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Moral Accounting & Moral Progress

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These are the prepared remarks for my September 21 Moral Psychology Brown Bag talk at Cornell University. I stuck pretty close to them.



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Hi. My name is Rob and... I'm an accountant. I can admit that now. For the past 30 years, I've been in denial. Like my accounting colleagues in academia, I've drawn my theories from economics, and psychology, and linguistics and philosophy. And I've been a taker, never a giver—I've hardly published anything that scholars outside of accounting found worthy of a citation. But the pandemic gave me the time and motivation to take stock of my academic life, and admit: I am an accountant, and it's time to make amends. To give back to the fields I've taken so much from. That's what I'm here to do today.



First, let me tell you about when I hit rock bottom. When the pandemic shut everything down in March of 2020, my wife went off to Pittsburgh for months to help our kids deal with our grandkids. So I was totally isolated during a spate of protest movements. Some I agreed with, some I didn't, but all of them made me think: what do accountants have to say about this? So I started with traditional accounting, and began tweaking it *as little as necessary* to address moral matters. And voila! moral accounting. When we get to Q&A, I'm glad to share what moral accounting has to say about discrimination, intersectionality, police violence, tyranny, corruption, free speech, climate change, and other social issues, and to tie moral accounting more explicitly to moral psychology and philosophy. Feel free to paste comments and questions into the chat as they occur to you, and we'll get to them. I'm also pasting in some links to the blog where I write about these topics for my Executive MBA students. But for my prepared talk, I'm going to walk you through the theory and practice of moral accounting, and apply it to sexual harassment, moral licensing, trolley problems, and moral pluralism, all to make one overarching point: accounting is our most promising path to moral progress, because that's pretty much what it has always been.



There are people who say we can't make moral progress, because we can't we agree on what it is, and we wouldn't know it if we saw it. But the arguments against moral progress are pretty much the same as arguments against types of progress accountants have helped society make, and even gotten knowledgeable and independent people to largely agree we've made it.

The language of business morality

She **earned** that

Debt

- Liabilities
- General Obligations
- Deferred Revenue

He's **paid** his **debt** to society

Bankruptcy

- Insolvency
- Illiquidity
- Reorganization
- Dissolution

They are morally **bankrupt**

And the progress accountants make *is* moral progress. Accounting is called the language of business, but it's also the language of morality. Decades ago, linguist George Lakoff pointed out that when people talk about morality, they sound like accountants. They say things like "she **earned** that", "he's **paid** his **debt** to society", and "they are morally **bankrupt**". Lakoff says that accounting is metaphor for morality—"a way of understanding and experiencing one kind of thing in terms of another." But morality and accounting aren't different things, because they address the same questions: are people making good use of the assets we trust them with, and are they living up to the obligations that come with those assets? You might want to label some obligations moral imperatives, and others business imperatives, but that's a distinction without a difference. The distinctions that *do* matter are built right into accounting, as you'll see when I break down moral debt into specific liabilities and general obligations, and when I break moral bankruptcy down into moral insolvency, reorganization, and dissolution.

The Engine of Progress



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Now, why is accounting such a good path to moral progress? Because we've been working on it for thousands of years, investing massive time and money, across a wide range of cultures, and in settings where the stakes are very high and conflicts are very deep. This drives a virtuous cycle between accounting theory and practice—we can't just build better systems, we have to explain to everyone why we're doing it the right way. That gives us theory that feeds back into better practice. That connects to another virtuous cycle between accounting practice and society's drive to organize. Together these two cycles create an engine of progress, and it is very powerful.

