'à présent, et l'économie dictatoriale dans laquelle certains voudraient nous faire vivre. »

³⁵ « Un type d'économie entièrement différent [...] où la fixation des prix de vente se fait par voie de comptabilisation et non plus directement par la loi de l'offre et de la demande. »

³⁶ « La substitution croissante de la collaboration sociale à la loi de la jungle. »

³⁷ « Ou bien l'on renoncera à toute action privée ou publique sur l'Économie, ou bien l'on s'orientera vers une politique de collaboration tendant à la simplification et au progrès et l'on ne pourra rien faire si l'on ne dispose pas de comptabilités-type qui constituent la condition essentielle et primordiale de toute économie rationnelle. »

2.2.2. Combining fiscal issues and economic policy concerns: The *Plan Comptable Général*

A first *Commission de normalisation des comptabilités* (Committee of Accounting Standardization) was set up in July 1939, a few weeks before the outbreak of the War. Jacques Chezleprêtre, who participated in this committee, had drawn up a first draft of the accounting chart by late 1940 (Ouriemmi, 2010). As a consequence of the implementation of a new government under the German Occupation, a decree dated 22 April 1941 set up a new committee (*Commission Interministérielle du Plan comptable*). Its work ended a year later with an accounting chart, known as the *Plan comptable 1942* (Standish, 1990). Jacques Chezleprêtre, who had been in charge of accounting issues in the *Direction Générale des Contributions Directes* (National Directorate of Indirect Taxes) since January 1941, was paramount in the design of the *Plan* (Ouriemmi, 2010). Moreover, his position as Secretary General of the Committee reflects the importance attached to the subject by the tax administration.

However for this administration, the *Plan Comptable* was only one component of the project, the other one being the organisation of the accounting profession. A second decree dated 22 April 1941 set up the *Commission pour l'organisation de la profession d'expert-comptable*. The outcome was the institution of the *Ordre des experts comptables et des comptables agréés*, by the Act of 4 April 1942. With this decree, the elitist attitude of self-employed accountants, working as sole practitioners, proved successful, as the law now gave the members of the *Ordre* a legal monopoly on the practice of public accounting. This coined the term of 'notable practitioner', a persona which dominated the profession of French accounting until the arrival of the leading international accounting firms during the 1970's (Ramirez, 2005, pp. 139-174).

In reality, the 1942 *Plan Comptable* received few applications. After the War, it was rapidly scrapped because it was considered to be excessively inspired by the German accounting chart and, in April 1946, a third *Commission de normalisation* was set up. This *commission* drew up the 1947 *Plan comptable général* (PCG), which was the first nation-wide accounting chart in France. The PCG was a two fold accounting chart combining two systems of accounts: the *comptabilité générale* (financial accounting) on the one hand and the *comptabilité analytique* (management accounting) on the other, both linked by a set of mirror accounts.

Inspired by the technocratic approach and influenced by the presence of leftist political parties, the governments of the Post-War period engaged in an interventionist industrial policy based on the expansion of the nationalised sector and the development of a system of national economic planning. The *Commissariat Général au Plan*, created in January 1946 and the *Institut national de la statistique et des études économiques* (INSEE - National institute of statistical and economic studies) created in April of the same year were the two main components of the apparatus (Fourquet, 1980). The latter was in charge of the elaboration of the French national accounting system and its director, Francis-Louis Closon, was one of the members of the *Commission de normalisation*. (Touchelay, 2005). His participation in this Commission certainly explains why the *Plan Comptable* was initially designed in order to provide for general economic information requirements, in particular by recording expenses by nature instead of recording them by function.

The *Plan comptable* was revised in 1957 and a new *Plan comptable général* was adopted in 1982, following the 4th Directive of European Union on company law. Despite this, with regard to both fiscal issues and economic policy concerns, what we consider to have been the main events in the standardization process occurred between the late 1950s and the mid 1960s. In

December 1959, the financial accounting section of the *Plan (comptabilité générale)* became mandatory for the firms taxed on their actual profits (Touchelay 2005). By the decree of 28 October 1965, these firms were required to attach their financial statements (*bilan, compte d'exploitation* and *compte de pertes et profits*) to their tax returns (Touchelay 2010). Shortly after, in 1967, INSEE statisticians were given access to data from tax returns (and thus based on the *Plan comptable* concepts and categories) for each reporting firm (Vanoli. 2006). Thanks to these provisions, French national accountants have been able to make intense use of the individual business accounts of non-financial firms, both directly and indirectly. Quoting United Nations (2000), Vanoli (2006) recalls that later, such an experience acquired a certain recognition on a global scale: "In 2000, in a series of handbooks on national accounting, the United Nations published a remarkable volume on the *Links between Business Accounting and National Accounting*. Its introduction makes a distinction between the Anglo-American tradition and the German-French one. Under the latter the formulation of common standards for business accounting, and for public information in particular, makes it much easier to use business accounts to compile national accounts. In contrast, the general Anglo-American format, while useful for analysing costs by function in business analysis, "hides the information required by national accounts behind functional terms like selling and administrative expenses."

