The History of the Decline and Fall
of the American Accounting Profession

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Abstract

There have been many articles and books published on the development of accounting and the accounting profession in the U.S., both historically and sociologically. Some have critically examined actions taken by the AICPA, and others that have studied the effects of legislation on the accounting profession such as the Sixteenth Amendment or the creation of the PCAOB. Still others have observed the decline in the American accounting profession's status and image as a result of various failures such as Enron. This is the first to combine systematically a sociological analysis of the accounting profession in the U.S. with the historical development of the profession's power and status, and the subsequent loss of its power and status. A sociological analysis of the American accounting profession strongly suggests that it is no longer a profession as conceived by sociologists.

Introduction

While the license to practice public accounting is determined and regulated by each of the 50 states, the accounting profession in the United States has been embodied in the American Institute of CPAs since 1936. With a membership of over 350,000 the profession and the Institute are inseparable. Without the AICPA there would be still be CPAs, but there would only be 350,000 individual CPAs and CPA firms. Furthermore, while the Federal government does not directly regulate public accountants,[1] it regulates them indirectly through the securities laws. In addition, through the newly created Public Company Accounting Oversight Board it regulates the auditing of publicly traded companies and therefore the behavior of independent auditors. Thus, the history of the rise and subsequent decline and fall of the American accounting profession is as much a function of state and Federal laws and regulations, as it is a function of the actions of the AICPA.

To fully appreciate the context of the history of the decline and fall of the American accounting profession, it is necessary first to consider the establishment and development of the American accounting profession, which in turn requires a prior examination of the theories of professions, in order to understand why public accounting has been considered a profession, and why it may no longer be a profession in the U.S. from a sociological viewpoint.

This paper is not about accounting principles, the development an evolution of accounting principles, or controversies surrounding accounting principles. Nor is it about auditing standards, or codes of ethics. It is not about the frauds and failures of American corporations over the previous twelve years of in which the American accounting profession has been implicated. Much has already been written about those subjects. While they obviously are

[1] For this paper, public accountant is a generic term that refers to Certified Public Accountant unless otherwise stated.

an integral part of the history of the accounting profession and cannot be ignored, this paper is about the major events that contributed to the status, power, and prestige of the American accounting profession, and the events that contributed to the loss of the status, power, and prestige of the American accounting profession.

Public accounting is defined as a profession by state statutes (see, e.g., App. A), but a statutory definition of a profession does not transform an occupational category into a profession as a sociological category. This is the first study to combine a sociological analysis of the accounting profession in the United States with the historical development of the profession's power and status, and the subsequent loss of its power and status. A sociological analysis strongly suggests that public accounting in America is no longer a profession as conceived by sociologists.

The rest of this paper is organized as follows. It first reviews sociological theories of professions, including public accounting as a profession, followed by an overview of the history of the rise of the American accounting profession which is marked by four epochal events from 1789 to 1972. The history of the decline and fall of the American accounting profession will then be considered beginning in 1973 to the present and framed by two defining events along with a series of actions initiated by the AICPA.

The Sociology of Professions

The sociology of professions is concerned with identifying conceptually the parameters that differentiate professions from other types of social organizations such as occupations and other professions in order to understand and explain differences in their interactions, behaviors, and ideologies (Blau, 1974). Identifying and establishing conceptual parameters for what does or does not qualify as a profession has occupied the literature of the sociology of professions for decades and has drawn the attention, even if only tangentially, of the likes of Weber, Marx, Parsons and Durkheim. The development of a profession is both political and social (Freidson, 1970). Developing a profession can take as long as centuries or as short as decades.

Law, medicine, divinity (also referred to as theology or the clergy) are often referred to as the “classic” or “learned” professions. They have existed since before the Renaissance, but only recently have law and medicine been subjected to state control through licensing statutes. (The clergy have, for the most part, been exempt from licensing requirements.) Modern professions have been subject to state control and licensing requirements almost since their inception.

The Origin and Importance of Modern Professions

The importance of modern professions cannot be separated from their origins. The professions are seen as major factors in creating a new social structure in industrialized societies based on organization and function (Miranti, 1988), and a mechanism of the evolution from the social structure based on the estates of early modern Europe to the functionally differentiated society of a modern industrial society (Stichweh, 1997). More specifically, professions emerged as a form of institutionalized occupations to cope with social changes caused by the industrialization of commerce and trade in mid-nineteenth century Britain and are committed to serving the public interest based on an intellectually-based body of knowledge (Lee, 1995; Saks, 2003).

Professions exist in part as a function of social demands for specialists. Where there is a demand for a specialists, societies create a system to supply the demand for specialists, and suppliers are rewarded by the society that demands them (Collins, 1990; Torstendahl, 1990; Krause, 1996). The rewards consist of enhanced income, status and power (Parry & Parry, 1977; Macdonald, 1988; Saks, 2003).

Professions are considered essential to the smooth functioning of industrial society (Parsons, 1939), have their roots in industrialized society, and are "strongly influenced by Anglo-American legal, economic and political institutions" (Dingwall, 1983). Huntington states that

> Professions have attained a strategic position in modern industrial society as the occupational groups whose task it is to develop and apply abstract and technical knowledge to important problems of everyday life. The task, which is essential to the smooth running of the industrialized business economy and which must be carried on by highly trained personnel, is institutionalized in the various professional roles (quoted in Habenstein, 1963).

Theories of Professions

The definition of a profession may, in fact, be no definition at all. The problems in defining profession are no less numerous or difficult than those encountered when attempting to define other social institutions such as family (Habenstein, 1963; Burrage, 1990), or social class (Macdonald, 1995). But a definition, regardless of how problematic or inadequate it may be, can serve a useful purpose if it is remembered that any definition is not the end of the inquiry, but the beginning (Cogan, 1955). The term "profession" cannot be used without first having a definition of the term. It is an example of what Hirsch (1967) refers to as the "hermeneutic circle" wherein the whole can only be understood by understanding the parts, but the parts can only be understood by understanding the whole. There can be no criticism of the definition of profession without there first being a definition of profession. Indeed, as discussed below, even those who object to the definition of a profession actually use some form of definition to describe their theories. For example, Saks (2010) states that the legal basis for defining a profession is based on social closure (discussed below), and the definition of a profession in a neo-Weberian framework (also discussed below) includes such things as market control.