From tokens to writing



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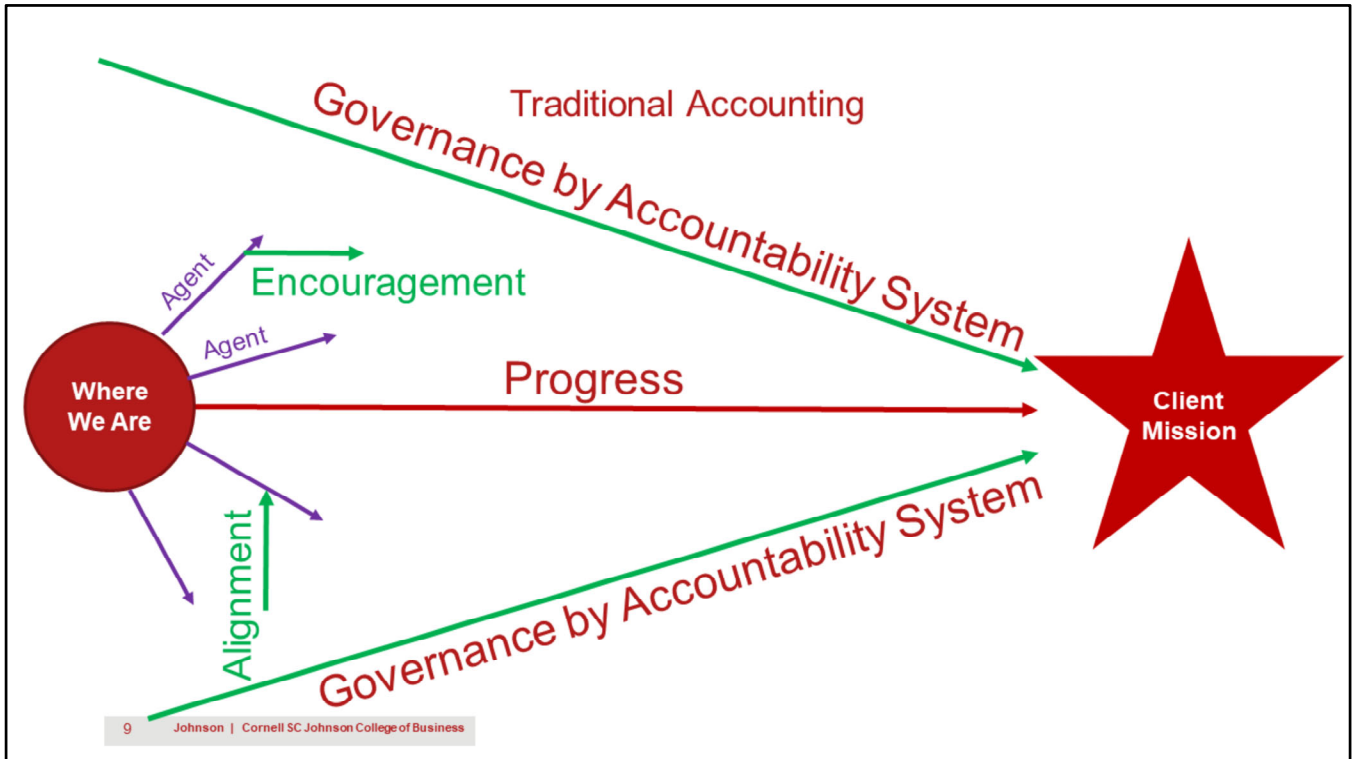
The first tangible evidence of accounting comes from ancient Mesopotamia, where archeologist Denise Schmandt-Besserat found these tokens on the left. These were receipts for tax payments, or, since the King was society's God, evidence that someone lived up to a sacred duty. That's progress, but tokens could get lost, stolen or counterfeited. So accountants started keeping a copy of each token in the treasury vault, storing them in clay balls like the one on the right, and marking them to indicate the household name.

Inventories & Contracts



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These markings soon led to the first writing system, Cuneiform, which led to inventory reports, like this one on the left, and contracts, like this one on the right. And once we had inventory records and contracts, people were able to organize in more sophisticated ways, creating new roles and new ways to hold people accountable for their performance, which leads to more sophisticated social organization, and in turn to better accounting, and so on. This is what I mean by the engine of progress.



So here's today's traditional accounting in a nutshell. First, there's a division of labor between accountants and their clients. Clients tell us what constitutes progress—what is their mission, and what is their strategy for getting there? We work with the client to refine these, but the mission and strategy are still the client's, not the accountants. Missions are hard to pursue, so clients need to bring people in to help: not just workers, but suppliers, lenders, even customers. I'll call them all 'agents', and they all have their part to play. Now every agent has their own mission and strategy, so we design accountability systems to govern them, to align them toward our client's mission, and encourage them to make progress toward it.

Client = Society

Mission = Moral Progress

Role Design

Role Assignment

Powers

Obligations

Reports

- Inform about past, present and future

Incentives

- Tie reports to rewards and punishment

Controls

- Make good behavior easier and bad behavior harder

In moral accounting, the key change is that our client is “society”, and society’s mission is moral progress. But otherwise, the accountant’s role is the same: to help society define its mission and strategy, and to design accountability systems to align everyone toward society’s mission and encourage them to make progress toward it. First we identify the roles agents can take on, and where possible, improve which powers they are given and which obligations come with those powers. Then we design reports, incentives, and controls to encourage people to use their power and live up to their obligations in the service of the mission. In short, the accountability system *governs*.

