Radio Free Humanity Interview
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Andrew Kliman [AK]:

Rob, could you outline the main arguments of your latest book, *Accounting for Crises: A Marxist History of American Accounting Theory, c.1929-2007*

Rob Bryer [RB]:

The book gives a new explanation of capitalism's two major economic crises – the Great Depression of the 1930s, and the Global Financial Crisis of 2008-2009 – why both crises began and were more severe in America, based on an "accounting interpretation" of Marx's theory of crises.

It explains them, as Marx did, as the consequences of the interactions between (a) the falling rate of profit; (b) "moral hazard"; and (c) what he called "swindling".

Its explanation is "new" because it adds important roles for America's exceptional "accounting theory" in facilitating "swindling".

AK:

What is moral hazard?

RB:

I mean the potential losses capitalists face from hiring managers who make riskier investments than they would.

Managers are less risk averse than owners because they are not personally liable for failures.

AK:

OK. You were outlining your main arguments. Please continue.

RB:

Crises' underlying cause, Marx argued, was "capitalist accumulation", by which I argue he meant capitalists' *accounting control of accumulation*, of productive investment.

Understanding that capitalists control accumulation through accounting reveals (a) how it creates the possibility of crises, and (b) accounting theory's role in producing them by allowing management discretion in preparing published accounts.

Falling rates of profit in the 1920s, and again from the 1980s, I argue, encouraged management to use its discretion for *accounting* "swindling", overstating profits and understating their risk, which facilitated and aggravated both crises.

Why America was their epicentre is the conclusion to a long story.

To tell it has required, first, articulating an "accounting interpretation" of Marx's theories of value, history and crises – an interpretation that highlights the important roles played by accounting in the Volumes of *Capital*, particularly Marx's discovery that his theory of value explained capitalists' accounts.

Second, it required using his theories to explain British and American accounting histories from the late-18th century to 2007.

Accounting for Crises is the final volume of four books on Marx and accounting.

My latest two books are contributions to what accounting scholars call "critical accounting".

"Critical accounting", according to my interpretation of Marx's theory of history, is his concept of "revolutionary class war" by means of critical calculations, showing that capitalists' calculations are socially dysfunctional.

The first of these two books, *Creating the "Big Mess": A Marxist History of American Accounting Theory, c.1900-1929*, elaborates what I call "Marxian accounting".

Marxian accounting uses Marx's theory of value to explain late-19th century British accounting in detail, its valuation principles, methods and practices, which became required from the 1880s as large management-controlled companies began to list on the London stock exchange.

Marxian accounting provides the benchmark for showing that during the 1920s accounting theorists undermined America's late-19th century acceptance of British principles, creating what one leading authority called a "big mess" that many NYSE companies exploited, swindling shareholders by manipulating published accounts.

Accounting for Crises concludes these histories with an accounting interpretation of Marx's theory of crises, and uses it, and Marxian accounting to explain, *first*, the influence of accounting theory and practice on the 1920s stock market boom and 1929 crash, and on the Great Depression and 1930s reforms, in the context of a falling rate of profit.

Second, it uses Marxian accounting to explain accounting theory's influence on the development of US GAAP – *generally accepted accounting principles* – from the 1930s to 2007.

Third, it uses this history, along with Marx's theory of crises, to explain the accounting practices that, again, in the context of a falling rate profit, facilitated what observers usually call the "Global Financial Crisis" of 2008-2009.

Accounting for Crises explains accounting theory's role in facilitating the *Financial* Crisis – the collapse of financial institutions and markets – but I agree with those, including you, who call the 2008-2009 economic crisis the "Great Recession", and argue that its underlying cause was the falling rate of profit.

This, then, is my challenge: to make the case to a non-accounting audience that accounting is centrally important – in understanding Marx's *Capital*, and the functioning of capitalism – and I am therefore pleased to have this opportunity to give an "executive summary" of *Accounting for Crises*, an introduction to its theory, history and main conclusions.

AK:

How does your accounting interpretation help us to understand Marx's theory of crises?

RB:

It follows, and supports, your interpretation, and contradicts other leading, critical interpretations (for example, by Simon Clarke and David Harvey), that claim Marx had no coherent theory of crises.

Accounting helps understand it, as I said, because *capitalist accounting control* explains Marx's conclusion that crises underlying cause is "*capitalist* accumulation".

