SYNOPSIS: A broad consensus in accounting favors principles over rules to guide
creation of a uniform high-quality set of standards for use everywhere, and granting
monopoly power to a single body for this purpose. If implemented into policy, this
consensus will discourage discovery of and evolution toward better methods of financial
reporting, make it difficult to conduct comparative studies of the consequences of using
alternative methods of accounting, promote substitution of analysis and thinking by rote
learning in accounting classes, help discourage talented youth from collegiate pro-
grams in accounting, and probably endanger the place of accounting discipline in uni-
versity curricula. Because the presumed benefits in the form of increased comparability
of financial reports internationally or stateside are unlikely to be realized, the wisdom of
undertaking these burdens remains questionable. The paper calls for a re-examination
of the accounting consensus.

Keywords: accounting education; accounting standards; IFRS; uniformity.

JEL Classifications: M41; M44.

INTRODUCTION

This paper presents a heterodox perspective on International Financial Reporting Standards
(IFRS). Although the development of another set of accounting standards is a good idea, I
present a case that its application to all public firms across most countries of the world
through regulatory fiat is not.

“Get aboard if you do not wish to be left behind on the platform” is not a good reason to
follow the crowd, especially in matters of policy with longer-term consequences. Caution against
the bandwagon approach applies to smoking and drugs in schools, investment in real estate or stock markets, choice of careers, and many other aspects of our lives, society, and economy.

Consider one example: Through the 1980s and the 1990s, the International Monetary Fund, the World Bank, and the U.S. Department of the Treasury were associated with a more or less standardized mix of policy prescriptions for reforming the economies of countries in financial crisis (Williamson 1990). This policy mélange was administered, sometimes in the face of considerable resistance, to developing countries that got into economic difficulties and turned to these institutions for help. The prescription included bitter pills of fiscal discipline; redirection of public spending; tax reform; financial, trade, and investment liberalization; privatization; deregulation; and greater roles for market forces and protection of property rights.

Until about ten years ago, virtually everyone with power in the world of international finance and economics appeared to support the idea. By the end of the nineties, the consensus evaporated (Naim 2000), was modified (Rodrik 2001), and attacked (Stiglitz 2003; Finnegan 2003). After its fall from grace, and with the hindsight on its consequences, it is difficult to locate its supporters even in Washington, D.C., London, or Tokyo, much less in Buenos Aires, Mexico City, or Jakarta.

Keeping the saga of “Washington Consensus” in mind, it might be worth thinking of the current “Accounting Consensus,” identifying its main elements, examining whether it is better grounded in facts than its celebrated predecessor was, assessing its implications for accounting practice and education, and rethinking what we should and should not do, before accountants and accounting teachers snap to attention on orders from authorities. Civil servants, politicians, experts, and academics are all susceptible to errors of judgment. Our only protection is to try to minimize the frequency and impact of such errors by thinking hard and debating the issues in the community before taking major policy steps. Perhaps it is fortunate that this debate seems to be starting up, and regulators would be well advised not to act precipitously.  

An examination of the elements of the current accounting consensus shows that most of it is built on questionable foundations. I shall also argue that, if pursued by the accounting profession and educators, it will bring harm to the quality of accounting education, our ability to attract and prepare talented young men and women for the profession, and will further endanger the place of accounting education in our universities. Each educator should think what monopoly standardization of accounting and auditing have done, and may do to accounting education and the profession, and decide whether moving further down this road will help us serve our students and society better.

In my assessment, the consensus consists of five key elements:

1. The standards developed should be confined to principles and not become detailed rules.
2. A single set of high-quality written standards of financial reporting applied to all companies (at least the publicly traded ones) in the world will improve financial reporting by making financial reports more comparable, and thus help investors and other users of financial statements make better decisions.
3. To develop such standards, we should create a single deliberative corporate body consisting of chosen experts with a proper governance structure, due process, and legally assured funding, functioning under the oversight of regulatory authorities such as the Securities and Exchange Commission (SEC), the European Commission (EC), or International Organization of Securities Commissions.

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2 The ranks of those who question the merits of the SEC’s recent proposals on accounting standards now include former member of the Financial Accounting Standards Board Edward Trott (Johnson 2008) and current member of the Public Company Accounting Oversight Board Charles Niemeier (2008).
To this end, the operations of the FASB and the IASB should be coordinated and integrated to produce a single set of standards to be called, say, IFRS.

