THE BIRTH OF THE GOVERNMENTAL ACCOUNTING STANDARDS BOARD:
HOW? WHY? WHAT NEXT?

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ABSTRACT

This paper documents the process leading to the birth of the Governmental Accounting Standards Board (GASB) in early 1984. Several explanations or models for the process and outcome are offered. Model I views the GASB as a rational means to solving governmental fiscal problems by strengthening accountability and satisfying user information needs. Model II treats the GASB phenomena as exercises of bounded rationality. Model III regards the coalition design for the GASB as a political resultant of interest group bargaining. These models are next applied to explore the strategies of GASB standard setting.

I. INTRODUCTION

The creation of the Governmental Accounting Standards Board (GASB) has immense potential impacts. GASB standards are intended to be applicable to the fifty state governments and 80,000 local governments.

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These standards will affect how billions in revenues, expenditures and debts will be accounted for and reported. It will probably stimulate further critical examinations of existing governmental accounting standards and practices. Its agreements and disagreements with the Financial Accounting Standards Board (FASB) will likely encourage comparative analysis of governmental, nonprofit and business accounting. Governmental accounting research will probably accelerate in quantity and hopefully in quality. Alas, practitioners will have more standards to comply with, and educators will wonder where in the congested curriculum to fit in all the GASB standards.

A. Objectives

Major institutional changes in accounting standard setting have been infrequent. Rarer still is a change that has taken five years to accomplish, and aroused so much controversy. The GASB has been much discussed (Granof, 1979; Staats, 1979; Wyatt, 1979; Baruch College, 1979; Mautz, 1981; Burton, 1981) but little analyzed. This is unfortunate, because the GASB phenomena offer an unique opportunity to study the dynamics of structural changes, a topic largely neglected in the literature of accounting policy making (Chan, 1983).

The first objective of this paper is to tell a “story” about the five-year long “labor pain” in the birth of the GASB. It is intended to be as objective and complete as possible. This is done first because the richness of the dynamic and complicated process would be lost if first filtered through any particular theoretical model. A second objective is to subject the events in the process to a formal, systematic analysis through a series of models to sharpen their significance. Finally, the same models are used to explore how the GASB will set standards.

B. Research Methods

The three questions in the subtitle of the paper have called for different research methods. The “How?” question is answered by a detailed historical account based on the author’s notes as a participant-observer during the period from September, 1979 to August, 1981, and by an analysis of public records and documents. Two criteria are used to decide what events to be included. First, only public events are included so that the description could be independently verified. This criterion rules out confidential negotiations and internal strategy sessions. The second criterion is that a public event had to be “significant” in the sense that it had the potential of revising the conditional probability of the GASB’s creation or changing its characteristics. Subjective judgment is ultimately involved in applying the second criterion.

The more difficult “Why?” question is answered by exploring and comparing a number of plausible explanations, following the approach of Allison (1971).

The same set of historical “facts” are examined and interpreted from various theoretical perspectives. Methodological issues in this regard are discussed in Section III.

The final section on “What Next?” is admittedly speculative, but informed by what is already known about the GASB. It is hypothesized that the forces that gave rise to a GASB and shaped its structure will continue, and affect how the GASB will set standards.

II. IN SEARCH OF A GENERALLY ACCEPTABLE GASB

> There is nothing more difficult to carry out, nor more doubtful of success, nor more dangerous to handle, than to initiate a new order of things. For the reformer has enemies in all who profit by the old order, and only lukewarm defenders in all those who would profit by the new order. This lukewarmness arises partly from fear of their adversaries, who have the law in their favor; and partly from the incredulity of mankind, who do not truly believe in anything new until they have had actual experience of it.
>
> Niccolo Machiavelli

Over the last five years, the conditional probability of the emergence of a GASB vacillated between 0 and 1. The pieces of the puzzle did not quite fit together. To understand why, one may begin with the organization to be replaced.

A. Unacceptable: Status Quo

In 1974, the National Council on Governmental Accounting (NCGA) came into being by restructuring the National Committee on Governmental Accounting, which had succeeded the National Committee on Municipal Accounting. For fifty years, under the auspices of the Municipal Finance Officers Association (MFOA), these bodies have been primarily responsible for creating the current body of governmental accounting standards (Remis, 1981).

The NCGA has been deemed unsatisfactory on several accounts: (1) it “is not broadly representative of users of governmental financial reports;” (2) it lacks independence due to its sole MFOA sponsorship; (3) it has only limited financial resources; and (4) it consists of 21 part-time volunteers and meets [only] periodically (GASBOC, Exposure Draft, February 16, 1981, p. 4).

The implication is that an acceptable standard setting body has to be broadly representative of users, independent of any particular organization, endowed with adequate resources, and made up of a small number of full-time members. This is in effect an organization theory, a prescription, or a hypothesis of the “functional requisites” of a sound standard setting structure. It has been followed in the private sector. Similar concerns with the Accounting Principles Board (APB) in the American Institute of Certified Public Accountants (AICPA) led the Wheat Committee to recommend that the APB be replaced by a new structure—the Financial Accounting Standards Board (FASB) with associated oversight and advisory bodies.

Ironically the NCGA seemed to thrive on its uncertain future and has provided continuity during the period from 1979 to 1984. From 1979 to 1981, it sponsored a conceptual research project that produced a research study (Drebin, Chan and Ferguson, 1981) and issued NCGA Concepts Statement 1 on the objectives of governmental accounting and financial reporting. It adopted, in rapid succession, seven statements and eight interpretations. It is debatable whether these have improved governmental financial reporting. They have certainly made the interpretation of governmental financial reports ever more complicated (Wallace, 1985b).

The survival of the NCGA did not, however, depend on its "productivity," but on its credibility, which had begun to erode as GASB discussion started in 1979.

B. Unacceptable: FASB

Governmental accounting for a long time enjoyed (or suffered, depending on one's perspective) the benign neglect of the accounting profession and discipline. This attitude became irreconcilable with the environment, when a succession of well-publicized financial crises in New York, Cleveland and Chicago from 1974 to 1980 heightened public awareness of governmental finance and revealed dubious financial management practices in governments. Pervasive deficiencies in governmental accounting and financial reporting practices were alleged in a number of widely circulated publications (notably Coopers & Lybrand, 1976; Ernst & Whinney, 1979).

In response to these concerns, and more specifically to the April 1977 report of the Structure Committee of the Financial Accounting Foundation (FAF), the Financial Accounting Standards Board (FASB) decided to become involved in the "nonbusiness area." Its first action was to commission Professor Robert N. Anthony to prepare a research report to identify the objectives of financial reporting by nonbusiness organizations. Whether the term "nonbusiness" included the public sector became a serious point of dispute.

