



ELSEVIER

Contents lists available at [ScienceDirect](#)

Accounting Forum

journal homepage: www.elsevier.com/locate/accfor



Accounting representations of public debt and deficits in European central government accounts: An exploration of anomalies and contradictions

Yuri Biondi

ESCP Europe (Labex ReFi), 79, avenue de la République, 75011 Paris, France

ARTICLE INFO

Article history:

Received 27 February 2016
Received in revised form 7 May 2016
Accepted 14 May 2016
Available online xxx

JEL classification:

H11
H60
H61
H62
H63
H70
H71
H74
H77
H83
M41
M48

Keywords:

EPSAS
Fiscal compact
European Union
Deficit spending
Sovereign debt
Governmental accounting
IPSAS
Austerity

ABSTRACT

This article provides a theoretical view on European general government accounting, focusing on overarching accounting principles and models, as well as their consequences on the working and the very existence of public service activity. Our analysis applies to illustrative cases concerning: meaning of public deficit on accruals basis with a view to nature and use of public debt for redistributive purpose; the strange case of taxation on public sector employees' remunerations and benefits; accounting for employees benefits provisioning; and measurement of public debt and deficit following European Union fiscal supervision of Member States, with specific attention to the Excessive Debt Procedure (EDP). This analysis develops a framework to assess the consistency of accounting models with non-lucrative missions of general interest that belong to public administration. It shows how budgetary accounting does (and should) complement accruals-based accounting in public sector accounting systems, asking to embed public sector accountability in a public service institutional order that is specific to public administration.

© 2016 Elsevier Ltd. All rights reserved.

1. Introduction

Since the emergence of political economy in the Eighteenth century, economists have been discussing about nature and causes of wealth of nations. Some believe that wealth originates from machines and other technologies of production

E-mail address: yuri.biondi@gmail.com

URL: <http://www.yuri.biondi.free.fr/>.

<http://dx.doi.org/10.1016/j.accfor.2016.05.003>

0155-9982/© 2016 Elsevier Ltd. All rights reserved.

Please cite this article in press as: Biondi, Y. Accounting representations of public debt and deficits in European central government accounts: An exploration of anomalies and contradictions. *Accounting Forum* (2016), <http://dx.doi.org/10.1016/j.accfor.2016.05.003>

(material capital); others from labor and its skills and competences (labor); someone else from hoarded savings held in cash and financial portfolios (financial capital). However, these elements are generally combined with others in economic organizations (entities) which constitute collective modes of production and consumption of that “wealth,” so to speak: households, enterprise and public sector entities.¹ Following national accounting conventions (Suzuki, 2003a, 2003b), we attribute transfer and non-market provision to public administration, even though production, transfer and consumption acts are performed in every entity. This convention surely aims to point to the purpose and very modes of functioning that frames their respective activities: production or money-making, for commercial enterprises; redistribution of wealth, through transfer or non-market provision, for public administrations.

Especially during the Twentieth century, a major transformation occurred in this economic organization, leading banks and financial institutions to play a specific role, nowadays under coordination accomplished by central banks (the bank of banks and treasuries) and governments.² All together, this financial system manages an endogenous monetary base that has become increasingly central and necessary to the working of production entities (enterprises) and consumption entities (public administrations). This evolution has made the distinction between real and monetary dimensions of these entities both complex and critical, because of increased interdependence between those dimensions. It seems straightforward to claim that money cannot be but a means, not an end, especially at the level of economic organizations which is under investigation here; however, the importance of monetary and financial dimension is now so high that practicing this simple principle may be hazardous.³

Whichever enterprise or public administration, every economic organization requires control through governance and regulation devices. Among others, this control is performed by accounting systems which are often regulated through standards issued by private and public bodies, based upon accounting principles and models of reference. These systems drive representations that make financial and economic activities accountable, framing and shaping the working of those organizations; these systems are then constitutive of their institutional economic order in economy and society (Burchell, Clubb, Hopwood, & Hugges, 1980; Hopwood, 1987, 1989; Power, 1996). Therefore, distinction and articulation of “real” and monetary dimensions pass through accounting conventions. The construction of accounting models for enterprises, public administrations and financial institutions make their economic and financial activity, with limitations, intelligible and manageable; that activity, in turn, is eventually responsible for social welfare. Their accounting model is then expected to make them accountable for their contribution to individual and collective needs, as well as sources and uses of (financial) funds employed to intent to that contribution.

Nowadays, accounting representations and financing modes are submitted to major transformations (Andersson, Lee, Theodosopoulos, Yin, & Haslam, 2014; Biondi, 2013c; Erturk, Froud, Sukhdev, Leaver, & Williams, 2012). Concerning accounting and finances of public administration, this phenomenon has apparently facilitated imitation and transplantation of financial and accounting practices originated by the private sector (Gendron, Cooper, & Townley, 2001; Hood, 1995; Neu, 2006; Skaerbaek, 2009), as well as the analogy between public debt and other securities incurred by private enterprises, asking for competition between them on a so-called “global financial market” (Biondi, 2016a). According to Humphrey, Miller, and Scapens (1993), the “appeal of enterprise” constitutes one of the principal features of this recent trans-national trend in accounting and governance of public administration.

Our analysis focuses on how the nature and role of central government accounting may be and have been challenged and reshaped through imitation and transplantation of private sector accounting models and standards, including through the influence of the international public sector accounting standards (IPSAS) which mimic the use of private sector accounting standards as specified in the international financial reporting standards (IFRS). We especially address measurement of public debt and deficit of central governments, with specific attention to the fiscal supervision procedures put in place by the European Union to monitor its Member States.

In the aftermath of the global financial crisis since 2007, in response to sovereign debt crisis of some Member States of European Community, European Commission launched an initiative that can be included in this broader movement of convergence of public sector accounting and finances toward the private sector avatar. European Commission’s Report accompanying that initiative insists on convergence between public sector and private sector accounting standards:

The links between the private and public sectors in all EU countries create a strong need for connected financial reporting between these sectors, and accruals accounting systems such as IPSAS are very strongly connected to private sector accounting standards. Governments need to achieve the same high quality and transparency of financial reporting as the private sector. IPSASs are developed by the International Public Sector Accounting Standards Board, which is a standing committee of the International Federation of Accountants. (European Commission, 2013b, p. 8)

This advocacy for convergence is reinforced by referring to international private sector accounting standards (IPSAS) which, in turn, constitute a mimicking transplantation of international financial reporting standards (IFRS) adopted by the

¹ For sake of simplicity, we neglect households thereafter. Banking and financial institutions shall be introduced in the following.

² Financial markets and clearing houses constitute other collective modes of inter-bank coordination.

³ See Christophers (2013) on the evolution of national accounting for banking and financial institutions from a sociological viewpoint.

Download English Version:

<https://daneshyari.com/en/article/5107491>

Download Persian Version:

<https://daneshyari.com/article/5107491>

[Daneshyari.com](https://daneshyari.com)