POLICY REPORT

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Ecology, Progress, and Poverty

by Tom Hazlett

America is making progress. No question about it. If we are not becoming any richer, we are most certainly becoming more sophisticated.

For instance, it was not at all uncommon twenty or thirty years ago for concerned citizens in wealthy suburban housing tracts to meet to discuss how to maintain their property values. Any problems that new folks moving into the neighborhood might create were dealt with by restrictive covenants and cooperative realtors, both dedicated to keeping the neighborhood racially homogeneous.

Today, however, when a group of concerned homeowners in a fashionable development meet to discuss how to protect their property values, the solution is more refined: Their homeowners' association will issue a neatly typed press release calling for a building moratorium and a no-growth ordinance, in order "to protect our scarce and rapidly dwindling wilderness treasures for this and for future generations." Racism comes in many different packages.

If the analogy between racism and ecology seems unfair, consider what ecological values would have been furthered by the 1978 regulations in Malibu, California, that would have allowed no one to construct a house unless he had an acre on which to put it, or by a statute in Glassboro, New Jersey, that mandated "...among other things, that each apartment have central air conditioning and an automatic garbage disposal, that each building have a master TV antenna, that there be an automatic laundry washer and dryer provided for every eight bedrooms, that there be eight square feet of swimming pool or tennis court area for every 100 square feet of living space, and that there be two off-street parking places for each unit, despite the fact that there could be an average of only 1.35 bedrooms per unit."[1]

"The problem is not the legitimacy of the alleged end—preservation of nature; it is the means used to achieve it."

Protecting the environment—and this gives the antigrowth statutes their virulence—is almost *everyone's* abstract desire. Conservatives who could never think of boosting the Campaign for Economic Democracy find themselves solidly in favor of preserving God's bounty and their neighborhood's character. The problem is not the legitimacy of the alleged end—preservation of nature; it is the means used to achieve it.

We must be careful, however, to note that the ends of "environmentalists" may not always be what they are alleged to be. The antigrowth lobby pushes for legislation and regulation that serves exclusively to enrich existing (relatively wealthy) homeowners at the expense of those who are still trying to scale the economic ladder. The tactics of downzoning (permitting one house or apartment house to be built where five could have gone), imposing costly building codes, and forcing higher tax rates on newcomers to a community have the unambiguous effect of (a) penalizing those who have not previously been able to afford the move to a better neighborhood and (b) rewarding those who have. The result is what scientists call an observational equivalence. We have no apparent way to distinguish between competing hypotheses: Is it high-minded ecological concern at work or a cynical use of legislation?

Certain evidence, however, leads us to conclude the latter: in particular, a study of the environmentalist movement in action by M.I.T. professor of urban planning Bernard Frieden, published in 1979 as *The Environmental Protection Hustle*. Frieden reported on a year-long research program conducted at U.C. Berkeley that focused on the fate of several of the largest residential building projects scheduled for construction in the San Francisco Bay Area in the period from the late 1960s through the mid-70s. He found that in every case the developers began with plans for large-scale housing projects to provide homes, condos, or apartments for low- to moderate-income persons. Without exception, these plans were rejected by environmentalists and fought ferociously by local homeowners' associations. Parks, accessible open space, planned communities near downtown

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IN THIS ISSUE

The New Protectionism

As the quotation from the *Wall Street Journal* appearing in this month's "To be governed…" column illustrates, the governments of the world have embarked on yet another round of trade policies that are designed, ostensibly, to protect domestic jobs and economic prosperity but whose result might well be another world depression. Like inflationism, protectionism is always with us. The reason is that its proponents are special interest groups with strong lobbying voices in Washington. At a time when virtually no economist will defend trade restrictions, except for an "infant industry," such restrictions are proliferating exponentially all over the globe. Infant industries? The loudest voices for trade quotas and "anti-dumping" laws are the steel industry, the auto industry, and the electronics industry. Hardly a collection of babies needing protection from foreign wolves. Let us examine the auto industry in more detail.

Like so many other economic interventions wedged between consumers and producers, the cry for trade restrictions is traceable to prior government interventions in the marketplace. For example, ever since the formation of OPEC and the consequent oil shortage, the government has propagandized against "gas guzzlers." Although its own restrictions on price and output in the oil industry worsened the gasoline shortage, and still do, the government blithely pursued other campaigns that hurt American consumers. The American car market today is a typical example of government policies working at cross purposes.

