New partnership: Accounting and the public interest

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THE NEW PARTNERSHIP:

Accounting and the Public Interest

By RUSSELL E. PALMER / Managing Partner
There is an old and often-quoted Chinese curse that goes: “May you live in interesting times!” We do indeed live in interesting times. Interesting in the sense that they are characterized, as much as anything, by social, political, geological, physiological, and economic crises of many sorts. Interesting, as well, because of the unparalleled opportunities not only for temporizing and postponing, but also for confronting and perhaps even solving some of the problems that have produced these crises. In that sense at least, the Chinese saying may be something more than an unmixed curse.

Surely one of the more interesting aspects of the present is the emergence of something we have come to identify, however imprecisely, as the public interest. The public and its interest are not concepts that lend themselves to neat definition. In fact, if we look for definitions, we find that there are many publics and many interests, and that they are frequently in conflict.

When judges determine that a matter before them is, in their words, “affected with a public interest,” they seldom intend anything more than to imply that the case, in some way, involves larger considerations than those of the parties on both sides of the issue.

History
In recent years, the terms “public” and “interest” have been used a great deal in new ways. Lately we have encountered such new applications as “public interest” law firms, among others.

That is not to say that the public interest was not considered in the past. But society defined it in more limited ways than it is defined today.

The post-Civil War entrepreneurs did not think much about the public interest as they built the American industrial machine. Those were the days of the public-be-damned laissez-faire attitude. But if you had asked the men who captained the great mining, railroad, steel, and manufacturing enterprises if they were serving the public interest, they would undoubtedly have answered by pointing to the wealth, the jobs, the products and the trade that they were creating.

Another public interest was soon identified: the small businessmen who were being squeezed by the great trusts of the 1880s. Congress, in response, enacted antitrust legislation to increase competition and outlaw restraint of trade. Thus the public interest was served.

Still other public interests were expressed. And appropriate legislation was enacted in the interests of conservation, of truth-in-securities, of appropriate allocation of
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broadcasting frequencies, of support of American shipping, and of labor's right to organize, among other public purposes. The 1930s were filled with legislative efforts to correct abuses and oversights of the 1920s and earlier times. Always, of course, in the interest of one public or another.

New Expressions of Public Interest

Our contemporary scene is filled with a number of new manifestations of public interest—in the form of consumer groups; class action law suits; and groups devoted to ecological balance, control of populations, promotion of health, and all the rest.

A now classic instance of an action that made a broad change in the rules of conduct in corporate business was the Bar-Chris case. A court held that the directors of the corporation had not fulfilled their responsibility to investors when they relied on inaccurate information provided by the corporation's management. It was their duty, the decision held, to seek outside advice to confirm or to correct management's version of the facts. One effect of that decision and of others in support of it, will be to strengthen the safeguards provided to investors. And, in the course of fulfilling their responsibilities, directors may be expected to call on the accounting profession for guidance.

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The accounting profession's client is the public. And the role of our accounting profession in serving the public interest will be expanded in other significant ways as well. These are unusual times and they are filled with ferment about the public interest. Hardly a subject exists in contemporary life for which there are not adversaries on at least two sides. The role of the accountant has always been one of objectivity and definition. It is a role for which there is a greater need than ever.

The activities of the countless citizens' committees and groups have already resulted in investigations, hearings, and significant legislation of many sorts, ranging from pollution control and consumer protection to legalized abortion. These committees have made legislatures and courts more receptive to their objectives. They have spawned a national movement for ombudsmen and citizen access to the upper reaches of power through the many "action line" columns in newspapers and the telephone talk shows on radio.

The Public Need for Standards

New voices are certainly being heard in the public interest. And their interests are being acted upon, though
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probably not fast enough or thoroughly enough to please their advocates. The very fact that public interests are being expressed, heard, and responded to, creates an urgent need for standards against which the public can measure and weigh its many and often conflicting interests.