This single set of standards should be practiced in the United States, the European Union, and elsewhere, and the U.S. educational system should prepare itself to integrate IFRS into its curricula so U.S. graduates will be able to prepare, use, and audit financial reports based on IFRS.

In the following section I present the arguments as to why these elements of the Consensus are flawed.

The Standards Developed Should Be Confined to Principles and Not Become Detailed Rules

Principles, not rules, seem to be at the core of the Accounting Consensus. Doubts arise about the substance of a consensus when everybody is for it, but nobody can tell you what it means, or give you some substantive examples. We know the biblical commandments—Thou shalt not steal, for example—as principles. Both IFRS as well as FAS exhibit wide variation in the level of detail in their individual pronouncements. A recent compilation of international standards and their official interpretations and guidance published in March 2008 has 2,752 pages. One would have to think long and hard to find a profession whose principles require this many pages to state. It is difficult not to wonder about the distinction between principles and rules as visualized by the accounting standard writers.

Market valuation is a principle, as is historical cost valuation. In contrast, fairness is an \textit{ex post} judgment about a particular instance of valuation in the eyes of preparers and users. Alternatively, it could be thought of as their \textit{ex ante} judgment about the outcomes expected from a given method of valuation. How can a standard specify the numbers arrived at by the application of a particular method to be “fair” by definition?

Financial Accounting Standard No. 157 (FASB 2006) specified three unrelated valuation methods (mark-to-market, mark-to-model, and mark-to-judgment) to be used in different circumstances and declared their combination to be “fair.” Note that the last of these three options allows firms to value assets as they deem fit when market values or model parameters cannot be objectively estimated. Warren Buffet pointed out that the third level of “fair” risks becoming mark-to-myth. In mid-October 2008, in response to political pressures, the IASB (2008) proposed to allow special dispensation for application of fair values to financial instruments. In what sense can this proposal be called a principle, and not the beginning of the slide down the proverbial slippery slope of clarifications and guidance that land the general principles in a morass of complex rules under pressure from money and power?

The nature of written standards depends not only on intent but even more so on the process of writing them. A key feature in the process of standard writing—consideration of business and politics—will be the same, whether the FASB or the IASB does the writing. It is unreasonable to expect that the IFRS, after having tumbled through this process over a few financial scandals and

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3 For a comparative summary of IFRS and U.S. GAAP, see Deloitte (2007).


5 Muñoz (2008) in the Wall Street Journal: The new accounting rules are “one of the many weapons being deployed to fix the banking crisis,” Belgian Finance Minister Didier Reynders said in an interview. “The IASB made some changes last week, allowing banks to reclassify assets such as loans and receivables. The IASB said it expedited its decision following requests from EU officials, who wanted to see the measure put in place quickly.” EU officials say that by month’s end, the IASB changes could be broadened to include complex derivatives, a type of investment on which banks have already suffered tens of billions of dollars in write-downs.
cycles of the world economy during the next couple of decades, will look any different than the FAS looks now, the rhetoric about rules versus principles notwithstanding. It would be helpful to know the substance of the distinction between rules and principles in the context of what the FASB and the IASB have done in the past and plan to do in the future.


There is little doubt that investors prefer high-quality standards to low. However, to impart an operational meaning to this preference, one should know the characteristics of a high-quality accounting standard. How can one tell the quality of a standard? The length, specificity, generality, readability, and reliability are some of the possibilities that come to mind, but there are many others. Is it possible to put two standards, say those written by the FASB and the IASB, side-by-side and obtain some reasonable agreement across experts about their quality? To the best of my knowledge, neither the quality nor methods of measuring the quality of a standard have been specified or explained. A study of the qualitative characteristics of standards does not give us much hope that they have been identified in a useful way (Joyce et al. 1982). Much rhetoric about high-quality standards appears in speeches and press releases, but surprisingly for organizations dedicated to telling the world how to measure things, no measure of quality of a standard is available. A car manufacturer cannot tout the quality of its parts for long without backing it up with substance. In comparison, measurement of the quality of accounting standards appears to be treated with remarkable indifference.

Facilitating comparability of financial statements is an important element of the Accounting Consensus. High-quality standards based on principles instead of rules are supposed to help generate financial reports that are more useful by reason of being more comparable across firms, industries, and countries. This high-sounding goal deserves a moment of reflection. A general principle is concise and calls for judgment in its application, which must necessarily vary across individuals and situations, giving rise to greater variability in applications than a more detailed rule—presumably calling for less judgment—will generate. How and why should one expect that a resort to principles instead of rules would result in greater comparability? The basis of this presumed insight of the Accounting Consensus remains a mystery; given its centrality, it is worth exploring further with an example.

