International Accounting through the Political Development Theories

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Summary:

In this paper, we analyze the growth of socio-economic inequality in the context of international accounting through the lenses of some key political theories. Specifically, we argue that international accounting has become a "globalization tool" used by many developed countries to further increase the socio-economic inequality across countries. As a key premise to this argument, we note that the universal acceptance of international accounting standards by developed and developing countries could be explained with the use of the development and modernization political theories. These two theories are used extensively to explain the growing inequality between developed and developing countries. With this premise and the explanatory power of these two theories, we could successfully argue that the social-economic inequality is further increased with the establishment of the international accounting.

Key words: International accounting, development theory, modernization theory, inequality

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Introduction

In this paper, we analyze the growth of socio-economic inequality in the context of international accounting through the lenses of some key political theories. As a starting point to this discussion, we note that the world as we know it has experienced dramatic changes over the past couple of years. As a result of the recent financial meltdown, there has been a great redistribution of wealth, great reshifts of economic and political power with many transposition effects on the socio-economic inequality. These outcomes are further amplified with the universal acceptance of the international accounting standards (as

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a globalization tool) which would be the topic of this paper. Subsequently, we note that these dramatic changes will have a profound effect on the livelihood of many generations and will also contribute to the increasing level of inequality.

In recent literature, many cases have been cited in an attempt to explain the inequality among states such as "disparity in wages and salaries" (Lucian, 2004), "wealth concentration" (Bouchaud, 2000), "labor markets" (Gurría, 2011) and "policy reforms" (Gurría, 2011), among others. In this paper, we add the universal acceptance of the international accounting as a "globalization tool" that contributes to the growing inequality. However, to fully understand how international accounting affects inequality, we need to adopt a theoretical approach and analyze some of the key political development theories. Utilizing this approach would provide greater explanatory power as to how international accounting adds to the core causes of inequality among states. More specifically, this paper analyzes two key political theories, such as the "dependency" and "modernization" theories that help explain the *two causes* of existing inequality in the global world economy in the context of accounting. With regard to the dependency theory, global poverty is the result of exploitation of poor societies by rich societies. With regard to the modernization theory, global inequality results from the different levels of technological development among societies. This is due to unequal access to resources because of local factors, such as cultures, traditions and institutions. These two causes (viewed in these two theories) would be discussed in sections 2 and 3 of this paper, in the context of international accounting. In this paper, we further discuss how international accounting standards have been used as a globalization tool and how they have contributed to the explanatory power of these two theories. We note that even though the two political theories provide different explanations to the growing inequality, their assumptions are based on the openness of the global market as a result of the process of globalization. As a result, it is critical to briefly discuss the globalization *in general* and growing inequality, prior to correlating it to the dependency and modernization theory. In other words, this paper attempts to interconnect globalization and international accounting standards as its tool to these two theories. The accomplishment of this key objective/ premise would help up us further evaluate how international accounting (as a tool of globalization) has increased inequality. The effects of globalization and at its tools, such as the universal acceptance of common accounting standards in the context of the recent economic crisis, on inequality would be discussed next.

After the financial collapse of 2008, the world has experienced a serious re-shift of economic power. Countries in the

West, which were once considered to be the "economic strongholds" of the modern economic order, have now experienced near bankruptcy conditions, seeking financial assistance from outside. The roots of their problems were wrongful spending, improper use of resources, bad lending practices, to name just a few. However, the effects of the financial crisis would not have the same financial magnitude if it was not for the process of globalization and the universal acceptance of international accounting standards. Through the process of the globalization, domestic regulators pushed through the establishment of international accounting rules that are to be universally accepted across countries. The assumption was that these universal international accounting standards would benefit users and preparers of the accounting information. This is easily accomplished, as with universal standards it is easier for users to evaluate accounting information and make investment decisions, among other things. In general, this accounting transformation across countries has been determined by the ultimate goal of globalization, which is the "removal of national barriers to trade, travel and transfers of all kinds" (Magstadt, 2010).

As many countries have started to accept the international accounting standards as a statutory reporting requirement, this allowed many countries to open themselves to the outside world, report their operations in a "common language", sell their products and services and seek cheaper labor costs, etc. However, at the same time, this process made it easier for countries to borrow from outside, once all internal sources have been depleted. This created a "financial cushion" to meet short- and long-term obligations as they came through. Such borrowing was financially rational as long as the countries could produce their goods and services and repay the principal with the interest. At the time it was considered to be a positive condition, as it allowed countries to continue to produce more products and services in the absence of the necessary resources. This created a virtual strong dependency between borrowers and lenders, as their success was directly linked. Unfortunately, with the initial collapse in the US (in 2008), mainly due to bad lending practices, many companies were forced to seek liquidity from the government, in order to prevent further crashes down the chain. However, such measures brought further costs, incurred by increased borrowing and increased reshifts of wealth. These processes have further concentrated power in the "too big to fail" companies within the developed world. This has caused further division and an increase in global inequality as developing countries do not have similar mechanisms with similar effects as do developed countries to combat the economic crisis. Thus, they are left quite poor and unable to compete with the huge and powerful corporations in the developed countries, especially amid

a crisis. As a result of globalization (and its financial tool – international accounting standards) under the existing international economic conditions inequality inevitably grows. Some countries and economic entities will gain from this growth of inequality, others will suffer losses.

