

AUSTERITY and its **ALTERNATIVES**



Unintended Austerity?

Financialization of the state and the harmonization of European public sector accounts

Sebastian Botzem (Free University of Berlin)

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Outline

- a) Principles of Accounting
- b) Financialization of the Firm
- c) Financialization of the State
- d) European Public Sector Accounting with example
- e) Conclusion: Financialization and Austerity



1. Introduction: Role of Financial Information

- *Private* accounting rules and regulation determine the distribution of corporate profits
- *Public* accounting rules and regulation determine the allocation of resources and establish accountability relations
- Argument: European accounting rules become tools of austerity budgeting **impacting resource allocation** and **altering accountability relations**
- Empirical focus:
 - Who are the addressees of financial information?
 - What are effects of introducing new standards?



Accrual Practices and Reform Experiences in OECD Countries



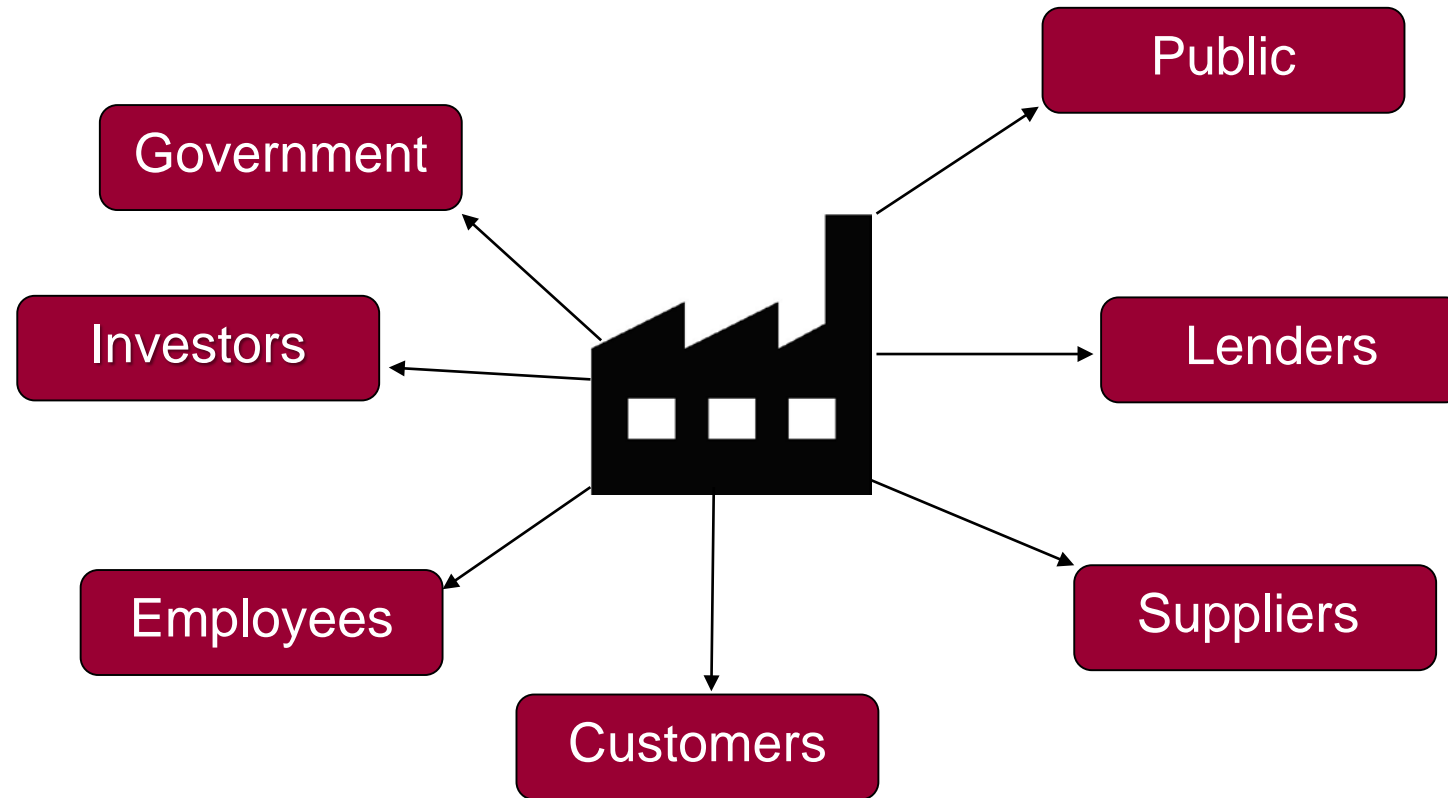
ACCOUNTABILITY. NOW.

