

Being accountable: Enron, Arthur Andersen

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An accountant—so goes the joke—is someone who solves financial problems you didn't know you had in a way you don't understand. Doubtless the accountant jokes have gotten a lot nastier with news that the world's largest accounting firm, Arthur Andersen, indulged in some unusually lax methods on behalf of the Enron corporation, apparently to retain lucrative consulting fees. Andersen also helped create the "special purpose" partnerships that allowed Enron to move large debts off its balance sheets and thereby sustain its inflated stock value—until the house of cards finally crashed in December. Enron's collapse erased thousands of people's jobs, investments and pensions. In this case, the accountants chose to ignore—if they didn't help create—the financial problems that Enron officials didn't want anyone to understand.

The accounting profession has been deeply tarnished by its role in the Enron debacle. The crisis is a reminder that accounting at its best is indeed a profession. That is, unlike, say, plumbing, and more like practicing law or medicine, accounting involves more than offering technical knowledge to a customer for a fee. Just as a true lawyer serves justice, not merely the client, and as a doctor serves the health of her patients, not the health-care industry, an accountant serves a publicly shared standard for evaluating a company's financial status. He doesn't merely serve at the beck and call of the firm that hires him. In this sense, the accountant serves a public interest. Aptly enough, a credentialed accountant is termed a Certified Public Accountant.

Since Enron's collapse, politicians and business leaders have been calling for regulations and reforms to ensure that accountants and businesses supply accurate data. The favored word for this social good is transparency (until now a term mostly used to highlight something missing in Third World governments). Capitalism cannot function without a high level of transparency. Everyone from the savviest stockbroker or investor to the employee looking at his 401(k) statement or counting

on his pension needs dependable information. Even conservative columnist George Will was moved to note that a stable free-market system does not arise spontaneously but “is a complex creation of laws and mores that guarantee, among, other things, transparency, meaning a sufficient stream—torrent, really—of reliable information about the condition and conduct of corporations.”

Professions like law and medicine are under pressure these days to redefine themselves in response to the demands of the marketplace. The “laws and mores” that encourage truly professional behavior—behavior that serves the larger good of the profession and the public—are weakening in the face of new business practices. But as the Enron-Andersen disaster shows, the weakening of these laws and mores in the business world endangers the functioning of the marketplace itself.