The Political Economy of Financial Harmonization:
The East Asian Crisis and the Rise of International Accounting Standards
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Abstract
In the aftermath of the East Asian financial crisis, western nations established a new international financial architecture that relied upon enhanced financial transparency and international financial standards, including international financial accounting and auditing standards, to govern an expanding and crisis-prone international financial system. This paper examines the history of the G-7’s response to the East Asian financial crisis and its implications for the rise and diffusion of international accounting standards. The study frames the history of the rise of international accounting standards within a macro political and economic context in order to better understand how accounting harmonization has both shaped and been shaped by transformations in the international political economy where financial capital and the power of the financial sector play an increasingly central role in the process of accumulation.

Keywords: International accounting standards, international auditing, financial crisis, institutional theory, political economy, harmonization, governance.

Introduction
Since the mid 1990s, the institutional arrangements governing financial accounting and auditing practice, which were organized at the national level by state regulators and professional associations for the better part of the 20th century, internationalized at a surprisingly rapid pace. This transformation is most evident in the rise and widespread diffusion of financial reporting standards set by a supra-national body, the London-based International Accounting Standards Board (IASB). International Financial Reporting Standards (IFRS) have catapulted from relative obscurity to become a universally recognized world standard. Use of IFRS is now required or permitted in over 100 countries, including the member nations of the European Union, which began requiring companies to prepare their financial reports in accordance with IFRS in 2005. Even in the United States, where support for domestic adoption of IFRS has been mixed, progress toward accounting harmonization has gained ground following a series of regulatory shifts, including the 2001 Norwalk Agreement to achieve convergence between US and international financial reporting standards, and the 2007 Securities and Exchange Commission’s (SEC) decision to allow foreign companies to use IFRS in SEC filings without reconciliation to US standards. Although less prominent than the rise of IFRS,

Footnotes:
1. The term harmonization refers to standardization of laws, rules, and regulations governing commercial activities across national borders. “Accounting harmonization” refers to the standardization of financial reporting standards (i.e. the rules governing corporate financial reporting), auditing standards (i.e. the rules governing the conduct of audits) and/or other accounting-related rules and regulations such as licensing and qualification requirements or ethics rules.
the formalization of international auditing norms by the International Auditing and Assurance Standards Board (IAASB) have, likewise, gained momentum in recent years (Loft & Humphrey, 2006; Humphrey & Loft, 2009; Humphrey et al., 2009).

At the same time, the near collapse of the global financial system in 2008 drew attention to financial reporting standards and the standard setting process by demonstrating that seemingly mundane, micro-regulatory accounting rules can have significant macroeconomic consequences (Arnold, 2009a). In the wake of the financial crisis, fair value accounting rules were blamed by some for exacerbating the credit crisis by encouraging pro-cyclical risk taking and decimating bank balance sheets during the downturn (Laux & Leuz, 2009). Financial reporting standards governing the consolidation of off-balance sheet structured investment vehicles (Ryan, 2008) were, likewise, blamed for facilitating the creation of an unregulated and systemically dangerous shadow banking system (Turner, 2008). In the politically charged environment of the financial crisis, Charlie McCreevy (2009), then European Commissioner for Internal Market and Services, argued that accounting has not only become a “hot political topic”, but also that “accounting is now far too important to be left solely to … accountants!” Yet despite this growing recognition of the salience of accounting policy-making, accounting scholarship is only beginning to understand the dynamics driving international accounting harmonization.

Given the gap in our understanding of the origins of supra-national accounting regulation and the politics of harmonization, Hopwood (1994) called for more research into the social, political and institutional factors underlying the internationalization of accounting. More recently, the surprisingly rapid pace of harmonization, together with the open politicalization of accounting standards in the wake of the 2008-2009 financial crisis, has inspired a stream of interdisciplinary accounting research on the rise of international financial reporting and auditing standards that examines the phenomenon from a variety of theoretical perspectives (Bhimani, 2008; Botzem & Quack, 2009; Camfferman & Zeff, 2007; Chau and Taylor, 2008; Chiapello & Medjad, 2009; Loft & Humphrey, 2006; Humphrey & Loft, 2009; Humphrey et al., 2009). Interest in the forces driving accounting harmonization also extends beyond the accounting literature to the broader field of social sciences, where sociologists and political scientists have turned to the study accounting harmonization in order to understand emerging forms of global economic governance (see Armijo, 2001; Botzem, 2008; Eaton, 2005; Martinez-Diaz, 2005; Mattli & Büthe, 2003, 2005; Nölke & Perry, 2007; Perry & Nölke, 2005, 2006; Porter, 2005; Posner, 2009, and Simons, 2001).

This study aims to contribute to this literature by examining one episode in the history of the rise of international accounting standards. The research focuses on an event that IASB Chairman, David Tweedie, frequently cites as a major turning point in the history of international accounting, namely the East Asian financial crisis of 1997-1998 (Street, 2002; Tweedie, 2002, 2008). In the aftermath of the East Asian crisis, G-7 finance

ministers and central bank governors\textsuperscript{3} responded to calls for a so-called “new international financial architecture” to address the problem of systemic instability within the international financial system that had been exposed by the crisis. The centerpiece of their plan to reform the international financial infrastructure was the creation of a new international organization, the Financial Stability Forum (FSF), and endorsement of a set of twelve financial standards and codes to govern the crisis-prone international financial system by bringing greater transparency to the marketplace. Significantly, the FSF selected international financial reporting standards and international auditing standards as two of the twelve financial standards that would form the foundation for global financial governance. Subsequent support for international harmonization of accounting standards from the G-7 finance ministers, the Financial Stability Forum, the World Bank (WB) and the International Monetary Fund (IMF) contributed to the development and diffusion of IFRS in several ways, both practical and ideological.

The history of the G-7’s response to the East Asian crisis and its implications for the development and diffusion of international accounting standards is analyzed using a research methodology that blends institutional analysis and political economy, an approach that I call macro institutional analysis. The lens of political economy allows us to examine the relationship between the processes of international institution building within the accounting field and the transformation in late 20\textsuperscript{th} century capitalism that Giovanni Arrighi (1994, 2007) and others refer to as “financialization”. In contrast to forms of institutional analysis that emphasize the embeddedness of accounting in national cultures and national institutional forms, macro institutional analysis views the history of accounting from a world-systems perspective (Wallerstein, 2004; Arrighi, 1994, 2007) in order to better understand how institutional developments within the accounting field, in this case the rise of international accounting standards, have both shaped and been shaped by the changes within the international political economy (Arnold, 2009; Powers, 2009).

Power (2009) maintains that the rapidity of accounting internationalization is less surprising if we recognize that accounting has never been a distinctively national affair; long before codification of accounting norms by standard setting bodies began in the mid-20\textsuperscript{th} century, the basic elements of financial accounting had already been widely disseminated as part of what he calls a “world system of accounting” which has been developing over centuries rather than decades, and which accounts for the non-trivial degree of similarity that is found across various national accounting systems. Accordingly, Power (2009, p. 325) argues that we need to “rethink the very conception of the ‘internationalization’ of financial accounting” and “redefine the starting point” for international accounting research. Rather than taking national accounting systems as our primary unit of analysis and viewing the rise of international accounting standards in terms of a movement from national to international accounting norms and the opposition between forces of international standardization and nationally embedded institutional and cultural constraints, Power (2009) calls for an international accounting research agenda that takes the world system, rather than national states, as the primary unit of analysis.

\textsuperscript{3} The Group of 7 (G-7) includes the finance ministers and central bank governors of France, Germany, Italy, Japan, United Kingdom, United States and Canada.
Methodologically, a world systems approach can focus on either the cultural dimensions of what Meyers et al. (1997) call “world society”, or the political and economic dimensions of what Arrighi (1994, 2007) calls the world inter-state system. In the first case, the internationalization of accounting is, to paraphrase Power (2009), viewed in relation to the diffusion of a universalistic commercial culture over many centuries, which is currently expressed in norms of appropriateness and agreement as to what constitutes “good” accounting shared by transnational networks of experts that populate the accounting field. In the second case, accounting history is conceptualized in relation to the development of capitalism on a world scale, again over many centuries, which currently takes form in the process of financialization (Arnold, 2009). This study adopts the second approach taking the political and economic dimensions of the world inter-state system as the primary focus of analysis in order to better understand the inter-relationships between the rise of international accounting standards and the dynamics of late 20th capitalism.

The approach yields an interpretation of the rise of international accounting standards in which finance ministers and central bankers take their place among the actors shaping the contours of accounting history, and United States emerges as an advocate of international accounting standards as a component of its effort to integrate East Asia and other emerging economies into the world financial markets. While this macro institutional perspective provides only a partial history of the rise of international accounting standards, it illuminates an aspect of accounting history that might otherwise be neglected in research focused on internal developments and decisions within the accounting field by broadening the analysis to encompass transformations in the international political economy and the role accounting plays in the institutional arrangements governing, rationalizing and legitimating today’s highly financialized world economic system.

The following section positions macro institutional analysis in relation to other forms of institutional research and discusses the research approach and methodology. Section three describes the international financial architecture that was set in place in the wake of the East Asian crisis and the role that international accounting standards played within this emerging system of global financial governance. To answer the question of why accounting figured so prominently in the new international financial architecture, the paper situates the history of the response to the East Asian crisis and the G-7’s endorsement of international accounting standards in the context of several features of the international political economy, including the financialization capital, the geopolitical influence of the United States as the center of capital accumulation on world scale and organizing force in the world inter-state system, and US support for global financial market integration, accounting reform within emerging economies, and an ad hoc approach to global governance. The final sections of the paper discuss the implications of this response to the East Asian crisis for the diffusion of international accounting standards, the international auditing industry, and prospects for global financial stability.

Macro institutional analysis
Institutional analysis recognizes that markets, economies, and economic actions are embedded in societies (Granovetter, 1985) and that economic outcomes are often shaped by non-market institutions and processes that are often infused with politics (Zukin and DiMaggio, 1990). It seeks to avoid economic and technical determinism by offering a framework for studying the historical-determined institutional mechanisms governing organizations, sectors of the economy, and economies as a whole. As such, institutional analysis can provide a useful framework for analyzing the historical emergence of supra-national institutional arrangements for governing both the accountancy sector and the broader global financial system.

