The comments of the CAs were fascinating to me since my recent work is very closely related to the work reported in this paper. As far as it goes the paper is a very good piece of scholarly work. Rather than critique I prefer to discuss and what I would like to discuss is how much richer and ironic a story about jurisdiction underlies what the CAs are saying about their profession.

The irony of these comments is that it may be the result of another jurisdictional battle over what should be the master metaphor for accounting as a discipline. What I see in the comments of the CAs is other evidence of the intellectual incoherence of accounting that has emerged and accelerated post-WWII. The paper that Sue Ravenscroft and I presented yesterday is directly relevant to the issue addressed in this paper. Our story starts during the post-war period when, as Richard Whitley documents, the business disciplines in the academy underwent a radical move to autonomy. Prior to this the business disciplines, including accounting, were taught largely by persons from practice and the disciplines were taught largely as practices. But starting in the 1950s, as Whitley reports, business disciplines sought greater scientific respectability, i.e., to earn a rightful place in the academy alongside other disciplines with much longer histories of intellectual rigor. Operations research which bloomed during the war years initially provided a mathematically rigorous, analytical way to analyze business problems. Financial economics and rational decision theory were particularly influential in accounting, as it, too, underwent a transformation in the academy. This transformation still redounds as the persistent academic/practitioner schism that has resisted a cure for going on 50 years.

What this transformation in the academy created was a jurisdictional battle over the intellectual substance of accounting. Yuji Ijiri classically described this, in substance, rhetorical slight-of-hand in his book *The Theory of Accounting Measurement*. Ijiri argued that the essence of accounting is accountability. The very system of double-entry accounting makes no sense unless it is viewed as a system of providing an account. His work has often been described as the classic defense of historical cost since accountability requires “hard measures.” Accounting is about the consequences of accountable-parties’ behaviors. As ancient as the parable of the talents – resources were entrusted to be compared to the resources returned as the consequence of the actions of accountable-persons. This is the reason for the long-standing accounting convention of realization. According to Ijiri accounting is a system of keeping score and as such that system must be fair and, in order to be fair, must be one susceptible to confirmation, i.e., audit. What Ijiri noted occurring during the 1960s was that, even though what accountants did hadn’t changed, the way we began to speak about it underwent a radical change.
In another paper that Sue and I have done, recently published in AOS, we discuss the origins of this radical change, which was described by Bill Beaver as the “financial reporting revolution.” Its origins were essentially ideological – a part of the neoliberal revolution that began in earnest during the 1960s. The root metaphor that provided the intellectual rationale for this revolution is “decision usefulness.” The paper that Sue and I presented here focuses on the emergence of decision usefulness; its origins are entangled in the same neoliberal revolution that transformed accounting in the academy. Decision usefulness is an academic idea that received its most emphatic endorsement in the ASOBAT report issued by the AAA. The redefinition of accounting contained in ASOBAT, Sue and I show, became the basis for the FASB’s Concept Statements 1 and 2. Suddenly, the objective of financial reporting became to provide information useful for assessing the timing, amount and uncertainty of cash flows. Accounting became something that was about the future rather than about the past, which is what accounting has been about for millennia. This future orientation is convenient for the academic enterprise since accounting scholarship is now about building statistical models consisting of (unstable) associations between accounting outputs and some object of prediction, e.g., cash flow, stock price, etc. Accounting in the academy morphed into, what Amartya Sen characterizes, as the engineering approach of neoclassical economics. This is epitomized in Beaver, Kennelly and Voss’ predictive ability criterion paper. Thus, Ijiri’s comment that what accountants do didn’t change, but how we describe what we do did change. As Sue and I argued in our AOS paper, this mixing of metaphors has contributed substantially to the intellectual incoherence of accounting that is epitomized by the comments of the CAs interviewed for this paper.