The FASB was created "to establish and improve the standards of financial accounting" (FASB, 1978, p. 35). While its authoritative status with respect to GAAP for business enterprises is almost universally recognized, the absence of explicit restrictions has been interpreted by some as an implicit mandate to set financial reporting standards for nonbusiness organizations (Anthony, 1978, p. 4; Kirk, 1981). Consistent with the FASB's philosophy, but to the discomfort of many in the public sector, Anthony excluded budgetary information, internal reporting and special purpose reports from the scope of his study. The study (Anthony, 1978) labeled "an exploratory study of conceptual issues" was published in May, 1978 as a FASB Research Report.

Soon the FASB formally added to its technical agenda a project on the objectives of financial reporting by nonbusiness organizations, and proceeded to issue a discussion memorandum, held extensive public hearings, and by January, 1979 began deliberation on an exposure draft on this topic.

Early in that project, the leaderships of the NCGA and the FASB had exchanged correspondence pledging cooperation. The chairman of the NCGA indicated that it would focus on internal reporting issues (letter from Douglas R. Martin to FASB, January 18, 1979). The FASB responded favorably (Letter from Robert T. Sprouse to Martin, January 19, 1979) and later seemed to construe this to be an invitation for it to set standards for general purpose *external* financial reporting by governments (Donald J. Kirk's testimony before GASBOC, May 5, 1981).

An issue of considerable symbolic significance was how governments would be treated by the FASB exposure draft. The NCGA requested the FASB to defer the issuance of the exposure draft or else exclude governments, citing the structure discussion and the new HUD-sponsored conceptual framework research project (letter from Chairman Donald Nuttall of the NCGA to FASB, December 18, 1979). The FASB declined and issued the exposure draft in March 1980. The criterion of legal jurisdiction was used to justify the exclusion of the Federal Government. However, drawing a technical distinction between a FASB statement of *concepts* (which does not require a change in practice) and a statement of *standards,* and citing the inconclusiveness of the structure discussion, the FASB included (state and local) governments in the exposure draft, and later in SFAC No. 4. "On the basis of its study to date," declared the FASB (December, 1980, p. ix) "the board is aware of no persuasive evidence that the objectives in this statement are inappropriate for that type of [i.e., general purpose external] financial reporting by state and local governmental units."

This conclusion was cited as the substantive justification by the FAF in its preference for the one-board approach—the FASB setting standards for governments (FAF, March, 1980; FAF, February 16, 1981). The burden of proving that governments are unique, therefore requiring a separate body, was placed on the governmental community. "A single standard-setting body," believed the FAF (March 13, 1980), "is most likely to produce accounting standards that are consistent with one another and in relation to a framework of objectives, concepts and other agreed-on fundamentals."

There were many reasons why the FASB was not an acceptable accounting standard setting body for state and local governments (Mautz, 1981). In the final analysis, the FASB is unacceptable because "Generally Accepted Accounting Principles," by definition, had to be accepted. State and local governments had neither the obligation nor the inclination to embrace the FASB. The "happier marriage" (Kirk, May 5, 1981) desired by the FASB could not be consummated.

C. Unacceptable: Federal Institute

On May 23, 1979, Senator Harrison A. Williams (Democrat-New Jersey) introduced a bill (S. 1236) entitled the "State and Local Government Accounting and Financial Reporting Standards Act of 1979," amending the 1934 Securities Exchange Act. The basic provisions of the bill would create a "State and Local Government Accounting and Financial Reporting Standards Council" composed of the U.S. Secretary of the Treasury, Comptroller General of the United States, and the Chairman of the Securities and Exchange Commission, or their designees. It also created a nonprofit organization, not to be an agency of the U.S. Government, called "Institute for State and Local Government Accounting and Financial Reporting Standards." The Institute would be composed of 11 members, all to be appointed by the Council: a representative of the Federal Government, three from State governments, two from local governments, two from the public accounting profession, one from the financial analyst profession and two from the public. Two million dollars would be authorized to be appropriated for the Institute, whose function would be to set nationally recognized accounting and financial reporting standards for State and local governments in the United States. The bill was cosponsored by Senators William Proxmire (Democrat-Wisconsin) and Paul Sarbanes (Democrat-Maryland).

Drafts of the Williams Bill had been circulated in the spring of 1979, prompting representatives of the FASB to meet with the senator's staff. At the April, 1979 meeting of the Financial Accounting Standards Advisory Council (FASAC), AICPA President Wallace E. Olson proposed the creation of a study group on the structure for setting state and local governmental accounting standards. Shortly after the MFOA and the FAF both decided to co-sponsor the study group. On July 17, 1979 there was a meeting attended by representatives of the General Accounting Office (GAO), MFOA, FAF, FASB, AICPA, the National Association of State Auditors Comptrollers and Treasurers (NASACT), and the U.S. Department of Housing and Urban Development, which was awarding a $1.2 million research grant to the NCGA (FAF, "Setting Government Accounting Standards: Chronology of Events," January 23, 1980).

The presence of the Williams Bill prompted the search to create a "private sector"—meaning non-Federal—alternative. Many proposals were made, but there was no consensus in the Fall of 1979. The only consensus, as Charles Steele later put it (1983), was that the Federal Government should not be involved either by invitation or by default.

The record suggests that Senator Williams, or more probably his staff, was closely monitoring what was going on in the private sector from 1979 to 1981. Complaining about "foot dragging," on March 3, 1981 he resurrected S. 1236 after the GASB Organization Committee issued its exposure draft. Referring to the groups involved in the GASBOC exercise, he perceptively commented, "The tie that binds them together is a mutual dislike of the Federal Government and an awareness that some compromise on a new, private sector, standard-setting body could forestall any new Federal legislation."

The senator was probably right, but could not proceed even far enough to hold hearings on the bill. He had other things to worry about. When his political future was jeopardized by the Abscam indictment, even more “foot dragging” became affordable—for another three years.

The Williams Bill was unacceptable to virtually all parties because it appeared inconsistent with the concept of federalism. Furthermore, it symbolized a resurgence of Federal regulation of accounting standards, which the accounting profession had for years tried to resist (Buckley and Weston, 1980; Davidson, 1979).

D. GASBOC Phase I (April 1980 to May 1981)

Since the status quo (NCGA), the FASB and the Federal Institute were all unacceptable, attention turned to looking for a formula that would provide the greatest appeal to the largest number of relevant organizations.

The FAF retreated from its preferred (FASB) approach to consider the proposal that a full-time board be created under its auspices at its November 29, 1979 meeting. It became concerned with costliness, (which was related to) full-time status, competition for resources with the FASB and potentials for conflicts with the FASB. Therefore, the FAF on March 13, 1980 issued a public statement endorsing the restructuring of the NCGA. This proposal would require the NCGA to sever its ties with the MFOA, reduce its size, expand its staff, adopt appropriate due process procedure as if there were none, and establish an independent oversight body in which the FAF would participate. Financial support would be broadened and AICPA recognition (under a rule like Rule 203) would be sought.