"Capitalist accumulation" means expanding capital by *reinvesting profit for more profit*, advancing additional capital that must realize at least the "general rate of profit", society's total surplus value divided by its capital, what accountants call the "*required*" *return on investment* (ROI).

My interpretation explains crises as the consequences of capitalist accounting control of individual capitals, using both what accountants call "financial accounts" – profit-and-loss accounts and balance sheets – and "management accounts" – budgets and cost controls – to control the circulation of capital to maximize the rate of profit, accountants' ROI.

According to this interpretation, shareholders collectively control individual capitals using published financial accounts, which management has incentives to manipulate, whereas to control the circulation of capital through production and circulation management needs objective rate of profit accounts.

AK:

So are you saying that companies' managers keep "two sets of books"—the public one and the real one? Manipulated financial accounts that are published, and objective rate of profit accounts for management's own use?

And you said that management has incentives to manipulate the published financial accounts. What are these incentives? Who are they trying to fool, and why?

RB:

Yes, management keeps two sets of books.

Management's internal accounts are the basis of the published financial accounts, but the rules for constructing them allow management discretion.

Management has many incentives to use its discretion to manipulate published accounts, particularly to report growing profits, and to avoid reporting losses.

Among them are that large and growing profits (a) justify management's pay increases and earnings-based bonuses, (b) allow corporations to raise more debt by increasing what analysts call "Ebita", "earning *before* interest, tax and amortisation", a key measure for creditors, and (c) reporting increased profits can support or increase the corporation's share price.

Managers are "fooling" investors, "swindling" them.

They know their accounting choices violate long-established capitalist "principles", those first developed and enforced in late-19th century Britain, the same principles that underlie management's accounts today, which since the 1920s, I argue, accounting theory has undermined for the published financial accounts.

AK:

What's the problem with the two sets of books? It would seem to be a "neat" solution to management's need to know what's really going on, while keeping shareholders from knowing what's really going on.

RB:

It's not a problem from the perspective of an individual company's management.

It's a problem for capitalism.

The company's shareholders are not in control of management, cannot hold it accountable for what accountants call its "stewardship" of capital, for realized ROI, so individual capitals are out of control, and this I argue also contributes to crises.

AK:

OK, so you've said that you explain capitalist economic crises as the consequences of capitalists' accounting control of individual capitals. On the face of it, Marx's theory of crises seems different. He never framed his explanation in that way. So how does your focus on capitalists' accounting control mesh with Marx's crisis theory as he himself presented it?

RB:

It does so in two ways.

First, accounting control to increase the rate of profit promotes *capital-intensive* investments to lower the *cost of production* by increasing labour productivity that, Marx argued, underlay his "Law of the Tendential Falling Rate of Profit", produces a tendency for the rate of profit to fall.

Consistent with your refutation of Nobuo Okishio's claim that Marx's "Law" is incorrect, the accounting interpretation shows that to demonstrate it, Marx, in effect, produced a series of what accountants call "replacement cost accounts" that, just like accountants today, calculated "capital maintenance adjustments" – I say some more about this later.

Second, management *resists* falling rates of profit because it seeks, and is accountable for, target-rates of profit based on earlier higher rates.

This exacerbates "moral hazard", encourages risk-taking – taking on more debt and risky investments – and, if possible, "swindling" by manipulating published accounts, overstating profit and understating risk to inflate share prices, encouraging speculation.

AK:

Theories aren't just appealing "just-so stories." They stand or fall by being tested, and succeeding or failing the tests. How can the theory of capitalist economic crisis you've outlined be tested?

RB:

Historians can test Marx's theory of crises by investigating whether objective rate of profit accounts generated their possibility, and whether manipulated published accounts facilitated and made them worse, which is my focus in *Accounting for Crises*.

AK:

You argue that a theory of capitalist accounting control is present in Marx's crisis theory, even though he didn't put it that way. Where in his crisis theory is there a theory of capitalist accounting control?

RB:

Marx presented his theory of crises in three stages.

First, towards the end of Volume 1, Marx presented his "general law of capitalist accumulation", which *Accounting for Crises* interprets as the workers' first accounting lesson in crises,

explaining to them why wages and unemployment (the "reserve army") are the "dependent" variables, and capitalist accumulation is the "independent" variable.

I show in the first of the four books, *Accounting for Value*, that Marx's economic *tableau* is the profit-and-loss account of capitalist society, of capital-in-general, that Marx worked out using *double-entry bookkeeping to* correct and transcend François Quesnay's *tableau*.