Within the general framework of institutional analysis, the task of understanding the political, economic and institutional underpinnings of harmonization can be approached from at least three different perspectives, namely micro, mezzo or macro analysis (Arnold, 2009b). Each of these levels of institutional analysis is important to understanding the rise of international accounting standards. And, although the lines of demarcation separating the three levels of analysis often blur, each makes a somewhat unique contribution to our understanding of the history of accounting harmonization.

**Micro analysis**

Micro institutional analysis examines the ways in which economic actions are embedded in institutions defined as social norms, cultural values, shared meanings, and taken-for-granted assumptions. Within the accounting literature, international comparative studies have used micro institutional theory to understand the ways accounting is embedded within national cultures (Nobes & Parker, 1988). The theory that national accounting practices are entrenched in national institutions or cultural forms such as American individualism, French statism, or German corporatism, however, is unable to explain the seemingly rapid pace of harmonization since the mid-1990s (Hopwood, 2000). Power (2009) argues this is because international accounting research has been preoccupied with national determinants of financial accounting practice while ignoring the extent to which the basic elements of financial accounting (income, assets, liabilities and so forth) are -- and have always been -- strikingly similar across national borders. He suggests financial accounting has never been a distinctively national affair and that international accounting research needs to give more attention to the sources of normality within the “world accounting system” which he argues has been “a highly rationalized practice at the world level long before ‘international accounting’ and the problems of diversity became an explicit research and policy theme” (Powers, 2009, p. 336).

Micro institutional analysis can address the challenged posed by Power (2009) by recognizing that social norms, cultural values, shared meanings, and rationalizing logics are not bound by national contexts. Widely shared cognitive and ontological models of reality constitute what Meyer et al. (1997) refer to as the cultural dimension of world society. The universalizing and rationalizing models that constitute world society, in turn, account for the often, surprising degree of isomorphism that can be observed between modern nation states despite their vastly different histories and traditions (Meyers et al, 1997). International harmonization of accounting standards can, thus, be studied from
the perspective of micro institutional analysis by focusing on the ways that recent trends toward accounting harmonization reflects the diffusion of new rationalizing logics (Suddaby et al., 2007) and shared norms among global networks populated largely by technical expert (Grewal, 2008; Power, 2009; Richardson, 2009). In this respect, Power (2009, p. 326) argues that it may be helpful to regard the rise of the International Accounting Standards Board and its history of competition with other standard setting bodies, not as a competition between international and national standard setters, but rather as a “sub-politics involving small numbers of policy actors operating within, and constituting, a ‘globalised accounting culture’ characterized by competition over issue-based expertise, rather than national interest”.

Mezzo analysis

Mezzo institutional analysis is an intermediate level of analysis aimed at understanding how economic activity is embedded in institutional arrangements, including the legal and regulatory regimes, governing specific sectors of the economy and/or institutional fields (Arnold, 2009b; Hollingsworth, 2003). Economic sociologists have sometimes used a mezzo approach, focusing on the governance of specific industries or economic sectors, in order to better understand the social-political and institutional foundations of the economy (Campbell, Hollingsworth & Lindberg, 1991). An intermediate level of analysis has also been used by organizational sociologists who embrace the concept of the “institutional field”, defined as “communities of organizations or clusters of actors that, in the aggregate, constitute a recognized area of institutional life” (DiMaggio & Powell, 1983), in order to reach beyond narrow economic theorizing of organizational behavior. Within the accounting literature, mezzo-level institutional analysis has examined arrangements governing the accounting industry (Arnold, 2005), the institutional field of accounting (Suddaby, Cooper and Greenwood, 2007), and the wider field of the professions including law, medicine and so forth (Suddaby & Greenwood, 2001). Accounting, however, can also be conceptualized as part of the broader field of finance (Hopwood, 2009), thus, bringing an institutional perspective to the study of the role accounting rules and accounting institutions play in the governance of the international financial services industry.

Mezzo-level research on the global governance of the accountancy sector via newly emerging supra-national regulatory bodies is demonstrating that the internationalization of accounting was not an adaptive response to investors’ need for transparency. Rather, research shows that the large international accounting firms, acting with and through supportive nation states and international economic institutions, worked proactively to create a global market for their services by lobbying for preferential rules in international trade agreements (Arnold, 2005; Caramanis, 2002; Suddaby, Cooper and Greenwood, 2007). With respect to harmonization, for example, during the Uruguay Round of multilateral trade negotiations (1986-1994), the Anglo-American accountancy industry conducted a well orchestrated campaign to leverage the authority of the World Trade

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4 Economic sociology (or socio-economics as it is sometimes called) is an interdisciplinary field dedicated to understanding the socio-political foundations of the economy. See, for example, Hollingsworth & Boyer (1997) and similar work published in the journal, Socio-Economic Review.
Organization (WTO) to gain recognition for international accounting standard setting bodies and enshrine international accounting standards in international law (Arnold, 2005, Hopwood, 1994). Because of its emphasis on the political tensions and jurisdictional struggles within and between states, transnational accounting firms, and international regulatory institutions, mezzo-level analysis has proven well suited to dealing with the question of historical agency by revealing the visible hand of power and the influence of the major accountancy firms in the process of international institution building.

**Macro analysis**

Macro-level analysis can be defined as the study of the institutional arrangements governing economies as a whole. Research at this level examines the long-term historical processes whereby the institutional arrangements governing economies come into being and change in response to financial and economic crises, political mobilizations, and social struggles. Macro institutional analysis can be characterized as a blend of traditional political economy and institutional analysis. It differs from traditional political economy in the emphasis it places on the importance of the institutional arrangements that regulate capitalism across historical time. This blending of political economy and institutionalism is evident in the work of French regulation theorists (Aglietta, 1976, Boyer, 1990) who pay particular attention to transformations in the institutional mechanisms that have been developed historically to moderate capitalism’s tendency toward economic crisis and social instability. Financial reporting and auditing are an integral part of the institutional arrangements that govern contemporary capitalist economies, and the world economy as a whole. Robert Boyer (2007), for example, has used the regulation approach to demonstrate that historical cost accounting facilitated the Fordist regime of accumulation that characterized the post-WWII era, while fair value accounting is an integral component of the finance-led economic regime that characterizes today’s political economy.

In accounting, institutional research has focused primarily on the intersection between micro and mezzo analysis. Suddaby, Cooper and Greenwood (2007), for instance, draw from institutional theory to explain the dynamics of the transformation of accounting from national to international modes of governance in terms of the increasing dominance of a few powerful transnational accounting firms over the institutional field of accounting (mezzo-level analysis) and the shifting rationalizing logics that constitute the normative underpinnings of accounting practice (micro-level analysis). Institutional studies in accounting, to date, has given less attention to the broader trends within the global political economy that mark in the transition from the post-World War II economy (1945-1975) to the current finance-led regime of accumulation. Similarly, the institutional field has typically been conceptualized as either the accounting field (Arnold, 2005; Suddaby, Cooper and Greenwood, 2007) or the broader field of the “professions” (Suddaby & Greenwood, 2001). The field of analysis is only beginning to be conceptualized in terms of the financial services sector (including commercial and

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5 The interface between political economy and institutionalism is also evident in the field of economic sociology or socio-economics.
investment banking, insurance, fund management, brokerage, and financial advisory services) and the interface between accounting and finance (Hopwood, 2009; Vollmer et al., 2009).

This study aims to address this gap in the research by interpreting the history of the rise of international accounting standardization in the aftermath of the East Asian financial crisis from a macro institutional perspective. Methodologically, the study adopts a world systems approach, taking the world inter-state system, rather than the nation state, as the primary unit of analysis. Rather than interpreting the rise of international accounting standards in relation the cultural dimension of world society, which is the domain of micro-institutional analysis, this research focuses on the political and economic dimensions of the world inter-state system. It examines the relationships between the internationalization of accounting standards, the spread of Anglo-American style international capital markets, and the transformation of international capitalism that took place during the final decades of the 20th century, known as financialization.

Although Power’s (2009) suggestion to view financial accounting as a product of a universalistic and state-less commercial culture is an appropriate starting point for micro- and mezzo-level studies of the role global networks of experts play in the diffusion of accounting norms, macro institutional analysis must deal with the fact that the contemporary world system is organized as an inter-state system. Geo-politics, inter-capitalist rivalries, economic conflicts between nations at the core and periphery of the world system, and the pivotal role played by states, such as Britain in the 19th century and the United States in the 20th century, in organizing capitalism on a world scale are critical components of macro institutional analysis.

Drawing from the Fernand Braudel’s history of the evolution of capitalism as a world system, Arrighi, (1994; 2005) argues that the organizing center of capital accumulation shifted over time from the Italian city states in the 16th century, to Holland in the 18th century, to Britain in the 19th century and most recently to the United States in the 20th century. With each successive shift, the states that served as center of capital accumulation were larger and more powerful than their predecessors, and capable of organizing capitalism on an increasing larger world scale. Since World War II, the United States has played the pivotal role as organizer and promoter of world capitalism. Although Arrighi (2007) and others argue that US hegemony is in decline in the 21st century, during the 1990s the US was, as David Harvey (2010, p. 36) observes, “the controlling shareholder in global capitalism able to call the shots with respect to global politics” in part through its influence over global economic institutions such as the World Bank and IMF. For this reason, this study focuses extensively on the role the United States played in orchestrating the response to the East Asian financial crisis and constructing the post-crisis international financial architecture.

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6 Arrighi (2007, p. 92) states that although Marx’s characterization of the state as a committee for managing the affairs of the bourgeoisie is an “exaggeration” and a “false characterization of most European states”, it is “probably as accurate a description as any other” of the states that have served as centers of capitalist accumulation in the West.
For this reason as well, the paper retains the often ill-defined term “Anglo-American”
capitalism (and Anglo-American accounting), which for purposes of this study can be
interpreted as roughly synonymous with world capitalism (and world accounting) as they
have developed over the past two centuries first under British and then under U.S.
sponsorship. From the perspective of world system analysis, Anglo-American capitalism
is not an expression of US or British national culture, but rather an essentially
internationalist project that has been spread by way of colonial conquests, imperialism,
and neo-imperial ventures. As a result, the institutional arrangements governing the
world capitalist economy have been largely shaped by the organizing centers of capital
accumulation and often, although not necessarily, reflect norms and practices followed in
Britain and America. While it may be tempting to abandon the term “Anglo-American”
altogether and replace it with the term “world accounting”, to do so invites the
misconception that accounting practices are strictly a product of an universalistic
commercial culture and/or anonymous market forces and, thus, devoid of the geopolitical
underpinnings and economic relations of power that are so important to the study of
political economy.