At this point it is necessary to recognize the pivotal position held by the AICPA due to its ability to designate the promulgators of “Generally Accepted Accounting Principles” through Rule 203 of the Rules of Conduct of the Code of Professional Ethics for its members. The rule prohibits a member of the AICPA from expressing an audit opinion that financial statements conform with GAAP, if those statements contain a material departure from an accounting principle promulgated by the Financial Accounting Standards Board, unless the member can demonstrate that due to unusual circumstances the financial statement would otherwise be misleading. Rule 203 puts the enforcement power of the AICPA behind FASB standards.

Practicing CPAs are understandably concerned about the authoritative status of the accounting standards that they are expected to go by. The involvement of the AICPA in governmental accounting had been sporadic until the 1974 publication of an “industry audit guide” on the audits of state and local governmental units, prepared by the Institute’s Committee on Governmental Accounting and Auditing.

The guide states, clarifies and reconciles with NCGA pronouncements, which are considered to be GAAP applicable to state and local governments. However, without Rule 203 coverage, there exists a lack of parity between the authoritative status of FASB standards and NCGA standards.

After the FAF's proposal on restructuring the NCGA failed to strike a responsive cord, in April 1980, essentially the same organizations—AICPA, FAF, MFOA, NASACT, GAO and the NCGA—formed an "ad hoc working committee," known as the Governmental Accounting Standards Board Organization Committee (GASBOC) chaired by Professor Robert K. Mautz of the University of Michigan. Its charge was "to consider whether there is a need for a new structure to establish accounting and reporting standards for state and local government and, if so, to develop detailed recommendations regarding the new structure, how it should be funded, how to bring about acceptance of the new structure's standards, and how the new structure should interface with the FAF/ Financial Accounting Standards Board (FASB) structure" (GASBOC, February 16, 1981).

As the debate on alternative accounting standard-setting structures intensified and became more widely publicized, the "Public Interest Groups" began to pay more serious attention to it. By the time the GASBOC was formed, they became "observers" but in effect participated in the deliberations of the committee. Their participation, however, was not recognized to the extent of being accorded voting membership on the committee. As will be clear later, the Public Interest Groups, proved that the "governmental" side of the "governmental accounting" coin had to be given more weight.

Who are the "Public Interest Groups?" They are:

Council of State Governments
International City Management Association
National Association of Counties
National Conference of State Legislatures
National Governors Association
National League of Cities
U.S. Conference of Mayors

Essentially, their members are either governmental units, or are elected or appointed officials. Generally speaking, they are the ones to whom finance officers and accountants in governments (many members of NASACT and MFOA) are accountable. They believe (Representative James Ritter's testimony at the GASBOC hearings, May 5, 1981) that their relationship to a GASB is similar to that between the SEC and the FASB, because they retain the ultimate legal authority over governmental accounting standards. They are the state and local counterparts of the Congress, and the General Accounting Office. Their argument was as follows. No one seriously challenges the power of the GAO and ultimately the Congress to set accounting and reporting standards of the U.S. Government.

Why are state and local governments not entitled to at least as much self-regulation as the Federal Government, or as the private sector itself wants?

The GASBOC met in full eight times from June 1980 to January 1981 prior to issuing an Exposure Draft of its report on February 16, 1981. Its main recommendation was the creation of a standard-setting structure separate from the FAF/FASB/FASAC structure. It called for the establishment of a Governmental Accounting Foundation (GAF) with 12 trustees with appointment powers and fund-raising and oversight responsibilities. Its composition was to be as follows: one Federal government official, two practicing CPAs, two FAF nominees, two users of governmental financial reports, and five state and local government officials with the provision that at least one each be from MFOA and NASACT. By implication, the Public Interest Groups were not only precluded from being "sponsoring organizations" of the GAF, but were assured at most three trusteeships.

The center piece of the proposal was a Governmental Accounting Standards Board (GASB) with five full-time members, who would have to be knowledgeable, uphold the public interest, and not represent particular constituencies. Also to be created was a broadly based Governmental Accounting Standards Advisory Council (GASAC) consisting of some 20 members. The committee proposed an initial annual budget of $2.5 million.

The GASBOC recommended a "self-regulatory approach" to encourage compliance with GASB standards through recognition under the AICPA Rules of Conduct, endorsement by the municipal bond rating agencies, federal grant reporting requirements, oversight board requirements and state mandated accounting practices.

On the jurisdictional issue, the Committee did not advance far. The FASB would of course continue to set standards for all "nongovernmental entities." The GASBOC recommended the GASB be the standard-setting body for state and local governments. As to government-owned entities similar to those in the private sector, the Committee did not achieve a consensus, and invited suggestions.

The Certificate of Incorporation and By-Laws of the Governmental Accounting Foundation, and the detailed budget in the GASBOC Exposure Draft gave the appearance that only these organizational details had remained to be worked out, and were indeed worked out with craftsmanship in the report. Alas, the organizations named did not necessarily concur with all the recommendations and/or agree to serve as sponsors of the proposed GAF. In particular, the FAF concurrently issued a public statement expressing serious reservations about the GASBOC proposal, similar to those in its March 13, 1980 statement, except in stronger terms.

The GASBOC proposal drew mixed reactions. The case for it has been vigorously argued by Mautz (1981).

Opponents of the proposal (e.g., Burton, 1981) were not sparing in their criticisms. During the comment period, the GASBOC received approximately 100 written comments from individuals and organizations. Twenty-five testified at the public hearings on May 4 and 5, 1981 in Philadelphia. These comments are analyzed in detail in the paper by Wanda Wallace (1985a) elsewhere in this volume. Afterwards, the Committee (October 13, 1981, p. 3) concluded that "there was no clear consensus of support for the recommendations" in the Exposure Draft.

E. GASBOC Phase II (May 1981 to October 1981)

Further negotiations resulted in "points of tentative agreement" published in the Final Report of GASBOC on October 13, 1981. It requested the FAF to assume oversight responsibility for a GASB. It proposed that three governmental trustees would be added to the FAF, with the provision that one be nominated by the MFOA, one by NASACT, and one jointly by the Big 7 Public Interest Groups. Also clearly recommended was a fifth-year mandatory review. Perhaps what was left unsaid or vague was equally important: full-time status of GASB members, and guidelines for resolving jurisdictional disputes.

The GASBOC went as far as it could. The tentativeness of the points of agreement became evident through subsequent delays.

F. GASB under FAF: The November 30, 1982 Agreement

Another year passed before the FAF reached an understanding with the other organizations, resulting in the November 30, 1982 agreement entitled "A Proposed Structure for a Governmental Accounting Standards Board." The agreement was essentially similar to the final recommendations of the GASB Organization Committee. Significantly, the FAF's appointments of GASB members will have to be approved by the Governmental Accounting Standards Advisory Council (GASAC). On December 1, 1982, the FAF Trustees endorsed terms of the agreement. "The Foundation is prepared to move forward quickly with the implementation of the agreement," stated FAF President Russell E. Palmer (December 28, 1982), whose term expired at the end of 1982, "All we are waiting for is formal confirmation of the understanding from the Municipal Finance Officers Association, the National Association of State Auditors, Comptrollers and Treasurers, and the American Institute of Certified Public Accountants." What Palmer included in the above list was interesting. What he omitted, however, was critical—the Public Interest Groups.