Trait Theory.

The trait (also called attribute, dimension, taxonomy, or characteristic) theory of professions is used relatively infrequently in the modern study of the sociology of professions. Huber (2012) recently applied trait theory to argue that forensic accounting is becoming a profession in the United States. A profession is defined according to the traits it exhibits or possesses. While it is simple to apply (determine what are the traits of a profession, determine if the occupation in question exhibits the traits identified, reach a conclusion regarding whether the occupation is a profession or not), it has several weakness.

Not surprisingly there is no agreement on what the traits are that define a profession, but the traits that are among the most accepted are: an intellectual component which consists of the presence or existence of specialized knowledge which includes both technical training and theoretical knowledge, and the application of that knowledge to social problems; standards of admission which include an educational component followed by one or more examinations; an association or organization were there are common values, a common language, and a shared identity which includes a commitment of the members to their work and a motivation to serve the public; a code of conduct, which may be unwritten; licensure or certification; a high degree of autonomy or self-government; and recognition and acceptance as a profession by the public which confers upon the profession a certain social status (Flexner, 1915; Carr-Saunders & Wilson, 1933; Pavalko, 1988). The traits may be described differently by different writers, but nevertheless have the same connotations. Traits may also occur in a “constellation” where one profession may exhibit a certain number and combination of traits, and other professions exhibit a different number and combination of traits (Habenstein, 1963).

The commitment of the members of a profession to their work and a motivation to serve the public is often referred to as altruism. Altruism is equated to the concept of public interest (Cogan, 1953), but the public interest is not well understood. For example, Baker (2005) suggests there are at three approaches to understanding the public interest: neo-liberal, liberal social democratic, and critical social democratic ideologies, while Dellaportas & Davenport (2008) recognize four theories that can be applied to identifying the public interest: normative theory, abolitionist theory, process theory focuses, consensualist theory. The particular distinctions of the public interest are beyond the scope of this paper. However, Lee (1995) suggests that the public interest in accounting is protected in a self-interested way. Brante (1988) considers altruism as dead, and even Parsons (1939) believed that “the typical motivation a professional man is not in the usual sense ‘altruistic.’”

Structural/Functional Theory.

The functional view of the professions “explains their proliferation since the 19th century as a response to social needs and imperatives of science” (Rossides, 1998). Functional theory of professions basically originated with Parsons (1939) who is also considered the founder of the studies of professions (Brante, 1988). According to Parsons, “most of the most important features of our society are to a considerable extent dependent on the smooth functioning of the professions.” Parsons went on to explain that professional authority as a “peculiar sociological structure” and professional authority “is characterized by ‘specificity of function.’”

Noteworthy is Parsons’ explanation of the importance of professions to modern social structure – “The professional type is the institutional framework in which many of our most important social functions are carried on.”

Some consider the structural-functional approach to be a more sophisticated version of the trait theory (e.g., Habenstein, 1963; Brante, 1988).

Status/Class Theory.

Profession does not refer to a state of mind, the services provided, or a personal quality. A profession is “a status in a system of statuses” (Habenstein, 1963). Professions align themselves with the values of capitalism and are rewarded by being incorporated into the upper strata of society (Macdonald, 1988). To the extent that professions are a social class they are set apart from other social occupational classes such as factory workers. As a class, professions have their own identities and shared values which are observable by society. The social status of the class of professions is created by society, and usually in the form of legal recognition. Although Marx had little to say about professions *per se*, as conceived by Marx, professions were a tool of capitalism and thus part of the class conflict.

Brante (2010) employs the Foucauldian concept of truth regimes to partially define the status of profession. Professional knowledge is exclusive to the profession and members of the profession are equipped with a “non-obvious” code for interpreting the object to society, i.e., the social construction of the object, which confers the profession with a certain status.

Enclosure Theory

According to the neo-Weberian (or neoweberian) school most modern professions seek enclosure which is created and enforced by the state. If an occupational category is seen as essential to society, i.e., that it has knowledge that is important to society and that there is a sense of public responsibility, the state will grant a legal monopoly in favor of the profession in the form of privileged legal status (Saks, 2010). Establishing the monopoly is thus a political process (Larson, 1990) and an occupational group seeking enclosure from the state is not always successful. Success in obtaining closure via state action differentiates professions from occupations (Freidson, 1983; Brante, 1988). Enclosure creates a class in that it separates and protects those enclosed in the profession by the monopoly from outsiders (Saks, 2010).

Ideology and Conflict Theory

Conflict theory, as advocated by neo-Marxism, sees professions in conflict with other professions and other occupational groups (Macdonald, 1988), and with society and the state. For example, Macdonald relates that British chartered accountants were in conflict with the state and against public accountants.

Ideology and conflict theory is related to status and class theory since it is the classes that are in conflict with each other. Issues of class and status must be accounted for when framing professions within ideological conflict.

A profession is an ideology that rationalizes the value and necessity of the profession which provides its members with moral justification for its privileges. Society is in a constant state of struggle as groups compete for power to command goods and services, as well as human wills. A profession acquires and maintains its power to command through state licensure (Habenstein, 1963). Some see the basis of conflict between occupations centered on status attributes rather than economic gain (Dingwall, 1983).

Brante (1988) describes seven self-legitimating professional ideologies: the myth of technocracy; the myth of increasing qualification; the myth of certain knowledge; the myth of altruism; the myth of rationality; the myth of neutrality; and the myth of the hero.

Ideology and Conflict Theory

The theories of the sociology of professions are not quite as sharply delineated as theorists tend to think. The fact is, there is much overlap between and among the different theories. For Collins (1990), profession is a combination of closure and status. Enclosure theory can be interpreted in neo-Weberian terms, or in terms of class or conflict theory since enclosure creates a class.