The research draws from the literature on political economy and economic history
including the works of Giovanni Arrighi (1994; 2007), David Harvey (2005, 2010),
Robert Brenner (2002), Gerald Epstein (2005) and others to describe the transformation
of late 20th century capitalism and the phenomenon of financialization. The sections of
the paper dealing with the G-7’s response to the East Asian financial crisis draw from the
work of Robert Wade (2000, 2007), Bruce Cumings (1998) and other critics of the “new
international financial architecture” that was established in response to the East Asian
crisis. In their analysis, the West’s response to the East Asian crisis represented an
effort, led by the United States, to seize upon the crisis to promote the spread of Anglo-
American style capitalism by institutionalizing a relatively weak system of financial
governance, favored by the financial sector, which relied chiefly upon transparency,
international financial standards, and market self-discipline to govern an increasingly
volatile and crisis prone international financial system.7

While the study relies on insights drawn from the political economy and economic
history literature for its interpretative framework and to identify the economic and
political factors that shaped the G-7s response to the Asian crisis, it uses primary sources
to document the relationship between those macroeconomic and political factors and the
selection of accounting and auditing standards as key components of the international
financial infrastructure. Primary source materials, including speeches, press releases,
published papers, reports and other documents, were obtained from the online archives of
the Financial Stability Board, the US Treasury Department, the IMF, the World Bank,
and the Bank of International Settlements, among others, and from various business and
economic databases of newspapers, journals, and other publications. The research was
supplemented by interviews with participants who observed the West’s response to the
crisis from positions within relevant international or national regulatory organizations,
including the International Accounting Standards Committee, the International Forum for

7 See especially Wade (2007) for an exposition of this thesis.

The East Asian crisis and the new international financial architecture

The East Asian financial crisis (1997-1998) began in Thailand with a panicked run on the Thai Bhat in 1997 as short term investors, which Blustein (2001) refers to as “the electronic herd”, pulled money out of the country. Contagion spread quickly throughout the region leading to major IMF rescue programs in Thailand, Indonesia, and Korea. The financial turmoil was not limited to Asia; the late 1990s witnessed a series of serious international financial upheavals including the Mexican peso crisis in 1994-1995, the Russian debt crisis in 1998, the collapse of the US hedge fund, Long Term Capital Management, also in 1998, and the Brazilian currency crisis in 1999. Together these events destabilized the international financial system leading to calls for financial reform and the creation of a so-called “new international financial architecture”. Soederberg (2001, p. 453) defines this architecture as “an emerging conjuncture of institutions, practices and discourses that aim to provide a managing infrastructure for the movement of global capital flows.”

While the seriousness and scale of these crises led to widespread consensus among economists, policy analysts, politicians and finance ministers on the need to reform the international financial system, there were fundamental disagreements on the form reform should take. At the risk of some oversimplification, the various proposals for financial reform advanced in the wake of the East Asian crisis can be grouped into three approaches. The first approach blamed the crisis on overly rapid financial liberalization, which allowed capital to flow freely across borders encouraging short-term financial speculation and increasing the risk of capital flight and crisis. Proponents of this approach, including Nobel prize winning economist, Paul Krugman (1998), and pro-globalization economist, Jagdish Bhagwati (1998) among others, advocated placing constraints on cross-border financial speculation by allowing or encouraging governments to re-impose capital controls if needed to prevent the kind of wholesale capital flight that had proven so destabilizing in Asia. During the East Asian crisis, the government of Malaysia adopted this approach when it imposed emergency capital controls in September 1998 to curb capital flight out of the country. Advocates of constraints on the global movement of capital also favored transactions taxes, such as the Tobin Tax, to discourage short term financial speculation and raise revenue to mitigate the social impacts of economic crises (See Crotty & Epstein, 1999 and Pollin et al., 2001).

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8 An exception to the consensus on the need for a new international financial architecture was the position taken by the market fundamentalists who opposed any government intervention in the economy including IMF bailouts on the grounds that they exacerbated the moral hazard problem. See Summers 1999b for a discussion of this position.


10 The Tobin Tax, a tax on foreign currency transactions designed to discourage short term speculation, was first proposed by Nobel Laureate economist, James Tobin in the 1970s.
The second approach called for the creation of stronger international institutions with enhanced powers to govern the international financial system in order to prevent and/or contain instability. Examples of this approach to reform include the proposal for an international financial regulator, advanced by UK economist, John Eatwell (Eatwell & Taylor, 2000) among others, and a proposal for an international credit insurer, advocated by hedge fund manager, George Soros (1998). Proposals for an international bankruptcy court were also advanced. Anne Krueger (2002), then First Deputy Managing Director of the International Monetary Fund, for example, called for the establishment of an international bankruptcy mechanism that would give the IMF power to restructure sovereign debt. Within East Asia, Japan’s proposal for the creation of an Asian Monetary Fund, as a regional alternative to the US dominated International Monetary Fund (IMF), represents a regional variation on this institutional-building approach to strengthening the international financial infrastructure. (Lipsey, 2003).

The third approach was the least radical; it blamed the East Asian financial crises on crony capitalism and the lack of adequate financial transparency within emerging economies. Advocates of this approach, including United States Treasury Department officials (Summers, 1999b; Rubin, 1998), opposed a structural overhaul of the international financial system or constraints on global financial integration, and called instead for domestic reforms within emerging economies to strengthen their financial infrastructures and bring them into line with international best practices. With the isolated exception of Malaya’s emergency capital controls, proposals for macro economic reforms advocated by proponents of the first two approaches were not implemented. Instead, the third approach, which focused on micro-prudential regulation, improved transparency, domestic financial reforms, and adoption of international financial standards and codes of best practice by developing nations, became the framework for the West’s response to the East Asian crisis.

In February 1999, Group of 7 (G-7) finance ministers and central bank governors created a new international financial organization, the Financial Stability Forum (FSF) based upon the recommendations of a report by Han Tietmeyer, then President of the Deutsche Bundesbank, that the G-7 had commissioned in 1998 (Tietmeyer, 1999). The purpose of the Forum was to bring together national authorities, international financial institutions, and international regulatory bodies on a regular basis to “assess issues and vulnerabilities affecting the global financial system and identify and oversee the actions needed to address them” (Tietmeyer, 1999, p. 7). The Financial Stability Forum’s

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11 The G-7 nations include Canada, France, Germany, Italy, Japan, the UK and the US. The G-7 holds meetings both at the level of heads of state and at the level of finance ministers and central bank governors. The Financial Stability Forum was initiated by G-7 finance ministers and central bank governors.

12 Earlier, in 1998, the Clinton administration organized the Group of 22 (G-22) to address the crisis. While more emerging nations were represented in the G-22, the group’s recommendations – which included a recommendation that “priority be given to compliance with and enforcement of high quality accounting standards” -- reflected US preferences. According to Armijo (2001), European dissatisfaction with US dominance of the G-22 led to the G-7’s creation of the Financial Stability Forum in 1999. The G-22’s recommendations on accounting are available at http://www.imf.org/external/np/g22/index.htm#trans accessed on 28 March 2010.
membership was composed of the finance ministers, central bank governors and other regulatory authorities from the G-7 countries and other significant international financial centers\textsuperscript{13} as well as the IMF, the World Bank, international regulatory and supervisory bodies, and committees of bank experts. Although the Group of 20 (G-20) was established at the G-7 finance ministers meeting in September of 1999 to broaden involvement and lend legitimacy to the Financial Stability Forum’s initiatives, the creation of the FSF was initiated by the G-7, and the FSF’s membership continued to be dominated by finance ministers, central bank governors and financial regulators from the G-7 until it’s reorganization into the Financial Stability Board in 2009.\textsuperscript{14}

At the Forum’s inaugural meeting in Washington, DC in April of 1999, members set up three working groups to recommend policy on highly leveraged institutions, capital flows, and offshore financial centers. The Forum also agreed to create a \textit{Compendium of Standards} listing internationally accepted standards and codes of best practice that they believed countries should follow. (Financial Stability Forum, 1999). At the third meeting in Singapore in March of 2000, the Forum members agreed to focus the compendium project on twelve financial standards and codes, which they deemed “key” for sound financial systems and deserving of priority implementation (Financial Stability Forum, 2000b). These standards and their issuing bodies are shown in Figure 1.

[Insert Figure 1 Here]

Two of the twelve financial standards given priority in the FSF compendium are accounting standards, namely 1) International Accounting Standards\textsuperscript{15} set by the IASB, and 2) International Auditing Standards set by the International Federation of Accountants (IFAC). The original compendium designated the International Accounting Standards Committee (IASC) as the accounting standard setter; when the IASB was established to succeed IASC in 2001, it replaced IASC in the compendium.\textsuperscript{16}

The selection of accounting and auditing standards for inclusion in the FSF’s compendium was controversial because private sector bodies set international accounting and auditing standards.\textsuperscript{17} The other standards in the FSF’s compendium are set by

\textsuperscript{13} Countries represented in the FSF included Australia, Canada, France, Germany, Hong Kong, Italy, Japan, Netherlands, Singapore, Switzerland, United Kingdom and the United States. A listing of members of the FSF can be found at \url{www.bis.org/about/factfsf.htm}, accessed 18 Aug. 18, 2009.


\textsuperscript{15} The FSF used the term “international accounting standards” here to refer to International Financial Reporting Standards set by the IASB.