Foreign car imports continue to absorb an ever increasing percentage of yearly new car sales, yet the Department of Transportation still runs commercials on television denouncing large automobiles, most of which are made in America, for being energy inefficient. Meanwhile, government monetary policy has created an environment that makes it impossible for the average American to buy a house. The logical alternative, considering the tax write-off on paid loan interest, is for consumers to invest in expensive automobiles instead. It is *not* the case that American automakers are not producing high-mileage cars; it *is* the case that those cars are qualitatively inferior to their German and Japanese counterparts. Foreign cars usually retain their value and are a better long-term investment.

The automakers argue that government regulations have played a major role in bringing about the present crisis. While there is truth in this, foreign cars must meet the same safety, bumper, and environmental regulations that American cars have to pass in order to be sold here. In fact, foreign automakers were quicker to anticipate that rising energy costs would make their products more attractive to the American public. Their primary markets, before the last decade, were in countries whose fuel costs are dramatically higher than in the United States. Naturally enough, they had an edge in producing high-mileage autos, and when they added to that the luxury options adored by the American buying public, the fate of domestic automakers was sealed. It is simply a case of better foresight coupled with a better product. When the members of the UAW pay a dollar apiece to smash a new Toyota with baseball bats, the message should come through loud and clear to consumers: "We are more concerned about our jobs and security than about your preferences in automobiles. Since we can't beat Toyota in the marketplace, we'll beat them in the political arena."

The most visible result of the automakers' lobbying is the new "partnership" between business, labor, and government. One wonders exactly what collective bargaining between the Chrysler Corporation and the United Auto Workers will mean now that Douglas Fraser sits on Chrysler's board of directors, and the government effectively owns the company? Why should taxpayers—who as consumers have rejected Chrysler's products—be taxed to cover its losses? Why should taxpayers who have voted voluntarily with their dollars for Mercedes Benz, Toyota, Datsun, and Honda be forced to pay double for cars they don't want? Why should consumers who are just now deciding to buy a car be limited to domestic brands only? And finally, why should foreign workers and entrepreneurs be forced to reallocate their capital and labor skills from their most productive endeavors to less productive and more costly enterprises by legislative fiat that clearly contradicts the wishes of the buying public?

If some politicians and businessmen are not willing to accept the consequences of the marketplace, then let them explicitly espouse their chosen alternative so that all citizens can hear exactly what these economic planners have in mind for us in the future.

The nineteenth-century political economist Fredric Bastiat pushed the protectionist arguments to their logical conclusion and wrote an amusing *reductio ad absurdum* entitled *The Petition of the Candlemakers of France* which argued that the French government should take steps to protect the candlemaking industry by outlawing "unfair competition from the sun." Modern governments have absorbed the lesson Bastiat expounded and, without so much as cracking a smile, use his essay as a blueprint for running their economies. Such is the level of understanding of economic ideas in the political sphere, and the resultant chaos, depression, and misallocation of resources is the price all citizens must pay in order to realize the protectionist's ideal of national economic autarky. ■

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job opportunities, and free buses were all tossed out—in the name of "protecting the environment." Where any building was done, the final developments contained, without exception, far fewer units at far higher prices. Our "observational equivalence" has been broken.

Frieden is forced to conclude that the self-interest of the established classes, not environmental concern, is the prime mover. He finds that the new-found alliance between homeowners' groups in "nice" communities and professional Sierra Club lobbyists "lends the legitimacy of an environmental crusade in the public interest to what is otherwise a selfish and provincial concern."[2]

His research into the sociological composition of the Sierra Club is highly revealing:

> A recent survey of Sierra Club membership showed that fully two-thirds of the main wage earners in members' households came from the following occupational groups: lawyers, doctors, dentists, other professionals, college teachers and other teachers, managers and executives, and engineers. More than half the members have had some postgraduate education, with 18 percent having a Ph.D., law, or medical degree, and 21 percent a master's degree.
>
> This is not a typical cross-section of people who buy homes in new tract developments. Highly educated professionals and executives can usually afford the high cost of a house in an established, desirable suburb with an attractive environment. Their opposition to homebuilding is usually opposition to someone else's opportunity to buy a moderate-cost house.[3]

Is there a way to stand *for* the environment without standing *against* the poor? We certainly hope so. The solution proposed by many economists is that we mend our current legal definitions of property rights so that scarce environmental goods are not carelessly consumed by those unwilling to pay the price for them. The air, for example, becomes polluted because we are permitted to dump gunk into it for free, but our front lawns do not become polluted because people would have to pay the owner for the privilege of dumping garbage. Such a market alternative—making individuals pay for the resources they use—to restrictive zoning and government regulation is based on a respect for private-property rights in such goods as open space, air space, roadways, public services (such as schools and electrical hook-ups), and water resources. If private owners of these resources lose money when they are squandered, cost-efficient measures can be *automatically* taken by such owners to protect them. It is hardly a coincidence that water pollution haunts public but not private, lakes.

