

Special Session on Accounting and Economics

organised by

Y. Biondi (University of St. Etienne, France)
and
E. Chiapello (HEC, Paris)

17th SASE Meeting on "What counts? Calculation, Representation, Association"
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Related to the network "Markets, Organisations, and Institutions"
Convened by Gregory Jackson (King's College London).

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General Presentation

This international Session focuses on multiple relationships between Accounting and Economics. A title may be "Accounting in the making of Economics". Accounting is here considered as one of the key tools, rules and conventions in managing the economy. A subtitle may be "Tools, rules and conventions managing the Economy".

As reporting and evaluating system, accounting is a constitutive part of the economics of organisations, and relates to their inner and outer accountability. As frame of reference and analysis, accounting also plays an important but neglected role as point of reference, or counter-point, in representations of the economic process provided by economics.

The Session is organised in three successive panels :

- 1. Accounting, State and public policies (Fri. 8:45 - H/I/J003)**
- 2. Accounting as an institution of capitalisms (Fri. 10:30 - H/I/J001)**
- 3. Accounting as a representation of the firm (Fri. 2:45 - H/I/J002)**

The three related panels are scheduled on Friday, July 1st 2005

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First Panel : Accounting, State and public policies

Moderator : Y. Biondi (University of St. Etienne)

1. T. Kirat (University of Paris Dauphine), F. Marty (University of Nice Sophia-Antipolis), Public Accounting, Procurement Process and Public Management : a legal-economic perspective on regulation of public spending in industrialised countries
2. D. Uri, Tax level ratios : meanings, representations, uses
3. T. Suzuki (University of Oxford), Accounting for the Euro: Operationalisation of the Political Economy

About the first paper (Kirat-Marty)

Short Abstract : Public accounting deserves less attention than private accounting in academic thinking in accounting theory as well as in law, economics and sociology. The paper will not address public accounting as such. It will instead argue in favour of a consideration of the interdependencies that bind together public counts, procurement regulation and management of state authorities in some industrialized countries. The empirical basis of the paper is provided by past and current researches projects on Defence procurement in France, U.K. and United States, Public-Private Partnerships in U.K. and Australia, and reforms in the public accounting systems in France, Italia, U.K., United States and Australia.

Long Abstract : More or less drastic reforms of public accounting are undergone in most industrialized countries, which reveals profound changes in the way through which the State and public services are managed. They also affect the procurement of goods and services that have a public interest dimension (roads, schools, hospitals, weapons, telecommunication systems, etc.). These ongoing changes seem to modify both the nature and destination of public counts. Public counts are in a way identical to private ones: they are conventional artefacts and social constructs that express a specific way of considering what public counts should be and which purpose they are to address. Basically, public counts serve as a tool for the measurement of public spendings authorized by the Parliament. This basic model has shown its limits: counts that address the Parliament does not reflect the effective way of public money use in procurement. The paper will expand on that issue. The policy orientation in favour of some kind of comparison between the public or private provision of public services (through the Public Sector Comparator in U.K. or A-76 directive of the Office of Management and Budget in United States) puts to the State agenda the necessity of reforms of public accounting standards to make public and private costs comparable (appraisal of capital cost, discount rate, valuation of public assets, etc.). The growing use of new forms of procurement (Private Finance Initiative, Private-Public Partnerships) is a similar pressure for reforming public accounting systems.

Thierry Kirat is a French CNRS research fellow at IRIS (University of Paris Dauphine), and a leading French scholar of law and economics with an institutional approach.

Frédéric Marty also is a French CNRS research fellow at CREDECO-GreDEG (University of Nice Sophia Antipolis). His research program focuses on public institutions and tools in law and economics field.

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About the second paper (D. Uri)

Abstract : The ratio of tax revenues to GDP is usually put forward in order to estimate the global importance of public administrations, and to compare their size in different countries and through time. Yet it suffers from theoretical and statistical weaknesses which keep it from measuring both the part of the national income raised by the state (*largo sensu*), or its burden on the productive system. That's why its uses are often full of ambiguities and inadequacies.

This paper intends to clarify the stakes of the notion of tax pressure in analyzing three intertwined questions : How is it built and by who ? One must compare the treatment by harmonized systems of national accounts toward the diversification of public policies. What tax ratio measures and for who does it make sense ? The global impact of taxation takes many different meanings according to the different social types of actors, from the plain citizen to

international organizations. One will examine other indicators (some of them we built), better adapted to each of the meanings mentioned above. Finally, how is it used and by who ? We will present the major types of mobilization it deals with, from the scholar controversies to political debates, including the lobbying actions or legitimization speeches concerning tax evasion practices.

