

**REVISTA SEMESTRAL DE
DIREITO EMPRESARIAL**

Nº 18

Publicação do Departamento de Direito Comercial e do Trabalho
da Faculdade de Direito da Universidade do Estado do Rio de Janeiro

Rio de Janeiro
janeiro / junho de 2016

Publicação do Departamento de Direito Comercial e do Trabalho da Faculdade de Direito da Universidade do Estado do Rio de Janeiro (Prof. Alexandre Ferreira de Assumpção Alves, Prof. Eduardo Henrique Raymundo Von Adamovich, Prof. Eduardo Takemi Dutra dos Santos Kataoka, Prof. Enzo Baiocchi, Prof. Ivan Garcia, Prof. João Batista Berthier Leite Soares, Prof. José Carlos Vaz e Dias, Prof. José Gabriel Assis de Almeida, Prof. Leonardo da Silva Sant'Anna, Prof. Marcelo Leonardo Tavares, Prof. Mauricio Moreira Menezes, Prof. Rodrigo Lychowski e Prof. Sérgio Campinho).

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MOREIRA MENEZES . MARTINS . MIRANDA
ADVOGADOS

ISSN 1983-5264

CIP-Brasil. Catalogação-na-fonte
Sindicato Nacional dos Editores de Livros, RJ.

Revista semestral de direito empresarial. — nº 18 (janeiro/junho 2016)
. — Rio de Janeiro: Processo, 2007-.

v.

UERJ
Campinho Advogados
Moreira Menezes, Martins, Miranda Advogados

Semestral

1. Direito — Periódicos brasileiros e estrangeiros.

94-1416.

CDU — 236(104)

* Publicada no segundo semestre de 2017.

MAKING TRANSPARENCY REAL? ACCOUNTING AND POPULAR PARTICIPATION IN CORRUPTION CONTROL¹

TORNAR A TRANSPARÊNCIA REAL? CONTABILIDADE E PARTICIPAÇÃO POPULAR NO CONTROLE DE CORRUPÇÃO

Michael Johnston

Abstract: Accounting has been the focus of high hopes and expectations for centuries. Classic works of art from The Netherlands, for example, depict the settling of accounts as not only a personal but a civic virtue – as a critical factor in the nation’s development. Today’s anti-corruption groups often see accounting as key parts of the reform repertoire, and as more or less inevitably helping produce better government and business. But the early successes of accounting had as much to do with the interests of those who implemented the practice as with any inherent redemptive qualities of the techniques themselves. A similar logic applies to contemporary anti-corruption uses of accounting: because the techniques themselves can serve and conceal all manner of interests and agendas, effectiveness in controlling corruption will require active support from reform constituencies. Recent scandals suggest that accounting practices can become a pro forma exercise at best and, at worst, a way to protect the interests of those being audited. More comprehensive accounts assessing social costs and benefits of business activities, and broader-based political support and social scrutiny of accounts, could do much to uphold

¹ Artigo recebido em 06.08.2017 e aceito em 29.12.2017.

ethical behavior. Skilled and rigorous accounting techniques can become a powerful anti-corruption force, but active support from elites and citizens alike must demand that they be dedicated to that agenda.

Keywords: Accounting. Transparency. Corruption. Reform.