The point here is that the theories of the professions frame public accounting as a profession, and within the framework of the theories of professions—traits, functions and structure, class and status, ideology and conflicts—public accounting can be analyzed and classified. The following sections discuss public accounting as a profession.

Public Accounting as a Profession

Not only are professions in general considered an Anglo-American phenomenon, but accounting in particular (Dingwall & Lewis, 1983). There is little dispute that accounting as a profession, regardless of the theory applied to its analysis, arose as a result of the advent of the Industrial Revolution, thus making it British in its early phases (Carey, 1969; Lee, 2009; Jones, 1981). As an outgrowth of the Industrial Revolution, accounting as a profession cannot be separated from Capitalism and the historical forces that drove Capitalism to become the dominant economic system.

Within the frameworks of the sociology of professions, and accounting as a profession in particular, the rise, and subsequent decline and fall, of the American accounting profession can be understood, evaluated, and judged. The next section reviews the rise of the American accounting profession both historically and sociologically.

The Rise of the American Accounting Profession

Before looking at the rise of the American accounting profession what accounting is, and is not, in the United States must be understood. Some have described the public accounting profession as a profession of science. "Definitions of professions connect them to higher, which most often means scientific, knowledge" (Brante, 2010). Others consider accounting as a social construct (Lee, 2006). A social construct determines how society sees and interprets social phenomena (Brante, 2010).

In the United States, the accounting profession is not considered a profession of science in the U.S. Federal Courts. Under Federal Rule of Evidence 702[2] and the cases decided by the Supreme Court accountants testifying as expert witnesses are considered as having specialized knowledge, but not scientific knowledge. In what is known as the *Daubert*[3] rule, the Supreme Court ruled that Rule 702's requires that an expert's testimony pertain to scientific knowledge which implies a grounding in science's methods and procedures and knowledge connotes a body of known facts or of ideas inferred from such facts or accepted as true on good grounds. In a subsequent case, [4] the Supreme Court extended the *Daubert* rule to non-scientific expert testimony, which includes any expert with specialized knowledge including accountants.

The distinction is an important one. Accounting as a science implies the accounting profession is built on scientific principles and knowledge. Accounting as a social construct, however, means the profession, while possessing specialized knowledge, is not built on scientific principles and knowledge,[5] but as Brante (2010) points out, is a truth regime which possesses knowledge for interpreting an object to society.

[2] Rule 702. Testimony by Expert Witnesses. A witness who is qualified as an expert by knowledge, skill, experience, training, or education may testify in the form of an opinion or otherwise if: (a) the expert's scientific, technical, or other specialized knowledge will help the trier of fact to understand the evidence or to determine a fact in issue; (b) the testimony is based on sufficient facts or data; (c) the testimony is the product of reliable principles and methods; and (d) the expert has reliably applied the principles and methods to the facts of the case.

[3] Daubert v. Merrell Dow Pharmaceuticals, Inc., 509 U.S. 579 (1993).

[4] Kumho Tire Co. v. Carmichael, 119 S.Ct. 1167 (1999).

[5] Bourdieu & Wacquant (1992) go even farther by proclaiming that all professions are non-scientific. "'Profession' is a folk-concept which has been uncritically smuggled into scientific language and which imports into it a whole social unconscious. It is the social product of historical work of construction of a group and of a *representation* of groups that has surreptitiously slipped in the science of this very group."

Different authors have divided the history of the American accounting profession into different periods. Zeff, for example, divides the accounting profession into two periods—from "prior to the 1940s" to the early 80s, and from the early 80s to 2003 (Zeff, 2005a; 2005b). Likewise, Carey employs a two-period division: 1896-1936, which he refers to as the period "From Technician to Professional" (Carey, 1969), and 1937-1969, which he labels "To Responsibility and Authority" (Carey, 1970). Edwards, too, uses two periods, with the first period from 1913 to 1928 (Edwards, 1958), and the second from 1928-1958 (Edwards, 1956).

Previts and Merino (1998) see seven periods in the history of the American accounting profession: The Formation of a National Economy (1776-1826); The Beginnings of Corporate America (1827-1865); Accounting in the Gilded Age (1966-1896); The Formation of an Accounting Profession (1897-1918); Accountancy Comes of Age: The Interwar Period (1919-1945); Expansion and Controversy: Accountants in the Age of Uncertainty (1946-1972); and finally, Accountancy and the Global Capital Markets: From the Trueblood Report to the Jenkins Committee (1973-1995).

While the demarcations are not arbitrary, they are artificial. They were chosen to emphasize particular points of view. They function as focal points to draw attention to the events that support the arguments made by the authors. There is significant and obvious overlap, but surprisingly little disagreement on how to interpret the events.

This paper divides the rise, and subsequent decline and fall, of the American accounting profession into six periods: 1789 to 1895, 1896 to 1912, 1913 to 1932, 1933 to 1972, 1973 to 2001, and 2002 to 2011. Each period begins with a radical discontinuity with the previous period. Each discontinuity is marked by legislation or legislative-like events at either the state or Federal level which impacted not just the way public accounting was practiced (e.g., some limited the practice, while others expanded it), but also the way the profession was organized (i.e., the size of accounting firms), and the way it was regulated both internally (by the AICPA) and externally (by the state). In addition to specific historical events, the last period is characterized by actions taken by the AICPA which resulted in the profession's loss of focus.

During each period, particularly from 1933-1972, and 1973-2001, there were various investigations, commissions, and committees that involving both Congress and the AICPA; e.g. Trueblood (1972), Cohen (1972) and Treadway (1985). However, this paper focuses on specific historical events, some of which were the outcomes of the investigations, commissions, and committees. The investigations, commissions, and committees are consequences of the social forces and political pressures, and the conflicts within the arena of the American accounting profession, that formed both its rise, and its decline and fall.

1789 to 1895

The first stage of the rise of the American accounting profession lasted a little over 100 years. While the origins of the American accounting profession can be traced prior to 1789, 1789 was chosen as the beginning of the American accounting profession since it marks the birth of the United States as a nation. Not legislation *per se*, but the adoption of the Constitution is a legislative-like event and an American profession cannot begin until there existed an America. However, public accounting cannot yet be considered a profession in the United States since not only did it lack at this time many of the traits of a profession, the functions, status, education, organization, and code of ethics, it was also not American.