A special committee of the FAF was appointed to implement the November 30, 1982 agreement. The committee, chaired by Charles G. Steele, Vice-Chairman of the FAF, also included the Trustee-Nominees from the MFOA and NASACT. Conspicuously absent, however, was the trustee candidate to be jointly nominated by the seven Public Interest Groups.

In the original November 30, 1982 agreement, there was a provision that “The FAF will offer the Public Interest Groups a trustee seat. If they choose to decline the offer, or those deciding to participate fail to make a joint recommendation, the seat will remain vacant.” The implication was that their supports were not indispensable for the GASB.

In April, 1983, the FAF took a symbolically important step by engaging Martin H. Ives to be a full-time consultant on GASB matters, with the understanding that he would be nominated to be the Vice Chairman of the GASB and its Research Director. Ives, until then the First Deputy Comptroller of the City of New York began working with the FAF committee to implement the November 30, 1982 agreement. Nominations to the GASB and GASAC were sought from various organizations.

G. Proposed Amendments to the November 30, 1982 Agreement

In the meantime, the Public Interest Groups formed a task force on the GASB, co-chaired by Senator Richard F. Schneller of the State of Connecticut and Senator LeRay L. McAllister of the State of Utah. On May 6, 1983, the Public Interest Groups, along with the MFOA and NASACT, met and, for the first time, adopted a joint position in requesting certain changes to the November 30, 1982 agreement. The key amendments being sought included:

1. Increase from one to three the number of trusteeships allocated to the Public Interest Groups.
2. If sufficient commitments of funds are obtained, a full-time Board will be created. (Previously, a full-time board would be given consideration by the GASAC and FAF if sufficient commitments of funds are obtained and “a need for a full-time Board is apparent.”)
3. That GASAC will “fully and equally” participate with the FAF in the mandatory fifth-year review.

In the summer of 1983, the response of the FAF special Committee on the GASB was characterized as so unacceptable that the MFOA withdrew its longstanding support for the GASB. The possibilities of restructuring the NCGA or a body sponsored by the States were again raised.

H. Amended November 30, 1982 Agreement

The FAF agreed to some changes, but was unyielding regarding the number of trusteeships. Unable to secure the three trustee seats, the Public Interest Groups managed to get the MFOA and NASACT to relinquish what they had bargained for—a trustee seat for each. The FAF versus public sector disagreement was converted into a matter for all nine organizations to work out the selection procedure.

The original November 30, 1982 agreement provided for the FAF to prescribe procedures for the GASB and FASB to specify their jurisdictional division. Concerned about the potential disadvantage due to the absence of Rule 203 coverage of GASB standards upfront, the Public Interest Groups insisted on a prior delineation of GASB and FASB jurisdictions before the formal establishment of the GASB. Negotiations were conducted between the FASB representatives and some of the individuals expected to be nominated to the GASB. An agreement acceptable to the special committee was unanimously adopted by the trustees of the FAF on January 16, 1984, and was subsequently incorporated into the GASB Agreement. The formula:

> The FAF shall have final responsibility for resolving jurisdictional questions.
>
> The GASB will establish standards for activities and transactions of state and local governmental entities and the FASB will establish standards for activities and transactions of all other entities.
>
> Under this approach, the hierarchy of generally accepted accounting principles applicable to state and local governmental entities would be as follows:
>
> a. Pronouncements of the Governmental Accounting Standards Board . . .
> b. Pronouncements of the Financial Accounting Standards Board . . .
> c. Pronouncements of bodies composed of expert accountants that follow a due process procedure . . .
> d. Practices or pronouncements . . . (which) represent prevalent practice . . .
> e. Other accounting literature.

Furthermore it was provided that:

> Generally accepted accounting principles applicable to separately issued general purpose financial statements of certain entities or activities in the public sector should be guided by standards of the FASB except in circumstances where the GASB has issued a pronouncement applicable to such entities or activities. Those entities and activities include utilities, authorities, hospitals, colleges and universities and pension plans. GASB standards would also apply to those entities or activities when included in combined general purpose financial statements issued by state and local governmental units.

Subsequently, the FAF appointed the following individuals to the GASB with the review and unanimous approval of the Governmental Accounting Standards Advisory Council (GASAC):

James F. Antonio
Chairman Martin H. Ives
Vice-Chairman Philip L. Defliese
W. Gary Harmer
Elmer B. Staats

Antonio and Ives are serving in a full-time capacity, while the other three members are part-time.

Three trustees representing the governmental sector have also been added to the FAF: John Poelker, former Mayor and Comptroller of St. Louis, Missouri; Earle E. Morris, Jr., Comptroller General of the State of South Carolina; and LeRay L. McAllister, State Senator in the State of Utah.

Furthermore, the following organizations are represented on the GASAC:

National Association of Counties
Financial Accounting Foundation
American Accounting Association
American Institute of CPAs
Association of Government Accountants
Association of School Business Officials
(Bond rating agency)
Council of State Governments
Government Finance Officers Association
Healthcare Financial Management Association
International City Management Association
National Association of College and University Business Officers
National Association of State Auditors, Comptrollers and Treasurers
National Conference of State Legislatures
National Governors Association
National League of Cities
(Underwriter)
U.S. Conference of Mayors
U.S. General Accounting Office
(Other User)

At long last, the GASB was born.

III. EXPLAINING THE GASB PHENOMENA

> I have come across men of letters who have written history without taking part in public affairs, and politicians who have concerned themselves with producing events without thinking about them. I have observed that the first are always inclined to find general causes, whereas the second, living in the midst of disconnected daily facts, are prone to imagine that everything is attributable to particular incidents, and that the wires they pull are the same as those that move the world. It is to be presumed that both are equally deceived.
>
> Alexis de Tocqueville

This section provides three post factum explanations of the events reported in the previous section. It is important to distinguish between *a* GASB and *the* GASB.

The reason is that, while there seemed to be much sentiment for a GASB, arriving at a generally acceptable GASB—the GASB—was extremely difficult. A major objective of this section is to explain why alternative organizational designs were rejected in favor of the final one.

Rare events are difficult to explain scientifically. There are no time-series or cross-sectional data, because the events do not happen frequently enough. Even if it were possible, it still may not be desirable to recreate the scenario. The analyst has to take history as given, but he can always probe deeply and from different angles. This is Graham Allison's method of analyzing the Cuban missile crisis. The crisis happened, but (thankfully) only once. Alternative explanations were offered as "models" or "conceptual lenses" to interpret past events, as done by Belkaoui (1983) with respect to the FASB's action on oil and gas accounting. These *post factum* interpretations generate plausible explanations, but cannot nullify rival hypotheses (Merton, 1968, pp. 147-148).

