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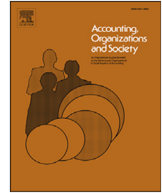

Actuarialism as biopolitical and disciplinary technique

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ABSTRACT

Reporting the costs of pension plans has "challenged the accountant's imagination" (Matthews, 1960) for decades. Recent financial reporting has been under pressure to reveal the more "true" costs of pension plans, even if that means revealing their failing health. As part of this call, the actuarial methodology upon which pension accounting is based has been criticized as being wholly incorrect and responsible for concealing that health. A much understudied profession, actuaries have been implicated in pension accounting from its very beginnings. This study goes back in time to actuarial intervention in industrial pensions in the United States. Drawing upon archival materials from the beginning of the 20th century and ending with the development of *Accounting Opinion No. 8*: Accounting for the cost of pension plans, published by the Accounting Principles Board in 1966, we develop a genealogy of that profession's connection to pension accounting. We find that the worker was rendered visible and enunciated via actuarial knowledge, and we trace the effects of that enunciation on the relations between the employer and the worker. We also examine the relations between the accounting and actuarial professions, and demonstrate how accounting intervened into actuarial expertise. We find that as a biopolitical technique actuarialism has, in order to predict costs, fit older workers into a system that traces employees' life patterns. In so doing, it only partly "destroyed" the individual subject, while still working as a mechanism that enabled old, and new, forms of individual discipline to exist.

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1. Introduction

> *"Those that are labelled old are in the grip of power," (Biggs & Powell, 2001, p. 98).*

Pension accounting is implicated in many of today's social and economic issues. The industrial pension plans that accounting attempts to faithfully represent are responsible for some $31 trillion dollars in assets (International Financial Services London, 2011). They are also dominant capital market investors and are tied to, and substituted for, national social security plans. Popular and business media continually question the financial health of pension plans, making the financial reporting of that health a topic of serious interest. Reporting the financial position of pension plans has "challenged the accountant's imagination" for decades prior to the current era (Matthews, 1960), and pension accounting standards are under constant scrutiny.

Accounting for pension plans has been undergoing a decade of change and is still in flux. In June 2011, the International Accounting Standards Board (IASB) amended International Accounting Standard 19 to eliminate the long-standing method of smoothing pension-related gains and losses; the United Kingdom released Financial Reporting Standard 17 in 2002. The Financial Accounting Standards Board (FASB) has undertaken a long term project on pension accounting. These changes surrounding their financial reporting motivate the current paper and place it within important modern day concerns.

Part of the rationale for these changes is the attempt to remove the mechanisms that have smoothed actuarially derived measures and purportedly concealed the "true" nature of pension costs. As Mindlin (2007) put it, "pension accounting, as it stands at this moment, is (viewed as) one colossal Potemkin village built for the sole purpose of hiding the 'true financial health' of real pension plans," (Mindlin, 2007, p. 22). The capital markets' lack of faith in how they have been reported, and the fervent belief that they are too costly, are linked - it is assumed that what remains hidden is their "actual" poor health. The recent wave of accounting changes has thus aimed to reveal their health, even if doing so has introduced new volatility to the earnings and balance sheet amounts. Research has thus begun to examine accounting's potential to reshape the pension deal between the employer and worker (for a

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review, see Kiosse & Peasnell, 2009; also Atanasova & Hrazdil, 2010; Dixon & Monk, 2009). The argument underlying changes in pension accounting is that actuarial technique has misrepresented the costs of pension plans.

This particular disagreement centres on the actuary's long established method for discounting the plan liabilities. Financial economists have vehemently characterized the actuary's method for selecting discount rates as incorrect (Bader & Gold, 2003). For the last decade, standard setters have been caught up in mediating between these two competing fields of knowledge. At the heart of this debate lies the threat of displacing the actuarial knowledge which has long been the foundation of financial reporting for pension plans.

Actuaries became involved in the valuation, design and costing of pension plans more than 100 years ago, and as a calculating profession they have developed of a variety of related financial and risk-management techniques. Accounting's smoothing mechanisms, cost calculations, and discount rates are all derived from actuarial technique, and the cost of pension plans is constructed and revealed through such techniques. The stronghold that the actuarial profession has had on pension accounting has received surprisingly little attention from accounting researchers. In the words of Simon (1988), actuarial practices “have not seemed very important nor attracted much interest from social observers in part because they are already so familiar, and in part because they fit so unobtrusively into various substantive projects,” (722). In this study, we employ a genealogical method to help us untangle how they have fit so well into the pension system, and how their techniques have impacted its reporting.