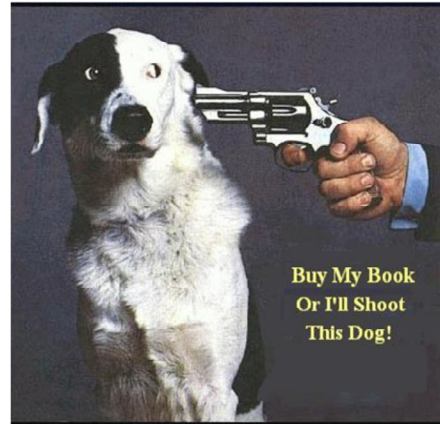
Twin Moral Aspirations of Governance

Improve Moral Performance



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Treat the Governed in a Moral Way



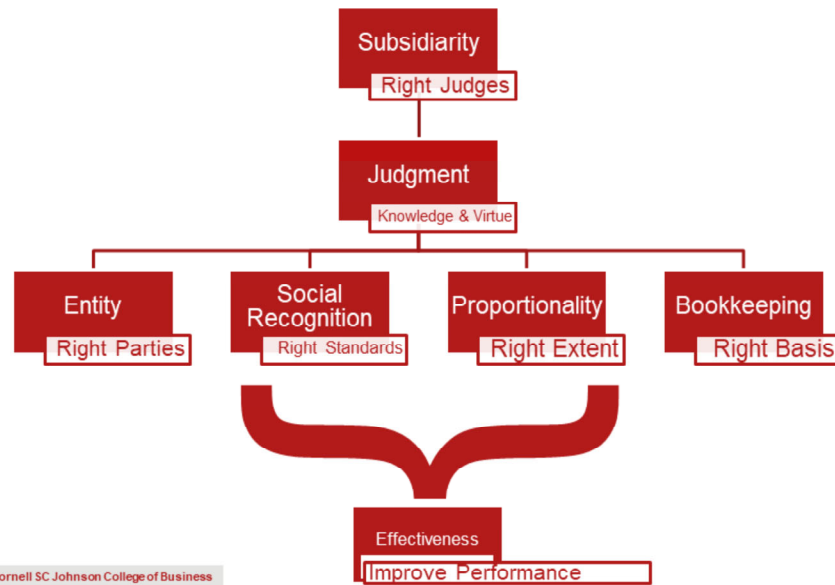
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Now, society is a difficult client to work with, because we can only figure out its moral mission by talking with its members—its agents, who all have their own self-interested missions, and might represent self-interest as moral aspiration. Accountants deal with this by boiling issues down to separable principles, each spelling out a single aspiration that everyone can agree with—more is better, as long as you don't have to sacrifice something else. You can see this in the twin aspirations of moral accounting: to improve moral performance, and to treat the governed in a moral way. The more governance improves moral performance, the better it is. And the more governance treats the governed in a moral way, the better it is. No one says "this governance system improves moral performance too much", unless what they really mean is "this system is buying effectiveness by treating the governed immorally". Good governance doesn't prevent litter by threatening to kill an innocent child's puppy.



People can disagree on how much to sacrifice one principle for another. But most of the time, someone who is arguing out of self-interest won't be able to offer a consistent, principled argument. So we can separate the wheat from the chaff—incorporate the part of their argument that truly reflects principle, and ignore the self-interested part. And when there truly are disagreements about how to balance two competing principles, accountants have a secret weapon: we can improve governance in a way that lives up to both of them a bit better—we'll find ways to make the system improve moral performance more AND treat the governed in a more moral way. That's moral progress everyone can agree with.

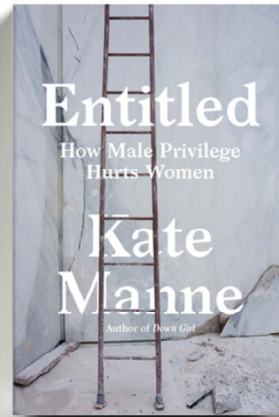
The MAP (Moral Accountability Principles)



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And this takes us to the heart of moral accounting. The MAP is a set of seven Moral Accountability Principles, which points governance in the direction of moral progress. The Effectiveness principle on the bottom requires that governance improve moral performance. The principles in the middle requires that we treat the governed in a moral way, by holding the right parties accountable, under the right standards, to the right extent, and on the right basis—living up to those is good in its own right, and also feeds into Effectiveness. All of these principles are supported by good judgment, which is supported by having the right people doing the governance—the ones who can live up to the other principles better than if they let someone else govern.

Governance lives up to the MAP through its impact—intent is mostly irrelevant.