The "why?" question is answered by means of some plausible explanations. To reduce the number of plausible explanations to a manageable size, the search for explanations was guided by Lasswell's conception of political analysis as the study of influence and the influential. These determine who gets what, when and how (Lasswell, 1951, p. 443). Since there is no "free lunch" in political life, one also has to ask who gives what, when and how. These questions are associated with the behavioral revolution in political science with a major emphasis on building various conceptual and analytic models of political behavior (Gunnell, 1983). A political entity is viewed as an open system engaged in input-output exchanges with actors in its environment. Its survival as an organization depends on its ability to offer inducements to attract the contributions of those who possess resources it needs (Simon, 1978).

There exist several clusters of alternative hypotheses about political decision making. The first cluster is analyzed in Allison (1972) and consists of three models: rational actor, organization process, and political bargaining. The second cluster, summarized in Clark (1981), identifies the preferences of citizens, political leaders, bureaucracies, and interest groups as sources of urban public policies. The third cluster debates the relative merits of comprehensive rationalism (Dror, 1964), incrementalism (Lindblom, 1959; Braybrooke and Lindblom, 1963; Lindblom and Cohen, 1979), and a synthesis called "mixed scanning" (Etzioni, 1968).

These clusters may be collapsed into several generic analytic models. Model I basically argues for comprehensive rationalism in policy making. A public policy—a choice of a government—is rational if it is consistent with citizen preferences. Model II recognizes that, due to many imperfections in the real world, bounded rationality is a more accurate description of how decisions are actually made by individuals, political leaders, or organizations. Model III stresses that political outcomes are produced by the competition among diverse interest groups. These analytic models are employed to explain the GASB phenomena.

A. Model I

Model I has been extensively used or implied by analysts of international relations (Allison, 1972), and public policy (Quade, 1975). For example, in Allison's analysis of the Cuban missile crisis, Model I sees the events as the result of deliberate rational actions of the state as a unified decision-making unit. The model directs the analyst's attention to national interests, policies and decisions of national governments.

Similarly, attempts to create a GASB may be regarded as a rational national, societal response to urban fiscal crises, through greater governmental accountability and more effective monitoring of governmental fiscal affairs via financial reports. Institutions are needed to carry out these functions. These may be posed as hypotheses about the need for a GASB.

HYPOTHESIS I.A. A GASB is needed to help solve the nation's urban fiscal problems.

It is more than coincidental that the GASB discussions began soon after the New York City financial crisis. In the post mortem of municipal financial crises, several studies documented substantial noncompliance with existing authoritative standards, and urged the adoption of standards preferred by the authors. (Coopers & Lybrand-University of Michigan, 1976; Davidson, et al., 1977). While government fiscal strain is a very complex phenomenon with multiple causes and effects (Clark and Ferguson, 1983), unsound financial management practices are often blamed, at least in part. Furthermore, deficient accounting and reporting practices were indicted, at least indirectly, for allowing those practices to exist or perpetuate. A SEC Staff Report on the New York City fiscal crisis charged that "the most critical deficiency in existing municipal securities practices is in the area of municipal accounting and financial reporting." It went on to say: "New York City's accounting and reporting practices effectively served to obfuscate the City's real revenue, costs and financial position and ... substantial weaknesses in the City's system of internal control caused published financial information to be inherently unreliable" (SEC, 1977, Chapter 2). Even New York City's Comptroller acknowledged that the fiscal crisis arose "in part because of the inadequacy of its financial information systems" (Goldin at University of Texas at Austin, 1977, p. 6). Almost every study of urban fiscal stress complained about the quality of governmental financial data (see Wallace, 1982 for an extensive review of this literature). Poor accounting data frustrated attempts to measure or forecast the financial problems of the nation's cities.

How much of the nation's urban fiscal problems may be blamed on inadequate accounting and reporting systems? Opinions differ. At one extreme, there were assertions that "neither nonexistent nor unsound accounting principles caused the financial problems in American cities" (Steinberg, 1979, p. 46). At the other extreme, substantial blames were laid on them, as evidenced by the quotes earlier.

Researchers may take years to untangle the causal chain, the post-1975 crisis atmosphere helped to elevate accounting and financial management as urgent issues on the agenda of political leaders.

The general argument for Hypothesis I.A is that urban fiscal crises produce dysfunctional social and economic consequences. The crises were caused, at least in part, by inadequate accounting practices. Hence, better standards and more rigorous enforcement are needed.

Since the NCGA as presently constituted has not been able to produce good enough standards, or to inspire the rigorous enforcement of even the existing ones, it should be replaced. The thrust of Hypothesis I.A, however, is negated for several considerations. First, the causal links between poor accounting practices and urban fiscal problems have not, to my knowledge, been causally modeled or empirically demonstrated. Second, enforcement responsibilities lie with not the standard setting body, but with government oversight bodies and independent auditors. Third, the studies documenting municipal reporting practices were conducted prior to the adoption of NCGA *Statement* 1 in 1979. It is conceivable, though not empirically shown yet, the municipal reporting has improved since the mid-1970s.

There are many weak links in the chains of reasoning for and against Hypothesis I.A. Political and professional leaders reacted to current events, and available information (no matter how imperfect it might be). What seemed to matter were the conclusions, not the methodological limitations of the studies. It seemed reasonable to assume that it would be easier to change the standard setting body than lobbying the fifty state legislatures and hundreds of oversight bodies for effective enforcement. In this sense, the creation of a GASB to replace the NCGA may be defended as a rational (i.e., less costly) action.

Government accounting standards were criticized for failing to meet the needs of investors and taxpayers (Coopers & Lybrand, 1976; Davidson, et al., 1977). Advocates of institutional reform apparently believed in the hypothesis that changing the structure of standard setting would lead to better standards. In particular:

HYPOTHESIS I.B. A GASB is needed to produce standards that will more effectively meet users' needs.

During the 1970s, the intellectual capital of the NCGA was the 1968 *Governmental Accounting, Auditing and Financial Reporting.* At a time when the capital market figured prominently in municipal fiscal crises, and taxpayers' revolts were in the offing, the GAAFR's emphasis on procedures of legal compliance and internal control seemed out of touch with the times. NCGA *Statement* 1 broadened the perspective by adopting the pyramid concept of reporting—differing levels of aggregation to meet different needs. The NCGA Conceptual Framework Project decisively adopted the "decision usefulness" criterion (Drebin, Chan and Ferguson, 1981; NCGA *Concepts Statement* 1): This criterion implies that financial reporting standard "A" is better than standard "B" if it calls for (or results in) the disclosure of more useful information than "B" does.

Even though the NCGA strongly endorsed this philosophy in *Concepts Statement* 1, user needs have not made perceptible impact on subsequent NCGA pronouncements. Furthermore, as the NCGA is not “broadly representative of users of government information” (GASBOC, Exposure Draft, February 16, 1981, p. 4), user needs would be better served by another standard-setting body with greater user representation.