Hardly anybody still asks the question: when is Ralph Nader going to run for office? We now know that he has already achieved enormous power over social and political institutions without ever holding elective office. Ralph Nader can now be certain that he can get on the front pages whenever he chooses.

That, of course, creates a great risk for the public. Nader's power is as much as anything a function of his zealous personality and his remarkable public relations and organizational talents. The same can be said for other advocates of other causes and of the organizations they create. What is more, whether or not power corrupts, it certainly tries to sustain itself, even after its original purposes have been served. The public therefore needs some standards by which to measure the value of the works of its zealous new servants, or else it will be brought along on ego trips that serve its interests only incidentally—if, indeed, at all.

As an illustration from our past, the first serious attempt to control the exploitation of natural resources came in the form of legislation to empower the Texas Railroad Commission to control oilfield production in the state. Though this may well have served the public interest, that was not its purpose. It was enacted because wildcatters had found so much oil in East Texas in the depressed 1930s that they were making it worthless by overproducing in relation to demand.

In this instance, a public interest— the conservation of petroleum reserves— was served as a result of producers' efforts to restrict output for the purpose of raising prices. The point here is that conflicts among adversaries and legislation for special interests may well serve some public interest, but only incidentally. But that is surely not a rational means to achieve an end so diffuse as the public interest. Here is the need for standards, easily understood by the public.

I do not mean to imply here that the public does not now have access to data on which to base its choices. In fact, there is available an enormous volume of data from associations and organizations, from congressional investigations, or from academic studies. But even when they are not self-serving in one way or another, the data tend to focus on only a small area of the larger canvas. And much of what we are offered as evidence turns out to be not much more than fantasy, whatever its intentions.

The public cannot make value judgments in the many conflicting arenas of public interest, social responsibility, corporate accountability, and social accounting without some rational guides through the maze of data. The public surely cannot begin to approach the issues armed only with facts and figures provided by advocates whose ability lies mainly in achieving publicity. Although calling our attention to the issues may itself be useful.

The Role of Accounting
The many publics, whose interests are not always the same, urgently require and deserve more realistic, more objective, longer-term bases for deciding what is good for them. And, I believe, we as accountants can serve that need, even to the point of providing some recognition:

• of the conflicts among the various interests,
• of the necessity for reconciling them,
• of the prospects for setting priorities, and
• of attaching relative values to them.

In the process, we accountants can assist in the sorting out of the huge outpouring of data, real as well as fantasy, refining, testing, comparing for reliability, adequacy, and relevance, in the context of constant change.

Just before the turn of the 20th century, an analysis was made of the basic unit of power, that is, the horse. It was determined that the need for more horses in urban areas

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would finally require more street sweepers than there would be human beings in the entire workforce.

Obviously, if those figures had become the basis for a reordering of our priorities, the nation would have launched a major effort to recruit street sweepers and even to import laborers to fill the need. Assuming the normal lag between perceived needs and implementation of solutions, the program would have gone into operation about the time the Model T was introduced. And, of course, it would have been useless.

A technological advance eliminated the need. Now, however, the need seems to have reasserted itself in another way. Air pollution from cars may be viewed as the contemporary equivalent. But that requires more complex solutions than just more street sweepers. It is obviously not a simple process to learn, even from the recent past. The lessons of history are as cryptic as the mumbled of the Oracle at Delphi. Somebody better versed than the priestess of the temple has got to help society figure them out. And that somebody includes accountants, in both public and private practice.

It is not enough to test the accuracy of the data. We, as accountants, must devise means to evaluate available information and to communicate that information to the public. It is not enough to assume that because facts and figures are available, they are significant. Too often they come into existence as irrelevant byproducts of some reporting or investigating process unrelated to the social objective sought.

The problem of course is that the public does not always know what is in its interest. The solution, however, lies not in voices from on high telling the public what it ought to have. Rather the solution lies in improving the objective data upon which the public decides for itself what is in its interest.

