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Public debt accounting and management in UK: Refunding or refinancing? Or, the strange case of Doctor Jekyll and Mr Hyde in the aftermath of the Global Financial Crisis

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ABSTRACT

Since the 1990s at least, UK HM Treasury has been leading a general transformation of public service and the relationship between public and private sectors, driven by a distinctive preference for the private sector. This preference has led to transplant the IFRS to provide a balance sheet accounting representation of public administration, while favouring the recourse to private actors for financing, delivering and even auditing the public service. However, in the aftermath of the Global Financial Crisis, since 2007–2008, the joint action of the HM treasury and the Bank of England has been running exceptional policies that belong to and activate the very financial–economic core which constitutes the specific economy of public administration: (i) its use of public borrowing for redistributive purposes; and (ii) its public debt management based upon issuance and progressive refinancing over time. Our analysis provides clear-cut evidence of these policies and their material impact on public debt management. This tells the strange case of Doctor Jekyll who advocates the imitation of private sector by the public administration, while Mister Hyde does actually foster public policies based upon the specific economic working of public administration, which makes it and its public debt different from private entities and their corporate securities.

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1. Introduction

The current debate about public debt management is somewhat influenced by the prominent development of international financial markets in the last four decades. The Bretton–Woods Accords institutions were explicitly established to become “instrumentalities of sovereign governments and not of private financial interests” (Gardner, 1969, p. 76; Helleiner, 2006). Since the disbandment of these Accords which used to regulate monetary and financial architecture between currencies before 1972, a market-based understanding of public debt management has emerged at the international level, forming the so-called ‘Washington Consensus’. This consensus was driven by several forces, including international institutions such as the World Bank and the International Monetary Fund; new macroeconomic thinking such as new classical macroeconomics; and new macroeconomic regimes such as ‘The Great Moderation’. Moderation for some, it could be added, since the recent decades have been ‘roaring’ times of ever-greater financialisation and ever-growing financial sector, including in but not limited to UK (Boyer, 2013; Newberry & Robb, 2008).

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A market-based view of public debt management assumes an alleged equivalence between public and private (corporate) securities in the making of financial markets. They are expected to compete against each other under a universal financial architecture that treats them equally (Biondi, 2013b; Newberry, 2015). Regarding international sovereign debt restructurings (SDR), a market-based view of public debt might be progressive in that it distinguishes public debt from direct foreign investments which are protected by international arbitration tribunals and treaties. This distinction paves then a way to sovereign debt rescheduling and forbearance (Grossman & van Huyck, 1988; Ishikawa, 2014; Lienau, 2014: Chap. 7; Schwartz & Zurita, 1992; UNCTAD, 2012). At the same time, this market-view accompanies SDRs with structural reforms of public administration, prompting and 'accustoming' governments to approach international financial markets as if they were running private sector entities that issue corporate securities (Lienau, 2014: p. 139 endnote 49; chapter 6). Structural reforms imposed to developing countries in the context of SDRs generally involve free movement of financial capitals and exposure to international financial markets, independency of central banks, macroeconomic stabilisation, and the limitation of public expenditure and government economic involvement (Lienau, 2014, p. 170), including programmes of privatisation, 'modernisation' of public management, and adoption of international accounting standards (Helleiner, 1994; Sutcliffe, 2003; Tabb, 2003; Woods, 2006).

Austerity policies in developed countries appear therefore to be somewhat framed by the same financial market-based view as sovereign debt restructuring in developing countries. Moreover, this view is also driving 'new public management' movement and the ongoing reforms of national and international public sector accounting standards. Both assume alleged identities between: private and public debts; management of private and public finances; and accounting and reporting for the respective financial positions and performances. Accordingly, a market basis could be adopted to understand and regulate all of them. The reference to business-style accounting is one of the pillars of 'new public management' (McCulloch & Ball, 1992; Stewart, 1999, 2002). For instance, Humphrey, Miller, and Scapens (1993) indicate that the "appeal of enterprise" constitutes a principal feature of recent trans-national trends in accounting and governance for public administration (Ellwood, 2002, 2003; Broadbent & Laughlin, 2003). In this context, business-style accounting and management are considered to be the benchmark for all socio-economic organisations that perform various collective activities. Financial-market accountability becomes the key focus for governmental accounting, while business-style financial accounting is allegedly considered to be its most appropriate representation (GASB, 2006; Mack & Ryan, 2006). According to Newberry (2015), a preference for balance sheet accounting approach emerges in this overall transformation of public debt management because attention is now focused on matching (or offsetting) the risks associated with assets against the risks associated with similar liabilities (so-called asset-liability matching), even though some government assets and liabilities denote significant definition and measurement issues for this approach.

This driving reference to and preference for a market-based view on public finances and accounting constitutes a major socio-economic transformation. As for accounting systems provide rules, incentives and representations which actively frame and shape the underlying organised activities that those systems make "accountable" to their constituencies. Accounting plays here a distinctive role as an institution that governs these activities at a distance, through its regulatory action (Burchell, Clubb, Hopwood, Hughes, & Nahapiet, 1983; Hopwood & Miller, 1994; Hopwood, 1983; Knorr Cetina & Preda, 2005; Robson, 1992). Accounting regulatory action involves a specific ideational role, as for it provides a quantified representation of financial performance and position of the activity made accountable in monetary terms. This representation drives the very definition of public debt sustainability, defining what is acceptable and permissible among the public administration and its constituencies (including its debt-holders) across events and circumstances. Money enters the public administration working accompanied with a rule of accounting (an accounting frame of reference). From a socio-economic perspective, accounting defines and controls how money is entered, processed and spent in the public administration working process. From an institutional perspective, accounting defines the rule of law that makes this *money power* accountable to public administration constituencies (Biondi, 2010, Chap. 3). A market based view on public finances and accounting constitutes then one peculiar accounting frame of reference, one that does modify the working conditions of public administration and of its overall assessment, including its very definition of financial sustainability (Broadbent & Laughlin, 2003; Lapsley, Brunsson, & Miller, 1998; Mayston, 1993).

From this institutional socio-economic perspective, the 'enterprise appeal' has had a considerable rhetorical force in justifying and fostering the ongoing process of reform. However, a straightforward reference to business-style accounting involves some perhaps-unintended consequences for the nature and role of public administration. The latter has been understood and organised as a non-lucrative collective activity that performs specific functions in our economy and society. Its accounting frame of reference was then organised to represent it as a non-lucrative ongoing entity mostly concerned with cash flows and funds. A market-based view imposes an identity between lucrative (business) and non-lucrative (non-business) entities. How may governmental financial sustainability be similar to that of business entities when public administration does not have either shareholders' equity to be maintained, or business income to be generated over time? Should we impose both concepts and objectives to public administration, because of this reform process? Are we already in the process of imposing them through the regulatory action at a distance driven by a market-based view on public finances and accounting?

At the present, the reference to and preference for business-style financial accounting and accountability result to be at odds with current practice and intended purpose of public administration. As the US Governmental Accounting Standards Board (GASB, 2006, p. 16) concludes in its recent white paper on the matter:

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