The MAP gives us an indirect path to moral progress, because it improves performance by improving governance. That turns out to be really helpful in a number of ways. As an example, I'll use an all too common problem: men demand sex from women, and punish them when they don't get it. Most people talk about this problem from the inside out. They'll start with the man's character and intent—he's a dog, he feels entitled—or they'll talk about the flawed morality of society—it's a patriarchy, enforced by misogyny. But we can't really know someone's character or intent, and character by definition is hard to change. And people feel attacked when their character or society are criticized, and they counterattack. The MAP works from the outside in, not 'what's with this man' but 'how should he be governed'? We can encourage whistleblowing, and discourage booze-fueled hot tub parties. We can hold people accountable for casting a blind eye, or actively enabling bad behavior. Several infamous harassers had people who scheduled their meetings in hotel rooms after hours, and lied about there being no alternatives. We don't care about their intent either—governance lives up to the MAP by its impact, not its intent.



WOMEN HAVE
THE RIGHT
TO SAY NO



I've just been assuming that this type of harassment is immoral. So this is a good moment to talk about what aspects of morality are universal and what aspects are specific to our society. The MAP is universal, as is the structure of bookkeeping, for the same reasons I gave earlier: the principles of accountability and bookkeeping have been hammered out with a lot of hard work over a very long time across many cultures. The MAP's Bookkeeping principle says that we must evaluate people's performance on the basis of their moral books, what they do with their assets and obligations. The Social Recognition Principle says that those assets and obligations are the ones that society recognizes. So it's universally immoral to come up with some obligation that society doesn't recognize, and punish someone for not living up to it. But this is where things differ from one society to another. Our society does not recognize a woman as owing sex to a man just because he demands it. But another one might, so moral accounting allows for moral pluralism.

Moral Bookkeeping & Moral Intuition

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I'll come back to pluralism later, but for now I'll stick with our own society, and dig in to the details of moral bookkeeping. Because that's where accounting really helps refine our moral intuition.

Balance Sheet	
Assets	Liabilities
	Equity

Let's start with traditional for-profit books, which capture the performance of a steward who is hired by an owner to run a business. On the left, we have the steward's assets, the items of value they've been given control over. On the top right we have the steward's liabilities—obligations they'll be held to. What's left over on the bottom right is equity—everything the owner gets to keep after liabilities are taken care of. The left always equals the right, and we judge performance by asking "How well did the steward use their assets and live up to their obligations, and generate equity for the owners?"

Balance Sheet	
Assets	Liabilities Restrictions
	General Obligations

We take a step toward *moral* bookkeeping by looking at books of a mission-driven entity, like Cornell. Cornell doesn't have owners who seek profit, they have donors who want to pursue a mission. This changes the right side of the balance sheet. In addition to liabilities, the steward also has restrictions—obligations NOT to do things. If someone gives Cornell a million dollars for a scholarship fund, we can't use it to build a climbing wall. Finally, the owners don't have equity; any assets left over must be put to work in the service of the mission. These are *general* obligations because the steward has some freedom here. Part of Cornell's mission is to discover, preserve, and disseminate knowledge; we can do that however we see fit, which might even include building a climbing wall, if we have unrestricted assets to build it.

Moral Bookkeeping

Balance Sheet

**Rights
Capacities
Authorities
Influence**

**Liabilities
Restrictions
Social Debts**

General Obligations

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Now we're ready for moral accounting, which views everyone as a steward acting on behalf of their society. Assets are power, which tends to come in four categories. First are rights to own, use and do things. Second are personal capacities, like strength, intelligence or beauty. Next are authorities to make decisions, and the power to influence others. We can also add another type of obligation that is very common in morality—someone owes a debt to society because of their past misbehavior. The general obligation is owed to the beneficiary, who in moral accounting is society.

“...Place the oxygen mask on yourself first before helping small children or others who may need your assistance.”



The general obligation offers a lot of flexibility—stewards get to decide how they are going to pursue society’s mission. This often entails tending to ones own needs—putting on our own oxygen mask before helping others, and more generally, building our own capacities and pursuing our purpose in life.

Balance Sheet	
Power	Demands
	Liberty

So you can think of this general obligation as being liberty: the ability to use your assets as you see fit, after you've lived up to all of the demands to live up to specific obligations. Assets are like positive liberty, the power to take control of your life and realize your fundamental purpose. The absence of demands is like negative liberty, the absence of obstacles, barriers, or constraints to the that power.

Moral Licensing & Social Debt

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Now let's use bookkeeping to refine our intuition about moral licensing and social debt.

