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The Political Economy of Economic (Mis)representation

The political economy of International Accounting Standards

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ABSTRACT

On 1 January 2005, all stock exchange listed companies in the European Union (EU) began using International Financial Reporting Standards (IFRS) written by the International Accounting Standards Board (IASB). This article argues that the IASB's introduction of fair value accounting reflects and reinforces changed relations of production in which the financial sector increasingly dominates the productive sector, nationally institutionalized economic systems are undermined, and new forms of economic appropriation are validated. As a private body, the IASB has been able to rapidly introduce the fair value paradigm with little public debate outside specialized financial circles. In contrast to more functionalist views, this article argues that accounting standards are inherently political. Accounting numbers provide some of the key economic anchors around which social relations are structured. Accounting techniques cannot be reduced to questions of efficiency since they set out to quantify

and compare things which, by their very nature, are neither quantifiable nor directly comparable.

KEYWORDS:

Accounting | International Accounting Standards Board | private authority | capital | financialization | varieties of capitalism

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Notes

1 The IASB has recently started using the term International Financial Reporting Standards (IFRS) instead of International Accounting Standards (IAS). To avoid confusion, when referring collectively to all IASB standards currently in force, we use the single term IFRS in this paper. This includes previously issued IAS which are still in force.

2 We owe this point to one of three anonymous referees of an earlier version of this article.

3 Notwithstanding two temporary ‘carve outs’ (exemptions) from IAS 39 won by the European banking sector (Grant, 2005). Neither of these exemptions change the finance–productive sector relations with which this part of our analysis is concerned.

4 We owe this point to one of three anonymous referees of an earlier version of this article.

5 For a more comprehensive historical debate of the advocacy of accounting philosophies by different socio-economic groups in Germany see Richard (2005).

6 The term ‘Cambridge Controversies’ refers to a long debate between economists in Cambridge, England and Cambridge, Massachusetts from the mid-1950s to the mid-1970s (see Cohen and Harcourt, 2003). Although the dates might imply that the debate was resolved, the recent article by Cohen and Harcourt concludes otherwise.

7 To maintain consistency between accounts it is also expected that equivalent accounting treatment will have to be applied to goodwill generated internally by a corporation (Bromwich, 2004; FT, 2006).

8 The Big Four global accountancy firms are PriceWaterHouseCoopers (PWC), Ernst & Young, Deloitte & Touche, and KPMG.

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