Based on Marx's economic *tableau*, *Accounting for Crises* constructs an accounting illustration of his "general law" in operation through time.

These accounts show the rapid accumulation of capital draining the "reserve army" of labour and temporarily increasing wages, and capitalists' reaction to a fall in the rate of profit by labour-saving investment that restores the "army".

AK:

Marx's schemes of reproduction are clearly based on Quesnay's *tableau economique:* Marx said this explicitly. But those schemes are in volume 2 of *Capital.* Are you saying that the theory of capitalist accumulation presented in volume 1 of *Capital* is also based on Quesnay's *tableau*? If so, in what sense? The reproduction schemes in volume 2 deal with exchanges between different social groups, just as Quesnay's *tableau* did, but the discussion in volume 1 doesn't seem to do so.

RB:

For Marx to explain his general law of capitalist accumulation in Volume 1 he *first* had to construct society's profit-and-loss account from its components, that is, "deal with exchanges between different social groups".

To do this Marx took Quesnay's *tableau* and, first, used double entry bookkeeping to correct it. Second, Marx used his theory of value to transcend it, to replace Quesnay's pre-capitalist social groups and exchanges with capitalist society.

He then produced its accounts using double entry bookkeeping.

AK:

OK, you were saying that there are three stages of Marx's theory of crisis, and that a theory of capitalist accounting control is present in each stage. The first stage is Marx's general law of capitalist accumulation. You maintain that the accounts of capitalist society as a whole, the total social capital, are implicit in his discussion of this. What are the other two stages of Marx's theory of crisis?

RB:

Second, *Accounting for Crises* shows that Marx's controversial "schemas" of expanded reproduction in Volume 2 are interlinked departmental profit and loss accounts, again based on *double-entry bookkeeping*.

This interpretation, I argue, (a) supports your "unbalanced growth" interpretation, (b) reveals that a major source of workers' precariousness in capitalism is the absence of a central controller, and (c) poses the question of how capitalists collectively control production without one, and the consequences.

Third, Marx's answer was his value-price transformation in Volume 3, which *Accounting for Value* argued was his "standard" or "target" cost solution to the so-called "transformation problem".

Marx, in effect, I argue, explained how "total social capital" controls many competing individual capitals using the general rate of profit, and his theory of crises in Volume 3 explains the consequences of a falling rate of profit leading to an inevitable financial and economic crisis.

In short, Marx's analyses in Volumes 1 and 2 show how capitalist control creates the *possibility* of crises, which he explained in Volume 3 become *inevitable* because a *falling or low* rate of profit encourages risky investments, increased debt, speculation, and "swindling".

Within "swindling" – by which, I agree with you, he meant deceptive, unethical, unscrupulous, unprincipled, but not necessarily fraudulent behaviour – Marx included manipulating accounts.

In Volume 3 he described the British "railway 'mania'" of 1845-1846 as a "great railway swindle", having in Volume 2 criticised British railway companies' accounts for confusing "capital" and "revenue" expenditure, and – vitally important for accurately measuring their rate of profit – for failing to systematically charge depreciation on fixed capital, swindling shareholders by overstating profitability.

AK:

How does accounting-based "swindling"—deceiving shareholders by manipulating accounts—explain America's 1920s stock market boom and 1929's Great Crash, and what were the roles of accounting theory?

RB:

Having a functional accounting superstructure helps to explain why, from the 1860s, Britain had fewer financial crises, and no major economic crises.

Consistent with Marx's theory that speculation and swindling would promote financial crises, but economic crises would be short because devaluing capital would promote recovery, from the

mid-19th century Britain developed what accountants called “conservative” accounting that revealed whether management had *maintained* the capital in circulation.

British accounting was explicitly not for “speculators”, and its “conservative” valuation rules, particularly “lower-of-cost-or-market”, enforced devaluation in a crisis.

From the mid-19th century to the 1930s America by contrast had legally unregulated accounting, and during the late-19th century it had frequent financial crises, and then had the 1929 crash and Great Depression, and there, during the 1920s, framed by economist Irving Fisher’s accounting theory, accounting theorists made British principles incoherent, producing what one of its leaders called a “big mess”.

AK:

In what ways did grafting Fisher’s theory onto British accounting principles create a “big mess”? And what was the nature of the “mess”?