D. Uri is associate professor of economics and researcher at IRIS (University Paris Dauphine).

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About the third paper (T. Suzuki)

Abstract: The Euro is commonly understood as an achievement of the political economy: management of the macroeconomy based on theoretical economics and political efforts. Yet, our knowledge is still limited as to *how* politics practically operationalised the theory of the Optimal Currency Areas (OCAs), once purely a theoretical achievement in the 1960s. This article examines unexplored functions of “accounting” that implicitly operationalised the political economy by (1) setting up an autonomous governmental framework, (2) controlling political progress by creating *prima facie* uncontroversial data, and (3) discharging the public accountability via the media that utilised accounting data as evidence. This study hopefully serves as a reference for the future as well as the past, for once the accounting framework proved to be pragmatic, it may well be taken for consideration for the forthcoming OCAs in other blocks of the world.

NB : **T. Suzuki** is submitting two papers. Informations about the author and his research are in the first panel's presentation.

Second panel : Accounting as an institution of capitalisms

1. E. Chiapello and Y. Ding (HEC Paris), Accounting and economic systems : an illustration with the economic transition process in China
2. T. Suzuki (University of Oxford), Figuration of the Japanese Economy
3. A. Rebérioux (University of Paris X), Institutions for corporate governance of the Firm-Entity
4. M. Dietrich (University of Sheffield), Accounting corruption in the Enron-era scandals : an institutional analysis

About the first paper (Chiapello - Ding) :

Abstract: In his famous work, *Der Moderne Kapitalismus*, Sombart argues that capitalism and double-entry bookkeeping are indissociably interconnected. This assessment can easily be criticized and rejected nowadays, because Sombart was not able to anticipate what would happen afterwards: the double-entry bookkeeping accounting system was also adopted by anti-capitalist countries where a new economic system – the planned and centralized economy – was set up. This outcome shows how adaptable double-entry bookkeeping can be, and that it can be used in either a capitalist or communist context.

So if there really is a specifically capitalist accounting system, its blueprint must be something more than the double-entry bookkeeping technique consisting only of debiting an account and crediting its counterpart. What kind of economic concepts are put into action and conveyed by accounting in the context of capitalist countries? A study of how accounting has changed with the economic transition in China helps us identify those “accounting features” required for a capitalist economy that clearly differ from those needed for the planned and centralized economy.

Key words: capitalism, communism, accounting, China, reform, transitional economy

Eve Chiapello is an associate professor at the HEC School of Management, near Paris, France. She teaches Organization Theory and the behavioural and social aspects of management instruments. She is the author of several articles and books in economic and organisational sociology including in 1998 *Artistes versus Managers* (Paris: Métailié), a book about the conflict between management and artistic rationalities in the Art field, and in 1999 *Le Nouvel Esprit du Capitalisme* which she co-authored with the French sociologist Luc Boltanski (Published in English by Verso, *The New Spirit of Capitalism*, January 2005). She is now doing some work in the sociology of accounting, considering accounting categories as objects that perform the ‘economic reality’.

Yuan Ding is an associate professor of Accounting at HEC School of Management, Paris, France. He is also a core professor of Accounting at China Europe International Business School, Shanghai, China. Prof. Ding received his PhD in Accounting from the Institute of Enterprises Administration at the University Montesquieu Bordeaux IV, France. He also holds a Master’s in Enterprises Administration from the University of Poitiers, France.

Dr. Ding’s research has been published in *Abacus*, *The International Journal of Accounting*, *Review of Accounting and Finance*, *Advances in International Accounting*, *Managerial Finance* and several leading French academic journals. He is Board Member of the *Global Perspectives on Accounting Education Journal*. He is the Academic Deputy President, Research Center of Complex Data analysis of Beihang University, Beijing, China. He is member of European Accounting Association, French Accounting Association and American Accounting Association. His current research is focused on intangibles, international accounting harmonization, corporate governance issues, and accounting reform in China.