> **"Is there a way to stand *for* the environment without standing *against* the poor?"**

The approach of so many Sierra Club proposals has been virtually to sidestep the best method of preserving the environment, which would logically be to make sure that people *pay* for the resources they use. The pricing of environmental goods has never been the club's business, probably because this solution would require that the cost of preserving the environment fall on those who have already moved into the environmentally sensitive mountain, canyon, coastal, or desirable suburban locales—the very people who form the political base of the Sierra Club's no-growth activism. Making these people shoulder the costs of this consumption would be very bad politics. Far better to shift the costs to unsuspecting outsiders—groups of less affluent, less politically active citizens who will have a hard time even being identified, for the potential residents of a middle-class housing development that never gets built remain just that: potential residents. The irony is that although economic forces can be ignored, their effects will always be felt. So it is that those who employ restrictive zoning against future development perversely reward those developers (or property owners) who, prior to the new zoning, took the greatest liberties with Mother Nature—shaved off the biggest mountaintop or blocked the largest public view or felled the biggest forest. Windfall profits come their way when restrictive zoning ordinances grant them a monopoly to do what is forbidden to others.

The continuation of the debate about the causes of antigrowth legislation should not blind us to their consequences. As M. Bruce Johnson of the University of California at Santa Barbara says, "The motives for using politi-

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cal exigencies such as reducing zoning density, withholding utilities, and declaring building moratoriums are never altogether clear; but the results are: windfall gains for existing resident property owners, higher housing costs and exclusion of lower-income segments of the population."[4] Unless we are willing to give less affluent people the same chance at the American Dream that the well-housed environmentalists have already had, perhaps we have not come so very far after all.

[1] Eric J. Branfam, Benjamin I. Cohen, and David M. Truebeck, "Measuring the Invisible Wall: Land Use Controls and the Residential Patterns of the Poor," *Yale Law Journal* 82, No. 3 (1973): 485.

[2] Bernard J. Frieden, *The Environmental Protection Hustle* (Cambridge, Mass.: M.I.T. Press, 1979).

[3] Ibid., pp. 130–131.

[4] M. Bruce Johnson, "Land Use and Control by the Federal Government," in *No Land Is an Island: Individual Rights and Government Control of Land Use* (San Francisco: Institute for Contemporary Studies, 1975), p. 83.

The Politicization of a Profession

by Thomas C. Taylor

While all government interventions ultimately mean bureaucratic control in some form, the particular designs of such control vary markedly from one encroachment to another. For some time now, accountants have witnessed the increasing politicization of their profession. There are two major fronts to this process of politicization: legislation and popular philosophy. We will look in turn at each of these. In the final analysis this political development must be seen as part and parcel of the socialization of American business.

Centralized Mandatory Accounting

The seeds of politicized accounting were sown on 27 May 1933, when President Roosevelt signed the Securities Act of 1933, one of the first pieces of "New Deal" legislation. This law was followed by the Securities Exchange Act of 1934, which, in addition to extending regulations governing securities transactions, gave birth to the Securities Exchange Commission (SEC) as the enforcer of the two "disclosure" acts. One significant requirement of these laws was that corporations had to provide the commission with a considerable amount of financial information before they could sell securities to the public on an interstate basis or have them traded in registered securities exchanges. Over the years, these requirements have given rise to extensive rules and regulations from the SEC that establish the nature of the detailed disclosures that must be made to the SEC in order to comply with the securities acts. Needless to say, this captive market has meant substantial business for the CPA firms whose certifications are necessary for significant aspects of the financial information provided to the SEC.