RB:

The basis of Fisher’s accounting theory is not cost and realized profit, as it is for Marx and accountants, but “present value”, the claim that an asset’s value is the “discounted value” of the expected cash flows, and its “income” or “earnings” is net cash flow adjusted for changes in value, which is subjective.

Accounting theorists used Fisher’s theory to criticize British principles, which gave management discretion.

Theorists proliferated accounting options, and gave, as one-historian puts it, “explanatory justifications for accepted procedure”, excuses that management and accountants used to justify what they also called “conservative” accounting, but it was a unique American definition allowing the deliberate misstatement of assets and liabilities, which, along with other choices, allowed “profit-smoothing”, swindling by overstating reported profits and understating their risk.

In the context of a falling general rate of profit, and historically low corporate rates, this “big mess” created an opportunity for accounting swindling because, for the first time, during the expansionary 1920s “New Era” when corporations raised unprecedented amounts of capital, the wealthy and middle classes purchased “common stocks”, risky equity shares, becoming and thinking of themselves as “investors”.

In this context, Fisher’s heavily promoted theory of investment, based on his accounting theory, became the popular wisdom, which had two major consequences.

First, it justified valuing shares using reported “earnings” or “income” – which became the accepted nomenclature, rather than “profits” – which encouraged management to manipulate “earnings” to increase share prices.

Second, Fisher's theory legitimized what was actually "speculation", buying shares in anticipation of price increases, as "investment", which traditionally had meant holding only established companies' shares for long-term dividends, by redefining "speculation" to mean "investment".

In these ways, *Accounting for Crises* argues, Fisher's accounting theory facilitated America's exceptional late-1920s stock market boom, and it goes on to argue that his theory also underlay the 1929 crash because loss of faith in the integrity of published "earnings" triggered it, and that his theory's continuing influence aggravated the 1930s Great Depression, its depth and length.

AK:

If I understand what you're saying, it's that accounting based on Irving Fisher's theory allows management to "swindle" shareholders, deceive them by manipulating accounts. But shareholders weren't completely deceived; *ultimately*, they didn't trust the published accounts. Eventually, enough of them didn't accept the rosy picture of future profits and the values of companies that the published accounts painted, and this led to the crash of 1929. And because Fisher's theory remained influential after that, published accounts remained untrustworthy, so the Great Depression in the US was deeper and longer-lasting than would otherwise have been the case. Have I gotten this right?

RB:

Shareholders were deceived during the boom by accounts that used the flexibility in Fisher's theory to report a "rosy picture" of smoothly growing profits, but also by the belief that they could extrapolate this growth into the future to value shares.

"Ultimately", as you say, shareholders "didn't trust the published accounts", stopped believing in their integrity when it became clear in late-1929 that management had manipulated them, and this I argue caused the crash, and explains its trajectory – its speed, depth and length – not simply evidence that the rate of profit was falling.

After the crash, due to Fisher's continuing – if now unacknowledged – influence over accountants and policy-makers, it took until 1937 before the SEC used its powers to force management to give up exclusive control of accounts.

AK:

How does the explanation of the Great Depression that you've outlined differ from historians' standard explanations of it?

RB:

Chapter 3 applies Marx's theory of crises to the Great Collapse in America, 1929-1932, and uses the accounting interpretation to evaluate historians' and orthodox Marxists' explanations.

AK:

Like who, exactly? Which historians? Which “orthodox Marxists”?

RB:

The book evaluates the work of leading historians such as J.K. Galbraith and R.S. McElvaine, but also others.

By orthodox Marxists, I mean authors such as Baran and Sweezy, but I mostly focus on a 1994 paper by James Devine.

AK:

You take issue with their explanations, yes?

RB:

The evidence, I argue, better supports Marx’s theory, which explains the origin of the crisis in reactions to the falling general rate of profit from the mid-1920s, and historically low corporate profit rates, increased “concentration” and “centralization”, an increased “rate of exploitation”, increased borrowing, exceptional speculation, and swindling.

Historians and orthodox Marxists, by contrast, explain the boom as “irrational” speculation, the crash as its “irrational” consequence, and the recession by underconsumption.

Chapter 4 analyses the impact of accounting theory on the 1920s stock market boom and 1929 crash.

The popularity of Fisherian accounting together with what knowledgeable observers recognised as Fisher’s “new theory” of “security analysis”, it argues, explains shareholders’ supposedly “irrational” behaviour.

This “new theory” boosted the so-called “speculative” bubble by legitimating share valuation using reported earnings, on which, the evidence shows, investors fixated, and it argues that loss of confidence in their integrity explains the 1929 crash.