Moral Licensing & Social Debt

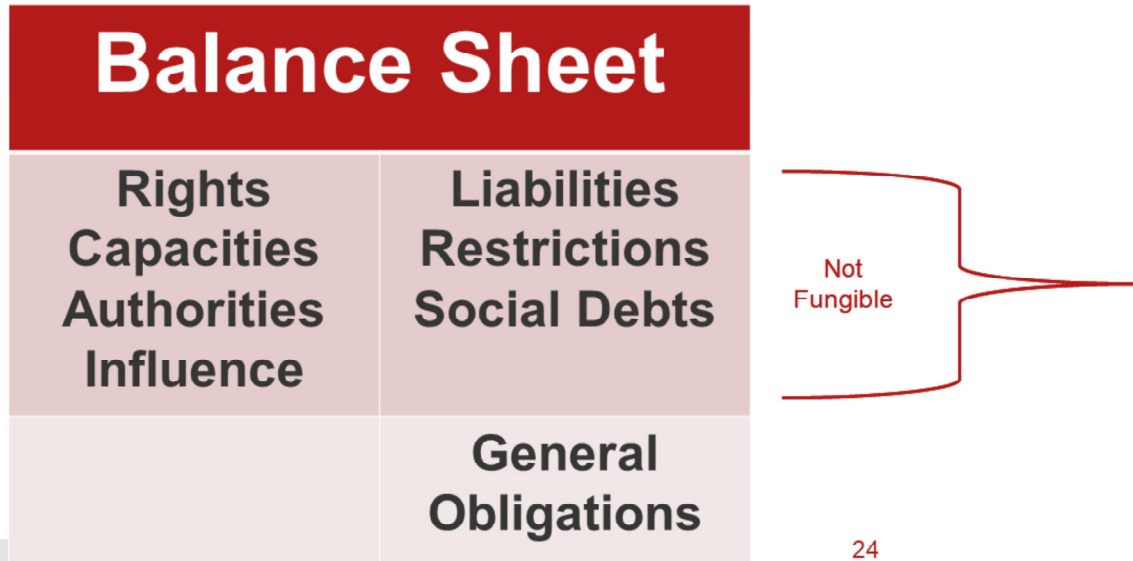
Does doing good give me license to do bad?

Does doing bad give me a duty to do good?

Can moral accounting refine these intuitions?

Moral licensing is the tendency for people who have just been good to feel they have the license to be not so good. It seems to be mostly unconscious, which makes sense because its hard to justify. Social debt is the tendency for people who have just been not so good to face demands to be good to make amends. This is usually quite conscious, because people think it is justified. But why should the order of good and bad matter?

Specific Obligations are not Fungible



First, specific obligations are not fungible—you can't just swap one for another. If someone trusted you with an asset, so you have an obligation to them, you can't use that asset to live up to your obligation to someone else. And if you live up to one specific obligation, it doesn't absolve you from living up to others. So if you go all out to live up to a tough specific liability or restriction, that's good moral performance, but it doesn't let you steal candy from a baby. So moral accounting shows that this type of moral licensing is not justified.

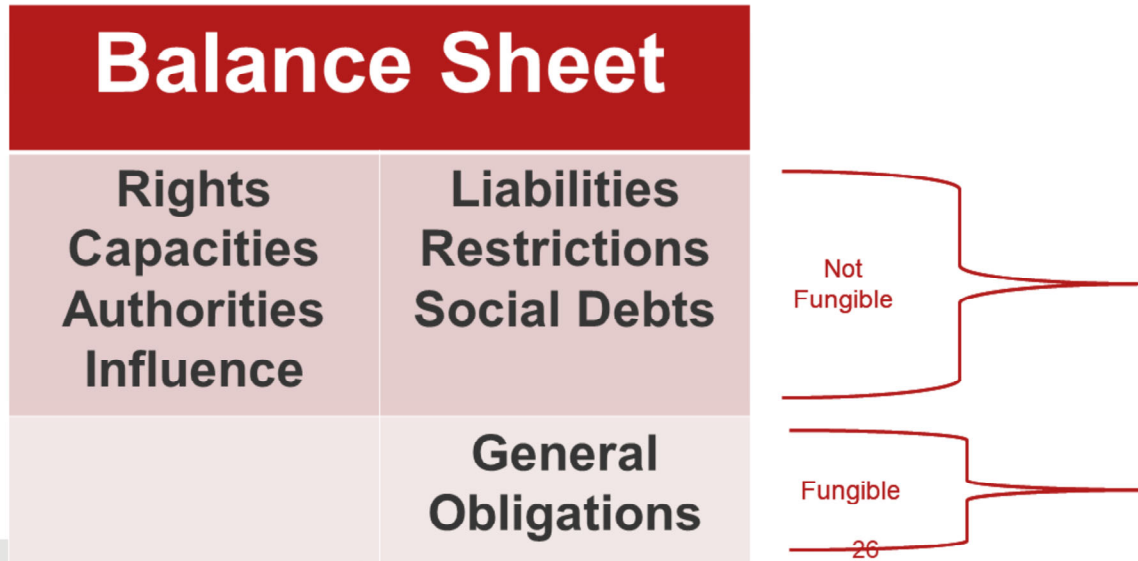
Social Debt & Making Amends

Balance Sheet	
Rights Capacities Authorities Influence	Don't steal Social Debt
	General Obligations

