
Editorial: Critical accounting history

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Today, more than ever, 'history' has a vital role to play in informing the present with lessons from the past. Capitalism is confronted with one of its basic contradictions: as competitive forces achieve more production with less, i.e., increased productivity/efficiency that results in a layoffs and a diminution in demand. The palliative has been credit (student loans, home loans, second mortgages, credit cards, etc.). It is not hyperbolic to assert that accounting failures have been at the centre of major financial failures (and as a testament to this thesis, consider the hundreds of millions of dollars of fines and private law suits). The Foreign Corrupt Practices Act (FCPA) (1977) was prompted by 'off-the-books' slush funds used for bribing (and destabilising) major US trading partners. This was the first legislation to focus on installing 'proper' systems internal control [a provision echoed in the Sarbanes Oxley (SOX) legislation of 2002].

Bubble blowing has been capitalism's most recent attempt to compensate for falling demand. The micro level (banks) were the primary vehicles creating the housing bubble. Again, accounting was at centre stage in this crisis: none of Florida's 'pay-as-you-go' mortgages would have cleared any proper functioning system of internal control. This was an audit failure, and an accounting failure; accountants did not learn from FCPA or SOX.

And now bubble blowing has gone global. Banks world wide are hobbled by toxic assets (often masked by the failure of accounting disclosure requirements) with the result that interbank lending has been attenuated and the short term money market for small businesses is in free fall.

But bubble blowing is also a national problem with many European countries living beyond their means (sometimes not entirely their fault). Some Spanish municipalities were trapped by US banks with nasty contracts. Goldman SACS scowered the streets of

Europe – seeking-out gullible municipalities. For instance, they offered insurance contracts (for health benefits for employees) with a clause that promised massive returns (if say, the sun turned blue) and catastrophic losses if a yellow swallow was sighted). That said, governments have also indulged in bubble blowing (this is also an accounting question as to whether such deficient spending is prudent).

Accountants have been slow to learn from their history. Indeed, to some this would appear to be an act of deliberate forgetting.