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While mandatory reporting to the SEC has resulted in extremely costly accounting services for all major corporations and many others of lesser prominence, a far more serious element of politicization of accounting has accompanied the power wielded by the SEC. I refer here to the legislated authority of the SEC to establish the accounting standards and principles that must be adhered to by corporations reporting to the SEC and to the public. The seriousness of placing this authority in the hands of a regulatory agency can be understood only by realizing that accounting issues are exceedingly complex and that accounting determinations are far from exact, despite the aura of precision surrounding reported figures. Thus substantially different profit (or loss) determinations for the same company can be rationalized on a variety of theoretical grounds, depending upon which concepts of profit (or loss) are used. The difficulty of calculating profit/loss results is greatly exacerbated by the conditions of monetary inflation. Despite the complexities and the diversity inherent in accounting problems, the responsibility for defining and modifying currently acceptable accounting practices is carried out through bureaucratic centralized authorities. This approach has led to monolithic accounting, which attempts to apply "uniform standards" to a world of infinitely diverse situations.

For years, statements by both the SEC and its apologists have sought to dispel any fear that accounting standards and practices would ultimately be dictated by the SEC. Until a few years ago the SEC chose to rely on the accounting profession through its primary professional organizations, the American Institute of Certified Public Accountants (AICPA) and the Financial Accounting Standards Board (FASB), to establish generally accepted accounting principles and practices. These "privately" determined standards have been accorded authoritative status by the SEC. However, this "private" apparatus still results in monolithic accounting, with only apparent freedom from the influence of the bureaucrats. For many years the AICPA, sanctioned by the SEC as the official mouthpiece for promulgating accounting standards and practices, has performed the role of accounting rule maker. Pronouncements binding on all of its members have poured out of the AICPA while the SEC has stood in the wings prompting certain positions and directly entering the scene from to time. The cooperation of the AICPA in centralizing the power to determine accounting principles and practices has led in effect to its emergence as a quasi-governmental entity that has been instrumental in the politicization of the profession.

The rulemaking function is now performed to a significant extent by the FASB, which was established in 1972 by the powers that be in the profession. This creation was a response by the AICPA, ostensibly to ward off the mounting threat of complete governmental dictation of accounting standards and practices. Like its predecessor, the Accounting Principles Board (APB) of the AICPA, the FASB is essentially a quasi-governmental entity whose pronouncements are sanctioned by the SEC, except in cases where the SEC has chosen to override or to influence the FASB to alter its position. The authority of the FASB pronouncements, like those of the old APB, is revealed by the fact that the burden of justifying departure from its pronouncements rests on the shoulders of the practicing CPA. Departures are uncommon.

Recent years have witnessed an increasingly active SEC in the establishment of accounting standards and practices. Its commitment to allowing the accounting profession to engage in "self-regulation" has weakened considerably. There now appears to be a far greater tendency on the part of the SEC to attempt to influence the pronouncements of the FASB and AICPA. Indications are that the FASB/AICPA "private" contingent is carefully attuned to the wishes of the SEC in arriving at its specific rules and in choosing which issues have priority on its agenda. It all comes down to the simple fact that a specific standard or practice to be promulgated by the AICPA or FASB has little chance if the SEC opposes it.

Accounting standard setting then is an operation performed by the SEC/AICPA/FASB regulatory bodies jointly exercising their authority to mandate and prescribe rules for financial reporting. The result of this arrangement is centralized and mandatory accounting rules emanating from authorities who think they are able to determine the nature and extent of financial information that is proper for the investment community. Such is the nature of the political environment in which accounting now operates. This bureaucratic approach fails to come to grips with the critical problem of the nature of knowledge in a highly complex society. Economic reality is indescribably varied and in constant flux. It is simplistic to think that accounting information can portray this reality through a single conceptual framework. Is there any wonder, though, that this path of regulated accounting has been charted and followed, when we observe the developments in all other facets of our society? The need to adopt competitive, market-oriented methods of providing financial information cannot be divorced from the need to free the market system in a multitude of other areas from crippling government regulation.

> **"Mandatory reporting to the SEC has resulted in extremely costly accounting services for all major corporations and many others of lesser prominence."**

There are two basic motivations that characterize the approach of governmental (and quasi-governmental) bodies to the establishment of accounting standards and practices. One is based on the familiar idea that the authorities know what is best for others. On this basis, a myriad of rules and regulations spew from the authorities, whose aim is to restrict the discretion of accounting practitioners so that a uniformity of practice is achieved. This notion of superior planning by central authorities is characteristic of all forms of government encroachment. The other motivation is to induce certain economic actions the planners deem appropriate. If a particular accounting practice is believed to lead business decision makers to act in ways that will advance certain ends sought by the authorities, then that practice is likely to be ordered. This rationale abandons, for the sake of political expediency, any pretense of searching for valid accounting ideas portraying economic reality. This social engineering tack has long characterized the federal income tax code and its mandated rules for tax accounting.

