

Not by Will: Baxter and the Rise of Authoritative Accounting Standards¹

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Synopsis

Scholars retain their perspective in the face of opposition, ignorance, fashion-of-the-day, even prejudice. Access to the ears of princes rarely helps either the scholarship or the authority. William T. Baxter was among the first, if not the first, to recognize and articulate the deleterious consequences of authoritative measurement standards for accounting as a profession, academic discipline, and subject of university instruction. Yet, his career coincided with the rise of such standards. Today, as we stand at the verge of global triumph of standards and authority over individual analysis and judgment in accounting measurement, doubts about the wisdom of this approach are beginning to take root. Baxter would be too gracious to have the last laugh.

Unlike most people here, I did not have the opportunity to study as Will Baxter's student. I met him a few times during his visits to the United States and my visit to the London School of Economics. I did not know him intimately as a person as you do. What I know of him is mostly from his writings, especially about the role of authority in setting and enforcing accounting standards. In these remarks, I would like to outline how his writings have affected my own thinking and work.

First, Will was not opposed to accounting standards per se. He recognized the value, indeed the necessity, of many kinds of standards to make our life, in accounting and elsewhere, easier and tolerable. Rules of the road—drive to the left (or right, as the case may be) is a familiar example.

¹ Remarks delivered at the Symposium to Celebrate the 100th Birthday of Professor W.T. Baxter at the London School of Economics, Saturday, July 15, 2006.

Life would be difficult without the coordination facilitated by standards. In a recent working paper, Karim Jamal of the University of Alberta and I found that in the U.S. alone there are more than 500 standard-setting organizations and more than 15,000 standards developed by these organizations are in place.² We take for granted the convenience of standards for voltage of electrical power, internet protocols, even height of the tables and chairs in this room. Better coordination of our activities is prized in human societies. Standards serve that function in all walks of life. Financial accounting standards are just a special case.

What, then, were Will's reservations about standards? He was skeptical, even critical, of measurement standards backed by the enforcement power of authority. There is no compelling reason on a single theory or conceptual framework for financial reporting—whether it is fair value or stewardship—to receive the imprimatur of authority over others.³ Theories must be left for open debate and judgment to be resolved by logic and evidence, not authority. Will, worried about the deleterious effects of authoritative pronouncements on the nature of practice, scholarly debate, content of text books, classroom disclosure, and ultimately on the quality of talent that might be attracted to a profession which is reduced to a search of the rule book. Search engines are free, and so will be the ultimate value of the services of an accountant stripped of the freedom to contemplate and exercise judgment.

² Jamal, Jamal and Shyam Sunder, "[Regulation and Markets in a Certification Society: Financial Reports vs. Baseball Cards](#)." First Draft, June 15, 2006.

³ Financial Accounting Standards Board. Conceptual Framework for Accounting Reporting: Objectives of Financial Reporting and Qualitative Characteristics of Decision-Useful Financial Reporting Information, Preliminary Views. Norwalk, CT, July 6, 2006.

Although Will wrote his analysis more than half a century ago, his words sound incredibly prescient today (pp. 421-2).⁴

Similarly, official recommendations by an institute of engineers would have to be framed with some care. Assume, for instance, that it advised its members to build bridges in a uniform way, based on the best current knowledge. For a while, standards might well be raised. But research would in time point to better bridges; nonconformist bodies of engineers would be free to build these, while the orthodox would be denied the fruits of advancing science.

... Authority may thus rest (at one end of the scale) on prestige only, and (at the other) on power. Occasionally the brilliance of a single thinker can cause his views to be treated with deference. A close-knit school of able thinkers may well dominate opinion to an unhealthy point—even if they lack organization and can impose no sanctions. The harm becomes vastly more formidable when the authority controls education, or can mould adult opinion. It reaches its worst when authority has total power. In its extreme forms, we are all agreed that it is evil – and that the evil persists whether or not the views that it promulgates happen to seem true or false.

Second, Will understood all too well the false dichotomy of positive and normative research, and the unhealthy consequences of the dichotomy for a discipline like accounting that must keep one leg in social sciences and the other in engineering.

Starting from the 1950's criticism of management programs in the United States as wasteland of vocationalism, the pendulum of scholarship swung towards social sciences to the present state in which policy research has become a dirty word in some accounting circles. Will's second concern was a judicious balance between scientific aspects of accounting and the policy implications of what we do. We cannot risk being just social scientists, nor just prescribers. In the domain of business, we must bear the burden of doing both—the physics as well as engineering of management and accounting.

⁴ Baxter, William T., "Recommendations on Accounting Theory," *The Accountant*, October 3, 1953. Reprinted in Baxter and Davidson, eds. *Studies in Accounting Theory*. Homewood, Ill.: Richard D. Irwin, 1962.

This approach is illustrated beautifully by the inclusion of Jack Kitchen’s article “Costing Terminology”⁵ in the famous anthology Will and Sidney Davidson edited, *Studies of Accounting*. Kitchen pointed out simply, but brilliantly, how meaning in language must depend on uncertainty. Value of a word—“cat” or “house” or “assets”—would be lost if it could only be used for exactly identical objects. “House,” for example, is a general concept, referring to a variety of existing and no-yet-conceived-of constructions. Whether the word “house” is to be used for a particular construction must necessarily remain a matter of judgment of speakers. This centrality of judgment and variation in usage is the essence of all natural languages. When we strip the language of ambiguity and variation in meaning, we get something like Esperanto—dead on arrival.⁶

The logic as well as the social science of linguistics leads to deep skepticism about the value of officially declared definitions by accounting institutes that Kitchen criticized. The value of the Oxford English Dictionary derives, not by its enforcement authority but by its encyclopedic inventory of usage of words in the past and present. Dictionaries compete for our allegiance in a world with less than perfect coordination of speech. English dominates the world today not because an official academy defines and enforces correct usage, but because of its flexibility and openness to new words and new usages of old words.

⁵ Kitchen, J. ,“Costing Terminology,” *Accounting Research*, February 1954. Reprinted in William T. Baxter and Sidney Davidson, eds. *Studies in Accounting Theory*. Homewood, Ill.: Richard D. Irwin, 1962.

⁶ Esperanto was a late nineteenth-century attempt to create an artificial universal language that might replaced the natural languages of the world. See Stella Fearnley and Shyam Sunder, “[Global Reporting Standards: The Esperanto of Accounting](#),” *Accountancy*, May 2006, p.26.

Finally, I would like to mention Will's deep concern about the impact of authoritative standards and definitions on education and attracting talent to the accounting profession. He wrote (Baxter, pp. 422-3):

The recommendations must therefore have a considerable influence on the thought of the mature accountant. On the immature mind—that of a young man in training—their impact must be deep. They are given conspicuous place in his textbooks and correspondence courses, and so play a large part in moulding his views when he is still impressionable and uncritical. They naturally appeal to the feebler type of teacher, who finds it easier to recite an official creed than to lead a brisk argument. Even before the days of recommendations, accounting textbooks and teachers preferred in general to state facts rather than explore theories. Their main concern was painstaking description of normal practice; scant space was accorded to the reasoning behind the practice, and next to nothing was said of controversy. This dull and sterile approach has now been made far more likely. If an official answer is available to a problem, why should a teacher burden his examination candidates with other views?

Fortunately, as their past week's pronouncements suggest, Financial Accounting Standards Board and International Accounting Standards Board may yet benefit from Will's thought.