User needs provide as much (or little) guidance to accounting standard setting as citizen preference does to public policy making in a democracy. The extent of their participation in the GASB creation process should moderate expectations of their active involvement with the GASB. Groups that are commonly regarded as external users—investors/creditors, employers, citizens, taxpayers, service recipients—were conspicuously absent. Managerial users—represented by the Public Interest Groups—eventually did find their way into the GASB exercise. Preparers dominate the composition of the GASAC. “Due process” procedures provide everybody equal opportunity to air his/her opinion. But the private costs and benefits of lobbying are so disparate that significant user participation has not materialized in the experience of the NCGA or the FASB.

Over time a social system tends to institutionalize the values of payoff for each type of participants. Those who contribute more tend to expect and receive more policy consideration (Clark, 1972, pp. 24—25). Nonparticipants run the risk of being ignored, and help to increase the discretionary power of those who are supposed to serve them. Very few users are on the GASAC. One might count the public interest groups as representative of users, but these managerial users are also preparers. Municipal bond rating agencies and underwriters are financial intermediaries. The only “real” user in the GASAC would be the person designated by a bank or insurance agency— institutional investors. Of course, the GASB and GASAC members may profess having the interests and needs of user groups in mind. Nevertheless, users do not appear to have more representation in the GASB structure than with the NCGA. Furthermore, Hypothesis I.B leaves two questions unresolved: (1) Why is a GASB uniquely needed to produce useful standards? (2) In the virtual absence of direct user representation in the structure, what alternative mechanisms exist to ensure the responsiveness of GASB standards to “user needs?”

Summary

Model I hypothesizes that if a GASB was established, other things being equal, there would be fewer governmental financial problems and users would be better served.

This institutional reform was a rational means to these ends. Hypothesis I.A posits that a replacement to the NCGA would produce better standards with greater chances of being implemented to remedy alleged deficiencies. Governmental financial problems would have a greater chance of being solved, or at least detected early and measured more accurately. Hypothesis I.B assumes that good standards call for disclosure of useful information that meet users' information needs. Both see a GASB as a vehicle for implementing these intentions. Reservations may, however, be raised as to why a GASB is uniquely necessary.

B. Model II

Model II is based on the organization theory of Herbert Simon (1978) and his associates—the Carnegie School. It observes that the requirements of comprehensive rationality (Model I) are so demanding that the normative model does not describe how human beings, individually or collectively, make decisions. The major propositions of Model II include the following.

1. Complex problems are factored into quasi-independent parts which can be addressed sequentially.
2. Instead of considering all the goals and objectives, all possible alternatives, and evaluate them to find the best consequence, a "good enough" solution is accepted. This "satisficing" approach recognizes that perfect information is costly and that there are bounds to rationality.
3. The satisficing approach is reflected in limited search for alternatives. The search terminates when a satisfactory (as versus perfect) alternative is found.
4. Instead of estimating the probabilities of all possible outcomes, short-term feedback is sought to correct for deviations from the objective.
5. Standard operating procedures are applied to solve problems.
6. Conflicts over goals are more common than goal consensus. Furthermore, conflicts are partially resolved rather than eliminated.

Model II concepts are useful in interpreting key aspects of the GASB phenomena as follows.

Factored Problems

There are many reasons why American cities are afflicted with financial problems, and there are many ways to better serve users of governmental accounting information. These problems are so complex that they are simplified. Social, economic and managerial problems are translated into accounting (information) problems, which in turn become problems with existing standards. In addition, by relying on a hypothesis of what sort of organizational attributes would produce good standards, organization design models were proposed.

For example, the Exposure Draft of the GASBOC proposing a GASB under a separate Governmental Accounting Foundation, identified the following: independence, competence, appropriate due process procedure, adequate recourses and the authority to command compliance (pp. 4-5). Short of conducting a controlled experiment with alternative organization designs to set standards, one would never know what type of organization would set better standards.

Standard Operating Procedures

This has been demonstrated in the case in at least two ways. First, the terms of successive GASB agreements negotiated by organization leaders had to be formally ratified by the governing boards of the organizations. It was often unclear whether a negotiator was expressing his personal opinions or those of the organization he represented. Formal organization commitments to support the GASB had to be made via standard operating procedures.

"Standard operating procedures" may explain the frictions between NASACT, MFOA and the Public Interest Groups. The GASB negotiations among the GASBOC members and later with the Public Interest Groups, to the author's knowledge, had no legal binding effects on State and local governments. They were conducted outside of the formal governmental process. While GASBOC resembled a constitutional convention, the "delegates" had been largely self-appointed, although they had good reasons to be there—to protect their interests. The negotiation process was inconsistent with the "standard operating procedures" in the public sector, and these gave rise to difficulties.

Public policies—decisions made with governmental authority and enforceable by law—are adopted through formal decision making processes. Although the MFOA and NASACT seemed to be more dominant in the GASB negotiations, most of their members are appointed officials, accountable to more senior management and to the legislature. (Some members of MFOA and NASACT are elective office holders.) In the main, MFOA and NASACT represent staffs. In the power hierarchy in government, they are subordinate to the elected officials and governmental authorities represented by the Public Interest Groups. The latter in effect enforced this "standard operating procedure" on MFOA and NASACT, and got them to renege on the original November 30, 1982 Agreement.

Satisficing, Limited Search and Feedback

Participants in the GASB formation process searched for a compromise that would be generally acceptable to those who mattered. After the initial round of suggestions (status quo, FASB, Federal Institute), the search for compromise very quickly narrowed down to two main designs in the Exposure Draft and Final Report of the GASBOC respectively.

The search was conducted sequentially. Feedback was obtained via frequent negotiating sessions, visits, comments and public hearings.

Uncertainty Avoidance

One reason why the GASB process took so long was that the various parties wanted to avoid as much uncertainty as possible. The uncertainty of subsequent support was reduced by co-opting as many relevant organizations into the creation process as possible. The uncertainty of potential conflict with the FASB was minimized by delineating the jurisdiction of each ahead of time. The uncertainty of standards was drastically reduced by requiring the GASB to initially adopt existing NCGA standards and the AICPA state and local government audit guide. The GAS AC and the “due process” of standard-setting are also uncertainty avoidance devices, because they would enable the GASB to send out “trial balloons” before committing itself to any particular position.

Repertoire

Model II assumes that organizations store a set of programmed actions to respond to demands from the environment. The FASB, for example, rose to protect or even expand its “turf.” The FAF complained about *over* representation of the public sector on the GAF, and the Public Interest Groups saw the same number as *under* representation. These actions are predictable if one assumes that organizations are “programmed” to protect their self-interest.

Summary

Model II provides a more precise description of how the actual process worked. But it does not give a substantive rationale for a GASB (which Model I did), nor does it explain the nature of the self-interests of organizations involved, which Model III will try to do.

C. Model III

It is precisely because GASB standards, if they are effective, would place restrictions on their behaviors that various “interest groups” are mobilized. Members of the same interest group share something in common, more than with those in another group. The general argument of Model III is that: (1) A GASB has certain functional requisites to survive—political legitimacy, professional recognition, competent personnel, financial resources. (2) These “resources” are possessed by different entities in the society. (3) To the extent that groups possessing complementary resources (Coleman, 1971) succeed in interchanging resources (Clark, 1972), a coalition is institutionalized.