What the accounting revolution in the academy accomplished Sara Reiter and I described as the conversion of accounting from an autonomous discipline into a sub-sub-discipline of applied mathematics. With accountability expunged accounting is simply an empirical branch of financial economics. This has affected the concept of “fair value” being mandated by standard setters in rather interesting ways. Debates about current value accounting predate WWII. Concerns about the stability of the monetary unit as a measuring device were much discussed which led to advocacy for price-level adjusted statements – historical cost statements adjusted to reflect constant units of purchasing power. During the 1960s Edwards and Bell, Sterling, and Chambers most famously produced theories of market value accounting. Though they could be viewed as critiques of the inadequacy of historical cost, they retained the insistence that accounting should be devoid of subjective value, that is, it should focus on entry or exit values for assets when those values could be objectively determined, i.e., there was a market price. Chambers went so far as to claim that if an “asset” had no market value, i.e., no current cash equivalent, it would be reported at zero. The idea behind all of these market value models was that accounting was about feedback, i.e., a representation of what actually happened so that managers could assess the decisions they had made by comparing expectations to outcomes. The belief in the 1960s was that managers could improve their abilities to predict the future from what had occurred in the past in response to the actions they took. That view seems rather naïve now, but none of the market value theorists proposed anything other than the objectivity that was a central virtue of accounting and the audit
function. Edwards and Bell quite emphatically said that accounting reports should never include subjective values. Ijiri’s principle of hardness of measures was to be preserved with the exception that the hard measures were to be of current market values rather than past costs.

But the financialization of accounting in the academy created a research agenda that relied on modern finance theory. Doing academic research required the matter-of-fact production of “expectation models.” To do capital market research in its early form of information content studies one had to develop regression models that “predicted” what the market’s earnings expectations were. That these models were based on CAPM and were, therefore, terrible at predicting didn’t seem to dissuade the enthusiasm for this kind of research. As long as someone in a position of prominence endorsed the use of such prediction models, whether the predictions were any good didn’t matter (this method persists where we see people employing mechanical models to measure “abnormal accruals”). These models were deemed good prediction models simply because people said they were. A characteristic, but convenient flaw in empirical accounting research is that replications are never done. Each model, once published, enters the knowledge base as “evidence that” something is the case. The experiments are never replicated to see if the models are convincing evidence of anything. So over nearly 40 years of empirical financial research prediction models have become a standard tool of actually doing accounting. If the models “work” for research then we will use them to predict the future for purposes of placing those predictions on the financial statements as point estimates. That modern finance theory is now in serious trouble seems not to have given accounting academics or standard-setters pause. Both still speak matter-of-factly about placing discounted subjective values on the financial statements even though in many cases those values do not represent anything other than the performance of prescribed operations on numbers that can’t be forecast, but never-the-less are.

The paradox of this situation, hinted at in the comments of the CAs, is that we now have valuation experts vying for jurisdiction over the reporting function. But they are experts about something that no one can be an “expert” about. Diedre McCloskey notes in her book *If You’re So Smart*... that anyone claiming to know the economic future is selling “economic snake oil”. The very rationale for the market mechanism as an institution for allocating resources is that there is no such thing as a valuation expert. Markets determine value and if a market does not exist for something it has no transaction price judgments about its value must await some future realization. It is beyond the ken of anyone today to speak with any confidence about value in the absence of a market in which something can actually be exchanged for a price. To presume there are valuation experts is to suggest that society can dispense with markets and let the experts establish values for everything, which implies we don’t need financial reporting since we wouldn’t need capital markets in which to establish the market price of firm shares. The incoherence is compounded by the fact that there is an expectation that someone can conduct an audit on those values and “verify” them. Even the authors fall into the facile language of the reliability/relevance tradeoff. But there may be no such thing since reliability seems to be a pre-requisite for a datum to be relevant to any assessment. How can something be relevant to my judgment if I have no basis for being able to rely on it?
What is so intriguing about the comments is the degree to which the CAs know that financial statements now are no longer auditable. What is even more intriguing is the seeming acceptance of this state of affairs and their lack of confidence in their professional expertise. They know they are performing rituals that are not acts of performing an “audit” as they understand that activity. They have resigned themselves to deferring to ersatz experts; jurisdiction is seldom maintained without a fight.