\textsuperscript{17} These private sector accounting standard setters were not mentioned in the Tietmeyer report (1999), which laid the foundation for the G-7’s response to the financial crisis. Tietmeyer specifically recommended that all of the other international institutions and standard setters included in the Financial
organizations composed of national governments or national regulators. The IOSCO (International Organization of Securities Commissioners) and IAIS (International Association of Insurance Supervisors) are made up of national securities and insurance regulators. The International Monetary Fund (IMF), the World Bank, the Financial Action Task Force (FATF), the Organization for Economic Co-operation and Development (OECD) and the Bank for International Settlements (BIS), which is home to the Basel Committee on Bank Supervisions (BCBS) and the Committee on Payment and Settlement Systems (CPSS), are all inter-governmental bodies. In contrast, private sector groups issue international accounting and auditing standards. The IASB is an independent private sector body and the IFAC is an association of professional associations representing commercial auditors. Although non-governmental accounting bodies traditionally played a central role in the governance of capital markets within Anglo-American countries, the institutionalization of non-governmental parties as central players and rule-makers within the international governance structure was unprecedented.

The IMF and World Bank were charged with responsibility for monitoring countries’ implementation and compliance with the FSF’s standards and codes. As part of their joint Financial Sector Assessment Program (FSAP), the IMF and World Bank began conducting detailed country-by-country assessments of progress toward implementation, known as Reports on the Observance of Standards and Codes (ROSC). Robert Wade (2007) criticizes these arrangements, which he refers to as the “standards-surveillance-compliance” regime, on three counts. First, the response to the East Asian crisis was drafted by a US-led coalition of western governments, international organizations, financial firms, and think tanks from advanced capitalist states, while the “global South” had almost no voice in the matter (Wade, 2007, p. 115). Second, more substantive reforms of the international financial system, embodied in proposals for the creation of an international financial regulator, a international bankruptcy court, an international deposit insurance corporation, were abandoned largely because of the “unwillingness of private financial markets to accept greater international authority, which would afford them less latitude than a world in which a variety of nation-states hold jurisdiction” (Wade, 2007, p. 119). Lastly, Wade argues that the “standards-surveillance-compliance” regime fostered the “Anglo-Americanization” of emerging economies. In his words:

(I)t pushed national economies toward one particular kind of capitalism – the Anglo-American type – and shrunk the scope of ‘policy space’ for these countries still further than did the prescriptions of the Washington Consensus. Where the latter insisted on liberalizing the market, deregulation and fiscal austerity, the Post-Washington Consensus could be summed up by the commandment “standardize the market” (2007, p. 116).

The following sections explores the macro political and economic reasons for the FSF’s choice of accounting standards as components of this “standards-surveillance-compliance” regime, and assess the implications of that choice.

Stability Forum’s compendium (with the exception of the FATF) be represented in the Forum. Neither the IFAC nor the IASC (IASB’s predecessor) were mentioned in the Tietmeyer report or its recommendations on FSF membership.
The political economy of accounting harmonization

University of Chicago historian, Bruce Cumings (1998, p. 54), writes that at the height of the East Asian financial crisis in 1997, then US Secretary of the Treasury, Robert Rubin, personally held up the IMF bailout of Korea for ten hours while he pushed Korea to adopt new accounting standards. Such high level advocacy for accounting reform is not an isolated incidence. In comments on the East Asian crisis made in 1999 to the Institute of International Finance (IFF)\(^{18}\), Deputy Secretary of the Treasury Lawrence Summers, who would succeed Rubin as head of the US Treasury Department in July of 1999, underscored his view of the importance of accounting standards to the creation of an international financial infrastructure by stating:

If one were writing a history of the American capital markets I think one would conclude that the single most important innovation shaping the market was the idea of generally accepted accounting principals. GAAP are not a single institution. They are not a single magic bullet. They are an ongoing process that really is what makes our capital market work and what makes it as stable as it is. Very much the same kind of thing is necessary in the emerging economies (Summers, 1999a, p.3).

Rubin and Summers' support for generally accepted accounting standards is remarkable in that it demonstrates that support for accounting harmonization in the wake of the East Asian crisis came from high echelons of power within the U.S Treasury Department. Micro institutional analysis that view harmonization as the result of cultural diffusion among international networks of bureaucratic agents and technical experts, despite its considerable merits, is unable to explain political intervention at this level.

Why did accounting standards rise to such prominence in the minds of US finance ministers? The answer this question, which bears directly on our question of why international accounting standards figured so prominently in the “new international financial architecture”, established by the G-7 in the wake of the East Asian crisis, is rooted in the late 20\(^{th}\) century economic transformation known as financialization.

Financialization

Economic historians and political economists use the term “financialization, to describe the transformation that occurred in the global political economy during the last quarter of the twentieth century.\(^{19}\) The 1980s and 1990s saw significant changes in the world economy which included not only the widely studied phenomenon of globalization, but also financialization, which has been defined as a “pattern of accumulation in which profit making occurs increasingly through financial channels rather than through trade

\(^{18}\) The International Institute of Finance (IIF) is a politically influential global association of financial institutions; its membership includes the world’s largest commercial and investment banks (http://www.iif.com).

\(^{19}\) See Epstein (2005) for a discussion of various definitions of the term “financialization”.
and commodity production” (Krippner, 2004, p. 14 cited in Epstein, 2005, p. 3). The processes of financialization and economic globalization, as well as the rise of neoliberal ideologies to rationalize them, occurred contemporaneously. Duménil and Lévy (2005), however, contend that financialization is critical to understanding the contemporary global political economy. In their analysis, “it is finance that dictates the forms and contents in the new stage of internationalization; it is not internationalization or globalization that created the insuperable necessity for the present evolution of capitalism” (Duménil and Lévy, 2005, p. 17).

In his study of late twentieth century political economy, Robert Brenner (2002) traces the transformation in capitalism from the post World War II boom to the bubble economy of the 1990. In Brenner’s analysis the so-called “new economy” of the 1990s failed to resolve the structural crisis in the US and world economy that had surfaced in the 1970s as a result of uneven development, intensifying inter-capitalist competition between the US, Japan and German, global overproduction, and declining rates of profit. David Harvey (2010, p. 45) describes the 1970s downturn as an over-accumulation crisis; profit rates were too low to attract reinvestment of capital surplus leading to stagnation and economic decline. In responses to declining profits and a stagnation in the real economy, the United States adopted a host of monetary, fiscal, economic and (de)regulatory policies, as well as aggressive foreign and trade policies in order to open channels for accumulation via the financial sector. The United States was not alone in this effort; the United Kingdom actively promoted the growth of its financial sector during the 1980s and 1990s, (Hutton, 1996), and other developed western nations supported financial liberalization and international capital mobility (Abdelal, 2007). Nonetheless, given its hegemonic position within the inter-state capitalist system the 1980s and 1990s (Arrighi, 2007), the United States took the lead in furthering financialization on a global level by encouraging international capital mobility and the growth of global financial markets.

Financialization and the accompanying growth of international financial markets was not a spontaneous event; nor, was it driven solely by technological advances in telecommunications as Friedman (2000) and others maintain. It was the product of conscious state-led, political efforts to dismantle the institutional mechanisms that had been set in place to control cross border capital flows following the Great Depression of the 1930s. As Schor (1992) observes the degree of international financial openness has oscillated historically in response to economic crisis, social struggles and political interventions. The late 18th and early 19th century, the world economy was characterized by a high degree of financial openness and cross border capital mobility (Polanyi, 1944). In the aftermath of the Great Depression in the 1930s, political and institutional controls were established over international capital flows, and a system a non-integrated, nationally-based, financial systems was set in place that lasted into the 1970s. Just as the post-World War II political economy with its characteristic Keynesian economic policies, capital controls, and national financial systems was the product of conscious policies and political compromises (Schor, 1992), the return of financial liberalization, the de-nationalization of finance and the re-integration of world financial markets in the 1980s and 1990s was similarly the product of state action and political interventions. The world economy was reshaped in the last quarter of the 20th century by state-led policies to
dismantle Keynesian institutions, to eliminate capital controls, liberalize national economies, and to open national borders once again to international capital investment and cross border capital flows (Helleiner, 1994; Kapstein, 1994; Schor, 1992).

In Arrighi’s (2007, p. 230) view financialization, which he characterizes, quoting Braudel, as the “capacity of finance capital to take over and dominate for a while at least all the activities of the business world”, provided a temporary “fix” to the problem of economic stagnation. Financialization helped to revive economic prosperity in the 1990s, but it did so at the cost of making the US economy and its position within the world economy increasingly dependent on the growth and welfare of the financial sector. In her analysis of the East Asian crisis, Soederberg (2001, p. 457) compares this dependency on the financial sector to the relationship between Dr. Frankenstein and his monster in Mary Shelley’s classic novel *Frankenstein*.

Through the monster’s exploits, he gains increasingly more power over his creator – interestingly enough largely through neglect. In similar fashion, through almost a decade of imposing the imperatives of free capital mobility the Washington Consensus has not only increased exponentially the power of the international financial markets over states but also over the United States. As a consequence, the viability of U.S. structural power has become ever more dependent on the health and stability of global financial markets – of which large U.S. based financial investment institutions are significant actors.

Financialization increased the political power of the financial sector, which by the late 1990s exercised substantial influence in Washington, D.C. Columbia University economist, Jagdish Bhagwati (1998, p. 7), attributes the US response to the East Asian crisis largely to the close ties between Wall Street and the US Treasury Department, an alliance that he refers to as the “Wall Street Treasury Complex”. Harry Madgoff, Paul Sweezey, and other Marxist political economists attribute the financial sector’s disproportional influence in Washington to the crisis of capitalism that surfaced in the 1970s, and led to the ascendance of finance capital over productive capital and the dependence of US capitalism on the finance sector as an engine for economic growth. Notwithstanding their substantive differences, Bhagwati’s (1998) regulatory capture

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20 Unlike Arrighi (2007) who attributes the revival of the US economy in the 1990s to the monetarist counter-revolution that began in 1979-1982, Brenner attributes the revival to the Plaza Accord of which stimulated US manufacturing by devaluing the dollar, but failed to solve the problem of over production on a world scale.


22 See Foster and Madgoff (2009) for an intellectual history of economic thought on the relationship between production and finance from Keynes, to Minsky to Magdoff and Sweezy.
theory and Marxist crisis theory are in agreement that finance capital was ascendant in the 1990s. As a result, the belief that what was good for Wall Street was good for America and the world economy exercised increasing influence over Washington policies in the 1990s and guided the US response to the East Asian crisis.