The following paragraphs elaborate on the political, economic and professional interests at stake.

Political Interests

Political interests in the GASB negotiations are represented by the organizations that call themselves "Big 7 Public Interest Groups." They might also be called "political interest groups." The history of the involvement (or non-involvement) of these groups illustrates some fundamental issues in governmental accounting as articulated in the testimony of the National Conference of State Legislature (NCSL) during the GASBOC hearings. It pointed out that the membership of the GASBOC itself strongly reflected the accounting profession in the public sector (GAO, NASACT and MFOA) and the private sector (AICPA and FAF). The political interest groups were invited to be "observers." They strongly objected to the preliminary GASBOC proposal allotting them 3 out of 12 trustee seats of the Governmental Accounting Foundation. Their reasons (Ritter, 1981):

> Elected officials are among the primary users of financial information generated by their accounting and reporting systems. They are entrusted by their constitutions and laws with the responsibility for the fiscal integrity of their government, and they enact budgets and other legislation which are highly dependent on accurate financial information. The elected officials at the state level are the people's representatives acting as the people's sovereign. Ultimately, it is they who must generate or approve the changes necessary to meet generally accepted accounting principles in their states.

It is their position that "under state constitution and law, state elected officials have primary jurisdiction over generally accepted accounting principles for their states. Further, within each state's legal arrangement with local government is the basic authority to establish generally accepted accounting principles for local government."

Believing that "accounting standards are an important matter of public policy," Representative Ritter reminded the GASBOC that the FASB is "ultimately answerable to both the Securities and Exchange Commission (SEC) and to Congress." The implication is that a GASB would be ultimately accountable to fifty state legislatures, and GASB members should be compensated at a level comparable to public officials with similar responsibilities.

It may be recalled that the FAF's reaction to the GASBOC preliminary proposal was equally predictable: "with six out of twelve GAF trustees coming from government, coupled with a two-thirds voting requirement on all matters, government representatives, if voting together, would have an effective veto over all GAF actions" (FAF, February 16, 1981, p. 3). The AICPA Board of Directors established as one of its conditions for supporting any proposal that ' 'The structure of the new standards board and the governing foundation when established are deemed to be truly independent and not controlled by government representatives" (Philip B. Chenok's memo dated February 19, 1981).

The FAF might have overestimated the cohesion of the public sector. The numerical strength of the public sector organizations ironically proved to be its critical weakness. The Big 7 Public Interest Groups themselves mirror complex intergovernmental relations in the United States. Each of them also wants to protect its own turf. Furthermore, mobilizing 50 states and 80,000 local governmental units to act in unison on a technical issue like accounting standard setting has a remote chance of success.

In the context of power play between governmental authority versus the Accounting Establishment, the political interest groups did not fare any better in the next round. As explained earlier, the final report of the GASBOC allotted one FAF trusteeship for all Big 7 Public Interest Groups, but one for MFOA and one for NASACT. Eventually the Public Interest Groups were able to reconvert the MFOA and NASACT positions to at-large positions, giving them the appearance of greater representation.

This scenario illustrated two overriding concerns in virtually all public policy making processes: (1) How to make policies capable of solving problems, i.e. how to arrive at effective solutions; (2) how to make policy making responsive to popular control in keeping with the spirit of democracy? (Lindblom, 1980, p. 12). To politicians, accountants are their technical advisors in formulating public policies, including government accounting standards. Setting government accounting standards is a political function. Elected officials should use the analysts' services, "but not abdicate their political function to them" (Lindblom, 1980, p. 12). Accounting is a system of rules for enforcing social and economic accountability, and government is a nexus of social contracts distributing the costs and benefits in the society. Popular or political control of government accounting will therefore increase as accounting information is actually used to influence fiscal policies of government.

While seemingly conceding to an oversight structure dominated by professional groups, government retains power of the purse string over the actual implementation of GASB standards. However, there are limits to governmental authority. Governments cannot compel investors to buy their bonds. Governments cannot dictate their bond ratings. Governments cannot order the AIC-PA to recognize their versions of generally accepted accounting principles under Rule 203. Governmental authority is a necessary but not sufficient condition for effective governmental accounting standard setting.

Economic Interests

Centralized government accounting standard setting may result in economic gains or losses for several interest groups. For example, if compliance with such standards were to result in higher bond ratings, municipalities might gain from lower interest costs of borrowing. The GASBOC envisioned the bond rating agencies to be part of the voluntary enforcement mechanism.

The accounting profession could gain economically if more state and local governments would require external audits. This gain, however, is the expense of higher audit fees to be paid by government. Uniform national standards would also reduce costs of training for auditors and accounting staffs, who otherwise would have to be familiar with multiple standards. According to Model I rationale, the GASB would hopefully make governments more fiscally responsible, better managed, and therefore less costly. The economic impacts (gains and losses) to the full set of "interested parties," both individually and collectively, are not clear. Research will be needed. The economic benefits attributable to the GASB would be a fitting subject of research.

Professional Interests

The GASB would probably strengthen the position of the accounting staff in government which would now be able to appeal to national standards as constraints over local policies. At the national level, however, elected officials have become a part of the oversight mechanism of governmental accounting standard setting. The professional associations involved have all gained and lost something. The MFOA has lost its long-standing sole sponsorship of the standard-setting body, but has also gotten rid of some costs and criticisms. NASACT has assumed a greater role than ever before, but the States are expected to share the GASB costs and to implement GASB standards. The AICPA will have to assume greater financial burden for the GASB than it has for the NCGA.

Suppliers of Government Accounting Standards.

A very special type of interest group consists of the organizations that themselves directly or indirectly set certain types of government accounting standards. Currently, sources of government accounting principles include NCGA statements, AICPA audit guides, issuances of the U.S. Office of Management and Budget, General Accounting Office, federal grantor agencies, and state and local legal requirements. Additionally, some pronouncements by the FASB and its predecessors are occasionally considered applicable to governmental units, particularly enterprise activities. The present situation resembles an oligopoly of government accounting standards suppliers. The creation of a GASB having overall authority over standards setting, would convert the present structure to a "monopoly."

Summary

The GASB/FASB jurisdictional division has been quasi-resolved. It would be naive to equate the Public Interest Groups with the scores of legislatures and thousands of legislators. The latter remain to be informed and persuaded:

> the setting of accounting standards is as much a product of political action as of flawless logic or empirical findings. Why? Because the setting of standards is a social decision. Standards place restrictions on behavior; therefore they must be accepted by the affected parties. Acceptance may be forced or voluntary or some of both. In a democratic society, getting acceptance is an exceedingly complicated process that requires skillful marketing in a political arena (Horngren, 1973 p. 61).

Horngren's statement applies with equal, if not greater, force to GASB standards.