Resumo: A contabilidade foi o foco de muitas expectativas e esperanças por séculos. Obras de arte clássicas, realizadas na Holanda, por exemplo, retratam a liquidação de contas como, não apenas uma virtude pessoal, mas uma virtude cívica – como um fator determinante no desenvolvimento de uma nação. Grupos de anticorrupção atuais, muitas vezes, enxergam na contabilidade uma das principais chaves do repertório para reforma, e também, de certa forma inevitável de auxiliar na produção de melhores governanças e negócios. Porém, o recente sucesso da contabilidade teve tanta relação com os interesses daqueles que implementaram a prática, quanto com quaisquer qualidades inerentes às próprias técnicas. Uma lógica semelhante se aplica às técnicas contábeis de anticorrupção contemporâneas: uma vez que essas técnicas podem não só apresentar, mas esconder todos tipos de interesses e agendas, a eficácia no controle da corrupção precisará, assim, de um apoio ativo dos cidadãos. Os recentes escândalos sugerem que as técnicas de contabilidade podem se tornar a *pro forma* da atividade, entretanto, caso isso não se verifique, as técnicas poderão se tornar uma forma de proteger os interesses daqueles que estão sendo auditados. Contas mais abrangentes que avaliam os custos sociais e os benefícios das atividades comerciais, amplo apoio político e escrutínio social das contas, podem ser muito importantes para impulsionar o comportamento ético. Técnicas de contabilidade rigorosas e qualificadas podem se tornar um instrumento poderoso anticorrupção, mas o apoio ativo de elites e dos cidadãos deve exigir a dedicação total a essa agenda.

Palavras-Chave: Contabilidade. Transparência. Corrupção. Reforma

Sumário: 1. Introduction. 2. Procedure *vs.* power. 3. Broadening the balance sheet.

1. Introduction.

Improbable as it might seem today, accountants and their profession were once celebrated in a long artistic tradition². Jacob Soll tells us how Dutch painters produced images of accountants at work that featured symbolic elements recognizing the virtues of honesty, transparency, and a balanced set of accounts – not only in business and government, but also in life itself³. Awareness of basic accounting principles and procedures spread through large segments of the Dutch population, Soll observes, and the profession became associated in the public mind with national prosperity and sound governance. Later on the British, rightly recognizing the value of both sound accounting and a public image of transparency and probity, began to produce similar images, adding a sub-genre in which the profligate and dishonest were subjected to the contempt of stylized auditors.

Accounting was seen not just as a “best practice” or a path to prosperity, but in broader social and moral terms:

Accounting in the modern sense was still a new idea in the 1500s, one with a weight that carried beyond the business world. A proper accounting invoked the idea of debts paid, the obligation of nightly personal reckonings, and even calling to account the wealthy and powerful through audits [...] It would come to change finance, but was not an immediate hit. Any system of enforcing fiscal discipline is an incursion against the absolute control of the account-holder, and kings and the powerful tended to see themselves above the merchant-like calculations of bookkeeping. They not only hid their wealth and debts: They often did not bother to calculate them. In the end, they saw themselves as only accountable to God; if they

2 Cf. YAMEY, Basil. *Art and Accounting*. New Haven and London: Yale University Press, 1989.

3 SOLL, J. The Vanished Grandeur of Accounting. *The Boston Globe*, Boston, 8 jun. 2014. Available at: “<http://www.bostonglobe.com/ideas/2014/06/07/the-vanished-grandeur-accounting/3zcbRBoPDNIrYWyNYNMvbO/story.html>”. Access on: 30 jun. 2014.

needed more ready cash, they could always lean on their inferiors. At least in the short run, it was far more comfortable to govern without the constraints of financial accountability⁴.

We should not necessarily assume that those accounts were intended to serve broad public goals of the sorts we have in mind today when we speak of “accountability”. More likely they served as a way for members of the elite in a small society – elites who played multiple and intersecting roles, and who numbered no more than a few thousand at most, to reassure themselves about each other. Still, the value of accounting practices in terms of reducing risks and transaction costs in a risky and increasingly complex world, and thus in underwriting the economic interests and individual reputations of the classes of people who could both commission and appear in such works of art, should not be underestimated. Accounting principles, and a willingness to employ them openly and consistently, had implications for the whole society.

Such notions of settling one’s accounts and keeping one’s obligations may seem passé in an age that speaks of accountability almost as a natural attribute of modern business and politics. But consider the contemporary Republic of the Philippines. It is a nation of over ninety million citizens scattered among 7.700 islands, and in many respects it ought to be one of the most prosperous countries in Southeast Asia. Most of its population speaks English, and the nation was long the focus of massive American investments and military spending – money spent with US geopolitical interests in mind, to be sure, but then such was also the case in Japan, Taiwan, and the Republic of Korea. Electoral democracy, albeit with some occasional difficulties, was restored by the first “People Power” movement of 1986, and the Constitution provides for familiar checks and balances among the branches of government.

