7. **Conclusion.**

The broad aim of this dissertation has been to demonstrate how the regulation of accounting is tightly bound to international political economy. It has sought to do this by examining both the governance and substance of accounting regulation and, in each case, bring a *critical* perspective to bear on specific questions of political salience.

The central argument built up over the course of the preceding chapters has been that *capitalist accounting is presently in turmoil*. This is not a publicly visible turmoil such as that caused by the Enron, WorldCom and Parmalat scandals witnessed at the beginning of the decade, but instead a quieter one of meaning and purpose that is progressively undermining the ability of accountants to reproduce an economic reality that can be presented as if it were separate from politics.

At the outset, the project sought to answer three questions:

1. **What is the nature of the change in accounting standards introduced by the IASB?**

Within the larger paradigm shift from Historic Cost Accounting to Fair Value Accounting, this dissertation has examined the treatment of financial assets and intangible assets, focussing especially on the latter. In both of these asset categories, the traditional Historic Cost paradigm has been found to give accountants the “wrong” answers because it treated assets as if they were a known stock of values rather than an estimated flow of prices. In contrast, Fair Value Accounting, whether using market prices or a model of market prices, gives accountants the “right” answers, in as much as it allows the construction of a balance sheet that is more consistent with the broader network of interconnected prices in which the firm is embedded. However, by doing this, Fair Value Accounting also draws attention to the fact that there are actually no “right” and “wrong” money values to attribute to assets; Fair Value Accounting thus exposes the distinction between the objective cost and the subjective price of an asset as being entirely constructed on the basis of institutionalised social relations of ownership rather than the observed attributes of anything productive. Besides rendering as
unworkable the neoclassical Economists’ presentation of capitalist social relations as “natural” outcomes of productivity endowments, this privileging of “real” market prices also threatens the stability of individual assets as accumulation anchor points around which capitalism has hitherto been organised and legitimised. Whereas accounting information was previously prior to, and hence informed, the stock market pricing of expected revenue streams it is now, courtesy of the Fair Value Accounting paradigm, increasingly driven by the stock market.

Stemming directly from the above, this study has also used the introduction of Fair Value Accounting to contribute to the debate surrounding different varieties of capitalism (Albert 1991; Hall and Soskice 2001). Firstly, the new paradigm itself privileges the “Anglo-Saxon” liberal market variety over the Rhenish coordinated variety. As chapters three and four explained, Fair Value Accounting has underpinned financial disintermediation and the concomitant short-term investment perspective that together erode the interdependent elements of Rhenish capitalism (most notably consensual relations between capital and labour, and sustained human resource development) that are central to industrial growth based on incremental innovation.

Secondly, the attempted use of Fair Value Accounting to valorise intensified pecuniary activity exposes the complex interplay between economic ideas, institutional power, and varieties of capitalism. Like Hall and Soskice (2001: 6-7), chapter five adopts a relational view of the firm, and it is only with this relational view that the goodwill puzzle can be solved. Goodwill represents institutional power that has not yet been incorporated into the price of the individual capital assets that make up a firm’s pecuniary accounting value. Although the industry/business dichotomy subsequently employed in chapter six transcends the Rhenish/Anglo-Saxon distinction, it allows us to see how such nationally institutionalised configurations of pecuniary bargaining interact and aggregate into global patterns of capital accumulation, which in turn require specific accounting constructs for their validation. In particular, the changed dialectic between business and industry, which explains the rise of
inseparable intangible capital, also requires the further subordination of engineering to sales, which in turn corresponds to the widespread notion of Rhenish capitalism being a model in decline.

2. *How and through which mode of governance have these changes in accounting taken place?*

The 2002 decision by the European Parliament to adopt IASB standards, and hence the Fair Value model, is widely seen as a turning point in this private organization’s present status as *the* global standard setter in accounting. However, as chapter two emphasised, to become binding in the European Union, each IASB standard first has to be endorsed by the European Commission. The Commission is, and continues to be, advised in this regard by the public Accounting Regulatory Committee and, in practice far more importantly, by the European Financial Reporting Advisory Group (EFRAG) which was set up specifically to fulfil the role of a technical committee as stipulated in the European Parliament’s 2002 ruling.