Investors were wrong in believing they could value shares using reported accounting earnings, but this does not mean they were “irrational” because the repeated assertion that they could became the accepted wisdom, with unimpeachable intellectual foundations to the highly educated, the best advice money could buy.

Many corporations reported sustained earnings growth during the later 1920s, which fell from mid-1929, a trend that became clear in September 1929, and the stock market faltered.

The S&P 500 index fell from 30.76 on 7th October 1929, to 20.3 by 11th November.

Historians like J.K. Galbraith explain this turning point, and the subsequent crash, as an irrational exit.

The evidence, however, supports the hypothesis that, adding fear to uncertainty, in early-October 1929 the realisation dawned on sophisticated investors that the falling earnings figures could themselves not be trusted.

I do not have time to review the evidence here, but it shows that rather than irrationality, these two factors – slowing reported earnings growth, and loss of faith in their integrity – caused the timing of the crash, just as their opposite had caused the boom.

AK:

What roles did accounting play in creating, deepening and extending the Great Depression?

RB:

First, it created the *conditions* for the depression by fostering the boom by overstating earnings and suppressing risk, which undermined management's accountability for capital, which allowed overinvestment, "underconsumption", "overproduction", and sectoral imbalances.

Second, accounting *deepened* the depression because during the crash investors lost confidence in its integrity, and after the crash management continued to be unaccountable, which fostered a continuing lack of investor "confidence" and "underconsumption" during the 1930s, insufficient demand by wealthy and middle class investors for consumption or investment.

Third, accounting theory *prolonged* the depression because although Fisher became unpopular after the crash, and his name disappeared from public debate, his theory survived and hindered economic recovery because it fettered economic and accounting reform and the effective devaluation of capital.

AK:

How did Fisher's theory fetter economic and accounting reform and the effective devaluation of capital?

First, the continuing influence of Fisher's theory during the 1930s reforms allowed management and the accounting profession to avoid government control of accounting in the Securities Acts of 1933 and 1934, which reformers saw as necessary for controlling big business.

Second, it allowed the profession to reject the SEC's demands for "uniformity", which allowed continued management discretion, which it used to avoid *effective* devaluation, that is, plant closures and asset disposals, and overstate the rate of profit.

Many corporations made large *book* “write-downs”, but usually against “capital surplus”, which avoided reporting losses, and by reducing future depreciation charges the write downs allowed them to report “profits” and recommence paying dividends, but the reality was little actual devaluation or destruction of capital, continuing overcapacity.

Under pressure to restore investors’ “confidence”, and counter unions’ demand that corporations “open the books”, in 1937, weary of resistance to “uniformity”, an exasperated SEC demanded that corporations produce “conservative” accounts, shift towards British conservatism.

It forbade economic valuation, prohibited write-downs against capital, and threatened to specify accounting rules if the profession did not produce “generally accepted accounting principles” (GAAP).

In 1939, the profession gave its recently formed Committee on Accounting Procedure the task of writing and enforcing GAAP, but by the mid-1950s, it was clear they had failed.

AK:

Why did they fail?

RB:

They failed because, although economic valuation was discredited the alternative was vilified as Marx’s “cost theory of value” – which it was, implicitly.

That was, of course, ideologically unacceptable, so Fisher’s theory continued to frame accounting regulation from the late-1930s.

AK:

Is your point that GAAP and Fisher’s theory aren’t ultimately compatible? And if so, why not?

RB:

Yes, they are incompatible because the objective of Fisher’s accounting is what today the Financial Accounting Standards Board (FASB) calls “decision-usefulness”, which, like Fisher, requires economic valuation based on expected cash flows, not “stewardship”, which as I said requires the realized rate of profit, which is based on “cost”.

AK:

I want you to talk about the Great Recession that erupted about 15 years ago. But first, to set the stage, let’s talk about what happened in the decades leading up to it. The long boom following World War II ended with the global recession of the early 1970s. After that recession, there was no new boom. Instead, there were decades of sluggish economic

growth. My first question is: why was that the case? I've argued that the US government wanted to prevent another full-scale depression, so it covered over the problems with more and more debt-financed spending. This worked, in a sense, but it also dampened the destruction and devaluation of capital-value that restores profitability and rapid economic growth. Based on your research, do you agree with this explanation of the persistent economic malaise?

RB:

I do agree with it.

