
Will the euro fundamentally change government accounting?

University of Southern California
29 April 2016

Tim Irwin
timothyirwin@hotmail.com

The euro creates new pressures on government accounting

- Usually, external pressures on national governments to improve their accounting are weak
- The situation for firms and local governments is quite different
- But the euro changes things: the debt and deficit rules mean that one government's accounting matters to other governments
- It creates new *inter-governmental* pressure for change
- Before the crisis, there were improvements in fiscal statistics—though still large problems

But it hasn't yet had a big impact on the underlying accounting
 Availability of accrual financial statements for central government

	Not available in 2014	Available in 2014
Not available in 2003	<p>Belgium Cyprus Germany Greece Ireland Italy Luxembourg Netherlands Norway Portugal Singapore</p>	<p>Austria Denmark France Hong Kong Israel Japan Korea Switzerland United Kingdom</p>
Available in 2003		<p>Australia Canada Spain Iceland Finland New Zealand Sweden United States</p>

The euro-zone crisis, however, reinforces the pressures

- Problems in public finances and its measurement were not a main cause of the crisis in most euro-zone countries (e.g., Spain and Ireland)
- But the crisis has
 - Highlighted fiscal spillovers
 - Drawn further attention to government debts and deficits
 - Put weaknesses in their measurement in the spotlight

What kind of changes will those pressures encourage?

- European-wide standardization of accounting rules (EPSAS)
- Accrual rules in particular—in part since the deficit rule is accrual based
- These pressures reinforce the international trend toward accrual accounting
- But they may also lead to some twists:
 - New emphasis on net lending/net borrowing
 - New attention to general government

Finally, what might cause these changes not to occur?

- There seem to be strong pressures for change, even if change is slow
- But are they enough?
 - The euro zone or its emphasis of fiscal rules might not endure
 - Unexpected growth or inflation might alleviate fiscal problems
 - Some governments unconvinced that accrual accounting will help
 - Governments might not be able to agree on new rules
- Which set of influences will prevail?