Greece Needs an Accounting Revolution

Christopher Westfall | February 17, 2015

Forget the dangers of political uprisings or the drama of financial bailouts. What Athens needs is a revolution in double-entry bookkeeping and loan recognition.

The last-minute, down-to the-wire debt negotiations between Greece and its European Union neighbors may be decent geopolitical drama, but any solution will not address the fundamental problem at the heart of the Hellenic state's problems: accounting.

A culture of poor bookkeeping — along with a public finance infrastructure that focuses on cash accounting — is really at the heart of the Greece/EU crisis, argues Jacob Soll, a professor of history and accounting at the University of Southern California. And until Greek borrowers and EU lenders face their mutual accounting issues, it's likely that the fiscal situation will get much worse — and more quickly than anyone has imagined.

"In advanced economies, you have places with high-end accounting systems that create traditions, and they create things like accounting schools," Soll argues. "Greece just doesn't produce that sort of high-end, home-grown accounting."

The eurozone has given Greece until Friday to decide if it wants to continue with the current bailout deal — which includes significant austerity measures but allows it to avoid defaulting on its debt — or leaving the EU.

The newly elected Greek government wants to replace the bailout with a new loan on better terms.

But Soll says that whatever deal is stuck between Cyprus and Brussels, if it doesn't include significant accounting reform, fiscal issues will continue to reappear.

"A modern state has a tax regime managed by a modern system of accounting," Soll says. "That is not Greece. Most of the top Greek accountants have been trained and done their work outside of Greece. I constantly get yelled at by my Greek counterparts saying that they have plenty of accountants, which is true. But there is just not an accounting culture. Politically, nobody on the right or the left relies on accounting because nobody trusts it."

That has led to years of accounting practices that have significant transparency issues, or simply don't exist.

Practically, Soll also says the the Greek government does not use International Public Sector Accounting Standards (Ipsas), which would standardize that accounting regime around the nation's gigantic public service infrastructure. In addition, Greece has only begun using modern accounting methods over the past 15 years.

That is not to say that Greece is the only culprit in accounting surrounding the European debt crisis. Soll argues that Germany — the main fiscal force in the EU — has its own accounting issues that are particularly harsh when it comes to debt.

"They use cash accounting in their government, which essentially means nothing," Soll concludes. "You can't even run a corner store on cash accounting."

(Source: http://daily.financialexecutives.org/greece-needs-accounting-revolution/)
