How do we set the accounting standards? The topic has received much attention during the past 50 years. Perhaps the first step toward a satisfactory resolution of the problem is to recognize that the problem of standardization is not unique to accounting. There are approximately five hundred standard-setting organizations in the United States alone and many more in other countries, setting standards for everything from ships to shoe laces. In addition, there are international bodies that set standards for things such as radio transmissions that are applicable across the national boundaries. An examination of the standardization of accounting in the larger context of standardization of a variety of products and services may help us appreciate the costs, benefits, limitations, and economics of standardization.

After a brief review of the economics of standardization, I discuss criteria for choosing standards and the problem of devising social mechanisms to set socially optimal standards. I shall review the basic characteristics of six mechanisms – common law, market, referendum, legislature, judiciary and bureaucracy. This theoretical overview of the economics and mechanisms of standardization prepares the groundwork for a critical examination of some stylized facts of accounting standard setting in the United States and leads me to make a few suggestions on how we might set standards in the future.