

US-INVESTOR KAZARIAN

## "If a CEO were to keep his books like a politician, he would be in prison"

**PREMIUM**

**von Silke Wettach**

19. Oktober 2018



**With pointed pen**

US investor Paul Kazarian wants to force politicians to more honesty and transparency.

Image: Bloomberg

**Not only the Italian government tricks on its state budget, says US investor Paul Kazarian. An international accounting standard could prevent a new financial crisis. But politics is resisting.**

It was one of the best deals of his life, for the profit was twofold: in money and in knowledge. In 2012, US investor and billionaire Paul Kazarian traveled to Athens to buy Greek government bonds, which he considered highly undervalued. However, before he bought bonds worth nearly three billion euros, becoming the largest private creditor in Greece, he naturally wanted to take a look at the books of the state at the Ministry of Finance near Syntagma Square.

For Kazarian, the routine is to look at the numbers carefully before deciding on an investment. "We live on reading balance sheets properly," says Japonica, founder and head of private equity firm, which usually specializes in buying companies in difficulty. And not government bonds.

In Athens Kazarian had for the first time to do with a stumbling state. And the contrast could not have been bigger. No taxman could provide him with the information he usually asked for before his transactions, no one had a clear view of assets and liabilities. A secretary only brought him a list of arbitrarily assembled posts. It dawned on him, "It never crossed my mind that there could be no balance sheet in the public sector," says Kazarian.

But that's exactly how it is. He began to research, and what he learned made him wonder. Public accounting is fraught with arbitrariness - not only in Greece, but throughout Europe, indeed worldwide. By and large, according to the investor's assessment, governments' accounting is "fraudulent" when based on international standards. Future pension obligations did not appear in the official documents any more than financial assets. If a corporate leader would keep his books like a head of government, Kazarian's verdict reads, "then he would be in prison."

## **You pay later**

The man with the colorful shirts loves strong words. In the US, he has earned a reputation as a tough boss with ingenious business acumen. His refurbishment of appliance maker Sunbeam-Oster in the 1990's is still being taught as a case study at Harvard Business School. The 63-year-old is nobody who leaves it at words. Since he discovered the malaise in public finances, he has set his foundation on the subject. It wants to get countries to produce consolidated financial statements that show the true state of the economy - and give citizens a sense of how well politicians manage their land.

In other words, politics should finally learn business administration.

Public accounting, as practiced so far, allows politicians to disguise the costs of their decisions simply by pushing them into the future. "They promise social benefits - and the next government will have to pay," criticized Kazarian. Recent case: Italy. On the other hand, in the case of accounting according to international standards, the costs of such decisions would be accounted for immediately and thus immediately visible.

How much citizens have been left in the dark is shown by an unpublished study by the Brussels think tank Center for European Policy Studies (Ceps), based on figures from the Kazarian Center for Public Financial Management. Thereafter, the EU states are in total a rehabilitation case. 15 trillion euros in assets are offset by liabilities of a whopping 29 trillion euros. Every single European has a negative net worth of 28 100 Euro, calculated Ceps.

### **If assets and liabilities are calculated correctly, the picture is completely different**

"Two-thirds of assets and liabilities are not reported," the study says, "and little information is provided on how to manage the estimated \$ 45 trillion in public assets." In many graphs, examples of mismanagement line up. It becomes clear how unimportant current indicators such as public debt are. In France, public debt increased by 19 percent between 2006 and 2015. But if assets and liabilities are netted against each other, the net worth results in a much more drastic picture. Compared to economic output, this has plunged by 47 percent over the same period.

### **Pensions as a footnote**

The situation is quite different, for example, in New Zealand, where net worth increased by seven percent annually. No coincidence: the country has already thoroughly reformed its accounting system in the early 1990s and today applies the international standard for the public sector (Ipsas). European countries could do the same, but see no "urgency" as the study emphasizes. Great Britain and France use international standards, but only half-heartedly. France, for example, "hides the pensions in a footnote," criticized Kazarian. For a while, he has had the fun of collecting the tricks of governments in accounting. But he stopped again because "there were too many".

In Brussels, the concept of a new standard for public accounting is quite pleasing. As early as 2013, the EU Commission demanded that a European variant of Ipsas called Epsas should be created. The EU Commission, which, like other international organizations, is already applying Ipsas itself, hopes to obtain comparable and more reliable figures from the Member States.

But hope will remain. From Germany, the largest member of the EU, comes in any case fierce resistance. Bundestag and Bundesrat insist that the traditional cameralistics must be maintained in any case. A federal-state working group warns of high costs and a lengthy changeover of at least ten years. The Federal Court of Auditors also called on the Federal Government last year to "bring its political weight to bear at European level" in order to prevent the binding introduction of Epsas. If in doubt, there is no shortage of high-quality financial data, but a sound budgetary policy, according to the Federal Court of Audit. That a better overview of public ownership would improve its management - that's not the case.

Kazarian hears the defensive arguments for years. He is now skeptical that many countries will join his position. "Politicians are like hedge funders," he says, "they are interested in the present." They think far too little about the future.

At some point, he believes, it will take revenge. Because the politics defends against more transparency, sees Kazarian in the national households the largest risk potential for the world economy slumber. The next global crisis will not be unleashed by a private bank, as in Lehman's: "It will emanate from a state," he says. "That's why he ended his involvement in Greece last November with lavish profits. The numbers from Athens may have been a mess, but sometimes it matters. The right timing for example.



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