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About the second paper (T. Suzuki):

Abstract:- This is a case study of a dissemination of internationally standardised accounting to a nation where standardised accounting was hitherto loosely practised under a domestic regulation. Soon after World War II, a growing interest in socio-macroeconomic management, rather than corporate or microeconomic stewardship, accelerated the implementation of standardised accounting in Japan. In order to make ambiguous delineations of the economy and its

constituent firms intelligible, official and governable, both national and corporate accounting came to occupy important positions as a formal mode of data and management. The actors were the officials of the Allied Powers, economic statisticians and academic accountants; whose motives, manoeuvres and consequences are reconstructed based on the primary archives of and interviews with those who were directly involved in this accounting revolution. This paper illustrates in detail, based on the newly discovered eye-opening archives, the way in which the Japanese economy and firms have come to be visualised and operationalised, which was certainly one of the most important pillars of the subsequent Japanese economic growth. In order to clarify the relevance of this history to the present day international accounting issues, some comparative references are also made to the recent development and implementation process of the International Accounting Standards and the International Financial Reporting Standard (IAS / IFRS).

Tomo Suzuki (Bsc, Msc, MA, CPA, D.Phil) studied Economics in Tokyo and later Philosophy of Economics and Accounting at LSE and Oxford. He has taught at Royal Holloway, the University of London and the SAID Business School, the University of Oxford. He is currently an Official Fellow (Hertford College) and University Lecturer (SAID Business School) at the University of Oxford. His recent publications include ‘The Accounting Figuration of Business Statistics as a Foundation for the Spread of Economic Ideas’, *Accounting Organizations and Society*, 2003a, Vol. 28, pp.65- 95 and ‘The Epistemology of Macroeconomic Reality: The Keynesian Revolution from an Accounting Point of View’, *Accounting Organizations and Society*, 2003b, Vol. 28, pp.471-517. His current research is on the rhetorical aspects of economics and statistics and their unintended and unexplored impacts upon society.

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About the third paper (A. Rebérioux):

Abstract: This paper explores the intrinsic limits of shareholders control, as Enron-era scandals also testify. To defend this thesis, we turn back to Berle and Means (1932) who stressed the instable nature of shareholder primacy. Indeed, this mode of governance requires an “exteriorisation” of control, that should rest on actors that are, by their very nature, outside the firm. Hence the paradox : the greater the implementation of shareholder sovereignty, the less corporate executives are effectively monitored. This critic lead us to prospect the basic premises of an alternative corporate governance mode, using an institutional approach, and arguing its implications for accounting and other regulating devices.

key words : shareholder control, Enron-era financial scandals, theory of the firm, board of directors

Antoine Rebérioux is associate professor in economics and researcher at FORUM (CNRS UMR 7028). His PhD thesis (2003) concerns the micro- and institutional foundations of shareholder value and sovereignty.

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About the fourth paper (M. Dietrich) :

Abstract: The paper wishes combine two views on the link/interface between economics and accounting. The first involves the analysis of firm corruption - this involves corruption of the accounting function. The 2nd is to link this corruption to the way accountants have used institutional economics, and in particular new institutional economics, to explain accounting systems. Basically, it would enhance an institutional analysis of the corruption of accounting. This should add to both the institutional economics and the economics-accounting literatures.

Michael Dietrich joins University of Sheffield, Department of Economics. In 2001, he published a paper on *Accounting for the Economics of the Firm* in *Management Accounting Research*. In 2000, he published a paper on *Stakeholders and the Firm: is it possible to bridge the gap between economics, accounting and business strategy perspectives?* in *Accounting and Business Research*. His research program develops an institutional approach based on both transactions cost and revenues (Routledge, 1994).

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Third Panel : Accounting as a representation of the firm

1. F. Arewa (Case Western Reserve School of Law), Representing the indeterminate: accounting for economic reality under the intangibles paradigm
2. O. Weinstein (University of Paris XIII), Firms, Markets and economic calculation
3. Y. Biondi (University of St. Etienne), Accounting system and the economic representation of the firm as an entity

About the first paper (F. Arewa):

Abstract: This paper will discuss the implications of the intangibles paradigm for representations of economic reality. Intangibles are a growing source of value for companies. The use of intangibles by an increasing number of companies reflects an ongoing shift to an intangibles paradigm that represents a distinct business model from the dominant tangible paradigm that was the basis for industrial production and business activities well into the twentieth century. As a result of this paradigm shift, an intangibles “haze” has come to characterize the application of accounting and disclosure rules to nonphysical assets. Consequently, financial statements of companies increasingly do not reflect underlying economic reality. Accounting involves choices about framing that reflect varying ways of representing a particular economic reality. However, intangibles can be indeterminate and difficult to quantify, particularly in light of accounting and legal structures that are derived from assumptions based upon the economic reality of businesses operating under tangible paradigm business models. Because existing accounting frameworks do not fully encompass the reality of the intangibles paradigm, the implications of representations of economic reality under the intangibles paradigm are of increasing concern. This paper suggests new frameworks by which accounting measurements and representations can better reflect the economic reality of the intangibles paradigm.