This study goes back in time to the intervention of actuarial science in industrial pensions in the United States. Drawing upon archival materials from the beginning of the 20th century and ending with the development of Accounting Opinion No. 8 in 1966, we develop a genealogy of that profession's connection to pension accounting. More specifically, we investigate how actuarial knowledge applied to pension plans renders the worker visible, which leads us to ask: what are the effects - for the relations between the employer and the worker - of this enunciation? Further, what are the effects for accounting, including those who produce accounting knowledge (actuaries, in this case), of this enunciation and visibility?

We find that the pension arrangement exemplifies an area of the employment contract that is “indetermined,” an “analytical space that needs to be rendered governable,” (Townley, 1993, p. 535). We examine how actuarial science entered into that space and established techniques that could be used to inscribe it. We find that actuaries made visible a number of points through which firms could take different positions related to issues of control, cost and management of the workforce. Yet, making the space calculable also enabled accounting to intervene, and to begin comparing actuarial expertise to the accounting goals of comparability and consistency in financial reporting. We also find that actuarialism, despite being grounded in fundamentally biopolitical techniques that operate on the workforce in the aggregate, also contributed to new ways to effect individual discipline in the workplace.

Examining actuaries in their interaction with accounting allows us to engage with, and contribute to, two streams of literature. The first concerns financial accounting's interaction with the firm's workers, and the second deals with actuarialism. First, while literature has examined how managerial accounting has worked to discipline workers (Armstrong, 1985; Carmona, Ezzamel, & Gutiérrez, 1997; Carmona, Ezzamel, & Gutiérrez, 2002; Ezzamel, Willmott, & Worthington, 2004; Miller & O'Leary, 1987), work on the potential effects of financial reporting on workers is sparse (Bryer, 1993; Ezzamel, Willmott & Worthington, 2008; but see; Knights & Collinson, 1987). Financial reporting as a means to view the firm from a distance results in the reported numbers “becoming the firm” (Roberts, 2001; Roberts, Sanderson, Barker, & Hendry, 2006), and thus the programmes about workers are also made visible and represented by these numbers. But while we know, for instance, how financial reporting is used in collective bargaining (Amernic, 1985; Brown, 2000), we do not know how it otherwise might work to structure the employment relationship, for instance in the capital markets – where accounting's reported numbers are consumed by investors and regulators who have no direct contractual relationship to the workers, yet who are able to exercise the power of pronouncements on what is “best” for the company's direction and productive decisions (but see Crane, Graham, & Himick, 2015).

Second, we build upon literature that has examined the actuarial profession and the techniques of actuarialism. Actuaries' historical role in insurance, of categorizing and calculating populations, has been examined in the Foucauldian-based studies of Ewald (1991) and Defert (1991; also see Alborn, 1994). Similarly, the critical criminology literature (Feeley & Simon, 1994; Hannah-Moffat, 1999; Rigakos, 1999; Silver, 2000; Simon, 1987, 1988) has begun to examine actuarialism as a movement from a disciplinary to a bio-political technique in managing crime. But while reporting for pension plans has been studied in economics-based research (for reviews, see Glaum, 2009; Kiosse & Peasnell, 2009) and using critical and historical perspectives (Chandar & Miranti, 2007; Graham, 2008, 2010; Napier, 2009; Stone, 1984), none of these works has examined the interface and interaction between actuarial work and accounting. Studying actuaries in the current setting offers several proposed contributions. It provides an empirical setting in which to examine Simon's (1988) theorization that actuarialism disciplines, not by requiring individual members of the group to change (e.g. to ‘reform’), but rather by “managing in place,” in which problems are dealt with in the aggregate (also see Castel, 1991, p. 289). In addition, this setting contributes by responding to Silver's (2000) call for research that analyses the deeply held views that underlie actuarial calculative techniques, and O'Malley's (1992) call for work that examines actuarialism's capability to act within and between disciplinary and biopolitical power.

After outlining the tools that we will use (drawn from Foucault, including recent applications of a Foucauldian theorization of actuarial science) we will present our analysis in three parts. In the first part (Section 4.1) we will trace the discourse that made workers and the elderly visible in particular ways, and in which actuarial science would be able to emerge and produce techniques to intervene in the social ills that older workers presented. In outlining the shape of that discourse, this section illustrates the tensions being worked out between workers' rights and responsibilities, employers, government and society. Once we understand this discourse, we can, in section 4.2, extract the purposes and aims to which the actuary was able to focus efforts in gathering knowledge of the worker, and in developing a biopolitical programme to intervene in the problems identified by that very discourse.

Finally, the third analytical section (4.3) introduces the accounting representations of the tensions that had been dealt with by that actuarial knowledge, which was critical to being able to meet accounting's need for pinpointing values at moments in time. In this section, the relationship between accountants and actuaries changed as accountants determined which of the actuarial methodologies were suitable for its purposes. We find a number of policy and theoretical implications that we discuss in Section 5, and finally we conclude in Section 6.

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