The American accounting profession began small and grew slowly from 1789 to 1913, after which its growth reached exponential proportions. The first public accountants in the newly created United States of America were immigrants from the United Kingdom, specifically

Scotland and England, and who dominated public accounting in the U.S. until 1928 (Edwards, 1958; Lee, 2009).

The following paragraphs are paraphrased and condensed from Previts and Merino (1998).

From 1789 to the end of the Civil War, the American accounting profession grew slowly, as the national economy began to evolve from highly agrarian to more industrial as the Industrial Revolution spread to the United States at the close of the War of 1812. Commercial markets also became more stable, corporations formed, and banking and capital markets began to expand. Correspondingly, the demand for public accountants grew.

Previts and Merino (1998) refer to the period 1866–1896 as the Gilded Age. During this period there were significant changes in the social, political, and technological environment in the U.S., including the advent of giant businesses, financial empires, oil, steel and railroads. The dark side of the economic expansion is seen in public corruption and manipulation of securities due to the lack of regulation. The Sherman Antitrust Act was adopted during this time, and there were several panics in the economy (1883, 1884, and 1893). There was a wave of mergers in the manufacturing sector.

What would later become the public accounting profession, while expanding, lacked the organization and resources to deal with the newly created needs of financial reporting. In addition, there was substantial disagreement among the organizations over who was qualified to practice public accounting. Fifteen accounting organizations were formed between 1875 and 1890 each with different requirements for admission. Most of these organizations ceased to exist in a relatively short period of time, but two, the American Institute of Accountants (previously the American Association of Public Accountants founded by British public accountants in 1887) and the American Society of Certified Public Accountants (formed in 1921), eventually merged and in 1936 became the AICPA.

After several years of unsuccessful lobbying for laws to licensing public accountants, the efforts would finally be successful (Miranti, 1988). The Gilded Age closed with the enactment in 1896 by the State of New York the first law to license CPAs. (See Appendix A for original statutory language).

1896 to 1912

Eighteen ninety-six can be considered as the official birth of the public accounting profession in the United States *qua* profession with the first legislation designed specifically to regulate/license the public accounting profession. With "An Act to Regulate the Profession of Public Accountants" public accounting, at least in New York, had been granted a monopoly (App. A).

But licensing is a double-edged sword. On the one hand, it provide the necessary closur. On the other, it also frustrates the autonomy and self-governance of the profession. Thus, what the profession gained in closure, it lost in governance. The professional organization (although there were several) was stripped of the power to govern the educational requirements, the admission to practice, and the continued right to practice. Those functions were now controlled by the state. But not just "the state," but by (eventually) 50 states. Even the code of ethics, one of the pillars of a profession, was controlled by the state. One of the purposes of regulating public accounting is to control the ethics of the profession (Edwards, 1958). The states adopted codes of ethics, the violation of which could result in the revocation of the license or right to practice. The organization that later became the AICPA had a code of ethics since 1936, but the greatest penalty for violating the code of ethics of the private organization is expulsion from the organization. The organization could not revoke the license or right to practice.

The next event in the ascendency of the American accounting profession to a recognized profession occurred in 1913. In 1913 the Constitution was amended to permit an income tax.

1913 to 1932

The Revenue Act of 1913 followed shortly after the Amendment was ratified. Historians of the American accounting profession generally agree that the Sixteenth Amendment to the U.S. Constitution with its accompanying Revenue Act of 1913 marks one of the most important milestones in the establishing of the American accounting profession (Previts & Merino, 1998; Edwards, 1958; Carey, 1969). While the direct, observable effect on the accounting profession was to increase the demand for public accounting services the observable effect is less important for the profession than the indirect, unobservable effect.

The implications of the income tax would eventually rearrange the social classes and their statuses. Along with licensing, the recognition and acceptance of a profession depends largely on its social status and as a result of the Amendment, the recognition and social status of the public accounting profession were dramatically enhanced.

Also during this period all states had adopted some form of regulation of the public accounting profession.[6] The statutes created a mandate to conduct independent appraisal of companies' financial statements (MacIntosh & Shearer, 2000). Admission requirements varied from state to state regarding such things as education and examinations. From the late nineteenth century into the early twentieth, some of the organizations advocated for a Federal licensing law, but to no avail. A Federal law was seen as interfering with states' rights (Edwards 1955, 1956).

[6] There are different methods used to regulate public accounting. One limits the right to practice without obtaining a license from the state, the other prohibits the use of the title CPA to those who hold a certificate (Edwards, 1956). The particular method adopted by a state is not relevant to the sociological analysis.

However, while not a Federal license, the next stage did introduce a Federal presence in the profession.

The fourth and final milestone of the rise of the American accounting profession begins with the Securities Act of 1933 and the Securities Exchange Act of 1934. With these Acts, the American accounting profession was solidified as a profession. The enclosure was complete as it moved from state-only jurisdiction, to a more encompassing Federal jurisdiction.

1933 to 1972

While the Federal government does not license public accountants, through the Securities Exchange Commission it regulates who may audit the financial statements of publicly traded companies and who may practice before it. These rights and privileges may be of more value than the actual license since the Securities laws restricted access to a major source of revenue for auditing publicly traded companies (Briloff, 2002).

The forty-year period from 1933 to 1972 can be considered the Golden Age as the profession reorganized, regrouped and re-emerged with a new sense of power and prestige in response to its new rights and opportunities. One of the principal purposes of public accounting laws as they exist today is to restrict the right to express opinions regarding financial statements to CPA (Edwards, 1956; MacIntosh & Shearer, 2000Fogarty & Parker, 2010; App. A). The '33 Act and '34 Act bestowed upon public accountants the exclusive right to perform the financial statement audits required of publicly traded companies.

