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Fixing Public Sector Finances: The Accounting and Reporting Lever.

Abstract:

The finances of many states, cities, and other localities are in dire straits. In this Article, we argue that partial responsibility for this situation lies with the outdated and ineffective financial reporting regime for public entities. Ineffective reporting has obscured and continues to obscure the extent of municipal financial problems, thus delaying or even preventing corrective actions. Worse, ineffective reporting has created incentives for accounting gimmicks that have directly contributed to the dramatic decline of public sector finances. Fixing the reporting regime is thus a necessary first step toward fiscal recovery. We provide concrete examples of advisable changes in accounting rules and advocate for institutional changes, particularly Securities and Exchange Commission involvement, that we hope will lead to better public accounting rules generally.

Download the Paper.

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March 1, 2015

UCLA Law Review, Vol. 62, No. 3, 2015

Harvard University John M. Olin Center for Law, Economics, and Business Discussion Paper No. 814

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