And yet, corruption remains endemic – indeed, systemic. It helps keep the nation poor while short-circuiting democratic proc-

4 SOLL, *op. cit.*

esses through extensive vote-buying. Soll's kings and power brokers who kept no accounts of their dealings would see a kindred spirit in former First Lady Imelda Marcos, who once boasted that "If you know how rich you are, you are not rich. But me, I am not aware of the extent of my wealth. That's how rich we are". More recently, when current President Benigno S. "Noy" Aquino sought to begin the long process of peacemaking and establishing orderly government in the sometimes-lawless region of Maguindanao, he found that local officials, who ran their regions essentially as family fiefdoms, had often kept no books at all. Teams of accountants and auditors had to be sent out from Manila to make sense of it all – and they had to be accompanied by twenty-four-hour armed guards from the military.

Armed military guards for accountants! Who's afraid of a bunch of bean-counters? Some pretty powerful and dangerous people, that's who – and that fact can help us understand why accounting might be one of our most under-appreciated and misunderstood strategies for controlling corruption. At the same time, I will argue that the scope and effectiveness of accounting as a corruption control is in substantial measure up to us.

2. Procedure vs. Power.

Corruption-fighters and reformers have hardly forgotten about accounting. Indeed, in recent years reform groups such as Transparency International and the Hills Program on Governance have been pushing hard for higher, more consistent, and more closely coordinated accounting standards around the world – and, have been trying to guard against the deterioration of such standards in the affluent market economies. In a global economic arena where both large, highly visible corporations and a range of more shadowy interests⁵

5 WEDEL, Janine. *Shadow Elite: How the World's New Power Brokers Undermine Democracy, Government, And The Free Market*. New York: Basic Books, 2009.

are seemingly able to operate everywhere while being held accountable nowhere, global accounting standards may at times be only as strong as they are in the weakest of cases – which means, unfortunately, very weak indeed. But developed societies should not be too quick to congratulate themselves, for both the heady days of rapid economic growth (see, for example, the cases of Enron and Global Crossing) and the more recent massive banking and financial crash, along with the Great Recession that followed, provide numerous examples of businesses and dealings that turned out to be not quite what they claimed to be. In some instances, regulatory processes were weakened by political influence or gutted by legislative changes; in others the core problem was plain old dishonesty, coupled with public apathy.

What’s wrong with this picture? It was not as though the entire accounting profession and process had collapsed, or been bought off. In some respects it is, instead, a far broader manifestation of what I have termed “Influence Market” corruption⁶ – a syndrome in affluent, well-institutionalized societies through which wealthy interests cut deals with political figures who are willing to put their influence and networks out for rent. Often, those deals are made in perfectly legal ways⁷ – not only through election campaign contributions, but also through familiar techniques such as promises of later employment, jobs for relatives, “research” grants to compliant institutions, and the like. Many such deals do not so much undermine strong public and private institutions as capitalize upon them: in a well-institutionalized political system, after all, a decision that has been made is likely to be carried out, and accounts and disclosure reports that appear to be in order are likely to be widely believed. That’s what makes influence worth paying for – and, easy to conceal.

6 JOHNSTON, Michael. *Syndromes of Corruption: Wealth, Power, and Democracy*. Cambridge and New York: Cambridge University Press, 2005; _____. *Corruption, Contention, and Reform: The Power of Deep Democratization*. Cambridge and New York: Cambridge University Press, 2014.

7 Cf. LESSIG, Lawrence. *Republic, Lost: How Money Corrupts Congress – and a Plan to Stop It*. New York: Twelve Books, 2011.