With the '33 Act and '34 Act the meaning to the profession of the monopoly function of public accounting comes into full play. The problems engendered by multi-state jurisdictional control over licensing and the right to practice public accounting took a back seat as the Federal legislation took precedence.[7] Whether a state licenses public accountants, or merely restricts the right to use the title, became moot as did the differences in admission standards. The profession was now empowered at the Federal level.

As with the Income Tax Amendment, the Securities Acts had far reaching social consequences for the accounting. As a result of the Securities Acts the monopoly for auditing the financial statements of publicly traded companies sealed the power, prestige, class, and status of the American accounting profession. Furthermore, the relationship of the American accounting profession to capitalism was also explicitly confirmed as the Securities laws were specifically enacted to facilitate raising capital.[8]

The Securities and Exchange Commission created by the '34 Act is empowered by Congress to adopt and enforce accounting principles and standards. However, the SEC is also authorized to delegate its power to establish and enforce accounting principles and standards to a private entity.[9] That entity was the AICPA. Although the SEC was charged with the responsibility of adopting GAAP, it more often than not deferred to the AICPA thereby again increasing the power and status of the American accounting profession as expressed through the AICPA.

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[7] The 1933 Act requires the registration of securities, while the 1934 Act established the Securities and Exchange Commission. It is the SEC that regulates, through it rule-making power, the qualifications of accountants (17 CFR §210.2-01) and the content of accountants' reports and attestation reports (17 CFR §210.2-02). The intricacies of Federal Securities Laws are beyond the scope of this paper.

[8] 15 USC § 77b - Definitions; promotion of efficiency, competition, and capital formation…(b) C**onsideration of promotion of efficiency, competition, and capital formation.** Whenever pursuant to this subchapter the Commission is engaged in rulemaking and is required to consider or determine whether an action is necessary or appropriate in the public interest, the Commission shall also consider, in addition to the protection of investors, whether the action will promote efficiency, competition, and capital formation.

[9] 15 U.S.C. § 77s—Special Powers Of Commission Under The Securities Act Of 1933…(b) Recognition of accounting standards (1) In general In carrying out its authority under subsection (a) of this section and under section 78m(b) of this title, the Commission may recognize, as "generally accepted" for purposes of the securities laws, any accounting principles established by a standard setting body--(A) that--(i) is organized as a private entity; (ii) has, for administrative and operational purposes, a board of trustees (or equivalent body) serving in the public interest, the majority of whom are not, concurrent with their service on such board, and have not been during the 2-year period preceding such service, associated persons of any registered public accounting firm;

From 1936 to 1959 Generally Accepted Accounting Principles were established by the AICPA's Committee on Accounting Procedure (CAP). From 1959 to 1972 GAAP was established by the Accounting Principles Board (APB), also an extension of the AICPA. The power and status of the American accounting profession was unquestioned and unchallenged, protected at both the state and Federal level.

Moreover, not only were financial statements of publicly traded companies required to be audited by CPAs, the auditing standards for how the audits were to be conducted were also determined by the AICPA. Beginning in 1939 with the AICPA's Committee on Auditing Procedure began issuing standards for audits, later known as Generally Accepted Auditing Standards (GAAS). This was followed by the Auditing Standards Board in 1978. At various times the SEC did exercise its authority and require certain audit standards to be enforced, but overall the SEC deferred to the AICPA for GAAS just as it did for GAAP.

To keep pace with the expanded functions and duties, accounting firms merged and reorganized, with what became known as the Big 8 eventually dominating the profession not just in the United States but globally. As argued by Cooper and Robson (2006) the multi-national accounting firms play an important role in the professionalization and regulatory processes. They

> are important sites where accounting practices are themselves standardized and regulated, where accounting rules and standards are translated into practice, where professional identities are mediated, formed and transformed, and where important conceptions of personal, professional and corporate governance and management are transmitted.

Not without complaints and criticisms from the public, Congress, and corporations, the power of the AICPA and the American accounting profession continued to increase from 1933 to 1972. The prestige and social status of the public accounting profession continued its upward trend. The power bestowed by state licensure and Federal securities laws confirms the ideology of the public accounting professions that only the independent public accountant is competent and objective to perform audits and issue opinions concerning the financial statements of public companies (Montagna, 1971). However, the power, prestige and social status of the American accounting profession began to unravel in 1973.

The Decline and Fall of the American Accounting Profession

1973 to 2001

The beginning of the decline and fall of the American accounting profession commences in 1973. Although created in 1972, the Financial Accounting Standards Board did not begin official operations until 1973 (Previts & Merino, 1998; FASB, 2012).

The American accounting profession, as expressed through the AICPA, had been heavily criticized from 1936 to 1972 over its failure to adopt meaningful accounting principles what was seen as a refusal to stand up to corporate demands. The AICPA finally surrendered to the mounting political and social pressure by agreeing to establish the FASB as an organization independent of the AICPA to establish GAAP (Previts & Merino, 1998; FASB, 2012). The SEC would henceforth recognize the FASB as the entity for developing accounting principles.[10] The impact was devastating to the profession. As Zeff (2003a) observes

> in abandoning its rule-making function the AICPA has lost its most conspicuous source of prestige and good public relations potential. At the same time, it has extricated itself from the center of dissent and turmoil caused by recalcitrant accounting firms that were more interested in pushing their own views than in working within the institutional structure and reaching a consensus.

At this point, comparing Zeff's observation to Cooper and Robson's (2006) argument that multi-national accounting "are important sites where accounting practices are themselves

[10] "Since 1973, the Financial Accounting Standards Board (FASB) has been the designated organization in the private sector for establishing standards of financial accounting that govern the preparation of financial reports by nongovernmental entities….The SEC has statutory authority to establish financial accounting and reporting standards for publicly held companies under the Securities Exchange Act of 1934. Throughout its history, however, the Commission's policy has been to rely on the private sector for this function to the extent that the private sector demonstrates ability to fulfill the responsibility in the public interest." (FASB, 2012)

standardized and regulated, where accounting rules and standards are translated into practice, where professional identities are mediated, formed and transformed, and where important conceptions of personal, professional and corporate governance and management are transmitted" yields an important insight. It reveals that the multinational accounting firms are forming professional identities that are contrary to the public interest.