3. Why Does Accounting Matter?

- Standards and calculatory practices are fundamental techniques of governing
- Budgeting rules determine present and future resource allocation, establish accountability relations
- Relevance: **Financial information...**
 - is an expression of **political priorities**
 - is intended to **guide** collective **behavior**
 - allows stakeholders to take **informed decisions**
 - **affects** the publishing entity (the **state**) → austerity

→ Accounting is political, not merely 'technical'

4. Financialization of the Private Sector



5. Accounting for Economic Activity

Old: Cash-based accounting

Logic: Transactions-based

Aim: managerial accountability

Implication: backward-looking oriented



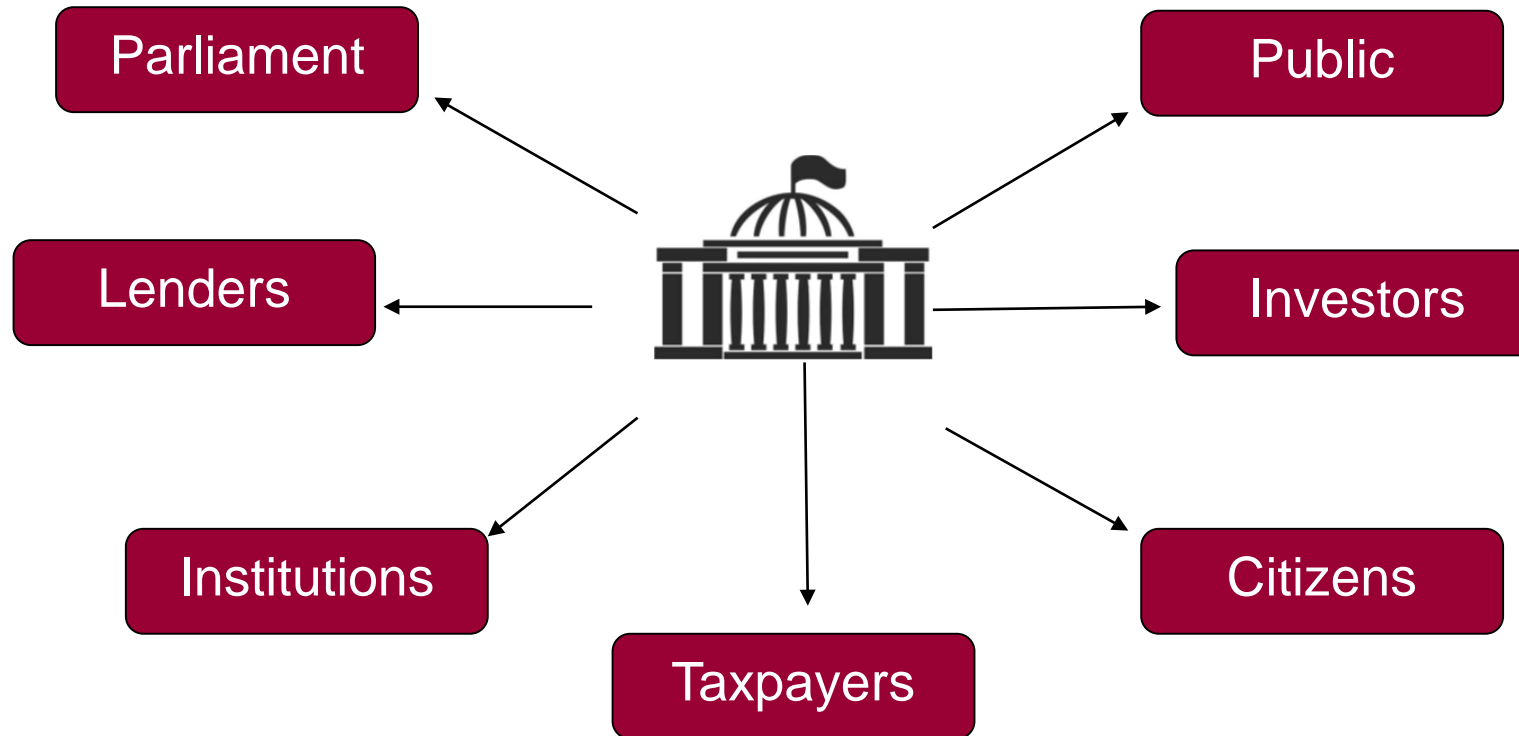
New: Accruals-based accounting

Logic: flow-based, accounts for current and future obligations

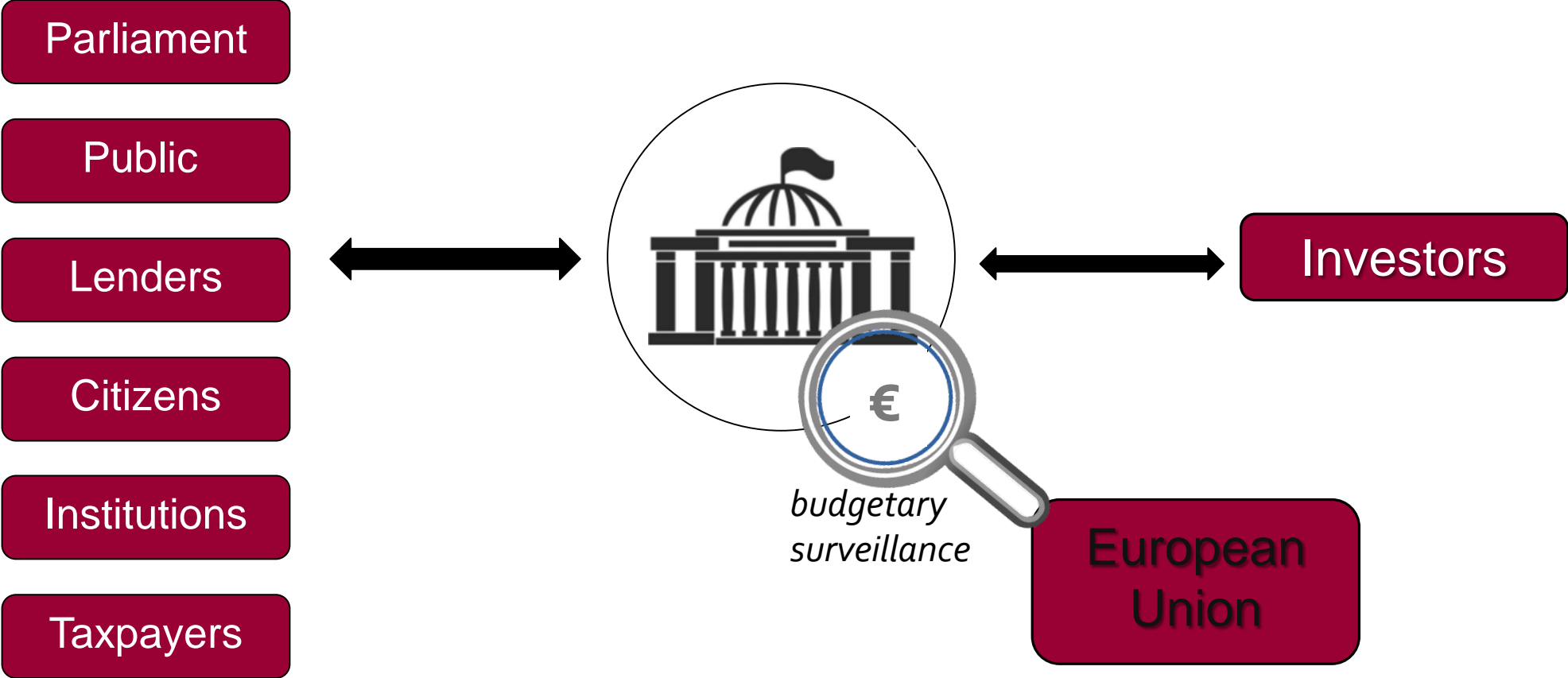
Aim: calculation of profit and risk, identify future developments and value increase