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But you can justify saying that someone who's been bad can face demands to be good. Say someone steals candy from a baby. They've violated a specific restriction, so it's bad behavior, and given that they overrode any controls to keep them from stealing, they would probably need to be given new obligations if governance is to be effective in preventing it from happening again. This is the role of social debt: keeping people to their obligations by forcing them to make amends, restitution, or penance. This is also a good moment to point out that governance is not just about govern_{ment}—we all govern all the time in daily life. So social debt might be giving someone the silent treatment until they apologize.”

General Obligations are Fungible



So we've seen that moral accounting doesn't allow moral licensing, but does allow social debt, but we focused only on specific obligations. The analysis is different for general obligations, which require us to do something good with our liberty, but we get to choose what it is. These obligations are fungible. Let's say you use your time and effort to a stranger who is suffering. You've used up assets, so your liberty is more limited, and you don't have to give as much to charity, or whatever good deed you might have in mind. So you can justify this type of moral licensing in moral accounting.

Moral Bookkeeping

Balance Sheet

Rights
Capacities
Authorities
Influence

Don't steal
Social Debts

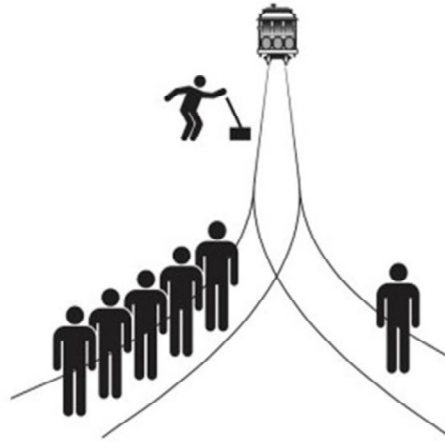
Liberty to help A
Liberty to help B

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On the other hand, what if someone declines to help a suffering stranger? If they chose to reserve their liberty for another time, it's not appropriate to impose any social debts. Maybe they can serve society's moral mission by using their liberty to help someone else instead. So with general obligations we do end up with a symmetric reverse of moral licensing—they saved their liberty this time, so they have an obligation to do something else with it later.

Trolley Problems

Bystander Trolley Problem



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Now let's move on to Philippa Foot's famous trolley problem. An out-of-control trolley is going to run over 5 people, unless some bystander, Pat, pulls a switch that diverts it to a ramp where it will kill only one person. This sets up a dilemma between two moral aspirations pretty much everyone agrees with: it's better for fewer people to be killed, and it's better for fewer people intentionally kill. But living up to one aspiration means Pat can't live up to the other. How should we govern Pat for her choice?

Moral Insolvency

Balance Sheet

Power to flip switch

Save Lives
Don't Kill

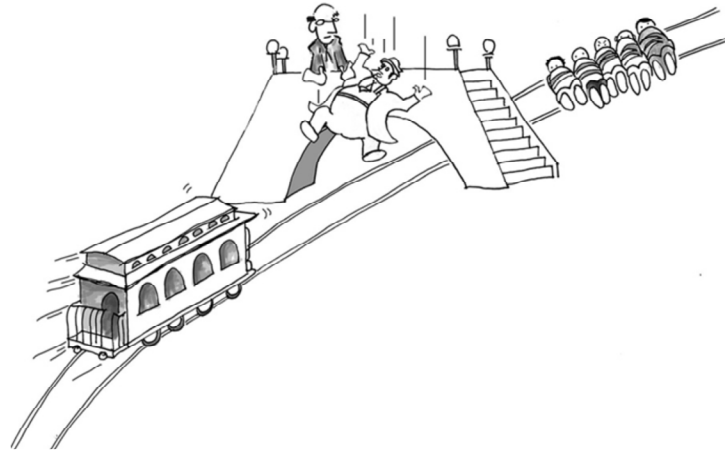
<General Obligations>

Let's look at Pat's books. As soon as she sees what's going on, Pat gains one relevant power: the option to pull the switch. She also has two large and pressing obligations thrust upon her: a specific liability to pull the switch, since she is the only one who can save five lives, and a restriction against pulling the switch since it would intentionally kill someone. Now we can argue which of those obligations is the bigger one, but first we have to deal with a problem: Pat's books show that she is *insolvent*: she lacks the assets to live up to both obligations, so her general obligation account goes negative—it's not just that she has no liberty, it's that whatever she does, it's going to be immoral. That doesn't seem sensible, but accountants have a fix for this.