By 1976 six of the Big 8 firms stopped referring to themselves as CPAs, used choosing rather to identify themselves as accountants or auditors. By 1985 the media began describing public accounting as an industry rather than a profession (Zeff, 2003b).

The final chapter in the history of the decline and fall of the American accounting profession was the creation of the Public Company Accounting Oversight Board (PCAOB). Having threatened the profession for years, Congress finally followed through in 2002.

2002 to 2011

Created in 2002 as part of the Sarbanes-Oxley Act in response to the Arthur Andersen's role in the collapse of Enron, the PCAOB did not address public accountants, or public accounting *per se*. Rather, the purpose of the PCAOB is to

> oversee the audit of public companies that are subject to the securities laws, and related matters, in order to protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports for companies the securities of which are sold to, and held by and for, public investors (17 USC 7211, Sec. 101(a)).

The PCAOB is not a government agency but a not-for-profit corporation created by Congress. Its duties are to

> (1) register public accounting firms that prepare audit reports for issuers, in accordance with section 102;
> (2) establish or adopt, or both, by rule, auditing, quality control, ethics, independence, and other standards relating to the preparation of audit reports for issuers, in accordance with section 103;

> (3) conduct inspections of registered public accounting firms, in accordance with section 104 and the rules of the Board;
> (4) conduct investigations and disciplinary proceedings concerning, and impose appropriate sanctions where justified, upon registered public accounting firms…
> (5) perform such other duties or functions as the Board (or the Commission, by rule or order) determines are necessary or appropriate to promote high professional standards among, and improve the quality of audit services offered by, registered public accounting firms and associated persons thereof, or otherwise to carry out this Act, in order to protect investors, or to further the public interest;
> (6) enforce compliance with this Act, the rules of the Board, professional standards, and the securities laws relating to the preparation and issuance of audit reports and the obligations and liabilities of accountants with respect thereto, by registered public accounting firms and associated persons thereof… (17 USC 7211, Sec. 101(c)).

In a case of "the Congress giveth, and the Congress taketh away," Congress stripped the AICPA of its last power—the ability to create and enforce auditing standards for auditing publicly traded companies. From 1936 to 2001 the AICPA established the auditing standards for auditing publicly traded companies. After Sarbanes-Oxley, the AICPA could still establish and enforce auditing standards, but only for non-public companies. The loss of its ability to establish auditing standards for publicly traded companies was a fatal blow to its power, status, and prestige.

It should be noted that another event has also been interpreted as contributing to the decline of the status of the American accounting profession. In 977 the U.S. Supreme Court struck down as unconstitutional the legal profession's ban on advertising.[11] Shortly thereafter the accounting profession also began to advertise. Advertising was blamed for the decline in the status of the profession, but absent the other problems it is doubtful that advertising alone could have been responsible. At best it just made a bad situation worse.

Finally, "pride goeth before a fall." A series of actions by the AICPA beginning in 1987 and continuing through 2011 contributed significantly to the further decline and fall of the public

[11] Bates v. State Bar of Arizona, 433 U.S. 350 (1977).

American accounting profession from a sociological point of view. Those actions are discussed in the next section.

"I Have Become All Things to All Men if by All Possible Means I Might [reap economic surplus]"

With apologies to St. Paul (I Cor. 9:22), the AICPA has demonstrated a clear intent to "become all things to all men." With the creation of specialty certificates in business valuation, personal financial planning, information technology, forensic accounting, and management accounting, the American accounting profession, as embodied in the AICPA, began to lose its focus on its *raison d'être* of the profession—to audit the financial statements of publicly traded companies.

Chiasson, Gaharan, and Mauldin (2006) noted that prior to 1981 members of the AICPA were prohibited from claiming a specialty since "claims of specialties were thought to be unnecessary, misleading, and divisive." Whether its loss of focus is the cause or the result of specialties, whether it is the chicken or the egg, may be indeterminable, but its loss of focus cannot be questioned.

Xu and Wang (2008) report that auditing and attestation services provided by the top 100 CPA firms provide 44% of firm revenue compared to 56% for all other services combined. (See also Zeff, 2003b).

Fogarty and Parker (2010) suggest that the accounting profession should expand into specialized areas. But that would be advisable only if public accounting is not a profession. They are wrong if public accounting is a profession. The American accounting, as a profession, has a singular purpose for its existence—auditing the financial statements of publicly traded companies. Once it escapes from the confines that define its enclosure by state and Federal laws by expanding into areas for which it has no enclosure, it forfeits the right to be considered a profession sociologically.

Before looking at the specialties, we must first consider the AICPA's Code of Professional Conduct in conjunction with the mission of the AICPA's *National Accreditation Commission* (NAC). Public accounting is, as a profession, supposed to be concerned with the public interest. Whether that interest is called the public interest, altruism, or something else (see the discussion of public interest above), and what constitutes the public interest, the debate will certainly not be resolved here. What is important for our examination is the AICPA's Code of Professional Conduct which states

> Members should accept the obligation to act in a way that will serve the public interest… A distinguishing mark of a profession is acceptance of its responsibility to the public. The accounting profession's public consists of clients, credit grantors, governments, employers, investors, the business and financial community, and others who rely on the objectivity and integrity of certified public accountants to maintain the orderly functioning of commerce. This reliance imposes a public interest responsibility on certified public accountants. The public interest is defined as the collective well-being of the community of people and institutions the profession serves…Those who rely on certified public accountants expect them to discharge their responsibilities with integrity, objectivity, due professional care, and a genuine interest in serving the public (AICPA, 1988).

This statement is admirable, but is hypocritical at best and deceptive at worst. The NAC issues new specialty certifications only where "there is no dominant provider already in place, or if there is a significant competitive threat to the services already provided by members of the AICPA," and "only if the market is sufficiently large, there is a clear potential economic benefit to CPAs, and the timing can 'outpace any competition.'" (AICPA, 2006). No mention is made in the NAC mission concerning the public interest. On the contrary, the AICPA is concerned not with the public interest, but with clear, potential economic benefit to its members.