Conclusion

After the unsuccessful attempts made during the eighteenth century, France was one of the first European countries to develop modern receipt and expenditure control mechanisms, based on reforms of public sector accounting and State audit, during the first half of the nineteenth century. The French Revolution accelerated the bureaucratization of the whole financial system and substantial improvements were achieved under Napoleon. Nevertheless, it was only during the *Restauration* that some of the fundamental reforms, called for by Enlightenment thinkers and leaders of the Revolution, were implemented, endowing the country with a true modern budgeting system and effective reporting to the Parliament; a necessary, albeit not sufficient, condition for democracy.

Having established an efficient tax collecting system, together with a parliamentary control over ministerial expenditure, it was also necessary to implement a modern income tax system, based on taxpayer returns rather than standard estimates. At this juncture, the State began to intervene in private accounting matters, after a long period of *laissez-faire*, with the aim of improving income tax performance. Finally, the desire to coordinate individual actions in order to ensure balanced economic growth, while attentively controlling the ensuing social consequences, resulted in the creation of an accounting tool able to meet the needs for information of both the State (tax administration and national accounting statisticians) and businesses.

During these 250 years, accounting as a technology of power, knowledge and control, was enrolled in the service of strengthening the State in various respects, and became one of the governance tools in modern democracy, despite a tragic reversion to authoritarianism during the German Occupation. This enrolment must not be negatively appraised. As Miller (1986) wrote when commenting on Fourquet (1980) : "accounting is always interrelated with broad political programmes for the management and government of society. This is a point which can easily be misinterpreted. It is not to say that accounting is a subplot of a broader conspiracy directed by the state or the professions over civil society. It is rather to say that accounting operates in relation to idealised schemas for the government of society.

Accounting, just like statistics, with which Fourquet argues it shares a number of features, is part of a diverse range of knowledges which are an important aspect of the conditions of operation of such governmental programmes.” In this sense, public sector accounting, national accounting and private sector accounting regulation are key elements in the institutional engineering of the Public Management of Society, defined by Eyden (2003) as “the primary social system regulating the processes of society using specific instruments to fulfil this task: legislation, jurisdiction, taking care of ‘the general interest’, legal monopoly of legitimised use of force”.

Of course, it is not our purpose to contend that the French case has to be considered as exemplary. Much work remains to be done in relation to the functioning of public sector accounting in terms of transparency and accountability. As regards private sector accounting, several criticisms have rightly been levelled towards the inadequacies of the *Plan comptable general* in relation to investors’ needs. If not totally absent, the information on the capital market had been a secondary issue, partly because of the cult of secrecy in the business world and partly because of the importance given by the State to both fiscal and economic policy preoccupations. Moreover, the democratic functioning of the institutions representing public authorities falls far short of perfection and bureaucratic excesses are regularly denounced. Even so, the *Plan comptable*, the newly created national accounting and French style planning contributed to France’s economic recovery after World War II.

There have been a lot of changes in France, since the end of the 1990s, in both public sector accounting and private sector accounting, towards an alignment with international standards, both IPSAS and IFRS. But the proactive policy previously described contrasts sharply with this abandonment of sovereignty, even if conditions have changed. In fact, the postwar years attested to the apogee of the nation-State. Today, globalisation, the growing power of giant corporations, the emergence of new economic leaders (and the European construction for European countries) are increasingly challenging state sovereignty and the ability of nation-States to make decisions based on the democratic choices of their citizens. Be this as it may, is this a reason to deny a State or a larger community the possibility of acting on its own future? This was the choice of the representatives of European citizens at the European Parliament when faced with accounting regulation. On 12 March 2002, they passed a motion requiring the adoption of IASs, for all EU listed companies, abdicating their sovereignty on accounting regulation in favour of a non-European private organisation. Despite it receiving overwhelming approval, this decision remains controversial. The privatisation of the regulatory process is considered to be of a fundamentally anti-democratic nature and has been severely criticised by certain authors such as Lehman (2005), Barrett (2007) or Chiapello and Medjad (2009), while the opinion of others is that, “the State, at every level and in every guise, must not be allowed to interfere with proper financial transparent cartography” (Alexander and Servalli, 2010, p. 39).

In the words of French Prime Minister Georges Clémenceau (1841-1929) spoken during World War I, “War is much too serious a matter to entrust to military men”³⁸. Beyond its humorous side, this statement recalls that in a democracy, the representatives of the people hold the supreme power and that no sector of the State should be excluded from their control. Perhaps, however, we can paraphrase Clémenceau, and equally say : “Accounting is much too serious a matter to entrust to accountants.”

³⁸ « La guerre est une chose trop sérieuse pour être confiée à des militaires. »

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