Consider the problem of accounting for research and development outlays, an early project and pronouncement of the FASB. FAS No. 2 (FASB 1974) was issued a year after it was established. Consider two companies: Company A that spends $1 million on R&D and manages to get a patent of doubtful value; and Company B that also spends $1 million on R&D and manages to...

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6 Personal conversations with senior partners of major accounting firms in the United States and Europe reveal widespread skepticism about the proposition that IFRS will promote comparability, even as these firms continue to aggressively support the idea in their formal positions. Reason (2008) quotes an accounting consultant:

…the root of their misunderstanding wasn’t U.S. GAAP, but the fact that the Big 4 partner was familiar with the U.S. version of IFRS, which differs subtly from IFRS as issued by the IASB. I learned for the first time that IFRS isn’t necessarily IFRS country-to-country. There are variants. Variations with IFRS are, in fact, one of the issues that the SEC says need to be addressed, and foreign-based firms listed in the U.S. can only file in IFRS if they use IASB-issued standards, not local variants. That said, if the SEC cannot curb its own enthusiasm for issuing guidance, U.S. conversion to IFRS might simply add one more variation.

Apparentiy, the SEC, like regulators elsewhere, plans to pursue cross-country comparability by issuing its own interpretations and guidance! It would be an amusing comedy of errors if such contradictions did not have serious and potentially tragic consequences for accounting and accountants.
develop a patent whose market value is estimated by the firm to be $10 million. Consider two possible standards: X that allows firms to capitalize that part of the R&D cost that does not exceed the firm’s estimate of the value of the R&D; and Y that requires the firm to treat all R&D outlays as expense when incurred.

Under Standard X, Company A could capitalize an amount between 0 and $1 million depending on what it claims to be the value of the future benefits of the R&D project. Company B also could do the same, although it will likely capitalize the entire cost of $1 million. In any case, to the user of the statements the two companies could look the same when their underlying states are entirely different. This is the problem that led the FASB to issue its FAS No. 2 in 1974 (labeled Y in this discussion).

Under Standard Y, both firms must expense the $1 million outlay against the current period income, and their balance sheets and income statement for the year would be identical (other things being the same) when, in fact, their underlying economic situations are quite different. They are comparable in the sense that they both spent the same amount of money on R&D during the year, and both show this entire amount as a charge against current income. They are also comparable in the sense that they have no resulting assets on their balance sheets. However, they are not comparable in the sense that while Standard Y (the current method) reveals the economic situation of Company A in its financial statements quite accurately, it misleads the user about the valuable resource of a patent Company B has but does not show on its balance sheet. So, even in this simplest of accounting examples, it is not clear which of these two possible standards is of higher quality and which one results in financial statements that are more comparable—an attribute so highly valued in the Accounting Consensus and yet hard to define.

Of course, no evidence exists that either of the two boards have tended to issue standards that help investors or other users make better decisions. If such evidence is available, it should be shared with the public for their assessment.

To Develop Such Standards, We Should Create a Single Deliberative Corporate Body Consisting of Chosen Experts with a Proper Governance Structure, Due Process, and Legally Assured Funding, Functioning under the Oversight of Regulatory Authorities Such As the Securities and Exchange Commission (SEC), the European Commission (EC), or International Organization of Securities Commissions

It is difficult for regulators to accurately assess the consequences of their proposed actions. The complex interactions among interests and actions of numerous agents make it difficult for any one regulatory body to assess, ex ante, the final consequences of implementing a proposal and its ultimate desirability. Most feedback they receive from individuals on their proposed drafts is understandably motivated by self-interest, sometimes apoplectic, and is rarely balanced across various interest groups whose ability to organize and respond differs widely.

Even in simple design tasks, say a toaster or a voting machine, engineers must test prototypes in the field to assess the strengths and weaknesses of alternative designs. The task of designing an accounting standard—which affects millions of individuals, all with potential to modify their actions in response to the standard—is far more complex. Designing it right in the first place without a field trial is almost impossible. Sole dependence on the judgments of a single regulatory body, with a worldwide monopoly jurisdiction, deprives it of the benefits of market feedback, and

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7 For example, see IASB (2008, 4): “After IFRS 7 was applied in 2007, the Board was informed that some of the disclosure requirements about the nature and extent of liquidity risk were unclear and difficult to apply and did not always result in useful information for users of financial statements.”