Implication: forward-looking budget-planning

6. Accountability Claims



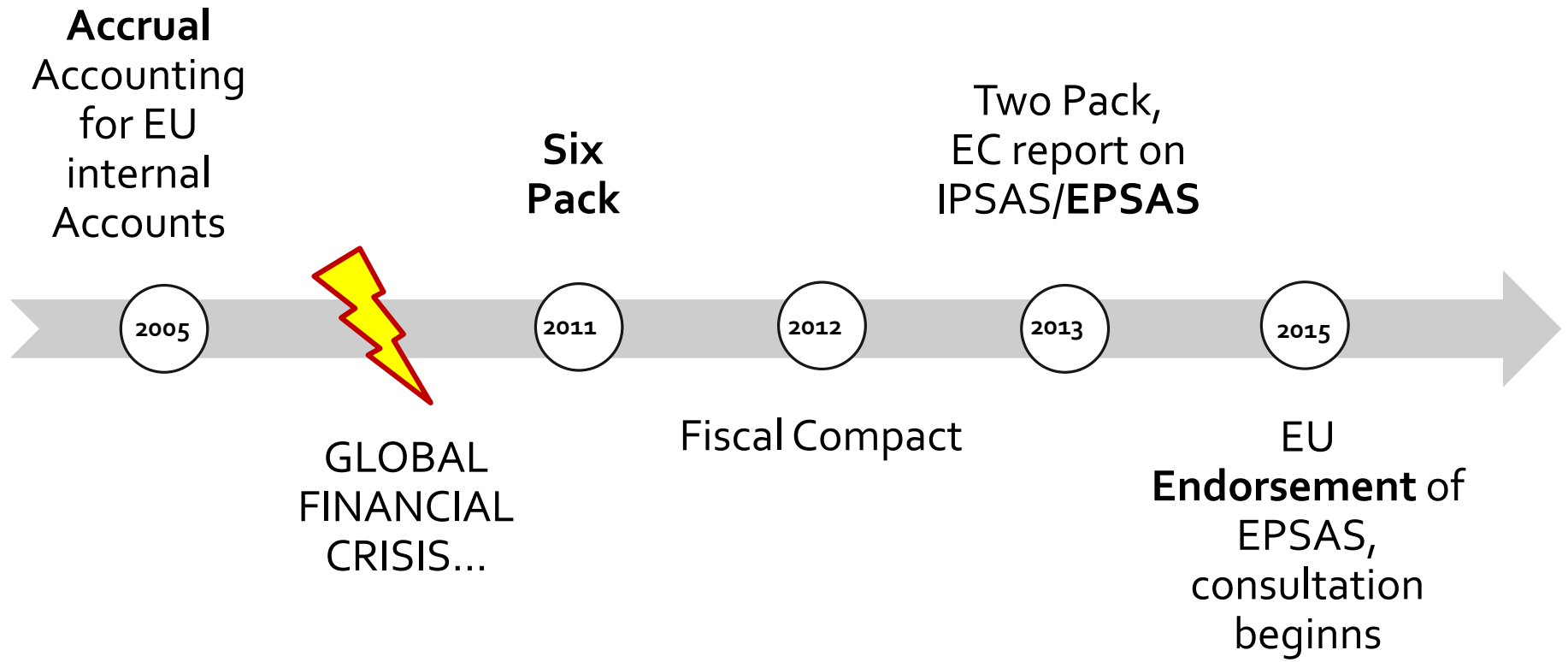
7. Financialization of the State



8. Budgetary surveillance through EPSAS

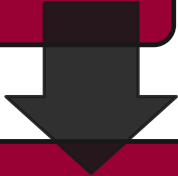
- **EPSAS**: European Public Sector Accounting Standards
- Accrual accounting part of New Public Management (NPM)
- Based in International Public Sector Accounting Standards
- Aim: Transparency, 'Realistic' reporting of assets and liabilities of the state
- Effects:
 - Focus in cash flows and future obligations
 - Incentive to **lower liabilities** and sell assets in dire times
 - Pushing financialization of the state:
through procyclicality and short-termism

