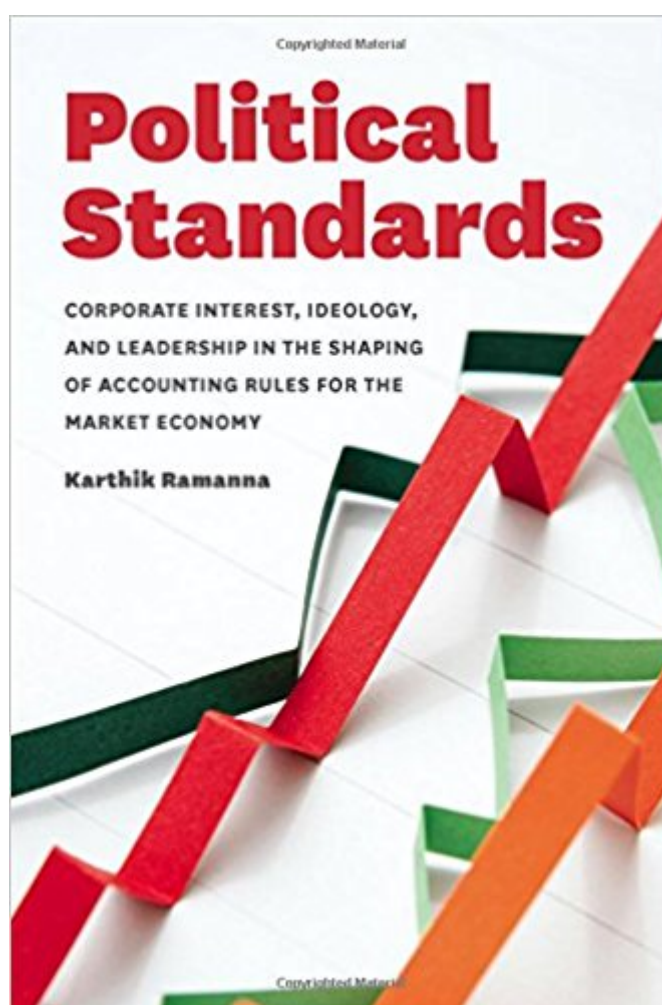


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# Political Standards: Corporate Interest, Ideology, And Leadership In The Shaping Of Accounting Rules For The Market Economy



## Synopsis

Prudent, verifiable, and timely corporate accounting is a bedrock of our modern capitalist system. In recent years, however, the rules that govern corporate accounting have been subtly changed in ways that compromise these core principles, to the detriment of the economy at large. These changes have been driven by the private agendas of certain corporate special interests, aided selectively—and sometimes unwittingly—by arguments from business academia.

With *Political Standards*, Karthik Ramanna develops the notion of “thin political markets” to describe a key problem facing technical rule-making in corporate accounting and beyond. When standard-setting boards attempt to regulate the accounting practices of corporations, they must draw on a small pool of qualified experts—but those experts almost always have strong commercial interests in the outcome. Meanwhile, standard setting rarely enjoys much attention from the general public. This absence of accountability, Ramanna argues, allows corporate managers to game the system. In the profit-maximization framework of modern capitalism, the only practicable solution is to reframe managerial norms when participating in thin political markets. *Political Standards* will be an essential resource for understanding how the rules of the game are set, whom they inevitably favor, and how the process can be changed for a better capitalism.

## Book Information

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## Customer Reviews

“Political Standards is a timely and important addition to the literature on standard-setting and how a few self-interested specialists, with little opposition, are able to

capture the process and weaken the foundation of free-market capitalism. Ramanna's command of and passion for accounting standards brings this otherwise sterile topic to life through a series of teachable stories and concludes with a clarion call to the moral fiber of managers to act ethically and in the interest of competitive capital markets instead of lobbying to advance their and their shareholders' self-interest. (S. P. Kothari, MIT Sloan School of Management)

"Generally accepted accounting principles (GAAP) was one of the most important financial innovations of the twentieth century. By tracing political influences on accounting, this important book shows that, if war is too important to leave to generals, accounting is too important to leave to accountants. (Lawrence H. Summers, Harvard University, former US treasury secretary)

"In this fascinating book, Ramanna shows how the design of key market rules is captured by vested interests. The pro-market lobby is overwhelmed by the power of the pro-business one, and we all lose as a result. A must-read for anybody interested in economics, politics, or more simply the health of our economy. (Luigi Zingales, University of Chicago Booth School of Business, author of *A Capitalism for the People*)

"When it comes to financial regulation, average Americans compete at a disadvantage on a tilted political playing field where Wall Street interests set the rules of the game. This book is a must-read for anyone who wants to understand why the American political system keeps failing to make capitalism serve the public interest. (Lynn Stout, Cornell University Law School, author of *The Shareholder Value Myth*)

"In *Political Standards*, Ramanna explores an extremely important matter for the efficient functioning of capital markets in a very methodical manner with penetrating analysis. I am sure this book will generate much needed discussion in public policy circles to address the issues raised. The subject matter covered is not only relevant to accounting standard setting but to all areas of public policy. (Prabhakar K. Kalavacherla, former board member at the International Accounting Standards Board (IASB))

"All too often, important decisions are disproportionately influenced by interested parties and ideological biases. The result can be flawed and ineffective rules, distortions in our system of market economy, and great harm to society. Ramanna's thought-provoking book challenges us to tackle this critical problem. (Anat R. Admati, Graduate School of Business, Stanford University, coauthor of *The Bankers' New Clothes: What's Wrong with Banking and What to Do about It*)

"Ramanna examines the accounting standard-setting process, . . . argu[ing] that the process is flawed largely because it exists in what he describes as a "thin political market." In such an environment, the standards are created, of necessity, by the limited number of individuals

possessing the requisite technical knowledge and skill to do so. Recommended. (Choice 2016-04-25)

Ramanna develops the notion of "ethin political markets" to describe a key problem facing technical rule-making in corporate accounting and beyond. The reliance on non-independent experts and the absence of accountability, he argues, allows corporate managers to game the system. What can be done to alleviate the situation? (Christian Sarkar Huffington Post)

"Prodigiously researched. . . . Ramanna's provocative assertions issue a call for public discourse regarding financial leadership, that is to say, a discourse about promoting the clearest and simplest financial reporting possible. To be sure, there are many accounting leaders who do just that, but he asserts that their voices often get drowned out by bigger interests and powers. . . . Political Standards stands up for the millions of skilled accountants who facilitate the world's commerce, helping individuals and public and private institutions manage their money, and who follow the old ethic of impartial transparency. All will benefit from the ensuing vigorous public debate." (Accounting Review 2017-06-05)

Karthik Ramanna is associate professor of business administration at Harvard University.

It was okay, a little dry at times. This book was assigned reading for a accounting grad class.

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