New seeds of accounting politicization were planted by recent legislation that has ominous implications for corporate management and accounting. On December 19, 1977, President Carter signed the Foreign Corrupt Practices Act (FCPA), which adds Section 13(b)(2) to the Securities Exchange Act of 1934. This legislation was the outgrowth of congressional investigations into "questionable and illegal corporate payments and practices." Although the law has strong antibribery provisions—hence its euphemistic title—what is relevant to our discussion is Section 13(b)(2), the applicability of which requires neither "foreign" nor "corrupt" situations.

Section 13(b)(2) is an accounting standards provision that requires all issuers of securities covered by the 1934 act to meet two mandates: "(A) make and keep books, records, and accounts, which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the issuer; and (B) devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances" that transactions and access to assets are properly authorized, accounted for, and verified.

It is not hard to understand why commentators view this as the most extensive application of federal law to the internal affairs of corporate business since the passage of the fed-

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Washington Update

As Congress debates further curbs on the power of the Interstate Commerce Commission, consumers seem to be reaping substantial benefits from deregulatory efforts in the trucking industry. For instance, one glassmaker, previously paying $530 a truckload to ship his goods from Baltimore to New Jersey, received a competitive bid from a new carrier (a procedure previously prohibited) to truck the goods for $457. Not to be outdone, still another trucker submitted a bid for $361 a truckload—32% less than the old price. The benefits have not been limited merely to rate cuts: Producers have reported the ability to extend their markets into new areas and improve service. Needless to say not everyone is happy with these new developments; large truckers complain about their decreased profits and union truck drivers are leery of possible layoffs and the impending decline in wage increases.

The troubled Chrysler Corporation has received conditional approval of $1.5 billion in government-backed loans even though it has fallen far short of providing an equivalent amount of congressionally required private financing through its lenders, suppliers, and dealers. The administrative board that was created to issue the loan guarantees allowed Chrysler to count $491 million in unsold assets toward its required level of private financing, although firm offers for much of the property have not been made. The board also released a report suggesting that even at best Chrysler will continue to post small losses for the next several years. The report maintained, however, that there is a "reasonable prospect" that the company won't again be forced to turn to the government for help. The board revealed that Chrysler has had the most success in raising money from states and other governmental bodies. Michigan has enacted legislation authorizing a $150 million loan, Indiana has approved a $32 million loan, and Chrysler of Canada will be provided with $180 million in aid by that government.

The Council for a Competitive Economy, a group of free-market businessmen who favor deregulation of the economy and oppose all government subsidies to business, has just published its 1979 legislative ratings for both houses of Congress. They provide a convenient yardstick by which to measure congressional commitment to the free market. The council found that senators favored anticompetitive measures on 55% of selected votes last year, while representatives opposed the free market 59% of the time. In the House, Ron Paul (R-TX) had the best score at 91%. Senator Gordon Humphrey (R-NH) was the top scorer in the Senate with 89%. Leading senate Democrats in voting for free competition was Senator William Proxmire of Wisconsin at 61%. Copies of the complete voting study are available from the Council for a Competitive Economy, 410 First Street S.E., Washington, D.C., 20003.

The Senate is nearing approval of a House bill that continues until 30 June 1981 a prohibition of the Food and Drug Administration's efforts to ban the artificial sweetener saccharin because it is a suspected carcinogen. The bill would continue an earlier congressional ban that expired last year on actions against saccharin. Meanwhile, four additional scientific studies have appeared with conclusions on saccharin ranging from its indictment as a low-risk carcinogen to endorsements of its value to diabetics. It is likely that the controversy will continue for years.

The House Banking Committee rejected the Carter administration's request for a 155% increase in the budget of the Council on Wage and Price Stability. In March, President Carter had asked Congress to provide the council with a $25 million budget for the next fiscal year to enable it to add some 400 people to its 237-member staff. The staff increase was considered essential to allow the council to intensify its monitoring of the wage and price guidelines.