Olufunmilayo (Fummi) B. Arewa, Assistant Professor of Law at Case Western Reserve University School of Law, teaches courses in business law, intellectual property and technology law. His research program focuses on the economic and sociocultural implications of intangibles and intellectual property regimes today. Within this field, I focus specifically on several principal areas: • the implications of intangibles for regimes that govern business behavior such as intellectual property and accounting rules ; • the consequences of the intangibles paradigm and intellectual property regimes for business behavior, organizational structure and corporate decisionmaking; • the significance of commercial and business uses of intangibles and intellectual property assets for representations of economic reality ; • the importance of changing technology for uses of intellectual property and intangibles; • the sociocultural implications of the intangibles paradigm.

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About the second paper (O. Weinstein) :

Abstract: The purpose of the paper will be to consider the question of economic calculation, in the context of the relations between firms and markets, and their historical transformations. The paper will be organized as follows:

- We will first come back to the question of the “nature” of the *capitalist* firm as a specific *market-oriented* institution. In that perspective, we put emphasis on the modes of interrelations between the structures of firms and the definition and organization of markets, and on the conditions of definition and evaluation of firm’s performances, and on the complex relations between “real” and financial performances.
- This theoretical background is used to analyze the transformations of firms from the fordist (or “Chandlerian”) form – characterized by a strict separation between markets and firm’s internal organization – and the new forms of organization and governance emerging since twenty years, characterized in particular by a strong interpenetration between firms and markets relationships and the growing importance of market evaluations for firm’s management.
- We will then try to grasp the “raison d’être” and the implications of this transformations, as regard the definition and evaluation of performances. We will examine, in that perspective, the transformation of accounting methods, and the questions they raise.

Olivier WEINSTEIN is professor in Economics at University of Paris 13, CEPN (Centre d'Economie de l'université Paris Nord, CNRS UMR 7115). PhD in Economics, University of Paris I, 1972. He is a leading French scholar on economic

theories of the firm. His research program concerns the foundations of an economic, or socio-economic analysis of Institutions; the theory of the Firm as Organization and Institution; the analysis of the transformation of the capitalist firm, as a key component of Institutional Systems; the study of Markets as Institutions and Social Structures, to build a general theoretical framework for the analysis of the conditions of construction of Markets, and the effects of the institutional choices on the functioning and the economic and social outcomes of Markets.

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About the third paper (Y. Biondi) :

Abstract: The *box* that neo-classical theory designs for the firm does not appear neither *black* nor *empty*. The skeletal machinery built on *marginal cost pricing* is called to grasp the underlying economic and monetary *process* within the firm, at least in its fundamental elements and results. Indeed it ought to explain selling price, cost, quantity, and resultant (no) profit for each product separately. This machinery allows the price system alone to dominate the firm, at least from the economic viewpoint, when creation and allocation of resources are concerned.

According to some recent suggestion of R. Coase, however, the inner working of organisation and of the accounting system constitutes the new agenda for understanding how the special economics of the firm supersedes price system.

This paper seeks to further develop this insight, exploring accounting system as constitutive part of the institutional, organisational, cognitive structures of production. By means of accounting system, the special economic *process* of the entity firm acquires autonomous but interdependent existence from external markets, both from factors or products markets, and the becoming economic *activity* of the entity firm is clearer recognised. This perspective suggests new foundations to experience and understand the economic nature of the entity firm as a whole.

Yuri Biondi is associate professor of business economics, accounting and finance at University of St. Etienne. His PhD thesis (2003) concerns accounting and economics of the firm as an entity, applying an institutional approach with insights from accounting principles and theory. His M.Sc. thesis (2000), concerned with foundations of Italian accounting theory of the firm, is published in Italian language by CEDAM (2002).

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