Political economists and economic historians from Brenner to Arrighi have long warned that the late 20th century’s finance-led accumulation regime was unsustainable.23 Brenner (2002) was among the first to warn that the “new economy” of the 1990s failed resolve the underlying crisis of over production and over accumulation that had surfaced in world economy in the 1970s. Based on his study of economic history, Arrighi (1994; 2007) further contends that “financialization” marked the beginning of the end of the era of US economic leadership. He observes that as the center of capital accumulation shifted over time from the Italian city states in the 16th century, to Holland in the 18th century, to Britain in the 19th century and to the United States in the 20th century, each successive accumulation regime followed a similar pattern of emergence and decline. The pattern began with a period of growth, followed by an economic downturn, and culminating in a period of financial expansion that temporarily restored prosperity based on financial returns from credit markets and speculation. In each case, however, financialization foreshadowed the end of the epoch. Just as the center of capitalist accumulation shifted from Britain to the United States in the last century, Arrighi (2007) argues that US hegemony over the world system has entered into decline as the center of productivity and economic growth shifted to China in the 21st century.

In the 1990s, however, the mainstream economic view was that a “new economy” built upon services, particularly telecommunications and finance, could reverse the decline in profitability that began in the 1970s. Proponents of the “new economy” saw international financial leadership, open financial borders, globally integrated financial markets, and expanded trade in financial services as essential to continued US and world economic prosperity. Moreover, as the following sections show US finance ministers viewed international accounting harmonization as a component of their efforts to promote global financial integration.

Integrating East Asia into the world financial market

In the same speech to the financial industry in which then Deputy Secretary of the Treasury, Lawrence Summers (1999a, p. 1), extolled the virtues of generally accepted accounting principles as the cornerstone of an effective financial infrastructure, he summarized his vision of the role that western finance would play in the world economy:

There are few things with as great a potential to raise human welfare than the creation of a safe and sustainable system for the flow of capital from

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23 Although Brenner and Arrighi offer somewhat different, and at times opposing readings of evolution of 20th capitalism from the post-war boom, to stagnation in the 1970s, to the bubble economy of the 1990s, they agree that the late 20th century’s finance-led accumulation regime was unsustainable. For a summary of the debates between Arrighi and Brenner see Arrighi (2003).
the developed world to the developing one. The major industrial nations are crossing the threshold into an era of rising rates of retirement and much lower rates of labor force growth … All of the world’s population growth over the next 25 years – and the lion’s share of its growth in productivity – will take place in the developing nations. The upshot is that we are heading into a period when there will be exceptional global benefits to successful economic development in the developing world. And, make no mistake; a health capacity to mobilize capital in these economies – because of the trade that it finances, because of the technology it brings, and because of the opportunities it offers – has a very important part to play in that development.

The development model that Summer’s is espousing here is a neoliberal development model (Harvey, 2005) which depends upon financial liberalization – that is, on the elimination of capital controls, the opening of emerging economies to foreign investment and international financial markets, and the dismantling of so-called national “regulatory barriers” to trade in financial services. While ubiquitous today this development model was by no means unchallenged in the 1990s. The East Asian development model, the path to development followed by Japan and South Korea, offered a competing model of capitalist development that was at odds with the neoliberal agenda Washington promoted throughout the 1980s and 1990s. The East Asian development model was characterized by a strong state role in promoting economic development, nationalist economic and industrial strategies, and state-mediated capital directed toward large domestic firms trying to capture foreign markets (Cumings, 1998).

Cumings (1998) argues that during the Cold War, the US was willing to tolerate the East Asian development model despite its East Asian allies’ unwillingness to accommodate the western economic interests because of the important examples they set for the rest of developing world as highly successful models of non-communist economic development. After the end of the Cold War, however, the major reason for indulging the East Asian development model disappeared and the US sought not only to open Asian economies to US investment and finance, but more importantly, to destroy the competing model of capitalist development before it spread from Korea and Japan to the rest of the developing world, including China. In Cumings analysis (1998, p. 45), “the deep meaning of the East Asian crisis therefore lies in the American attempt to bring down the curtain on ‘late’ development of the Japanese and Korean type.”

Accordingly, when the financial crisis spread to Korea, the IMF’s rescue package was made conditional on major restructuring and financial liberalization.24 The terms of the IMF’s rescue of Korea, which were negotiated largely from Washington (Blustein, 2001), insisted that Korea radically restructure its financial sector to make it more transparent, market-oriented and open to western financial institutions. The agreement stipulated that Korea would allow foreign financial institutions to participate in mergers and acquisitions, and establish bank subsidiaries and brokerage houses within Korea. Foreign

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24 Cumings (1998) and Wade & Veneroso (1998) argue that this response was an unnecessary overreaction to the Korean crisis which was a liquidity crisis, rather than a solvency crisis.
banks would be allowed to purchase equity in Korean banks without restrictions. Capital markets were liberalized by increasing ceilings on foreign ownership of Korean shares from 26 to 55 percent and restrictions on foreign borrowing by corporations were eliminated (IMF, 1997).

Korea also agreed to strengthen domestic regulation of its financial sector in accordance with international best practice standards (IMF, 1997, Para 28). Corporate financial reports would be improved by enforcing accounting standards in line with generally accepted accounting practices. And, the “financial statements of large financial institutions” would henceforth be “audited by internationally recognized firms” (IMF, 1997, Para 28). The inclusion of financial reporting and auditing reform in the rescue agreement imposed on Korea suggest not only that accounting institutions were seen as an integral component of the market infrastructure needed to support the spread of international financial markets, but also that the adoption of international accounting norms by developing nations has not always been a frictionless process.

The need for accounting reform was rationalized by the argument that the lack of transparency within East Asian financial systems, rather than overly rapid financial liberalization, inadequate international regulation or market failure, lie at the core of the Asian financial crisis (Wade, 2000). In a detailed study of accounting practices in East Asia, prepared for the United Nations Conference on Trade and Development (UNCTD), Rahman (1998) identified non-transparency financial reports and lack of compliance with international financial reporting standards as a contributing cause of the crisis. The report argues that if East Asian banks and corporations had followed international, rather than national, accounting standards, investors and creditors would have had more relevant and reliable information about conditions that triggered the crisis. The UNCTD report (Rahman, 1998) further suggests that the crisis might have been avoided or attenuated if investors and creditors had received early warning signals about East Asian enterprises’ deteriorating financial conditions.

There can be little argument that the relational-based financial systems within East Asian economies failed conform to western norms of transparency (Rahman, 1998), or that the financial reports of Asian corporations and banks understated the extent of their leverage. Nonetheless, the widespread concensus among policy elites and western finance ministries that improved financial transparency based on international standards of best practice could provide a remedy for financial instability is troubling in two respects. First, western enthusiasm for transparency was inconsistent. In the case of the United States, Treasury Department officials opposed the Financial Stability Forum’s attempts to require greater transparency for hedge funds and offshore financial centers, even as they touted the benefits of accounting transparency. Joseph Stigliz (2002, p.

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25 Blustein (2001, p 130) notes that “official figures indicated that Korean firms had about $65 billion in payments falling due over the coming year. As … [IMF officials] would learn, the figure was much greater; the overseas affiliates of Korean banks and companies owed an additional $50 billion in debts” which was not reflected in the official figures. Rahman (1998) also finds understatements of debt related to methods of accounting for derivatives, related party transactions and off-balance sheet financing.
as attention focused on transparency, it became clear that to know what
was going on in emerging markets, one had to know what hedge funds and
offshore banking centers were doing. Indeed, there was a worry that more
transparency elsewhere would lead to more transactions going through
these channels, and there would overall be less information about what
was going on. Secretary Summers took the side of the hedge funds and
the offshore banking centers, resisting calls for increased transparency,
arguing that excessive transparency might reduce incentives for gathering
information, the “price discovery” function in technical jargon.

Second, and more importantly, the emphasis given to accounting reform, begs the
question of why the West’s response to the East Asian crisis focused exclusively on
micro-prudential regulation and reform within emerging economies, to the exclusion of
more substantive changes in the international financial architecture and/or constraints on
speculative capital flows. The argument that a mismatch between governance
arrangements in emerging economies and the information needs of foreign investors and
creditors creates financial instability can be used to justify a policy of allowing
developing nations to establish some form of capital controls to mitigate the severity of
crises, as readily as it can be used as a justification for a policy of promoting domestic
accounting reforms. The critical difference is not that transparency is better suited to
preventing crisis; it is that capital controls impede the drive to global financial integration
while accounting reform facilitates it.

It can take years, even decades, to build the institutional infrastructure for transparent
financial systems (Wade, 2000). The World Bank’s experience in promoting domestic
accounting reform in the wake of the East Asian crisis bears this out; developing nations
often lack the legal and professional infrastructure to support transparent financial
reporting even long after they officially adopted international accounting standards
(Hegarty et al., 2004). As Wade (2000, p. 92) notes, the argument that non-transparent
contributed to the crisis when taken to its logical conclusion implies that countries
lacking transparency should proceed very slowly with liberalization and integration into
the world capital markets. The West’s decision to move forward with financial
integration before the arduous process of implementing domestic accounting reforms was
complete -- and without setting in place institutional safeguards at the international level
to manage crises in the interim -- calls for a more thorough analysis of the motives
underlying accounting reform. The following sections identify two such motives,
namely 1) the constitutive role that international accounting standards and auditing
surveillance played in the spread of Anglo-American style international financial
markets, and 2) the United States’ preference for a “soft law” and an ad hoc approach to
global governance.

Accounting’s role in facilitating the spread of international financial markets
Capitalisms deepening economic dependence on the financial sector and the growth of international financial markets required more than the dismantling of Keynesian-style capital controls and barriers to trade in financial services, it also required re-regulation. New institutional arrangements needed to be put in place to create the legal and accounting infrastructure, necessary to facilitate cross border financial transactions and the creation of integrated regional and international capital markets. Global financial integration thus involved not only the destruction of old institutions, but also the creation of new institutions, in this case a global financial governance infrastructure conducive to the internationalization of Anglo-American style financial markets.