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eral securities acts of the 1930s. The effect is to give an already powerful SEC an enormously potent weapon in its enforcement process. The law is ominous from a business management and accounting standpoint because it opens the door to governmental intrusion into the management domain of internal accounting control systems and record-keeping procedures. While the accounting requirements stemming from the original securities acts dealt with external reporting and disclosure matters, the FCPA invites the SEC to dictate the nature and extent of accounting procedures that culminate in the data disclosed through external reports. There is hardly anything left in essential accounting functions that cannot come under the surveillance of the SEC. The SEC can now dictate what accounting methods and control techniques are to be followed in operating business enterprises. The FCPA contains no criteria for "reasonable detail" nor does it offer any guidance or even comment concerning the very real question of materiality. The tired joke that the FCPA, like the federal income tax code, could be called the "Accountants' Guaranteed Income and Retirement Act" is not so amusing when the price paid for such interventions is considered.

The year 1977 was a banner year for expanding the bureaucratic control of accounting practice. Not only was there passage of the FCPA, but the AICPA, in response to congressional hearings, established two sections of CPA practice: one for SEC-connected practice and one for private practice. Membership

in the SEC section, while voluntary, is subject to fines and expulsion for failure to comply with AICPA standards. Various requirements, like member firms' having to undergo "peer review" of their quality control every three years, accompany membership in the SEC section, which of course is primarily comprised of the larger CPA firms. A Public Oversight Board was also created to monitor the functioning of the SEC section of the AICPA and to issue follow-up reports to the SEC, congressional committees, and the public. The SEC applauded this development as demonstrating that "there is promise for successful voluntary self-regulation"! But just in case the commitment to "voluntary self-regulation" should waver, SEC chairman Harold Williams stood ready to lend a helping hand: "If we find the Institute needs more authority to do the job, we might propose legislation to give official recognition to the AICPA's effort and to formalize SEC oversight of it."[1] The myth of self-regulation lives on while the profession is deprofessionalized and its authorities are deputized.

Philosophical Politicization

There is another politicizing phenomenon besides the bureaucratic regulation of accounting practice. I refer here to the seepage of the "social responsibility of business" philosophy into the accounting realm. The primary manifestation of this thinking is the quest on the part of authorities for an accounting system that can account for the "social performance" of business enterprises. Both the AICPA and the American Accounting Association, consisting primarily of accounting practitioners and accounting academicians respectively, have established standing committees dedicated to exploring means of performing "social accounting." As I have attempted to explain elsewhere,[2] this is an exercise in horrendous futility. Aside from fostering governmental control of business, inevitable when business is operated on the grounds of some notion of "social responsibility," the trouble with the idea of "social accounting" is found in the obvious impossibilities of measurement.

Values are always personal and subjective. There is no common denominator by which the "social" effects of various actions can be compared, either prospectively or retrospectively. Neither is there an objective unit of measurement with which to gauge the outcome of "social actions." Decisions to take such actions are reached in light of the valuations and perceptions existing in the mind of the decision maker only; the notion of social accounting is a chimera.

The politicizing effect of adopting the "social accounting" idea arises from the fact that the notion is predicated on the sweeping premise of the "social responsibility" of business. This philosophy places governmental planning and direction of business front and center. Business is politicized, and so is the futile attempt to account for its "social performance." Growing acceptance of this philosophy is bound to generate an avalanche of bureaucratic prescriptions in the area of "social accounting." The powers that be in the profession hardly will balk at this likely development.

This social responsibility/social accounting syndrome is best revealed in a recent article whose author laments the observation that young accountants, unlike many young lawyers, are not sufficiently "public-interest" oriented: "They have been concerned that government service might adversely affect their careers and that controversial positions would threaten their client's interests."[4] He vaguely alludes to accountants' "measurement techniques," which he asserts could make a significant contribution to developing measurements of the "aggregate effects" of social programs, like that monstrosity, the Employee Retirement Income Security Act. The political element is inescapable: "Better information will allow policymakers to understand the effects involved and *to balance competing equities more wisely*" (emphasis added). Could it be that sometime in the not too distant future, certified public accountants will be required to serve an apprenticeship in some government bureau? Consider the following from the same author: "The AICPA should help recruit accountants for full-time or part-time government work...." Such are the thoughts of a former chief accountant of the SEC.