The evidence clearly shows that the rate of profit failed to recover significantly from the lows of the 1970s and 1980s, which is consistent with your explanation that government policies curtailed the devaluation of capital, which explains the persistent low economic growth.

AK:

Do you have any additional insights to add, based on your accounting perspective? In particular, did corporate management's ability to manipulate accounts contribute to the insufficient destruction and devaluation of capital-value, or to the mounting debt problems?

RB:

Chapter 6 supports your explanation by showing how during the 1970s and 1980s management also wanted to prevent a second Great Depression, or at least avoid the consequences of one for their own corporations, by resisting the necessary accounting for devaluation.

One of accounting's most important roles is enforcing devaluation through requiring management to value all assets using what regulators call "value to the owner" or "deprival value" rules, which, like the insurance market, measures the economic loss incurred if an owner was "deprived" of an asset.

The basis of these rules is "replacement cost accounting".

During the 1970s and 1980s management avoided these rules, avoided the destruction of capital, by drawing on accounting theory to avoid, water-down, and then ditch replacement cost accounting, which allowed it to overstate profits and accumulate more debt.

AK:

I realize that the issues here are technical. But can you give us a rough idea of: (1) the problems that management faced during this period, (2) how the accounting changes management demanded helped it to address those problems, and (3) how these "solutions" exacerbated the long-term economic sluggishness?

RB:

At the heart of management's problems was that although the replacement cost rate of profit fell to the early-1980s, high rates of inflation meant its published historical cost accounts showed increasing profits.

In the face of public criticism, wage demands, and to make the case for tax cuts, in the early-1970s management agitated for what became popularly known as "inflation accounting", to *reduce* reported profits, which prompted the so-called "inflation accounting debate".

Management generally wanted what accounting theorists call "current purchasing power" accounts, adjusting published historical cost accounts for general price inflation, but this would not enforce devaluation, which informed opinion agreed required replacement cost accounting and deprival value rules.

Replacement cost adjustments revealed sharply lower profits, so low that they showed dividends came substantially from capital, implying large-scale capital destruction and devaluation was necessary, and avoiding this became management's dominant problem.

To resist replacement cost accounting management now used Fisher's theory to agitate for what accounting theorists called "monetary adjustments".

In the early-1980s, regulators eventually imposed what they called "current cost accounting", which was based on replacement cost, but heeded management's demands by including monetary adjustments, which counteracted and camouflaged its effects.

However, as inflation fell in the early-1980s, but the current-cost rate of profit remained significantly below the historical-cost rate, management used theorists' criticisms of replacement cost to justify increasingly simply ignoring the requirement to publish current-cost accounts, and to demand its abolition, which regulators accepted in the mid-1980s.

Accounting history therefore supports your argument that the rate of profit failed to recover to pre-1970s levels because of insufficient devaluation of capital.

It was in part, my history shows, because accounting theory allowed management to resist rigorously implementing replacement cost accounting, which would have been required from the early-1970s to enforce the necessary devaluation of capital, and allowed management to ditch it before its work was finished.

AK:

OK, so let's turn to the Great Recession. As everyone recognized at the time, 2008-2009, there was a lot of "swindling" that led to and aggravated the "Global Financial Crisis." You argue that this was partly the fault of accounting theory—it allowed the swindling to take place. But the Financial Accounting Standards Board began operating in the early

1970s. It was supposed to put accounting of public companies in the US on a sound footing. So what went wrong? Why did the FASB and its standards fail to rein in "swindling"?

RB:

Management's refusal to relinquish control of accounting caused the collapse of the accounting profession's standard-setting process, which lost credibility, in the mid-1950s, and did it again in the late-1960s.

The FASB's primary aim from its creation in 1973 in response to the 1960s crisis was to produce what it called a "conceptual framework", to prevent another crisis by taking control of accounting choice from management, but resorting to Fisher's theory meant the profession's claimed victory was Pyrrhic because within it management retains discretion.

AK:

In your book, you provide a detailed account of the "holes" in the FASB's framework that allow management to retain discretion. We don't have the time to discuss all of that today, but can you give us an example or two to illustrate your point?

RB:

The big hole is its definition of an "asset", from which much follows.

According to the FASB's *Statement of Financial Accounting Concepts No. 3* [I quote], "Assets are probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events".

The problems with the definition are, first, that it leaves open *what* the entity controls: Is it (a) the asset's underlying use-values, or (b) access to its future economic benefits, the ability in practice to "obtain" them?