As Zysman (1983) shows in his comparative study of national financial systems, capital market-led finance is an Anglo-American development. During the post-World War II period, the US and UK developed predominately capital-market based financial systems, while according to Zysman’s typology (1983), France developed a predominately state-led financial system and German a bank-led system. The relational-based systems characteristic of the chaebôls in Korea and the keirestsu in Japan, likewise, provide historical examples of non-capital market based financial systems. In capital market-led financial systems, such as those originating in the US and UK, formalized financial accounting standards set by private sector bodies and surveillance by external commercial auditing firms came to play a central role in governing, rationalizing, and legitimating Anglo-American financial markets from the mid-20th century on (Merino & Neimark, 1982).

From a world systems perspective, variations between the national finance system and their associated modes of governance are not rooted in national cultures; rather they were a product of the post World War II, Fordist accumulation regime, in which, following Keynes’ maxim, trade was global but finance was national. During the post-war period, finance became national to an extent that it had not been in the 19th century. The re-integration of national financial systems into a world financial market, which by the 1990s was dominated by a powerful financial services industry based in the mainly in the US and UK, involved the construction of a global governance regime patterned after Anglo-American capital markets. Thus, as Wade (2007, p. 116, 126) argues the standards-surveillance-compliance system set in place by the G-7 finance ministers and central bankers pushed emerging economies toward Anglo-American style capitalism. Accounting standardization was one component of that process.

The US Treasury Department seized upon the East Asian crisis to promote an economic and foreign policy agenda that predated the crisis. The Clinton administration had championed the creation of a new “international financial architecture” conducive to the growth of international financial markets since 1994, some years before the beginning of the East Asian crisis. Treasury officials considered an Anglo-American style governance regime, based on financial transparency and auditing surveillance, as an

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26 Summers (1999b, p. 12) states that reform of the international financial architecture had been a “preoccupation of President Clinton and his administration going back to the G-7 summit in Naples in 1994.” He continues “(b)ut it is fair to say that effort to reform the system have now [in the wake of the Asian crisis] gained much greater international momentum.”
essential component of the infrastructure needed to facilitate the growth of international financial markets. Accounting reform was particularly suited to the US Treasury Department’s goals since the call for transparency was relatively non-controversial; everyone could agree on the benefits of transparent accounts. Accounting reform could thus be portrayed as merely technical at the same time as it served the political objective of creating the infrastructure for the spread of Anglo-American style financial markets. As Summers (1999b, p. 14) writes in describing the Treasury Department’s efforts to foster global financial integration:

First, activity has focused on promoting changes that can be portrayed as technical and directly in the economic interest of individual countries, notably steps to increase the transparency of domestic and international financial markets. If one were writing a history of the American capital markets, I would suggest that the single most important innovation that has helped make it as successful as it is today was the idea of generally accepted accounting principles. La Porta et al. (1997) provide broader support for these kinds of reforms with the finding that countries with stronger, more transparent systems of investor protection have large and deeper domestic capital markets (emphasis added).

The East Asian crisis provided an opportunity to advance longstanding US and western economic interests in the region and, as this quote suggests, accounting reform was seen as instrumental to the accomplishment of that goal.

US preference for soft law and ad hoc governance

The United States backing for a relatively weak international financial architecture, based on financial and accounting reform within emerging economies, can also be understood in terms of the US preference for “soft law” (Chiapello & Medjad, 2009) and a piecemeal approach to global governance. While other developed western nations shared in the economic benefits of financial liberalization, the United States was somewhat unique in its preference for what Abdelal (2007) calls “ad hoc globalization” as opposed to “managed globalization”.27 The United States often favored market self-regulation, non-compulsory standards (soft law), and private sector governance over the creation of strong international economic institutions and binding international agreements (hard law). This preference was not based solely on an ideological belief in the free markets or the difficulty of achieving multinational agreements; the United States also had political incentives for opposing strong forms of global governance. Given its structural power as home to the largest capital market and as the leading world power, in the absence of

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27 Abdelal’s thesis is correct in some respects, but he overstates his case when he argues that the United States’ preference for “ad hoc” rather than “managed globalization” refutes claims that the US was instrumental in managing the process of financial globalization in Wall Street’s interest. To the contrary, the US favored an “ad hoc” approach precisely because it gave it more control over the course of global financial integration, while the international rule-based approach favored by Europe threatened to constrain US autonomy. Moreover, the Clinton Administration was willing to use a hard law approach when it benefited US interests as evidenced by the General Agreement on Trade in Services (GATS), a multilateral trade agreement designed to promote international trade in financial services.
binding international laws, the United States was well positioned to impose its will, and
the will of its financial sector, on other nations through unilateral policymaking or
bilateral negotiations. Europe, on the other hand, generally preferred a more managed
approach to globalization and financial liberalization (Abdelal, 2007), one characterized
by creation of autonomous international organizations and international rules of law that
would apply to all nations, including the United States.

Abdelal (2007) argues that the United States’ preference for “soft law” and a piecemeal,
“ad hoc” approach to financial globalization explains its willingness to delegate
responsibility for financial governance to private sector bond rating agencies (Abdelal,
2007). His arguments can be extended to private sector accounting standard setters and
audit firms. In other words, US support for a relatively weak financial infrastructure
dependent upon accounting standards set by private sector bodies and surveillance by
commercial auditing firms can be explained, in part, by United States’ preference for
private sector governance over the empowerment of autonomous international institutions
to set financial standards. In the aftermath of the East Asian crisis, the United States not
only opposed major institutional restructuring, such as the creation of an international
financial authority to set and enforce standards but also moderate reforms such as the
IMF’s proposal for a international sovereign debt resolution mechanism to give it power
to orderly unwind debt in the event of a default by a sovereign nation (Kruger, 2001;
Wade, 2007). Even the authority of the Financial Stability Forum (FSF), which initially
undertook initiatives to address the problems of unregulated hedge funds and off-shore
financial centers, was ultimately reigned in by the United States which successfully
opposed allowing the FSF to undertake independent initiatives (Davis & Green, 2008, p
116), leaving it as little more than a clearinghouse for the work of its member
organizations.

The United States’ insistence on a relatively weak international financial architecture, in
which private sector accounting and auditing bodies played a key governance role, may
appear irrational in retrospect given the United States’ position as lender of last resort and
its own interest in global financial stability. It becomes understandable in the context of
financialization, deepening US economic dependency on the global expansion of the
financial markets, and the Treasury Department stanch advocacy for de-regulation and
expansion of the financial services sector. A comparatively weak international financial
architecture based on “soft law”, i.e. noncompulsory financial standards and codes,
benefited the United States and its financial sector -- at least in the short term.
Harmonization of accounting and auditing standards facilitated the US goal of integrating
East Asian and other emerging economies into the international financial market. And,
the establishment of a governance regime based on private sector institutions, such as

28 The United Nation’s Task Force charged with studying the crisis also endorsed the plan to establish
minimum standards for financial regulation and supervision, but instead of relying on private sector
governance, the Task Force emphasized that minimum standards should go hand in hand with stronger
global regulation, including the creation a of a world financial authority charged with setting the necessary
international standards for financial regulation (UN, 1999).
29 Howard Davies was head of the UK’s Financial Services Authority from 1997-2000 and chair of the
FSF’s working group on highly leveraged institutions (hedge funds).
bond rating agencies, accounting standards setters, and commercial audit firms, provided the infrastructure for the expansion of western financial markets without conceding authority to international economic organizations; as such, it left the United States and its politically powerful financial services industry largely in control of process of global financial integration.

Implications for the diffusion of international accounting standards

The Financial Stability Forum’s decision to include international financial reporting and international auditing standards in its compendium of twelve key standards needed to achieve a sound financial system gave impetus to the diffusion of international accounting standards in several ways. First, it brought the work of hitherto obscure international standards setters to the attention of high level G-7 finance ministers and central bankers. Second, it gave the International Monetary Fund (IMF) and World Bank (WB) authority to monitor countries’ progress in implementing the FSF’s 12 standards and codes through its Reports of the Observance of Standards and Codes (ROSC) program. As part of this initiative, the World Bank established a program to assist its member countries in implementing international accounting and auditing standards that continues today.

Third, the FSF’s endorsement of international accounting standards created a new ideological rationale for adoption of international accounting standards. Prior to the East Asian crisis, the main rationales for harmonization were that it would reduce the transaction costs of reconciling financial reports prepared under different national standards, and/or curtail corruption within developing nations. After the crisis, harmonization took on a new urgency as it was promoted both as a prerequisite for financial stability and a path to economic development. In David Tweedie’s (2002) words, “we are not just talking about arcane accounting practices here. We are talking about trade; we are talking about growth; we are talking about investment; we are talking about employment”. The FSF’s endorsement of international accounting standards as a component of the infrastructure for a sound financial system created a new imperative for nations to implement international standards in order to attract foreign investment dollars. Thereafter, accounting reform was touted as a path to economic development and global financial stability. With the demise of the socialist model and the crisis of the East Asian development model followed by Japan and Korea, Anglo-American financial capitalism became normalized (Wade, 2007); accounting reform was no longer seen as a particular path to development, but the only path to economic development and integration in to the world economy.

Lastly, the FSF endorsement was an important step in the acceptance of international accounting standards set by the IASB, rather than US generally accepted accounting principles (GAAP), as the recognized global standard. In the early 1990s, the belief that US financial reporting rules would become the global standard by default as multinational firms began to adopt or reconcile to GAAP in order to obtain listings on US stock exchanges was still widely held (Camfferman and Zeff, 2007). Rubin and Summers’ calls for accounting reform in the wake of the East Asian crisis, likewise, were
phased in general terms, rather than specifically advocating international as opposed to US accounting standards. By 2000, however, the FSB chose to endorse international accounting standards set by the London-based IASC and later by its successor, the IASB. Several factors contributed to this decision. First and foremost, it was politically infeasible for the G-7 to endorse US national standards instead of international standards. In the words of Paul Volker (2001, p. 2), former Chairman of the US Federal Reserve Board, “developing de facto global standards from Norwalk, Connecticut, has seemed increasingly unrealistic, both politically and economically, in the age of globalization”. IASB Chairman, David Tweedie, reiterated this sentiment in comments on the response to the East Asian crisis. Tweedie (2002) said:

> It was quite interesting to watch the American reaction, because the American reaction was that it should not be US GAAP and the reason was that they believed that seven Americans sitting in Connecticut subject to the pressures from Congress and the US domestic pressures could not set standards for the rest of the world.

