‘The Eurozone Crisis and IPSAS: déjà vu, all over again – and again’

Rowan Jones
Professor of Public Sector Accounting
University of Birmingham
R.Jones@bham.ac.uk

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My/our recent directly-relevant work

Lüder, K. and Jones, R., 2001-3, 'European Comparative International Government Accounting', funded by PwC Deutsche Revision, €280,000 (known as the Euro-CIGAR project, see cigar-network.net). A study of accounting and budgeting at all levels of government in 9 West European countries (with 17 researchers from those countries):

My/our recent directly-relevant work

Jones, R. (with Evelyne Lande, Klaus Lüder, Maurice Pendlebury, Marine Portal and James Patton), 2010, ‘Foreign Countries Government Accounting Management and Reform Experience’, Ministry of Finance, China, and World Bank, $44,000:

The Eurozone Crisis and IPSAS

• May 2011, the EU published a proposal for a Council directive on requirements for budgetary frameworks of the Member States, which included Article 3(1b):
  “Member States shall move to adopt International Public Sector Accounting Standards within three years of this Directive coming into force”.

• November 2011, Council Directive 2011/85/EU was published, which included Article 16(3):
  — “By 31 December 2012, the Commission shall assess the suitability of the International Public Sector Accounting Standards for the Member States”.

• “EUROSTAT will carry out this assessment...” [EUROSTAT, 2012]
Déjà vu, all over again

Fiscal crisis begets accrual accounting:
  – Eurozone and IPSAS, 2011-12
  – New Zealand government (say, 1990)
  – New York City and State (say, 1976)
  – [US federal government (say, 1990) could easily have been added]

Had I taken this further, the hypothesis would have been that accrual accounting didn’t help in subsequent fiscal crises...with the implication that it won’t help now
The nature of IPSAS

- Accrual accounting
- Business accounting
- Financial reporting
- Codification by the Accounting Profession - of accrual-based accounting policies for financial reporting
- Applicable to all ‘public sector entities’, not just national governments
National governments

When we look at national governments “through the eyes of accountants” (cigar-network.net), what do we see?

• The weird; in extremis:
  – The rational control cycle from budgets to actuals is non-existent
  – Budgets are legislative budgets
  – Cash-based but also obligation-based
  – Budget execution and monitoring is by legally-trained civil servants
National governments

• The unfamiliar:
  – System of national accounts (and Government Finance Statistics)
  – Determines the ‘debt’ and ‘deficits’ as % of ‘national income’ of national governments
  – Global, accrual-based
  – Emphasis on budgets
  – No audit
  – ‘Surveillance’ not regulation
National governments

• [On the unfamiliar:
By the way, on lying

• “Greece, on the other hand, is roundly criticized for lying about the true state of its finances again and again, before and after joining the euro zone, and its failure to take any of the numerous steps demanded by its creditors to modernize its economy and – a particularly sore point – its tax collections.”

“But is the reason why accountants are finding it difficult to agree [on accounting for inflation], anything to do with inflation at all? I think not.

It seems to me to derive more from their attempt to use *ex post* data to measure *ex ante* concepts of sustainable profits, an exercise which illustrates why accountancy might be described as ‘the art of the impossible’.”
Ex post and ex ante concepts of income

But if the rational control cycle, between *ex post* and *ex ante* concepts of national income, is unbridgeable (despite fervent attempts by accounting theorists and by the ASB, IASB and FASB for more than a generation, for businesses at least) what is a currency based on?

Fairy stories, dreams, fantasies, expectations, wishes, hopes?

With any accounting to follow years, decades, generations away? In never-neverland?
Concluding remark:
“...it is to be hoped that harmonisation, let alone standardisation, of government budgeting and accounting is not a necessary part of the resolution of the crisis – even of the eurozone crisis – because, in the light of our research, the likelihood of harmonisation of national government budgeting and accounting (in our lifetimes) beggars belief.”
References