Incongruously, new specialty certifications will be considered only "…if there is a significant competitive threat to the services already provided by members of the AICPA." As a profession, there can be no competitive threat. CPAs have a statutory monopoly on auditing services from both the state and Federal governments (Fogarty & Parker, 2010; Edwards, 1956). If CPAs provide other services, the services so provided are not related to its legal monopoly since anyone can and does provide those services.

The specialty certifications issued by the AICPA are the ABV, PFS, CITP, CFF, and CGMA. The first objective of the PFS, or Personal Financial Specialist specialty certification, is to "increase public awareness of PFS as the preferred financial planning credential" (AICPA, 2012b). The PFS was first issued in 1987, fourteen years after the College for Financial Planning (now the Financial Planning Standards Board) began issuing the Certified Financial Planner (CFP) certification. The FPSB "is the preeminent international financial planning standards authority for competent and ethical financial planners," and "the CFP certification is the standard of excellence for financial planning professionalism worldwide" (FPSB, 2012). It is difficult to reconcile professional financial planning services with the purpose for which the public accounting profession has been granted a monopoly.

The Accredited in Business Valuation (ABV) specialty certification dates back to 1996. The objectives of the ABV include "increas[ing] the public awareness of the CPA as the preferred business valuation professional" and "ensur[ing] the continued competitiveness of CPAs versus other valuation services providers…" (AICPA, 2012a). One of the competitive valuation service providers is the National Association of Certified Valuation Analysts (NAVCA). Incorporated in 1991, NACVA issues the Accredited Valuation Analysts (AVA) and Certified Valuation Analyst (CVA) certifications. NACVA and its business valuation certifications are not a competitive threat to the public accounting profession since, again, the sole reason it is a profession stems from its auditing services.

The Certified Information Technology Professional (CITP) specialty certification was first issued in 2000. The CITP as it is currently designed concentrates on "information technology expertise relating to audit and attest services and financial data components, analysis and reporting. The holder of the revised credential represents a CPA who provides assurance to financial information or insight to business data, process or reporting" (AICPA, 2012c). The stated purpose of the CITP is that it "focuses on information assurance and business insight required to bridge the gap between company management and the technology they leverage" and explicitly contrasts it with the Certified Information Systems Auditor (CISA) credential which the AICPA claims "strictly focuses on the skills and knowledge required to perform information systems audits." However, ISACA, incorporated in 1969 as the EDP Auditors Association and the sponsor of CISA, is "a leading global provider of knowledge, certifications, community, advocacy and education on information systems assurance, control and security, enterprise governance of IT, and IT-related risk and compliance" (ISACA, 2012). It can safely be noted that bridging the gap between company management and the technology they leverage is not related to its auditing function.

The first Certified in Financial Forensics (CFF) specialty certification was issued in 2008. According to Robert Harris, chair of the National Accreditation Commission, "The credential, Certified in Financial Forensics (CFF), will combine specialized forensic accounting expertise with the core knowledge and skills that make CPAs among the most trusted business advisors" (AICPA. 2008). Acting as business advisors is *ultra vires* to the auditing function. Furthermore, the Association of Certified Fraud Examiners, claiming 60,000 members, began offering the

Certified Fraud Examiner certification in 1991. NACVA also began issuing the Certified Forensic Financial Analys (CFFA) in 2000 (NACVA, 2012).

Finally, the Chartered Global Management Accountant Designation (CGMA) is the latest specialty certification, which the AICPA began issuing jointly with the Canadian Chartered Institute of Management Accountants (CIMA) in 2011. Its mission is "to promote the science of management accounting on the global stage. The designation champions management accountants and the value they add to an organization" in order to "boost the career prospects of management accountants across the world" (AICPA, 2012d). That is indeed a noble goal, but totally unrelated to auditing services.

Noting the NAC's reasons for issuing specialty certifications ("there is no dominant provider already in place, or if there is a significant competitive threat to the services already provided by members of the AICPA…if the market is sufficiently large, there is a clear potential economic benefit to CPAs, and the timing can 'outpace any competition") the motives of the AICPA are suspect to say the least. The Institute of Management Accountants (IMA), founded in 1919, with its Certified Management Accountant (CMA) certification, is clearly the dominant provider. CMAs are not a competitive threat to CPAs since the legislatively protected domain of CPAs is auditing, while the CMA is "the advanced professional certification specifically designed to measure the accounting and financial management skills that drive business performance." The CMA demonstrates "mastery of financial planning, analysis, control, and decision support" (IMA, 2012). The domains do not overlap.

A monopoly license, enclosure, is not necessary to perform any of the services of the specialty certifications. There are, in fact, no licenses for any of the identified specialties.

While the specialty certifications attest to the AICPAs incursion into to management accounting, business advising, and personal financial, stronger evidence of its hubris can be found in the its failed attempt—the "XYZ Credential" discussed in the following section. It was, in fact, the American accounting profession extending itself (although it was by the accounting firms rather than the AICPA) into management services that resulted in the downfall of Enron, contributed to the demise of Arthur Andersen, and precipitated the adoption of the Sarbanes Oxley Act.

The Failed Global Credential

In 2000, the AICPA initiated "Vision Project" and what it referred to as the "global credential," which it temporarily designated "XYZ," intended to provide a variety of information services to international businesses (Elliott, 2001; Shafer & Gendron, 2005). A CPA would not have been a prerequisite as it is with the other specialty certifications. However, the XYZ was defeated in a membership vote because members felt it would increase completion with CPAs (Reiter & Zhou, 2002).

The Vision Project was a failure (MacIntosh & Shearer, 2000; Fogarty, Radcliffe, & Campbell, 2006). But more than a failure, it demonstrated the AICPA's intent to invade and occupy the jurisdiction and domains of other occupational groups and professions.

Conclusion

This paper examined the history of the decline and fall of the American accounting profession by first examining the sociology of professions and accounting as a profession according to the sociology of professions. It then traced the history of rise of the American accounting profession through four distinct periods marked by the legislation most responsible for the profession's rise to power and that contributed most to establishing its status and prestige as a profession. It then analyzed the two legislative events that stripped the profession of its power, status and prestige along with the actions of the AICPA during those two periods that contributed it to its loss of focus.