The Securities and Exchange Commission (SEC), which along with the Treasury Department and the Federal Reserve, was one of three organizations representing the US in the Financial Stability Forum, did not oppose the FSF’s endorsement of International Accounting standards because it viewed the decision to promote international accounting standards in the developing world as separate and distinct from the decision to adopt international accounting standards in the US. While the Clinton administration promoted global financial integration and accounting reform within emerging economies, the Whitehouse agreed to allow the SEC to take the lead in decisions regarding use of international accounting standards at home. Although the SEC opposed use of international accounting standards in United States on the grounds that US GAAP provided greater transparency for investors, it did not object to adoption of international accounting standards in emerging economies as a means of improving market transparency, provided those standard were implemented and enforced.  

The ease which with the US endorsed international accounting standards, rather than US GAAP, as the gold standard for emerging economies is also understandable in terms of Power’s (2009, p. 326) contention that the history of IASB’s competition with other standard setters has been “mis-described” as a conflict between “national” and “international” standards. In the macro political and economic context of the East Asian financial crisis, US economic and geopolitical interests, as well as the monetary interests of the financial services industry, were furthered by the expansion of international financial markets, and accounting harmonization facilitated that goal. In this context, issue-based, intra-

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30 Interview with Lynn Turner, former Chief Accounting with the Securities and Exchange Commission, June 7, 2010. Turner and SEC Chairman, Arthur Levitt, met with Whitehouse officials on two occasions to coordinate policy toward international accounting standards; the SEC opposed any effort to move to US adoption of international standards and sought to ensure that the administration’s policy did not undermine them on this issue.
accounting debates over the content of US versus international accounting standards were, as Power (2009, p. 334) suggests, “simply not that big relative to the background consensus” on the desirability of transparency in emerging markets; nor was intra-accounting competition between national and international standard setters as important as the systemic processes that supported accounting harmonization as a component of the effort to spread Anglo-American financial capitalism to East Asia and the developing world.

Implications for international auditing practice

The financialization of the capital created new opportunities for the cartel of Anglo-American based international accounting firms to achieve market concentration and consolidate control over the accounting and auditing industry worldwide. Prior to the East Asian crisis, the major international firms’ economic interests had become closely aligned with those of the international financial services industry. By the 1990s, they were working in coalitions with international financial firms to lobby governments to reduce what they perceived as national “regulatory barriers” to international trade in financial services (Arnold, 2005). Non-harmonized financial reporting standards were considered one such “regulatory barrier” to both global financial integration and the large audit firms’ ambitions.

The major international auditing firms quickly seized upon the East Asian crisis to advance their interests in harmonization of financial reporting standards by establishing a new organization called the International Forum for Accountancy Development (IFAD) in 1999. The purpose of the IFAD was to bring together the expertise of the international accounting industry and the political leverage of institutions such as the World Bank, IMF, IOSCO, the Basel Committee on Banking Supervision, and others in an informal partnership to advance the goal of promoting harmonization and accounting reform in the developing world (Street & Needles, 2002). The international firms’ push for accounting reform in the wake of the East Asian crisis not only advanced their existing harmonization agenda, but also enabled them to deflect attention from their own role in the crisis. By blaming poor financial reporting standards in the developing world the firms sought to direct attention away from the role audit failures played in the crisis in much the same way that the G-7’s focus on crony capitalism and domestic reforms in emerging economies deflected attention from the West’s responsibility for the crisis.

In his report prepared for the UNCTD, Rahman (1998) identified substandard auditing practices within the largest international auditing firms as a factor contributing to the crisis. His study of the role of accounting in the East Asian crisis found that the local member firms of the six largest international accounting firms in—(two of which have now merged) were involved in auditing most of the large corporations and banks in the East Asian countries. These auditors followed local auditing standards and practices, although they represent international accounting firms. In addition to complying with the local statutory auditing requirements, the auditors could have adhered to
internationally accepted auditing standards and practices. Had they done that, they would have delved deeper in their audits, and this would have enabled them to provide indications in their audit reports regarding the potential financial difficulties of many of the corporations and banks that collapsed or became technically bankrupt immediately before or after the outbreak of the East Asian financial crisis.

Many East Asian corporations and banks that received a clean bill of health from their auditors proved to be “not a going concern” within a few months of the completion of an audit. When the financial statements of a corporation or bank receive an unqualified audit opinion from an auditor belonging to one of the largest international accounting firms, the external users of these financial statements tend to feel comfortable about the quality of the audit and the reliability of the information. Therefore, there is an obligation on the part of the international accounting firms to take the necessary steps to ensure that the quality of audit services provided by their national practices all over the world does not fall short of practices in North America and Europe (Rahman, 1998, pp. 47-48).

By taking a leadership role in the formation of the IFAD, the firms hoped to influence the reform agenda. Tensions at the mezzo level between the auditing firms and regulators within the SEC and the World Bank, however, soon became apparent. While the firms sought to use the IFAD as a vehicle to leverage the power of international organizations to export the Anglo-American accounting institutions to major economies such as Japan, Korea, Brazil and China (Street & Needles, 2002), regulators were increasingly concerned about the quality of international audits. If auditing surveillance was to be relied upon as a global governance mechanism, regulators wanted the international audit firms to take responsibility for the quality of the audit work done by the affiliate firms within their international auditing networks. Lynn Turner, then Chief Accountant for the SEC, openly acknowledged this conflict. In 2001, he stated:

Another organization with the potential to play an important role in the development of a global financial infrastructure is IFAD, the International Forum for Accountancy Development (IFAD)…. However, my skepticism about this organization was heightened when at a meeting the leadership presented a vision for country-by-country assessments and action plans with great fanfare and high hopes. But this plan lacked any significant actions to be taken by the firms themselves to upgrade the quality of their own auditing policies, procedures, and quality controls on a global basis…

Instead of relying exclusively on Country Action Plans, IFAD's members could be asking themselves: "What can we do today, while we work with countries, to improve their frameworks for auditing standards?" The

31 The World Bank informally asked the “Big Five” international accounting firms to refrain from signing financial statements that were prepared (and/or audited) using standards that were below international standards (Financial Times, October 19, 1998).
answer seems clear: IFAD, with the experience and the resources of the Big Five and other international accounting firms, could begin now to make a significant difference in the quality of international audits and in international financial reporting. IFAD could promptly undertake major voluntary actions by the firms themselves to agree on best practices, and to sign their firm names only to audits conducted in accordance with high quality internationally acceptable standards and practices.

On February 23, 2000, I sent a letter to the leadership of IFAC and IFAD, expressing concern about IFAD's focus on regulatory reforms as a pre-condition to action by the accounting profession. I urged that IFAD, and in particular, the "major firm" members, take a leadership role by raising their own firms' minimum standards. (Turner, 2001).

The IFAD disbanded in 2001 as disagreements between the firms and regulators intensified (Street & Needles, 2002), but the issue of audit quality within the international accounting networks remained unresolved. Camfferman and Zeff (2007, p. 16) write that the SEC’s refusal to eliminate its reconciliation requirement in 2000 was based upon concerns about the quality of international auditing and supervision of international affiliates. Monitoring by the World Bank’s ROSC program further confirmed that audit reports signed by international firms offer little assurance about the audit quality of work done by firms’ international affiliates. Based on their experience with ROSC, Hegarty et al. (2004, p. iii) conclude that:

There are inherent limitations to the extent of reliance that can be placed on the international audit firm networks and their individual national member firms to compensate for weaknesses in domestic regulatory regimes. Given the governance and management arrangements of the networks, and the fact that the networks themselves are not regulated (only their member firms are, at a national level), the main determinant of audit quality is the strength of the relevant domestic regulatory regimes, rather than network membership.

More recently, Davies and Green (2008, p. 224) echoed this concern when they identified the absence of consolidated oversight over the global networks of audit firms as a continuing risk to financial stability. This concern has guided much of the subsequent history of the International Auditing and Assurance Standards Board (IAASB), which revolves around attempts by states and international organizations to exert some form of political oversight over international auditing practice.32

32 See Humphrey, et al. (2009) and Humphrey & Loft (2009) for a history of international audit standard setting and subsequent attempts to govern of international audit practice through the establishment of a monitory broad within the IFAC and via the creation of the International Forum of Independent Audit Regulators (IFIAR), an intergovernmental organization composed of national auditing oversight bodies, such as the US Public Companies Auditing Oversight Board (PCAOB).
Implications for financial stability

In the late 1990s, US structural power and its dependence on the continued growth and global expansion of the financial services sector, effectively ruled out any macroeconomic response to the East Asian crisis that would slow the pace of global financial integration, or cede too much control to international institutions. Even proposals for modest institutional reforms, such as giving the IMF authority to unwind sovereign bankruptcies, or allowing the Financial Stability Forum to take independent initiatives to control hedge funds and offshore financial centers were unacceptable to the United States and its financial services industry and cast aside. Instead the G-7 nations, endorsed a relatively weak, pro-market, international financial architecture based on a compendium of standards and codes in which transparency, private sector accounting standards, and surveillance by commercial audit firms were to play a key role in governance of globally integrated financial markets.

This choice enabled the western financial sector to continue to grow and prosper, but it did so at the expense of ensuring financial stability and social protections. Because of the economic disruption they caused and the systemic problems they exposed, the financial crises of the late 1990s provided a rare opportunity to forge stronger institutional arrangements for governing international financial markets and protecting populations from the consequences of systemic instability. But, momentum to reign in financial speculation, to subject international finance to regulatory supervision, and to curb the power of international financial institutions was lost. The financial architecture established in wake of the East Asian crisis failed to implement the institutional reforms needed to address the problems that were exposed by the series of crises that rocked the financial world in the late 1990s. Instead, it relied upon the highly ideological notion that markets would self-regulate given sufficient financial transparency. Problems ranging from unregulated hedge funds, to the burgeoning use of financial derivatives, to offshore financial centers, to governments’ inability to stem financial contagion, to moral hazard, to the growing political power and influence of the financial sector were left unresolved, and remain with us today.