8 See Hayek (1945).
discourages the search for, experimentation with, and ultimate adoption of innovative solutions to financial reporting problems. Under a monopoly regulator, learning from trial-and-error and from alternative practices is not possible. Even in the unlikely event that a single best-for-all standard exists, the probability that it can be discovered through a monopoly process is low. Such a process will get us boxed in a wrong solution with high probability, and we would not have access to evidence or experience with alternatives to guide improvement of its prescriptions through learning and comparison. Reduction in the number of paths for evolutionary change is an important adverse consequence of granting the authority for world-wide standards to a single regulator with jurisdiction around the world.

**Simplicity and Complexity**

Organization and rules of markets are often simple, but the interactions among market participants can be maddeningly complex. Instead of the “simple rules, complex behavior” approach of markets, financial reporting has taken the opposite route of trying to make the task of the accountant and auditor simple by writing increasingly complex rules. Accounting standard setters seek to minimize the need for judgment by responding to requests for clarification of their rules. Unfortunately, when the goal is to narrow the scope of judgment and personal responsibility of the preparer and the auditor for the truthfulness and fairness of the final report, there can be no end to demands for clarifications, and the result is increasing complexity. Law tries to secure just outcomes through a combination of statutory and case law and ultimate judgments of lay jurors. Perhaps accounting, too, could handle the problem though a combination of written standards, social norms, and professional judgment, exercising self-restraint through sparing use of the power of enforcement. Heavy-handed intervention by rule-making monopolies and active enforcement by the power of state have failed to improve financial reporting and are unlikely to do so in the future.

It has been suggested that the economy, including corporations, markets, and financial reporting, should not be seen as a machine with fixed components, properties, and functional relationships. Instead it is best seen as an ecosystem whose elements continually adjust with respect to one another and evolve over time. Just as the acceptance of the ecosystem idea deconstructed the human/nature dichotomy, recognition of financial reporting as an ecosystem may also help us turn away from the preparer/user, transaction-event/information dichotomies that lie at the heart of the recent approach to financial reporting.

Although regulatory bodies resist competition within their jurisdictions, they have little reason to deny themselves the benefits of discovery and innovation when multiple entities compete. The National Highway Traffic Safety Administration (NHTSA) benefits from competition among car manufacturers who profit from devising better and cheaper ways to achieve the safety benchmarks set by the NHTSA. The Environmental Protection Agency (EPA) benefits from competition to devise better ways of achieving its pollution targets. The SEC or the EC have little reason to deny themselves the benefits of better ways of financial reporting that could be discovered through competition between the FASB, the IASB, and possibly some others. The number of automobile

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9 Barth et al. (2007), for example, compare the quality of financial reporting across twenty-one countries for firms that do and do not use international accounting standards. Once all (major) economies adopt IFRS, data for such comparative studies will no longer be available.

10 Arthur Roy Clapham coined the term *ecosystem* in the early 1930s in response to a request from Arthur Tansley (Willis 1997).

11 AICPA (2008) revised its Rule No. 203 to include IFRS alongside FAS as an authoritative set of standards in the United States for a 3–5 year “trial” period. Besides helping the nonpublic companies, such professional recognition of multiple sets of standards may help keep the CPA exam focused on general principles of accounting. It would be a step in the right direction if this modification was made permanent, to help competition between the two sets of standards persist.
engine designs that are present in the market is determined by the trade-off between the presumed advantages of newer designs and many additional costs including the parts inventory and the skill set of mechanics. Even if there were world-wide consensus that manufacturer X makes the best cars or computers at the present time, closing down the competing manufacturers would hardly be a wise course of action. Just as car repair shops figure out the ways of handling the diverse systems sold by different manufacturers, financial analysts can develop the expertise to analyze the financial statements prepared under competing standards.

Such competition cannot occur if, as the Accounting Consensus suggests, the standard setting agencies are assured of tax revenues to pay their expenses. Like other organizations, they would innovate and make the difficult trade-offs necessary to limit the complexity of their standards if they had to earn their own way in the form of royalties gathered from organizations that choose to claim that their financial reports conform to their respective standards. Any tendencies of the standard setters to race to the bottom would be counterbalanced by the self-interest of investors and analysts on one hand, and the vigilance of the statutory regulators on the other. The U.S. bond-rating agencies (Moody’s, Standard and Poor’s, and Fitch), who once showed signs of racing to the bottom in markets for sub-prime mortgage-based markets, improved on being disciplined by the markets as well as statutory regulators in the first half of 2008.