This ambiguity allows structuring transactions to achieve or relinquish "control", giving management choice whether to recognise an "asset" or not.

Second, it leaves open how to identify and measure the expected "future economic benefits".

For this the FASB inevitably turned to management's judgement, left it to management to judge whether future economic benefits existed, and were "probable".

In Chapter 8, I examine how the FASB's "asset" definition allowed the proliferation of US banks' "securitization SPEs" ("special purpose entities").

These SPEs, I argue, facilitated the "swindling" that underlay the 2007 credit-crunch, triggering the so-called Global Financial Crisis of 2008-2009.

US GAAP allowed "off-balance sheet accounting" for securitization SPEs, allowing banks to remove mortgage debts from their balance sheets, and keep the SPEs' liabilities off the balance sheet.

In this way, as critics predicted, management used the FASB's framework as a template to structure transactions to achieve desired accounting outcomes.

By justifying off-balance sheet accounting, the evidence shows, accounting theory justified extensive "swindling".

Only some, mainly US, bankers used the discretion GAAP allowed to justify what many knew was overstating profits and understating capital, but this relatively small unscrupulous group was central to the 2007 "credit-crunch" that triggered the Great Recession.

AK:

What general lessons can we draw from your Marxist accounting history?

RB:

There are two main lessons.

The first is for capitalists.

It is that socially rational accounting is impossible in modern capitalism because the only ideologically acceptable accounting theory is "pathological".

Pathology is the study of disease, which in Marxian accounting means not holding management accountable for the rate of profit, which allows swindling, which facilitates and aggravates crises.

Fisher's theory undermines accountability because it is an ideologically-distorted managerial representation of capitalism, *Creating the "Big Mess"* argued, designed to reconcile America's "simple commodity producers" and "semi-capitalist" manufacturers to late-19th century big business and money capitalism, and undermine support for socialism.

Its price, *Accounting for Crises* concludes, is an accounting theory that sanctifies managerialist ideology as unalterable reality, which means financial accounting has no coherent, generally accepted and comprehensive theory, and it never will.

AK:

Why do you say it is impossible to reform capitalist accounting?

RB:

Creating the "Big Mess" argues that Marxian accounting would eliminate management's discretion, but it would be ideologically unacceptable, and would not abolish crises, but in Marx's theory increases their possibility, and would not prevent speculation or other forms of swindling.

Accounting for Crises argues that Marxian accounting would have shortened the 1930s Great Depression and produced a "second", but shorter, "Great Depression" in the early-1980s profitability crisis, and avoided the 2008-2009 Great Recession.

However, it would have increased their severity, which also makes Marxian accounting unacceptable because the Great Depression showed that a severe depression, as it nonetheless was, radicalises workers, threatening unwelcome political consequences.

AK:

OK. What's the other main lesson?

RB:

The second lesson from Marxist accounting history is for workers.

Accounting history supports Marx's aim in developing his "Law of the Tendential Falling Rate of Profit", which he said was "the most important law of political economy" because explaining to workers how it underlay capitalism's "bitter contradictions, crises, [and] spasms", as he put it, would create the necessary "mental conditions" for socialism.

Workers should understand that Fisher's theory facilitates crises, but cloaks their reality, represents them as "financial", preventable by reforms – misleading them, generations of reformers, radicals, and even many Marxists – rather than inevitable crises that society can eliminate only by replacing capitalism.

Understanding Marxian accounting and the role of accounting theory in facilitating and aggravating crises should convince workers that a society in which rational accounting is impossible has outlived its usefulness.

Demonstrating Marx's "Law" to workers would be politically revolutionary because it would show them that capitalism's ability to deliver economic progress is inherently limited, but one reason for worker indifference is that Marxists have often claimed it is false.

TSSI proponents refute this claim by, in effect, I argue, showing its basis is incorrect Marxian accounting, which workers must therefore understand to allow them to focus on the "Law" and its political implications.

Some Marxists seek to demonstrate the “Law” empirically and use it to explain crises, but these studies have generated controversies and, I have argued, to deal with them also requires understanding Marxian accounting.

Finally, perhaps the most important lesson is that while rational accounting is impossible within capitalism, a coherent, generally accepted and comprehensive set of Marxian accounting standards for Day 1 of socialism remains a possibility if Marxists take accounting seriously, and if “critical accountants” take Marx’s theories of history and capitalism seriously.