ACCOUNTING AND POLITICS

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ABSTRACT

In 1973, Dale Gerboth wrote: "A politicization of accounting rule-making is not only inevitable, but just. In a society committed to democratic legitimization of authority, only politically responsive institutions have the right to command others to obey their rules." [1] David Hawkins stated: "The FASB's objectives must be responsive to many more considerations than accounting theory or our notions of economically useful data… corporate reporting standards should result in data that are useful for economics decisions provided that the standard is consistent with the national macro-economic objectives and the economic programs designed to reach these goals." [2] He then added "because the FASB has the power to influence economic behavior, it has an obligation to support the government's economic policies". [3]

The fact that Accounting influences human behavior, if only because it conveys information is obvious enough, though research into the working of "the efficient market" has cast doubt on some of the supposed results of accounting choices. There are, without question, political aspects of accounting. Whatever one may think about the merits of FASB Statement No. 19, "Financial accounting and reporting by oil and gas producing companies", there can be little doubt that the Securities and Exchange Commission would not have acted as it did to overrule this standard if there had not been political pressure from certain oil and gas companies which felt they would be injured by the mandatory use of the "successful efforts" method of costing.

In July 2003, Dennis Beresford in relations to expense options (the former FASB Chairman) wrote: "Mr. Levitt (the former SEC Chairman) did meet privately with all the members of FASB. He told us two things: 1) Proposed Congressional Legislation that would have overridden FASB's Accounting authority was nearly a sure thing to pass and 2) he (Levitt) would not expend any political capital to try to mitigate such congressional action. Chief Accountant Walter Schuetze seconded those positions." [4] Today, ten years after the FASB buckled to Congressional pressure and the Silicon Valley Lobby, the subject is back on front pages in every financial newspaper.

In August, The House of Representatives approved a new bill which overrides the FASB proposal to expense the value of all stock options. Under the measure, the expensing rule would be limited only to options granted to a company's top five officers. On August 19th, the SEC Chairman sent a letter to 16 Senators asking them not to support the bill passed by The House. Mr. Donaldson, the SEC Chair said "if the bill enacted, it would undermine FASB and disrupt the independent, private sector accounting standard setting process." [5]

Many argue that expensing options could limit opportunity-dependent companies' ability to compete for talented recruits, and they also argue that employee stock options are too difficult to value accurately. However, it is interesting to know that there are at least 356 companies that have adopted or announced to adopt the fair value method of expensing options. [6]