The conclusion can be reached by considering the answers to the following questions. Can the American accounting profession still be considered a profession sociologically if it lacks most of the traits of a profession: no altruism/public interest; no control over the qualifications of admission to the profession; no control over the educational requirements; a code of ethics the violation of which cannot result in expulsion from the profession? Can the American accounting profession still be considered a profession when the power to create and control the knowledge within its domain is non-existent (FASB)? Can the American accounting profession still be considered a profession when it has no power to control the relationship between it and its clients (PCAOB)? Can the American accounting profession still be considered a profession when the sole purpose for which has been granted a monopoly is no longer the major source of its revenue (auditing)? Can the American accounting profession still be considered a profession when it cannot control the sole purpose for which has been granted a monopoly (auditing)?

I believe the answer is no.

The American accounting profession will never regain of its former glory. The creation of the FASB and PCAOB has finalized that. The spread of specialty certifications makes it highly unlikely that it will abandon them but perhaps the specialty certifications can be spun-off into separate organizations and certifications, or absorbed by currently existing organizations and certifications, so it can concentrate more fully on it purpose, if it were truly committed to its reason for existence.

The specialty certificates are an unnecessary burden and distraction from the purpose of the licensing laws – to audit. It is not in the public interest that the AICPA claims to serve. It is in the economic interest of individual CPAs. CPAs can fulfill their mandate without the additional certifications. In terms of specialization of labor, there are others who can do as good a job, if not better, within their domains. There is no need to compete in other arenas, since no one can compete in theirs.

Within the sociology of professions there are numerous references to and studies of new and emerging professions. There has been scant research on dying professions. This may be the first.

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Appendix A

New York State Licensed Professions
New York State Education Law
Article 149, Public Accountancy

§7400. Introduction.
This article applies to the profession of public accountancy. The general provisions for all professions contained in article one hundred thirty of this title apply to this article.
§7401. Definition of practice of public accountancy.
The practice of the profession of public accountancy is defined as:

1. offering to perform or performing attest and/or compilation services, as defined in section seventy-four hundred one-a of this article;
2. incident to the services described in subdivision one of this section, offering to perform or performing professional services for clients, in any or all matters relating to accounting concepts and to the recording, presentation, or certification of financial information or data; or
3. offering to perform or performing, for other persons one or more types of the following services including but not limited to accounting, management advisory, financial advisory, and tax exclusive of services within subdivisions one and two of this section, involving the use of professional skills or competencies of the licensed accountant as described in the rules of the board of regents, including professional services rendered to one's employer not required to register under section seventy-four hundred eight of this article, in any and all matters related to accounting concepts and to the recording of financial data or information or the preparation or presentation of financial statements.

§7401-a. Definitions.
As used in this article:

1. "Attest" means providing the following public accountancy services which all require the independence of licensees:
    a. any audit to be performed in accordance with generally accepted auditing standards or other similar standards, developed by a federal governmental agency, commission or board or a recognized international or national professional accountancy organization, that are acceptable to the department in accordance with the commissioner's regulations;
    b. any review of a financial statement to be performed in accordance with standards, developed by a federal governmental agency, commission or board or a recognized international or national professional accountancy organization, that are acceptable to the department in accordance with the commissioner's regulations;
    c. any examination to be performed in accordance with attestation standards developed by a federal governmental agency, commission or board or a recognized international or national professional accountancy organization, that are acceptable to the department in accordance with the commissioner's regulations; or
    d. any engagement to be performed in accordance with the auditing standards of the public company accounting oversight board.

2. "Certified public accountant" or "CPA" means any person who has received a license from the department or any other state as a certified public accountant for the practice of public accountancy.

§7402. Practice of public accountancy and use of title "certified public accountant" or "public accountant".

Practice of public accountancy and use of title "certified public accountant" or "public accountant". Only a person licensed or otherwise authorized to practice under this article shall practice public accountancy or use the title "certified public accountant" or the designation CPA or "public accountant" or the designation PA or any other derivative or designation provided in section seventy-four hundred eight of this article.

Available from http://www.op.nysed.gov/prof/cpa/article149.htm

Appendix B. Original 1896 Law

Chapter 312. Laws of 1896
Passed Assembly 3 April, 1896; Passed Senate
7 April, 1896.
Signed by Governor 17 April, 1896
State of New York

An Act to Regulate the Profession of Public Accountants.

The people of the State of New York, represented in the Senate and Assembly, do enact as follows:

Section 1. Any citizen of the United States, or person who has duly declared his intention of becoming such citizen, residing or having a place for the regular transaction of business in the State of New York, being over the age of twenty-one years and of good moral character and who shall have received from the Regents of the University a certificate of his qualifications to practice as a public expert accountant as hereinafter provided, shall be styled and known as a Certified Public Accountant; and no other person shall assume such title, or use the abbreviation C.P.A. or any other word, letters or figures, to indicate that the person using the same is such Certified Public Accountant.

Section 2. The Regents of the University shall make rules for the examination of persons applying for certificates under this act, and may appoint a board of three examiners for the purpose, which board shall, after the year eighteen hundred and ninety-seven, be composed of Certified Public Accountants. The Regents shall charge for examination and certificate such fee as may be necessary to meet the actual expenses of such examinations, and they shall report annually their receipts and expenses under the provision of this Act to the State Comptroller, and pay the balance of receipts over expenditures to the State Treasurer. The Regents may revoke any such certificate for sufficient cause after written notice to the holder thereof and a hearing thereon.

Section 3. The Regents may, in their discretion, waive the examination of any person possessing the qualifications mentioned in Section 1 who shall have been for more than one year before the passage of this Act, practicing in this State on his own account, as a public accountant, and who shall apply in writing for such certificate within one year after the passage of this Act.

Section 4. Any violation of this Act shall be a misdemeanor.

Section 5. This act shall take effect immediately.

(Edwards, 1955)