As a consequence, fighting corruption in an influence-markets setting is like shadow-boxing. Not only must reformers take on some deeply-entrenched interests; many of the deals and connections we might object to are legal – at times, explicitly written into policy in some instances. The 2004 legislation creating the US Medicare prescription drug program, for example, forbids the government to buy medicines made abroad, or to bargain with domestic producers for price concessions. Similarly, a 19th-century provision still allows mineral-extraction corporations to mine federal lands for only US\$ 5,00 per acre per year. Changing that state of affairs becomes a political challenge, fought out within arenas and legal frameworks already extensively shaped by the influence and prerogatives of wealth. That in turn takes place within a society where most citizens are inclined to view even some of the coziest connections between wealth and power as the workings of “the free market”⁸ – as inevitable, or even to be celebrated.

The overwhelming majority of businesses and public agencies in Influence Market societies not only follow accounting practices but routinely produce reports that seem to be generally in order. But compared to the Dutch example, there is much that goes unsaid, and many questions we could be asking but do not. Depending upon which accounts and accountants we have in mind, and upon whose interests they serve, a seemingly orderly set of books can hide a great deal. Even where audits and annual reports reveal problems they are most likely threats to profitability, for businesses, or to balanced revenue/expenditure trends in the public realm – not broader questions of how well firms and agencies serve or disserve the broader society. To be sure, modern market economies by their nature revolve around private assets, interests, and benefits – all factors that contribute in their own way to the general prosperity. But all too often externalities – major costs offloaded onto third parties or society generally, either

8 STIGLITZ, Joseph. *The Price of Inequality: How Today's Divided Society Endangers Our Future*. New York: W. W. Norton, 2012.

directly (think air and water pollution) or indirectly, via entrenched legislative and regulatory privileges – go unrecorded. Anti-competitive practices and mutually-favorable “understandings” are unlikely to turn up on conventional balance sheets. And as Enron and other cases remind us, accounting processes can be abused or misrepresented in ways that obscure fraud and clear-cut corruption: everything seemed to be just fine in Houston, until suddenly it wasn’t.

Accounting has some striking advantages in terms of the specific goal of corruption control – and some limitations too, in the current social context. A key advantage is that accountants can gather evidence and deploy controls on a scale commensurate with that of corrupt practices themselves. Most corruption indices and many reformers treat corruption as though it were a national attribute, or at least a government- or agency-wide pathology, but corrupt activities can occur and – a critical point – be hidden away in any number of institutional cracks and crevices. One budget line, one official, one private-sector client’s activities, or one regulatory activity, in a corner of one jurisdiction, can offer major illicit opportunities. Often reformers begin with a burst of energy and determination only to find that they don’t really know what they are looking for, where and how it happens, and how it might be concealed or disguised. Accounting and other well-designed internal controls can give us that sort of fine-grained picture of the problem.

But therein lie some of the drawbacks: the social and political incentives and motivations driving reform are much more symbolic, indiscriminate, and sometimes emotional. Corruption control is often described in terms of building a better society for all; fair enough, but the immediate appeals would be stronger if they were much more specific – “We are fighting corruption so that you don’t have to bribe someone to keep the electricity on.” Familiar accounting techniques can often isolate the underlying corruption problems; a broader scheme of social auditing could link them to broader-based abuses, and to the level of services and quality of life experienced by real people in real communities. But there is a need for aggressive leader-

ship and social participation. Without them, corruption controls may spot lots of trees while missing the forest (by way of analogy: campaign finance procedures reveal numerous violations of process and technical rules, some of which send people to jail, but have not eased the public's general sense that political money has fundamentally corrupted democratic life). In that sort of setting, reform forces in society – the aroused civil society that is often a reformer's Holy Grail – may arise, but after dissipating major energy while seeing few results, they will fade away. Indeed, particularly in deeply corrupt societies a rush of transparency may be counterproductive – entrenched elites may just be serving notice that they can do as they please, and that opposing them may be quite risky⁹ – and may in the long run produce demobilization and a sense of resignation among citizens at large¹⁰.