EFRAG, like the IASB, is a private (and privately funded) organisation. This means that, although the IASB derives its authority from public legitimacy, the state in practice accords such legitimacy on the basis of technical advice from another private organisation. Indeed, in March 2006, subsequent to the publication of chapter two, this privatisation of authority in accounting matters was extended by a European Commission agreement which stipulated that EFRAG would henceforth provide ‘advice to the Commission on *all issues* relating to the application of IASB standards in the European Union’. (EFRAG 2006: 2, my emphasis). The same pattern of “outsourcing” by the European Commission to private experts can be observed in the cases of competition policy (Wigger 2008: Chapter eight) and Corporate Governance Regulation (Horn 2009: Chapter five). Yet more recently, the United States Securities and Exchange Commission set out a formal roadmap for the adoption IASB standards for US listed companies from 2014 (SEC 2008).
As chapters two and three demonstrated, it is not just that the IASB and EFRAG are private organisations in legal terms, but also that the memberships of their executive committees is drawn from a dense network of transnational actors, of which the overwhelming majority are also private. The formal network analysis conducted in chapter two has shown the core of this network to be dominated by the financial sector and the Big Four accounting firms, with a slightly less prominent role for a selected range of international organizations. Other categories of actor such as companies from the manufacturing sector, domestic regulatory agencies, and labour unions, are under-represented or else entirely absent. The IASB-EFRAG nexus also has a distinct Anglo-Saxon flavour, as indicated by a relative over-representation of Anglo-Saxon financial sector actors, as well as international organizations that are usually perceived to be close to the preferences of the latter (e.g. the International Organization of Securities Commissions, the World Bank, and the International Monetary Fund). Furthermore, the corporations represented in the IASB-EFRAG committees that do not hail from traditionally Anglo-Saxon economies nevertheless tend to be those that have already adopted an Anglo-Saxon mode of operation, i.e. companies such as BASF, Daimler, and Deutsche Bank (Appendix A contains the full list).

From the perspective of mainstream “problem solving” approaches to global governance (e.g. Kollman 2003; Rieth 2004; Schirm 2004; Wolf 2002), the achievements of the IASB could be seen as a tremendous accomplishment. This is not a statement about the substantive content of the IASB’s standards, but rather an assessment of the IASB’s success developing globally accepted norms in an arena where repeated attempts by more established international organizations such as the United Nations and the European Union had consistently failed. In contrast to many other cases of transnational private governance, such as corporate social responsibility schemes37, IASB standards are not only widely accepted, but also comprehensively implemented and enforced.

37 On the voluntary nature of corporate social responsibility standards, see Hurd (2003).
3. Why are the current changes in accounting taking place? What explains the content of the IASB’s new accounting standards and in which regard(s) are they constitutive of broader structural shifts in the political economy?

This dissertation has demonstrated why rise of the IASB should not only be understood as a shift in the governance of accounting standards, but also a shift in the way economic reality is being constructed. The second of these shifts needs to be understood in the context not only of the present geographic reorganisation of production away from rich OECD countries towards so-called “emerging economies” (chapter five), but also as part of the ongoing political economic evolution from twentieth century manufacturing capitalism to financialised knowledge/sales capitalism (chapter six).

\[\text{Shift to knowledge/sales economy} \rightarrow \text{Global outsourcing of production} \rightarrow \text{Financialization} \rightarrow \text{Accounting Standards} \rightarrow \text{Political programmes based on market efficiency and Neoclassical economics}\]

\[\text{Figure 14. Summary answer to third research question}\]

Starting in the top-left of figure 14, the growth of the knowledge/sales economy – which has only been possible through the global relocation of physical production – has blocked the routine conversion of immaterial to material wealth that is central to the construction of economic reality in capitalism. This has required a change in accounting standards in order to
(attempt to) maintain the objectivation of “productive capital”, and also to validate the concomitant expansion of “money capital” referred to as financialisation. These two validations are in turn necessary for the continued viability of neoclassical economic tenets as a defendable ideas system for underwriting neoliberal policy. A more detailed version of this diagram can be found at the end of chapter five.

The immaterial-material value conversion mechanism examined in chapter five, and upon which the capitalist economic reality of tangible assets is founded, worked best with institutionalised varieties of capitalism in which rent distribution was mediated predominantly at the national level. In this sense, it is not just the Rhenish variety of capitalism that is under threat but also, in many respects, the nationally constituted Anglo-Saxon one too. The increasing use of Fair Value Accounting techniques, although not itself a conscious attempt to restructure the international political economy, reflects and reinforces the hegemonic project widely referred to as neoliberalism (Harvey 2005) which makes rent intermediation a global phenomenon in an attempt to address the contradictions that were inherent to both varieties of capitalism as identified by Albert (1991) and Hall and Soskice (2001).

Accounting standards are a key element in the framework of rules that determines how modern corporations are governed. As chapters three and four explained, one way to understand the role of accounting standards is through their measurement of economic performance which, in turn, sets the context for mediation between a firm’s owners, its management, and its employees. To a certain extent, this conceptualisation of accounting’s role in corporate governance matches the dominant approaches to the topic, as exemplified by the OECD’s influential Principles of Corporate Governance (OECD 2004) and the various national codes of corporate governance for which the OECD’s principles have provided the blueprint. That is not to say this dissertation is in accord with the OECD’s principles. In particular, it is vital to recognise the OECD’s inherent bias towards certain stakeholders, especially capital market participants (Horn 2009: 66-68). The IASB’s accounting standards
likewise privilege certain institutionalised configurations of stakeholders over others, as chapters three and four demonstrated in terms of different varieties of capitalism.