The final organization design for the GASB may be properly called a "political resultant," to use Allison's terminology. In recent years, there has been much lamentation that accounting standard setting has been "politicized." Good or bad, it is necessary. An organization coalition, which the GASB is, depends on the interchange of complementary resources (Clark, 1972). Wilson (1980, p. 361) has stated: "Because interests compete, politicians must reach compromises that permit large, politically heterogeneous coalitions to be formed in support of a policy. Neither adversary party gets all it wants; each is optimally disgruntled."

The creation of the GASB is an institutionalization process. Relatively stable patterns of interaction have become stabilized among the professional and political actors. Prolonged and extensive negotiations clarified to a satisfactory, but not perfect, extent the role behavior of the various parties. The extent to which they will activate the resources under their control to maintain the GASB coalition remains to be seen.

D. Assessing the Models

Each of the models explains some but not all aspects of the GASB phenomena. Model I provides a substantive rationale for the creation of a GASB. Model II explains the effects of bounded rationality on the decision-making. Model III explicates the larger latent forces that shape the negotiating positions of the actors in the GASB game.

The long-term effects of the creation of a GASB under the auspices of the FAF could well be a realignment of the relationship between the "professional" and "political" dimensions of accounting. For the first time, real politicians will be sitting on the governing board for *both* the FASB and GASB. Also for the first time, state and local government accounting standard setting is under the oversight of a board with an overwhelming majority of non-governmental representation (12 out of 15 seats).

Comparatively, Model III fits the events better than the other two models. However, it has to be supplemented by a sociology of institutionalization (Parsons, 1951; Clark, 1972)—the establishment of stable interactions regulated by general values and beliefs. This would additionally explain why the GASB negotiation process has been fraught with surprises. There was a lack of norms for the leaders' conduct.

Political and professional elites develop and operate in quite different environments. They had very imperfect information about their negotiation partners. The GASB exercise brought the political interest groups in the U.S. in contact with the FAF and AICPA— Accounting Establishment—for the first time (James Martin's testimony at the GASBOC hearings, May 5, 1981). In effect, the GASB process has created a new social system.

Politicians tend to be "locals," while professionals tend to be "cosmopolitans." The former operate within fairly well designed legal jurisdictions. Professionals tend to transcend those political boundaries, believing in some universal values. To the politician, politics is a calling, bargaining a way of life, compromise a virtue. To the professional, politics is a dirty word, bargaining distasteful and compromise unfortunate. To quote Horngren again:

> One of our troubles is that the word "political" has shady, unprofessional connotations that we do not want to link with accounting. Furthermore we are uncomfortable with the idea that accounting must be linked to political processes because the vast bulk of us are unequipped by education or experience to grapple with the political implications of our decisions.
>
> Some academicians have interpreted these descriptions as being an advocacy of politicizing policy making and setting accounting standards by popularity contests. It is an anti-intellectual and demeaning posture for accountants. Such interpretations may be partially traceable to an innate distaste for anything that smacks of being political. The term "political influence" has an evil ring. Yet, in a democratic country all regulatory agencies— private and public—are subject to inquiries and suggestions and pressures from diverse parties like members of Congress, managers and investors. By itself, that is not bad. The important point is how these agencies should be equipped to deal with these political influences in a constructive way (1976, pp. 94-95).

The politician tends to invoke elected representatives' authority in a democracy. The term "Big 7 Public Interest Groups" may strike many as presumptuous, but the electoral process certifies their claim of legitimacy. The professional, on the other hand, focuses on technical virtuosity. GASB negotiations have been an arena for these two subcultures to meet face to face, and engage in social learning.

The actual negotiations were conducted not by abstract interest groups, but by their leaders. While the same organizations participated in the GASB negotiations over this long period of time, the actual negotiators have changed. For example, for the AICPA, Wallace Olson was succeeded by Philip Chenok; for the FAF, A.O. Way was succeeded by Russell Palmer and then Charles Steele; for the MFOA, Donald Beatty was succeeded by Jeffrey Esser; and Charles Bowsher succeeded Elmer Staats as the Comptroller General of the U.S. In small group decision making involving high level officials, personal style and individual policy preferences matter a great deal (Kellerman, 1983). The delays of the GASB creation are due, at least in part, to the discontinuities occasioned by the changing of negotiation partners.

In summary, the three models provide a parsimonious means for conceptualizing the GASB phenomena.

They are probably not as discrete and distinctive as Allison (1972) and Kellerman (1983) implied. They are nevertheless useful in interpreting political and sociological occurrences. In another literature, the same basic models, under the disguise of other labels, became models of policy making. We now turn to the next question.

IV. WHAT NEXT FOR STANDARD SETTING?

How will the structure affect the function of the GASB? To a significant extent, how the GASB will set standards is already preordained by its charter. The purpose of this section is to elaborate on this point.

The three models discussed in the previous section reemerge as: comprehensive rationalism, incrementalism, and interactive decision making.

Model I, comprehensive rationalism, is the conceptual framework approach to accounting standard setting—that standards should implement some higher-order objectives, and be internally consistent. The GASB is born at a time when Model I has been tried with limited success. The FASB's conceptual framework project has received mixed reviews. The extent of its usefulness and actual use in the standard setting process seems uncertain. It has certainly been costly, controversial and hard to draw conclusions. The NCGA's project was supposed to produce a framework, standards, and disseminate them, all in three years with a $1.2 million from the U.S. Department of Housing and Urban Development. The "objectives" portion of the project alone took two years to complete. This project ended easily enough when funding expired. The Federal Government's project issued a number of exposure drafts, and is also inconclusive. Against this background, and faced with limited resources (perhaps a $1 million annual budget and a professional staff of a dozen people), it is highly improbable that the GASB will adopt this approach.

Model II, incrementalism, is preordained by the GASB agreement requiring the GASB to initially adopt all NCGA statements and the provisions of the AICPA state and local government audit guide. This decision is understandable for ensuring continuity. However, it conflicts with the rationale for setting up a GASB—that existing standards are so inadequate that a drastic structural reform was needed.

The way in which scholars pose comprehensive rationalism and incrementalism as alternatives puts the policy maker in between the impossible and the unforgivable. While it is impossible to state precisely how the GASB will set standards, it is reasonable to assume that the forces that led to its creation will continue to shape its conduct. In particular, the interest group interpretation would lead one to expect a highly interactive mode of policy making (Model III). There will be several types of interactions:

1. Interactions among the GASB board members in the search for a collective mind;

2. Interactions between the GASB members and its staff;
3. Interactions between the GASB (members and staff) and the Governmental Accounting Standards Advisory Council (GASAC);
4. Interactions between the GASB and FASB, both at the Board member and staff levels; and
5. Interactions between the GASB and all those who seek to influence it through formal and informal communication channels.

These interactions provide fairly rapid feedbacks to proposed policy options and may replace, or at least supplement costly and slow formal analysis. While they fulfill the requirement of "due process," whether they produce better standards remains to be seen.

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