To This End, the Operations of the FASB and the IASB Should Be Coordinated and Integrated to Produce a Single Set of Standards to Be Called, Say, IFRS

A single set of accounting standards holds significant appeal through popularly drawn parallels with weights and measures in engineering and commerce, and with natural languages. Uniform weights and measures as a function of state appeared early in human civilizations to promote commerce; a common language makes communication possible. The first parallel is misleading; the second is often misunderstood.

If accounting measurement were like the measurement of gasoline by gallons, the uniform expensing of all research and development outlays as prescribed by FAS No. 2 (see above) would have solved the problem of accurately presenting the financial performance and status of firms in their reports. The reason it could not is that the real decisions managers, auditors, and investors make—the R&D outlays and valuation of the firm—depend on and interact with how they are accounted for. In contrast, the amount of gasoline one would buy at the pump and the amount paid hardly depend on whether the gas is measured in gallons or liters. At the gas station, all that matters is that the measure used is fixed and known to all; in accounting FAS No. 2 is fixed and known to all but does not solve the problem of financial reporting.

The parallels between accounting and natural languages are close but are often misinterpreted. Communication is possible because the meaning of words is partially shared but is incompletely specified. If a word (or accounting term) were to be defined with total precision, it would apply to but one specific object such as a particular copy of a particular book; the inevitable differences among various copies and various books would make it inappropriate to use the same word for them all. The usefulness of the word book calls for certain ambiguity in its meaning, so the boundaries among books, such as monographs, manuscripts, booklets, pamphlets, and e-books, remain a matter of judgment. The same is true of accounting terms. When the authority to write definitions resides in a single body, it inevitably faces endless demands for interpretations, clarifications, and guidance, which it accommodates by writing more detail into the rulebooks. It is hardly surprising that natural languages flourish in the form of social norms with the meaning of the words arising bottom-up through common usage. Authors of competing dictionaries document

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12 See Kitchen (1954) and Fearnley and Sunder (2006).
this usage and earn their authority and respect from being good at gathering and organizing such information. Pursuit of uniform standards written by authority at the expense of social norms diminishes the effectiveness of financial reporting in stewardship and governance, and in better informing security markets.

Accounting is closely interlinked with the laws, social norms, and mores of a society. Even a cursory review of the history of accounting reveals how the sociopolitical–economic events and systems help determine U.S. accounting. Examples of accounting for inventories using LIFO method (and the tax-book conformity requirement of LIFO) and accounting for deferred taxes readily come to mind as consequences of U.S.-specific factors. Validity of assuming that no such forces exist elsewhere in the world, or that they can be ignored in favor of written standards based on the practices of the English-speaking countries, or that the advantages of international coordination override the cost of abandoning the fit between accounting practices and local conditions, remains to be shown.

This Single Set of Standards Should Be Practiced in the United States, European Union, and Elsewhere, and the U.S. Educational System Should Prepare Itself to Integrate IFRS into Its Curricula So U.S. Graduates Will Be Able to Prepare, Use, and Audit Financial Reports Based on IFRS

Although the attempts to write uniform standards of financial reporting are primarily driven by their direct and immediate impact on capital markets, they also have major educational consequences. It is possible to argue that these consequences are equally if not more important, and that they deserve more attention from academics and those charged with the responsibility to develop standards.

The expansion of the ambit of written authoritative standards has led to fundamental changes in textbooks, course content, classroom discourse, and examinations, including the professional examination for CPA certification. In the absence of an authoritative standard for a class of transactions, textbooks, class discussion, and examinations tend to explore various possible ways in which a transaction could be accounted for, as well as consequences of alternative accounting treatments for various parties and the economy as a whole. Such a discourse helps develop students to think fundamentally and develop and exercise their judgment, instead of looking for black-and-white answers, and attracts young people with powers of abstraction to the accounting profession.

With expansion in the scope of authoritative standards, educational discourse has progressively shifted toward increasing emphasis on rote memorization of written rules to be regurgitated in the examinations. With the accounting standards written by the FASB being granted a monopoly status for public companies, intermediate accounting classes have moved toward focusing online-and-verse application of those standards, and not on critical examination of the merits of alternative accounting treatments for various classes of transactions. In many schools, two terms are no longer sufficient to cover this expanding volume of material generating calls for more teaching resources.