That means there is a need, even in the face of the torrent of publicly — and privately — generated information, to develop still other kinds of social data not routinely collected or politically motivated. Accountants surely can play key roles in relating objectives to the need for new bases and measures.

It is significant that a Study Group of the American Institute of Certified Public Accountants, headed by Robert Trueblood, of our firm, is presently developing a set of objectives for the profession to consider. (See page 7.) Among these objectives, the study group is dealing with the issue of social values in the financial statements of business enterprises.

The New Partnership: Accounting and the Public Interest

This development is the beginning of a new partnership in which accounting will expand its activities in the public interest. The participants in this new partnership will be the public or publics and the accounting profession. The definition of public interest in our democratic society must remain with those who can validly assert themselves as the public. The process of determining goals has to involve all segments of society.

Increasingly, our society — through all levels of government and through private institutions of all sorts — has found new ways of asserting its interest and effecting results. The problem of course is that the public does not always know what is in its interest. The solution, however, lies not in voices from on high telling the public what it ought to have. Rather the solution lies in improving the objective data upon which the public decides for itself what is in its interest.

That solution creates vast new opportunities for our profession. Identifying the opportunities is difficult at best and, in many instances, impossible. But it is certainly worth the try. The present tendency of public interest advocates to insist that corporate enterprise accept all the blame and foot all the bills is both unjust and unworkable. Corporations must be regarded in many ways as individual citizens: that is, if the public wants corporate enterprise to act a certain way, then the public must define its expectations and attempt to realize them by seeking corrective legislation or by its decisions as investor and consumer.

The limits of corporate responsibility must be defined as clearly as possible in economic, social, technological, and chronological importance. We must attempt to clarify long- versus short-term causes and effects, political versus social objectives, cost versus benefit, reality versus fantasy.

The New Partnership in Operation

As accountants, we must attempt to perform that function against the grim background of almost consistent failure by human beings when planning their future. For every accurate prediction in the past, there must be a
thousand false ones. Along with the great benefits of 19th century industrial development, society over the years witnessed the pollution of air and water through industrial wastes, the creation of urban blight, and the residue of occupational disease and human exploitation. No one has ever made an effort to measure cost versus benefit for that development.

Efforts to sort out the nation's and the world's energy needs, and to make policy relating to them must be made dispassionately if they are to have lasting value. It is imperative that the public understand the realities of cost and the need to pay through trade-offs of time and money. Only to the extent that it does will there be acceptance of the fact that there is a need for many decisions, many answers, some on an emergency basis, others based on projections extending for decades, even into the next century. These decisions and policies will involve costs in the form of higher prices, higher taxes, and greater investments. That fact is the one that is the most difficult to communicate. Yet it is the one that accountants can best comprehend and pass on to the public. Surely there is no need to remind this audience of the education, the training, the discipline, the objectivity, and the ethics of accounting and how these aspects of our profession provide us with the capacity and the standards for performing this broad new social role.

And I trust that we can communicate our ability to serve the public interest.

The essential element in any kind of effective solution is a recognition by the public of the cost in relation to the benefits. The accounting profession can help to bring the public past the stage of hand-wringing and deploring and into the realm of reality.

**Summary**

In any discussion of the public interest, there is always a presumption on the part of the speaker that his deep concern for the community constitutes credentials for suggesting solutions. But in speaking before this group, I tried to avoid projecting accountants into the role of the defender of the public interest. Instead, I tried to be specific and deal only in those areas where our credentials are more than compassion.

As accountants, we can define the parameters and offer means to project relative costs of various trade-offs involving construction, potential losses, and insurance. We can provide the public with alternatives. And armed with these alternatives the public will be better able to choose from among the various public and private proposals for dealing with this reality in terms of future costs and benefits rather than with hastily conceived emergency programs aimed at heading off the cresting water that is already coming down the river.

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