

**Accounting in a Fragile Democracy:
Who can/should we Trust**

Central Ohio Association of Government Accountants

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Three Quotes

Where the laws are not supreme, there demagogues spring up. (Aristotle, Politics, book iv)

A democracy differs from other forms of government in that it does not and cannot distinguish the welfare of the state from the welfare of its individual citizens. (Croly 1914, 35)

... the right to freedom of speech is no license to deceive, and willful misrepresentation is a violation of its principles. (Lippman 1955, 128)

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Structure of Presentation

1. Introductory remarks
2. Current technical and political challenges to accounting
3. The influence of the political and social environment upon your work?
 - a) Why decline of trust, growing income inequality, and rising school shootings?
 - b) Rise of populist rhetoric since the 1950s
 - c) Foundation of modern government laid between 1780-1820
 - d) Too much focus on what goes wrong, on the sensational
 - e) How can we regain trust in each other, in experts, in facts?
4. Thanks to accounting, we have writing

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Recent Technical Challenges in Accounting

ChatGPT: challenge for accountants, teachers, lawyers (among others)

For accountants: How to use ChatGPT and Google Bard without threatening livelihood of clients and the confidentiality of their data

ChatGPT successfully passed various accounting certification exams

Digital tools: for routine accounting processes (e.g. Blockchain, cloud accounting)

Use of multiple IT-systems (e.g., DoD has 161 different accounting systems)

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Accounting in Politicized Environment

Accounting not just a neutral and technical exercise: do we need strong oversight?

How is public sector accounting affected by lobbying by auditors (e.g., KPMG)

Accounting regulation:

- a) When focused on technical issues, there is high influence of special interests
- b) When focused on economic consequences, political ideology is influential

Legislators pursue framework legislation, leave responsibility for implementation to career civil servants

Little research into public sector accounting: how is your work affected by operating in a politicized environment?

My focus today: the nature of the social and political environment in which you work

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Growing Up: Taking Democracy for Granted

The Thirty Glorious Years, 1945-1975:

- a) Declining income inequality
- b) Emergence of large middle class
- c) Sense of unity and trust

Since 1975:

- a) Growing income inequality
- b) Declining trust in one another, in science, in facts
- c) Increasing social isolation

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Indicators of Decline of Trust?

Declining trust in experts (who can be "bought" by big pharma, tobacco, oil and gas industry, banking and insurance industry)

Use of information technology, avalanche of information, declining face-to-face interaction

Facts and counter-facts, fake news, "deep state" (which is not the DC swamp, but a cabal of business, financial, and industrial actors desiring power alongside and with elected officeholders)

Loud ideological voices dominate left- and right-wing extremes

Use of algorithms by Amazon, Apple, Facebook, and Google

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Why Decline of Trust?

Not a recent phenomenon:

- a) Senator Joseph McCarthy in 1950s: unsubstantiated claim that communists had infiltrated federal government, film industry, and universities
- b) 1971 *Powell Memorandum* by Lewis Powell: unsubstantiated claim that market and free enterprise under threat by communists, new leftists, and political/economic revolutionaries in colleges, media, and intellectual/literary journals
- c) 1971 *Malek Manual* by Frederick Malek: White House should appoint people in career civil service who are loyal to the administration (i.e., the leader or *Führer*)
- d) Distrust in government and its bureaucracy runs deep, dating back to (pre-)revolutionary period
- e) However: bureaucracy has proven to be the backbone of large-scale democracy

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Nature of Contemporary Democracy

Democracy as a large-scale experiment in institutional arrangements of and for governing exists only some 240 years.

Made possible through:

- Separation of powers
- Checks and balances
- Protection against government overreach

Based on values of democracy:

- Respect for human rights
- Rule of law; no one is above the law
- Free and fair elections
- Legitimacy of political and market competition
- Accountability and transparency

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Trust and Negativity Bias

People focus on what goes wrong, fraud, bribery, corruption

Association of Certified Fraud Examiners finds that

- banking and financial services industries have the most fraud
- government is the second highest sector

BUT: remember, the bulk of what is done in and by the public sector goes well

Jonathan Swift: "Falsehood flies, and the Truth comes limping after it."

Dutch proverb: "No matter how fast the lie, the truth always catches up."

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What do we Need to Regain Trust?

- teach people about position and role of government in society
- teach people about the privilege of being a citizen rather than a mere subject
- understanding that democracy survives by self-restraint
- trust expert knowledge and facts

"without accountants there would be no Torah, Bible or Qur'an, no Shakespeare, no Bābur-Nāma and no Tolstoy." (Frankopan 2023, 91)

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Questions and Answers

Thank you for your attention

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