It has been argued that competition among multiplicity of standards would call for even more accounting courses, core requirements, faculty, classrooms, and other academic resources, and tuition fees or taxes to pay for them all. Under the current system of accounting education, it is not reasonable to expect the students, who have been drilled to memorize the specifics of FAS, to figure out by reading IFRS what they should and should not do. While accounting firms worry

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about additional costs of multiple standards and seek to economize by arguing for uniformity, some in academia see this as an opportunity for expanding accounting programs.

Alternatively, we could follow the example of law schools and consider moving the accounting educational system in the direction of teaching general principles and higher-level non-routine skills that are largely independent of the specifics of the standards issued by one or another regulator from time to time. Students educated in such a higher-level system of education will have developed the powers of abstraction and independent critical thinking that would allow them to adjust to changes in standards and apply them to specific transactions using judgment developed through education in general principles. Even under this alternative, time and resources would be needed to reorient the accounting education system.

Juliet Cao of the University of Washington at Tacoma writes:14

In short, I realize that it will really be useful if the students can walk away from the class knowing (1) what exists is not necessarily optimal; (2) what is hard to achieve is not necessarily undoable (e.g., introducing competition into standard setting); (3) that it is ultimately us, individual accounting professionals, who shape the whole industry. It is a pity that students are often drowned in technical details and instructors do not have enough time to expose them to more interesting and important aspects of accounting. This is especially true for intermediate accounting, as most students may plan to take the CPA exam and feel uneasy when the instructor deviates from the “must cover” list of specific topics because they might show up in the CPA exam.

In education, uniformity discourages thoughtful classroom discourse, attracts less talent to accounting programs and, ultimately, to the accounting profession. Uniform standards induce a follow-the-rule-book attitude among accountants at the expense of developing their professional judgment. Since judgment and personal responsibility are the hallmarks of a learned profession, pursuit of uniform written standards weakens the accountants’ claim to belong in this class, as well as the claim of accounting degree programs to belong in universities alongside professions such as architecture, dentistry, engineering, law, medicine, and nursing.15

To conclude, finding a balance between uniform standards and norms, and defining the extent of their respective roles in financial reporting, are not easy tasks. Standard setters find it difficult to know which standards are superior, and what should be the criteria for ranking the alternative standards. Societies that depend on norms and tradition also can get stuck in inefficient solutions and it may take reform movements, even armed uprising, to release them.

By their nature, evolved social norms and culture are specific to the society they serve. Variations in evolved systems, such as in the beaks of the finches inhabiting various valleys of the Galapagos Islands, or in wedding ceremonies in various parts of the world, cannot be explained entirely in terms of identifiable factors. Random chance and history also play a role. Attempts to harmonize financial reporting across the world assume that all cross-country variation in financial reporting practices is random or at least that the advantages of dispensing with such variations exceed any reduction in the fit between the local economic environments and the financial reports. The practices proposed for universal use are those prevalent in the English-speaking countries, and their authoritative versions written down in English often have no exact equivalents in Chinese, Japanese, or even Italian and German.

The pendulum appears to have swung too far in the direction of uniform written standards. We should consider giving social norms a stronger role and restoring the role of personal and professional responsibility in accounting and business. We could use the social norm of “fair represen-

14 Personal correspondence.
15 For evidence on decline in accounting education in the U.S. universities and difficulty of attracting new talent into accounting Ph.D. programs in the face of aging faculty, see American Accounting Association (2005), and Leslie (2007, 2008).
tation” as a moral compass for accounting, just as “guilty beyond a reasonable doubt” is used in criminal law. Written standards cannot capture either of these ideas. It may be necessary to create some kind of accounting court system to judge what constitutes “fair representation,” as Spacek (1958) proposed.

We should assist the evolution of accounting norms by allowing competition among multiple accounting rule makers with no collusion or push for convergence. Instead of being forced to use the FASB’s standards, U.S. firms could be permitted to choose from a small set of standard systems selected by the regulators. Standard setting bodies could then receive their income solely from royalties charged for the use of their standards and have their revenue based on how well their system actually works, not on how many rules they write or on tax collection. With competitive standards, we will have a healthier system of discovering better accounting systems and developing them over time, without eliminating judgment, and creating a better balance between standardization and norms.

In the preface to his 1755 English Dictionary, Samuel Johnson wrote about his “fortuitous and unguided excursions into … the boundless chaos of a living speech.” Can authoritative uniform standards without collaboration with social norms bring a semblance of order to the chaos to financial reporting? After seven decades of incessant efforts, it is clear that the current accounting consensus in favor of monopoly accounting standards will make things worse, not better.

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