3. Broadening the balance sheet.

Accounting seems to have been reduced to a series of repetitive processes or even to a ritual of sorts, one largely serving the interests of the firms and public agencies in question while fulfilling highly restricted notions of accountability. In a way, accounting can be thought of as a neutral technology¹¹ that can serve any number of interests – more likely, those of whoever pays the bills than those of the public at large. Some socially-aware businesses might constitute partial exceptions, and at times public agencies are subject to such broader scrutiny. Still, the sorts of broad reconciliations of values that Soll recounts from times past rarely occur, or even arises as expecta-

9 STECHINA, V. *Conditions for Corruption. Institutions, Executive Power, and Privatization in Argentina and Chile in the 1900s*. 2008. 361 f. Doctoral thesis (Doctorate in Political Science) – Department of Government, Uppsala University, 2008.

10 BAUHR, Monika; GRIMES, Marcia. Indignation or Resignation: The Implications of Transparency for Societal Accountability. *Governance: an international journal of policy, administration and institutions*, v. 27, issue 2, p. 291-320, apr. 2014.

11 My thanks to Keith Hoskin for his comments on this point.

tions. The consequences, in Influence Market societies, can be seen in many forms – among them, significant increases in inequality; prosperous corporations surrounded by socially and materially impoverished communities; business, political, and administrative classes seen, rightly or wrongly, as remote, uncaring, and self-serving; and a general sense that, over and above broader trends in the economy, wealth and power operate in a world all their own. What, if anything, should be done in response?

It is tempting and all too easy to blame the accountants for the difficulties spelled out above, and all sorts of green-eyeshade stereotypes facilitate that sort of judgment. But the fault lies in many areas, and addressing what have become systemic problems requires a systemic response. Accounting procedures could be altered to reflect a broader range of costs and benefits, values and considerations. Indicators of government performance could be routinely gathered, benchmarked, and published as parts of regular auditing procedures, and could clearly reveal vulnerabilities to corruption, its past effects, specific agencies and difficulties that should be reform priorities, and evidence of progress (if any) or continued deterioration¹². Examples of broader-gauged efforts exist as well: the municipal government of Porto Alegre, Brazil, pioneered participatory budgeting processes empowered to allocate and assess the results of around half of all local spending. In some states of India civil-society groups conduct “social audits” of public service agencies, incorporating not only accounting data on the use of resources and revenues but also participatory assessments of agency effectiveness, and of citizen or client satisfaction (those examples drawn from Johnston¹³). Governments are, by their nature, subject to a wider range of demands, responsi-

12 JOHNSTON, Michael. Assessing Vulnerabilities to Corruption: Indicators and Benchmarks of Government Performance. *Public Integrity*, v. 12, issue 2, p. 125-142, spring of 2010.

13 JOHNSTON, Michael. Civil Society Organisations, Corruption and Human Development: An Asia-Pacific Perspective. In: RAJIVAN, Anuradha; GAMPAT, Ramesh. *Perspectives on Corruption and Human Development*. New Delhi: Macmillan, 2009.

bilities, and scrutiny than most businesses, but the principles underlying such broader audit conceptions could be adapted to private business as well, with favorable results possibly becoming positive market appeals in their own right. Could we someday envision a routine expectation that businesses and government authorities would be subject to, say, searching environmental audits or broad-based social accounting that incorporate important aspects of wellbeing in their community? Fanciful as such an idea seems, such enhanced accounting might help address the very broad range of discontents people voice when they discuss the outsized influence of money.

Accountants and auditors, however, generally have only such powers and access as clients and the law allow them, and it is far from inevitable that they will reveal abusive powers and practices unless anti-corruption forces aggressively make accounting skills and techniques a part of their own repertoire of controls. But broadening the scope of accounting in that way – much less, turning accountants into public guarantors of probity, or turning their techniques into a comprehensive force for the broader goal – is a tall order for many reasons. The obvious ones have to do with expense, and with the fundamental inequalities of power in society, but others are more subtle. There are collective action problems: I might be willing to submit my business to a “community social audit” every year, in principle – but only if my competitors, and others operating in my community, will do likewise. If they refuse, why should I be the only one opening up my operations to scrutiny, and why should I be the only one liable for negative results? Who is to decide the scope, content, and metrics of such audits? How spin-proof can they, and should they be? My fellow entrepreneurs and I might agree on standards, and even on a guarantor body charged with maintaining compliance and gathering and publishing results. But putting that sort of agreement into effect takes time and resources in pursuit of a broad social benefit, and thus raises collective problems all its own. Public agencies could be mandated to gather and publish similar evidence, but compliance in the public sector can be problematical in its own way. Moreover, data-gathering,