9. Implementation Process of EPSAS

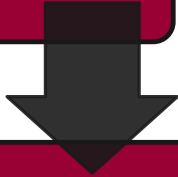


10. EPSAS – Cascade of Norms

IFRS
International Financial Reporting Standards



IPSAS
International Public Sector Accounting Standards



EPSAS
European Public Sector Accounting Standards

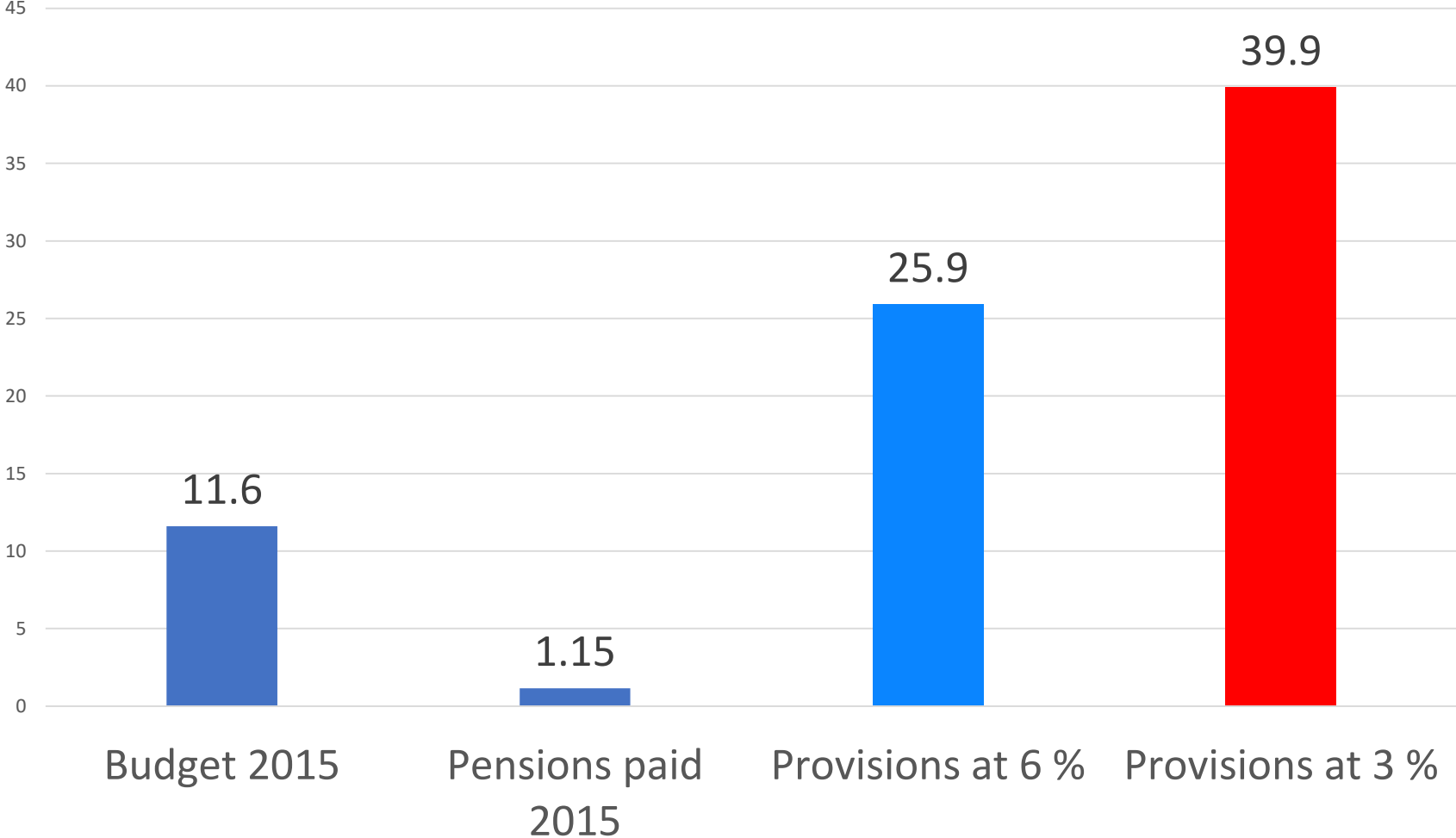


11. Example: Pension Provisions in Hamburg

- City of Hamburg: approximately 70.000 employees
- Provisions of future pension obligations for 15 years
- Accrual accounting allows to calculate a future discount rate (between 6 and 3 %)

12. City of Hamburg: Budget and Provisions

Billion €



13. Practical Implications

- Choice between 6% and 3% discount rate increase the provisions by 14 Billion €, roughly the entire yearly budget
- Provisions are calculations, not expenditure
- However: budgets are guiding constituencies' behavior
- Investors as addressees take calculations serious and will adjust their credit conditions (higher risk premium)



Political pressure to reduce provisions: through calculation – or through ridding the state of pension obligations

14. Conclusion: Financialization and Austerity

- Financialization ↔ accrual accounting: **profit-orientation** and investors' primacy
- Accrual accounting provides an unlevel playing field: **Short-termism** is enhanced and **procylicity** introduced
- EPSAS supports, justifies and potentially spurs austerity
- Reconfiguration of the state
 - **Accountability** relations are altered
 - Pressure to **reduce liabilities** (pensions, public services,...) and/or to sell assets (land, real estate,...)
- Political conflicts currently disguised as calculatory operations: politicization needed!

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