In his retrospective on the crisis, former UK Prime Minister, Gordon Brown (2010, p. 78), who served as Chancellor of the Exchequer during the East Asian crisis, characterizes the creation of the Financial Stability Forum as a “compromise” and “half measure”. The inadequacy of the G-7’s finance ministers' response to the East Asian crisis is not only apparent in retrospect. Early critics of the work of the Financial Stability Forum warned that the G-7’s response the crisis was doing too little to protect the world from future systemic crises. Culpeper (2000), for example, was particularly prescient in warning that the West’s response to the East Asian crisis, which he describes as long on domestic reforms to improve financial transparency in emerging market and “short on macro measures that can genuinely be said to address the international architecture”, was disproportional directed toward policy changes in the developing world. As a result of this asymmetry, he predicted that future crisis were increasingly
likely to be generated “in or among the world’s richest countries, rather than emerging markets”.

It is well to question whether a system of governance that relies upon market self-discipline aided by financial transparency, standardized financial reporting, and monitoring by commercial auditing firms was ever equal to the task of governing the rapidly expanding and crisis-prone global financial markets. Within a few years of the East Asian crisis, Enron and other accounting scandals in the United States cast doubts on the Treasury Department’s enthusiasm for generally accepted accounting principles as the bedrock of stable capital markets. Moreover, as this research suggests, the private sector accounting and auditing industry was ill prepared to assume a key role in financial governance on a world scale, given the substantial barriers to achieving domestic accounting reforms within emerging economies (Hegarty, 2004), and the unwillingness of audit firms to assume responsibility for audit quality within their international networks (Turner, 2001). In this sense, the international financial architecture established by the G-7 in the wake of the Asian financial crisis was not only weak in relation to alternative proposals for capital constraints and/or strengthened international institutions as Wade (2007) argues, it was weak in its own right.

**Conclusions**

In contrast to accounting histories that are primarily concerned with the workings of accountancy bodies and intra-accounting debates (Camfferman & Zeff, 2007), this study grounds accounting history within the context of developments within the global political economy and the world inter-state system in order to provide a macro-institutional, economic and political perspective on the rise of international accounting standards. In so doing, the study aims not only to bring economics back into institutional analysis (Arnold, 2009b), but also to bring an institutional perspective to political economy by showing that the institutional arrangements set in place to govern economic activity matter.

To say that institutions matter is to argue that history is not merely the outcome of immutable economic laws; but rather that the course of history is shaped, at least in part, by institutional forms and governance arrangements that are brought into being by political and social struggles which are often sparked by financial and economic crises. In other words, it matters whether states respond to financial crises by developing strong international and domestic institutions capable of governing financial markets, constraining the financial services industry, and protecting populations from the often devastating consequences of systemic instability, or rely instead on the rather thin promise that markets will self-correct given sufficient transparency, harmonized accounting standards, and surveillance by commercial auditing firms.

In the case of the East Asian crisis, western nations chose to rely upon improvements in financial transparency as a remedy for financial instability instead of slowing the pace of financial market integration, constraining speculation, or making the substantive changes to the international financial architecture needed to protect societies from future crises.
That choice was, at least in part, strategic. As this study shows, US Treasury Department officials saw accounting reform as a component of their efforts to further global financial integration and the spread of western capital markets to emerging economies in East Asia and the developing world. Accounting harmonization, thus, played a constitutive role in the financialization of the world economy and US-led efforts to shape the world economy in the image of Anglo-American, finance-led capitalism.

The history of the East Asian financial crisis demonstrates two basic tenets of critical accounting theory; first that accounting is often constitutive, and second that it is rarely neutral. Transparency and harmonization are not necessarily as benign as their names imply when they are used as euphemisms for market-self regulation and minimal oversight. The US effort to open East Asian economies to Anglo-American financial capitalism was facilitated by the belief that transparency and accounting reform were neutral and in everyone’s interest. Yet, significant economic and geo-political interests were at stake in the decision to promote, or in the case of Korea to impose, accounting standardization and financial harmonization in emerging economies. The East Asian financial crisis provided an opportunity for the United States to advance long standing economic interests in the region, and the call for accounting standardization played a part in that process.

The macro institutional analysis presented in this study has several limitation that need to be addressed by further research at the micro and mezzo-level of analysis. The argument that harmonization served macro economic and political interests, does not presuppose that the technical experts involved in the accounting and international development fields understood or interpreted their roles in partisan terms, or were acting out of political or economic motivation. This study does not adequately address the ways in which norms of appropriateness and taken-for-granted beliefs about the need for transparency and progress toward “good” accounting enabled the processes described in this paper. Nor, does this study the address the ways in which institutional norms, capabilities, and organizational units developed prior to the crisis put boundaries around the range of possible of responses to the East Asian financial crisis. Further research at the micro-level, is needed to understand the extent to which institutional pre-conditions enabled and constrained the macro economic and political processes described in this paper.

Further research is also needed at the mezzo-level, to examine whether and how conflicts within and between nation states, international accounting firms, and international economic institutions influenced the G-7’s response to the East Asian financial crisis. While this study found evidence of tensions between the accounting firms and regulators at the SEC and World Bank in the aftermath of the East Asian crisis, it does not examine whether conflicts existed within the G-7 over the inclusion of accounting and auditing in the FSF compendium of standards. Nor, has the study examined the important question of whether international accounting firms influenced the FSF’s decision to include accounting and auditing in the compendium of standards and codes, either directly or indirectly through lobbying nations represented in the Forum.
While a macro institutional analysis of the East Asian financial crisis provides only a partial history of the rise of international accounting standards, it highlights aspects of that history than might otherwise be ignored. Would international accounting standards have risen to prominence were it not for the crisis of over-accumulation in the 1970s and the desire to open channels for profit making in finance sector, the rise to power of financial capital in the 1980s and 1990s, US geo-political influence in the 1990s as the organizing center of world capitalism, and US support for the expansion of global financial markets and accounting reform in emerging economies? This study argues that these macro-economic and political factors play a part in the history of the rise of international accounting standards, and that macro-level analysis can contribute, alongside micro- and mezzo-level institutional analysis, to deepening our understanding of the dynamics underlying accounting harmonization.

The lessons of the East Asian crisis remain relevant today. In 2008, a decade after the East Asian crisis, the international financial system faced a crisis of even greater proportions; this time originating in the US subprime mortgage market. Although Arrighi (2007) and others argue that US hegemony over the world system is now in decline, and the rise of China as an economic power has transformed East-West relations, much else remains the same. In the aftermath of the 2008-2009 financial crisis, we are once again presented with an array of thoughtful proposals for substantive reform of the financial system reminiscent of earlier proposals, including calls for a financial transaction tax, stronger international and domestic regulation, and curbs on the size and power of financial firms. The G-20 has met and created a new Financial Stability Board (FSB) to replace the Financial Stability Forum. The Financial Stability Board and G-20 have once again endorsed the principles of financial transparency and accounting convergence.

Meanwhile, in the decade since the East Asian crisis, the financial service industry has grown even more political powerful, and the economies of the United States and other western nations remain dependent upon, if not hostage to, the financial sector. In the United States, the political influence of the financial sector threatens to weaken domestic financial reforms, and meaningful reforms at the international level are once again proving difficult to implement. Anglo-American style financial capitalism, although discredited by the 2007-2008 crisis, will no doubt survive in the intermediate term and continue to exercise economic and political influence within the world inter-state system. As a result, accounting standards and surveillance by commercial audit firms will, in all likelihood, continue to occupy a pivotal place in the governance of global capital markets and play an expanding role in the regulation of international banking, thus, providing a fertile field for future interdisciplinary accounting research.

Institutional analysis, at the micro-, mezzo-, and macro-level, offers an approach to further research that promises not only to enhance our understanding of the forces driving the rise of

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33 Weissman and Donahue (2009) document that in the decade 1998-2008, the financial sector in the US spent $1.7 billion on campaign contributions, and $3.4 billion for lobbying expenditures. Of that total, accounting firms spend $81.5 million on campaign contributions and $121.7 million for lobbying expenditures.
international accounting standards, but also to help us develop a more critical analysis of the role accounting plays in the institutional arrangements governing financial markets. This requires questioning the adequacy and identifying the limits of transparency as a governance mechanism. The notion that financial reporting and auditing reduce information asymmetry and thereby enable self-regulating financial markets to operate efficiently is a normative economy theory that neither describes the world nor explains the historical origins of accounting practices and institutions. If left unchallenged by accounting scholars, the belief will persist that “getting the accounting ‘right’” (Young, 1995) will somehow ensure financial stability even in the presence of institutionally weak international and domestic financial regulatory structures and a highly financialized and crisis-prone world economy. Arguably, the illusion that financial transparency aided by harmonized financial reporting standards and auditing surveillance can substitute for stronger forms of oversight and constraints on financial speculation contributes to financial instability by providing ideological support for dangerous levels of financial speculation and minimal regulation. This was true in the aftermath of the East Asian crisis in the late 1990s and remains so today.
References


Tweedie, D. (2002). Speech by Sir David Tweedie, Chairman, International Accounting Standards Board at a dinner hosted by the Financial Reporting Council, the Business Council of Australia, the Australian Institute of Company Directors, and the Australian


**Figure 1: The Financial Stability Forum’s 12 Key Standards for Sound Financial Systems**

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<tr>
<th>Area</th>
<th>Standard</th>
<th>Issuing Body</th>
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<td><strong>Macroeconomic Policy and Data Transparency</strong></td>
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<td>Monetary and financial policy</td>
<td>Codes of Good Practices on Transparency in Monetary and Financial Policies</td>
<td>International Monetary Fund</td>
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<td>transparency</td>
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<td>Fiscal policy</td>
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<td>transparency</td>
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<td>Data dissemination</td>
<td>Special Data Dissemination Standards &amp; General Data Dissemination Standards</td>
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<td>Insolvency and Creditor Rights</td>
<td>World Bank</td>
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<td>Principles of Governance</td>
<td>Organization for Economic Co-operation and Development</td>
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<td>Auditing</td>
<td>International Auditing Standards</td>
<td>International Federation of Accountants</td>
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<td>Payment and Settlement</td>
<td>Core Principle for Systematically Important Payment Systems &amp; Recommendations for Securities Settlement Systems</td>
<td>Committee on Payment &amp; Settlement Systems (CPSS)</td>
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<td>CPSS/iOSCO</td>
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