interpretation, and publication are all subject to various forms of “gaming”¹⁴. A problem of a different sort has to do with validity: will the evidence we gather actually tell us anything about the public good, or will it – like much of the standardized testing now going on in public schools under the guise of “accountability” – simply be a string of process-oriented “metrics”, open to numerous forms of fudging and fraud, that actually tell us very little about social goals and values?

And then there is the role of the public. One of the most striking aspects of Soll’s account of the Dutch model is his claim that many members of the general public had an understanding of basic accounting principles. Whether or not that was actually true at the time, and regardless of how broadly-defined that segment of “the public” actually was, today’s general public – many members of which are functionally innumerate, and all too many of whom (in some societies at least) have trouble locating their own countries on a world map – has no such understanding. The Netherlands, in the halcyon days of accounting, was a small, homogeneous, and in some respects communal society – certainly, one that had to uphold important shared values and responsibilities if it were to compete with the bigger powers of its age. By contrast today’s publics, particularly in many larger market democracies, tend not to think in terms of the broader public good in terms other than the symbolic. Short-term thinking predominates. In recent decades people have been schooled to believe that any sort of broader accountability imposed upon private initiative will inevitably come at the expense of whatever conception of the public good we have left – a conception usually defined by the interests of those who were well-off to begin with.

Transparency practices count for little if no one is looking in. Those concerned about corruption in government and fraud in busi-

14 HOOD, Christopher. Gaming in Targetworld: The Targets Approach to Managing British Public Services. *Public Administration Review*, v. 66, issue 4, p. 515-521, 2006.

ness need to connect more effectively both with society and with the technical/forensic side of investigating activities and abuses that accounting embodies. Civil society groups abound, but generally do not know how government and business work; reformers lack a fine-grained understanding of where corruption occurs, and how it is executed and concealed; and none of them have real progress indicators to use to figure out whether they are having any effect. Broad-gauged accounting, coupled with participation by citizens and journalists, might be a crucial way to bridge those gaps, and to bring real awareness to the reform movement.

We are left, then, with dilemmas rather than solutions. Ultimately the way forward, if there is one, is political – and, given the nature of Influence Markets the emphasis will more likely be upon indirect action rather than confrontations with power. Enlightened business and political leadership, where it exists, could lead by example – in effect, taking ownership of accounting as a technology to publish broad-based performance and auditing data, and then actively recruiting citizens, civil society groups, journalists and others to take part in evaluating them. Improbable as such a prospect sounds today, leaders in both the public and private sectors might stand to benefit from such initiatives, and to be rewarded for positive results or trends. Most citizens might not be willing to put in the effort – like Oscar Wilde’s socialism, making transparency real might well take up too many evenings – but those with a stake in particular services and industries would welcome the access they would be accorded and the sense of efficacy it could produce.

Could it be that genuinely aggressive transparency – accounting and auditing based on, and itself accountable to, wider social values and interests, coupled with active efforts to recruit citizen participation – might ease the current malaise we see in many democracies: that sense that “nowadays politicians don’t care about me”, and that moneyed interests have too much power? That sort of outcome would require not just expanded and enhanced auditing practices, aided where possible by new technology and even social media, but

also significant numbers of people willing to take on added responsibilities as consumers and citizens. It just might be that the Green Eyeshade Brigade can ride to the rescue – but only if we demand that it do so, and only if we make its skills and the evidence they produce an integral part of the ways we govern ourselves, and do our public and private business.