Moral Reorganization

Balance Sheet	
Power to flip switch	Save Lives
	Don't Kill
	<General Obligations>

What we do in cases of insolvency is we reorganize the books. We prioritize the obligations from highest to lowest, and write off all of the obligations that can't be met. In this form of the trolley problem, most people see it as a higher priority to save 4 lives than to avoid killing 1. A lot of philosophers disagree, but even in this life or death situation, these disagreements don't matter all that much. With few assets, major liabilities, and no liberty, no steward could perform well in this situation. So it's hard to argue that she performed poorly, which means if we want to live up to the MAP, we can't reward or punish her much, whatever she does.



There's another version of the trolley problem in which the bystander's power isn't to throw a switch, it's to throw a fat man onto the tracks to save 5 people. Most people think that's wrong, and moral accounting provides a reason. The problem is that here the bystander is governing the fat man, and is violating the MAP's Subsidiarity Principle—don't govern if you can pass governance off to someone who can live up to the MAP more fully. In this case, Pat should let the fat man govern himself. He could use his liberty to sacrifice his own life. Pat doesn't have enough information to govern here, to say 'throw yourself off the bridge or I'll do it for you'. For all he knows, the fat man is a brilliant surgeon and is going to save 50 children in the next week.

Redirecting our Focus to Governance

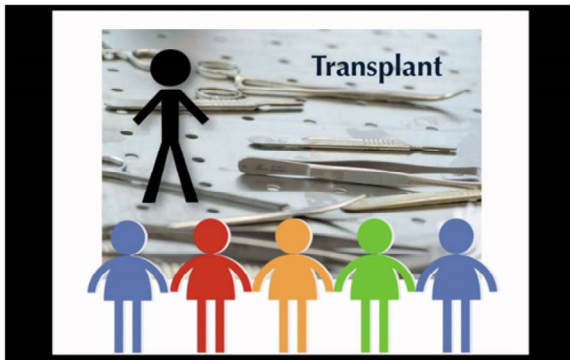
Reports that would warn people a trolley is coming, and warn the trolley driver there were people on the track

Incentives that would reward and punish people well in advance if they were risking a horrible situation like this

Controls that would make it hard for people to get stuck on the tracks, and easy to stop or divert the train quickly.

Whichever trolley problem we look at, though, the MAP helps us see that we're looking in the wrong direction for moral progress. The bystander is not the problem here. How can we create reports that would warn people a trolley was coming, and warn the trolley driver there were people on the tracks? How can we create incentives that would punish people for being on the tracks, and reward maintenance staff for keeping the trolley's brakes working? How can we impose controls that make it hard for people to get on the tracks when trolleys are coming, and easy for the driver to avoid them? And what about the people who failed to make these improvements already. Someone was given the power to improve that system, and if we really want moral progress, we are going to want to look at their books!

On the Other (Philippa) Foot



And that takes us to Philippa Foot's other problems. Should a doctor kill one person to distribute their organs and save five lives? Should a judge intentionally sentence an innocent defendant to death because otherwise terrorists will kill 5 hostages? How are these different from the trolley problem? Well, again accounting offers some clarity. Because the judge and the doctor didn't just walk by a switch and have power and obligations thrust upon them. They went out of their way to become entrusted with that power, knowing full well what obligations would come with it.

Balance Sheet

Power to heal or mete
justice
Personal powers

Deferred
Revenue

<Liberty>

So now we bring a new distinction to bear. The obligation of a judge to mete out justice fairly, or of a doctor to heal patients while doing no harm, is what accountants call deferred revenue—a central and ongoing obligation to those who entrusted them with assets in exchange for that specific type of performance. And few things are more damning than stiffing your customers. So it's no surprise that most people think that the judge and doctor should sacrifice 5 lives, while also thinking Pat the bystander should not intentionally kill someone.

Moral Dissolution

Balance Sheet

~~Power to heal or mete
justice~~
Personal Powers

~~Deferred
Revenue~~
Social Debt

<Liberty>

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If they do breach their deferred revenue obligations, we're not just going to reorganize their books like we did with poor Pat. Instead, we're likely to declare them morally bankrupt: they can't be trusted with the power and obligations of their role. So we'll turn to dissolution, taking the power of the role away from them, and maybe demand they make amends and slap on some social debt.

