A Multi-Gear Strategy for Stable Economic Growth

Stable economic growth depends on two basic elements:

1. *freedom of competition* so that economic activity flows into the areas which produce the greatest benefit from scarce resources;¹ and
2. *freedom of circulation* so that the volume of economic activity reaches its natural full employment potential.²

The obstacle to both is toxic economic theory flowing from the “schizophrenic” split that has been allowed to develop between micro and macro economics (discussed in the Introduction to the Technical Appendices of the previous volume).

The fundamental microeconomic flaw which violates the Law of Competition is the *market-value fallacy* (discussed in Appendix A of the previous volume). The fundamental macroeconomic flaw which violates the Law of Circulation is the *single-gear fallacy* (discussed in Appendix B of the previous volume).

The policy proposals in this chapter follow from the correction of the fundamental theoretical errors exposed in those Appendices.

¹Where “economic efficiency” produces a result which is not consistent with whatever is considered to be “social justice”, the remedy suggested in Part V of the previous volume is a system of redistribution through the tax system which does not interfere with economic efficiency.
²This does not imply zero unemployment. It implies a “natural rate” of unemployment consistent with existing market imperfections (see Chapter 8).
The Microeconomic Policy Proposals

Elimination of Fraudulent Accounting Standards

No market can be open to genuine competition, unless the participants are adequately informed. A source of some of the most dangerously misleading information is the International Accounting Standards Board (IASB). Even if financial reports are produced strictly in accordance with International Financial Reporting Standards (IFRSs), Part II of the previous volume indicates that they may not be “fit for purpose”.

IFRSs that allow real economic losses to be misrepresented as accounting gains (and vice versa) violate section 17 of the Theft Act 1968 on “false accounting”. Not only do they make nonsense of claims “to increase the comparability of reported financial information” [IASB (2010) p.62], they are technically fraudulent.

When a statement of profit is published as a “true and fair view” of the performance of a going concern, no warning is given that it depends on the outcome of transactions not yet completed. Maintenance of the pretence that the performance of a going concern can be reliably measured by changes in the market value of its assets is simply evidence of the extent to which balance-sheet myopia has caused the IASB to fall victim to the market-value fallacy.

The first step in eliminating the so-called expectations gap (between what financial reports are popularly considered to represent and what they actually do represent) is to make one thing absolutely clear. A statement of profit, though published as a “true and fair view” of the performance of a going concern, is not a matter of fact but a question of opinion.

The proposal in Chapter 10 for reforming the conceptual framework of accounting is based on “segregation” of the accounting system to enforce a strict separation of fact from opinion. There are two basic elements:

1. routine disclosure of the “investment rate” of return that managers are planning to deliver; and
2. routine monitoring of that rate, by periodic comparison with the (changing) “investment rate” that appears to be justified by the (unfolding) record of actual transactions.

The object is to bring company managers under the control of market forces by holding them publicly accountable for their use of economic resources. In a world characterised by risk and uncertainty, “truth in