If corporate governance is defined more broadly as being about ‘those practices that define and reflect the power relations within the corporation and the way, and to which purpose, it is run’ (van Apeldoorn and Horn 2007: 211, my emphasis), then there is a deeper role played by accounting standards, which goes beyond what the OECD refers to as ‘Disclosure and Transparency’ (OECD 2004: 22-23). Accounting standards are not simply a system for measuring the objective performance of things that exist outside the social realm. As chapter six explained, the money value attributed to an asset refers to a specific narrative of ownership relations based on socially controlled scarcity rather than any inherent attribute of that which is owned. However, as Palan and Cameron emphasise, this certainly does not imply that we can ‘simply “imagineer” a better future through the adoption of a different set of stories’ (2004: 14), but rather that the political economy can only be understood as a set of shifting and contested narratives in which

...the traces of earlier, forgotten or displaced, versions of the world remain as sedimented ideas shaping and delimiting the possible. (Palan and Cameron 2004: 14)

As a retrospective codification of economic reality at the level of the firm, accounting standards will always lag behind, to some degree, the economic reality of the present day – even though they provide many of the key quantitative anchors around which present day reality is constructed. One can thus discern an inter-temporal disconnect between economic reality and our social narratives of it, without denying that the former is itself socially constructed. This said, although there are multiple narratives of economic reality, within any particular economic paradigm they must remain (at least approximately) consistent with one another at any specific point in time. If they do not, then an imperative arises to correct the inconsistency. Chapters five and six have illustrated this with regard to the accounting phenomenon of goodwill, the component parts of which are now being “hunted” in order to
make what is, fundamentally, a political change in the relations of production (business) appear instead as if it were a technical change in the means of production (industry).

In March 2000, Europe’s political leaders met in Lisbon to present their ambitious long-term strategy for making the European Union ‘the most competitive and dynamic knowledge-based economy in the world’ (European Council 2000: Paragraph 5). Meanwhile, as chapter six explained, accounting scholars at nine European universities were somewhat more modestly embarking on an EU-funded project to examine the very phenomenon that the politicians were selling – i.e. the MERITUM project. In effect, MERITUM was an attempt to create an accounting narrative that would be consistent both with the political project of creating a competitive “knowledge economy”, and with the broader framework of economic ideas within which such a project could be made to appear technical, rational, and hence legitimate.

Almost a decade later, neither the politicians nor the accounting researchers have achieved what they set out to do. However, while the contradictions of the Lisbon Strategy have received much attention from critical scholars (van Apeldoorn, Drahokoupil and Horn 2009), the failure of global accounting standards to maintain the foundations of an ideational framework for such strategies had, until now, not been examined in any detail. In answering its third research question this dissertation has begun to fill that lacuna in critical political research by demonstrating precisely how, notwithstanding the failure of the Lisbon Strategy, today’s emerging knowledge- (or sales-) economy places impossible demands on the accounting ideas system that successfully underpinned its predecessor.

**Perspectives and reflections for future research**

This dissertation has not attempted to offer a full explanation of the international reorganization of production and finance that has accompanied the neoliberal turn. Rather it has aimed to explain the dialectic relationship between specific processes and ideas that such
reorganization entails: An ideas system is struggling to accommodate, and make rational, processes of change in international organization which that same ideas system has itself been instrumental in bringing about. Within this struggle, diffuse constitutive power is being shaped by, while at the same time making possible, institutional and structural power. Fair Value accounting is moving the boundary between what is seen as economic and what is seen as political. The new accounting paradigm represents a changed configuration in the global political economy vis à vis that which prevailed in the decades following the Second World War. The question that must next be asked – the answer to which is beyond the scope of the present study – is whether the current configuration of power in the world order can be sustained, or whether it marks the beginning of Western decline. Can Western economic ideas systems find a sufficiently robust replacement for the authoritative combination of physical definition, legal definition and focus of pecuniary value that was embodied in accounting assets measured by their historic costs, or does the erosion of this herald a new political order in which so called “emerging economies” will come to dominate? Do the intangible assets and goodwill on the balance sheets of firms from rich OECD countries represent a sustainable form of power, or are these firms, and countries, merely riding the wave of relative industrial might which they inherited from the post-War order?

In many respects the financial crisis of 2008 represents the unravelling of imbalances that were able to accumulate precisely because financial agents, and their regulators, are still working with an ideas set inherited from manufacturing capitalism – in particular, an overemphasis on product-price inflation in the “real” economy, and a relative lack of concern over asset-price bubbles in the “financial” economy. Nevertheless, despite the financial crisis, as manufacturing is transferred away from traditional centres of accumulation, capital in the core OECD economies is continuing to withdraw from direct involvement in industry and move into increasingly liquid forms of business and financial investment. Meanwhile, capital and industrial capacity in the periphery is accumulating rapidly, but this is masked by economic ideas which cement the neoclassical economic logic with a politically accommodating accounting paradigm. This appears to correspond closely to the historical
pattern of capitalist development identified by Braudel (1984), and elaborated by Arrighi (2001), whereby a declining centre of accumulation withdraws into finance, and – as this dissertation has shown – also into intangibles, to make way for the new emerging core.