Moral Pluralism

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OK, now let's close with moral pluralism. How should moral accounting handle the fact that different societies have different moral views? On the one hand, I don't want to seem like I'm endorsing sexism, racism, caste structure, and other views that are very different from my own morality. On the other hand, I don't want to be the classic ugly American who blunders into a foreign country assuming I have all the answers.

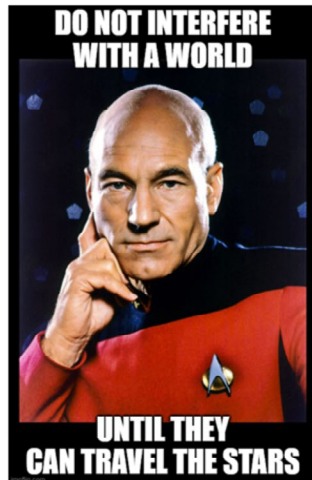
Aranda Culture

A recognized rule is that when a woman marries a man she becomes his absolute property, with the right to treat her as his slave, and to beat her as he likes until she conforms to his wishes.

- Yale Human Relations Area Files (Chewings, Charles. 1936)

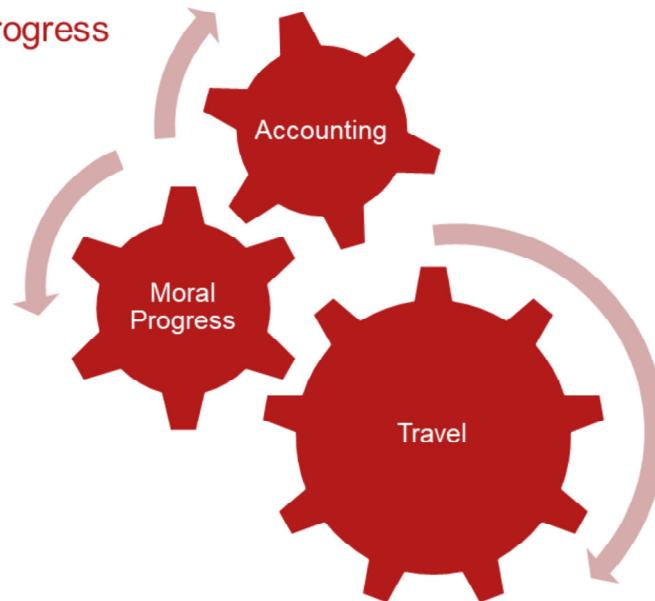
The Social Recognition Principle says that society determines who has what assets and obligations. But there are a lot of societies out there, and they recognize things pretty differently, especially when it comes to roles people are born into. Some societies recognize girls as the property of their fathers until they become the property of their husbands. That means that men have a lot of assets, and women have very little liberty. Moral accountants can't simply reject this view, even if we think it is deeply wrong, but we can still push for moral progress in several ways. First, we can help refine the society's mission. Is it really their moral aspiration for women to be owned by men, or is it just a practice that is serving other moral aspirations. If so, are there other practices that would better meet those aspirations? Second, we can help them address inconsistencies in governance. For example, if men own women, the Bookkeeping Principle requires men's great power to be balanced by great obligation, while women's limited power is balanced by limited obligations. Are men being held accountable appropriately, or just abusing their power without consequence? Are women being asked to do the impossible, and then punished for not doing it? The Entity Principle requires parties to be held accountable not just for their personal behavior, but for behavior they shaped through governance. Are men being held accountable for their daughters' and wives' moral performance, or do they skirt accountability?

The Prime Directive vs. The Borg



Moral accounting deals with moral pluralism a lot like the Federation does in Star Trek. Like moral accounting, Star Trek's Federation expresses all sort of aspirations, from fostering wisdom to eradicating poverty and war, but the Prime Directive overrides all of them—don't interfere with outside cultures until they have developed warp drive and can travel the stars. This makes Borg Collective the perfect Star Trek villain, because their entire purpose is to assimilate all cultures into their own, no matter how much they resist. Moral accounting's prime directive is that we don't try to change a society's morality. As in Star Trek, there are always problems we could fix if we just interfered. But we simply can't risk becoming the Borg.

The Engine of Progress



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I'll close by pointing out that travel serves as yet one more driver of moral progress. As commerce and accounting develop, so does interaction across societies. That interaction forces every society to accommodate some moral pluralism into their own moral aspirations. They need to let merchants with strange customs travel and even live among them, which means adopting an aspiration to live and let live. They need to travel and even live in strange lands, which often means adopting strange customs, along with an aspiration of when in Rome, do as the Romans do. When we feed these new aspirations into the engine of commerce, accounting practice, and accounting theory, it is one more force driving us toward moral progress.

Thanks! Q&A

Thanks for listening to half an hour of moral accounting, and now let'