This social responsibility philosophy is threatening to politicize accounting in still another way that could mean further legislation. On the legislative drawing boards are measures that would require outside directors on corporate boards and on *audit committees*. Already many companies have placed outside directors on their boards and on newly formed audit committees, as what may be the wave of the future begins to ripple. Clarifying the function of the audit committee is still in its early stages, but among the tasks taking hold is that of interfacing with the company's external auditors in the planning and conducting of the CPA's audit as well as with the company's internal auditors. It should be clear that the proposition calling for outside directors is politically grounded in the notion of social responsibility and the idea that the "interests of all major segments of society" should be represented in the matter of directing the affairs of corporate business. As the composition of the audit committee of the board of directors seems headed largely towards outsiders, both external and internal auditors must prepare to accommodate the wishes of this political unit. This would be an especially radical shift for the internal auditor who has traditionally served top management in its efforts to manage the enterprise efficiently and profitably. When this avenue of politicization is joined with that afforded the SEC through the FCPA, governmental control of accounting, and through accounting of corporate business itself, will be secured. ■

[1] "Bossing the Boss," *Barrons*, July 17, 1978.

[2] Thomas C. Taylor, "The Illusions of Social Accounting," *The CPA Journal*, January 1976, pp. 24–28.

[3] Ernst & Ernst, *Social Responsibility Disclosure—1978 Survey*.

[4] John C. Burton, "Where Are the Angry Young CPAs?" *The New York Times*, April 13, 1980.

"To be governed..."

Raising the barriers

...protectionist efforts aren't unexpected at a time when the U.S., Europe and Japan all may be headed for a deep recession....

What is worrying many economists and businessmen, however, is that governments appear increasingly willing to give in to these pressure—just 10 months after hailing the Tokyo Round trade-liberalization agreements as a new bulwark against protectionism. Some trade experts fear that a few more protectionist acts in sensitive industries such as chemicals and autos could touch off a major international trade war, sending everyone scurrying behind tariff and quota walls....

[R]ampant protectionism in the 1920s and 1930s may have helped bring on the Great Depression—and certainly helped deepen it....

Hugh Corbet, director of the private Trade Policy Research Center in London [warns], "the world economy could well be slithering very quickly down the same kind of slope that led to the protectionist excesses of the 1930s."

"Last year, we all thought the pressures had peaked," adds Sheila Page, a trade expert,... "but that was nonsense. It's worse than ever, not least because it's spreading from an already very high level of protectionism...."

Mrs. Page estimates that more than 46% of world trade is controlled by governments through tariffs, quotas or other barriers—up from 40% in 1974. Agricultural trade, she says, remains as fully controlled as ever, but more than 21% of trade in manufactured goods is now controlled, up sharply from 13% six years ago. These percentages are likely to increase, she believes,...

—*Wall Street Journal*, Mar. 12, 1980

Mob reassesses support for the Fed

The credit squeeze—which has seen Citibank cut off installment loans, credit-card companies melt their plastic, and even Household Finance planning to shut the doors of some of its offices—has also hit the city's loan sharks.

"There's just no money available on the street," one longtime borrower said. "About three months ago they started calling in the cash. They began going around knocking down their loans.... They'd ask how much extra you could afford to pay a week. I'm telling you, it's bad. I've never seen money so tight on the street."

It is an indication, according to underworld economists, that the mob has lost confidence in the government's fiscal policies.

—"The Credit Crunch Hits the Kneecap Set," *New York*, Apr. 14, 1980

Sunstroke

A House subcommittee voted Tuesday to spend $3,800 on solar-heating research projects—one for a doghouse and the other for an outhouse that will be called an "aerobic and solar-assisted composting toilet."

The two projects were part of a $20 million experimental research program that the House subcommittee on energy development and applications approved for the Energy Department.

Another of the items was for a solar beeswax melter.

—*Los Angeles Times*, Apr. 2, 1980

Fertilizer's no problem, just plow under the taxpayers

Now that 98.7% of American farms have lights, the Rural Electrification Administration has kept alive by moving into telephone and even cable TV loans. The Farmers Home Administration, which was set up to help farmers buy land, has guaranteed credit to a ski resort, a distressed steel company and at least two Ramada Inns.

—*Time*, Apr. 14, 1980

The blind leading the blind

The Federal Government has assumed a supervisory role over the long-term and day-to-day management of the Chrysler Corporation as a result of the $1.5 billion Federal loan guarantee program intended to save the auto maker from insolvency.

Administration officials have become involved in the most fundamental of marketing decisions. Chrysler, for example, was forced to reconsider its plan to sell most of its new, fuel-efficient "K" body cars with such profit-producing options as air-conditioning, tinted glass, power brakes and the like. Federal officials argued that the public would shun a car loaded with options.

—*New York Times*, May 27, 1980

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