1. Dependency Theory in the context of socio-economic inequality

Per the dependency theory, countries are increasingly interested in their well-being and own welfare. As countries start to develop, they have to define and specialize their labor force. As this process is refined, the labor function becomes highly specialized with the level of technology, and as a result countries become dependent on one another. The dependence theorists believe that the underdevelopment in some countries is due to their dependence on and exploitation by others, or so called industrialized nations. Furthermore, this theory holds the view that there is a segregation of the industrial center and agro-resource periphery. Under such a scenario, the center exploits the periphery and ignores their interests. Per this theory, "resources" are obtained from the "periphery and flow towards the states at the center in order to sustain their economic growth and wealth" (Eneji et al, 2012). As this theory argues, "developed countries benefit from the global capitalist linkages and dynamic development based on internal need, while the developing countries are constrained because of their interaction with the developed" (Cohn, 2008). This makes it almost impossible for self-development of poor countries (Baran, 1975, Griffin and Gurley, 1985).

In the context of international accounting standards, some could argue that developed countries use international accounting standards as a tool of exploitation of developing countries. Through the common accounting standards, developed countries can obtain the necessary information for their exploitation objectives and as a result, the scheme of center and periphery could be accomplished. With the power of information at its proper disposal, developed countries have the knowledge and the capability to go after the weak states as they have information regarding their resources. This ensures that they pursue their exploitation tactics against the "right" states. That is, the means of obtaining the center and periphery relation is accomplished via these exchanges of financial information.

2. Modernization theory in the context of socio-economic inequality

Unlike the theory of "dependency", the "modernization" theory tries to understand the internal variables that a developing country needs to have and/or establish in order to reach the same level of economic development as in a developed country. In a sense, this theory creates an image of a developed country, raising a series

of questions to understand the way of reaching its development. Once the development processes have been properly defined, they transmit to the developing countries the message that if they follow a specific approach, they will reach the economic level of the developed countries. It is a way of creating a plan of how to achieve social progress among countries seeking further development. This theory does not only look only at the economic and political conditions that are necessary. It also analyzes the steps to achieve this planned social evolution. Many political analysts and researchers have criticized that modernization theory as being over optimistic and even though inequality exists, the poor and powerless eventually would catch up with the developed and wealthy ones. However, it is not so easy to catch up to the developed countries as they would not remain constant but continue their development. Given this condition, there is a constant struggle by developing countries to reach the level of development of a developed country with greater resources which continues its development.

In the context of accounting, some could argue that developed countries have achieved their development by making the right decisions at the right time. In order to accomplish this, developed countries had to obtain the proper financial information for their decision making process. This has been accomplished via the international standards. In the context of modernization theory, developed countries send a message to developing countries to accept the international standards as this would ensure that they enjoy the same level of development as their counterparts. However, there is a critical obstacle to this objective and its tradition, which is discussed in the following paragraph.

The idea is that new development via new technology or new accounting set of standards is not likely to be accepted by all developing societies. As political scientist Harrison (2008) notes, "tradition" is the greatest deterrent to economic development. There are cultural differences, values and traditions which makes it difficult for some developing countries to change their imbedded traditions in order to achieve greater wealth. This creates a dilemma for developing countries to choose between their past traditions and opportunity for a better lifestyle as measured by developed countries. In the past developing countries have been at crossroads and they have not so readily accepted the modernization concepts provided by richer countries. Hence, there appears to be growing inequality.

Conclusion

In the above sections, "dependency" and "modernization" in the context of socio-economic inequality has been discussed. As have been noted, these

are some of the political theories that have helped "shape our international political economy (IPE)" as we know it (Cohn, 2008). The paper holds the view that these theories are still relevant in the context of today's world economy and could provide insights into the socio-economic inequality. Generally speaking, "dependency" and "modernization" theories are believed to provide two different explanations to the growing inequality. At times the two theories may be applied at the same time and be used as an explanatory tool in the same environment. In general terms, the "dependency theory" takes the liberal view, arguing that there is relationship dependence among countries (Cohn, 2008). As an alternative, the modernization theory takes the realistic standpoint and regards states as struggling for power in their attempt to achieve their objectives.

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