

Enron effect?

A federal law restricting auditors' relationships to the companies they audit may indirectly reduce funds for innovation rather than protect investors, according to research by Dino Falaschetti, an MSU economist who served the President's Council of Economic Advisers last year. Falaschetti and fellow MSU economist James Brown studied the Sarbanes Oxley or "SOX" law. Part of SOX requires auditors to forego other business from the companies they audit. The economists tested whether that provision makes U.S. financial markets safer, an issue that previous research had not been able to address. Their study showed little impact from SOX. "It surprised us when we found no evidence that auditor independence matters," said Falaschetti. "Markets had responded to information about auditor independence better than the law could."